HSBC UK Bank plc

Interim Report and Accounts 2021

HSBC

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Presentation of information

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

It contains the Interim Management Report and Condensed Consolidated Financial Statements of the group, together with the Auditors' Review Report, as required by the Financial Conduct Authority's ('FCA') Disclosure Guidance and Transparency Rules ('DTR'). The capital section also contains certain Pillar 3 disclosures which require semi-annual disclosure in accordance with applicable regulatory rules.

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

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

Cautionary statement regarding forward-looking statements

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

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

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

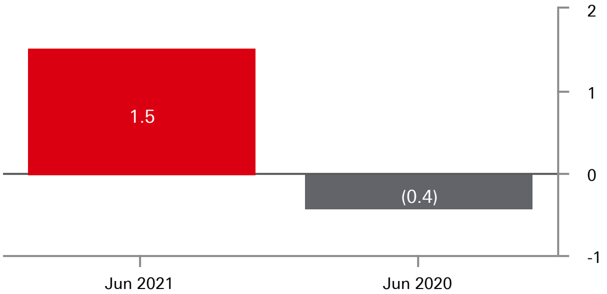
Highlights

For the half-year ended 30 June 2021

Reported profit/(loss) before tax

£1.5bn **↑482%**

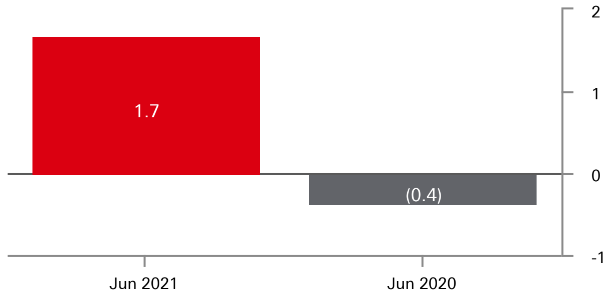
(2020: £(0.4)bn)



Adjusted profit/(loss) before tax

£1.7bn **↑547%**

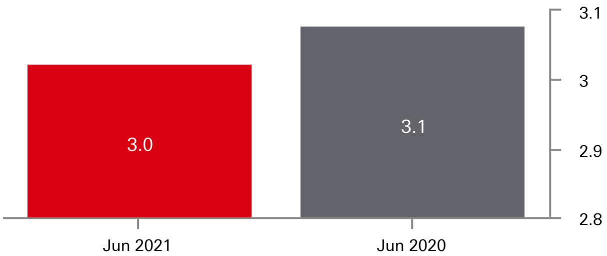
(2020: £(0.4)bn)



Reported revenue

£3.0bn **↓2%**

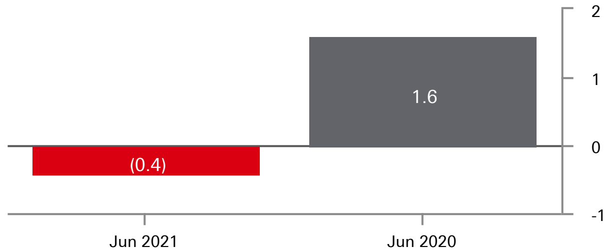
(2020: £3.1bn)



Expected credit losses and other credit impairment charges ('ECL')

£(0.4)bn **↓(126)%**

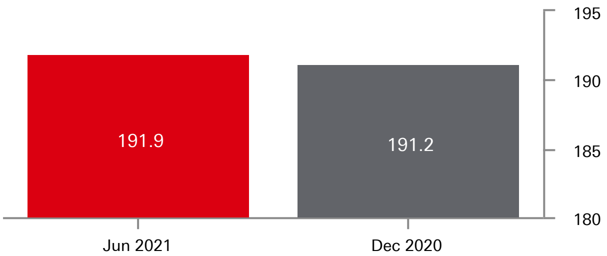
(2020: £1.6bn)



Loans and advances to customers

£191.9bn **↑0.4%**

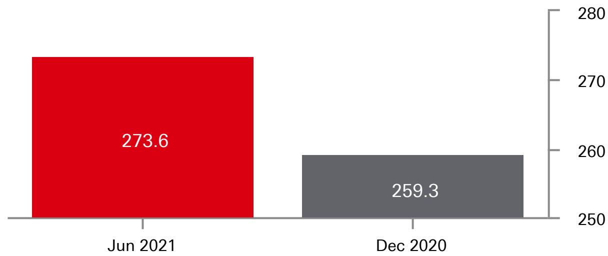
(2020: £191.2bn)



Customer accounts

£273.6bn **↑6%**

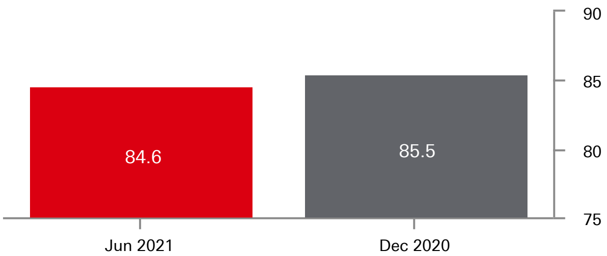
(2020: £259.3bn)



Risk-weighted assets ('RWAs')

£84.6bn **↓1%**

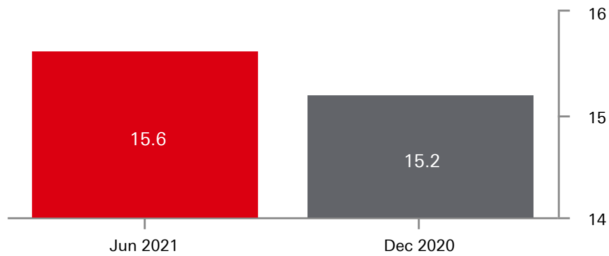
(2020: £85.5 bn)



Common equity tier 1 capital ratio ('CET1')

15.6%

(2020: 15.2%)



Key financial metrics

Reported results	Half-year to 30 Jun 2021	30 Jun 2020
Reported revenue (£m)[1]	**3,023**	3,080
Reported profit/(loss) before tax (£m)[2]	**1,540**	(403)
Reported profit/(loss) after tax (£m)	**981**	(353)
Profit/(loss) attributable to the shareholders of the parent company (£m)	**978**	(356)
Return on average tangible equity (annualised) ('RoTE') (%)[2]	**11.4**	(4.9)
Net interest margin (%)	**1.58**	1.84
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (%)	**(0.21)**	0.88
Adjusted results		
Adjusted revenue (£m)	**3,011**	3,059
Adjusted profit/(loss) before tax (£m)[2]	**1,671**	(374)
Adjusted Cost efficiency ratio (%)[2]	**58.2**	59.4
Adjusted return on average tangible equity (annualised) ('Adjusted RoTE') (%)[2,4]	**12.5**	(4.6)

Balance sheet	At 30 Jun 2021	31 Dec 2020
Total assets (£m)	**322,705**	304,864
Net loans and advances to customers (£m)	**191,904**	191,233
Customer accounts (£m)	**273,641**	259,341
Average interest-earning assets (£m)	**293,342**	265,891
Loans and advances to customers as % of customer accounts (%)	**70.1**	73.7
Total shareholders' equity (£m)	**22,915**	22,798
Tangible ordinary shareholders' equity (£m)	**16,566**	16,485
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3]	**15.6**	15.2
Total capital ratio (%)[3]	**21.8**	21.3
Risk-weighted assets[3] (£m)	**84,555**	85,477
Leverage ratio[3] (%)	**4.6**	4.8
UK Leverage ratio[3] (%)	**6.7**	6.5
High-quality liquid assets (liquidity value) (£m)	**105,025**	88,838
Liquidity coverage ratio (%)	**223**	198

1 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
2 *These metrics are tracked as Key Performance Indicators of the group.*
3 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force in the European Union ('EU') at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments' which are explained further on page 55 of the* Annual Report and Accounts 2020. *Leverage ratios are calculated using the end point definition of capital and IFRS 9 regulatory transitional arrangements. Following the end of the transition period following the UK's withdrawal from the EU, any reference to EU regulations and directive (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.*
4 *In the event that the current IAS 19 Pension fund surplus was zero, Adjusted RoTE would be 14.9% (1H20: (6.8)%). Further detail is on page 56.*

Presentation of alternative performance measures

In measuring our performance, the financial measures that we use include those derived from our reported results to eliminate factors that distort period-on-period comparisons. Such measures are referred to as alternative performance measures (alternative performance measures). A reconciliation of reported to alternative performance measures is provided on pages 9 and 10.

RoTE is computed by adjusting the reported equity for goodwill and intangibles. A reconciliation is provided on page 56, which details the adjustments made to the reported results and equity in calculating RoTE.

About us

HSBC UK comprises: Wealth and Personal Banking ('WPB'), Commercial Banking ('CMB'), a restricted Global Banking and Markets ('GBM') business, and a Corporate Centre.

HSBC UK is strongly connected to the rest of HSBC Group and leverages this network to support customers and grow revenue across key trade corridors around the world.

Purpose and values

HSBC Group's purpose

Opening up a world of opportunity.

HSBC Group's values

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

What we do

HSBC UK, headquartered in Birmingham, has c.15 million active customers, with over 20,000 Full Time Equivalent ('FTE') employees across the country, supported by a further c. 6,000 employees based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

HSBC UK manages its products and services through three businesses:

- WPB: Helps millions of our customers manage their day-to-day finances and manage, protect and grow their wealth.
- CMB: Supports businesses across the UK, ranging from start-ups to multi-national corporates, through four customer groups: Small Business Banking ('SBB'); Business Banking ('BB'); Mid-Market Enterprises ('MME'); and Large Corporates ('LC').
- GBM: Offers selected GBM products to our customer base. For example, we maintain a markets team that help to support the sale of eligible markets products to our CMB customers from HSBC Bank plc.

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

Our strategy

Our UK strategy is built around four key strategic priorities, building a simple, safe and sustainable bank.

Focus on our strengths

Using our strengths to play a vital role in the economic and societal recovery from Covid-19.

- Despite the Current Account Switching Service ('CASS') market contracting by c.40% vs. 2019, and Marks and Spencer Bank's ('MSB') departure from the current account market, HSBC UK has attracted 79,561 new customers to switch their banking from other providers. first direct have performed particularly well, seeing a 64% increase in the number of customers switching in when compared to 1H20. We also grew our CMB customer base with the number of active customers 2.3% higher in May 2021 (vs. May 2020).
- We continue to focus on our mortgage and commercial lending market share. As of 30 June 2021, we achieved an 8.7% share of gross new mortgage lending (1H20: 8.7%) and maintained our mortgage stock share at 7.4% (FY20: 7.4%)[1]. This has seen our mortgage book surpass £110bn, as we continue to help our retail customers purchase their homes. In 1Q21, we also increased our Small and Medium-sized Enterprise ('SME')[2] net lending market share to 10.2% (FY20: 8.2%) and our overall commercial net lending market share to10.3% (FY20: 10.0%)[1].
- In WPB, first direct is in second place and HSBC UK is in joint tenth place in the Competition & Market Authority Service Quality tables published in February 2021.
- In CMB, in the 2Q21 Savanta results HSBC UK leads the market in our BB & MME segments for being considered the most capable bank in supporting UK businesses trading internationally, significantly ahead of the next placed bank. Also, in the recent Greenwich survey for UK Large Corporates, HSBC ranks 1st in overall market penetration with a score of 61%, mainly driven by improvements in international market penetration which stands at 64%

Digitise at scale

Using technology to deliver fast, easy and secure banking.

- In CMB, we had the full market launch of HSBC Kinetic and over 10,000 customers have been onboarded as of end June 2021. We also launched Global Wallet in the UK, allowing our global customers to transact internationally through multi-currency wallets.
- In April, we launched our Digital Receivables Finance Portal, enabling customers in BB and MME to sync their accounting systems and obtain fast decisions on funding possibilities through their unpaid invoices.
- In WPB, we have reduced the time taken to on-board first direct customers to real-time and delivered new transaction enrichment capabilities. In Wealth, we added Live Chat to our My Investments platform and launched our first insurance features on the UK Mobile Banking app.
- We have also launched a fully automated credit card instalment feature on our mobile app. This provides customers with the ability to better manage their finances by allowing them to repay eligible credit spend in instalments.
- Through digitisation of HSBC Collections, we are now able to provide customers in financial difficulty with 'real time' communication of affordability decisions, using open banking and automation.

Energise for growth

Inspiring an inclusive and customer-focused culture where employees can make an impact, learn and grow.

- We continue to celebrate, explore and promote our differences. Alongside HSBC UK Inclusion Day, we showed our ongoing support for the LGBT+ community through a series of virtual events to celebrate Pride month, whilst launching the first HSBC UK Carers Charter to mark Carers Week.
- To recognise and celebrate our employees, nominations have opened for our annual Spotlight Awards with categories aligning with our values.
- Through the Future Skills programme we are bringing together new learning, including a digital and data curriculum and new technologies. This is expected to help develop employees skills and build business-wide capabilities to enable us to be a bank fit for the future.
- c. 5,000 employees have actively enrolled in the new Learning platform, Degreed, before its formal launch. The Degreed

1 *Bank of England (BoE).*
2 *Includes loans and overdrafts.*

platform will enable all employees to focus on skills and skill levels for current and future roles.

- We have also introduced two Degree Apprenticeship Programmes, creating an alternative 'earn whilst you learn' route to a degree without student debt. Existing employees also benefit from over 40 internal apprenticeship routes, including qualifications in Digital, Cyber, Data Science, Customer Service, Coaching and Human Resources.
- We continue to invest in future talent and were named as 2021 Graduate Employer of Choice (Financial Services) by UK undergraduates for the 7th successive year. The Internship Programme also won two national awards.
- We also continue to deliver our best-in-class Emerging Talent Programme to support skills growth in our business. 838 employees (55% female) are participating across 35 programmes.

Transition to net zero

Realising the net zero transition opportunity.

- We have delivered £0.5bn of sustainable finance in the first half of 2021. Also, our network of sustainable finance ambassadors has expanded to over 500 in order to support our customers' transition journeys. This network is supported by a comprehensive training programme, which includes the Green and Sustainable Finance professional qualification certificate with the Chartered Banker Institute.
- We will work with Imperial College London and the University of Birmingham to support 150 start-ups developing services or technologies with potential for impact on climate change by December 2024. These partnerships are part of the Group's five-year philanthropic partnership with the World Resources Institute ('WRI') and World Wildlife Fund ('WWF') to help climate solutions become a commercial reality and have real-world impact. The Climate Solutions Partnership ('CSP') is supported by $100m of philanthropic funding from the HSBC Group and will be used worldwide.
- HSBC UK has partnered with the National Trust to plant two million trees, as part of a programme to increase access to nature, tackle climate change, attract more wildlife and protect landscapes prone to flooding by 2025.
- We have launched a Sustainability Hub on our public website, with business guides on how to get started on net zero and sustainability. In addition, we launched a report and held a webinar on the path towards net-zero for the UK Agriculture sector created in partnership with University College London. We will aim to launch a further three net-zero sector reports in the second half of this year.
- We are also a headline sponsor for the Climate Innovation Forum, organised by Climate Action in advance of COP26.

How we do business

The Covid-19 pandemic has created a great deal of uncertainty and disruption for our customers, employees and the communities we serve. It has affected everyone in different ways and we have been flexible in our response to the different circumstances and situations in which our stakeholders find themselves. To support our customers and the communities we serve, we provided a series of support packages, including both government schemes and non-government scheme lending, totalling £15.5bn.

Supporting our customers

We have actively supported our customers through support for government schemes and non-government scheme lending, as well as introducing flexibility in our existing products. As at 30 June 2021, these include:

- Providing payment holidays to our personal banking customers, of which a large amount have now returned to making regular repayments: Mortgages: 93%, Personal Loans: 78% and Credit Cards: 83%. We have also been supporting WPB customers with the Mortgage Guarantee Scheme from April 2021.
- In response to the Covid-19 outbreak, the UK Government introduced a number of support measures for business customers. The primary relief granted under government schemes consists of the Bounce Back Loan Scheme ('BBLS'), Coronavirus Business Interruption Loan Scheme ('CBILS') and Coronavirus Large Business Interruption Loan Scheme ('CLBILS'): 258,238 government loans were approved in total across the three schemes equating to £12.3bn.
- Since its launch on 6 April 2021, we have been actively supporting customers through the Recovery Loan Scheme ('RLS').
- 'Pay as You Grow' ('PAYG') options for BBLS are now live, which provides important flexibility for businesses. As at 30 June, we have supported customers with over 29,000 PAYG options, of which 95% have been exercised through a digital journey.

