HSBC Bank plc

Interim Report 2021

HSBC

Contents

	Page
Presentation of information	1
Cautionary statement regarding forward-looking statements	1
Overview	
Highlights	**2**
Key financial metrics	**3**
Purpose and strategy	**4**
HSBC Bank Plc's vision and strategy	4
How we do business	**6**
Economic background and outlook	**8**
Interim management report	
Financial summary	**8**
Reported performance	9
Adjusted performance	10
Review of business position	13
Risk	**14**
Risk overview	14
Managing risk	15
Key developments in the first half of 2021	15
Top and emerging risks	15
Areas of special interest	16
Credit risk	18
Treasury risk	30
Interim condensed financial statements	
Statement of Directors' Responsibilities	**46**
Independent Review Report to HSBC Bank plc	**47**
Condensed financial statements	**48**
Consolidated income statement	48
Consolidated statement of comprehensive income	49
Consolidated balance sheet	50
Consolidated statement of cash flows	51
Consolidated statement of changes in equity	52
Notes on the condensed financial statements	**55**

Presentation of information

This document comprises the *Interim Report 2021* for HSBC Bank plc ('the bank') and its subsidiaries (together 'the group'). 'We', 'us' and 'our' refer to HSBC Bank plc together with its subsidiaries. References to 'HSBC' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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

Within the Interim management report and Condensed financial statements and related notes, the group has presented income statement figures for the three most recent six-month periods to illustrate the current performance compared with recent periods.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2021 with the same period in the prior year. Balance sheet commentary compares the position at 30 June 2021 to 31 December 2020.

In accordance with IAS 34 'Interim Financial Reporting', the *Interim Report* is intended to provide an update on the *Annual Report and Accounts 2020* and therefore focuses on events during the first six months of 2021, rather than duplicating information previously reported.

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

Cautionary statement regarding forward-looking statements

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

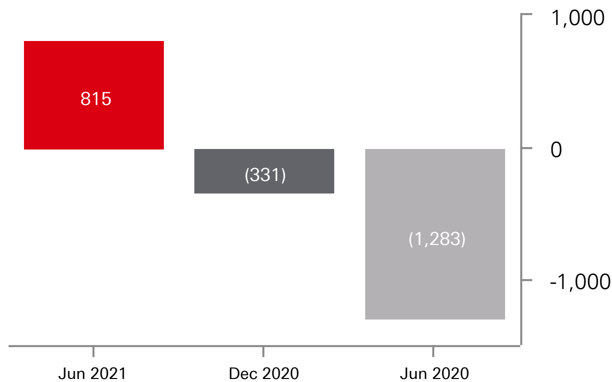
Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'will', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words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

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

Highlights

For the half-year ended 30 June 2021.

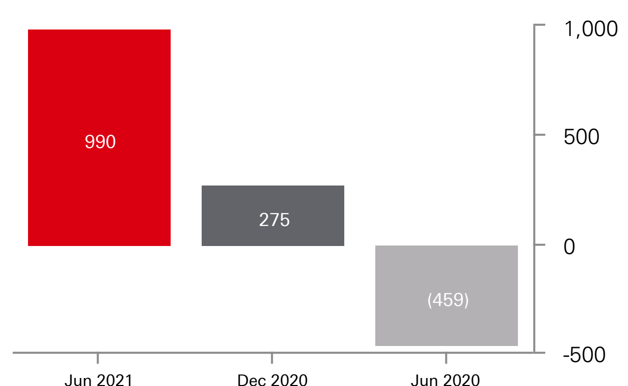
Reported profit / (loss) before tax (£m)



£815m

(1H20: £(1,283)m)

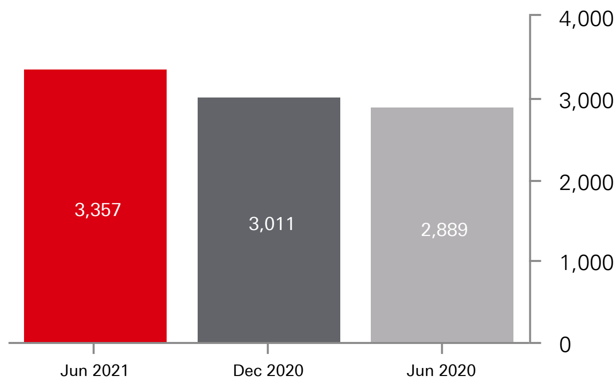
Adjusted profit / (loss) before tax (£m)



£990m

(1H20: £(459)m)

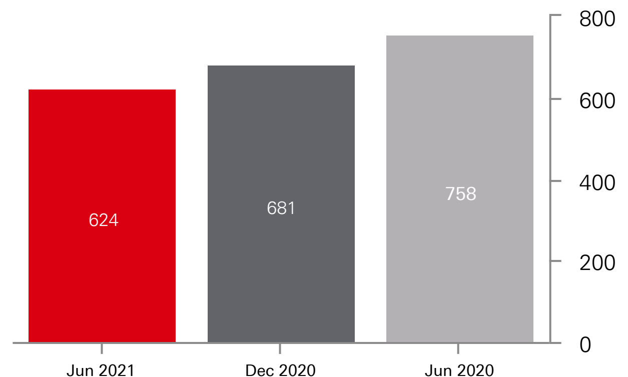
Reported revenue (£m)



£3,357m

(1H20: £2,889m)

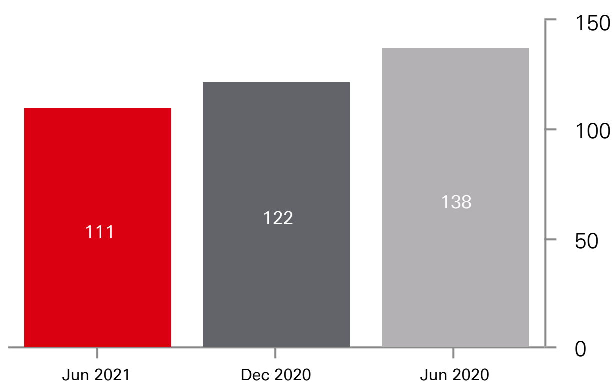
Total assets at period end (£bn)



£624bn

(31 Dec 2020: £681bn)

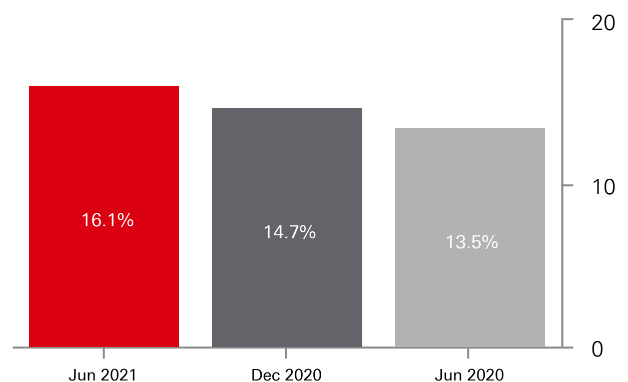
Reported risk-weighted assets at period end (£bn)



£111bn

(31 Dec 2020: £122bn)

Common equity tier 1 ratio at period end (%)



16.1%

(31 Dec 2020: 14.7%)

Key financial metrics

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
For the period (£m)			
Profit/(loss) before tax (reported basis)	**815**	(1,283)	(331)
Profit/(loss) before tax (adjusted basis)[1]	**990**	(459)	275
Net operating income before change in expected credit losses and other credit impairment charges[2]	**3,357**	2,889	3,011
Profit/(loss) attributable to the parent company	**737**	(1,230)	(258)
At period end (£m)			
Total equity attributable to the parent company	**23,719**	24,623	23,666
Total assets	**623,963**	757,819	681,150
Risk-weighted assets[3]	**110,769**	138,378	122,392
Loans and advances to customers (net of impairment allowances)	**93,210**	115,164	101,491
Customer accounts	**200,649**	207,089	195,184
Capital ratios (%)[3]			
Common equity tier 1	**16.1**	13.5	14.7
Tier 1	**19.6**	16.5	18.1
Total capital	**30.2**	25.6	27.3
Performance, efficiency and other ratios (%)			
Return on average ordinary shareholders' equity (annualised)[4]	**7.0**	(10.4)	(3.6)
Adjusted return on average tangible equity (annualised)[5,6]	**6.8**	(5.3)	(2.7)
Cost efficiency ratio (reported basis)[7]	**81.1**	120.6	113.6
Cost efficiency ratio (adjusted basis)[7]	**76.1**	92.1	87.2
Ratio of customer advances to customer accounts	**46.5**	55.6	52.0

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 10 and 11.*
2 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
3 *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', which are explained further on page 34. Following the end of the transition period after the UK's withdrawal from the EU, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.*
4 *The return on average ordinary shareholders' equity is defined as profit attributable to the parent company divided by the average total shareholders' equity. Dividend paid on AT1 instruments is net of tax in the calculation.*
5 *Adjusted return on average tangible equity is calculated as profit attributable to ordinary shareholders, excluding impairment of goodwill and other intangible assets and changes in present value of in-force insurance contracts ('PVIF') (net of tax), divided by average ordinary shareholders' equity excluding goodwill, PVIF and other intangible assets (net of deferred tax).*
6 *For this metric, half-year to 31 December 2020 is calculated on a full-year basis and not a 2H20 basis.*
7 *Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before change in expected credit losses and other credit impairment charges (reported), while adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit impairment charges (adjusted).*

Purpose and strategy

Our purpose and ambition

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

HSBC values

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

We value difference

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC in Europe

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

With assets of £624bn at 30 June 2021, HSBC Bank plc is one of Europe's largest banking and financial services organisations. We employ around 16,200[1] people across our locations. HSBC Bank plc is responsible for HSBC's European business, aside from UK retail and most UK commercial banking activity which, post ring-fencing, are managed by HSBC UK Bank plc.

HSBC Bank plc is simplifying its operating model to one integrated business with two main hubs in London and Paris. HSBC Bank plc operates in 20 markets[2]. Our operating entities represent the Group to customers, regulators, employees and other stakeholders. We are organised around the principal operating units detailed below.

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

HSBC Continental Europe, comprises our Paris hub and its European Union ('EU') branches (Belgium, Czech Republic, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden). We are creating an integrated Continental European bank anchored in Paris to better serve our clients, and simplify our organisation.

HSBC Germany Holdings GmbH serves the European Union's largest economy and one of the leading export nations globally (The World Bank, 2020). HSBC Germany's business proposition mirrors the importance of trade and global connectivity.

1 *In April 2021, 486 employees transferred from HSBC Global Services (UK) Limited to HSBC Bank plc.*
2 *Full list of markets where HSBC Bank plc has a presence: Armenia, Belgium, Channel Islands and Isle of Man, Czech Republic, France, Germany, Greece, Ireland, Italy, Israel, Luxembourg, Malta, Netherlands, Poland, Russia, South Africa, Spain, Sweden, Switzerland and the UK.*

HSBC Bank plc's Vision and Strategy

We have a clear vision, to be the leading international wholesale bank in Europe, complemented by a targeted wealth and personal banking business (see products and services on page 6).

HSBC Bank plc exists to open up a world of opportunity for our customers by connecting them to international markets. Europe is the largest trading region in the world and Asia is Europe's biggest and fastest growing external trading partner (UNCTAD, 2020). We are uniquely positioned to capitalise on this opportunity and play a pivotal role for the Group as the largest generator of outbound revenues.

In February 2021, the Group adapted our strategy to focus on our strengths, digitise at scale, energise for growth and transition to net zero. Below we provide a progress update on our commitments and strategic initiatives for the first half of 2021.

Looking ahead, with continued low interest rates and the unwinding of government support schemes, we expect to be operating in a more cautious environment for the remainder of the year. Whilst Covid-19 has affected the phasing of our transformation activity, it has not altered our strategy. Further information as to how we have and will continue to support our stakeholders can be found on page 6.

For 1H 2021 adjusted operating expenses were £2.6bn, a decrease of 3% versus same period in prior year (an 8% decrease excluding variable pay of £107m). This reflected cost savings from management actions, including a reduction in FTE, tight control of contractor and consultancy spend as well as lower discretionary spend. Risk-weighted assets ('RWAs') decreased by £28bn or 20% between 30 June 2021 and 30 June 2020, driven by savings from our RWAs reduction programme.

Focus on our strengths

Through our transformation programme we are building a leaner, simpler bank with a sharper strategic focus. We have an ambition to grow, leveraging our industry leading positions in transaction banking, trade, capital markets and financing. We will also make targeted investments in technology and automation. We intend to be a market leader in sustainable financing and meet the Group's commitment for net zero operations and supply chain by 2030.

We have made progress on our transformation; we are now operating as one integrated business with hubs in London and Paris, supported by shared services (see HSBC in Europe). This aligns with UK and European Union legal entity and regulatory requirements for financial services, following the UK's withdrawal from the European Union.

To further simplify our operating structure, HSBC achieved 100% ownership of HSBC Germany in February 2021.

We have previously announced a strategic review of our retail business in France. We have now completed that review, and we have signed a Memorandum of Understanding ('MOU') with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') in June 2021, regarding the potential sale of HSBC Continental Europe's retail banking business in France. Should the sale proceed, it would generate an estimated pre-tax loss including related transaction costs for HSBC Continental Europe of €1.9bn. The vast majority of the estimated loss is currently anticipated to be recognised in 2022. Please see Note 11 'Business disposals' for more information.

Digitise at scale

We continue to invest in Transaction Banking (Global Liquidity and Cash Management 'GLCM', Global Trade and Receivable Finance 'GTRF' and Foreign Exchange 'FX'), which is central to our strategy. We are committed to maintaining our core strength in Global Liquidity and Cash Management; focused on enhancing our digital and self-serve capabilities for our clients. In 2021, we enhanced our proposition and we will continue to improve our offering, to improve our customer experience. Global Trade and Receivables Finance's ambition is to make trade safer, faster and

easier. In the first half of 2021, we improved key aspects of our proposition by taking steps to: simplify and digitise the client experience, upgrade our infrastructure, and connect customers to technology partners. We aim to continue to invest in the future of trade by further developing our capabilities across key areas such as real-time credit decisioning, buy-now pay later solutions and sustainable trade finance.

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

Energise for growth

Inspiring a dynamic culture and championing inclusion

The Group launched our refreshed purpose and values in February 2021. Since then, we have engaged colleagues through numerous initiatives across Europe to apply our values in how we work and how we serve our customers. We have hosted workshops and provided guidance to our colleagues to ensure continued discussion on our purpose and values.

In February 2021, we committed to increase diverse representation in Europe, especially in senior levels. A new Employee Resource Group and a Diversity & Inclusion Council has been launched to support our actions which has the sponsorship from our leaders.

Developing future skills and enabling growth

We are investing in our talent and building future skills across the region. We continue to focus on deepening digital, professional and enabling skills in Europe, providing platforms to support self-driven learning and development and targeting upskilling in technology. In 2021, we launched a Talent Playbook which aims to identify and retain our key talent. A number of Future Skills Learning solutions have been made available to our colleagues in Europe throughout 1H 2021 with positive take up rates. We also have 'Future Skills Influencers' in our region, who take charge of promoting future skills through local initiatives.

Transition to net zero

Becoming a Net Zero Bank

In 2020, HSBC set out ambitions to achieve net zero in the Group's operations and supply chain by 2030 or sooner, and to align the Group's financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To help achieve HSBC's ambitions, the Group passed a climate resolution in the *2021 Annual General Meeting*, detailing our approach to the net zero transition. The resolution was backed by 99.7% of the Group's shareholders. HSBC joined the Net Zero Banking Alliance, which brings collaboration and consistency across the banking sector to collectively reach the Paris Agreement goals. The Group also launched a new climate leadership training programme for our top 250 leadership team, in which HSBC Bank plc non-executive directors and executives are included.

HSBC Bank plc have reduced carbon emissions by 40,176 t CO2e (metric tonnes of Carbon Dioxide Equivalent) (-52%) in 2020 compared against the 2019 baseline (October 2018–September 2019). This result is largely driven by the UK Power Purchase Agreements and green tariff initiatives implemented across the majority of Europe. Colleagues have also significantly reduced their travel since March 2020 due to the ongoing effects of Covid-19.

Supporting our Customers

HSBC aims to provide $750bn to $1tn of sustainable financing and investments by 2030 to help our customers transition to lower carbon emissions. To date, HSBC Bank plc has contributed $48.4bn to this target led by strong performance from debt capital markets, representing 55% of Group's cumulative sustainable finance and investments.

Unlocking New Climate Solutions

HSBC partnered with the World Resources Institute and WWF to form the Climate Solutions Partnership with the aim to accelerate support for innovative solutions tackling climate change. As a part of this, there are two projects located in France in partnership with the French National Forestry Office and the Earthworm Foundation. Both of these local nature-based projects will contribute to net zero goals by better enabling CO2 capture, preserving biodiversity and engaging the community. HSBC also launched a Business Plan for the Planet campaign to help business transition to a sustainable model. In France, Germany and Malta we issued leadership content around carbon neutrality, Environmental Social and Governance ('ESG') and Agrofood. These topics were illustrated with client case studies, content articles, videos and infographics published on our websites, media partnerships and social media. We also engaged on live sessions webinars series with HSBC experts, clients and partners to help small and medium companies transition.

Products and services

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

Our Global Businesses

Our operating model consists of three global businesses and a Corporate Centre, supported by Digital Business Services[1], and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources.

Global Banking and Markets ('GBM')

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

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

Our business is underpinned by a focus on the highest standards of conduct and financial crime risk management. We remain committed to deepening client relationships, improving synergies across HSBC global businesses. We continue to invest in digital programmes focused on clients such as HSBCnet, streamlining the platform and improving customer experience. In particular for Global Markets, our objective is to be a client led provider of cross asset services, connecting the Emerging Markets with our Developed Markets expertise and innovation.

Commercial Banking ('CMB')

HSBC Commercial Banking serves businesses ranging from small enterprises to multinational corporates operating across borders. Our global network of relationship managers and product specialists work closely to meet customer needs, from term loans to trade solutions. In Europe, we are fully committed to helping businesses navigate change and seize export opportunities. With major operations in France and Germany, and full-service centres in hubs such as Ireland, the Netherlands and Switzerland, we provide corporates with the means to consolidate and simplify their European operations. Combined with our enhanced digital offering, this gives customers greater visibility over their liquidity position and unlocks efficiencies in their treasury structures. By working closely with our Global Banking and Markets colleagues, we provide customers with access to capital finance, advisory and markets solutions. By working closely with our Wealth & Personal Banking colleagues, we offer them a comprehensive range of employee and private banking services. We also provide a comprehensive range of sustainable investment products to help our customers on their ESG journeys. Operating at the heart of the HSBC Group, Commercial Banking opens up a world of opportunity for European companies.

Wealth and Personal Banking ('WPB')

In Europe, Wealth and Personal Banking serves individual customers with their financial needs via three propositions: mass retail through Personal Banking, mass affluent through Premier and High Net Worth ('HNW') and Ultra High Net Worth ('UHNW') through Global Private Banking. Using four integrated WPB manufacturing capabilities: transactional banking, lending and analytics, Wealth products and platforms, Asset management & Insurance.

Our core retail proposition offers a full suite of products including personal banking, mortgages, loans, credit cards, savings, investments and insurance. In the Channel Islands and Isle of Man, we serve local islanders as well as international customers through our HSBC Expat proposition.

Our Private Banking proposition serves high and ultra-high net worth clients with investable assets greater than $5m in Channel Islands and Isle of Man, France and Germany including those with international needs. Our range of services includes investment management (discretionary, advisory and brokerage services), Trust & Fiduciary Services (including trusts and estate planning) and complex bespoke lending.

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

	GBM	CMB	WPB
Adjusted profit/(loss) before tax	**£490m** (1H20: £(214)m)	**£211m** (1H20: £48m)	**£219m** (1H20: £(148)m)
Risk-Weighted Assets	**£67,199m** (31 Dec 2020: £76,582m)	**£24,559m** (31 Dec 2020: £26,923m)	**£11,647m** (31 Dec 2020: £12,082m)

1 *In the first half of the year, in line with the Group, we re-branded our HSBC Operations, Services and Technology function to Digital Business Services.*

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

How we do business

Our purpose, 'Opening up a world of opportunities', explains why we exist and guides us in what we do every day. In the first half of 2021, we encouraged all our colleagues to explore what 'Opening up a world of opportunity' meant to them personally and how it can help us collectively contribute to delivering our strategy.

Our refreshed values define the principles that guide our individual and organisational behaviours. They influence the way we work together and the choices we make. We are embedding the values throughout our organisation, and our leaders and colleagues are regularly encouraged to reflect on what our values mean in day-to-day actions and decisions.

We recognise the important role we play in 'Opening up a world of opportunity' for our customers, investors, our people and communities, and in building a more sustainable, inclusive world.

Having a clear purpose and strong values has never been more important, with the pandemic testing us all in ways we could never have anticipated. As the world changed over the course of the last 18 months, we adapted to new ways of working and endeavoured to provide support to our customers during this challenging period. We recognise that the world is at different stages of the pandemic, with some countries going through a peak while others are on a trajectory to recovery. We look to support our stakeholders, taking this into account.

In the section below, we set out how we have supported our stakeholders – our customers, employees, investors, communities, regulators and governments and suppliers – during the first half of 2021.

Customers

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

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures. In 2020, HSBC Bank plc played a key role in supporting clients during the Covid-19 outbreak, in particular through government

schemes in the UK and France. In 1H 2021, we have focused on supporting clients with repayment and refinancing opportunities. In Continental Europe, HSBC remains a key partner for SSA ('sovereigns, supranationals and agencies') borrowers and has leveraged its global platform to help issuers navigate market volatility, and provide support in response to Covid-19.

In France, HSBC has been one of the leading banks in providing French State-backed facilities and liquidity lines during Covid-19.

Within Global Banking, we remain committed to serving clients with cross-border needs who require access to our international network and integrated product offering.

Across our Commercial Bank we continue to support clients to navigate their business in the context of Covid-19.

Sustainability

Europe is at the forefront of international efforts on sustainable finance and Net Zero. HSBC shares this ambition towards Net Zero and is supporting governments and clients achieve their commitment to the Paris Agreement. In 2021, the Group joined the Net Zero Banking Alliance, a group of 43 international banks to establish a robust and transparent framework for monitoring progress and setting the standard for the banking industry. HSBC also committed to phase out financing for all coal-fired power and thermal coal mining by 2030 in developed markets, and by 2040 in other markets in addition to publishing clear, measurable short- and medium-term targets in line with our commitment to the Paris Agreement goal of restricting global warming to 1.5C. The Group is also performing strongly in the sustainable finance market with landmark deals completed.

In May 2021, HSBC Bank plc was the joint lead manager for the German government's first-ever green bond with a 30-year maturity for a total volume of €6bn. It is the longest-dated green bond of a sovereign issuer in the euro capital market. HSBC Bank plc has also supported three renewable energy clients in Spain, and one in Italy, providing our tailored Clean Energy Sustainable Trade Instrument Solution to support the development of wind and solar generation capacity across a number of projects.

Communities

As Covid-19 continues to impact Europe, HSBC Bank plc is focused on strengthening resilience through developing Future Skills training programmes for our employees. Reskilling is a key priority in the context of the transformation of our business in Europe. We will seek to provide financial education for our teams and disadvantaged communities, as a means to reduce inequality and support financial inclusion. In order to foster employability within deprived communities we will aim to support different social entrepreneurship projects.

In 2021, we have committed over €400,000 to 12 programmes and partners across Europe, such as the Youth Entrepreneurship Initiative of Bermuda, Coalition for the Protection of Children, Inter Agency Committee for Children and Families, Young Money, The Diana Awards, Junior Achievement IOM, Cresus, Article 1 across many countries.

Employees

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

In times of uncertainty during the Covid-19 pandemic, our focus has been on ensuring the wellbeing and safety of our employees. A healthy and happy workforce is essential for a positive working environment and our priorities for our people are mental health, flexible working and financial well-being.

We are currently focused on defining our future ways of working, including supporting employees to return to the office safely and implementing hybrid working. Hybrid working is about creating a working environment that enables our employees to be at their best and deliver extraordinary outcomes for our customers. We aim to build a culture that promotes flexibility, collaboration, learning and wellbeing in both physical and virtual workplaces.