We have continued to support our customers throughout the Covid-19 pandemic, particularly those that are vulnerable or potentially in financial distress:

- Supported and prioritised the calls of over 2.3m WPB customers through the Vulnerable & Key Worker customer line.
- Proactively contacted over 682,000 customers to ensure they received the support they needed, including those that are most vulnerable and those that cancelled mortgage payment direct debits.
- We opened our 1,000th No Fixed Address account with our 'Vicious Circle' campaign alongside Shelter. We also opened our 1,000th Victim of Human Trafficking account.
- In Collections & Recoveries, we have made significant improvements to the outcomes our customers receive, increasing the tools available to support our customers in financial difficulty and streamlining our customer communications.

In the first half of 2021, many of our products and services have been recognised by industry bodies including:

- **Moneyfacts Awards:** HSBC UK 'Best Fixed Rate Mortgage Provider' and 'Best Bank Mortgage Provider'; first direct won 'Best Re-mortgage Provider'.
- **Wealth Briefing European Awards:** We won in the 'Overall UK Private Bank and Private Bank Client Service' categories, with the launch of our Prism Advisory Service and client-centric model.
- **Euromoney Awards for Excellence:** We won in the 'Western Europe's Best Bank for SMEs' category and the number 1 Trade Finance Bank in the UK for the fifth year running.
- **European Customer Centricity Awards:** Our Wealth Management & Insurance teams were shortlisted for two agile-delivered projects: Wealth telephony optimisation and our pivot to Virtual Advice provision.

Supporting our employees' wellbeing

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

- Further focus on wellbeing with our annual wellbeing month in May to address the most important things on our employees' minds. Also, employees have been encouraged to take a 'wellbeing day'. Our wellbeing pulse survey in June 2021 had 56% of employees participate, and we are using the results to continuously improve our employee support offerings.
- We supported Thank You Day on 4 July 2021, a national day of thanks recognising the extraordinary efforts of people across the country in extremely difficult circumstances.

- HSBC UK's Support Fund launched on 1 May 2021 for all UK based employees, their immediate dependants and alumni. The Support Fund provides financial grants to support employees at times when they need it most following a life event such as: domestic abuse, loss of a partner or a life changing illness.
- HSBC UK have supported the global launch of the mediation and mindfulness app, Headspace, to promote the importance of actively taking care of our mental health and wellbeing.
- Our wellbeing ambassador network (75+ FTE) continues to play a critical role in helping deliver wellbeing activity across mental, physical and financial health across CMB teams.
- We continue to communicate to employees around our safe return to the workplace under the direction of Major Incident Group (MIG) and in line with government guidance. We are currently outlining the framework for Future of Work, following the three global principles of customer focus, team commitment and individual flexibility to support our commitments to hybrid working.

Supporting our communities

We continue to support our local communities and help tackle wider societal issues:

- The HSBC Group has committed $1.5m to support UNICEF to deliver Covid-19 vaccines to countries on behalf of the Covid-19 Vaccines Global Access ('COVAX') facility, and donating $10m this year to charities in India focused on supporting pandemic relief efforts.
- The UK Branch Network came together to raise funds to help India during the second wave of Covid-19 impacting the country during April and May, raising more than £20,000 for Give India.
- At the start of 2021, we pivoted our Supporting our Community fund to support local charities supporting the vulnerable impacted the most by Covid-19. This fund will distribute £1m to charities across the UK by the end of 2021.
- We extended our support to BBC Children in Need, who aim to reach 500 digitally excluded young people, providing access to continue their education and wider development online.
- We will be working with The Prince’s Trust, Scope and Shelter to launch three projects that are focused on tackling inclusion issues with £350,000 to be donated to each project in 2021. See 'Our approach to inclusion' section for more details.
- Building on support already available to young people, we launched the new Scouts Money Skills Activity Badge. This is part of a three-year philanthropic partnership with the Scouts Association.
- We partnered with Centre of Cities to publish a report on job creation in the private sector as the UK looks to ‘build back better’ following Covid-19, and we supported The Prince’s Trust research exploring the impact of Covid-19 on young people’s employment.

For more information about how we’re supporting and helping our customers, employees and wider communities we serve, please visit our response to Covid-19 page www.about.hsbc.co.uk/hsbc-uk/coronavirus.

Fair outcomes

In the first half of 2021, we continued to promote and encourage good conduct through our people's behaviour and the decisions that we take. We also launched our simplified Conduct approach to align to the Group’s new purpose and values, in particular the value ‘We Take Responsibility’. Our new conduct approach encourages employees to recognise the impact each of us has on our customers and the financial markets in which we operate and sets out a number of conduct outcomes to be achieved. As we implement our new approach during 2021, we aim to continue to enhance our existing policies, frameworks and governance approach. Further details on our conduct approach are available at www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct

Our approach to inclusion

We aspire to be a truly inclusive business for our employees, customers, stakeholders and the wider community. At HSBC UK, we have always brought different people and cultures together and our ability to value difference is a core strength. Inclusion is a vital enabler of HSBC UK's success, whether it be developing our next market-leading product, serving our diverse customers, or identifying our next supplier; our ability to apply inclusion thinking is helping HSBC UK to deliver better outcomes and a more sustainable business. Over the past 12 months, alongside our wider inclusion approach, we have particularly focused upon actions to accelerate ethnicity inclusion:

- We have reviewed our approach to recruitment, ensuring inclusive practices throughout the recruitment journey. We have introduced mandatory diversity and inclusion training for hiring managers. We also commissioned an external firm to conduct an end to end review of our process particularly as it relates to ethnicity and disability. This has resulted in a range of changes such as updating our policies and processes, adding to our people manager interview guides, making inclusion more central in the on-boarding of new joiners, and activating innovative sourcing channels to encourage more ethnically diverse candidates into our applicant pool.
- We are supporting black and ethnic minority employees to succeed through increasing our focus on career development. ‘Unlocking Your Potential’, is our talent development programme for black, asian and ethnic minority employees. Over 300 black, asian and ethnic minority participants opted in to this initiative, including 34 black employees, and 74 have accessed our leadership potential programme, Accelerating into Leadership (AiL). Our UK Business Lines have also introduced development opportunities for mid-career employees with over 200 participants.
- Equality in the workplace is everyone’s responsibility. We continue to hold our ’Let’s talk about Race’ conversations to promote awareness and understanding of the lived experiences of black and ethnic minority employees.
- At HSBC UK, we are proud of our 17 Employee Resource Groups ('ERG'), with 18,000 members. Our ERGs are helping us to create safe spaces for our employees, giving them alternative opportunities and the confidence to speak up, raise concerns and to be heard more easily. We have provided support and training to ERG members, and Speak-Up Guardians in our ERGs are providing another support system for employees wishing to raise any issue, including concerns about racism. In addition, our ERGs work with business teams to help us to apply diverse perspectives to discussions about inclusion and the future of work post the Covid-19 pandemic.
- We have introduced new methods to measure and track our progress against inclusion, ensuring we improve the data that we hold on the ethnicity of our people, so that we can increase transparency and measure the effectiveness of the actions we take. In February, we published our ethnicity pay gap data for the UK, four months after publishing our ethnicity representation data for the first time.
- We want to help create a more inclusive society. In May, we announced that we are working with The Prince's Trust, Scope and Shelter UK to launch three projects aimed at tackling inclusion issues as part of our strategic focus on employability, financial inclusion and future skills.
- With The Prince Trust, we are supporting aspiring Black entrepreneurs to explore self-employment as part of the charity’s long-standing Enterprise Programme. Our funding will support more than 250 young people across London, the West Midlands and Bristol.
- Building on our work to help people who are homeless open a bank account, we are partnering with Shelter to embed financial inclusion guidance to meet increasing demand.

- With Scope, we are helping to tackle the disability employment gap through development of a new online learning platform to support disabled people into employment.

Economic background and outlook

UK economic outlook

Real UK Gross Domestic Product ('GDP') fell 9.8% in 2020, and then a further 1.6% in 1Q21 as new lockdown restrictions were implemented[3]. Following the successful vaccination campaign, restrictions have been largely lifted, and those remaining are expected to be lifted in August.

The level of GDP remained 8.8% below its pre-pandemic peak at the end of Q1, but rose 2.3% in April 2021 and then 0.8% in May 2021 as restrictions began to be lifted.

The impact of the Covid-19 pandemic on unemployment has started to be felt, with the headline rate rising from 3.9% in January 2020 to 5.2% in December 2020, but it has since fallen back to 4.8% in April and May 2021[4]. However, the true picture remains clouded by the Job Retention Scheme ('JRS'), which 2.4 million people were registered for as of 31 May 2021. HSBC Global Research expects the unemployment rate to rise to 5.3% in Q4 2021, before starting to fall back slowly.

Wages fell in the early stages of the first lockdown, partly reflecting the pay cut taken by those on furlough. Total pay has since rebounded and was up 7.3% Year on Year (YoY) in the three months to May 2021, though some of this was accounted for by a 'composition effect'; i.e. lower paid workers losing their jobs and dropping out of the calculation of the average, as well as the base effect from a weak April 2020.

The annual rate of inflation according to the Consumer Price Index ('CPI'), stood at 2.5% in June 2021. The 'core' CPI inflation rate, which strips out food and energy prices, was 2.3%. HSBC Global Research expects CPI inflation to remain modestly above the Bank of England's (BoE) 2% target throughout 2021 and 2022.

The March 2021 Budget extended support for the economy, taking total spending on virus-related measures to £344bn. However, there was also some tightening in the Budget, including most notably a planned rise in corporation tax to take effect in 2023. Overall borrowing in the fiscal year 2020/21 was 14.2% of GDP. HSBC Global Research forecasts a narrowing to 7.8% in 2021/22, with public sector net debt at 95.9%.

The BoE cut the Bank Rate by 65 basis points ('bps') to 0.10% and announced three successive programmes of Quantitative Easing ('QE') totalling £550bn in 2020. The final of these is set to end towards the end of 2021. HSBC Global Research then expects a 15bps rate rise to 0.25% in May 2022, followed by a 25bps rise to 0.50% in November 2022. The BoE might also start to taper the reinvestment of its asset portfolio as early as the second half of 2022. The UK left the EU on 31 January 2020 and completed a transition period on 31 December 2020. The new relationship is governed by the Trade and Cooperation Agreement struck by the EU and the UK on 24 December 2020 and ratified by the UK on 30 December 2020. While trade volumes fell sharply in January 2021, they have since improved, with export shipments rebounding more quickly than imports.

After the fall of 9.8% in 2020, HSBC Global Research expects UK GDP to rise 7.1% in 2021 and then 5.1% in 2022. The upside risks to this growth forecast include a greater than expected drawdown of household savings accumulated in 2020 and 1Q21. Growth looks more likely to be constrained by supply than demand, with shortages of labour leading to higher costs and shortages of certain goods over the summer. An additional risk is that a larger proportion of the c. 2 million people currently on the JRS could become unemployed.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2021 £m	30 Jun 2020 £m
Net interest income	**2,292**	2,302
Net fee income	**476**	530
Net income from financial instruments held for trading or managed on a fair value basis	**147**	176
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**12**	(2)
Gains less losses from financial investments	**76**	66
Other operating income	**20**	8
Net operating income before change in expected credit losses and other credit impairment charges[1]	**3,023**	3,080
Change in expected credit losses and other credit impairment charges	**413**	(1,615)
Net operating income	**3,436**	1,465
Total operating expenses[2]	**(1,896)**	(1,868)
Operating profit/(loss)	**1,540**	(403)
Profit/(loss) before tax	**1,540**	(403)
Tax (expense)/credit	**(559)**	50
Profit/(loss) for the period	**981**	(353)
Profit/(loss) attributable to shareholders of the parent company	**978**	(356)
Profit attributable to non-controlling interests	**3**	3

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *Total operating expenses include significant items as detailed on pages 9 and 10.*

Reported performance

In the six months to 30 June 2021 ('1H21') reported profit before tax was £1,540m, £1,943m higher than the reported loss before tax of £(403)m in the six months to 30 June 2020 ('1H20').

Net interest income ('NII') decreased by £10m or 0.4%, due to the impact of lower interest rates from March 2020, offset by increased balances and margins in mortgages and CMB lending.

3 *Office for National Statistics.*
4 *Bank of England.*

Net fee income decreased by £54m or 10%, due to regulatory changes to overdraft pricing from March 2020, where overdrafts are no longer charged fees.

Net income from financial instruments held for trading or managed on a fair value basis decreased by £29m or 16%, principally due to hedging volatility and the reduction in foreign exchange income due to adverse market conditions impacting commercial customer foreign exchange payment volumes and reduced demand for foreign currency from retail customers due to Covid-19 travel restrictions.

Gains less losses from financial investments increased by £10m, due to higher disposal gains realised by the Markets Treasury desk to protect increases in the value of the portfolio in volatile markets.

Other operating income increased by £12m, due to payment holiday provision on personal loans booked in 1H20.

ECL decreased by £2,028m from a £1,615m charge in 1H20 to a release of £413m in 1H21. The release in provisions in 1H21 was due to the improvement in UK macro economic outlook. This compared with significant build-up of stage 1 and stage 2 allowances in 1H20 due to the worsening economic outlook at the onset of the Covid-19 outbreak.

Total operating expenses increased by £28m or 1%, driven by a number of significant items including:

- Restructuring and other related costs increased by £121m compared with 1H20.
- UK customer redress provisions decreased by £28m from £40m in 1H20 to £12m in 1H21.

Excluding these items, adjusted operating expenses decreased by £65m or 4%, as we continue to manage our cost base. For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on pages 9 to 10.

Net interest income

	Half-year to	
	30 Jun 2021	30 Jun 2020
	£m	£m
Interest income	**2,503**	2,703
Interest expense	**(211)**	(401)
Net interest income	**2,292**	2,302
Average interest-earning assets	**293,342**	251,683
	%	%
Gross interest yield[1]	**1.72**	2.16
Less: cost of funds[1]	**(0.19)**	(0.42)
Net interest spread[2]	**1.53**	1.74
Net interest margin[3]	**1.58**	1.84

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

Net interest margin decreased from 1.84% in 1H20 to 1.58% in 1H21. This was driven by the UK interest rate reductions in March 2020 and an increase in low yield cash and balances at central banks.

Use of alternative performance measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRS'), as detailed in the interim condensed financial statements starting on page 44.

To measure our performance, we supplement our IFRS figures with non-IFRS measures, which constitute alternative performance measures. These measures include those derived from our reported results that eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures. All alternative performance measures are reconciled to the closest reported performance measure.

We present performance on an adjusted basis, which is our segment measure for our reportable segments under IFRS 8 'Operating Segments' but constitutes an alternative performance measure when otherwise presented.

Adjusted performance

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

Significant items

'Significant items' refers collectively to the items that management would ordinarily identify and consider separately to improve the understanding of the underlying trends in the business.

The tables on pages 9 to 10 detail the effects of significant items on each of our global business segments.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

The HSBC Group Chief Executive, supported by the rest of the Group Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying HSBC Group's and therefore HSBC UK's reportable segments. HSBC UK's CODM is the HSBC UK Chief Executive, supported by the HSBC UK Executive Committee. The global business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. Therefore, we present HSBC UK global business results on an adjusted basis as required by IFRS.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to global businesses. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to global businesses are included in Corporate Centre.

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

A description of the Global businesses is provided in the Strategic Report of the *Annual Report and Accounts 2020.*

Adjusted profit/(loss) before tax and balance sheet data for the period

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	£m	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**1,628**	**1,327**	**59**	**(3)**	**3,011**
– external	**1,579**	**1,280**	**155**	**(3)**	**3,011**
– inter-segment	**49**	**47**	**(96)**	**—**	**—**
– *of which: net interest income/(expense)*	***1,357***	***918***	***—***	***4***	***2,279***
Change in expected credit losses and other credit impairment charges	**158**	**255**	**—**	**—**	**413**
Net operating income/(expense)	**1,786**	**1,582**	**59**	**(3)**	**3,424**
Total operating expenses	**(1,146)**	**(587)**	**(17)**	**(3)**	**(1,753)**
Operating profit/(loss)	**640**	**995**	**42**	**(6)**	**1,671**
Adjusted profit/(loss) before tax	**640**	**995**	**42**	**(6)**	**1,671**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**70.4**	**44.2**	**28.8**	**(100.0)**	**58.2**
	At 30 Jun 2021				
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**127,366**	**64,449**	**—**	**89**	**191,904**
Customer accounts	**172,430**	**101,201**	**—**	**10**	**273,641**
	Half-year to 30 Jun 2020				
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	1,682	1,304	75	(2)	3,059
– external	1,669	1,337	75	(22)	3,059
– inter-segment	13	(33)	—	20	—
– *of which: net interest income/(expense)*	*1,371*	*913*	*—*	*(3)*	*2,281*
Change in expected credit losses and other credit impairment charges	(708)	(906)	—	(1)	(1,615)
Net operating income/(expense)	974	398	75	(3)	1,444
Total operating (expenses)/income	(1,179)	(600)	(44)	5	(1,818)
Operating profit/(loss)	(205)	(202)	31	2	(374)
Adjusted profit/(loss) before tax	(205)	(202)	31	2	(374)
	%	%	%	%	%
Adjusted cost efficiency ratio	70.1	46.0	58.7	250.0	59.4
	At 31 Dec 2020				
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers	124,041	66,930	—	262	191,233
Customer accounts	160,190	99,434	—	(283)	259,341

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

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	£m	**£m**	**£m**	**£m**	**£m**
Revenue	**1,627**	**1,340**	**59**	**(3)**	**3,023**
Significant revenue items	**1**	**(13)**	**—**	**—**	**(12)**
– customer redress programmes	**1**	**(14)**	**—**	**—**	**(13)**
– restructuring and other related costs	**—**	**1**	**—**	**—**	**1**
Adjusted revenue/(expense)	**1,628**	**1,327**	**59**	**(3)**	**3,011**
	Half-year to 30 Jun 2020				
Revenue	1,703	1,304	75	(2)	3,080
Significant revenue items	(21)	—	—	—	(21)
– customer redress programmes	(21)	—	—	—	(21)
– restructuring and other related costs	—	—	—	—	—
Adjusted revenue/(expense)	1,682	1,304	75	(2)	3,059

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

	WPB	CMB	GBM	Corporate Centre	Total
	Half-year to 30 Jun 2021				
	£m	**£m**	**£m**	**£m**	**£m**
Operating expenses	**(1,207)**	**(585)**	**(17)**	**(87)**	**(1,896)**
Significant cost items	**61**	**(2)**	**—**	**84**	**143**
– restructuring and other related costs[1]	**52**	**(2)**	**—**	**81**	**131**
– customer redress programmes	**9**	**—**	**—**	**3**	**12**
Adjusted operating expenses	**(1,146)**	**(587)**	**(17)**	**(3)**	**(1,753)**

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

	Half-year to 30 Jun 2020				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Operating expenses	(1,218)	(601)	(44)	(5)	(1,868)
Significant cost items	39	1	—	10	50
– restructuring and other related costs[1]	—	—	—	10	10
– customer redress programmes	39	1	—	—	40
Adjusted operating (expenses)/income	(1,179)	(600)	(44)	5	(1,818)

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

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

	Half-year to 30 Jun 2021				
	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Profit/(loss) before tax	**578**	**1,010**	**42**	**(90)**	**1,540**
Net impact on reported profit and loss	**62**	**(15)**	**—**	**84**	**131**
– significant revenue items	**1**	**(13)**	**—**	**—**	**(12)**
– significant cost items	**61**	**(2)**	**—**	**84**	**143**
Adjusted profit/(loss) before tax	**640**	**995**	**42**	**(6)**	**1,671**
	Half-year to 30 Jun 2020				
Profit/(loss) before tax	(223)	(203)	31	(8)	(403)
Net impact on reported profit and loss	18	1	—	10	29
– significant revenue items	(21)	—	—	—	(21)
– significant cost items	39	1	—	10	50
Adjusted profit/(loss) before tax	(205)	(202)	31	2	(374)

Adjusted performance

Our adjusted profit before tax in 1H21 increased by £2,045m, to £1,671m from an adjusted loss before tax of £374m in 1H20. This reflected lower ECL and lower operating expenses partially offset by lower revenue.

Adjusted revenue decreased by £48m or 2%, with decreases in WPB and CMB due to lower interest rates and reduced activity from Covid-19. This has been partially offset by increased mortgage and CMB lending revenue.

ECL decreased by £2,028m from a £1,615m charge in 1H20 to a release of £413m in 1H21. The release in provisions in 1H21 was due to the improvement in the UK macro economic outlook. This compared with significant build-up of stage 1 and stage 2 allowances in 1H20 due to the worsening economic outlook at the onset of the Covid-19 outbreak.

Adjusted operating expenses decreased by £65m or 4%, due to reduced staff costs in WPB, GBM cost reductions from the changes to the commercial arrangement with HSBC Bank plc, and lower back-office operations costs.

Wealth and Personal Banking

Adjusted profit before tax of £640m in 1H21 was £845m higher than the adjusted loss before tax of £205m in 1H20, driven by lower ECL and lower operating costs, offset by lower revenue.

Revenue decreased by £54m or 3%, primarily due to lower interest rates and other impacts of Covid-19, including overdraft pricing, partially offset by increased mortgage revenue from balances and margin increases.

ECL decreased by £866m, due to release in provisions in 1H21 from the improvement in the UK macro economic outlook. Operating expenses decreased by £33m or 3%, due to actions taken to reduce the direct staff costs of the business and lower back-office operations costs.

Commercial Banking

Adjusted profit before tax of £995m in 1H21 was £1,197m higher than the adjusted loss before tax of £202m in 1H20, due to lower ECL, lower operating expenses and higher revenue.

Revenue increased by £23m or 2%, driven by higher margins, partially offset by lower interest rates and reduced fee volumes from Covid-19.

ECL have decreased by £1,161m, due to release in provisions in 1H21 from the improvement in the UK macro economic outlook.

Operating expenses decreased by £13m or 2%, driven by lower property and back-office operations costs.

Global Banking and Markets

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

Adjusted profit before tax of £42m in 1H21 was £11m higher than the profit before tax of £31m in 1H20 due to lower operating expenses, offset by lower revenue.

Revenue decreased by £16m or 21%, due to a change in the commercial fee structure for recharge services provided from HSBC Bank plc.

Operating expenses decreased by £27m or 61% due to cost reductions from the changes to the commercial arrangement with HSBC Bank plc.

Corporate Centre

Adjusted loss before tax of £6m in 1H21 was £8m lower than the profit before tax of £2m in 1H20, driven by higher operating expenses caused by the reduced benefit arising from our material pension surplus as discount rates fell.

Dividends

The consolidated reported profit for the period attributable to the shareholder of the bank was £978m. No dividends in respect of ordinary share capital were declared or paid during 1H21. £57m of dividends were paid in respect of additional tier 1 capital instruments.

Further information regarding dividends is given in Note 5.

Summary consolidated balance sheet

	At	
	30 Jun 2021	31 Dec 2020
	£m	£m
Total assets	**322,705**	304,864
– cash and balances at central banks	**99,163**	76,429
– items in the course of collections from other banks	**284**	253
– financial assets designated and otherwise mandatory measured at fair value	**37**	26
– derivative assets	**234**	155
– loans and advances to banks	**1,792**	1,514
– loans and advances to customers	**191,904**	191,233
– reverse repurchase agreements – non-trading	**1,857**	2,485
– financial investments	**14,627**	19,309
– prepayment, accrued income and other assets	**8,683**	9,318
– current and deferred tax assets	**—**	49
– goodwill and intangible assets	**4,124**	4,093
Total liabilities	**299,730**	282,006
– deposits by banks	**1,066**	540
– customer accounts	**273,641**	259,341
– repurchase agreements – non-trading	**6,971**	6,150
– items in the course of transmission to other banks	**163**	132
– derivative liabilities	**156**	365
– debt securities in issue	**875**	866
– accruals, deferred income and other liabilities	**1,952**	1,941
– current and deferred tax liabilities	**2,149**	1,677
– provisions	**679**	979
– subordinated liabilities	**12,078**	10,015
Total equity	**22,975**	22,858
– total shareholders' equity[1]	**22,915**	22,798
– non-controlling interests	**60**	60

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

The commentary below compares the balance sheet at 30 June 2021 to that at 31 December 2020.

HSBC UK maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts decreased to 70.1% compared to 73.7% at 31 December 2020.

Assets

Cash and balances at central banks and financial investments have increased by £22.7bn due to continued growth in customer account balances.

Loans and advances to customers increased by £0.7bn. £3.7bn increase in mortgage lending was largely offset by decreases in commercial lending, £3.1bn, and reductions in the use of unsecured lending facilities, £0.5bn, driven by the current economic uncertainty. The release of ECL in Stage 1 and 2 contributed £0.6bn to the increase in the total balance.

Liabilities

Customer accounts increased by £14.3bn due to growth in commercial and retail current and savings accounts as consumer spending remained subdued due to lockdown restrictions.

Subordinated liabilities increased by £2bn due to two issuances drawn in 1H21.

Repurchase agreements – non-trading has increased £0.8bn as part of our balance sheet management activities.

Equity

Total shareholders' equity increased by £0.1bn.

Risk

Risk overview

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

The risks we manage include credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk, and model risk.

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 16 to 62 of the *Annual Report and Accounts 2020*.

The below table sets out the top and emerging risks and any material change to those reported in our *Annual Report and Accounts 2020*. Fraud risk was previously titled Financial Crime and Fraud risk with the change made to reflect that Financial Crime risk has been absorbed effectively into business as usual risk management practices. Two risks, Turning of the Credit Cycle and Execution risk have been removed for the same reason. We also added one new risk on Negative Interest rates.

Risk		Mitigants
Externally driven		
Covid-19 outbreak	▶	Since the Covid-19 outbreak in the UK, we have worked with the UK Government, regulators and our customers in order to implement measures to mitigate the financial and non-financial impacts of the outbreak on our customers and the UK economy. Although there has been an economic recovery during the first half of 2021 and some reduction in credit stress in our portfolios, we maintain tight monitoring activities to identify sectors and customers experiencing financial difficulties as a result of the Covid-19 outbreak. We continued to invoke business continuity plans to effectively manage our operations under the constraints imposed by the UK Government 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 the UK Government.
Negative Interest Rates	●	We continue to actively monitor the situation and take steps to enable Negative Interest Rate operational readiness. We have a comprehensive programme in place to assess the impact and implement solutions in line with new regulatory requirements and in a timely way.
Geopolitical risk	▶	We continually assess the impact of geopolitical events on our businesses and exposures across HSBC UK, and take steps to mitigate them, where required and possible, to help ensure we remain within our risk appetite. A new trading relationship between the UK and the EU, outlined within the 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. We will continue to work with regulators, governments and our customers to manage the risks created by the UK's exit from the EU as they arise, particularly across those industry sectors most impacted. The likelihood of Scotland leaving the UK is viewed as having increased since the 2016 referendum on the UK leaving the EU and the Scottish Parliament elections in May 2021 produced an overall pro-independence majority across the political parties. We are monitoring the position closely, whilst ensuring that any possible impacts on the UK and our customers are actively considered in new and existing change programmes. Tensions also remain between the UK and China over a number of matters, including the implementation of the Hong Kong national security law. There are also increasing discussions between the US and other governments on multilateral efforts to address certain issues with China. Notably, the US has increasingly instituted sanctions with its traditional allies including the UK, EU and Canada, primarily in response to allegations of human rights abuses in Xinjiang.
Fraud risk	▶	During the first half of 2021, we continued to support the business and our customers throughout the Covid-19 outbreak. We have updated our fraud controls and refreshed our policies to ensure that they remain up to date and address changing and emerging risks, as well as meeting our regulatory obligations.
Regulatory developments	▶	We closely monitor for regulatory developments to ensure that 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, including for example, the FCA's consultation on a new 'Consumer Duty'. 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.
Information Security risk and Cyber Crime	▶	We protect HSBC UK and our customers by strengthening our cyber defences, helping us to execute our business priorities safely and keep our customers' information secure. We continue to strengthen controls to prevent, detect and mitigate the impacts of persistent and increasingly advanced cyber threats with specific focus on vulnerability management, malware defences, protections against unauthorised access and third-party risk. We are closely monitoring the continued dependency on wide spread remote working and online facilities.
Ibor transition	▲	We remain focused on completing the provision of alternative near risk-free rate products, and the supporting processes and systems, to replace all outstanding Ibor-linked contracts that are on a demise path. 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 the identification, oversight and management of climate-related risks to meet regulatory expectations and deliver on the HSBC Group's climate ambitions. HSBC UK is a key part of the Group Climate Risk Programme. Our climate risk approach continues to mature, and we have risk appetite metrics in place with respect to exposures to high risk sectors, with further risk appetite metrics being developed during 2021. We continue to progress the inclusion of physical risk impacts on our residential mortgage portfolio. Knowledge of climate risk is being enhanced across our staff population, including through the delivery of comprehensive climate risk training. We will use the outputs from the Bank of England's climate biennial exploratory scenario stress test to enhance our data capabilities and support our customers on their transition journey.

Risk		Mitigants
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 help ensure that our people are supported and able to work safely during the Covid-19 outbreak, and how we integrate our employees back to the workplace as government restrictions ease. Employee engagement continues to be a key area of focus; business-owned engagement plans are in place which are have been further supported by a variety of wellbeing and recognition initiatives. The relaunch of the HSBC Group Purpose and Values provides support around strategy and our future, and is key to embedding the right culture and employee behaviours to also help achieve our diversity and inclusion aspirations. We continue to monitor people risks that may arise due to business transformation to help ensure that we sensitively manage any redundancies and support impacted employees.
IT systems infrastructure and resilience	▶	We continue to monitor and improve IT systems and network resilience to minimise service disruption and improve HSBC UK and customer experience. To support the business strategy, we strengthened our end to end management, build and deployment controls and system monitoring capabilities.
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. We have also enhanced governance and oversight of models used in Sarbanes-Oxley processes, particularly IFRS 9 models, in light of potential impacts from the uncertain external environment on the model outcomes.
Conduct and customer detriment	▶	HSBC UK has a well-established approach to conduct delivering consistent focus for good customer outcomes. We continue to enhance our management of conduct in a number of areas, including fully understanding how our actions impact our customers and markets. Our foundations in this area are strong, and the introduction of a new purpose-led conduct approach across the HSBC Group in the first half of 2021 offers the opportunity for further simplification and to ensure that our approach to conduct is more meaningful to all colleagues. At the forefront of current conduct risk considerations is the fair treatment of vulnerable customers and customers in financial difficulty.
Data management	▶	We continue to remediate the control environment for data-related risks with focused investments in data governance, data usage, data integrity, data privacy and information lifecycle management. Our data strategy is being refreshed to support the business strategy, complement the UK technology strategy, recognise external data trends and align with the HSBC Group data strategy pillars of protect, connect and unlock.
Third-party risk management	▶	The impacts of the Covid-19 pandemic on the delivery of services to HSBC UK is 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.

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

Heightened geopolitical tensions will continue to impact business sentiment. The relationship between the UK and the EU may take to settle following the UK's departure from the EU, despite the agreement of the Trade and Cooperation Agreement at the end of 2020. The Agreement addressed financial services in a limited manner. Bilateral discussions have now concluded at a technical level to create the framework for voluntary regulatory cooperation in financial services between the UK and the EU through the establishment of a joint UK-EU Financial Regulatory Forum. This forum will provide a platform within which both parties will be able to discuss financial services-related issues including future equivalence determinations.

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.

Top and emerging risks

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

During the first half of 2021, we made a number of changes to our assessment of existing top and emerging risks, to reflect their current effect on HSBC UK, and changes in the scope of risk definitions, to ensure appropriate focus. Further details on our top and emerging risks and other banking risks we manage are set out within the Risk Overview on page 12.

Areas of special interest

During 2021, a number of areas have been identified and considered as part of our top and emerging risks because of the effect they may have on HSBC UK. In this section we have focused on risks related to Covid-19 and interbank offered rate ('Ibor') transition.

Risks related to Covid-19

The Covid-19 pandemic and its effect on the global economy have impacted HSBC UK's customers and our performance. There remains a risk of subsequent waves of infection, as evidenced by recently emerged, more transmissible variants of the virus, such as the Delta variant. Renewed outbreaks in the first half of 2021 emphasise the ongoing threat of Covid-19 and may again result in renewed tightening of UK 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 the UK. Our Central scenario used to calculate impairment assumes that economic activity will recover over the course of 2021. In this scenario, recovery in the UK is supported by a successful roll-out of the vaccination programme, and the use of a variety of non-pharmacological measures to contain the virus. UK Government restrictions have been lifted across 2021 as milestones in the government's roadmap out of lockdown have been met. There remains however a high degree of uncertainty associated with economic forecasts in the current environment. The degree of uncertainty for the UK will be influenced by the evolution of the pandemic and associated policy responses, how businesses and consumers are affected by any withdrawal of UK Government support measures and ongoing impacts felt from the Trade and Cooperation Agreement in place between the UK and the EU from 1 January 2021.

The UK Government has deployed extensive measures to support the local population. The Bank of England is expected to maintain historically low interest rates for the remainder of 2021 and during 2022 and the debt burden of the UK Government has risen significantly and is expected to remain high in the medium term. This could eventually pose a dilemma for the Bank of England as it faces 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 measures initiated during the Covid-19 pandemic, working closely with the UK Government and its supporting schemes that focus on the parts of the UK economy most impacted by the Covid-19 pandemic. For details of our customer relief programmes see page 25.