As we continue to deliver our transformation we strive to support colleagues closely through all organisational change. Our focus is to prioritise retention of our permanent employees through mechanisms such as redeployment. Where appropriate, we provide suitable notice periods and consult with employee representative bodies. We use objective and appropriate selection criteria for redundancies. We prohibit selection on grounds linked to personal characteristics, for example gender, race, age or having raised past concerns, except as required by law.

Our approach to Diversity and Inclusion

Our actions are focused on ensuring our people are valued, respected and supported to fulfil their potential and thrive.

In Europe, we are focusing on four diversity strands: Gender, Ability, Pride and Multiculturalism and we are encouraging open dialogue on Diversity and Inclusion topics. We are also supporting existing and new Employee Resources Groups like Inclusive Europe and Pride Europe.

In 1H 2021, we refined our governance so the Executive Committee can sponsor initiatives more closely through a HSBC Bank plc Diversity & Inclusion Council with permanent membership from the senior leadership team.

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

A further update to our plans and progress will be included in our *Annual Report and Accounts 2021.*

Investors

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

Regulators and Governments

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

Suppliers

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

Economic background and outlook

UK

Better news despite Covid-19 risks

The UK economy is gradually reopening. Although the spread of the Delta variant of Covid-19 led to a significant rise in cases through June and into July, the vaccination rollout has helped keep hospitalisation numbers low, relative to previous waves of the virus. So, despite a delay to reopening plans, England saw another easing in restrictions on 19 July, including the end of most domestic social distancing measures.

Meanwhile, the economic data have generally been robust, with a rebound in activity taking place. UK GDP grew by 3.6% in the three months to May 2021, while the unemployment rate remains low, at 4.8% in the three months to May. And while there is evidence that the UK's exit from the EU is causing some trade disruption, the broader macroeconomic impact seems to have been fairly contained.

Inflation has firmed, too, with the headline CPI rate rising to 2.5% y-o-y in June, above the Bank of England's 2% target. Some of the strength relates to higher commodity prices and, possibly, the impact of supply disruption relating to Covid-19. But some strength may reflect broader resilience in the labour market, which could prove persistent.

Looking ahead, HSBC Research expects the UK economy to recover fairly strongly through this year and next, with GDP growth of 7.1% in 2021 and 5.1% in 2022, after a 9.1% drop in 2020. HSBC Research also expects limited spare capacity to persist in the labour market such that CPI inflation runs a little above 2% into next year.

UK rates could rise next year

In response to the Covid-19 outbreak, the Bank of England ('BoE') cut Bank Rate from 0.75% to 0.1% last year, and announced a total of £460bn worth of asset purchases under its Quantitative Easing ('QE') programme. Given the potential prospect of a solid economic bounce and above 2% inflation, HSBC Research now sees the BoE raising Bank rate to 0.25% in May 2022, then up to 0.50% in November 2022 and at least one 25bp rise in 2023.

Fiscal policy support has also been substantial – over the past year it has included a temporary VAT cut, grants to businesses affected by Covid-19 and the Job Retention Scheme which has offered large wage subsidies to enable companies to keep staff on their payroll. Over the coming months, some of that emergency support is set to be withdrawn, with the Job Retention Scheme scheduled to end in September 2021. HSBC Research expects limited rises in unemployment when that happens, but possible fallout from the end of the scheme poses a risk to the outlook.

Eurozone

The reopening continues

Despite the rise of the Delta variant, Covid-19 cases remain much lower than they were at the start of this year. Meanwhile, the vaccination programme continues at a rapid pace and, across much of the continent, restrictions are being relaxed. For the most part, consumer-facing services such as hospitality have been reopened. Meanwhile, business and consumer confidence stand at well-above-average levels, which bodes well for consumer spending, investment and the jobs market. However, continued travel restrictions mean that those economies which are more reliant on tourism, including Spain and Greece, face ongoing headwinds. This improving backdrop means that HSBC Research expects eurozone GDP to grow by 4.4% in 2021 and 4.0% in 2022, after a 6.7% contraction in 2020, with GDP reaching its pre-pandemic level around the turn of 2021/22. Despite that prospective rebound in activity, the inflation outlook remains more muted than in, for example, the US and the UK. Admittedly, commodity prices and supply disruption lifted the HICP inflation rate to 1.9% in June 2021. But wage settlements remain weak and, based on that, HSBC Research forecasts eurozone inflation of 1.6% in 2022, below the European Central Bank's ('ECB's') 2% inflation aim.

Fiscal and monetary support continue

Substantial fiscal support measures continue. For example, many eurozone governments have extended 'short-time' work schemes, which offer generous wage subsidies aimed at keeping people in work. However, these schemes are likely to end over the coming months, while funds should start to flow from the €750bn EU Recovery Fund, which should lift levels of investment, while facilitating the green and digital transitions.

Meanwhile, the prospect of subdued inflation is likely to keep monetary policy very loose. The European Central Bank ('ECB') has so far announced an envelope of asset purchases under its Pandemic Emergency Purchase Programme of up to €1.85tn. While that programme is set to end in March 2022, the soft inflation outlook means that, in the view of HSBC Research, the ECB will likely raise the rate of asset purchases under its 'regular' Asset Purchase Programme from €20bn to €40bn a month. The likelihood of eurozone policy rate rises this year or next appears very low.

Financial summary

Use of alternative performance measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRSs') as detailed in the Financial Statements starting on page 48. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures.

All alternative performance measures are described and reconciled to the closest reported financial measure when used.

The global business segmental results are presented on an adjusted basis in accordance with IFRS 8 'Operating Segments', as detailed in 'Basis of preparation' in Note 3: Segmental analysis on page 56. Reconciliation of reported and adjusted performance are presented on pages 10 and 11.

Adjusted performance

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

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

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

Summary consolidated income statement

	Half-year to		
	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Net interest income	**860**	917	981
Net fee income	**744**	697	703
Net income from financial instruments measured at fair value	**2,067**	499	1,815
Gains less losses from financial investments	**46**	82	13
Net insurance premium income	**987**	764	795
Other operating income	**353**	116	301
Total operating income[1]	**5,057**	3,075	4,608
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(1,700)**	(186)	(1,597)
Net operating income before change in expected credit losses and other credit impairment charges	**3,357**	2,889	3,011
Change in expected credit losses and other credit impairment charges	**71**	(651)	(157)
Net operating income	**3,428**	2,238	2,854
Total operating expenses excluding impairment of goodwill and other intangible assets[1]	**(2,720)**	(2,711)	(3,192)
Impairment of goodwill and other intangible assets	**(1)**	(772)	(30)
Operating profit/(loss)	**707**	(1,245)	(368)
Share of profit/(loss) in associates and joint ventures	**108**	(38)	37
Profit/(loss) before tax	**815**	(1,283)	(331)
Tax (expense)/credit	**(74)**	63	73
Profit/(loss) for the period	**741**	(1,220)	(258)
Profit/(loss) attributable to the parent company	**737**	(1,230)	(258)
Profit attributable to non-controlling interests	**4**	10	—

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

Reported performance

Performance in the first half of 2021 was stronger compared to the first half of 2020, which was heavily impacted by the Covid-19 pandemic. Expected Credit Losses ('ECL') were significantly lower coupled with higher reported revenue and lower operating expenses.

Reported profit before tax of £815m compared with a loss before tax of £(1,283)m in the first half of 2020, up £2,098m. This was primarily due to significantly lower ECL reflecting an improvement in the economic outlook from 2020 and a resulting stabilisation of credit risk. Reported revenue was higher driven by favourable market impacts in insurance manufacturing in WPB, and favourable movements in valuation adjustments in GBM. Operating expenses were lower, mainly driven by the non-recurrence of impairment of goodwill and other intangible assets booked in the first half of 2020.

Net interest income ('NII') decreased by £57m or 6%. NII was lower in WPB, CMB and GBM compared with the first half of 2020, mainly driven by the impact of the lower interest rate environment, notably in GLCM (in our CMB and GBM businesses). This was partly offset by a reduction in the funding cost of trading assets, and through initiatives to reduce the overall funding costs of the bank through retiring more expensive wholesale funding.

Net fee income increased by £47m or 7%, mainly in Global Banking due to higher transaction volumes in Payments, both domestic and international, and in corporate cards driven by economic recovery post the easing of lockdown restrictions.

Net income from financial instruments measured at fair value increased by £1,568m. In WPB, revenue increased primarily driven by a more favourable equity market performance and higher interest rate yields in France compared with the first half of 2020 when the value of equity and unit trust assets supporting insurance contracts were heavily impacted by the Covid-19 outbreak.

This favourable movement resulted in a corresponding movement in liabilities to policyholders, reflecting the extent to which policyholders participate in the investment performance of the associated assets. The offsetting movements are recorded in liabilities to policyholders.

In GBM, revenue increased in Principal Investments ('PI') mainly driven by gains in portfolio valuations in the first half of 2021 compared with a minimal result in the first half of 2020. Revenue also increased in Markets and Securities Services reflecting a strong performance in Equities Derivatives, lower adverse credit and funding valuation adjustments as well as favourable bid-offer spread. This was partly offset by a reduction the Global FX income driven by a lower level of volatility.

Gains less losses from financial investments decreased by £36m, mainly driven by losses on the disposal of bonds held at fair value through other comprehensive income ('FVOCI') in Markets Treasury.

Net insurance premium income increased by £223m or 29%, mainly in WPB, from insurance revenue in France due to higher new business volumes.

Other operating income increased by £237m, mainly driven by favourable market impacts, notably in PVIF, in insurance manufacturing in WPB. This reflected strong equity market performance and higher interest rate yields on the valuations of the liabilities under insurance contracts.

Net insurance claims, benefits paid and movement in liabilities to policyholders increased by £1,514m, primarily in insurance manufacturing in WPB. This increase was driven by higher returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risks. The gains recognised on the financial assets measured at fair value through profit and loss held to support these insurance contract liabilities are reported in 'Net income from financial instruments designated at fair value'. This was partly offset by an increase in premium income.

Changes in expected credit losses and other impairment charges ('ECL') were a net release of £71m in the first half of 2021, compared with a net charge of £651m in the first half of 2020. The net release in the first half of 2021 reflected an improvement in the economic outlook and a stabilisation of credit risk. This compared with the significant build-up of stage 1 and stage 2 allowances in the first half of 2020 due to the worsening economic outlook at the onset of the Covid-19 outbreak. The reduction in ECL also reflected low levels of stage 3 charges.

Total operating expenses excluding impairment of goodwill and other intangible assets increased by £9m, mainly driven by an increase of £99m in expenses related to severance costs arising from cost efficiency measures across our global businesses and functions and higher performance related pay. This was mostly offset by a reduction in staff costs, lower contractor and

consultancy spend, and lower discretionary spend, in line with our transformation plans.

Impairment of goodwill and other intangible assets in the first half of 2020 of £772m principally comprised the write-off capitalised software. This mainly related to our businesses in the UK and France and reflected the underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods.

Share of (loss)/profit in associates and joint ventures was a profit of £108m compared to a loss of £(38)m in the first half of 2020. Profit in the first half of 2021 included a £93m true-up of prior year valuations of an associate.

Tax charge was £74m compared to a tax credit of £63m in the same period of 2020. The effective rate for the first half of 2021 of 9.1% was driven by the remeasurement of UK deferred tax balances following the substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023 and movements in unrecognised deferred tax.

The low effective tax rate of 4.8% for the first half of 2020, representing a tax credit on a loss before tax, was mainly due to the non-recognition of deferred tax on the UK loss for the period.

Adjusted performance

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

	Half-year to 30 Jun 2021				
	GBM	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m
Reported revenue	**2,022**	**556**	**714**	**65**	**3,357**
Significant revenue items	**110**	**(1)**	**(1)**	**(65)**	**43**
– debit valuation adjustment on derivative contracts	**10**	**—**	**—**	**—**	**10**
– fair value movement on non-qualifying hedges	**(4)**	**(1)**	**(1)**	**—**	**(6)**
– restructuring and other related costs	**104**	**—**	**—**	**(65)**	**39**
Adjusted revenue	**2,132**	**555**	**713**	**—**	**3,400**
	Half-year to 30 Jun 2020				
Reported revenue	1,962	578	424	(75)	2,889
Significant revenue items	18	—	—	(1)	17
– debit valuation adjustment on derivative contracts	(22)	—	—	—	(22)
– fair value movement on non-qualifying hedges	2	—	—	(1)	1
– restructuring and other related costs	38	—	—	—	38
Adjusted revenue	1,980	578	424	(76)	2,906
	Half-year to 31 Dec 2020				
Reported revenue	1,822	554	611	24	3,011
Significant revenue items	171	1	—	(92)	80
– debit valuation adjustment on derivative contracts	24	—	—	—	24
– fair value movement on non-qualifying hedges	—	1	—	(1)	—
– restructuring and other related costs	147	—	—	(91)	56
Adjusted revenue	1,993	555	611	(68)	3,091

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

	Half-year to 30 Jun 2021				
	GBM	**CMB**	**WPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Reported operating expenses	**(1,739)**	**(335)**	**(508)**	**(139)**	**(2,721)**
Significant cost items	**32**	**(8)**	**5**	**103**	**132**
– restructuring and other related costs	**32**	**(8)**	**5**	**103**	**132**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**—**	**—**	**—**
– impairment of other intangible assets	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(1,707)**	**(343)**	**(503)**	**(36)**	**(2,589)**
	Half-year to 30 Jun 2020[2]				
Reported operating expenses	(2,247)	(370)	(579)	(287)	(3,483)
Significant cost items	476	34	35	262	807
– restructuring and other related costs[1]	18	1	—	153	172
– settlements and provisions in connection with legal and regulatory matters	2	—	—	2	4
– impairment of other intangible assets	456	33	35	107	631
Adjusted operating expenses	(1,771)	(336)	(544)	(25)	(2,676)
	Half-year to 31 Dec 2020				
Reported operating expenses	(1,932)	(403)	(590)	(297)	(3,222)
Significant cost items	204	80	6	236	526
– restructuring and other related costs	200	78	5	224	507
– settlements and provisions in connection with legal and regulatory matters	(1)	—	—	6	5
– impairment of other intangible assets	5	2	1	6	14
Adjusted operating expenses	(1,728)	(323)	(584)	(61)	(2,696)

1 *Includes the write down of software £139m.*
2 *During the second half of 2020, management reviewed the allocation policy of the significant software impairment and write-offs between the businesses (GBM, CMB, WPB and Corporate Centre) resulting in a change in the reported impairment cost by businesses. The comparative amounts have been re-presented to reflect this change.*

Net impact on profit before tax by business segment

	Half-year to 30 Jun 2021				
	GBM	**CMB**	**WPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Reported (loss)/profit before tax	**348**	**220**	**215**	**32**	**815**
Net impact on reported profit or loss	**142**	**(9)**	**4**	**38**	**175**
– significant revenue items	**110**	**(1)**	**(1)**	**(65)**	**43**
– significant cost items	**32**	**(8)**	**5**	**103**	**132**
Adjusted (loss)/profit before tax	**490**	**211**	**219**	**70**	**990**
	Half-year to 30 Jun 2020[1]				
Reported profit/(loss) before tax	(708)	14	(183)	(406)	(1,283)
Net impact on reported profit or loss	494	34	35	261	824
– significant revenue items	18	—	—	(1)	17
– significant cost items	476	34	35	262	807
Adjusted profit/(loss) before tax	(214)	48	(148)	(145)	(459)
	Half-year to 31 Dec 2020				
Reported profit/(loss) before tax	(138)	23	10	(226)	(331)
Net impact on reported profit or loss	375	81	6	144	606
– significant revenue items	171	1	—	(92)	80
– significant cost items	204	80	6	236	526
Adjusted profit/(loss) before tax	237	104	16	(82)	275

1 *During the second half of 2020, management reviewed the allocation policy of the significant software impairment and write-offs between the businesses (GBM, CMB, WPB and Corporate Centre) resulting in a change in the reported impairment cost by businesses. The comparative amounts have been re-presented to reflect this change.*

Adjusted performance

Adjusted profit before tax of £990m compared to a loss before tax of £(459)m in the first half of 2020, up £1,449m. This was largely driven by lower ECL, higher revenue and lower operating expenses. ECL was lower mainly reflecting an improvement in the economic outlook from the first half of 2020. Adjusted revenue increased primarily driven by the impact of volatile items including favourable market impacts on insurance manufacturing in WPB and favourable valuation adjustments in GBM. Operating expenses decreased as a result of our transformation plans and continued prudent management of discretionary spend.

Adjusted revenue increased by £494m or 17%, reflecting higher revenue in WPB and GBM. The increase in WPB reflected favourable market impacts on insurance manufacturing as equity markets recovered from losses in the first half of 2020.

In GBM, adjusted revenue was higher in Principal Investments ('PI') driven by valuation gains, and in Markets and Securities Services from favourable credit and funding valuation adjustments and continued momentum in Equities. This was partly offset by a decrease in revenue in Global Foreign Exchange driven by lower market volatility. There was also a reduction in revenue in our Global Liquidity and Cash Management ('GLCM') business within GBM and CMB, driven by the low interest rate environment.

Adjusted ECL were £722m lower than the first half of 2020. There was a net release of £71m compared a net charge of £651m in the first half of 2020. The net release in the first half of 2021, notably in GBM and CMB, reflected an improvement in the economic outlook and a stabilisation of credit risk. This compared with the significant build-up of stage 1 and stage 2 allowances in the first half of 2020 due to the worsening economic outlook at the onset of the Covid-19 outbreak. The reduction in ECL also reflected low levels of stage 3 charges.

Adjusted operating expenses were lower by £87m or 3%, as we reviewed and re-prioritised spend aligning with our transformation plans and to reflect the economic outlook. This resulted in a reduction in FTE, tight control of contractor and consultancy spend as well as lower discretionary spend.

This decrease was partly offset by higher performance-related pay reflecting strong revenue performance and an increase in the Single Resolution Fund ('SRF') levy in France and Germany.

Share of (loss)/profit in associates and joint ventures was a profit of £108m which included a £93m true-up of prior year valuations of an associate. This was compared to a loss of £(38)m in the first half of 2020.

Global Banking and Markets ('GBM')

Adjusted profit before tax of £490m compared with a loss of £(214)m in the first half of 2020, an increase of £704m. This was driven by strong revenue performance, lower ECL and lower operating expenses.

Revenue increased by £152m or 8%, mainly in Principal Investments ('PI') reflecting valuation gains on a number of funds in the UK. In Markets and Securities Services, revenue was higher driven by a combination of strong Equities Derivatives performance and lower adverse movements in credit and funding valuation adjustments. This was partly offset by a decrease in revenue in Global FX driven by lower market volatility as the first quarter of 2020 recorded an exceptional level of volatility and activity due to the outbreak of Covid-19.

By contrast, revenue decreased in Banking, mainly in GLCM reflecting margin compression driven by the continued low interest rate environment, although this was partly offset by increased fee income due to economic recovery post easing of lockdown restrictions. Revenue in Credit and Lending also fell due to lower net interest income driven by lower customer balances, reflecting actions to reduce RWAs as part of our transformation.

ECL net credit of £65m compared to a net charge of £423m in the first half of 2020. The net credit in the first half of 2021 reflected releases of provisions, notably in the first quarter, as the economic outlook improved. This compared with net charges in the first half of 2020 resulting from the deterioration in the economic situation due to the Covid-19 outbreak.

Operating expenses decreased by £64m or 4%, mainly due to lower staff costs resulting from our transformation cost-saving initiatives partly offset by higher performance-related pay reflecting revenue performance and a higher SRF levy in France and Germany. There were also lower intercompany recharges with an offset in intercompany recoveries in revenue.

Commercial Banking ('CMB')

CMB performed well in the the first half of 2021 as we continued to implement our strategy to focus on serving our international customers.

Adjusted profit before tax was £211m, an increase of £163m compared with the first half of 2020. This was mainly driven by lower ECL partly offset by lower revenue and higher operating expenses.

Revenue decreased by £23m or 4%, primarily in Credit and Lending due to lower customer balances reflecting actions taken to reduce RWA as part of our transformation. Revenue in GLCM also fell driven by the lower interest rate environment, despite growth in average deposit balances. This was partly offset by an increase in revenue allocated from Markets Treasury.

ECL decreased by £193m compared to the first half of 2020, mainly driven by lower charges against specific customers, notably in the automobile and retail sectors. In addition, charges were also lower driven by the improved economic outlook.

Operating expenses increased by £7m or 2%, mainly driven by an increase in the SRF levy.

Wealth and Personal Banking ('WPB')

Adjusted profit before tax of £219m compared with a loss before tax of £(148)m in the first half of 2020, up by £367m. This was due to higher revenue, lower operating expenses and lower ECL.

Revenue increased by £289m or 68%, mainly in insurance manufacturing in France and in the UK, largely from positive market impacts, notably PVIF, driven by favourable equity market performance and higher interest rate yields on insurance contracts. Revenue was also higher from the UK life insurance business, notably in onshore investment bonds driven by an increase in policyholder assets.

This increase was partly offset by a reduction in revenue in the Channel Islands and Isle of Man, from deposits due to the low interest rate environment despite growth in customer balances.

ECL a net credit of £9m compared with a net charge of £28m in the first half of 2020. This mainly reflected an improvement in the economic outlook from the first half of 2020.

Operating expenses decreased by £41m or 7%, mainly driven by lower technology costs due to lower investment spend and lower corporate real estate costs due to lower depreciation as certain assets have been fully written down. This was partly offset by an increase in performance-related pay.

Corporate Centre

Adjusted profit before tax of £70m compared to a loss of £(145)m in the first half of 2020. This was mainly driven by a profit in associates and joint ventures compared to a loss in the first half of 2020, as well as higher revenue.

Revenue increased by £76m, primarily driven by gains on portfolio disposals in Legacy Credit compared with losses in the first half of 2020. Revenue also increased driven by a fair value gain from a long-standing investment in a Germany-based brokerage company which has benefited from an investment in a company that recently completed a fundraising.

ECL decreased by £4m compared with the first half of 2020, mainly driven by lower losses in Legacy Credit following portfolio disposals.

Operating expenses increased by £11m or 10%, driven by an increase in intercompany recharges from other entities in the Group, with an offsetting increase in revenue.

Share of (loss)/profit in associates and joint ventures was a profit of £108m, of which £93m was due to a true-up of prior year valuations of an associate. This compared with a loss of £(38)m in the first half of 2020.

Review of business position

Summary consolidated balance sheet

	At	
	30 Jun 2021	31 Dec 2020
	£m	£m
Total assets	**623,963**	681,150
– cash and balances at central banks	**108,056**	85,092
– trading assets	**95,913**	86,976
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**17,616**	16,220
– derivatives	**139,772**	201,210
– loans and advances to banks	**10,999**	12,646
– loans and advances to customers	**93,210**	101,491
– reverse repurchase agreements – non-trading	**53,032**	67,577
– financial investments	**44,753**	51,826
– other assets	**60,612**	58,112
Total liabilities	**600,077**	657,301
– deposits by banks	**40,427**	34,305
– customer accounts	**200,649**	195,184
– repurchase agreements – non-trading	**29,440**	34,903
– trading liabilities	**48,179**	44,229
– financial liabilities designated at fair value	**37,478**	40,792
– derivatives	**138,366**	199,232
– debt securities in issue	**13,980**	17,371
– liabilities under insurance contracts	**22,332**	22,816
– other liabilities	**69,226**	68,469
Total equity	**23,886**	23,849
Total shareholders' equity	**23,719**	23,666
Non-controlling interests	**167**	183

Total reported assets were 8% lower than at 31 December 2020. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts decreasing to 46% from 52% at 31 December 2020.

Assets

Cash and balances at central banks increased by 27% as a result of increased customer deposits and decreased reverse repurchase agreements position.

Trading assets increased by 10% due primarily to an increase in equity shares positions.

Derivative assets decreased by 31%. This was largely due to a decrease in mark-to-market of interest rate contracts as a result of a shift in yield curves for major currencies.

Non-trading reverse repurchase agreements decreased by 22% primarily due to a reduction in market activity and different allocation of central cash investments, which were diverted from the repo market to other products for optimisation reasons.

Financial investments decreased by 14% as a result of optimisation strategy.