The rapid introduction and varying nature of the UK Government support schemes introduced throughout the Covid-19 pandemic has led to increased operational risks for HSBC UK, including complex conduct considerations, increased reputational risk and increased risk of fraud. These risks are likely to be heightened further as and when the UK Government support schemes are unwound. We are focused upon avoiding and mitigating any conduct risks that may arise from the implementation decisions we have had to make and also those that may be created if our customers find themselves in financial difficulties as a result of Covid-19. The UK Bounce Back Loan ('BBL') scheme closed for new applications and top up requests on the 31 March 2021 and customer repayments have now commenced. Some of our customers have chosen to use the Government's Pay As You Grow scheme to reduce their monthly repayments, take repayment holidays or to request an extension of their loan term. Currently less than 10% of our customers due to make a BBL payment are in arrears.

The impact of the pandemic on the long-term prospects of businesses in the most vulnerable sectors of the UK economy, such as retail, the leisure industry (including hospitality, tourism and hotels), transportation and commercial real estate, remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses.

As economic conditions improve, there is a risk that the outputs of IFRS 9 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 risk to address new and changing regulatory requirements, including those related to internal ratings-based repair.

The operational support functions on which HSBC UK relies are based in a number of countries worldwide, some of which, notably India, have been particularly affected by the Covid-19 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. We continue to monitor the situation closely, in particular in those countries and regions 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 UK Government restrictions, or a further lockdown. 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 customers 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. Our product readiness and increased market liquidity has enabled new transactions to be undertaken in RFR and alternative rate products for all benchmarks. This 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 we will 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, HSBC UK plans to transition all viable legacy Ibor contracts by 30 September 2021 to the extent possible, in line with industry guidelines. However, we remain dependent on our customers' decisions and the market to meet these targets. In support of our plans, by the end of the first half of 2021, we had held transition discussions with almost all of our customers. We approached customers in a structured manner, based on product readiness and customer prioritisation, and our transition progress is being tracked using internal targets.

Following our transition discussions with customers, we will be led by their decisions on timing and their level of readiness to transition. We are tracking customer 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 customers 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 part 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.

For HSBC UK'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 customers 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]	**1,112**	**21,718**	**—**	**20**
Non-derivative financial liabilities[2]	**608**	**2,216**	**—**	**—**
Derivative notional contract amount	**2,171**	**3,297**	**992**	**1**
At 31 Dec 2020				
Non-derivative financial assets[2]	1,717	24,900	—	25
Non-derivative financial liabilities[2]	615	2,279	—	—
Derivative notional contract amount	2,565	5,728	1,264	—

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks: five London interbank offered rates ('Libor'), the Euro Overnight Index Average ('Eonia') and the Singapore Interbank Offered Rate ('Sibor').*

2 *Gross carrying amount excluding allowances for expected credit losses.*

The amounts in the above table provide an indication of the extent of HSBC UK's exposure to the Ibor benchmarks which are due to be replaced. Amounts are in respect of financial instruments that:

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

In March 2021, the administrator of Libor, IBA announced that the publication date of most USD Libor tenors until 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This change reduces the amounts presented at 30 June 2021 as some financial instruments included will reach their contractual maturity date prior to 30 June 2023. Comparative data has not been re-presented.

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 business and risk function, including initiatives to enhance portfolio monitoring and analytics, credit 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 with a targeted update of our fraud 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.

Credit risk

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 28 of the *Annual Report and Accounts 2020*.

Credit risk in the first half of 2021

During 1H21, we continued to provide Covid-19 related short-term support to customers under the current policy framework. For further details of the measures to support our personal and business customers, see page 25. There have been no material changes to credit risk policy.

Following a pause in issuance of default notices, the activity has now recommenced.

Summary of credit risk

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

On 31 December 2020, the IFRS 9 allowance for ECL was £3,409m.This allowance has decreased by £644m to £2,765m at 30 June 2021.

The IFRS 9 allowance for ECL at 30 June 2021 comprises £2,629m in respect of assets held at amortised cost and £134m in respect of loan commitments and financial guarantees. There is £2m allowance for ECL in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

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

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

	At 30 Jun 2021		At 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	**194,531**	**(2,627)**	194,426	(3,193)
– personal	**127,401**	**(1,179)**	124,245	(1,449)
– corporate and commercial	**64,891**	**(1,435)**	67,354	(1,701)
– non-bank financial institutions	**2,239**	**(13)**	2,827	(43)
Loans and advances to banks at amortised cost	**1,792**	**—**	1,515	(1)
Other financial assets measured at amortised cost	**102,534**	**(2)**	80,486	(2)
– cash and balances at central banks	**99,163**	**—**	76,429	—
– items in the course of collection from other banks	**284**	**—**	253	—
– reverse repurchase agreements – non-trading	**1,857**	**—**	2,485	—
– prepayments, accrued income and other assets[2]	**1,230**	**(2)**	1,319	(2)
Total gross carrying amount on-balance sheet	**298,857**	**(2,629)**	276,427	(3,196)
Loans and other credit related commitments	**67,789**	**(132)**	70,215	(190)
– personal	**40,092**	**(10)**	39,715	(16)
– corporate and commercial	**26,887**	**(119)**	29,568	(172)
– non-bank financial institutions	**810**	**(3)**	932	(2)
Financial guarantees	**907**	**(2)**	935	(17)
– personal	**123**	**—**	118	—
– corporate and commercial	**530**	**(1)**	573	(17)
– non-bank financial institutions	**254**	**(1)**	244	—
Total nominal amount off-balance sheet[3]	**68,696**	**(134)**	71,150	(207)
	367,553	**(2,763)**	347,577	(3,403)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income	**14,627**	**(2)**	19,309	(6)

1 *Total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 46, includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

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

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

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	164,861	25,983	3,668	19	194,531	(476)	(1,259)	(890)	(2)	(2,627)	0.3	4.8	24.3	10.5	1.4
– personal	121,266	5,041	1,094	—	127,401	(167)	(667)	(345)	—	(1,179)	0.1	13.2	31.5	—	0.9
– corporate and commercial	41,677	20,634	2,561	19	64,891	(304)	(588)	(541)	(2)	(1,435)	0.7	2.8	21.1	10.5	2.2
– non-bank financial institutions	1,918	308	13	—	2,239	(5)	(4)	(4)	—	(13)	0.3	1.3	30.8	—	0.6
Loans and advances to banks at amortised cost	1,792	—	—	—	1,792	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	102,471	43	20	—	102,534	(1)	—	(1)	—	(2)	—	—	5.0	—	—
Loan and other credit-related commitments	61,661	5,917	210	1	67,789	(48)	(48)	(36)	—	(132)	0.1	0.8	17.1	—	0.2
– personal	39,746	274	72	—	40,092	(9)	(1)	—	—	(10)	—	0.4	—	—	—
– corporate and commercial	21,207	5,555	124	1	26,887	(39)	(46)	(34)	—	(119)	0.2	0.8	27.4	—	0.4
– financial	708	88	14	—	810	—	(1)	(2)	—	(3)	—	1.1	14.3	—	0.4
Financial guarantee and similar contracts	654	232	21	—	907	(1)	—	(1)	—	(2)	0.2	—	4.8	—	0.2
– personal	113	10	—	—	123	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	324	185	21	—	530	—	—	(1)	—	(1)	—	—	4.8	—	0.2
– financial	217	37	—	—	254	(1)	—	—	—	(1)	0.5	—	—	—	0.4
At 30 Jun 2021	**331,439**	**32,175**	**3,919**	**20**	**367,553**	**(526)**	**(1,307)**	**(928)**	**(2)**	**(2,763)**	**0.2**	**4.1**	**23.7**	**10.0**	**0.8**
Loans and advances to customers at amortised cost	162,033	28,802	3,555	36	194,426	(467)	(1,651)	(1,053)	(22)	(3,193)	0.3	5.7	29.6	61.1	1.6
– personal	116,171	6,871	1,203	—	124,245	(161)	(893)	(395)	—	(1,449)	0.1	13.0	32.8	—	1.2
– corporate and commercial	43,844	21,152	2,322	36	67,354	(300)	(728)	(651)	(22)	(1,701)	0.7	3.4	28.0	61.1	2.5
– non-bank financial institutions	2,018	779	30	—	2,827	(6)	(30)	(7)	—	(43)	0.3	3.9	23.3	—	1.5
Loans and advances to banks at amortised cost	1,514	1	—	—	1,515	(1)	—	—	—	(1)	0.1	—	—	—	0.1
Other financial assets measured at amortised cost	80,411	54	20	1	80,486	(2)	—	—	—	(2)	—	—	—	—	—
Loan and other credit-related commitments	63,443	6,486	285	1	70,215	(81)	(70)	(38)	(1)	(190)	0.1	1.1	13.3	100.0	0.3
– personal	39,358	290	67	—	39,715	(15)	(1)	—	—	(16)	—	0.3	—	—	—
– corporate and commercial	23,223	6,138	206	1	29,568	(65)	(68)	(38)	(1)	(172)	0.3	1.1	18.4	100.0	0.6
– financial	862	58	12	—	932	(1)	(1)	—	—	(2)	0.1	1.7	—	—	0.2
Financial guarantee and similar contracts	674	236	25	—	935	(7)	(7)	(3)	—	(17)	1.0	3.0	12.0	—	1.8
– personal	106	12	—	—	118	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	350	198	25	—	573	(7)	(7)	(3)	—	(17)	2.0	3.5	12.0	—	3.0
– financial	218	26	—	—	244	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2020	308,075	35,579	3,885	38	347,577	(558)	(1,728)	(1,094)	(23)	(3,403)	0.2	4.9	28.2	60.5	1.0

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

Measurement uncertainty and sensitivity analysis of ECL estimates

There remains a high degree of uncertainty as the UK emerges from the pandemic, 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. Over 2020, stage 1 and stage 2 ECL provisions increased £1,400m, reflecting mainly the evolution of the global pandemic, and while they reduced £453m in 1H21 as economic conditions recovered, £947m of the 2020 uplift remained at 1H21 (£570m wholesale and £377m retail).

Caution 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, with the high degree of uncertainty in ECL estimates in the UK.

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

Methodology

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 Group'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 a fourth scenario to represent its view of severe downside risks. The use of an additional scenario is in line with HSBC Group's FEG 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, 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 the HSBC Group, 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 in the UK, aided in some cases by the successful roll-out of vaccination programme. Data from vaccinated groups suggests vaccines provide a high level of immunity against the Covid-19 virus despite the emergence of more transmissible variants and to date, vaccinations have shown their effectiveness in lowering hospitalisations and deaths. A rapid roll-out of the vaccination programme has been a key factor enabling economies to re-open 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 such as 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 economic activity in 2020, HSBC Group'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 economies – restrictions to mobility and reduction in activity imposed by governments resulting in a strong contraction in 2020 while 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 in the first half of 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.

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 chart below).

In the UK, the Central scenario assumes the following:

- A sharp increase in economic growth in 2021 as the UK Government eases restrictions to mobility, encouraging consumers and firms to spend and invest. UK GDP is expected to grow in 2021. UK measures aimed at supporting labour markets as economies re-open 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 the Bank of England's 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 the UK Government 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 the Bank of England 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 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. The weighting assigned to the Central scenario is 50%.

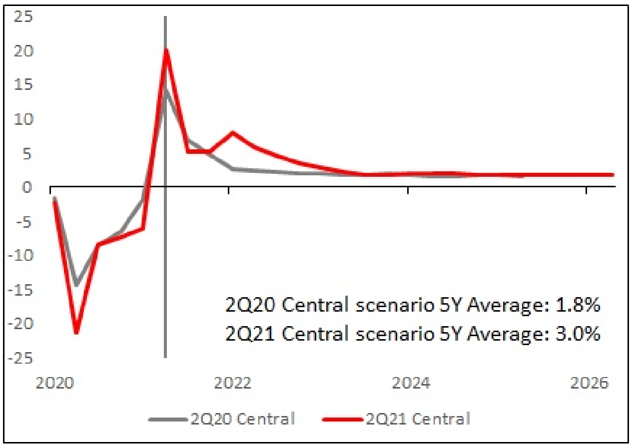
The following tables describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario at 30 June 2021 and 31 December 2020.

Central scenario applied at 30 June 2021

	3Q21-2Q26
	%
GDP growth	
2021: Annual average growth rate	6.1
2022: Annual average growth rate	5.5
2023: Annual average growth rate	2.2
5-year average	3.0
Unemployment rate	
2021: Annual average rate	5.8
2022: Annual average rate	5.8
2023: Annual average rate	5.0
5-year average	5.1
House price index	
2021: Annual average growth rate	8.3
2022: Annual average growth rate	2.7
2023: Annual average growth rate	2.5
5-year average	3.0
Short-term interest rate	
2021: Annual average rate	0.2
2022: Annual average rate	0.3
2023: Annual average rate	0.5
5-year average	0.6
Probability	50

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

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenarios

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

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

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

Consensus Upside scenario best outcome

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

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

The consensus Downside scenario

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

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

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

Consensus Downside scenario worst outcome

	UK %	
GDP growth rate	**0.4**	**(2Q23)**
Unemployment rate	**7.3**	**(2Q22)**
House price growth	**(3.7)**	**(4Q22)**
Short-term interest rate	**0.2**	**(2Q23)**
Probability	**30**	

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 first two years of the scenario.

Additional Downside scenario

An additional Downside scenario that features a global recession has been created to reflect management's view of severe risks. In this scenario, infections rise over the second half of 2021 and 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 the UK Government and the Bank of England are unable to significantly increase fiscal and monetary programmes, which results in a rise in unemployment and a fall in asset prices. 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 %	
GDP growth rate	**(2.1)**	**(2Q22)**
Unemployment rate	**9.3**	**(3Q22)**
House price growth	**(7.8)**	**(2Q22)**
Short-term interest rate	**1.0**	**(4Q21)**
Probability	**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 first two years of the scenario.

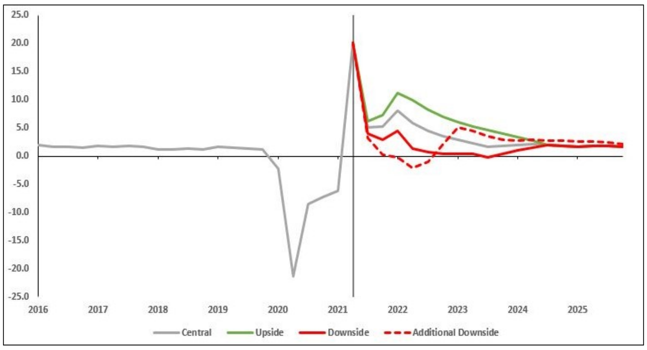
In considering economic uncertainty and assigning probabilities to scenarios, management has considered both global and UK specific factors. This has led management to assigning scenario probabilities that are tailored to its view of uncertainty in individual markets.

To inform its view, management has considered trends in the progression of the virus in the UK, 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 the UK in 2020.

In the UK, the discovery of a more infectious strain of the virus and subsequent national restrictions on activity imposed before the end of 2020 have resulted in considerable uncertainty in the economic outlook. Given these considerations, the consensus Central scenario for the UK have been assigned a probability of 50%, while the consensus Downside scenario have been allocated 30%. The additional Downside scenario has been assigned a 15% probability to reflect the view that the balance of risks is weighted to the downside.

The following graph shows the UK historical and forecasted GDP growth rate for the various economic scenarios.

UK GDP growth



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates, as set out in the *Annual Report and Accounts 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 are 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 39 of the *Annual Report and Accounts 2020*. 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 62 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	3
Corporate lending adjustments	—	426	426
Retail lending PD adjustments	(79)	(18)	(97)
Retail model default timing adjustment	195	34	229
Macroeconomic-related adjustments	191	85	276
Other retail lending adjustments	81	—	81
Total	**388**	**530**	**918**

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

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

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

For wholesale lending, the total adjustment was an ECL increase of £530m, comprising £429m relating to Wholesale portfolios and £101m relating to Retail SME portfolios which use Retail models (31 December 2020: £492m increase including £130m from retail SME).

The adjustments relating to low-credit-risk exposures increased ECL by £3m at 30 June 2021 (31 December 2020: £5m increase). These were mainly to highly rated banks, sovereigns where modelled credit factors did not fully reflect the underlying fundamentals of these entities or the effect of government support and economic programmes in the Covid-19 environment.

Adjustments to corporate exposures increased ECL by £426m at 30 June 2021 (31 December 2020: £357m increase). These principally reflected the outcome of management judgements for high-risk and vulnerable sectors, supported by credit experts' input, quantitative analyses and benchmarks. Considerations include uncertainty around vaccine efficacy and risk of new variants and, uncertainty around timing and extent of defaults in some sectors due to government intervention. The increase in adjustment impact relative to 31 December 2020 was mostly driven by management judgements as a result of further improvement of macroeconomic scenarios and increased dislocation of modelled outcomes to management expectations for high-risk and vulnerable sectors.

In the retail portfolio, the total adjustment was an ECL increase of £388m at 30 June 2021 (31 December 2020: £347m increase).

The retail model default timing adjustment increased ECL by £195m (31 December 2020: £977m increase). This was applied as customer relief and government support programmes continue to delay the emergence of defaults. The level of adjustment decreased during the period given the improvement in macroeconomic forecasts and the unwinding in the UK as customer relief and government support concludes. Retail models are reliant on the assumption that as macroeconomic conditions deteriorate, defaults will crystallise. We will monitor the continuation of customer relief and government support programmes that have stabilised macroeconomic conditions and therefore suppressed retail model defaults.

The retail lending probability of default adjustments decreased ECL by £79m (31 December 2020: £569m decrease). These related to severe projections of macroeconomic variables that are outside the historical observations on which IFRS 9 models have been built and calibrated to operate. The majority of scenarios are now within historical observations leading to lower levels of adjustment.

Macroeconomic-related adjustments increased ECL by £191m (31 December 2020: £95m decrease). These were applied to reflect managements expectation in regards to the extent of previously forecast defaults that have not yet emerged in the retail portfolio coupled with improvements in the macroeconomic forecasts.

Other retail lending adjustments increased ECL by £81m (31 December 2020: £34m increase) reflecting those who remain in or have recently exited customer support programmes and all other data and 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 actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in Stages 1 and 2 at the balance sheet date. The population of Stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default ('LGD') of a particular portfolio was sensitive to these changes.

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

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

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

Wholesale and retail sensitivity

The sensitivity analysis is stated inclusive of post-model adjustments, as appropriate to each scenario. The results tables exclude some 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

	2021	2020
	30 Jun	31 Dec
	£m	£m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2021[1]		
Reported ECL	**989**	1,237
Consensus scenarios		
Central scenario	**825**	914
Upside scenario	**630**	613
Downside scenario	**1,081**	1,359
Additional Downside scenario	**1,651**	2,238

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

At 30 June 2021, a significant level of ECL sensitivity was observed. This higher sensitivity is largely driven by the significant exposure and severe impacts of the Downside scenarios relative to the Central and reported scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2021	2020
	30 Jun	31 Dec
	£m	£m
ECL of loans and advances to customers at 30 June 2021		
Reported ECL	**1,155**	1,429
Consensus scenarios		
Central scenario	**1,053**	1,283
Upside scenario	**912**	903
Downside scenario	**1,270**	1,561
Additional Downside scenario	**1,520**	1,810

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

At 30 June 2021, a significant level of ECL sensitivity was observed. Mortgages reflected the lowest level of ECL sensitivity across most markets as collateral values remain resilient. Credit cards and other unsecured lending are more sensitive to economic forecasts, which have reflected improvements during the first half of 2021.

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

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

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

The 'new financial assets originated or purchased', 'net further lending' and 'assets derecognised (including final repayments)' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the group's lending portfolio.

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	226,574	(559)	35,528	(1,728)	3,850	(1,091)	38	(23)	265,990	(3,401)
Transfers of financial instruments:	529	(399)	(1,185)	457	656	(58)	–	–	–	–
– transfers from Stage 1 to Stage 2	(10,883)	41	10,883	(41)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	11,563	(423)	(11,563)	423	–	–	–	–	–	–
– transfers to Stage 3	(265)	3	(652)	108	917	(111)	–	–	–	–
– transfers from Stage 3	114	(20)	147	(33)	(261)	53	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	253	–	(42)	–	–	–	–	–	211
New financial assets originated or purchased	20,868	(56)	–	–	–	–	–	–	20,868	(56)
Asset derecognised (including final repayments)	(12,779)	11	(1,295)	87	(243)	12	–	–	(14,317)	110
Changes to risk parameters – further lending/ repayment	(7,216)	58	(914)	103	(79)	112	(18)	1	(8,227)	274
Changes to risk parameters – credit quality	–	160	–	(167)	–	(187)	–	19	–	(175)
Changes to model used for ECL calculation	–	3	–	(13)	–	–	–	–	–	(10)
Assets written off	–	–	–	–	(286)	286	–	–	(286)	286
Others	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2021	227,976	(529)	32,134	(1,303)	3,898	(926)	20	(3)	264,028	(2,761)
ECL release/(charge) for the period		429		(32)	–	(63)		20		354
Recoveries										53
Others										(8)
Total change in ECL for the period										399

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	230,869	(246)	15,748	(641)	3,557	(857)	29	—	250,203	(1,744)
Transfers of financial instruments:	(23,710)	(337)	21,905	506	1,805	(169)	—	—	—	—
– transfers from Stage 1 to Stage 2	(44,718)	203	44,718	(203)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	21,168	(532)	(21,168)	532	—	—	—	—	—	—
– transfers to Stage 3	(296)	2	(2,063)	249	2,359	(251)	—	—	—	—
– transfers from Stage 3	136	(10)	418	(72)	(554)	82	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	249	—	(244)	—	(1)	—	—	—	4
New financial assets originated or purchased	49,787	(142)	—	—	—	—	—	—	49,787	(142)
Asset derecognised (including final repayments)	(20,106)	47	(2,510)	114	(797)	23	—	—	(23,413)	184
Changes to risk parameters – further lending/ repayment	(10,266)	108	391	86	(205)	163	3	—	(10,077)	357
Changes to risk parameters – credit quality	—	(284)	—	(1,545)	—	(760)	—	(22)	—	(2,611)
Changes to model used for ECL calculation	—	46	—	(5)	—	—	—	—	—	41
Assets written off	—	—	—	—	(510)	510	—	—	(510)	510
Others	—	—	(6)	1	—	—	6	(1)	—	—
At 31 Dec 2020	226,574	(559)	35,528	(1,728)	3,850	(1,091)	38	(23)	265,990	(3,401)
ECL release/(charge) for the period		24		(1,594)	—	(575)		(22)		(2,167)
Recoveries										83
Others										(17)
Total change in ECL for the period										(2,101)

1 *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 30 June 2021, these amounted to £0.8bn (2020: £0.6bn) and were classified as Stage 1 with no ECL.*

Credit quality of financial instruments

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

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

Credit quality classification

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

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

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	**117,703**	**23,675**	**40,401**	**9,065**	**3,687**	**194,531**	**(2,627)**	**191,904**
– Stage 1	**117,490**	**22,354**	**24,286**	**731**	**—**	**164,861**	**(476)**	**164,385**
– Stage 2	**213**	**1,321**	**16,115**	**8,334**	**—**	**25,983**	**(1,259)**	**24,724**
– Stage 3	**—**	**—**	**—**	**—**	**3,668**	**3,668**	**(890)**	**2,778**
– POCI	**—**	**—**	**—**	**—**	**19**	**19**	**(2)**	**17**
Loans and advances to banks at amortised cost	**1,792**	**—**	**—**	**—**	**—**	**1,792**	**—**	**1,792**
– Stage 1	**1,792**	**—**	**—**	**—**	**—**	**1,792**	**—**	**1,792**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**102,354**	**48**	**111**	**1**	**20**	**102,534**	**(2)**	**102,532**
– Stage 1	**102,354**	**47**	**70**	**—**	**—**	**102,471**	**(1)**	**102,470**
– Stage 2	**—**	**1**	**41**	**1**	**—**	**43**	**—**	**43**
– Stage 3	**—**	**—**	**—**	**—**	**20**	**20**	**(1)**	**19**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loan and other credit-related commitments	**36,748**	**17,715**	**11,552**	**1,563**	**211**	**67,789**	**(132)**	**67,657**
– Stage 1	**36,712**	**17,481**	**7,338**	**130**	**—**	**61,661**	**(48)**	**61,613**
– Stage 2	**36**	**234**	**4,214**	**1,433**	**—**	**5,917**	**(48)**	**5,869**
– Stage 3	**—**	**—**	**—**	**—**	**210**	**210**	**(36)**	**174**
– POCI	**—**	**—**	**—**	**—**	**1**	**1**	**—**	**1**
Financial guarantees	**332**	**130**	**362**	**62**	**21**	**907**	**(2)**	**905**
– Stage 1	**332**	**129**	**184**	**9**	**—**	**654**	**(1)**	**653**
– Stage 2	**—**	**1**	**178**	**53**	**—**	**232**	**—**	**232**
– Stage 3	**—**	**—**	**—**	**—**	**21**	**21**	**(1)**	**20**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2021	**258,929**	**41,568**	**52,426**	**10,691**	**3,939**	**367,553**	**(2,763)**	**364,790**
Debt instruments at FVOCI[1]	**14,522**	**—**	**—**	**—**	**—**	**14,522**	**(2)**	**14,520**
– Stage 1	**14,522**	**—**	**—**	**—**	**—**	**14,522**	**(2)**	**14,520**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2021	**14,522**	**—**	**—**	**—**	**—**	**14,522**	**(2)**	**14,520**
Loans and advances to customers at amortised cost	112,291	27,119	41,784	9,641	3,591	194,426	(3,193)	191,233
– Stage 1	111,587	24,532	25,301	613	—	162,033	(467)	161,566
– Stage 2	704	2,587	16,483	9,028	—	28,802	(1,651)	27,151
– Stage 3	—	—	—	—	3,555	3,555	(1,053)	2,502
– POCI	—	—	—	—	36	36	(22)	14
Loans and advances to banks at amortised cost	1,515	—	—	—	—	1,515	(1)	1,514
– Stage 1	1,514	—	—	—	—	1,514	(1)	1,513
– Stage 2	1	—	—	—	—	1	—	1
– Stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	80,239	73	152	1	21	80,486	(2)	80,484
– Stage 1	80,239	71	101	—	—	80,411	(2)	80,409
– Stage 2	—	2	51	1	—	54	—	54
– Stage 3	—	—	—	—	20	20	—	20
– POCI	—	—	—	—	1	1	—	1
Loan and other credit-related commitments	33,954	20,545	13,615	1,815	286	70,215	(190)	70,025
– Stage 1	33,914	20,083	9,284	162	—	63,443	(81)	63,362
– Stage 2	40	462	4,331	1,653	—	6,486	(70)	6,416
– Stage 3	—	—	—	—	285	285	(38)	247
– POCI	—	—	—	—	1	1	(1)	—
Financial guarantees	338	183	319	70	25	935	(17)	918
– Stage 1	338	169	155	12	—	674	(7)	667
– Stage 2	—	14	164	58	—	236	(7)	229
– Stage 3	—	—	—	—	25	25	(3)	22
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2020	228,337	47,920	55,870	11,527	3,923	347,577	(3,403)	344,174
Debt instruments at FVOCI[1]	18,844	—	—	—	—	18,844	(6)	18,838
– Stage 1	18,844	—	—	—	—	18,844	(6)	18,838
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2020	18,844	—	—	—	—	18,844	(6)	18,838

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

Customer relief programmes

In response to the Covid-19 outbreak, governments and regulators around the world have introduced a number of support measures for both personal and wholesale customers (market-wide schemes). The following table presents the number of personal accounts/wholesale customers and the associated drawn loan values of customers under these schemes and HSBC UK specific measures at 30 June 2021 and 31 December 2020.

Personal lending

		At 30 Jun 2021	At 31 Dec 2020
Personal lending market-wide schemes			
Number of accounts granted mortgage customer relief	000s	**1**	6
Drawn loan value of customers granted mortgage customer relief	£m	**115**	1,026
Number of accounts granted other personal lending customer relief	000s	**2**	15
Drawn loan value of customers granted other personal lending customer relief	£m	**13**	102
Market-wide schemes and bank-specific measure mortgage relief as a proportion of total mortgage loans and advances	%	**0.1**	0.9
Market-wide schemes and bank-specific measures other personal lending relief as a proportion of total other personal lending loans and advances	%	**0.1**	0.8

Wholesale lending

		At 30 Jun 2021	At 31 Dec 2020
Wholesale lending market-wide schemes			
Number of customers under market-wide measures	000s	**236**	226
Drawn loan value of customers under market-wide schemes	£m	**10,145**	9,899
Wholesale lending bank-specific measures			
Number of customers under bank-specific measures	000s	**1**	—
Drawn loan value of customers under bank-specific measures	£m	**188**	255
Total wholesale lending to major markets under market-wide schemes and bank-specific measures			
Number of customers	000s	**237**	226
Drawn loan value	£m	**10,333**	10,154
Market-wide schemes and bank-specific measures as a proportion of total wholesale lending loans and advances	%	**15.4**	14.5

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

Market-wide schemes

Personal Lending

Mortgages

Customer relief granted on mortgages primarily consists of payment holidays or partial payment deferrals. Relief is offered for an initial period of three months and can be further extended for up to a further three months in certain circumstances. No payment is required from the customer during this period (though with a partial payment deferral the customer has expressed a desire to make a contribution) and interest continues to be charged as usual. The customers' arrears status is not worsened from utilisation of these schemes. This scheme was ended on 31 March 2021.

Other personal lending payment holidays

Customer relief is granted for an initial period of three months and can be extended for a further three months. The maximum relief value is up to the due payment amount during the period. This scheme was ended on 31 March 2021.

Wholesale Lending

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

- The Bounce Back Loan Scheme provides SME with loans of up to £50,000 for a maximum period of six years. Interest is charged at 2.5% and the government pay the fees and interest for the first 12 months. No capital repayment is required by the customer for the first 12 months of the scheme. A government guarantee of 100% is provided under the scheme. This scheme was ended on 31 March 2021.
- The Coronavirus Business Interruption Loan Scheme provides SME that have a turnover of less than £45m with loans of up to £5m for a maximum period of six years. Interest is charged between 3.49% and 3.99% above the UK base rate and no capital repayment is required by the customer for the first 12 months of the scheme. A government guarantee of up to 80% is provided under the scheme. This scheme was ended on 31 March 2021.
- The Coronavirus Large Business Interruption Loan Scheme provides medium- and large-sized enterprises that have a turnover in excess of £45m with loans of up to £200m. The interest rate and tenor of the loan are negotiated on commercial terms. A government guarantee of 80% is provided under the scheme. This scheme was ended on 31 March 2021.
- The Recovery Loan Scheme provides UK businesses with a loan between £25,001 and £10m for a maximum of six years. The scheme can be used where either a commercial facility would not have been offered for the same amount on similar terms or would only have been offered at a higher price. Interest rate is negotiated on commercial terms for larger loans and is based on loan tenor for smaller loans. The customer can have other government backed loans. A government guarantee of 80% is provided. The scheme commenced on 6 April 2021 and is due to end on 31 December 2021.

HSBC UK specific measures

Wholesale lending

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

Wholesale lending

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

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

	Gross carrying amount					**Allowance for ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate and commercial	**41,677**	**20,634**	**2,561**	**19**	**64,891**	**(304)**	**(588)**	**(541)**	**(2)**	**(1,435)**
– agriculture, forestry and fishing	**3,545**	**407**	**138**	**—**	**4,090**	**(15)**	**(22)**	**(11)**	**—**	**(48)**
– mining and quarrying	**237**	**358**	**61**	**—**	**656**	**(1)**	**(3)**	**(8)**	**—**	**(12)**
– manufacture	**4,845**	**2,000**	**215**	**—**	**7,060**	**(35)**	**(73)**	**(51)**	**—**	**(159)**
– electricity, gas, steam and air-conditioning supply	**358**	**85**	**4**	**—**	**447**	**(2)**	**(2)**	**—**	**—**	**(4)**
– water supply, sewerage, waste management and remediation	**706**	**54**	**30**	**—**	**790**	**(2)**	**(1)**	**(12)**	**—**	**(15)**
– construction	**2,132**	**1,599**	**116**	**—**	**3,847**	**(17)**	**(38)**	**(48)**	**—**	**(103)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**7,082**	**2,935**	**318**	**—**	**10,335**	**(45)**	**(67)**	**(87)**	**—**	**(199)**
– transportation and storage	**1,333**	**533**	**104**	**—**	**1,970**	**(6)**	**(17)**	**(12)**	**—**	**(35)**
– accommodation and food	**902**	**6,963**	**454**	**—**	**8,319**	**(52)**	**(166)**	**(51)**	**—**	**(269)**
– publishing, audiovisual and broadcasting	**1,530**	**643**	**35**	**19**	**2,227**	**(14)**	**(36)**	**(8)**	**(2)**	**(60)**
– real estate	**8,999**	**2,117**	**572**	**—**	**11,688**	**(42)**	**(26)**	**(165)**	**—**	**(233)**
– professional, scientific and technical activities	**3,407**	**496**	**135**	**—**	**4,038**	**(26)**	**(27)**	**(17)**	**—**	**(70)**
– administrative and support services	**3,198**	**1,205**	**122**	**—**	**4,525**	**(23)**	**(58)**	**(26)**	**—**	**(107)**
– public administration and defence, compulsory social security	**4**	**—**	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**—**
– education	**662**	**222**	**18**	**—**	**902**	**(5)**	**(9)**	**(3)**	**—**	**(17)**
– health and care	**1,544**	**215**	**97**	**—**	**1,856**	**(6)**	**(8)**	**(23)**	**—**	**(37)**
– arts, entertainment and recreation	**250**	**724**	**131**	**—**	**1,105**	**(7)**	**(24)**	**(14)**	**—**	**(45)**
– other services	**699**	**78**	**11**	**—**	**788**	**(6)**	**(11)**	**(5)**	**—**	**(22)**
– activities of households	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**
– assets backed securities	**243**	**—**	**—**	**—**	**243**	**—**	**—**	**—**	**—**	**—**
Non-bank financial institutions	**1,918**	**308**	**13**	**—**	**2,239**	**(5)**	**(4)**	**(4)**	**—**	**(13)**
Loans and advances to banks	**1,792**	**—**	**—**	**—**	**1,792**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2021	**45,387**	**20,942**	**2,574**	**19**	**68,922**	**(309)**	**(592)**	**(545)**	**(2)**	**(1,448)**