Liabilities

Customer accounts increased slightly, which is consistent with our funding strategy to grow customer deposits and increase stable funding.

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

Debt securities in issue decreased by 20% primarily due to maturing longer term debt.

Derivative liabilities decreased by 31%. This is in line with derivative assets as the underlying risk is broadly matched.

Equity

Total shareholders' equity remained broadly unchanged.

Risk

Risk overview

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

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

The exposure to our risks and risk management of these are explained in more detail in the Report of the Directors on pages 22 to 86 of the *Annual Report and Accounts 2020*.

Risk		Mitigants
Externally driven		
Covid-19	▶	Since the Covid-19 outbreak, we have worked with regulators, governments and our customers to implement measures to mitigate the financial, operational and other impacts of the outbreak on our clients, our businesses and the economies in which we operate. We continued to invoke business continuity plans to effectively manage our operations under the constraints imposed by governments in response to the outbreak and introduced measures to enable our people to work safely and flexibly during the outbreak, including those to enable employees who have been working from home the ability to return to the workplace, in line with the lifting of restrictions and in accordance with advice from governments.
UK exit from EU	▶	A new trading relationship between the UK and the EU, outlined within the Trade and Cooperation Agreement, commenced on 1 January 2021. The Agreement 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. Bilateral discussions have concluded at a technical level between the UK and the EU to create the framework for voluntary regulatory cooperation in financial services through the establishment of a Joint UK-EU Financial Regulatory Forum, which will provide a platform within which both parties will be able to discuss financial services-related issues including future equivalence determinations. We will continue to work with regulators, governments and our customers to manage any risks by the Trade and Cooperation Agreement, or from future regulatory cooperation proposals on financial services as they arise, particularly across those industry sectors most impacted.
Geopolitical risk	▶	We continue to closely monitor emerging risks posed by an evolving geopolitical landscape and adopt commensurate procedures and controls based on an assessment of the impacts that these may have on our portfolios. The relationship between the UK and the EU may take time to settle following the UK's departure from the EU, despite the agreement of the Trade and Cooperation Agreement at the end of 2020. Although there has been an economic recovery during the first half of 2021 and some reduction in credit stress in our portfolios, we continue to maintain tight monitoring activities to identify sectors and customers experiencing financial difficulties as a result of the Covid-19 outbreak.
Cyber threat and unauthorised access to systems	▶	We protect the group and our customers by strengthening our cyber defences, helping us to execute our business priorities safely and keep our customers' information secure. We employ a defence in depth approach to cyber security and continue to focus on controls to prevent, detect and mitigate the impacts of persistent and increasingly advanced cyber threats with a specific emphasis on vulnerability management, malware defences, protections against unauthorised access and third-party risk. We closely monitor the continued dependency on widespread remote working and online facilities.
Regulatory focus on conduct of business	▶	We closely monitor for regulatory developments to ensure they are interpreted and implemented effectively and in a timely way. We also engage with regulators, policy makers and standard setters as appropriate, to help shape new regulatory requirements. Key themes currently driving the regulatory compliance agenda include: consumer protection and customer vulnerability; the impact of digital services and innovation; and environmental, social and governance matters, with a particular focus on climate risk.
Financial Crime and Fraud risk	▶	We continued to support our customers and the business throughout the Covid-19 pandemic, while making improvements to our financial crime controls. We also continued to invest in our screening and monitoring controls.
Market illiquidity and volatility	▶	The Covid-19 outbreak has created significant volatility in global markets. Against this background we continue to monitor risks closely and report regularly on illiquidity and concentration risks to the PRA.
Ibor transition	▲	We remain focused on completing the provision of alternative near-risk free products, together with the supporting processes and systems, to replace all outstanding Ibor-linked contracts that are on a demise path, within the required timelines. Due to delays in market readiness, we are preparing for an increased risk that the transition of outstanding contracts will be concentrated in the latter part of 2021.
Climate Related Risks	▲	We continue to enhance identification, oversight and management of climate-related risks. Following the publication of the HSBC Group's climate ambition, we are developing business plans and capabilities to execute it, and are participating in the Group's dedicated climate risk programme. Our climate risk management framework and approach, developed over 2020, will further mature throughout 2021 and we will further develop our risk appetite and key indicators. We are also building our scenario analysis capabilities in preparation for the Bank of England's climate biennial exploratory scenario.
Internally driven		
People risk	▶	We monitor workforce capacity and capability requirements in line with our published growth strategy. We have put in place measures to support our people to work safely during the Covid-19 outbreak, and to integrate them back into the workplace as government restrictions ease. We monitor people risks that may arise due to business transformation to help sensitively manage redundancies and support impacted employees.
IT systems infrastructure and resilience	▶	We continue to monitor and improve our IT systems and network resilience, both on our premises and on the Cloud to minimise service disruption and improve customer experience. To support the business strategy, we strengthened our end to end management, build and deployment controls and system monitoring capabilities. We continue to seek to reduce the complexity of our technology estate and consolidate our core banking systems onto a single strategic platform.
Execution risk	▲	We monitor and manage our change execution risk, including capacity and resources to meet the increased delivery demand across both strategic transformation programmes, regulatory deliverables and remediation programmes in 2021. Our transformation programme continues to oversee all initiatives mobilised to deliver the commitments made to restructure the business and reduce costs by the end of 2022. A number of initiatives within this programme impact our colleagues and are supported by increased levels of investment in technology. We are working to strengthen our change management practices to deliver sustainable change efficiently and safely, aligned to a new Group change framework launched during the first half of 2021.

Risk		Mitigants
Internally driven		
Model risk	▶	We continue to strengthen our oversight of models. A new model risk policy is being embedded, including updated controls around the monitoring and use of models. We have launched new model risk appetite measures, which focuses on the risks inherent in the use of models. We are redeveloping our capital models to reflect the evolving regulatory requirements. In addition, models impacted by the switch to new alternative measures due to the demise of LIBOR are being redeveloped. We have also enhanced governance and oversight of models used in Sarbanes-Oxley processes in light of potential impacts from the uncertain external environment on the model outcomes.
Data management	▶	We continue to remediate the control environment for data-related risks with focused investments in data governance, data usage, data integrity, data privacy and information lifecycle management. In the first half of 2021, our data strategy was refreshed to align to three pillars: protect, connect and unlock. Our Data and Architecture Office has established a programme of work to embed the new strategy and enhance our data management.
Third Party Risk Management	▶	The impacts of the Covid-19 pandemic on the delivery of services to the group are being closely monitored, with businesses and functions taking appropriate action where needed. We have continued to enhance our third-party risk management programme to help ensure engagements comply with our third-party risk policy and required standards.

▲ Risk has heightened during 2021

▶ Risk remains at the same level as 31 December 2020

Managing risk

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial.

Banks continued to play an expanded role in supporting society and customers during the first half of 2021 due to the unprecedented global economic events caused by the Covid-19 outbreak. 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 governments 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.

To meet the additional challenges caused by the Covid-19 pandemic, we have supplemented our existing approach to risk management with additional tools and practices, and these continue today. We increased our 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 other key stakeholders.

Our risk appetite

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

Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

In the first half of 2021, we continued to build on the enhancements made in 2020 to ensure we remain able to support our customers and strategic goals against the backdrop of the Covid-19 outbreak. Capital and liquidity remain at the core of our risk appetite framework, with forward-looking statements informed by stress testing. We also continue to develop our climate risk appetite as we seek to engage with businesses, encourage conversations around climate risk and start to embed climate risk appetite into business planning.

Key developments in the first half of 2021

We continued to actively manage the risks resulting from the Covid-19 outbreak and its impacts on our customers and operations during the first half of 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 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. We refreshed our financial crime policies, ensuring they remained up-to-date and addressed changing and emerging risks, as well as meeting our regulatory obligations.
- We introduced enhanced governance and oversight around model adjustments and related processes for IFRS 9 models and Sarbanes-Oxley controls.

Top and emerging risks

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

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

Areas of special interest

Risks related to Covid-19

The Covid-19 pandemic and its effect on the global economy have impacted our customers and our performance. The outbreak necessitated governments to respond at unprecedented levels to protect public health, and to support local economies and livelihoods. It affected regions at different times and to varying degrees. The varying government support measures and restrictions in response have added challenges given the rapid pace of change and significant operational demands. The speed at which countries and territories are able to return to pre-Covid 19 levels of economic activity will vary based on the extent of continuing government support offered, infection rates and the ability to roll out vaccines. Renewed outbreaks emphasise the ongoing threat of Covid-19, as seen in India during the first half of 2021 following the outbreak of a new variant of the virus, and may again result in renewed tightening of government restrictions following recent relaxations.

Government restrictions imposed around the world to limit the spread of Covid-19 resulted in a sharp contraction in global economic activity during 2020, including in countries in Europe. HSBC's Central scenario used to calculate impairment assumes that economic activity will recover over the course of 2021. In this scenario, recovery is supported by a successful roll-out of vaccination programmes across our key markets, and the use of a variety of non-pharmacological measures to contain the virus. There remains however a high degree of uncertainty associated with economic forecasts in the current environment. The degree of uncertainty varies across our key markets, driven by country specific trends in by the evolution of the pandemic, 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.

There is a material risk of a renewed drop in economic activity, particularly in countries with low vaccination rates. The economic fallout from the Covid-19 outbreak risks increasing inequality across markets that have already suffered from social unrest. It will likely take time before societies return to pre-pandemic levels of social interactions, meaning that increased inequalities in living standards within societies will continue to disrupt most markets in the medium term. This will leave the burden on governments and central banks to maintain or increase fiscal and monetary stimulus, possibly in a more targeted fashion than seen during 2020 and the first half of 2021. After financial markets suffered a sharp fall in the early phases of the spread of Covid-19, they rebounded but still remain volatile. Depending on the long term impact on global economic growth, financial asset prices may suffer a further sharp fall.

Governments and central banks in major economies have deployed extensive measures to support their local populations. Central banks in developed markets are expected to maintain historically low interest rates for a considerable period of time, with Government debt having risen in most advanced economies and expected to remain high in the medium term. This could eventually pose a dilemma for central banks, as they face the conflicting aims of keeping debt servicing costs contained whilst preventing a steep rise in inflation.

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

The rapid introduction and varying nature of the government support schemes, as well as customer expectations, has led to increased operational risks for the group including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as and when those government support schemes are unwound. We are focused upon avoiding and mitigating any conduct risks that may arise from the implementation decisions we have had to make and also those that may be created if our customers find themselves in financial difficulties as a result of the impact of the Covid-19 pandemic.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the economies of our major markets, such as retail, hospitality 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, there is a risk that the outputs of IFRS9 models may have a tendency to under predict loan losses. Model outputs and management adjustments are closely monitored and independently reviewed for reliability and appropriateness prior to inclusion in the financial results. We are also working to redevelop models used to calculate capital levels and drive business decisions. These include models for credit and traded risk to address new and changing regulatory requirements related to internal ratings-based ('IRB') repair, Ibor replacement and the fundamental review of the trading book.

The operational support functions on which the group relies are based in a number of countries worldwide, some of which, notably India, have been particularly affected by the Covid-19 outbreak and have recently experienced a significant increase in infection rates. As a result of the Covid-19 outbreak, business continuity responses have been implemented and the majority of service level agreements have been maintained in locations where the group operates. 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 reimposition of government restrictions, or further lockdowns. There is a risk that economic activity remains below pre-pandemic levels for a prolonged period. We continue to monitor the situation closely, and given the novel and prolonged nature of the outbreak, additional mitigating actions may be required.

Ibor transition

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

The FCA announced in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021. In addition, the 2016 EU Benchmark Regulation, which aims to ensure the accuracy, robustness and integrity of interest rate benchmarks, has resulted in other regulatory bodies' reassessment of their national benchmarks, including the Euro Overnight Index Average ('Eonia'). Furthermore, the FCA and the administrator of Libor, ICE Benchmark Administration Limited ('IBA'), announced on 5 March 2021 that publication of 26 of the 35 main Libor currency interest rate benchmark tenors would cease at the end of 2021. Additionally, the FCA and IBA confirmed that the publication of the most widely used US dollar Libor settings will be extended until 30 June 2023, and that consultation will occur for continuing three sterling settings under a 'synthetic' calculation methodology. As a result, our transition programme continued its efforts to provide near risk-free rate ('RFR') and alternative rate products and is currently focused on actively transitioning clients away from those contracts that reference Ibors demising at the end of 2021.

Provision of alternative rate and RFR product capabilities

During 2020 and the first half of 2021, all global businesses developed and implemented system, modelling and operational capabilities for the majority of RFR products, and alternative rates, with only a limited number of non-standard products requiring

completion in the second half of 2021. Our product readiness and increased market liquidity has enabled new transactions to be undertaken in RFR and alternative rate products for all benchmarks. This, and market initiatives to reduce Ibor trade volumes, has contributed to a continued decrease in Ibor exposures that have post-2021 maturities.

However, given the extension of the publication of US dollar for the most widely used settings, the market activity for the Secured Overnight Financing Rate ('SOFR') continues to develop at a slow pace. We are currently monitoring other industry developments to term SOFR, and supporting market initiatives to increase the volume of activity in the SOFR derivative market. We will also continue to develop additional products for our customers, and in support of the transition from US dollar Libor.

Transition legacy contracts

For benchmarks demising in 2021, the group plans to transition all viable legacy Ibor contracts by 30 September 2021, to the extent possible in line with RFR working group guidelines. However, we remain dependent on our clients' decisions and the market to meet these targets. We approached customers in a structured manner, based on product readiness and customer prioritisation, and our transition progress is being tracked using internal targets. In prioritising our client engagement we also took into account our clients' adherence to the fallback provisions for derivatives within the ISDA protocol, implemented in January 2021, and contractual fallback language within legacy loan contracts. Following our transition discussions with clients, we will be led by their decisions on timing and their level of readiness to transition. We are tracking client decisions to adequately plan for operational activities that need to occur in the second half of 2021. However, given the continued impact of Covid-19 on our customers and the market, there is a risk that not all of our clients are operationally ready to transition their Ibor contracts. This could potentially result in delays to transition, past the 30 September 2021 target date, with transition activities being further concentrated into the latter half of 2021. This could increase operational, regulatory compliance, legal, and resilience risks.

While operational risks could be increased by transitions being concentrated towards the end of 2021, contractual repapering and rebooking activities will be managed accordingly. Additionally we may need to rely on legislative solutions to allow for a smooth transition of all contracts. The FCA and HM Treasury continues to consult with the industry about how best to manage potential 'tough legacy' scenarios, including possibly using a synthetic Libor. Adequate contract continuity provisions will be critical to the successful implementation of such solutions.

As a result of our transition efforts, the group continues to reduce its Ibor and Eonia derivatives, loan, and bond exposures maturing beyond 2021.

For the derivatives exposures, following the first quarter cessation milestone for issuance of new sterling Libor linear derivatives, we are only transacting sterling linear derivatives for risk management purposes. This has led to a decrease in Libor exposures and an increase in the volume of transactions referencing Sterling Overnight Index Average ('Sonia'). Second quarter industry milestones for cessation of sterling non-linear derivatives have been adhered to and this is expected to result in a further exposure reduction.

For the group's loan book, all loan contracts referencing 2021 demising Ibors that require refinancing are being offered on an RFR or alternative rates basis. We have adhered to the cessation milestone for issuance of new Libor loans, and continue to support and engage our clients in transitioning to a suitable alternative rate or replacement RFR product, prior to the relevant Ibor cessation date. For syndicated loans, we are actively engaging with agents and participants, as appropriate, but will be reliant on all syndicate members to transition.

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 30 Jun 2021	**£m**	**£m**	**£m**	**£m**
Non-derivative financial assets[2]	**7,615**	**5,931**	**200**	**82**
Non-derivative financial liabilities[2]	**1,375**	**1,384**	**8**	**—**
Derivative notional contract amount	**1,326,274**	**874,975**	**210,130**	**118,972**
At 31 Dec 2020				
Non-derivative financial assets[2]	10,012	5,762	1	184
Non-derivative financial liabilities[2]	1,933	1,410	3	1
Derivative notional contract amount	1,700,582	868,313	196,515	134,693

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

The amounts in the above table relate to the group's main operating entities where we have material exposures impacted by Ibor reform, including in the United Kingdom, France, and Germany. The amounts provide an indication of the extent of the group's exposure to the Ibor benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to cease; and
- are recognised on HSBC's consolidated balance sheet;

In March 2021, the administrator of Libor, IBA, announced that the publication date of most US dollar Libor tenors has been extended from 31 December 2021 to 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This change, together with the extended publication dates of SOR and THBFIX, reduce the amounts presented at 30 June 2021 in the above table as some financial instruments included at 31 December 2020 will reach their contractual maturity date prior to the extended publication dates. Comparative data have not been re-presented.

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The group has cash flow and fair value hedge accounting relationships that are exposed to different Ibors, predominantly US Dollar Libor, Sterling Libor and Euribor as well as overnight rates subject to the market-wide benchmarks reform, such as the European Overnight Index Average rate ('Eonia'). Existing financial instruments (such as derivatives, loans and bonds) designated in relationships referencing these benchmarks are expected to transition to RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of

these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The hedged items that are affected by the Phase 2 amendments to the IASB's Ibor reform are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue', and 'Deposits by banks'. The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibor reform and in scope of the IASB Ibor reform Phase 1 and Phase 2 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below:

Hedging instrument impacted by Ibor reform

	Hedging instrument						
	Impacted by Ibor reform					NOT Impacted by Ibor reform	Notional Amount[1]
	EUR[2]	GBP	USD	Other	Total		
	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	**7,379**	**57**	**1,793**	**8**	**9,237**	**16,475**	**25,712**
Cash Flow Hedges	**6,267**	**500**	**181**	**—**	**6,948**	**3,100**	**10,048**
At 30 Jun 2021	**13,646**	**557**	**1,974**	**8**	**16,185**	**19,575**	**35,760**
Fair Value Hedges	12,822	1,855	1,908	60	16,645	13,092	29,737
Cash Flow Hedges	6,111	1,552	183	—	7,846	2,675	10,521
At 31 Dec 2020	18,933	3,407	2,091	60	24,491	15,767	40,258

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 £6,859m (31 December 2020: £7,606m) and Cash flow hedges £6,267m (31 December 2020: £6,111m).*

Credit risk

	Page
Summary of credit risk	18
Measurement uncertainty and sensitivity analysis of ECL estimates	22
Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees	27
Customer relief programmes	29

Overview

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

Credit risk in the first half of 2021

There were no material changes to credit risk policy in the first half of 2021.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on pages 32 and 33 of the Annual Report and Accounts 2020*.*

At 30 June 2021, gross loans and advances to customers and banks of £105.5bn decreased by £10.1bn, compared with 31 December 2020. This included adverse foreign exchange movements of £2.9bn. Excluding foreign exchange movements, the decline was driven by £5.9bn decrease in wholesale loans and advances to customers and a £1.4bn loans and advances to banks. This was partly offset by a £0.1bn increase in personal loans and advances to customers.

During the first six months of 2021, the group experienced a release in allowances for ECL, which was driven by improving economic forecasts. Excluding foreign exchange movements, the allowance for ECL in relation to loans and advances to customers decreased by £136m from 31 December 2020. This was attributable to:

- a £122m decrease in wholesale loans and advances to customers, of which £45m was driven by stage 1 and 2; and
- a £14m decrease in personal loans and advances to customers, of which £5m was driven by stage 1 and 2.

At 30 June 2021, the allowance for ECL of £1,436m decreased by £218m compared with 31 December 2020. The allowance comprised £1,310m in respect of assets held at amortised cost, £108m in respect of loan commitments and financial guarantees, and £18m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

Stage 3 balances at 30 June 2021 remained broadly stable compared with 31 December 2020.

The ECL release for the first six months of 2021 was £71m, inclusive of recoveries. Uncertainty remains as countries emerge from the pandemic at different speeds, government support measures unwind and new virus strains test the efficacy of vaccination programmes.

During the first half of 2021, we continued to provide Covid-19 related support to customers under the current policy framework. For further details of market-specific measures to support our personal and business customers, see page 29.

Summary of credit risk

The following disclosure presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS9 are applied and the associated allowance for ECL.

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

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

	At			
	30 Jun 2021		31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	**£m**	£m	£m
Loans and advances to customers at amortised cost	**94,503**	**(1,293)**	102,960	(1,469)
– personal	**25,649**	**(185)**	26,499	(208)
– corporate and commercial	**55,750**	**(1,012)**	62,987	(1,168)
– non-bank financial institutions	**13,104**	**(96)**	13,474	(93)
Loans and advances to banks at amortised cost	**11,006**	**(7)**	12,662	(16)
Other financial assets measured at amortised cost	**214,331**	**(10)**	202,763	(12)
– cash and balances at central banks	**108,056**	**—**	85,093	(1)
– items in the course of collection from other banks	**638**	**—**	243	—
– reverse repurchase agreements – non-trading	**53,032**	**—**	67,577	—
– financial investments	**13**	**—**	15	—
– prepayments, accrued income and other assets[2]	**52,592**	**(10)**	49,835	(11)
Total gross carrying amount on-balance sheet	**319,840**	**(1,310)**	318,385	(1,497)
Loans and other credit related commitments	**135,040**	**(90)**	143,036	(112)
– personal	**2,396**	**—**	2,211	(1)
– corporate and commercial	**67,975**	**(76)**	75,863	(89)
– financial	**64,669**	**(14)**	64,962	(22)
Financial guarantees[3]	**10,721**	**(18)**	3,969	(23)
– personal	**30**	**—**	32	—
– corporate and commercial	**9,399**	**(17)**	2,735	(19)
– financial	**1,292**	**(1)**	1,202	(4)
Total nominal amount off-balance sheet[4]	**145,761**	**(108)**	147,005	(135)
	465,601	**(1,418)**	465,390	(1,632)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**44,644**	**(18)**	51,713	(22)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 50 includes both financial and non-financial assets.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

- Stage 1: These financial assets are unimpaired and without a significant increase in credit risk for which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired for which a lifetime ECL is recognised.
- POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 30 June 2021

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	75,410	16,356	2,701	36	94,503	(117)	(250)	(917)	(9)	(1,293)	0.2	1.5	34.0	25.0	1.4
– personal	24,349	811	489	–	25,649	(17)	(30)	(138)	–	(185)	0.1	3.7	28.2	–	0.7
– corporate and commercial	39,480	14,334	1,900	36	55,750	(90)	(192)	(721)	(9)	(1,012)	0.2	1.3	37.9	25.0	1.8
– non-bank financial institutions	11,581	1,211	312	–	13,104	(10)	(28)	(58)	–	(96)	0.1	2.3	18.6	–	0.7
Loans and advances to banks at amortised cost	10,877	129	–	–	11,006	(6)	(1)	–	–	(7)	0.1	0.8	–	–	0.1
Other financial assets measured at amortised cost	214,252	40	39	–	214,331	–	–	(10)	–	(10)	–	–	25.6	–	–
Loan and other credit-related commitments	122,648	12,166	226	–	135,040	(24)	(53)	(13)	–	(90)	–	0.4	5.8	–	0.1
– personal	2,177	217	2	–	2,396	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	57,510	10,253	212	–	67,975	(20)	(44)	(12)	–	(76)	–	0.4	5.7	–	0.1
– financial	62,961	1,696	12	–	64,669	(4)	(9)	(1)	–	(14)	–	0.5	8.3	–	–
Financial guarantees[1]	9,521	1,106	93	1	10,721	(4)	(7)	(7)	–	(18)	–	0.6	7.5	–	0.2
– personal	23	6	1	–	30	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	8,520	787	91	1	9,399	(3)	(7)	(7)	–	(17)	–	0.9	7.7	–	0.2
– financial	978	313	1	–	1,292	(1)	–	–	–	(1)	0.1	–	–	–	0.1
At 30 Jun 2021	**432,708**	**29,797**	**3,059**	**37**	**465,601**	**(151)**	**(311)**	**(947)**	**(9)**	**(1,418)**	**–**	**1.0**	**31.0**	**24.3**	**0.3**

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

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

Stage 2 days past due analysis at 30 June 2021

	Gross carrying			Allowance for ECL			ECL coverage %		
		of which:			*of which:*			*of which:*	
	Stage 2	*1 to 29 DPD[1, 2]*	*30 and > DPD[1, 2]*	*Stage 2*	*1 to 29 DPD[1, 2]*	*30 and > DPD[1, 2]*	*Stage 2*	*1 to 29 DPD[1, 2]*	*30 and > DPD[1, 2]*
	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost	16,356	*103*	*50*	(250)	*(5)*	*(1)*	1.5	*4.9*	*2.0*
– personal	811	*52*	*33*	(30)	*(2)*	*(1)*	3.7	*3.8*	*3.0*
– corporate and commercial	14,334	*48*	*17*	(192)	*(2)*	–	1.3	*4.2*	–
– non-bank financial institutions	1,211	*3*	–	(28)	*(1)*	–	2.3	*33.3*	–
Loans and advances to banks at amortised cost	129	–	–	(1)	–	–	0.8	–	–
Other financial assets measured at amortised cost	40	*1*	–	–	–	–	–	–	–

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

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

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

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

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

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

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

Measurement uncertainty and sensitivity analysis of ECL estimates

There remains a high degree of uncertainty as countries emerge from the pandemic at different speeds, government support measures unwind and new virus strains test the efficacy of vaccination programmes. As a result of this uncertainty, management judgements and estimates reflect a degree of caution which is reflected both in the selection of economic scenarios and their weightings, and in the management judgemental adjustments, which reflect how economic conditions interact with modelled outcomes, and are described in more detail below.