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

	Nominal amount					**Allowance for ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Corporate and commercial	**21,531**	**5,740**	**145**	**1**	**27,417**	**(39)**	**(46)**	**(35)**	**—**	**(120)**
Financial	**925**	**125**	**14**	**—**	**1,064**	**(1)**	**(1)**	**(2)**	**—**	**(4)**
At 30 Jun 2021	**22,456**	**5,865**	**159**	**1**	**28,481**	**(40)**	**(47)**	**(37)**	**—**	**(124)**

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

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

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	23,573	6,336	231	1	30,141	(72)	(75)	(41)	(1)	(189)
Financial	1,080	84	12	—	1,176	(1)	(1)	—	—	(2)
At 31 Dec 2020	24,653	6,420	243	1	31,317	(73)	(76)	(41)	(1)	(191)

Personal lending

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

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

	Gross carrying amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
By portfolio								
First lien residential mortgages	**111,078**	**2,543**	**708**	**114,329**	**(29)**	**(52)**	**(89)**	**(170)**
– *of which: interest only (including offset)*	***17,133***	***1,623***	***93***	***18,849***	***(5)***	***(21)***	***(18)***	***(44)***
Other personal lending	**10,188**	**2,498**	**386**	**13,072**	**(138)**	**(615)**	**(256)**	**(1,009)**
– other	**5,526**	**1,497**	**243**	**7,266**	**(63)**	**(299)**	**(160)**	**(522)**
– credit cards	**4,662**	**1,001**	**143**	**5,806**	**(75)**	**(316)**	**(96)**	**(487)**
At 30 Jun 2021	**121,266**	**5,041**	**1,094**	**127,401**	**(167)**	**(667)**	**(345)**	**(1,179)**
By portfolio								
First lien residential mortgages	106,892	3,026	753	110,671	(30)	(43)	(96)	(169)
– *of which: interest only (including offset)*	*17,256*	*2,075*	*111*	*19,442*	*(5)*	*(12)*	*(18)*	*(35)*
Other personal lending	9,279	3,845	450	13,574	(131)	(850)	(299)	(1,280)
– other	5,165	2,304	239	7,708	(74)	(421)	(164)	(659)
– credit cards	4,114	1,541	211	5,866	(57)	(429)	(135)	(621)
At 31 Dec 2020	116,171	6,871	1,203	124,245	(161)	(893)	(395)	(1,449)

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

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 Jun 2021	**39,859**	**284**	**72**	**40,215**	**(9)**	**(1)**	**—**	**(10)**
At 31 Dec 2020	39,464	302	67	39,833	(15)	(1)	—	(16)

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 dependants. Treasury risk also includes the risk to our earnings or capital due to structural foreign exchange exposures and changes in market interest rates.

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

Approach and policy

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

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

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

The ICAAP and ILAAP provide an assessment of HSBC UK's capital and liquidity adequacy with consideration of HSBC UK's risk metrics, business model, strategy, performance and planning, risks to capital, liquidity and funding, and the implications of stress testing to capital, liquidity and funding.

For further details, refer to our Pillar 3 Disclosures at 31 December 2020*. A summary of our current policies and practices regarding the management of Treasury risk is set out on pages 52 to 54 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 function is a dedicated second line of defence, providing 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.

The BoE's Financial Policy Committee ('FPC') reconfirmed its guidance on the path for the UK countercyclical capital buffer rate. It expects to maintain the rate at 0% until at least December 2021 and 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.

The group's CET1 ratio was 15.6% at 30 June 2021 and the UK leverage ratio was 6.7%. The group also continues to maintain the appropriate resources required for the risks to which it is exposed, while continuing to support the UK economy.

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.

Our liquidity levels were impacted by increased borrowings under committed facilities. However, this was more than offset by increases in deposits, use of central bank facilities where appropriate, and the ability to issue in the short-term markets once they stabilised. As a result we had significant surplus liquidity, and heightened liquidity coverage ratios in the first half of 2021.

Declines in interest rates and the flattening of interest rate yield curves combined to put downwards pressure on NII. Balance sheet composition changed, with a significant build-up of liquidity that was deployed in short-term investments, which were predominantly cash held at central banks and hold-to-collect-and-sell securities. This factor, together with the lower level of interest rates, increased the sensitivity of NII to future changes in interest rates. In a scenario where interest rates fall significantly from current levels, contractual floors would dampen the effect on the average rate that would be paid on liabilities whereas assets would be more likely to reprice lower, reducing the commercial margin.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is underpinned by a 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 HSBC UK's capital position, outlining both regulatory and internal capital resources and requirements resulting from HSBC UK's 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. The ICAAP supports the determination of the consolidated and solo capital risk appetite and target ratios as well as enables the assessment and determination of capital requirements by the PRA.

We maintain a comprehensive liquidity and funding risk management framework ('LFRF'), which aims to enable us to withstand very severe liquidity stresses. The LFRF comprises policies, metrics and controls designed to ensure that management have oversight of our liquidity and funding risks in order to manage them appropriately. We are 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. It also assesses the capability to manage liquidity and funding effectively in each major entity. These metrics are set and managed locally and are subject to robust review and challenge.

Planning and performance

Capital and risk-weighted asset plans form part of the annual operating plan that is approved by the Board. Capital and RWA forecasts are submitted to the Asset and Liability 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 critical Board-level appetite measures are the internal liquidity metric ('ILM'), liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'). An appropriate funding and liquidity profile is managed through a wider set of measures:

- ILM risk appetite;
- a minimum LCR requirement;
- a minimum NSFR requirement;
- a legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- a minimum LCR requirement by currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

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 and continue to evaluate the impact of these upon our capital requirements. This includes the UK's implementation of amendments to the Capital Requirements Regulation, the Basel III Reforms, and the regulatory impact from the UK's withdrawal from the EU, as well as other regulatory statements including changes to IRB modelling requirements.

The Basel III Reforms introduce an output floor that will be introduced in 2023 with a five-year transitional provision. This floor ensures that, at the end of the transitional period, banks' total RWAs are no lower than 72.5% of those generated by the standardised approaches.

There remains a significant degree of uncertainty in the impact of the regulatory changes due to the number of national discretions and the need for further supporting technical standards to be developed. Furthermore, the impact does not take into consideration the possibility of offsets against Pillar 2, which may arise as shortcomings within Pillar 1 are addressed.

The PRA have also confirmed that software assets will need to be deducted in full from CET1 capital from 1 January 2022. This will reverse the beneficial changes to the treatment of software assets that were implemented as part of the EU's response to Covid-19. This change was anticipated and is expected to reduce capital resources by £0.5bn.

Regulatory reporting processes and controls

There is an ongoing focus on the quality of regulatory reporting by the PRA. 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 impact on some of our regulatory ratios such as the CET1 and LCR as a result. We are keeping the PRA informed of adverse findings from external and internal reviews.

Stress testing and recovery 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. 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 a supervisory stress testing framework. The results of regulatory stress testing and our internal stress tests are used when assessing our internal capital requirements through the ICAAP. We have established a recovery plan providing detailed actions that management would consider taking in a stress scenario should their positions deteriorate and threaten to breach risk appetite and regulatory minimum levels.

We monitor internal and external triggers that could threaten our capital, liquidity or funding positions.

Details of HSBC UK's liquidity and funding risk management framework ('LFRF') can be found in the entity's Pillar 3 Disclosures at 31 December 2020*.*

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 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 NII under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant.

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. Operating entities are required to monitor EVE sensitivities 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.

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 credit valuation adjustment ('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 in force 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 buffers based upon a firm's countercyclical and other systemically important institutions buffers. The minimum Tier 1 requirement must be met by at least 75% common equity tier 1, with the buffers 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 on 1 January 2022.

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 internal-ratings based ('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 July 2021, the PRA published its final policy on the flooring of risk weights of UK mortgages subject to the IRB approach. Exposures to UK residential mortgages, excluding those in default, will be subject to an exposure-weighted average portfolio risk weight of at least 10% from 1 January 2022.

Capital Buffers

In its July 2021 Financial Stability Report ('FSR'), the 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 Bank of England 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 foreign exchange risk to align to a Pillar 1 approach.

Capital risk

Capital overview

Capital adequacy metrics

	At	
	30 Jun 2021	31 Dec 2020
Available capital (£m)[1]		
CET1 capital	**13,219**	12,963
CET1 capital as if IFRS 9 transitional arrangements had not been applied	**12,591**	11,856
Tier 1 capital^	**15,467**	15,197
Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**14,839**	14,091
Total regulatory capital^	**18,454**	18,171
Total capital as if IFRS 9 transitional arrangements had not been applied	**18,243**	17,505
Risk-weighted assets (£m) – by risk type		
Credit risk	**73,555**	74,690
Counterparty credit risk	**191**	122
Market risk	**245**	156
Operational risk	**10,564**	10,509
Total risk-weighted assets^	**84,555**	85,477
Total RWAs as if IFRS 9 transitional arrangements had not been applied	**84,543**	85,530
Risk-weighted assets (£m) – by line of business		
Wealth & Personal Banking	**24,672**	25,061
Commercial Banking	**57,662**	58,362
Global Banking & Markets	**702**	600
Corporate Centre	**1,519**	1,454
Total risk-weighted assets^	**84,555**	85,477
Capital ratios (%)		
CET1^	**15.6**	15.2
CET1 as if IFRS 9 transitional arrangements had not been applied	**14.9**	13.9
Total tier 1^	**18.3**	17.8
Tier 1 as if IFRS 9 transitional arrangements had not been applied	**17.6**	16.5
Total capital^	**21.8**	21.3
Total capital as if IFRS 9 transitional arrangements had not been applied	**21.6**	20.5
Total Capital Requirement (%)		
Total Capital Requirement (Pillar 1 + Pillar 2A)[1]	**12.6**	12.5
CET1 available after meeting the bank's minimum capital requirements	**8.6**	8.1
Leverage ratio		
Tier 1 capital (£m)	**15,467**	15,197
Total leverage ratio exposure measure (£m)[2]^	**334,770**	317,196
Leverage ratio (%)[2]^	**4.6**	4.8
Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**4.4**	4.5
Total UK leverage ratio exposure measure (£m)[3]	**230,230**	234,909
UK leverage ratio (%)[3]^	**6.7**	6.5

1 *Total capital requirement is defined as the sum of Pillar 1 and Pillar 2A capital requirements set by the PRA. Our Pillar 2A requirement at 30 June 2021, as per the PRA's Individual Capital Guidance based on a point in time assessment, was 4.56% of RWAs, of which 2.55% was met by CET1.*
2 *Leverage ratio is calculated on UK's version of CRR II end point basis for capital.*
3 *UK leverage ratio denotes group's leverage ratio calculated under the PRA's UK leverage framework. This measure excludes qualifying central bank balances and loans under the UK Bounce Back Loan Scheme from the calculation of exposure.*
4 *Figures indicated with ^ included within certain tables in this section have been prepared on an IFRS 9 transitional basis. All other tables in this section report numbers on the basis of full adoption of IFRS 9.*

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 UK's version of such regulation or directive, as 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'). The table presents them under the transitional arrangements in CRR II for capital instruments and after their expiry, known as the end point. The end point figures in the table above include the benefit of the regulatory transitional arrangements in CRR II for IFRS 9, which are more fully described below.

Where applicable, they also reflect government relief schemes intended to mitigate the impact of the Covid-19 outbreak.

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements for IFRS 9 'Financial Instruments', including paragraph four within Article 473a of the Capital Requirements Regulation, published by the EU on 27 December 2017. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact of IFRS 9 on loan loss allowances 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 capital deduction thresholds, exposure and RWAs. The impact is calculated separately for portfolios using the standardised ('STD') and IRB approaches.

For IRB portfolios, there is no add-back to capital unless loan loss allowances exceed regulatory 12-month expected losses.

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit-impaired book. This relief will reduce to 75% in 2022, 50% in 2023, and 25% in 2024.

In the current period, the add-back to the capital base amounted to £616m under the IRB approach and £13m under the STD approach.

At 31 December 2020, the add-back to the capital base was £1,074m under the IRB approach and £32m under the STD approach.

Participating interests in banking associates/joint ventures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of EU legislation. As a result of this, total assets in the regulatory balance sheet are £83m higher than in the accounting balance sheet.

Own funds

Own funds disclosure

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**£m**	£m
	Common equity tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**9,015**	9,015
	– ordinary shares	**9,015**	9,015
2	Retained earnings[2]	**11,451**	10,934
3	Accumulated other comprehensive income (and other reserves)	**(667)**	700
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**692**	(46)
6	**Common equity tier 1 capital before regulatory adjustments**	**20,491**	20,603
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments[1]	**(3)**	(4)
8	Intangible assets (net of related deferred tax liability)	**(3,638)**	(3,662)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	**—**	(1)
11	Fair value reserves related to gains or losses on cash flow hedges	**(2)**	—
15	Defined-benefit pension fund assets	**(4,257)**	(5,079)
27 a	**Other regulatory adjustments[2]**	**628**	1,106
28	**Total regulatory adjustments to common equity tier 1**	**(7,272)**	(8,746)
29	**Common equity tier 1 capital**	**13,219**	12,963
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**2,196**	2,196
31	– classified as equity under IFRSs	**2,196**	2,196
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	**52**	38
36	**Additional tier 1 capital before regulatory adjustments**	**2,248**	2,234
44	**Additional tier 1 capital**	**2,248**	2,234
45	**Tier 1 capital (T1 = CET1 + AT1)**	**15,467**	15,197
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**2,987**	2,915
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	**—**	52
51	**Tier 2 capital before regulatory adjustments**	**2,987**	2,967
57	**Total regulatory adjustments to tier 2 capital**	**—**	7
58	**Tier 2 capital**	**2,987**	2,974
59	**Total capital (TC = T1 + T2)**	**18,454**	18,171
60	**Total risk-weighted assets**	**84,555**	85,477
	Capital ratios and buffers		
61	Common equity tier 1	**15.6%**	15.2%
62	Tier 1	**18.3%**	17.8%
63	Total capital	**21.8%**	21.3%
64	Institution specific buffer requirement	**3.5%**	3.50%
65	– capital conservation buffer requirement	**2.5%**	2.50%
66	– countercyclical buffer requirement	**—**	—
67	– systemic risk buffer	**1.0%**	1.0%
68	Common equity tier 1 available to meet buffers	**11.1%**	10.7%
	Amounts below the threshold for deduction (before risk weighting)		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**262**	200
	Applicable caps on the inclusion of provisions in tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**21**	25
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**417**	422

* *The references identify the lines prescribed in the EBA template, which are applicable and where there is a value.*
1 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*
2 *Effective Q2 21 row 27a will be used to report IFRS 9 Transitional adjustments (restated for 31 December 2020 from Retained Earnings) and deduction for insufficient coverage for non-performing exposures.*

Leverage ratio

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

The leverage exposure measure is also calculated and presented to the ALCO every month.

Our UK leverage ratio at 30 June 2021 was 6.7% (31 December 2020: 6.5%). This measure excludes qualifying central bank balances and bounce back loans from the calculation of exposure.

At 30 June 2021, our UK minimum leverage ratio requirement of 3.25% was supplemented by an additional leverage ratio buffer of 0.35% and a countercyclical leverage ratio buffer of 0%. This additional buffer translated into capital values of £808m.

We exceeded these leverage requirements.