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks. Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters, while consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. Management has chosen to use an additional scenario to represent its view of severe downside risks. The use of an additional scenario is in line with HSBC's forward economic guidance methodology and has been regularly used over the course of 2021. Management may include additional scenarios if it feels that the consensus scenarios do not adequately capture the top and emerging risks. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions, could be country-specific and may result in shocks that drive economic activity permanently away from trend.

Description of consensus economic scenarios

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

Global economic growth is experiencing a recovery in 2021, following an unprecedented contraction in 2020. Restrictions to mobility have started to ease across our key markets, aided in some cases by the successful roll-out of vaccination programmes. Data from vaccinated groups suggests vaccines provide a high level of immunity against the Covid-19 virus despite the emergence of more transmissible variants. To date, vaccinations have shown their effectiveness in lowering hospitalisations and deaths. A rapid roll-out of vaccination programmes has been a key factor enabling economies to reopen and some resumption of travel. The emergence of new variants that reduce the efficacy of vaccines remains a risk.

Economic forecasts are subject to a high degree of uncertainty in the current environment. While risks to the economic outlook are dominated by the progression and management of the pandemic and vaccine roll-out, geopolitical risks also present downside threats. These risks include global geopolitical risks including continued differences between the US and China over a range of issues and the evolution of the UK's relationship with the EU. Four global scenarios have been used for the purpose of calculating ECL at 30 June 2021. These are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario and an additional Downside scenario.

The scenarios used to calculate ECL in the *Interim Report 2021* are described below.

The consensus Central scenario

Following a severe and unprecedented drop in global economic activity in 2020, HSBC's Central scenario features a sharp recovery in 2021, followed by a subsequent normalisation of growth. The V-shape in activity over the course of 2020 and 2021 reflects the impact of the pandemic on our key markets, with restrictions to mobility and a reduction in activity resulting in a strong contraction in 2020, and an increase in mobility and resumption in activity in 2021 signalling a recovery.

The Central scenario further assumes that the stringent restrictions on activity, employed across several countries and territories in 2020 and the first half of 2021 will not be repeated. This will allow economic activity to first rebound and then revert to more normal long-run trend rates of growth. Minimal long-term damage to economic prospects is expected. Cross-region differences in the speed and scale of recovery across the forecast horizon reflect timing differences in the progression of the Covid-19 outbreak, different speeds of roll-out of vaccination programmes, national level differences in restrictions imposed and the scale of support measures.

Global GDP is expected to grow by 5.3% in 2021 in the Central scenario. The average rate of global GDP growth is expected to be 3.3% over the forecast period, which is higher than the average growth rate over the five-year period prior to the onset of the pandemic.

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

Across the key markets, the Central scenario assumes the following:

- Economic growth is expected to increase sharply in 2021 as governments ease restrictions to mobility, encouraging consumers and firms to spend and invest. GDP is expected to grow across all our major markets in 2021. Country-specific measures aimed at supporting labour markets as economies reopen will affect the rate at which unemployment will decline.
- Inflation is expected to rise in 2021 in line with the economic recovery, before gradually converging back to central bank targets over the forecast period.
- Fiscal deficits are expected to reduce gradually over the course of the projection period from their peak in 2020 following a period where governments, in several of our key markets, provided extensive support to households and corporates. Sovereign indebtedness is expected to remain at high levels.
- Interest rate policy is expected to be highly accommodative over the projection horizon after major central banks lowered their main policy interest rates, implemented emergency support measures for funding markets, and either restarted or increased quantitative easing programmes, in order to support economies and the financial system during the course of 2020.
- The West Texas Intermediate oil price is forecast to average $58 per barrel over the projection period.

The Central scenario was first created with forecasts available in May, and subsequently updated in June to reflect significant changes to forecasts. Probability weights assigned to the Central scenario reflect both the higher level of uncertainty in the current global economic environment and relative differences across markets. Weights assigned to the Central scenario vary from 45% to 60%.

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

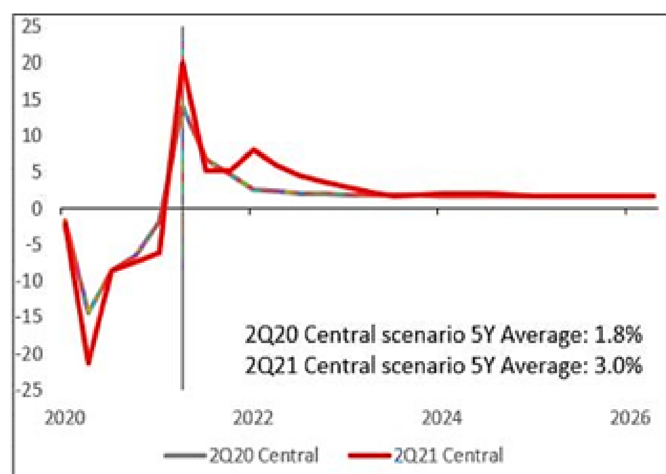
Central scenario (3Q21-2Q26)

	UK %	France %
GDP growth		
2021: Annual average growth rate	6.1	4.9
2022: Annual average growth rate	5.5	3.9
2023: Annual average growth rate	2.2	2.1
5-year average	3.0	2.1
Unemployment rate		
2021: Annual average rate	5.8	8.9
2022: Annual average rate	5.8	8.7
2023: Annual average rate	5.0	8.4
5-year average	5.1	8.3
House price growth		
2021: Annual average growth rate	8.3	4.5
2022: Annual average growth rate	2.7	3.5
2023: Annual average growth rate	2.5	4.2
5-year average	3.0	3.5
Short-term interest rate		
2021: Annual average rate	0.2	(0.6)
2022: Annual average rate	0.3	(0.6)
2023: Annual average rate	0.5	(0.5)
5-year average	0.6	(0.4)
Probability	50	45

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

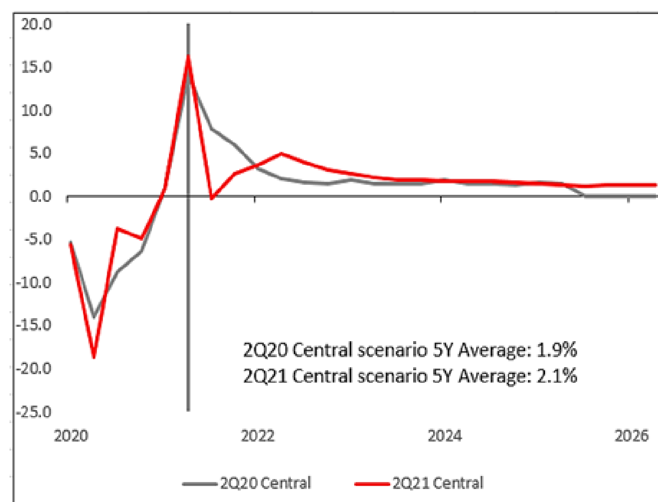
GDP growth: Comparison of Central scenarios

UK



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

France



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

The consensus Upside scenario

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

The scenario is consistent with a number of key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and prompt deployment of a vaccine; de-escalation of tensions between the US and China; continued support from fiscal and monetary policy; 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.

Consensus Upside scenario best outcome

	UK %	France %
GDP growth rate	11.1 (1Q22)	8.3 (2Q22)
Unemployment rate	3.4 (2Q23)	7.2 (3Q22)
House price growth	9.1 (3Q21)	6.1 (3Q22)
Short-term interest rate	0.2 (3Q21)	(0.6) (1Q22)
Probability	5	5

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

The consensus Downside scenario

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

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

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

Consensus Downside scenario worst outcome

	UK %	France %
GDP growth rate	**0.4 (2Q23)**	**(1.6) (3Q21)**
Unemployment rate	**7.3 (2Q22)**	**11.0 (4Q21)**
House price growth	**(3.7) (4Q22)**	**0.3 (1Q22)**
Short-term interest rate	**0.2 (2Q23)**	**(0.6) (3Q21)**
Probability	**30**	**35**

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

Additional Downside scenario

An additional Downside scenario that features a global recession has been created to reflect management's view of severe risks. Such a scenario has been in use since 2Q20. In this scenario, infections rise over the second half of 2021, with setbacks to vaccine programmes such that it takes until the end of 2022 for the pandemic to come to an end. The scenario also assumes governments and central banks are unable to significantly increase fiscal and monetary programmes, which results in a rise in unemployment and a fall in asset prices. In France, the impacts on the unemployment rate are similar to those in the consensus Downside scenario, reflective of recent historical experiences. GDP growth is stronger in the additional Downside scenario compared with the other scenarios and this stronger bounce-back is a consequence of the deeper initial economic contraction.

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

Additional Downside scenario worst outcome

	UK %	France %
GDP growth rate	**(2.1) (2Q22)**	**(3.1) (1Q22)**
Unemployment rate	**9.3 (3Q22)**	**11.1 (4Q21)**
House price growth	**(7.8) (2Q22)**	**(5.9) (2Q22)**
Short-term interest rate	**1.0 (4Q21)**	**0.3 (4Q21)**
Probability	**15**	**15**

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

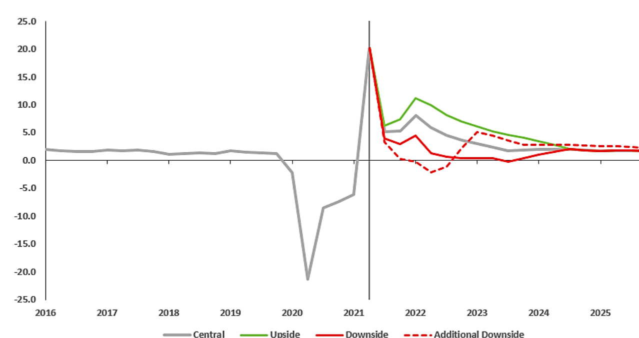
In considering economic uncertainty and assigning probabilities to scenarios, management has considered both global and country-specific factors. This has led management to assigning scenario probabilities that are tailored to its view of uncertainty in individual markets.

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

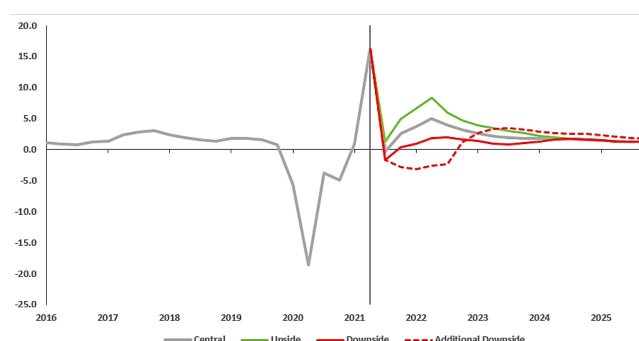
The UK and France face the greatest economic uncertainties in our key markets. In the UK, the discovery of more infectious strains of the virus and subsequent national restrictions on activity imposed before the end of 2020, as well as the current increase in infections, have resulted in considerable uncertainty in the economic outlook. In France, the increases in cases and hospitalisations in the first few months of 2021, the difficulties experienced with the launch of a national vaccination programme and the spread of a more infectious strain of the virus similarly affect the economic outlook. Given these considerations, the consensus Central scenarios for the UK and France have been assigned probabilities of 50% and 45% respectively, while the consensus Downside scenarios have been allocated 30% and 35%. The additional Downside scenario has been assigned 15% probability to each of these markets to reflect the view that the balance of risks is weighted to the downside.

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

UK



France



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates, as set out in the *Annual Report and Accounts 2020* under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has remained high since 31 December 2020 as a result of the economic effects of the Covid-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wide distribution of economic forecasts. There is judgement in making assumptions about the length of time and severity of the economic effects of the pandemic and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, when the volatility of economic changes associated with the pandemic is outside the observable historical trends that can be reflected in the models. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, including the effect of real estate prices on modelled ECL outcomes; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, where judgements are made about the extent to which government support programmes have deferred or mitigated the risk of defaults, and the effects once support levels are reduced, particularly in relation to lending in high-risk and vulnerable sectors. Where customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, judgements include the extent to which they are able to meet their financial obligations on returning to their original terms. The use of segmentation techniques for indicators of significant increases

in credit risk for retail customers involves estimation uncertainty.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios are set out on page 46 of the *Annual Report and Accounts 2020*. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default rates.

We continue to observe volatility in macroeconomic variables as a result of the Covid-19 pandemic, which – together with significant governmental support programmes, forbearance and payment holidays – have impacted model performance and historical correlations between macroeconomic variables and defaults. As economic forecasts begin to improve, the level and speed of economic recovery remains outside the range of historical experience used to calibrate the models, and the timing of defaults has considerably shifted from the modelled assumptions. Management judgements have been used to overcome the limitations in the model generated outcome, increasing the ECL.

Management judgemental adjustments arise when data and model limitations are addressed in the short term using in-model and post-model adjustments. This includes refining model inputs and outputs and using post-model adjustments based on management judgement and higher level quantitative analysis for impacts that are difficult to model.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are typically short-term increases or decreases to the ECL at either a customer or portfolio level to account for late-breaking events, model deficiencies and other assessments applied during management review and challenge.

At 30 June 2021, management judgements were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgemental adjustments continue to evolve with the economic environment. We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of the Covid-19 outbreak are observed. Therefore, we continue to anticipate significant management judgemental adjustments for the foreseeable future.

Judgemental adjustments, which primarily relate to delays in the timing and extent of defaults, will likely cease to occur when macroeconomic forecasts have stabilised and move within the range of historical experience, portfolio impacts due to unwinding of government schemes become visible and the uncertainty due to Covid-19 reduces.

The wholesale and retail management judgemental adjustments are presented as part of the global business impairment committees with representation from Model Risk Management. This is in line with the governance process as set out on page 33 of the Annual Report and Accounts 2020.

Management judgemental adjustments made in estimating the reported ECL at 30 June 2021 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from the pandemic, and as a result of the regular process of model development and implementation. It shows the adjustments applicable to the scenario-weighted ECL numbers.

Management judgemental adjustments to ECL at 30 June 2021[1]

	Retail	**Wholesale**	**Total**
	£m	**£m**	**£m**
Low-risk counterparties (banks, sovereigns and government entities)	**(3)**	**4**	**1**
Corporate lending adjustments	**—**	**20**	**20**
Retail lending probability of default adjustments	**(1)**	**—**	**(1)**
Retail model default timing adjustments	**(1)**	**—**	**(1)**
Macroeconomic related adjustments	**10**	**—**	**10**
Other retail lending adjustments	**(2)**	**—**	**(2)**
Total	**3**	**24**	**27**

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)	8	3
Corporate lending adjustments	—	56	56
Retail lending probability of default adjustments	(10)	—	(10)
Retail model default timing adjustments	3	—	3
Macroeconomic related adjustments	11	—	11
Other retail lending adjustments	4	—	4
Total	3	64	67

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

Adjustments to expected credit loss ('ECL') allowances on wholesale credit risk exposures added £24m to allowances at 30 June 2021 (31 December 2020: £64m). These adjustments include the outcome of management judgements on high-risk and vulnerable sectors in some of our key markets, supported by quantitative analyses and benchmarks, and by internal credit experts' assessments of risks. Considerations included potential default suppression in some sectors due to continued government intervention as well as relevant idiosyncratic factors.

Net adjustments of £24m comprise £186m (31 December 2020: £174m) management judgements, offset by £162m (31 December 2020: £110m) other adjustments that reduced allowances, notably those to reflect export credit agency guarantees that mitigate credit risk. The decrease in net adjustments relative to 31 December 2020 was driven by a £29m increase in the ECA mitigation adjustment, which countered a £12m increase in management judgements.

The most significant management judgement was applied to the commercial real estate sector, which added £93m to allowances (31 December 2020: £67m). The £26m increase reflects internal credit experts' latest assessment of risk. Management judgements of £4m (31 December 2020: £8m) applied to bank and sovereign credit exposures reduced allowances by £4m.

In the retail portfolio, management judgemental adjustments were an ECL increase of £3m at 30 June 2021 (31 December 2020: £3m increase).

The adjustments relating to probability of default decreased ECL by £1m (31 December 2020: £10m decrease) reflecting less severe projections of macroeconomic variables and scenario observations on which the models are calibrated to operate.

The adjustments relating to default timing decreased ECL by £1m (31 December 2020: £3m increase). These have been applied in several economies as customer relief and government support programmes continue to suppress defaults. The level of adjustment decreased during the period reflecting the improvement in macroeconomic forecasts and the unwinding in a number of markets as customer relief and government support concludes.

Macroeconomic-related adjustments increased ECL by £10m (31 December 2020: £11m increase). These adjustments were

broadly unchanged and applied to reflect credit experts' input, quantitative analyses and benchmarks on increased levels of risk, given the continued level of economic uncertainty.

Other retail lending adjustments decreased ECL by £2m (31 December 2020: £4m increase) reflecting adjustments in relation to customers who remain in or have recently exited customer support programmes in addition to all other data and core model adjustments.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

For wholesale credit risk exposures, the sensitivity analysis excludes ECL for financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios, including loans in all stages, is sensitive to macroeconomic variables.

Wholesale and retail sensitivity

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

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL of loans and advances to customers at 30 June 2021	**£m**	**£m**
Reported ECL	**240**	**94**
Consensus scenarios		
Central scenario	**187**	**81**
Upside scenario	**135**	**75**
Downside scenario	**252**	**104**
Additional Downside scenario	**432**	**164**
Gross carrying amount[2]	**134,784**	**139,024**

	UK	France
ECL of loans and advances to customers at 31 December 2020	£m	£m
Reported ECL	317	88
Consensus scenarios		
Central scenario	219	82
Upside scenario	156	73
Downside scenario	339	98
Additional Downside scenario	657	178
Gross carrying amount[2]	137,825	123,444

1 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
2 *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying values but low ECL under all the scenarios.*

At June 21, the higher sensitivity in UK is largely driven by significant exposure in the country and more severe impacts of the Downside scenarios relative to the Central and probability-weighted scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL of loans and advances to customers at 30 June 2021	**£m**	**£m**
Reported ECL	**10**	**99**
Consensus scenarios		
Central scenario	**9**	**98**
Upside scenario	**8**	**97**
Downside scenario	**12**	**99**
Additional Downside scenario	**15**	**100**
Gross carrying amount	**1,967**	**18,269**
ECL of loans and advances to customers at 31 December 2020		
Reported ECL	12	114
Consensus scenarios		
Central scenario	11	113
Upside scenario	8	111
Downside scenario	14	115
Additional Downside scenario	17	118
Gross carrying amount	1,980	19,254

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

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

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

The transfers of financial instruments represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

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

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

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	184,715	(180)	31,726	(378)	3,352	(1,050)	40	(12)	219,833	(1,620)
Transfers of financial instruments:	(1,043)	(39)	841	42	202	(3)	–	–	–	–
– transfers from Stage 1 to Stage 2	(5,039)	5	5,039	(5)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	4,017	(44)	(4,017)	44	–	–	–	–	–	–
– transfers to Stage 3	(32)	–	(209)	5	241	(5)	–	–	–	–
– transfers from Stage 3	11	–	28	(2)	(39)	2	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	21	–	(13)	–	(1)	–	–	–	7
New financial assets originated or purchased	41,704	(32)	–	–	–	–	1	–	41,705	(32)
Asset derecognised (including final repayments)	(28,137)	3	(1,830)	8	(257)	28	(2)	2	(30,226)	41
Changes to risk parameters – further lending/repayments	(14,749)	38	(197)	15	(75)	38	(1)	–	(15,022)	91
Changes to risk parameters – credit quality	–	29	–	–	–	(91)	–	–	–	(62)
Changes to model used for ECL calculation	–	5	–	9	–	–	–	–	–	14
Assets written off	–	–	–	–	(112)	112	–	–	(112)	112
Credit-related modifications that resulted in derecognition	–	–	–	–	(1)	–	–	–	(1)	–
Foreign exchange	(5,053)	4	(771)	5	(89)	31	(1)	1	(5,914)	41
Others[2]	(1,014)	–	(12)	1	–	(1)	–	–	(1,026)	–
At 30 Jun 2021	176,423	(151)	29,757	(311)	3,020	(937)	37	(9)	209,237	(1,408)
ECL income statement (charge)/release for the period		64		19		(26)		2		59
Add: Recoveries										1
Add/(less): Others										(11)
Total ECL income (charge)/release for the period										49

	At 30 Jun 2021		Half-year ended 30 Jun 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL release / (charge)
	£m	£m	£m
As above	209,237	(1,408)	49
Other financial assets measured at amortised cost	214,331	(10)	(1)
Non-trading reverse purchase agreement commitments	42,033	–	–
Performance and other guarantee not considered for IFRS 9			19
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	465,601	(1,418)	67
Debt instruments measured at FVOCI	44,644	(18)	4
Total allowance for ECL/total income statement ECL release / (charge) for the period	n/a	(1,436)	71

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. At 30 June 2021, these amounted to £(1)bn and were classified as Stage 1 with no ECL.*

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

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

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

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

2 Includes the period on period movement in exposures relating to other HSBC Group companies. At 31 December 2020, these amounted to £2bn and were classified as Stage 1 with no ECL.

Customer relief programmes

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures for both personal and wholesale customers in market-wide schemes. The following table presents the number of personal accounts/wholesale customers and the associated drawn loan values of customers under these schemes and HSBC-specific measures for major markets at 30 June 2021. In relation to personal lending, the majority of relief measures, including payment holidays, relate to existing lending, while in wholesale lending the relief measures comprise of payment holidays, refinancing of existing facilities and new lending under government backed schemes.

At 30 June 2021, the gross carrying value of loans to personal customers under relief was £65m (31 December 2020: £197m). This comprised £21m in relation to mortgages (31 December 2020: £69m) and £44m in relation to other personal lending (31 December 2020: £128m). The decrease in personal customer relief during the first six months of 2021 was driven by customers exiting relief measures. The gross carrying value of loans to wholesale customers under relief was £4,354m (31 December 2020: £5,468m). We continue to monitor the recoverability of loans granted under customer relief programmes, including loans to a small number of customers that were subsequently found to be ineligible for such relief. The ongoing performance of such loans remains an area of uncertainty at 30 June 2021.

Personal lending

Extant at 30 June 2021		**UK**	**HSBC Continental Europe[1]**	**Germany**	**Other major markets[2]**	**Total**
Market-wide schemes						
Number of accounts granted mortgage customer relief	00s	<1	—	—	—	<1
Drawn loan value of accounts granted mortgage customer relief	£m	6	—	—	—	6
Number of accounts granted other personal lending customer relief	00s	—	5	—	—	5
Drawn loan value of accounts granted other personal lending customer relief	£m	—	37	—	—	37
HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	—	<1	—	<1	1
Drawn loan value of accounts granted mortgage customer relief	£m	—	2	—	13	15
Number of accounts granted other personal lending customer relief	00s	—	<1	—	<1	<1
Drawn loan value of accounts granted other personal lending customer relief	£m	—	6	—	1	7
Total personal lending to major markets under market-wide schemes and HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	<1	<1	—	<1	1
Drawn loan value of accounts granted mortgage customer relief	£m	6	2	—	13	21
Number of accounts granted other personal lending customer relief	00s	—	6	—	<1	6
Drawn loan value of accounts granted other personal lending customer relief	£m	—	43	—	1	44
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	0.3	0.1	—	0.5	0.3
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	—	0.3	—	0.5	0.3

Wholesale lending

Extant at 30 June 2021		**UK**	**HSBC Continental Europe[1]**	**Germany**	**Other major markets[2]**	**Total**
Market-wide schemes						
Number of customers under market-wide schemes	00s	<1	51	<1	<1	52
Drawn loan value of customers under market-wide schemes	£m	1	3,390	77	32	3,500
HSBC-specific measures						
Number of customers under HSBC-specific measures	00s	—	1	—	<1	1
Drawn loan value of customers under HSBC-specific measures	£m	—	679	—	175	854
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures						
Number of customers	00s	<1	52	<1	<1	53
Drawn loan value	£m	1	4,069	77	207	4,354
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	—	17.2	1.2	15.4	7.3

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

Personal lending (continued)

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

Wholesale lending (continued)

Extant at 31 December 2020		UK	HSBC Continental Europe[1]	Germany	Other major markets2	Total
Market-wide schemes						
Number of customers under market-wide schemes	00s	<1	49	<1	1	50
Drawn loan value of customers under market-wide schemes	£m	1	3,997	47	24	4,069
HSBC-specific measures						
Number of customers under HSBC-specific measures	00s	<1	3	—	<1	4
Drawn loan value of customers under HSBC-specific measures	£m	1	1,103	—	295	1,399
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures						
Number of customers	00s	<1	52	<1	1	54
Drawn loan value	£m	2	5,100	47	319	5,468
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	—	20.7	0.7	22.7	8.5

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

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

The details of the market-wide schemes and HSBC specific measures offered are set out on Page 61 of the *Annual Report and Accounts 2020.*

Treasury risk

Overview

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

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

Approach and policy

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

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

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

A summary of our current policies and practices regarding the management of treasury risk is set out on pages 71 to 72 of the Annual Report and Accounts 2020.

Treasury risk management

Key developments in the first half of 2021

- We continued to develop the Treasury Risk Management function, which was established in 2020. This second-line of defence function provides independent oversight of first-line activities across capital risk, liquidity and funding risk, non-trading book foreign exchange risk (including structural and other banking book foreign exchange risk), and interest rate risk in the banking book, together with pension risk.
- We continued to build our recovery and resolution capabilities in line with the Group's resolution strategy to meet requirements from the BoE under its Resolvability Assessment Framework ahead of 1 January 2022. We met our compliance deadline of 31 March 2021 for valuation in resolution requirements, and continue to enhance our capabilities in preparation for the submission of a resolvability self-assessment report to the BoE in October 2021.
- The BOE's Financial Policy Committee ('FPC') reconfirmed its guidance on the path for the UK countercyclical capital buffer rate.
- Central bank interest rates remain at historically low levels, although a vaccine-led economic recovery and rising inflation indicators have contributed to an increase in interest rate yields and a steepening of yield curves in our major markets in the first half of 2021. Against a backdrop of high and rising asset valuations, monetary policies have generally remained accommodative, but rising inflation is posing a policy dilemma for some central banks. We continued to closely monitor our risk profile in the context of a possible tightening in monetary policy.
- We maintained a significant focus on the switchover from IBOR index curves to RFRs for in-scope currencies. Despite considerable complexity, we are on track to complete changes to our funds transfer pricing, external issuance and hedging in line with regulatory deadlines.

For quantitative disclosures on capital ratios, own funds and RWAs, see pages 32 to 35.

Capital, liquidity and funding risk management processes

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, and minimum requirements for own funds and eligible liabilities ('MREL'). The ICAAP is an assessment of the bank's 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. Climate risk is also considered as part of the ICAAP. The ICAAP supports the determination of our capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by our regulator.

We aim to ensure that management has oversight of our liquidity and funding risks by maintaining comprehensive policies, metrics and controls. The Group manages liquidity and funding risk at an operating entity level to make sure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group. HSBC Bank plc is required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures 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. 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 risk-weighted asset ('RWA') plans form part of the annual operating plan that is approved by the Board. Capital and RWA forecasts are reviewed at Asset and Liability Management Committee ('ALCO') on a monthly basis, and capital and RWAs 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 annual operating plan that is approved by the Board. The Board-level appetite measures are the liquidity coverage ratio ('LCR') and an internal funding metric ('IFM'). An internal liquidity metric ('ILM') was introduced in January 2021 to supplement the LCR and IFM metrics. In addition, we use a wider set of measures to manage an appropriate funding and liquidity profile, including 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 and/or capital position. Downside and Upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary. We closely monitor future regulatory changes, such as the Basel III reforms, and continue to evaluate the impact of these upon our capital requirements. Part of the impact from the Basel III reforms may be offset by the reductions in Pillar 2 capital requirements.

Regulatory reporting processes and controls

There is an ongoing focus on the quality of regulatory reporting by the PRA and other regulators. We continue to strengthen our processes and controls, following the commissioning of independent external reviews of various aspects of regulatory reporting, including at the request of our regulators. As part of the strengthening of our control environment, we are improving global consistency and control standards across a number of our processes. There may be an impact on some of our regulatory ratios as a result. We are keeping the PRA and other relevant regulators informed of adverse findings from external and internal reviews.

Stress testing and recovery and resolution planning

The Group uses stress testing to evaluate the robustness of plans and risk portfolios, and to meet the requirements for stress testing set by supervisors. Stress testing also informs the ICAAP and ILAAP and supports recovery planning in many jurisdictions. 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 from the BoE, the European Banking Authority ('EBA'), and the European Central Bank, as well as stress tests undertaken in other jurisdictions. 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 and other regulators may feed into the setting of regulatory minimum ratios and buffers.

The group and certain subsidiaries have established recovery plans, which set out potential options management could take in a range of stress scenarios that may result in a breach of our internal capital or liquidity requirements, or 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. We monitor internal and external triggers that highlight potential threats to our capital, liquidity or funding positions.

The Group is further developing its recovery and resolution capabilities in line with the BoE's Resolvability Assessment Framework requirements.

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 in order 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 Asset, Liability and Capital Management ('ALCM') function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income sensitivity;
- economic value of equity sensitivity; and
- hold-to-collect-and-sell stressed value at risk.

Net interest income sensitivity

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

Projected 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.

Economic value of equity sensitivity

Economic value of equity ('EVE') represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. 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. EVE sensitivities are monitored as a percentage of capital resources.

Hold-to-collect-and-sell stressed value at risk

Hold-to-collect-and-sell stressed value at risk ('VaR') is a quantification of the potential losses to a 99% confidence level of the portfolio of securities held under a held-to-collect-and-sell business model in the Markets Treasury business. The portfolio is accounted for at fair value through other comprehensive income together with the derivatives held in designated hedging relationships with these securities. This is quantified based on the worst losses over a one-year period going back to the beginning of 2007 and the assumed holding period is 60 days.

Hold-to-collect-and-sell stressed VaR uses the same models as those used for trading book capitalisation and covers only the portfolio managed by Markets Treasury under this business model.

Capital risk in the first half of 2021

Capital overview

Capital adequacy metrics

	At	
	30 Jun 2021	31 Dec 2020
Risk-weighted assets ('RWAs') (£m)		
Credit risk	**72,353**	77,214
Counterparty credit risk	**16,997**	19,344
Market risk	**10,105**	14,589
Operational risk	**11,314**	11,245
Total RWAs	**110,769**	122,392
Capital on a transitional basis (£m)		
Common equity tier 1 ('CET1') capital	**17,835**	18,042
Tier 1 capital	**21,742**	22,165
Total capital	**33,444**	33,438
Capital ratios on a transitional basis (%)		
Common equity tier 1	**16.1**	14.7
Tier 1	**19.6**	18.1
Total capital ratio	**30.2**	27.3
Leverage ratio (transitional)		
Tier 1 capital (£m)	**21,742**	22,165
Total leverage ratio exposure measure (£m)	**560,264**	565,049
Leverage ratio (%)	**3.9**	3.9
Leverage ratio (fully phased-in)		
Tier 1 capital (£m)	**21,526**	21,732
Total leverage ratio exposure measure (£m)	**560,264**	565,049
Leverage ratio (%)	**3.8**	3.8

Following the end of the transition period following the UK's withdrawal from the EU, any reference to EU regulations and directives (including technical standards) should be read as a reference to the version onshored into UK law under the European Union (Withdrawal) Act 2018, as amended. Capital figures and ratios in the table above are calculated in accordance with the revisions to the Capital Requirements Regulation and Directive, as implemented ('CRR II'). Leverage ratios are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.

At 30 June 2021, our common equity tier 1 ('CET1') capital ratio increased to 16.1% from 14.7% at 31 December 2020. This was mainly due to a decrease in RWAs.

Throughout the first half of 2021, we complied with the Prudential Regulation Authority's ('PRA') regulatory capital adequacy requirements.

Regulatory developments

Amendments to the Capital Requirements Regulation ('CRR II') and the Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to the CVA framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. The final standards will need to be transposed into the relevant local law before coming into effect.

The CRR II represents the first tranche of changes to the regulatory framework to implement the Basel III Reforms, including the changes to the market risk rules under the Fundamental Review of the Trading Book ('FRTB'), the standardised approach for measuring counterparty risk, the equity investments in funds rules, amendments to the large exposures rules, the new leverage ratio rules and the implementation of the net stable funding ratio.

The CRR II rules were originally drafted when the UK was a member of the EU; however, since parts of the CRR II were not implemented before the UK's withdrawal from the EU, the UK will implement its own rules. Her Majesty's Treasury ('HMT') and the PRA recently finalised the UK's version of the CRR II for implementation on 1 January 2022. In relation to equity investments in funds, HMT has removed the equivalence provisions that were embedded in the EU's original version of the CRR II. As a result, firms will be able to determine the RWAs using a look through approach for funds outside of the UK without the need for equivalence. In addition, HMT has delayed the requirement for reporting to commence on the standardised approach to the FRTB until it becomes a binding capital requirement.

In June 2021, the Financial Policy Committee and the PRA published consultations outlining the CRR II changes to the leverage ratio framework. The UK's minimum leverage ratio requirement will be 3.25%, plus a buffer based upon a firm's countercyclical buffer. The minimum Tier 1 requirement must be met by at least 75% CET1, with the buffer being met with 100% of CET1. Central bank reserves will continue to be excluded from the leverage ratio exposure measure, as will the Bounce Back Loan Schemes loans; however, the PRA has not chosen to adopt many of the EU's exemptions from the measure, such as those in relation to government guaranteed export credits. There are also no plans to introduce mandatory capital distribution restrictions for firms that breach their leverage ratio buffers. Broadly, the rules will be implemented and require disclosure from 1 January 2022; however, firms newly in scope will only be subject to the new minimum requirement from 1 January 2023.

In addition to the final rules on CRR II, the PRA has also reversed the beneficial changes to the treatment of software assets that were implemented as part of the EU's response to Covid-19. From 1 January 2022, software assets must be deducted in full from CET1 capital.

The PRA will consult on the implementation of the remaining elements of the Basel III Reforms later in the year. There remains a significant degree of uncertainty in the impact due to the number of national discretions and the need for further supporting technical standards to be developed. The UK's implementation of the remaining elements of the Basel III Reforms is currently scheduled to be on 1 January 2023, consistent with Basel's timeline.

Credit Risk

In order to address concerns about the variability and comparability of RWAs under the IRB approach, the EU developed a series of amendments to the framework, known as the IRB repair package. The majority of these were developed and finalised while the UK was a member of the EU and therefore are being implemented in the UK by the PRA on 1 January 2022; however, there were some elements of the EU's package that were not in force when the UK ceased to be subject to EU law. These include the EU's technical standards on economic downturns, the EBA's guidelines on credit risk mitigation for the advanced IRB ('A-IRB') approach, and the EU's final technical standards on risk weighting specialised lending exposures. The PRA has confirmed that it would not be implementing the technical standards on specialised lending. Similarly, it will not implement the EU's guidelines on credit risk mitigation in the A-IRB approach in 2022, although it will may consider reflecting the guidelines as part of its implementation of the Basel III Reforms. In March 2021, the PRA consulted on the implementation of the technical standards on economic downturn.

In June 2021, the PRA published rules for when a firm could use models approved by overseas regulators in the calculation of a UK group's consolidated capital requirements. Such models may only be used for exposures to retail customers and to small and medium-sized enterprises up to a limit of 7.5% of total group exposure and RWAs.

Capital Buffers

In its July 2021 Financial Stability Report ('FSR'), the Financial Policy Committee ('FPC'), reconfirmed its guidance on the path for the UK Countercyclical Capital Buffer ('CCyB') rate. It expects to maintain this rate at 0% until at least December 2021. Due to the usual 12-month implementation lag, any subsequent increase would therefore not be expected to take effect until the end of 2022 at the earliest.

Climate & Environmental Social and Governance ('ESG') Risk

Globally, regulators and standard setters continue to publish multiple proposals and discussion papers on ESG topics. These include publications by HMT, the Department for Business, Energy and Industrial Strategy ('BEIS') and the Financial Conduct Authority ('FCA') on the potential implementation of climate-related financial disclosures that are aligned to the Taskforce on Climate-related Financial Disclosure ('TCFD'). This work is supported by the development of green taxonomies by bodies, such as the newly-formed Green Technical Advisory Group ('GTAG') in the UK. Further work by the TCFD included proposed new disclosure guidance on metrics, targets and transition plans.

In June, the BoE launched the 2021 Climate Biennial Exploratory Scenario exercise. This aims to test the resilience of financial institutions and their business models to transition and physical risks depending upon the speed of government policy action. The impact is based on an end-2020 static balance sheet and is assumed to take place over the period 2021 to 2050 focusing on credit risk.

In July, the FSB published a roadmap on climate-related financial risks that focuses on four key policy areas: firm-level disclosures; data; vulnerabilities analysis and regulatory and supervisory tools. The roadmap includes steps and indicative timeframes towards implementation and has been delivered to the G20 Finance Ministers and Central Bank Governors for endorsement.

Other Developments

In April 2021, an independent review panel under the auspices of the Financial Services (Banking Reform) Act 2013, published a call for evidence on the operation of ring-fencing and proprietary trading activities in the UK. The call for evidence will inform the panel's review of ring-fencing and proprietary trading which they aim to finalise within a year. In parallel with similar developments in Europe, the PRA is reviewing the requirements for the capitalisation of structural FX risk to align to a Pillar 1 approach.

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

		At		
Ref*		**30 Jun 2021**	31 Dec 2020	30 Jun 2020
	Available capital (£m)			
1	Common equity tier 1 ('CET1') capital^	**17,835**	18,042	18,701
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**17,798**	17,992	18,642
3	Tier 1 capital^	**21,742**	22,165	22,819
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**21,705**	22,115	22,760
5	Total capital^	**33,444**	33,438	35,490
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**33,407**	33,388	35,431
	Risk-weighted assets ('RWAs') (£m)			
7	Total RWAs	**110,769**	122,392	138,378
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**110,737**	122,347	138,323
	Capital ratios (%)[1]			
9	CET1^	**16.1**	14.7	13.5
10	CET1 as if IFRS 9 transitional arrangements had not been applied	**16.1**	14.7	13.5
11	Total tier 1^	**19.6**	18.1	16.5
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**19.6**	18.1	16.5
13	Total capital^	**30.2**	27.3	25.6
14	Total capital as if IFRS 9 transitional arrangements had not been applied	**30.2**	27.3	25.6
	Leverage ratio[2]			
15	Total leverage ratio exposure measure (£m)^	**560,264**	565,049	600,340
16	Leverage ratio (%)^	**3.8**	3.8	3.7
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**3.8**	3.8	3.7

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

^ *Figures have been prepared on an IFRS 9 transitional basis.*

1 *Capital figures and ratios are reported using the CRR II transitional basis for capital instruments.*

2 *Leverage ratio is calculated using the CRR II end point basis for capital.*

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.

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 expected credit losses in the non-credit-impaired book thereafter.

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

In the current period, the add-back to CET1 capital amounted to £49m under the STD approach with a tax impact of £(12)m. At 31 December 2020, the add-back to the capital base under the STD approach was £69m with a tax impact of £(19)m.

Own funds

Own funds disclosure

Ref*		Ref †	At 30 Jun 2021 £m	At 31 Dec 2020 £m
	Common equity tier 1 capital: instruments and reserves			
1	Capital instruments and related share premium accounts		**797**	797
	– ordinary shares	*a*	**797**	797
2	Retained earnings[1]	*b*	**15,475**	17,229
3	Accumulated other comprehensive income (and other reserves)	*c*	**2,308**	2,888
5	Minority interests (amount allowed in consolidated common equity tier 1)	*d*	**54**	66
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[2]	*b*	**512**	(1,755)
6	**Common equity tier 1 capital before regulatory adjustments**		**19,146**	19,225
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[3]		**(666)**	(569)
8	Intangible assets (net of related deferred tax liability)	*e*	**(99)**	(100)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	**(320)**	(305)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	**(107)**	(159)
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	**(291)**	(303)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	*i*	**136**	105
15	Defined benefit pension fund assets	*j*	**(41)**	(30)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)[1]	*k*	**77**	178
28	**Total regulatory adjustments to common equity tier 1**		**(1,311)**	(1,183)
29	**Common equity tier 1 capital**		**17,835**	18,042
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and related share premium accounts		**3,722**	3,722
31	– classified as equity under IFRSs	*l*	**3,722**	3,722
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1	*m*	**216**	433
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	*n*	**12**	12
36	**Additional tier 1 capital before regulatory adjustments**		**3,950**	4,167
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[4]		**(43)**	(44)
43	**Total regulatory adjustments to additional tier 1 capital**		**(43)**	(44)
44	**Additional tier 1 capital**		**3,907**	4,123
45	**Tier 1 capital (T1 = CET1 + AT1)**		**21,742**	22,165
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts	*o*	**11,718**	11,079
	– *of which: instruments grandfathered under CRR II*		***1,288***	*1,326*
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	*p*	**220**	441
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	*q, r*	**196**	204
49	– *of which: instruments issued by subsidiaries subject to phase out*	*r*	***38***	*46*
	– *of which: instruments issued by subsidiaries grandfathered under CRR II*		***38***	*32*
51	**Tier 2 capital before regulatory adjustments**		**12,134**	11,724
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[4]		**(29)**	(29)
55	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	*s*	**(403)**	(422)
57	**Total regulatory adjustments to tier 2 capital**		**(432)**	(451)
58	**Tier 2 capital**		**11,702**	11,273
59	**Total capital (TC = T1 + T2)**		**33,444**	33,438
60	**Total risk-weighted assets**		**110,769**	122,392
	Capital ratios and buffers			
61	Common equity tier 1		**16.1%**	14.7%
62	Tier 1		**19.6%**	18.1%
63	Total capital		**30.2%**	27.3%
64	Institution specific buffer requirement		**2.52%**	2.52%
65	– capital conservation buffer requirement		**2.50%**	2.50%
66	– countercyclical buffer requirement		**0.02%**	0.02%
68	Common equity tier 1 available to meet buffers		**11.6%**	10.2%
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,306**	1,069
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**675**	627
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**582**	493

Own funds disclosure (continued)

Ref*		Ref †	At 30 Jun 2021 £m	31 Dec 2020 £m
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**246**	257
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**371**	404
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**232**	463
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**484**	267
84	Current cap on T2 instruments subject to phase-out arrangements		**252**	506
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**670**	237

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a)–(s) identify balance sheet components on page 42 that are used in the calculation of regulatory capital. This table shows how they contribute to the regulatory capital calculation. Their contribution may differ from their accounting value in table 'reconciliation of balance sheets – financial accounts to regulatory scope of consolidation' as a result of adjustment or analysis to apply regulatory definitions of capital.*
1 *From 1H21, the new deduction for insufficient coverage for non-performing exposures has been combined with IFRS 9 transitional adjustments in row 27a. Comparatives have been restated.*
2 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*
3 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*
4 *As advised by the PRA, a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*

We applied the UK requirement to amortise software assets for regulatory capital purposes. The impact on our CET1 ratio was immaterial. For further information, refer to page 33.

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

Risk-weighted assets

RWA movement by global business by key driver

	Credit risk, counterparty credit risk and operational risk					
	GBM £m	CMB £m	WPB £m	Corporate Centre £m	Market risk £m	Total RWAs £m
RWAs at 1 Jan 2021	**62,440**	**26,839**	**12,045**	**6,479**	**14,589**	**122,392**
Asset size	**(4,938)**	**(1,631)**	**(251)**	**76**	**(3,517)**	**(10,261)**
Asset quality	**3,581**	**(231)**	**254**	**319**	**—**	**3,923**
Model updates	**12**	**—**	**—**	**1**	**(727)**	**(714)**
Methodology and policy	**(2,575)**	**290**	**(91)**	**42**	**(68)**	**(2,402)**
Foreign exchange movement	**(767)**	**(836)**	**(335)**	**(59)**	**(172)**	**(2,169)**
Total RWA movement	**(4,687)**	**(2,408)**	**(423)**	**379**	**(4,484)**	**(11,623)**
RWAs at 30 Jun 2021	**57,753**	**24,431**	**11,622**	**6,858**	**10,105**	**110,769**

As measured from 1 January 2021 to 30 June 2021, our cumulative risk-weighted asset saves as part of our reduction programme were £7.2bn.

Risk-weighted assets ('RWAs') decreased by £11.6bn during the first half of the year, including a decrease of £2.2bn due to foreign currency translation differences. The £9.4bn decrease (excluding foreign currency translation differences) comprised the movements described by the following comments.

Asset size

The £10.3bn decrease in RWAs was driven by reductions within GBM and CMB. The £4.9bn decrease in GBM RWAs was largely due to management actions, fall in securitisation related RWAs, and a reduction in counterparty credit risk RWAs as a result of management actions and mark-to-market movements. The £1.6bn decrease in CMB RWAs was largely due to management actions and lower lending. Market risk RWAs decreased by £3.5bn largely due to the effects of risk mitigation actions on the emerging markets bond portfolio, a decrease in stressed value at risk and the transfer of risk in relation to our structured rates portfolio.

Asset quality

The £3.9bn increase in RWAs was mainly due to a rise of £3.6bn within GBM as a result of portfolio changes and credit migration. The increase in WPB and Corporate Centre RWAs was mainly due to unfavourable portfolio changes and credit migration.

Model updates

The £0.7bn decrease in RWAs was mainly due to a fall in market risk RWAs largely from the implementation of an options risk model.

Methodology and policy

The £2.4bn decrease in RWAs was primarily due to risk parameter refinements in GBM.

Overview of RWAs

		At		
		30 Jun 2021	31 Dec 2020	**30 Jun 2021**
		RWAs	RWAs	**Capital requirement**[1]
		£m	£m	**£m**
1	**Credit risk (excluding counterparty credit risk)**	**64,920**	69,671	**5,194**
2	– standardised approach	**14,408**	15,733	**1,153**
3	– foundation IRB approach	**23,476**	25,654	**1,878**
4	– advanced IRB approach	**27,036**	28,284	**2,163**
6	**Counterparty credit risk**	**16,988**	19,342	**1,359**
7	– mark-to-market	**8,937**	9,683	**715**
10	– internal model method	**6,262**	7,676	**501**
11	– risk exposure amount for contributions to the default fund of a central counterparty	**237**	305	**19**
12	– credit valuation adjustment	**1,552**	1,678	**124**
13	**Settlement risk**	**9**	2	**1**
14	**Securitisation exposures in the non-trading book**	**4,291**	4,744	**343**
14a	– internal ratings-based approach ('SEC-IRBA')	**724**	795	**58**
14b	– external ratings-based approach ('SEC-ERBA')	**1,975**	2,064	**158**
14c	– internal assessment approach ('IAA')	**991**	1,270	**79**
14d	– standardised approach ('SEC-SA')	**601**	615	**48**
19	**Market risk**	**10,105**	14,589	**808**
20	– standardised approach	**1,629**	1,859	**130**
21	– internal models approach	**8,476**	12,730	**678**
23	**Operational risk**	**11,314**	11,245	**905**
25	– standardised approach	**11,314**	11,245	**905**
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**3,142**	2,799	**251**
29	**Total**	**110,769**	122,392	**8,861**

1 *'Capital requirement' in this and subsequent tables represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*

Credit risk – RWAs by exposure class

	30 Jun 2021		31 Dec 2020	
	RWAs	**Capital requirement**	RWAs	Capital requirement
	£m	**£m**	£m	£m
IRB advanced approach	**25,274**	**2,022**	26,399	2,112
– central governments and central banks	**2,441**	**195**	2,770	222
– institutions	**1,933**	**155**	1,980	158
– corporates[1]	**15,481**	**1,238**	16,167	1,293
– total retail	**5,419**	**434**	5,482	439
– *of which:* *secured by mortgages on immovable property – small and medium-sized enterprises ('SME')*	***235***	***19***	*270*	*22*
secured by mortgages on immovable property – non-SME	***4,022***	***322***	*3,910*	*313*
qualifying revolving retail	***59***	***5***	*59*	*5*
other SME	***342***	***27***	*416*	*33*
other non-SME	***761***	***61***	*827*	*66*
IRB securitisation positions	**724**	**58**	795	64
IRB non-credit obligation assets	**1,762**	**141**	1,885	151
IRB foundation approach	**23,476**	**1,878**	25,654	2,052
– central governments and central banks	**6**	**—**	6	—
– institutions	**6**	**1**	7	1
– corporates	**23,464**	**1,877**	25,641	2,051
Standardised approach	**21,117**	**1,689**	22,481	1,798
– central governments and central banks	**1,455**	**116**	1,232	99
– regional governments or local authorities	**2**	**—**	2	—
– public sector entities	**8**	**1**	9	1
– institutions	**1,215**	**97**	1,418	113
– corporates	**6,273**	**502**	7,340	587
– retail	**283**	**23**	305	24
– secured by mortgages on immovable property	**1,717**	**137**	1,666	133
– exposures in default	**393**	**31**	413	33
– items associated with particularly high risk	**3,572**	**286**	3,852	308
– securitisation positions	**3,567**	**285**	3,949	316
– collective investments undertakings	**1**	**—**	—	—
– equity[2]	**2,297**	**184**	2,096	168
– other items	**334**	**27**	199	16
Total	**72,353**	**5,788**	77,214	6,177

1 *Corporates includes specialised lending exposures subject to the supervisory slotting approach of £2,421m (31 Dec 2020: £3,166m) and RWAs of £1,483m (31 Dec 2020: £2,007m).*

2 *'Equity' includes investments in group insurance companies that are risk-weighted at 250%.*

Counterparty credit risk – RWAs by exposure class and product

	At			
	30 Jun 2021		31 Dec 2020	
	RWAs	**Capital requirement**	RWAs	Capital requirement
	£m	**£m**	£m	£m
By exposure class				
IRB advanced approach	**5,852**	**468**	6,473	517
– central governments and central banks	**197**	**16**	229	18
– institutions	**5,281**	**422**	5,588	447
– corporates	**374**	**30**	656	52
IRB foundation approach	**7,225**	**578**	8,855	708
– corporates	**7,225**	**578**	8,855	708
Standardised approach	**1,998**	**160**	1,874	151
– central governments and central banks	**41**	**3**	19	2
– institutions	**1,850**	**148**	1,655	133
– corporates	**107**	**9**	200	16
CVA advanced	**1,156**	**92**	1,159	93
CVA standardised	**396**	**32**	519	42
Central counterparties ('CCP') standardised	**370**	**30**	464	37
Total	**16,997**	**1,360**	19,344	1,548
By product				
– derivatives (OTC and exchange traded derivatives)	**10,833**	**867**	12,524	1,002
– SFTs	**3,843**	**307**	4,057	325
– other[1]	**532**	**43**	780	62
– CVA advanced	**1,156**	**92**	1,159	93
– CVA standardised	**396**	**32**	519	42
– CCP default funds[2]	**237**	**19**	305	24
Total	**16,997**	**1,360**	19,344	1,548

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

Market risk under standardised approach (MR1)

		At			
		30 Jun 2021		31 Dec 2020	
		RWAs	**Capital requirement**	RWAs	Capital requirement
		£m	**£m**	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**233**	**19**	294	24
2	Equity risk (general and specific)	**103**	**8**	49	4
3	Foreign exchange risk	**623**	**50**	574	46
4	Commodity risk	**67**	**5**	62	5
	Options				
6	Delta-plus method	**48**	**4**	83	6
8	**Securitisation**	**555**	**44**	797	64
9	**Total**	**1,629**	**130**	1,859	149

Market risk under IMA (MR2-A)

		At			
		30 Jun 2021		31 Dec 2020	
		RWAs	**Capital requirement**	RWAs	Capital requirement
		£m	**£m**	£m	£m
1	**VaR (higher of values a and b)**	**2,878**	**230**	3,835	307
(a)	Previous day's VaR		**139**		63
(b)	Average daily VaR[1]		**230**		307
2	**Stressed VaR (higher of values a and b)**	**3,747**	**300**	5,785	463
(a)	Latest SVaR		**136**		74
(b)	Average SVaR[1]		**300**		463
3	**Incremental risk charge (higher of values a and b)**	**990**	**79**	2,154	172
(a)	Most recent IRC value		**79**		172
(b)	Average IRC value[1]		**79**		172
5	**Other**	**861**	**69**	956	76
6	**Total**	**8,476**	**678**	12,730	1,018

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

Leverage

Leverage ratio common disclosure (LRCom)

Ref*		At 30 Jun 2021 £m	At 31 Dec 2020 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**381,445**	379,994
2	(Asset amounts deducted in determining Tier 1 capital)	**(718)**	(603)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**380,727**	379,391
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**32,327**	45,347
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**73,728**	75,434
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**6,047**	10,622
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(28,441)**	(42,471)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(35,203)**	(43,884)
9	Adjusted effective notional amount of written credit derivatives	**73,825**	95,483
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(71,026)**	(91,107)
11	**Total derivative exposures**	**51,257**	49,424
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**177,001**	187,608
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(108,179)**	(106,479)
14	Counterparty credit risk exposure for SFT assets	**5,286**	5,815
16	**Total securities financing transaction exposures**	**74,108**	86,944
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**127,083**	126,409
18	(Adjustments for conversion to credit equivalent amounts)	**(72,675)**	(76,789)
19	**Total off-balance sheet exposures**	**54,408**	49,620
	Exempted exposures		
EU-19a	(Exemption of intragroup exposures (solo basis))	**(236)**	(330)
	Capital and total exposures		
20	**Tier 1 capital**[1]	**21,526**	21,732
21	**Total leverage ratio exposure**	**560,264**	565,049
22	**Leverage ratio (%)**[1]	**3.8**	3.8
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**	Fully phased-in

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
1 *Leverage ratio is calculated using the CRR II end point basis for capital.*

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

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

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

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.8% at 30 June 2021, unchanged from 31 December 2020.

The following tables provide a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure, and a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class.

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

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**£m**	£m
1	Total assets as per published financial statements	**623,963**	681,150
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(25,133)**	(24,641)
4	– derivative financial instruments	**(88,498)**	(151,753)
5	– securities financing transactions ('SFT')	**4,777**	7,030
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**54,408**	49,620
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(236)**	(330)
7	– other adjustments	**(9,017)**	3,973
8	**Total leverage ratio exposure**	**560,264**	565,049

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

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

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**£m**	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**353,004**	337,523
EU-2	– trading book exposures	**79,198**	74,249
EU-3	– banking book exposures	**273,806**	263,274
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**148,749**	132,819
EU-7	institutions	**10,145**	11,384
EU-8	secured by mortgages of immovable properties	**23,350**	24,056
EU-9	retail exposures	**3,746**	4,118
EU-10	corporate	**61,245**	67,272
EU-11	exposures in default	**1,621**	1,963
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**24,950**	21,662

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

Regulatory balance sheet

Structure of the regulatory group

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

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk weighted as securitisation positions for regulatory purposes. Participating interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profits and losses, and RWAs in accordance with the PRA's application of EU legislation. Non-participating significant investments are deducted from capital, subject to thresholds.

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		108,056	—	15	108,071
Items in the course of collection from other banks		638	—	—	638
Trading assets		95,913	—	—	95,913
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		17,616	(13,495)	561	4,682
– *of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation*	s	*—*	*403*	*—*	*403*
Derivatives		139,772	(17)	—	139,755
Loans and advances to banks	k	10,999	(541)	—	10,458
Loans and advances to customers	k	93,210	(415)	—	92,795
– *of which: expected credit losses on IRB portfolios*	h	*(1,053)*	*—*	*—*	*(1,053)*
Reverse repurchase agreements – non-trading		53,032	—	—	53,032
Financial investments		44,753	(9,725)	—	35,028
Capital invested in insurance and other entities		—	604	—	604
Prepayments, accrued income and other assets		57,228	(936)	42	56,334
– *of which: retirement benefit assets*	j	*42*	*—*	*—*	*42*
Current tax assets		440	2	—	442
Interests in associates and joint ventures		653	—	(616)	37
Goodwill and intangible assets	e	901	(783)	—	118
Deferred tax assets	f	752	170	1	923
Total assets at 30 Jun 2021		623,963	(25,136)	3	598,830
Liabilities and equity					
Liabilities					
Deposits by banks		40,427	—	—	40,427
Customer accounts		200,649	302	—	200,951
Repurchase agreements – non-trading		29,440	—	—	29,440
Items in the course of transmission to other banks		339	—	—	339
Trading liabilities		48,179	—	—	48,179
Financial liabilities designated at fair value		37,478	245	—	37,723
– *of which: included in tier 2*	o, i	*2,286*	*—*	*—*	*2,286*
Derivatives		138,366	—	—	138,366
– *of which: debit valuation adjustment*	i	*22*	*—*	*—*	*22*
Debt securities in issue		13,980	(1,155)	—	12,825
Accruals, deferred income and other liabilities		55,278	(1,251)	3	54,030
Current tax liabilities		216	(14)	—	202
Liabilities under insurance contracts		22,332	(22,332)	—	—
Provisions		705	(3)	—	702
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	h	*109*	*—*	*—*	*109*
Deferred tax liabilities		18	(13)	—	5
Subordinated liabilities		12,670	—	—	12,670
– *of which:*					
included in tier 1	m	*700*	*—*	*—*	*700*
included in tier 2	o, p, q, r	*11,970*	*—*	*—*	*11,970*
Total liabilities at 30 Jun 2021		600,077	(24,221)	3	575,859
Equity					
Called up share capital	a	797	—	—	797
Other equity instruments	l	3,722	—	—	3,722
Other reserves	c, g	(5,291)	13	—	(5,278)
Retained earnings	b, c	24,491	(918)	—	23,573
Total shareholders' equity		23,719	(905)	—	22,814
Non-controlling interests	d, n	167	(10)	—	157
Total equity at 30 Jun 2021		23,886	(915)	—	22,971
Total liabilities and equity at 30 Jun 2021		623,963	(25,136)	3	598,830

† *The references (a)–(s) identify balance sheet components which are used in the calculation of regulatory capital on pages 35 and 36.*

Market Risk in the first half of 2021

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios. There were no material changes to our policies and practices for the management of market risk in the first half of 2021.

We managed market risk prudently in the first half of 2021. Sensitivity exposures remained within appetite as the business pursued its core market-making activity in support of our customers. We continued to undertake hedging activities to protect the business from potential future deterioration in credit conditions. Market risk continued to be managed using a complementary set of exposure measures and limits, including Value At Risk (VaR), stress and scenario analysis.

Following the extreme market volatility observed throughout 2020, the overall risk profile of the Markets and Securities Services business remained defensive, notably in FX and Equity, and positions remained relatively stable across the first half of 2021. The Global Debt Markets business continued to be the main driver

of trading VaR, with interest rate risks from market-making activities the key contributor.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR predominantly resides within the Markets and Securities Services business, and was £24.2m as of 30 June 2021, down from £34.2m as of 30 June 2020, and £27.5m as of 31 December 2020. The total trading VaR has reduced over the period, corresponding to the stabilisation of Financial markets as vaccination programmes were rolled out globally, bringing the Covid-19 pandemic under greater control.

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

Trading VaR, 99% 1 day

	Foreign exchange (FX) and commodity	Interest rate (IR)	Equity (EQ)	Credit Spread ('CS')	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m	£m	£m
Half-year to 30 Jun 2021	**5.5**	**12.4**	**10.9**	**13.1**	**(17.7)**	**24.2**
Average	**8.3**	**12.7**	**9.8**	**11.7**	**(19.7)**	**22.8**
Maximum	**19.3**	**26.7**	**14.9**	**16.7**		**31.9**
Minimum	**4.4**	**9.3**	**6.3**	**9.2**		**18.8**
Half-year to 30 Jun 2020	6.3	16.4	19.0	14.1	(21.6)	34.2
Average	6.2	13.9	17.9	15.4	(20.6)	32.8
Maximum	12.1	20.4	33.2	29.2	—	49.2
Minimum	2.0	10.2	8.1	10.0	—	20.9
Half-year to 31 Dec 2020	7.6	11.0	13.9	14.1	(19.2)	27.5
Average	6.8	13.2	19.4	12.9	(21.0)	31.3
Maximum	14.2	21.2	26.8	16.2	—	42.6
Minimum	4.0	9.2	13.9	9.6	—	24.3

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

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

Back-testing

In the first half of 2021, there were no back-testing exceptions against Actual profit and losses, and one loss back-testing exception against Hypothetical profit and losses. The Hypothetical back-testing exception occurred on 23rd March 2021, and was driven by the London FX Cash business exposure to volatility in the TRY FX Forward market, following an unexpected geopolitical event.

The Hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business. Performance of the VaR model throughout the first half of 2021 was in line with expectations. Over the period, market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis. This ensured that the business was prudently managed and performed well across the period.

Non-trading portfolios

Value at risk of the non-trading portfolios

The non-trading VaR as at 30 June 2021 was £31m, driven by interest rate risk in the banking book arising from Markets Treasury and ALCO book positions. The VaR for non-trading activity was £33m as at 31 December 2020. The reduction corresponds to the general stabilisation of financial markets as vaccination programmes are rolled out globally, and the expectation that the economy will recover from the Covid-19 pandemic. Credit spreads have tightened since the start of the year driving the decline in the Credit Spread Non-trading VaR. Treasury bond yields steepened considerably up to March and then retraced as the markets evaluated the rate of inflation driven by economic recovery from Covid-19. Markets Treasury have been actively managing their HQLA portfolio as the treasury yields moved in H1, driving some movements in the interest rate non-trading VaR this year.

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

Non-trading VaR, 99% 1 day

	Interest rate (IR)	Credit spread (CS)	Portfolio diversification[1]	Total[2]
	£m	£m	£m	£m
Half-year to 30 Jun 2021	**29.6**	**8.0**	**(6.6)**	**31.0**
Average	**27.6**	**10.9**	**(5.7)**	**32.8**
Maximum	**34.6**	**12.7**	**—**	**37.8**
Minimum	**20.6**	**7.9**	**—**	**29.1**
Half-year to 30 Jun 2020	23.4	13.7	(4.4)	32.7
Average	17.4	10.2	(4.2)	23.4
Maximum	26.8	14.8	—	32.7
Minimum	14.3	5.7	—	15.2
Half-year to 31 Dec 2020	25.1	11.6	(3.4)	33.3
Average	21.9	12.3	(6.3)	27.9
Maximum	28.8	16.6	—	35.0
Minimum	14.3	5.5	—	15.0

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

Insurance manufacturing operations risk

Overview

The majority of the risk in our insurance business derives from manufacturing activities and can be categorised as financial risk and insurance risk. Financial risks include market risk, credit risk and liquidity risk. Insurance risk is the risk, other than financial risk, of loss transferred from the holder of the insurance contract to HSBC, the issuer. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.

A summary of our policies and practices regarding the risk management of insurance operations, our insurance model and the main contracts we manufacture is provided on page 82 of the *Annual Report and Accounts 2020.*

There have been no material changes to the policies and practices for the management of risks arising in our insurance operations described in the *Annual Report and Accounts 2020.*

Insurance manufacturing operations risk profile in the first half of 2021

The risk profile of our insurance manufacturing operations is assessed in the Group's ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the Group's economic capital basis, and the relevant local insurance regulatory basis. The group's economic capital basis is largely aligned to European Solvency II regulations. Risk appetite buffers are set to ensure that the operations are able to remain solvent on both bases allowing for business-as-usual volatility and extreme but plausible stress events. In addition, the insurance manufacturing operations also manage their market, liquidity, credit, underwriting and non-financial risk exposures to Board-approved risk appetite limits. Interest rates and equity values, which are the key risk drivers for the financial strength of the insurance operations, in general rose during the first half of the year. This had a favourable impact on capital positions and financial risk exposures. As a result, at 30 June 2021 the majority of the capital and financial risk positions of our insurance operations were within risk appetite. However, we continue to monitor these risks closely, as lower interest rates impact on margins and increase profit sensitivity on our insurance products.

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

Balance sheet of insurance manufacturing subsidiaries by type of contract

	With DPF	Unit-linked	Other contracts[1]	Shareholder assets and liabilities	Total
	£m	£m	£m	£m	£m
Financial assets	**19,680**	**2,658**	**241**	**2,591**	**25,170**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**9,494**	**2,597**	**84**	**1,287**	**13,462**
– derivatives	**36**	**—**	**—**	**1**	**37**
– financial investments – at amortised cost	**516**	**—**	**—**	**26**	**542**
– financial investments – at fair value through other comprehensive income	**8,069**	**—**	**103**	**1,148**	**9,320**
– other financial assets[2]	**1,565**	**61**	**54**	**129**	**1,809**
Reinsurance assets	**—**	**55**	**126**	**—**	**181**
PVIF[3]	**—**	**—**	**—**	**783**	**783**
Other assets and investment properties	**747**	**1**	**1**	**41**	**790**
Total assets at 30 Jun 2021	**20,427**	**2,714**	**368**	**3,415**	**26,924**
Liabilities under investment contracts designated at fair value	**—**	**1,000**	**—**	**—**	**1,000**
Liabilities under insurance contracts	**20,296**	**1,708**	**328**	**—**	**22,332**
Deferred tax[4]	**130**	**6**	**—**	**46**	**182**
Other liabilities	**—**	**—**	**—**	**1,877**	**1,877**
Total liabilities at 30 Jun 2021	**20,426**	**2,714**	**328**	**1,923**	**25,391**
Total equity at 30 Jun 2021	**—**	**—**	**—**	**1,533**	**1,533**
Total liabilities and equity at 30 Jun 2021	**20,426**	**2,714**	**328**	**3,456**	**26,924**

Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)

	With DPF	Unit-linked	Other contracts[1]	Shareholder assets and liabilities	Total
	£m	£m	£m	£m	£m
Financial assets	20,261	2,412	249	2,490	25,412
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9,148	2,352	92	991	12,583
– derivatives	76	—	—	2	78
– financial investments – at amortised cost	372	1	—	17	390
– financial investments – at fair value through other comprehensive income	8,724	—	112	1,341	10,177
– other financial assets[2]	1,941	59	45	139	2,184
Reinsurance assets	—	47	134	—	181
PVIF[3]	—	—	—	647	647
Other assets and investment properties	809	1	—	60	870
Total assets at 31 Dec 2020	21,070	2,460	383	3,197	27,110
Liabilities under investment contracts designated at fair value	—	944	—	—	944
Liabilities under insurance contracts	20,962	1,512	342	—	22,816
Deferred tax[4]	107	3	—	39	149
Other liabilities	—	—	—	1,776	1,776
Total liabilities at 31 Dec 2020	21,069	2,459	342	1,815	25,685
Total equity at 31 Dec 2020	—	—	—	1,425	1,425
Total liabilities and equity at 31 Dec 2020	21,069	2,459	342	3,240	27,110

1 *'Other contracts' includes term assurance and credit life insurance.*
2 *Comprise mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.*
3 *Present value of in-force long-term insurance business.*
4 *'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.*

Market risk

Description and exposure

Market risk is the risk of changes in market factors affecting the bank's capital or profit. Market factors include interest rates, equity and growth assets and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are investment contracts with discretionary participating features ('DPF') issued in France. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in bonds with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns. DPF products expose the bank to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the bank. Amounts are held against the cost of such guarantees, calculated by stochastic modelling.

Where local rules require, these reserves are held as part of liabilities under insurance contracts. Any remainder is accounted for as a deduction from the present value of in-force 'PVIF' long-term insurance contracts. For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Sensitivities

The following table illustrates the effects of selected interest rate and equity price scenarios on our profit for the period and the total equity of our insurance manufacturing subsidiaries.

Where appropriate, the effects of the sensitivity tests on profit after tax and equity incorporate the impact of the stress on the PVIF.

Due in part to the impact of the cost of guarantees and hedging strategies which may be in place, the relationship between the profit and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside. The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates. The differences between the impacts on profit after tax and equity are driven by the changes in value of the bonds measured at fair value through other comprehensive income, which are only accounted for in equity.

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

	30 June 2021		31 December 2020	
	Effect on profit after tax	**Effect on total equity**	Effect on profit after tax	Effect on total equity
	£m	**£m**	£m	£m
+100 basis point parallel shift in yield curves	**91**	**67**	110	89
-100 basis point parallel shift in yield curves	**(169)**	**(141)**	(203)	(179)
10% increase in equity prices	**41**	**41**	39	39
10% decrease in equity prices	**(43)**	**(43)**	(42)	(42)

Board Changes

Jacques Fleurant will be retiring as Chief Finance Officer, Europe and stepping down as Director of the HSBC Bank plc Board effective 30 September 2021. The Company is in the process of identifying a suitable successor.

Statement of Directors' Responsibilities

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

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

- the interim condensed financial statements have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting, IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB'), IAS 34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority;
- this *Interim Report 2*021 gives a true and fair view of the assets, liabilities, financial position of the group and of the profit or loss of the group for that period; and
- this *Interim Report 2021* includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2021 and their impact on the condensed set of financial statements; and
  - a description of the principal risks and uncertainties of the remaining six months of the financial year.

S P O'Connor†(Chairman); J F Trueman (Deputy Chairman); C W Bell (Chief Executive Officer); J Fleurant (Chief Financial Officer); Dame M E Marsh; Y Omura†; J A Robinson†; E W Strutz†; and A M Wright†.

On behalf of the Board

J Fleurant

Director

1 August 2021

Registered number 14259

† Independent non-executive Director

Independent Review Report to HSBC Bank plc

Report on the condensed financial statements

Our conclusion

We have reviewed HSBC Bank plc's condensed consolidated interim financial statements (the "interim financial statements") in the Interim Report 2021 of HSBC Bank plc for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB'), IAS 34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2021;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Report 2021 of HSBC Bank plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB'), IAS 34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The Interim Report 2021, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Report 2021 in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report 2021 based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

We have read the other information contained in the Interim Report 2021 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants

London

1 August 2021

Condensed financial statements

Consolidated income statement

	Half-year to		
	30 Jun	30 Jun	31 Dec
	2021	2020	2020
	£m	£m	£m
Net interest income	**860**	917	981
– interest income	**1,559**	2,226	1,860
– interest expense	**(699)**	(1,309)	(879)
Net fee income	**744**	697	703
– fee income	**1,382**	1,341	1,333
– fee expense	**(638)**	(644)	(630)
Net income from financial instruments held for trading or managed on a fair value basis	**950**	1,061	697
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**774**	(611)	865
Changes in fair value of long-term debt and related derivatives	**8**	8	9
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**335**	41	244
Gains less losses from financial investments	**46**	82	13
Net insurance premium income	**987**	764	795
Other operating income	**353**	116	301
Total operating income	**5,057**	3,075	4,608
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(1,700)**	(186)	(1,597)
Net operating income before change in expected credit losses and other credit impairment charges[1]	**3,357**	2,889	3,011
Change in expected credit losses and other credit impairment charges	**71**	(651)	(157)
Net operating income	**3,428**	2,238	2,854
Total operating expenses	**(2,721)**	(3,483)	(3,222)
– employee compensation and benefits	**(1,076)**	(1,013)	(1,327)
– general and administrative expenses	**(1,579)**	(1,503)	(1,589)
– depreciation and impairment of property, plant and equipment and right of use assets	**(57)**	(107)	(265)
– amortisation and impairment of intangible assets	**(9)**	(860)	(41)
Operating profit/(loss)	**707**	(1,245)	(368)
Share of profit/(loss) in associates and joint ventures	**108**	(38)	37
Profit/(loss) before tax	**815**	(1,283)	(331)
Tax (expense)/credit	**(74)**	63	73
Profit/(loss) for the period	**741**	(1,220)	(258)
Profit/(loss) attributable to the parent company	**737**	(1,230)	(258)
Profit attributable to non-controlling interests	**4**	10	—

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

The accompanying notes on pages 55 to 68, the 'Summary of financial instruments to which the impairment requirements in IFRS 9 are applied', 'Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector', and 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' tables in the 'Credit risk' section form an integral part of these condensed financial statements.

Consolidated statement of comprehensive income

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£m	£m	£m
Profit/(loss) for the period	**741**	(1,220)	(258)
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income	**(144)**	148	65
– fair value (losses)/gains	**(140)**	287	79
– fair value (gains)/losses transferred to the income statement on disposal	**(48)**	(80)	(10)
– expected credit losses recognised in income statement	**(5)**	18	(10)
– income taxes	**49**	(77)	6
Cash flow hedges	**(66)**	89	29
– fair value gains/(losses)	**130**	(268)	354
– fair value (gains)/losses reclassified to the income statement	**(224)**	390	(318)
– income taxes	**28**	(33)	(7)
Exchange differences and other	**(412)**	690	(223)
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**36**	3	(11)
– before income taxes	**49**	(11)	(7)
– income taxes	**(13)**	14	(4)
Equity instruments designated at fair value through other comprehensive income	**2**	1	1
– fair value gains	**2**	1	1
– income taxes	**—**	—	—
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(25)**	450	(383)
– before income taxes	**(44)**	619	(526)
– income taxes	**19**	(169)	143
Other comprehensive income/(expense) for the period, net of tax	**(609)**	1,381	(522)
Total comprehensive income/(expense) for the period	**132**	161	(780)
Attributable to:			
– the parent company	**134**	122	(775)
– non-controlling interests	**(2)**	39	(5)

Consolidated balance sheet

	At	
	30 Jun 2021	31 Dec 2020
	£m	£m
Assets		
Cash and balances at central banks	**108,056**	85,092
Items in the course of collection from other banks	**638**	243
Trading assets	**95,913**	86,976
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**17,616**	16,220
Derivatives	**139,772**	201,210
Loans and advances to banks	**10,999**	12,646
Loans and advances to customers	**93,210**	101,491
Reverse repurchase agreements – non-trading	**53,032**	67,577
Financial investments	**44,753**	51,826
Prepayments, accrued income and other assets	**57,228**	55,565
Current tax assets	**440**	444
Interests in associates and joint ventures	**653**	497
Goodwill and intangible assets	**901**	766
Deferred tax assets	**752**	597
Total assets	**623,963**	681,150
Liabilities and equity		
Liabilities		
Deposits by banks	**40,427**	34,305
Customer accounts	**200,649**	195,184
Repurchase agreements – non-trading	**29,440**	34,903
Items in the course of transmission to other banks	**339**	290
Trading liabilities	**48,179**	44,229
Financial liabilities designated at fair value	**37,478**	40,792
Derivatives	**138,366**	199,232
Debt securities in issue	**13,980**	17,371
Accruals, deferred income and other liabilities	**55,278**	53,395
Current tax liabilities	**216**	139
Liabilities under insurance contracts	**22,332**	22,816
Provisions	**705**	861
Deferred tax liabilities	**18**	20
Subordinated liabilities	**12,670**	13,764
Total liabilities	**600,077**	657,301
Equity		
Total shareholders' equity	**23,719**	23,666
– called up share capital	**797**	797
– other equity instruments	**3,722**	3,722
– other reserves	**(5,291)**	(4,682)
– retained earnings	**24,491**	23,829
Non-controlling interests	**167**	183
Total equity	**23,886**	23,849
Total liabilities and equity	**623,963**	681,150

Consolidated statement of cash flows

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£m	£m	£m
Profit/(loss) before tax	**815**	(1,283)	(331)
Adjustments for non-cash items:			
Depreciation, amortisation and impairment[1]	**66**	967	306
Net gain from investing activities	**(47)**	(89)	(10)
Share of (profit)/loss in associates and joint ventures	**(108)**	38	(37)
Change in expected credit losses gross of recoveries and other credit impairment charges	**(69)**	652	158
Provisions including pensions	**54**	66	358
Share-based payment expense	**46**	34	44
Other non-cash items included in profit before tax	**(148)**	129	6
Elimination of exchange differences[2]	**3,937**	(6,541)	4,014
Change in operating assets	**20,916**	(8,413)	32,569
Change in operating liabilities	**(5,572)**	55,984	(44,842)
Contributions paid to defined benefit plans	**(13)**	(15)	(7)
Tax (paid)/received	**(65)**	118	24
Net cash from operating activities	**19,812**	41,647	(7,748)
Purchase of financial investments	**(9,956)**	(15,527)	(5,510)
Proceeds from the sale and maturity of financial investments	**15,373**	10,951	6,466
Net cash flows from the purchase and sale of property, plant and equipment	**55**	(36)	(34)
Net investment in intangible assets	**(14)**	(133)	(17)
Cash outflow from investment in associates and from acquisition of businesses and subsidiaries	**(61)**	(331)	(40)
Proceeds from disposal of subsidiaries, businesses, associates and joint ventures	**—**	—	57
Net cash from investing activities	**5,397**	(5,076)	922
Redemption of preference shares	**—**	(318)	—
Subordinated loan capital issued	**10,628**	—	—
Subordinated loan capital repaid	**(11,060)**	(18)	—
Dividends to the parent company	**(58)**	(57)	(206)
Funds received from the parent company	**—**	1,000	—
Dividend paid to non-controlling interests	**(1)**	—	—
Net cash from financing activities	**(491)**	607	(206)
Net increase/(decrease) in cash and cash equivalents	**24,718**	37,178	(7,032)
Cash and cash equivalents at the beginning of the period	**125,304**	92,338	135,119
Exchange differences in respect of cash and cash equivalents	**(3,811)**	5,603	(2,783)
Cash and cash equivalents at the end of the period	**146,211**	135,119	125,304

1 *Included within 2020 are the impact of impairment and write-offs related principally to our businesses in the UK and HSBC Continental Europe (1H20: £770m and 2H20: £224m).*
2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

Consolidated statement of changes in equity

				Other reserves						
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorgani-sation reserve	Total share-holders' equity	Non-controlling interests[3]	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**797**	**3,722**	**23,829**	**1,309**	**158**	**1,543**	**(7,692)**	**23,666**	**183**	**23,849**
Profit for the period	—	—	737	—	—	—	—	737	4	741
Other comprehensive income (net of tax)	—	—	11	(141)	(66)	(407)	—	(603)	(6)	(609)
– debt instruments at fair value through other comprehensive income	—	—	—	(143)	—	—	—	(143)	(1)	(144)
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2	—	2
– cash flow hedges	—	—	—	—	(66)	—	—	(66)	—	(66)
– remeasurement of defined benefit asset/ liability	—	—	36	—	—	—	—	36	—	36
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(25)	—	—	—	—	(25)	—	(25)
– exchange differences	—	—	—	—	—	(407)	—	(407)	(5)	(412)
Total comprehensive income for the period	—	—	748	(141)	(66)	(407)	—	134	(2)	132
Dividends paid[2]	—	—	(58)	—	—	—	—	(58)	(1)	(59)
Net impact of equity-settled share-based payments	—	—	2	—	—	—	—	2	—	2
Change in business combinations and other movements[3]	—	—	(30)	5	—	—	—	(25)	(13)	(38)
At 30 Jun 2021	**797**	**3,722**	**24,491**	**1,173**	**92**	**1,136**	**(7,692)**	**23,719**	**167**	**23,886**

1 *At 30 June 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £209m. The cumulative change on 31 December 2020 was a loss of £189m.*
2 *Dividends paid includes £58m paid as coupons on additional tier 1 instruments to the parent company.*
3 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in Feb 2021, increasing the group's interest from 99.33% to 100%.*

Consolidated statement of changes in equity (continued)

	Called up share capital and Share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorgani - sation reserve	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	24,449	1,089	40	1,098	(7,692)	23,503	509	24,012
Loss for the period	—	—	(1,230)	—	—	—	—	(1,230)	10	(1,220)
Other comprehensive income (net of tax)	—	—	450	151	89	662	—	1,352	29	1,381
– debt instruments at fair value through other comprehensive income	—	—	—	150	—	—	—	150	(2)	148
– equity instruments designated at fair value through other comprehensive income	—	—	—	1	—	—	—	1	—	1
– cash flow hedges	—	—	—	—	89	—	—	89	—	89
– remeasurement of defined benefit asset/liability	—	—	—	—	—	—	—	—	3	3
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	450	—	—	—	—	450	—	450
– exchange differences and other	—	—	—	—	—	662	—	662	28	690
Total comprehensive income for the period	—	—	(780)	151	89	662	—	122	39	161
Dividends to parent	—	—	(57)	—	—	—	—	(57)	—	(57)
Net impact of equity-settled share-based payments	—	—	16	—	—	—	—	16	—	16
Capital contribution[2]	—	—	1,000	—	—	—	—	1,000	—	1,000
Change in business combinations and other movements[3]	—	—	33	6	—	—	—	39	(355)	(316)
30 Jun 2020	797	3,722	24,661	1,246	129	1,760	(7,692)	24,623	193	24,816

1 *At 30 June 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a gain of £446m.*
2 *HSBC UK Holdings Ltd. (HUHO) injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*
3 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*

Consolidated statement of changes in equity (continued)

				Other reserves						
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve[3]	Total shareholders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2020	797	3,722	24,661	1,246	129	1,760	(7,692)	24,623	193	24,816
Loss for the period	—	—	(258)	—	—	—	—	(258)	—	(258)
Other comprehensive income (net of tax)	—	—	(394)	65	29	(217)	—	(517)	(5)	(522)
– debt instruments at fair value through other comprehensive income	—	—	—	64	—	—	—	64	1	65
– equity instruments designated at fair value through other comprehensive income	—	—	—	1	—	—	—	1	—	1
– cash flow hedges	—	—	—	—	29	—	—	29	—	29
– remeasurement of defined benefit asset/ liability	—	—	(11)	—	—	—	—	(11)	—	(11)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	(383)	—	—	—	—	(383)	—	(383)
– exchange differences and other	—	—	—	—	—	(217)	—	(217)	(6)	(223)
Total comprehensive income for the period	—	—	(652)	65	29	(217)	—	(775)	(5)	(780)
Dividends to parent[2]	—	—	(206)	—	—	—	—	(206)	—	(206)
Net impact of equity-settled share-based payments	—	—	(5)	—	—	—	—	(5)	—	(5)
Change in business combinations and other movements	—	—	31	(2)	—	—	—	29	(5)	24
31 Dec 2020	797	3,722	23,829	1,309	158	1,543	(7,692)	23,666	183	23,849

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £189m.*

2 *The dividends to the parent company include £51m on preference shares and £155m paid as coupons on additional tier 1 instruments.*

3 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed financial statements of HSBC Bank plc ('the bank') and its subsidiaries (together 'the group') have been prepared on the basis of the policies set out in the 2020 annual financial statements and in accordance with UK adopted IAS 34 'Interim Financial Reporting', IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB'), IAS 34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in the group's financial position and performance since the end of 2020. These financial statements should be read in conjunction with the *Annual Report and Accounts 2020* which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and International Financial Reporting Standards ('IFRSs') as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee.

At 30 June 2021, there were no unendorsed standards effective for the half-year to 30 June 2021 affecting these financial statements, and there was no difference between IFRSs adopted by the UK, IFRSs as adopted by the EU and IFRSs issued by the IASB in terms of their application to the group.

The financial statements for the group for the year ended 31 December 2021 will be prepared in accordance with IFRS as adopted by the UK, international financial reporting standards adopted by the EU and IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee.

Standards applied during the half-year to 30 June 2021

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

(b) Use of estimates and judgements

Management believes that the group's critical accounting estimates and judgements are those which relate to impairment of amortised cost and FVOCI financial assets, impairment of investments in subsidiaries, the valuation of financial instruments, deferred tax assets, provisions for liabilities and the present value of in-force long-term insurance business. There were no changes in the current period to the critical accounting estimates and judgements applied in 2020, which are stated on pages 118 to 128 of the *Annual Report and Accounts 2020.*

(c) Composition of the group

There were no material changes in the composition of the group in the half-year to 30 June 2021. For further details of future business disposals see Note 11 'Business disposals'.

(d) Future accounting developments

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2021. It has not been adopted for use in the UK or in the EU. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The Group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely impact of its implementation remains uncertain. However, compared with the Group's current accounting policy for insurance, there will be no PVIF asset recognised; rather the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin and gradually recognised in revenue as services are provided over the duration of the insurance contract.

(e) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the group and parent company have the resources to continue in business for the next 12 months after the signing date and for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include internal stress tests incorporating PRA scenarios that reflect the continuing uncertainty that the global Covid-19 pandemic has had on HSBC's operations, as well as considering potential impacts from the strategic review and other top and emerging risks (as described on page 15), and the related impact on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 118 to 128 of the *Annual Report and Accounts 2020,* as are the methods of computation.

2 Dividends

Dividends to the parent company

	Half-year to					
	30 Jun 2021		30 Jun 2020		31 Dec 2020	
	£ per share	**£m**	£ per share	£m	£ per share	£m
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares	**—**	**—**	—	—	1.47	51
Total	**—**	**—**	—	—	1.47	51
Total coupons on capital securities classified as equity		**58**		57		155
Dividends to parent		**58**		57		206

Total coupons on capital securities classified as equity

	First call date	Half-year to 30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Undated Subordinated Additional Tier 1 instruments				
– €1,900m Undated Subordinated Resettable Additional Tier 1 instrument 2015	Dec 2020	**—**	—	103
– €235m Undated Subordinated Resettable Additional Tier 1 instrument 2016	Jan 2022	**11**	11	—
– €300m Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**10**	10	—
– £555m Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**28**	28	—
– £500m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**—**	—	24
– €250m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**—**	—	8
– £431m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Dec 2024	**—**	—	20
– €200m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Jan 2025	**9**	8	—
		58	57	155

3 Segmental analysis

Basis of preparation

The Chief Executive, supported by the rest of the Executive Committee ('EC'), is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the group's reportable segments. Global business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. Therefore, we present these results on an adjusted basis as required by IFRSs.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and 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 that 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 for the businesses are presented in Corporate Centre.

Our global businesses

HSBC provides a comprehensive range of banking and related financial services to its customers in its three global businesses. The products and services offered to customers are organised by these global businesses. Global businesses are our reportable segments under IFRS 8 'Operating Segments'.

Our operating model consists of three businesses and a Corporate Centre, all supported by Digital Business Services, and 11 functions, of which risk, finance, compliance, legal, marketing and human resources are included.

By operating segment:

Adjusted profit/(loss) before tax

	Half-year to 30 Jun 2021				
	GBM	**CMB**	**WPB**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	**2,132**	**555**	**713**	**—**	**3,400**
– external	**2,252**	**589**	**722**	**(163)**	**3,400**
– inter-segment	**(120)**	**(34)**	**(9)**	**163**	**—**
– *of which: net interest income/(expense)*	***264***	***317***	***293***	***(14)***	***860***
Change in expected credit losses and other credit impairment charges	**65**	**(1)**	**9**	**(2)**	**71**
Net operating income/(expense)	**2,197**	**554**	**722**	**(2)**	**3,471**
Total operating expenses	**(1,707)**	**(343)**	**(503)**	**(36)**	**(2,589)**
Operating profit/(loss)	**490**	**211**	**219**	**(38)**	**882**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**108**	**108**
Adjusted profit before tax	**490**	**211**	**219**	**70**	**990**
	%	**%**	**%**		**%**
Adjusted cost efficiency ratio	**80.1**	**61.8**	**70.5**		**76.1**

Adjusted profit/(loss) before tax (continued)

	Half-year to 30 Jun 2020				
	GBM	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	1,980	578	424	(76)	2,906
– external	2,273	609	439	(415)	2,906
– inter-segment	(293)	(31)	(15)	339	—
– of which: net interest income/(expense)	*275*	*345*	*340*	*(43)*	*917*
Change in expected credit losses and other credit impairment charges	(423)	(194)	(28)	(6)	(651)
Net operating income/(expense)	1,557	384	396	(82)	2,255
Total operating expenses	(1,771)	(336)	(544)	(25)	(2,676)
Operating (loss)/profit	(214)	48	(148)	(107)	(421)
Share of loss in associates and joint ventures	—	—	—	(38)	(38)
Adjusted (loss)/profit before tax	(214)	48	(148)	(145)	(459)
	%	%	%		%
Adjusted cost efficiency ratio	89.4	58.1	128.3		92.1

	Half-year to 31 Dec 2020				
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	1,993	555	611	(68)	3,091
– external	2,195	584	622	(310)	3,091
– inter-segment	(202)	(29)	(11)	242	—
– of which: net interest income/(expense)	*326*	*341*	*324*	*(10)*	*981*
Change in expected credit losses and other credit impairment charges	(28)	(128)	(11)	10	(157)
Net operating income/(expense)	1,965	427	600	(58)	2,934
Total operating expenses	(1,728)	(323)	(584)	(61)	(2,696)
Operating profit/(loss)	237	104	16	(119)	238
Share of profit in associates and joint ventures	—	—	—	37	37
Adjusted profit/(loss) before tax	237	104	16	(82)	275
	%	%	%		%
Adjusted cost efficiency ratio	86.7	58.2	95.6		87.2

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

Reported external net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds:

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£m	£m	£m
Reported external net operating income by country[1]	**3,357**	2,889	3,011
– United Kingdom	**1,634**	1,496	1,418
– France	**941**	639	889
– Germany	**490**	421	393
– Other countries	**292**	333	311

Adjusted results reconciliation

	Half-year to								
	30 Jun 2021			30 Jun 2020			31 Dec 2020		
	Adjusted	**Significant items**	**Reported**	Adjusted	Significant items	Reported	Adjusted	Significant items	Reported
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue[1]	**3,400**	**(43)**	**3,357**	2,906	(17)	2,889	3,091	(80)	3,011
ECL	**71**	**—**	**71**	(651)	—	(651)	(157)	—	(157)
Operating expenses	**(2,589)**	**(132)**	**(2,721)**	(2,676)	(807)	(3,483)	(2,696)	(526)	(3,222)
Share of profit/(loss) in associates and joint ventures	**108**	**—**	**108**	(38)	—	(38)	37	—	37
Profit/(loss) before tax	**990**	**(175)**	**815**	(459)	(824)	(1,283)	275	(606)	(331)

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

Adjusted profit reconciliation

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£m	£m	£m
Adjusted profit/(loss) before tax	**990**	(459)	275
Significant items	**(175)**	(824)	(606)
– debit valuation adjustment on derivative contracts	**(10)**	22	(24)
– fair value movement on non-qualifying hedges	**6**	(1)	—
– restructuring and other related costs	**(171)**	(210)	(563)
– settlements and provisions in connection with legal and regulatory matters	**—**	(4)	(5)
– impairment of other intangible assets	**—**	(631)	(14)
Reported profit/(loss) before tax	**815**	(1,283)	(331)

Balance sheet by business

	GBM	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m
30 Jun 2021					
Loans and advances to customers	**42,003**	**23,521**	**27,485**	**201**	**93,210**
Customer accounts	**109,629**	**49,461**	**41,314**	**245**	**200,649**
31 Dec 2020					
Loans and advances to customers	46,867	25,809	28,638	177	101,491
Customer accounts	105,346	48,368	41,258	212	195,184

4 Net fee income

	Half-year to		
	30 Jun 2021	30 Jun 2020	31 Dec 2020
	£m	£m	£m
Net fee income by product			
Account services	**136**	115	124
Funds under management	**225**	205	219
Cards	**19**	21	23
Credit facilities	**127**	122	128
Broking income	**194**	178	191
Unit trusts	**2**	2	1
Underwriting	**183**	202	158
Imports/exports	**20**	20	21
Remittances	**31**	31	31
Global custody	**99**	105	115
Insurance agency commission	**9**	10	9
Other	**337**	330	313
Fee income	**1,382**	1,341	1,333
Less: fee expense	**(638)**	(644)	(630)
Net fee income	**744**	697	703
Net fee income by global business			
Global Banking and Markets	**383**	334	356
Commercial Banking	**177**	182	174
Wealth and Personal Banking	**189**	179	179
Corporate Centre	**(5)**	2	(6)

5 Fair values of financial instruments carried at fair value

The accounting policies, control framework, and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2020*.

Financial instruments carried at fair value and bases of valuation

	At							
	30 Jun 2021				31 Dec 2020			
	Quoted market price Level 1	Using observable inputs Level 2	With significant un-observable inputs Level 3	Total	Quoted market price Level 1	Using observable inputs Level 2	With significant un-observable inputs Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Trading assets	**66,271**	**28,301**	**1,341**	**95,913**	60,890	24,475	1,611	86,976
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**6,598**	**7,633**	**3,385**	**17,616**	5,658	7,095	3,467	16,220
Derivatives	**1,088**	**136,670**	**2,014**	**139,772**	1,668	197,568	1,974	201,210
Financial investments	**32,644**	**10,709**	**1,387**	**44,740**	38,347	11,829	1,635	51,811
Liabilities								
Trading liabilities	**31,792**	**15,751**	**636**	**48,179**	29,847	14,264	118	44,229
Financial liabilities designated at fair value	**988**	**34,487**	**2,003**	**37,478**	928	38,714	1,150	40,792
Derivatives	**694**	**135,075**	**2,597**	**138,366**	1,058	195,078	3,096	199,232

Global Banking and Markets fair value adjustments

	At			
	30 Jun 2021		31 Dec 2020	
	GBM	Corporate Centre	GBM	Corporate Centre
	£m	£m	£m	£m
Type of adjustment				
Risk-related	**521**	**15**	647	16
– bid-offer	**215**	**—**	252	—
– uncertainty	**37**	**1**	60	1
– credit valuation adjustment	**129**	**14**	211	15
– debt valuation adjustment	**(29)**	**—**	(40)	—
– funding fair value adjustment	**169**	**—**	151	—
– other	**—**	**—**	13	—
Model-related	**40**	**—**	47	—
– model limitation	**40**	**—**	44	—
– other	**—**	**—**	3	—
Inception profit (Day 1 P&L reserves)	**67**	**—**	60	—
	628	**15**	754	16

We continue to observe losses on disposal of certain uncollateralised over-the-counter ('OTC') derivatives as part of our commitments to reduce RWAs in GBM, as set out in Group's business update in February 2020. Based on our analysis, these losses are not considered to give rise to an adjustment within the IFRS 13 'Fair Value Measurement' framework. We will continue to monitor and analyse disposals as they occur.

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2021							
Transfers from Level 1 to Level 2	**148**	**926**	**—**	**—**	**15**	**—**	**—**
Transfers from Level 2 to Level 1	**102**	**427**	**399**	**—**	**36**	**—**	**—**
Full year to 31 Dec 2020							
Transfers from Level 1 to Level 2	200	915	—	—	77	6,013	—
Transfers from Level 2 to Level 1	1,557	1,557	71	—	304	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are normally attributable to observability of valuation inputs and price transparency.

Fair value valuation bases

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

	Assets					Liabilities			
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Trading liabilities	Designated at fair value	Derivatives	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**71**	**43**	**3,089**	**—**	**3,203**	**164**	**—**	**—**	**164**
Asset-backed securities	**560**	**181**	**11**	**—**	**752**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**2,003**	**—**	**2,003**
Derivatives	**—**	**—**	**—**	**2,014**	**2,014**	**—**	**—**	**2,597**	**2,597**
Other portfolios	**756**	**1,117**	**285**	**—**	**2,158**	**472**	**—**	**—**	**472**
At 30 Jun 2021	**1,387**	**1,341**	**3,385**	**2,014**	**8,127**	**636**	**2,003**	**2,597**	**5,236**
Private equity including strategic investments	75	3	3,153	—	3,231	3	—	—	3
Asset-backed securities	847	372	18	—	1,237	—	—	—	—
Structured notes	—	—	—	—	—	21	1,147	—	1,168
Derivatives	—	—	—	1,974	1,974	—	—	3,095	3,095
Other portfolios	713	1,236	296	—	2,245	94	3	1	98
At 31 Dec 2020	1,635	1,611	3,467	1,974	8,687	118	1,150	3,096	4,364

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**1,635**	**1,611**	**3,467**	**1,974**	**118**	**1,150**	**3,096**
Total gains or losses recognised in profit or loss	**4**	**(48)**	**182**	**101**	**11**	**(19)**	**(5)**
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	**–**	**(48)**	**–**	**101**	**11**	**–**	**(5)**
– net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– gains less losses from financial investments at fair value through other comprehensive income	**4**	**—**	**—**	**—**	**—**	**—**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**182**	**—**	**—**	**(19)**	**—**
Total gains or losses recognised in other comprehensive income	**(59)**	**(6)**	**(120)**	**(5)**	**(1)**	**(21)**	**(7)**
– financial investments: fair value gains/(losses)	**(17)**	**—**	**—**	**—**	**—**	**—**	**—**
– exchange differences	**(42)**	**(6)**	**(120)**	**(5)**	**(1)**	**(21)**	**(7)**
Purchases	**200**	**386**	**197**	**—**	**346**	**—**	**—**
Issues	**—**	**—**	**—**	**—**	**17**	**1,114**	**—**
Sales	**(153)**	**(93)**	**(336)**	**—**	**—**	**—**	**—**
Settlements	**(54)**	**(349)**	**—**	**(221)**	**1**	**(464)**	**(847)**
Transfers out	**(186)**	**(330)**	**(29)**	**(64)**	**—**	**(8)**	**(58)**
Transfers in	**—**	**170**	**24**	**229**	**144**	**251**	**418**
At 30 Jun 2021	**1,387**	**1,341**	**3,385**	**2,014**	**636**	**2,003**	**2,597**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2020	**—**	**(1)**	**130**	**(55)**	**2**	**32**	**(24)**
– net income from financial instruments held for trading or managed on a fair value basis	**—**	**(1)**	**—**	**(55)**	**2**	**—**	**(24)**
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**—**	**—**	**130**	**—**	**—**	**32**	**—**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 1 Jan 2020	1,554	3,203	3,737	1,637	40	943	1,681
Total gains or losses recognised in profit or loss	(9)	(419)	(19)	1,560	—	—	1,595
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	(419)	—	1,560	—	—	1,595
– gains less losses from financial investments at fair value through other comprehensive income	(9)	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(19)	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI')	40	71	149	38	1	29	9
– financial investments: fair value gains/(losses)	—	—	—	—	—	—	—
– exchange differences	40	71	149	38	1	29	9
Purchases	287	110	457	—	52	—	—
Issues	—	—	—	—	1	334	—
Sales	(216)	(436)	(219)	—	(1)	—	—
Settlements	(60)	(17)	(17)	(81)	(10)	(248)	(229)
Transfers out	(4)	(624)	(2)	(72)	(4)	(70)	(171)
Transfers in	246	612	161	82	6	176	106
At 30 Jun 2020	1,838	2,500	4,247	3,164	85	1,164	2,991
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 30 Jun 2019	—	(11)	(51)	493	3	58	976
– net income from financial instruments held for trading or managed on a fair value basis	—	(11)	—	493	3	—	976
– net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	(51)	—	—	58	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	—	—	—	—	—

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 1 Jul 2020	1,838	2,500	4,247	3,164	85	1,164	2,991
Total gains or losses recognised in profit or loss	23	422	114	22	237	87	1,049
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	422	—	22	237	—	1,049
– gains less losses from financial investments at fair value through other comprehensive income	23	—	—	—	—	—	—
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	114	—	—	87	—
Total gains or losses recognised in other comprehensive income	(19)	(15)	(161)	(5)	—	(6)	(2)
– financial investments: fair value gains/(losses)	58	—	2	—	—	—	—
– exchange differences	(77)	(15)	(163)	(5)	—	(6)	(2)
Purchases	7	332	604	—	1	—	—
Issues	—	—	—	—	4	241	—
Sales	(309)	(355)	(1,216)	—	(197)	—	—
Settlements	(56)	(851)	(62)	(1,057)	(10)	(277)	(851)
Transfers out	(57)	(712)	(59)	(286)	(3)	(195)	(266)
Transfers in	208	290	—	136	1	136	175
At 31 Dec 2020	1,635	1,611	3,467	1,974	118	1,150	3,096
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	—	(13)	94	12	(4)	(131)	195
– trading income/(expense) excluding net interest income	—	(13)	—	12	(4)	—	195
– net income/(expense) from other financial instruments designated at fair value	—	—	94	—	—	(131)	—

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At							
	30 Jun 2021				31 Dec 2020			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	**121**	**(109)**	**—**	**—**	161	(145)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**278**	**(277)**	**—**	**—**	226	(226)	—	—
Financial investments	**17**	**(17)**	**44**	**(44)**	26	(26)	49	(49)
Total	**416**	**(403)**	**44**	**(44)**	413	(397)	49	(49)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these instruments are risk managed.*

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

	At							
	30 Jun 2021				31 Dec 2020			
	Reflected in profit or loss		**Reflected in OCI**		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	**Un-favourable changes**	**Favourable changes**	**Un-favourable changes**	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Private equity including strategic investments	**246**	**(246)**	**7**	**(7)**	193	(195)	7	(7)
Asset-backed securities	**46**	**(24)**	**1**	**(1)**	64	(40)	5	(4)
Structured notes	**22**	**(22)**	**—**	**—**	23	(23)	—	—
Derivatives	**48**	**(46)**	**—**	**—**	73	(70)	—	—
Other derivatives	**—**	**—**	**—**	**—**	—	—	—	—
Other portfolios	**54**	**(65)**	**36**	**(36)**	60	(69)	37	(38)
Total	**416**	**(403)**	**44**	**(44)**	413	(397)	49	(49)

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

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	At							
	30 Jun 2021						31 Dec 2020	
	Fair value							
	Assets	**Liabilities**	**Valuation techniques**	**Key unobservable inputs**	**Full range of inputs**		Full range of inputs	
	£m	**£m**			**Lower**	**Higher**	Lower	Higher
Private equity including strategic investments	**3,203**	**164**	**See notes[1]**	**See notes[1]**	**N/A**	**N/A**	N/A	N/A
Asset-backed securities	**752**	**–**						
– CLO/CDO[2]	**58**	**–**	**Market proxy**	**Bid quotes**	**–**	**100**	–	100
– other ABSs	**694**	**–**	**Market proxy**	**Bid quotes**	**–**	**172**	–	100
Structured notes	**–**	**2,003**						
– equity-linked notes	**–**	**1,615**	**Model-Option model**	**Equity volatility**	**5%**	**124%**	0%	115%
			Model-Option model	**Equity correlation**	**7%**	**79%**	-4%	79%
– fund-linked notes	**–**	**82**						
– FX-linked notes	**–**	**19**	**Model-Option model**	**FX volatility**	**4%**	**32%**	0%	23%
– other	**–**	**287**						
Derivatives	**2,014**	**2,597**						
Interest rate derivatives:								
– securitisation swaps	**242**	**334**	**Model-Discounted cash flow**	**Prepayment rate**	**5%**	**10%**	6%	6%
– long-dated swaptions	**315**	**226**	**Model-Option model**	**IR volatility**	**6%**	**25%**	6%	28%
– other	**321**	**185**						
FX derivatives:								
– FX options	**156**	**165**	**Model-Option model**	**FX volatility**	**3%**	**29%**	3%	40%
– FX other	**256**	**271**						
Equity derivatives:								
– long-dated single stock options	**303**	**254**	**Model-Option model**	**Equity volatility**	**2%**	**100%**	7%	70%
– other	**362**	**1,041**						
Credit derivatives	**59**	**121**						
Other portfolios:	**2,158**	**472**						
– repurchase agreements	**370**	**435**	**Model-Discounted cash flow**	**IR Curve**	**0%**	**5%**	0%	5%
– other	**1,788**	**37**						
At 30 Jun 2021	**8,127**	**5,236**						

1 *See notes on page 148 of the* Annual Report and Accounts 2020.
2 *Collateralised loan obligation/collateralised debt obligation.*

6 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, financial investments, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements are consistent with that detailed in the *Annual Report and Accounts 2020*.

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

	At 30 Jun 2021		At 31 Dec 2020	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£m	**£m**	£m	£m
Assets				
Loans and advances to banks	**10,999**	**11,000**	12,646	12,649
Loans and advances to customers	**93,210**	**93,283**	101,491	101,584
Reverse repurchase agreements – non-trading	**53,032**	**53,032**	67,577	67,577
Financial investments – at amortised cost	**13**	**13**	15	14
Liabilities				
Deposits by banks	**40,427**	**40,362**	34,305	34,249
Customer accounts	**200,649**	**200,643**	195,184	195,180
Repurchase agreements – non-trading	**29,440**	**29,440**	34,903	34,903
Debt securities in issue	**13,980**	**13,985**	17,371	17,367
Subordinated liabilities	**12,670**	**13,446**	13,764	14,638

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

7 Goodwill and intangible assets

	At	
	30 Jun 2021	31 Dec 2020
	£m	£m
Present value of in-force long-term insurance business	**782**	647
Other intangible assets[1]	**119**	119
Intangible Assets	**901**	766

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £111m (2020: £115m). During the year, amortisation and impairment of other intangible assets totalled £9m for the group (2020: £901m).*

8 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 31 Dec 2020	**309**	**237**	**25**	**103**	**674**
Additions	**15**	**18**	**7**	**28**	**68**
Amounts utilised	**(99)**	**(17)**	**(2)**	**(10)**	**(128)**
Unused amounts reversed	**(19)**	**(1)**	**(6)**	**(13)**	**(39)**
Exchange and other movements	**—**	**(9)**	**—**	**(1)**	**(10)**
At 30 Jun 2021	**206**	**228**	**24**	**107**	**565**
Contractual commitments[1]					
At 31 Dec 2020					**187**
Net change in expected credit loss provisions					**(47)**
At 30 Jun 2021					**140**
Total provisions					
At 31 Dec 2020					**861**
At 30 Jun 2021					**705**

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 27.*

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 10. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

9 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2021	31 Dec 2020
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees	**10,721**	3,969
– performance and other guarantees	**14,043**	14,282
– other contingent liabilities	**372**	458
At the end of the period	**25,136**	18,709
Commitments:[1]		
– documentary credits and short-term trade-related transactions	**1,965**	1,366
– forward asset purchases and forward deposits placed	**42,034**	42,793
– standby facilities, credit lines and other commitments to lend	**95,165**	103,144
At the end of the period	**139,164**	147,303

1 *Includes £135,040m of commitments (2020: £143,036m), to which the impairment requirements in IFRS 9 are applied where the group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements.

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. HMRC has also issued notices of assessment covering the period from 1 October 2013 to 31 December 2017 totalling £262m, with

interest to be determined. No provision has been recognised in respect of these notices. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and, consequently, HSBC paid HMRC the sum of £262m and filed appeals which remain pending. The payment of £262m is recorded as an asset on HSBC's balance sheet at 30 June 2021. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT, of which £97m is estimated to be attributable to HSBC Bank plc.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 10. The expected credit loss provisions relating to guarantees and commitments under IFRS 9 is disclosed in Note 8.

10 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2020*. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2021 (see Note 8). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities as at 30 November 2008, the purported aggregate value of these funds was $8.4bn, including fictitious profits reported by Madoff.

Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately $4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US litigation: The Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC and other parties to the actions have moved to dismiss the Trustee's claims. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In February 2019, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') reversed that dismissal. Following the US Supreme Court's denial of certiorari in June 2020, the cases were remanded to the US Bankruptcy Court, where they are now pending.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought a lawsuit in the US against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments. In December 2018, the US Bankruptcy Court issued an opinion, which ruled in favour of the defendants' motion to dismiss in respect of certain claims by the liquidators for Fairfield and granted a motion by the liquidators to file amended complaints. As a result of that opinion, all claims against one of the HSBC companies, and certain claims against the remaining HSBC defendants, were dismissed. In May 2019, the liquidators appealed certain issues from the US Bankruptcy Court to the US District Court for the Southern District of New York (the 'New York District Court') and these appeals remain pending.

In January 2020, the liquidators filed amended complaints on the claims remaining in the US Bankruptcy Court. In December 2020, the US Bankruptcy Court granted in part and denied in part motions filed by the defendants, including HSBC, to dismiss the amended complaints. In March 2021, the liquidators and defendants appealed the US Bankruptcy Court's decision, and these appeals are currently pending. Meanwhile, proceedings before the US Bankruptcy Court with respect to the remaining claims that were not dismissed are ongoing.

UK litigation: The Trustee has filed a claim against various HSBC companies in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. The deadline for service of the claim has been extended to September 2021 for UK-based defendants and November 2021 for all other defendants.

Cayman Islands litigation: In February 2013, Primeo Fund ('Primeo') (in liquidation since April 2009) brought an action against HSBC Securities Services Luxembourg ('HSSL') and Bank of Bermuda (Cayman) Limited (now known as HSBC Cayman Limited), alleging breach of contract and breach of fiduciary duty and claiming damages and equitable compensation. The trial concluded in February 2017 and, in August 2017, the court dismissed all claims against the defendants. In September 2017, Primeo appealed to the Court of Appeal of the Cayman Islands and, in June 2019, the Court of Appeal of the Cayman Islands dismissed Primeo's appeal. In August 2019, Primeo filed a notice of appeal to the UK Privy Council. The first of two possible hearings before the UK Privy Council took place during April 2021, where judgment is pending.

Luxembourg litigation: In April 2009, Herald Fund SPC ('Herald') (in liquidation since July 2013) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities that Herald purportedly lost because of Madoff Securities' fraud, or money damages. The Luxembourg District Court dismissed Herald's securities restitution claim, but reserved Herald's cash restitution claim and its claim for money damages. Herald has appealed this judgment to the Luxembourg Court of Appeal, where the matter is pending. In late 2018, Herald brought additional claims against HSSL and HSBC Bank plc before the Luxembourg District Court, seeking further restitution and damages.

In October 2009, Alpha Prime Fund Limited ('Alpha Prime') brought an action against HSSL before the Luxembourg District Court, seeking the restitution of securities, or the cash equivalent, or money damages. In December 2018, Alpha Prime brought additional claims before the Luxembourg District Court seeking damages against various HSBC companies. These matters are currently pending before the Luxembourg District Court.

In December 2014, Senator Fund SPC ('Senator') brought an action against HSSL before the Luxembourg District Court, seeking restitution of securities, or the cash equivalent, or money damages. In April 2015, Senator commenced a separate action against the Luxembourg branch of HSBC Bank plc asserting identical claims before the Luxembourg District Court. In December 2018, Senator

brought additional claims against HSSL and HSBC Bank plc Luxembourg branch before the Luxembourg District Court, seeking restitution of Senator's securities or money damages. These matters are currently pending before the Luxembourg District Court.

Ireland litigation: In November 2013, Defender Limited brought an action against HSBC Institutional Trust Services (Ireland) Limited ('HTIE') and others, based on allegations of breach of contract and claiming damages and indemnification for fund losses. The trial commenced in October 2018. In December 2018, the Irish High Court issued a judgment in HTIE's favour on a preliminary issue, holding that Defender Limited had no effective claim against HTIE. This judgment concluded the trial without further issues in dispute being heard. In February 2019, Defender Limited appealed the decision. In July 2020, the Irish Supreme Court ruled in part in favour of Defender Limited and returned the case to the High Court for further proceedings. In April 2021, the parties reached an agreement to resolve the dispute and, in May 2021, the action against HTIE was discontinued.

There are many factors that may affect the range of possible outcomes, and any resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought. Based upon the information currently available, management's estimate of the possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is up to or exceeding $500m, excluding costs and interest. Due to uncertainties and limitations of this estimate, any possible damages that might ultimately arise could differ significantly from this amount.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings plc ('HSBC Holdings') entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in 2020) as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme. In 2020, HSBC's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, in early 2021, a new FRB Independent Consultant was appointed pursuant to the cease-and-desist order. The roles of each of the FCA Skilled Person and the FRB Independent Consultant are discussed on page 81 of the *Annual Report and Accounts 2020*.

The FCA is conducting an investigation into HSBC Bank plc's and HSBC UK Bank plc's compliance with UK money laundering regulations and financial crime systems and controls requirements. HSBC continues to cooperate with the FCA's investigation, which is at or nearing completion.

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies and others on behalf of plaintiffs who are, or are related to, victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act. Currently, nine actions against HSBC Bank plc remain pending in federal courts in New York or the District of Columbia. The courts have granted HSBC Bank plc's motions to dismiss in five of these cases. Appeals remain pending in two cases, and the remaining three dismissals are also subject to appeal. The four remaining actions are at a very early stage.

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

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

Euro interest rate derivatives: In December 2016, the European Commission ('EC') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The EC imposed a fine on HSBC based on a one-month infringement. HSBC appealed the decision and, in September 2019, the General Court of the European Union (the 'General Court') issued a decision largely upholding the EC's findings on liability but annulling the fine. HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the 'Court of Justice'). In June 2021, the EC adopted a new fining decision for an amount which was 5% less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. HSBC's appeal remains pending.

US dollar Libor: Beginning in 2011, HSBC and other panel banks have been named as defendants in a number of private lawsuits filed in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US laws, including US antitrust and racketeering laws, the US Commodity Exchange Act ('US CEA') and state law. The lawsuits include individual and putative class actions, most of which have been transferred and/or consolidated for pre-trial purposes before the New York District Court. HSBC has reached class settlements with five groups of plaintiffs, and the court has approved these settlements. HSBC has also resolved several of the individual actions, although a number of other US dollar Libor-related actions remain pending against HSBC in the New York District Court and the Second Circuit Court of Appeals.

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

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

Foreign exchange-related investigations and litigation

Since at least 2014, the EC has been conducting an investigation into trading activities by a number of banks, including HSBC, in the foreign exchange spot market. HSBC is cooperating with this investigation.

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into HSBC'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 July 2021, the DoJ filed a motion to dismiss the charges deferred by the FX DPA, which remains pending.

In June 2020, the Competition Commission of South Africa, having initially referred a complaint for proceedings before the South African Competition Tribunal in February 2017, filed a revised complaint against 28 financial institutions, including HSBC Bank plc, for alleged anti-competitive behaviour in the South African foreign exchange market. In August 2020, HSBC Bank plc filed an application to dismiss the revised complaint, which remains pending.

Beginning in 2013, various HSBC companies and other banks have been named as defendants in a number of putative class actions filed in, or transferred to, the New York District Court arising from allegations that the defendants conspired to manipulate foreign exchange rates. HSBC has reached class settlements with two groups of plaintiffs, including direct and indirect purchasers of foreign exchange products, and the court has granted final approval of these settlements.

In September 2018, various HSBC companies and other banks were named as defendants in two motions for certification of class actions filed in Israel alleging foreign exchange-related misconduct. In July 2019, the Tel Aviv Court allowed the plaintiffs to consolidate their claims and, in September 2019, the plaintiffs filed a motion for certification of the consolidated class action. In August 2020, HSBC Bank plc filed a motion to dismiss, which remains pending.

In November and December 2018, complaints alleging foreign exchange-related misconduct were filed in the New York District Court and the High Court of England and Wales against HSBC and other defendants by certain plaintiffs that opted out of the direct purchaser class action settlement in the US. These matters remain pending.

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

In May 2021, a civil action was filed in Brazil alleging foreign exchange-related misconduct by various banks, including HSBC Bank plc, for the period from 2007 to 2013. HSBC Bank plc has not yet been served with this action.

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

As at 30 June 2021, the bank has recognised a provision for these and similar matters in the amount of £152m. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these matters. Due to uncertainties and limitations of these estimates, the ultimate financial impact could differ significantly from the amount provided.

Precious metals fix-related litigation

Gold: Beginning in March 2014, numerous putative class actions were filed in the New York District Court and the US District Courts for the District of New Jersey and the Northern District of California, naming HSBC and other members of The London Gold Market Fixing Limited as defendants. The complaints, which were consolidated in the New York District Court, allege that, from January 2004 to June 2013, the defendants conspired to manipulate the price of gold and gold derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. In October 2020, HSBC reached a settlement in principle with the plaintiffs to resolve the consolidated action. The settlement remains subject to court approval.

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

Silver: Beginning in July 2014, numerous putative class actions were filed in federal district courts in New York, naming HSBC and other members of The London Silver Market Fixing Limited as defendants. The complaints allege that, from January 2007 to December 2013, the defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. The actions were consolidated in the New York District Court, and discovery is proceeding.

In April 2016, two putative class actions under Canadian law were filed in the Ontario and Quebec Superior Courts of Justice against various HSBC companies and other financial institutions. The plaintiffs in both actions allege that, from January 1999 to August 2014, the defendants conspired to manipulate the price of silver and silver derivatives in violation of the Canadian Competition Act and common law. These actions are ongoing.

Platinum and palladium: Between late 2014 and early 2015, numerous putative class actions were filed in the New York District Court, naming HSBC and other members of The London Platinum and Palladium Fixing Company Limited as defendants. The complaints allege that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals ('PGM') and PGM-based financial products for their collective benefit in violation of US antitrust laws and the US CEA. In March 2020, the court granted the defendants' motion to dismiss the plaintiffs' third amended complaint but granted the plaintiffs leave to re-plead certain claims. The plaintiffs have filed an appeal.

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

Other regulatory investigations, reviews and litigation

HSBC Bank plc and/or certain of its affiliates are subject to a number of other investigations and reviews by various regulators and competition and law enforcement authorities, as well as litigation, in connection with various matters relating to the firm's businesses and operations, including:

- an investigation by the FCA in connection with collections and recoveries operations in the UK;
- an investigation by the UK Competition and Markets Authority concerning the financial services sector; and
- two group actions pending in the US courts and a claim issued in the High Court of England and Wales in connection with HSBC Bank plc's role as a correspondent bank to Stanford International Bank Ltd from 2003 to 2009.
- There are many factors that may affect the range of outcomes and the resulting financial impact, of these matters, which could be significant.

11 Business disposals

In the first half of 2021, we accelerated the pace of execution on our strategic ambition to be the preferred international financial partner for our clients with the announcement of the potential sale of our retail banking businesses in France.

Potential sale of the retail banking business in France

On 18 June 2021, HSBC Continental Europe signed a memorandum of understanding with Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA and My Money Bank, regarding the potential sale of HSBC Continental Europe's retail banking business in France.

The potential sale includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and, subject to the satisfaction of relevant conditions, HSBC Continental Europe's 100% ownership interest in HSBC SFH (France) and its 3% ownership interest in *Crédit Logement*. The sale would generate an estimated loss before tax including related transaction costs for the group of €1.9bn.

There would be no immediate tax benefit recognised in respect of the sale loss nor impairment. The vast majority of the estimated loss for the write down of the disposal group to fair value less costs to sell will be recognised when it is classified as held for sale in accordance with IFRS 5, which is currently anticipated to be in 2022. Subsequently, the disposal group classified as held for sale will be re-measured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gain or loss not previously recognised shall be recognised at the date of derecognition, which is currently anticipated to be in the first half of 2023.

At 30 June 2021, the value of the total assets of the business to be sold was €23.8bn, including €21.6bn of loans and advances to customers, and the value of customer accounts was €19.8bn.

12 Transactions with related parties

On 21 June 2021, the immediate parent company of HSBC Bank plc changed from HSBC UK Holdings Limited to HSBC Holdings plc, which is the ultimate parent company of the group.

There were no other changes to the related party transactions described in Note 33 of the *Annual Report and Accounts 2020* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2021.

All related party transactions that took place in the half-year to 30 June 2021 were similar in nature to those disclosed in the *Annual Report and Accounts 2020*.

13 Events after the balance sheet date

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

14 Interim Report 2021 and statutory accounts

The information in this *Interim Report 2021* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This *Interim Report 2021* was approved by the Board of Directors on 1 August 2021. The statutory accounts of HSBC Bank plc for the year ended 31 December 2020 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP ('PwC'), has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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