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	**322,705**	304,864
	Adjustments for:		
2	– consolidation of banking associates/joint ventures	**83**	97
4	– derivative financial instruments	**160**	107
5	– securities financing transactions ('SFT')	**216**	395
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**17,930**	18,407
7	– other	**(6,324)**	(6,674)
8	**Total leverage ratio exposure**	**334,770**	317,196

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

Leverage ratio common disclosure ('LRCom')

		At	
		30 Jun 2021	31 Dec 2020
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**321,638**	303,282
2	(Asset amounts deducted in determining Tier 1 capital)	**(7,266)**	(7,635)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**314,372**	295,647
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**122**	49
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**272**	213
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**114**	300
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(114)**	(300)
11	**Total derivative exposures**	**394**	262
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**2,393**	2,620
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(536)**	(135)
14	Counterparty credit risk exposure for SFT assets	**216**	395
16	**Total securities financing transaction exposures**	**2,073**	2,880
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**73,696**	75,860
18	(Adjustments for conversion to credit equivalent amounts)	**(55,765)**	(57,453)
19	**Total off-balance sheet exposures**	**17,931**	18,407
	Capital and total exposures		
20	**Tier 1 capital**	**15,467**	15,197
21	**Total leverage ratio exposure**	**334,770**	317,196
22	**Leverage ratio (%)**	**4.6**	4.8
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. Lines represented in this table are those lines which are applicable and where there is a value.*

UK Leverage Ratio

	At		
	30 Jun 2021 £m	31 Mar 2021 £m	31 Dec 2020 £m
UK leverage ratio exposure – quarterly average	**228,870**	231,251	236,674
	%	%	%
UK leverage ratio – quarterly average	**6.6**	6.5	6.2
UK leverage ratio – quarter end	**6.7**	6.4	6.5

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

		At	
		30 Jun 2021 £m	31 Dec 2020 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**321,525**	302,983
EU-3	– banking book exposures	**321,525**	302,983
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**116,447**	97,596
EU-7	institutions	**2,022**	1,841
EU-8	secured by mortgage of immovable property	**114,023**	110,420
EU-9	retail exposures	**19,415**	20,548
EU-10	corporates	**52,733**	54,569
EU-11	exposures in default	**2,485**	2,523
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**14,400**	15,486

Liquidity and funding risk

Liquidity coverage ratio

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

At 30 June 2021, HSBC UK Liquidity Group was above regulatory minimum levels. The following table displays the individual LCR levels for HSBC UK Liquidity Group on an European Commission ('EC') LCR Delegated Regulation basis.

HSBC UK Liquidity Group LCR

	At	
	30 Jun 2021 %	31 Dec 2020 %
HSBC UK Liquidity Group[1]	**223**	198

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

Net stable funding ratio

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

At 30 June 2021, HSBC UK Liquidity Group maintained sufficient stable funding relative to the required stable funding assessed using the NSFR.

The table below displays the NSFR for the HSBC UK Liquidity Group on a BCBS 295 basis.

HSBC UK Liquidity Group NSFR

	At	
	30 Jun 2021 %	31 Dec 2020 %
HSBC UK Liquidity Group	**177**	164

Liquid assets of HSBC UK Liquidity Group

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

HSBC UK Liquidity Group liquid assets

	Estimated liquidity value	
	At 30 Jun 2021 £m	At 31 Dec 2020 £m
HSBC UK Liquidity Group		
Level 1	**104,467**	88,175
Level 2a	**558**	663
Level 2b	**—**	—

Sources of funding

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

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

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds. In the first six months of 2021, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

	At 30 Jun 2021 £m	At 31 Dec 2020 £m
Sources		
Customer accounts	**273,641**	259,341
Deposits by banks	**1,066**	540
Repurchase agreements – non-trading	**6,971**	6,150
Debt securities in issue	**875**	866
Cash collateral, margin and settlement accounts	**129**	32
Subordinated liabilities	**12,078**	10,015
Total equity	**22,975**	22,858
Other balance sheet liabilities	**4,970**	5,062
	322,705	304,864

Funding Uses

	At 30 Jun 2021 £m	At 31 Dec 2020 £m
Uses		
Loans and advances to customers	**191,904**	191,233
Loans and advances to banks	**1,792**	1,514
Reverse repurchase agreements – non-trading	**1,857**	2,485
Cash collateral, margin and settlement accounts	**111**	220
Financial investments	**14,627**	19,309
Cash and balances with Central banks	**99,163**	76,429
Other balance sheet assets	**13,251**	13,674
	322,705	304,864

Credit Risk

Overview

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

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

Credit risk exposure – summary ('CRB-B')

	At 30 June 2021					At 31 December 2020				
	Net carrying value	**Average net carrying values**	**RWAs^**	**Capital required^**	**RWA Density**	Net carrying value	Average net carrying values	RWAs^	Capital required^	RWA Density
	£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
IRB advanced approach	**193,089**	**184,284**	**26,209**	**2,097**	**15**	193,138	188,769	26,887	2,151	15
– Central governments and central banks	**5,677**	**7,157**	**634**	**51**	**11**	7,348	7,328	807	65	11
– Institutions	**1,317**	**1,257**	**224**	**18**	**21**	1,387	1,264	220	17	17
– Corporates[1]	**12,015**	**11,770**	**6,245**	**500**	**59**	12,071	24,608	6,237	499	56
– Total retail	**174,080**	**164,100**	**19,106**	**1,528**	**12**	172,332	155,569	19,623	1,570	12
– *Of which:* *Secured by mortgages on immovable property – SME*	***18***	***40***	***34***	***3***	***194***	*56*	*376*	*58*	*5*	*97*
Secured by mortgages on immovable property non-SME	***120,723***	***112,540***	***6,968***	***557***	***6***	*118,164*	*106,071*	*6,740*	*540*	*6*
Qualifying revolving retail	***37,996***	***36,993***	***5,030***	***402***	***19***	*38,767*	*36,621*	*5,430*	*434*	*20*
Other SME	***9,078***	***8,357***	***2,128***	***170***	***107***	*8,967*	*6,125*	*2,202*	*176*	*105*
Other non-SME	***6,265***	***6,170***	***4,946***	***396***	***78***	*6,378*	*6,376*	*5,193*	*415*	*79*
IRB securitisation positions	**2,276**	**2,191**	**686**	**55**	**30**	2,277	2,328	699	56	31
IRB non-credit obligation assets	**2,263**	**1,992**	**1,559**	**125**	**69**	2,280	1,952	1,550	124	68
IRB foundation approach	**75,252**	**73,363**	**43,214**	**3,457**	**73**	76,469	59,992	43,389	3,471	72
Corporates	**75,252**	**73,363**	**43,214**	**3,457**	**73**	76,469	59,992	43,389	3,471	72
Standardised approach	**112,131**	**90,131**	**1,887**	**151**	**2**	92,908	69,126	2,165	173	2
– Central governments and central banks	**107,720**	**84,598**	**656**	**52**	**1**	86,869	63,070	498	39	1
– Regional government or local authorities	**—**	**178**	**—**	**—**	**—**	226	237	—	—	—
– Public sector entities	**409**	**601**	**—**	**—**	**—**	663	885	—	—	—
– International organisations	**—**	**16**	**—**	**—**	**—**	28	16	—	—	—
– Institutions	**927**	**725**	**268**	**21**	**29**	667	693	182	15	27
– Corporates	**370**	**407**	**159**	**13**	**67**	444	427	183	15	61
– Retail	**879**	**1,785**	**369**	**29**	**74**	1,994	2,012	827	66	64
– Secured by mortgages on immovable property	**273**	**315**	**105**	**9**	**39**	329	568	124	10	38
– Exposures in default	**14**	**52**	**21**	**2**	**130**	50	75	72	6	141
– Items associated with particularly high risk	**9**	**9**	**14**	**1**	**150**	9	8	14	1	150
– Securitisation positions	**1,214**	**1,154**	**207**	**17**	**17**	1,367	815	205	16	15
– Equity	**12**	**2**	**12**	**1**	**100**	—	—	—	—	—
– Other items	**304**	**289**	**76**	**6**	**25**	262	320	60	5	23
Total	**385,011**	**351,961**	**73,555**	**5,885**	**20**	367,072	322,167	74,690	5,975	22

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

Specialised lending on slotting approach ('CR10')

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	Risk weight %	Exposure amount £m	RWAs £m	Expected loss £m
Category 1 – Strong	Less than 2.5 years	**3,421**	**524**	**50**	**3,649**	**1,786**	**—**
	Equal to or more than 2.5 years	**1,644**	**351**	**70**	**1,764**	**1,197**	**7**
Category 2 – Good	Less than 2.5 years	**2,308**	**167**	**70**	**2,357**	**1,613**	**9**
	Equal to or more than 2.5 years	**456**	**117**	**90**	**479**	**420**	**4**
Category 3 – Satisfactory	Less than 2.5 years	**252**	**7**	**115**	**260**	**297**	**7**
	Equal to or more than 2.5 years	**42**	**1**	**115**	**41**	**47**	**1**
Category 4 – Weak	Less than 2.5 years	**17**	**—**	**250**	**18**	**45**	**1**
	Equal to or more than 2.5 years	**18**	**2**	**250**	**22**	**55**	**2**
Category 5 – Default	Less than 2.5 years	**233**	**1**	**—**	**366**	**—**	**184**
	Equal to or more than 2.5 years	**11**	**1**	**—**	**43**	**—**	**21**
At 30 Jun 2021	**Less than 2.5 years**	**6,231**	**699**		**6,650**	**3,741**	**201**
	Equal to or more than 2.5 years	**2,171**	**472**		**2,349**	**1,719**	**35**
Category 1 – Strong	Less than 2.5 years	4,486	404	50	4,637	2,308	—
	Equal to or more than 2.5 years	2,179	465	70	2,349	1,619	9
Category 2 – Good	Less than 2.5 years	1,254	191	70	1,333	920	5
	Equal to or more than 2.5 years	435	66	90	441	394	4
Category 3 – Satisfactory	Less than 2.5 years	66	1	115	66	73	2
	Equal to or more than 2.5 years	42	4	115	42	46	1
Category 4 – Weak	Less than 2.5 years	29	1	250	30	73	2
	Equal to or more than 2.5 years	3	—	250	3	8	—
Category 5 – Default	Less than 2.5 years	319	2	—	473	—	237
	Equal to or more than 2.5 years	17	—	—	29	—	15
At 31 Dec 2020	Less than 2.5 years	6,154	599		6,539	3,374	246
	Equal to or more than 2.5 years	2,676	535		2,864	2,067	29

IRB Foundation – Credit risk exposures by portfolio and PD range ('CR6')

PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre-CCF £m	Average CCF %	EAD post-CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs £m	RWA density %	Expected loss £m	Value adjust-ments and provisions^ £m
FIRB – Corporate – Other												
0.00 to <0.15	**4,707**	**6,493**	**64.1**	**9,068**	**0.11**	**3,732**	**39.3**	**2.2**	**2,533**	**28**	**4**	**2**
0.15 to <0.25	**4,559**	**4,370**	**50.1**	**6,600**	**0.22**	**4,929**	**39.1**	**2.2**	**2,739**	**42**	**7**	**4**
0.25 to <0.50	**5,004**	**3,353**	**43.7**	**6,415**	**0.37**	**4,944**	**39.5**	**2.2**	**3,514**	**55**	**11**	**9**
0.50 to <0.75	**4,653**	**2,894**	**38.2**	**5,336**	**0.63**	**4,117**	**36.8**	**2.3**	**3,361**	**63**	**15**	**10**
0.75 to <2.50	**17,513**	**7,432**	**43.2**	**19,279**	**1.46**	**40,516**	**38.2**	**2.3**	**17,704**	**92**	**126**	**89**
2.50 to <10.00	**7,777**	**3,089**	**48.1**	**8,445**	**4.38**	**6,636**	**37.5**	**2.3**	**10,308**	**122**	**151**	**209**
10.00 to <100.00	**2,018**	**470**	**37.3**	**2,041**	**14.73**	**1,466**	**32.3**	**1.9**	**3,055**	**150**	**123**	**121**
100.00 (Default)	**1,751**	**207**	**43.9**	**1,760**	**100.00**	**1,546**	**41.6**	**2.3**	**—**	**—**	**733**	**329**
Sub-total	**47,982**	**28,308**	**49.2**	**58,944**	**4.74**	**67,886**	**38.3**	**2.3**	**43,214**	**73**	**1,170**	**773**
FIRB – Total at 30 Jun 2021	**47,982**	**28,308**	**49.2**	**58,944**	**4.74**	**67,886**	**38.3**	**2.3**	**43,214**	**73**	**1,170**	**773**
FIRB – Corporate – Other												
0.00 to <0.15	4,169	5,884	66.1	8,143	0.11	3,719	41.0	2.4	2,557	31	4	3
0.15 to <0.25	6,114	4,591	54.8	8,540	0.22	4,881	35.0	2.2	3,245	38	8	6
0.25 to <0.50	5,450	3,227	48.5	6,908	0.37	4,815	38.4	2.3	3,654	53	12	10
0.50 to <0.75	4,665	2,713	46.0	5,644	0.63	4,086	37.9	2.4	3,716	66	16	12
0.75 to <2.50	16,948	8,547	37.0	18,594	1.41	37,093	38.1	2.3	16,096	87	116	221
2.50 to <10.00	8,023	3,056	45.7	8,922	4.43	6,618	38.5	2.4	11,152	125	168	208
10.00 to <100.00	1,942	559	27.8	2,000	14.84	1,408	33.7	1.8	2,969	148	122	95
100.00 (Default)	1,715	275	47.8	1,811	100.00	1,619	42.2	2.1	—	—	768	404
Sub-total	49,026	28,852	48.8	60,562	4.70	64,239	38.1	2.3	43,389	72	1,214	959
FIRB – Total at 31 Dec 2020	49,026	28,852	49.0	60,562	5.00	64,239	38.0	2.0	43,389	72	1,214	959

IRB Advanced – Credit risk exposures by portfolio and PD range ('CR6')

PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre-CCF £m	Average CCF %	EAD post-CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs £m	RWA density %	Expected loss £m	Value adjustments and provisions £m
AIRB – Central government and central banks												
0.00 to <0.15	5,677	–	34.6	5,677	0.01	80	45.0	3.7	634	11.2	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–	–	–	–	–	–
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	5,677	–	34.6	5,677	0.01	80	45.0	3.7	634	11.2	–	–
AIRB – Institutions												
0.00 to <0.15	1,086	211	33.5	1,070	0.07	393	29.0	2.2	209	19.5	–	2
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	10	10	57.0	16	0.63	5	45.0	2.3	14	90.3	–	–
0.75 to <2.50	1	2	29.7	1	0.90	9	45.0	1.0	1	83.7	–	–
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	1,097	223	34.5	1,087	0.08	407	29.0	2.2	224	20.6	–	2
AIRB – Corporate – Specialised Lending (excluding Slotting)[1]												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	148	126	57.0	219	0.22	5	33.0	3.7	71	32.2	1	1
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	81	52	57.0	111	0.63	7	30.0	3.8	61	54.7	–	–
0.75 to <2.50	62	97	49.3	110	1.60	4	23.0	4.1	75	67.7	–	–
2.50 to <10.00	–	–	–	–	–	–	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Sub-total	291	275	54.3	440	0.67	16	30.0	3.8	207	46.7	1	1
AIRB – Corporate – Other												
0.00 to <0.15	152	159	46.7	226	0.09	70	17.0	2.1	34	15.1	–	–
0.15 to <0.25	139	3	29.3	140	0.22	55	19.0	1.3	21	15.3	–	–
0.25 to <0.50	117	14	7.9	118	0.38	51	14.0	1.6	21	17.5	–	–
0.50 to <0.75	197	–	262.3	198	0.63	32	18.0	1.3	59	29.7	–	1
0.75 to <2.50	275	57	8.8	278	1.46	1,056	20.0	2.0	126	45.4	1	–
2.50 to <10.00	58	634	0.1	60	4.35	36	22.0	1.3	41	68.6	1	1
10.00 to <100.00	6	–	1,388.5	6	17.39	6	17.0	1.0	4	71.5	–	–
100.00 (Default)	123	1	126.6	124	100.00	16	28.0	1.0	272	218.4	13	13
Sub-total	1,067	868	9.7	1,150	11.67	1,292	19.0	1.7	578	50.3	15	15
Wholesale AIRB – Total at 30 Jun 2021	8,132	1,366	22.7	8,354	1.66	1,795	39.0	3.0	1,643	19.7	16	18

IIRB Advanced – Credit risk exposures by portfolio and PD range ('CR6') (continued)

PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre-CCF £m	Average CCF %	EAD post-CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs £m	RWA density %	Expected loss £m	Value adjustments and provisions £m
AIRB – Central government and central banks												
0.00 to <0.15	7,349	—	24.8	7,349	0.01	74	45.0	3.6	807	11.0	—	—
0.15 to <0.25	—	—	—	—	—	1	45.0	4.9	—	59.8	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	—
0.75 to <2.50	—	—	—	—	1.20	2	45.0	2.4	—	94.9	—	—
2.50 to <10.00	—	—	—	—	4.20	1	45.0	2.4	—	148.3	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	7,349	—	24.8	7,349	0.01	78	45.0	3.6	807	11.0	—	—
AIRB – Institutions												
0.00 to <0.15	1,172	138	25.5	1,208	0.06	1,555	25.0	2.1	153	12.6	—	1
0.15 to <0.25	66	—	73.7	66	0.22	6	45.0	4.9	65	98.2	—	4
0.25 to <0.50	—	—	51.2	—	0.37	6	45.0	4.9	—	91.6	—	—
0.50 to <0.75	3	1	2.2	1	0.63	7	45.0	1.2	1	75.2	—	—
0.75 to <2.50	1	9	10.5	1	0.88	15	45.0	1.0	1	82.9	—	—
2.50 to <10.00	—	4	—	—	3.25	2	45.0	1.0	—	117.5	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	1,242	152	23.8	1,276	0.07	1,591	26.0	2.2	220	17.2	—	5
AIRB – Corporate – Specialised Lending (excluding Slotting)[1]												
0.00 to <0.15	7	6	57.0	11	0.13	1	18.0	1.0	1	7.1	—	—
0.15 to <0.25	136	141	57.0	216	0.22	6	32.0	3.9	83	38.6	—	—
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	—
0.50 to <0.75	76	12	57.0	83	0.63	6	19.0	3.8	29	35.3	—	—
0.75 to <2.50	42	29	44.2	54	1.25	2	20.0	4.4	31	56.4	—	—
2.50 to <10.00	—	—	—	—	—	—	—	—	—	—	—	—
10.00 to <100.00	—	—	—	—	—	—	—	—	—	—	—	—
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	—
Sub-total	261	188	55.0	364	0.46	15	27.0	3.9	144	39.6	—	—
AIRB – Corporate – Other												
0.00 to <0.15	180	133	84.0	292	0.08	67	19.0	1.9	39	13.5	—	—
0.15 to <0.25	166	21	46.1	175	0.21	100	17.0	2.2	32	18.3	—	—
0.25 to <0.50	129	4	81.1	131	0.37	50	25.0	1.8	41	31.0	—	—
0.50 to <0.75	191	2	88.1	193	0.63	47	18.0	1.3	54	28.2	—	1
0.75 to <2.50	413	160	34.8	375	1.49	8,625	22.0	1.8	187	49.7	2	2
2.50 to <10.00	89	102	0.5	90	4.05	46	28.0	1.5	74	82.6	1	—
10.00 to <100.00	8	—	44.0	8	14.81	10	14.0	1.0	5	57.0	—	—
100.00 (Default)	77	5	161.0	85	100.00	27	26.0	1.2	220	259.4	5	5
Sub-total	1,253	427	44.5	1,349	7.24	8,940	21.0	1.7	652	48.4	8	8
Wholesale AIRB – Total at 31 Dec 2020	10,105	767	43.0	10,338	0.98	10,623	39.0	3.0	1,823	17.6	8	13

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

Table 45: IRB – Credit risk exposures by portfolio and PD range ('CR6')

PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre-CCF £m	Average CCF %	EAD post-CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs £m	RWA density %	Expected loss £m	Value adjustments and provisions^ £m
AIRB – Secured by mortgages on immovable property SME												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.50	–	–	–	–	–	–	–	–	–	–	–	–
2.50 to <10.00	1	–	–	1	4.54	18	73.7	–	2	183	–	–
10.00 to <100.00	4	1	11.4	4	16.99	63	75.8	–	14	332	1	–
100.00 (Default)	12	–	15.5	12	100.00	186	62.1	–	18	149	6	–
Sub-total	**17**	**1**	**11.3**	**17**	**73.96**	**267**	**66.1**	**–**	**34**	**194**	**7**	**–**
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	94,045	4,275	103.9	101,713	0.07	577,088	15.5	–	3,127	3	12	13
0.15 to <0.25	9,349	1,256	106.2	10,964	0.20	62,204	17.3	–	881	8	4	5
0.25 to <0.50	5,456	498	109.4	6,154	0.35	34,918	16.2	–	758	12	4	5
0.50 to <0.75	1,827	128	111.5	2,018	0.60	11,449	15.3	–	321	16	2	3
0.75 to <2.50	2,056	192	110.8	2,316	1.31	13,143	13.7	–	525	23	5	8
2.50 to <10.00	501	65	115.1	585	4.70	3,320	9.3	–	240	41	4	9
10.00 to <100.00	571	10	116.3	598	30.53	3,392	9.0	–	308	52	18	17
100.00 (Default)	656	16	18.2	658	100.00	3,734	13.3	–	808	123	31	82
Sub-total	**114,461**	**6,440**	**105.0**	**125,006**	**0.82**	**709,248**	**15.5**	**–**	**6,968**	**6**	**80**	**142**
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	2,250	24,500	60.2	16,995	0.06	9,730,675	77.7	–	663	4	10	20
0.15 to <0.25	379	2,370	69.6	2,029	0.22	1,161,458	82.5	–	269	13	5	8
0.25 to <0.50	601	3,015	57.5	2,287	0.34	1,309,321	84.0	–	466	20	8	14
0.50 to <0.75	706	1,153	59.4	1,394	0.58	798,079	85.2	–	417	30	8	24
0.75 to <2.50	1,289	1,016	75.3	2,072	1.42	1,187,006	82.4	–	1,137	55	29	104
2.50 to <10.00	599	255	110.4	906	4.59	518,818	78.8	–	1,062	117	39	76
10.00 to <100.00	186	46	93.3	244	31.27	139,871	79.9	–	543	222	75	50
100.00 (Default)	202	27	57.1	216	100.00	123,610	85.1	–	473	219	127	125
Sub-total	**6,212**	**32,382**	**61.5**	**26,143**	**1.50**	**14,968,838**	**79.5**	**–**	**5,030**	**19**	**301**	**421**
AIRB – Other SME												
0.00 to <0.15	3	52	71.3	40	0.10	15,225	94.4	–	8	19	–	44
0.15 to <0.25	6	83	50.6	48	0.21	18,462	94.8	–	15	32	–	–
0.25 to <0.50	21	203	63.5	149	0.37	57,512	94.8	–	69	46	1	–
0.50 to <0.75	21	126	70.5	109	0.61	42,114	93.3	–	66	60	1	–
0.75 to <2.50	3,467	928	47.5	958	1.53	368,782	84.2	–	841	88	14	13
2.50 to <10.00	2,366	253	48.4	482	4.73	185,474	82.8	–	570	118	24	46
10.00 to <100.00	1,539	71	41.0	130	20.75	49,959	87.5	–	279	215	37	39
100.00 (Default)	203	11	12.3	81	100.00	31,277	65.9	–	280	344	61	50
Sub-total	**7,626**	**1,727**	**51.9**	**1,997**	**7.36**	**768,805**	**85.0**	**–**	**2,128**	**107**	**138**	**192**
AIRB – Other non-SME												
0.00 to <0.15	329	373	46.0	501	0.07	61,001	16.9	–	17	3	–	–
0.15 to <0.25	1,064	47	47.5	1,084	0.23	132,113	79.4	–	410	38	2	4
0.25 to <0.50	633	57	8.1	637	0.38	77,608	72.3	–	287	45	2	2
0.50 to <0.75	938	29	6.7	937	0.59	114,197	84.8	–	645	69	4	13
0.75 to <2.50	2,071	29	28.3	2,074	1.37	252,577	82.2	–	1,985	96	23	60
2.50 to <10.00	800	15	79.0	807	4.65	98,367	86.0	–	1,043	129	31	86
10.00 to <100.00	162	1	57.5	161	33.59	19,562	85.0	–	267	166	44	39
100.00 (Default)	148	1	57.4	140	100.00	16,994	84.0	–	292	209	89	105
Sub-total	**6,145**	**552**	**40.2**	**6,341**	**4.26**	**772,419**	**76.5**	**–**	**4,946**	**78**	**195**	**309**
Retail AIRB – Total at 30 Jun 2021	**134,461**	**41,102**	**68.0**	**159,504**	**1.00**	**17,219,577**	**29.0**	**–**	**19,106**	**12**	**721**	**1,064**

Table 45: IRB – Credit risk exposures by portfolio and PD range ('CR6') (continued)

PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre-CCF £m	Average CCF %	EAD post-CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity years	RWAs £m	RWA density %	Expected loss £m	Value adjustments and provisions^ £m
AIRB – Secured by mortgages on immovable property SME												
0.00 to <0.15	4	—	—	4	0.13	21	70.0	—	1	21	—	—
0.15 to <0.25	1	—	47.7	1	0.22	3	41.2	—	—	16	—	—
0.25 to <0.50	8	1	47.5	9	0.37	46	35.0	—	2	21	—	—
0.50 to <0.75	5	—	11.8	5	0.63	28	38.3	—	2	35	—	—
0.75 to <2.50	11	2	29.9	11	1.35	59	37.6	—	6	57	—	—
2.50 to <10.00	2	—	—	2	4.66	9	59.9	—	3	158	—	—
10.00 to <100.00	10	1	9.1	10	12.48	53	49.6	—	21	212	1	—
100.00 (Default)	12	—	263.1	18	100.00	97	63.4	—	23	125	10	—
Sub-total	53	4	37.4	60	33.36	314	50.1	—	58	97	11	—
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	92,089	5,513	103.7	100,960	0.06	585,434	15.5	—	3,053	3	11	12
0.15 to <0.25	8,081	1,133	106.7	9,522	0.21	55,215	18.0	—	770	8	4	5
0.25 to <0.50	4,719	399	110.7	5,296	0.36	30,711	16.7	—	607	11	3	4
0.50 to <0.75	1,799	145	106.8	2,001	0.60	11,605	14.6	—	282	14	2	2
0.75 to <2.50	2,177	233	113.1	2,480	1.36	14,382	14.3	—	573	23	5	7
2.50 to <10.00	660	85	114.3	769	4.69	4,459	9.1	—	258	34	4	5
10.00 to <100.00	598	10	116.8	625	29.69	3,626	10.2	—	349	56	19	14
100.00 (Default)	675	18	24.9	681	100.00	3,947	13.5	—	849	125	31	84
Sub-total	110,798	7,536	104.8	122,334	0.86	709,380	15.7	—	6,741	6	79	133
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	2,064	24,816	60.1	16,987	0.06	9,649,670	77.7	—	568	3	8	22
0.15 to <0.25	373	2,462	67.8	2,042	0.22	1,160,028	82.3	—	251	12	4	9
0.25 to <0.50	582	3,193	56.0	2,329	0.34	1,323,222	84.1	—	434	19	7	15
0.50 to <0.75	705	1,249	58.7	1,440	0.58	818,108	85.0	—	415	29	8	25
0.75 to <2.50	1,425	1,109	70.0	2,216	1.41	1,259,139	82.7	—	1,156	52	28	108
2.50 to <10.00	690	279	111.9	1,025	4.58	582,264	79.0	—	1,134	111	39	93
10.00 to <100.00	235	52	99.0	302	32.44	171,712	79.9	—	901	298	97	59
100.00 (Default)	267	22	53.6	277	100.00	157,302	85.8	—	570	206	160	157
Sub-total	6,341	33,182	61.1	26,618	1.82	15,121,446	79.6	—	5,429	20	351	488
AIRB – Other SME												
0.00 to <0.15	3	51	70.6	39	0.10	14,382	94.5	—	8	19	—	78
0.15 to <0.25	6	84	50.0	47	0.21	17,462	94.7	—	15	32	—	1
0.25 to <0.50	21	199	63.6	147	0.37	54,035	94.8	—	67	46	1	1
0.50 to <0.75	21	132	69.4	112	0.61	41,312	93.2	—	67	60	1	1
0.75 to <2.50	3,815	919	43.8	1,047	1.54	385,200	84.0	—	918	88	15	19
2.50 to <10.00	2,213	240	48.4	480	4.79	176,791	82.4	—	565	118	24	30
10.00 to <100.00	1,403	59	47.1	133	20.37	48,932	88.3	—	281	212	36	24
100.00 (Default)	134	8	55.3	85	100.00	31,384	75.0	—	281	329	72	62
Sub-total	7,616	1,692	50.1	2,090	7.31	769,498	85.2	—	2,202	105	149	216
AIRB – Other non-SME												
0.00 to <0.15	339	337	50.1	508	0.08	63,016	21.9	—	26	5	—	—
0.15 to <0.25	1,236	48	27.6	1,247	0.21	154,603	80.9	—	452	36	2	4
0.25 to <0.50	656	36	11.2	661	0.39	81,993	72.9	—	304	46	2	3
0.50 to <0.75	838	23	14.0	839	0.60	104,072	85.5	—	588	70	4	10
0.75 to <2.50	2,061	36	10.0	2,057	1.36	255,233	84.2	—	2,005	97	23	56
2.50 to <10.00	884	15	89.2	892	4.79	110,622	86.1	—	1,153	129	34	95
10.00 to <100.00	222	1	82.3	220	37.28	27,228	85.9	—	365	166	66	49
100.00 (Default)	151	1	49.5	143	100.00	17,750	84.0	—	300	210	92	113
Sub-total	6,387	497	41.7	6,567	4.67	814,516	78.1	—	5,193	79	223	330
Retail AIRB – Total at 31 Dec 2020	131,195	42,911	68.0	157,669	1.00	17,415,154	30.0	—	19,623	12	813	1,167

Counterparty credit risk

Overview

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

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

Counterparty credit risk – RWAs by exposure class and product

	At 30 Jun 2021			At 31 Dec 2020		
	EAD pre CRM	RWAs	Capital required	EAD pre CRM	RWAs	Capital required
	£m	£m	£m	£m	£m	£m
By exposure class						
IRB advanced approach	**264**	**55**	**4**	45	14	1
– institutions	**264**	**55**	**4**	45	14	1
– corporates	**—**	**—**	**—**	—	—	—
IRB foundation approach	**45**	**24**	**2**	70	43	3
– corporates	**45**	**24**	**2**	70	43	3
Standardised approach	**96**	**25**	**2**	32	7	1
– institutions	**96**	**25**	**2**	32	7	1
Credit valuation adjustment	**—**	**48**	**4**	—	20	2
CCP standardised	**486**	**39**	**3**	883	38	3
	891	**191**	**15**	1,030	122	10
By product						
– derivatives	**564**	**90**	**7**	619	70	5
– SFTs	**327**	**24**	**2**	411	11	1
– Credit valuation adjustment	**—**	**48**	**4**	—	20	2
– CCP default funds	**—**	**29**	**2**	—	21	2
Total	**891**	**191**	**15**	1,030	122	10

Market risk

Overview

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

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

Market risk under standardised approach

	At 30 Jun 2021		At 31 Dec 2020	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Outright products				
Interest rate risk (general and specific)	**31**	**—**	1	—
Foreign exchange risk	**214**	**17**	155	12
Total	**245**	**17**	156	12

Operational risk

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

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

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

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

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

Operational risk RWAs and capital required

	At 30 Jun 2021		At 31 Dec 2020	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Own funds requirement for operational risk – assessed on the standardised approach	**10,564**	**845**	10,509	841

Directors' responsibility statement

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

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

- the interim condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the UK; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2021 and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year.

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

On behalf of the Board

Dame Clara Furse

Chairman

1 August 2021

HSBC UK Bank plc

Registered number 9928412

+ Independent non-executive Director

^ Non-executive Director

Independent review report to HSBC UK Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC UK Bank plc's condensed consolidated interim financial statements (the "interim financial statements") in the *Interim Report 2021* of HSBC UK Bank plc and its subsidiaries (the 'group') for the six 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' 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 and certain other information[1].

The interim financial statements included in the *Interim Report 2021* of the group have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' 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

Birmingham

1 August 2021

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

Condensed financial statements

Consolidated income statement

		Half-year to	
		30 Jun 2021	30 Jun 2020
	Notes	**£m**	£m
Net interest income		**2,292**	2,302
– interest income		**2,503**	2,703
– interest expense		**(211)**	(401)
Net fee income	2	**476**	530
– fee income		**603**	609
– fee expense		**(127)**	(79)
Net income from financial instruments held for trading or managed on a fair value basis		**147**	176
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**12**	(2)
Gains less losses from financial investments		**76**	66
Other operating income		**20**	8
Net operating income before change in expected credit losses and other credit impairment charges		**3,023**	3,080
Change in expected credit losses and other credit impairment charges		**413**	(1,615)
Net operating income		**3,436**	1,465
Employee compensation and benefits[1]		**(521)**	(447)
General and administrative expenses[1]		**(1,166)**	(1,241)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(97)**	(91)
Amortisation and impairment of intangible assets		**(112)**	(89)
Total operating expenses		**(1,896)**	(1,868)
Operating profit/(loss)		**1,540**	(403)
Profit/(loss) before tax		**1,540**	(403)
Tax (expense)/credit	4	**(559)**	50
Profit/(loss) for the period		**981**	(353)
Attributable to:			
– shareholders of the parent company		**978**	(356)
– non-controlling interests		**3**	3
Profit/(loss) for the period		**981**	(353)

1 *On 1 April 2021, 3,203 full-time equivalent employees transferred from HSBC Global Services (UK) Limited to HSBC UK Bank plc, that were fully dedicated to HSBC UK Bank plc. As a result in 2021, associated costs for the three months to 30 June 2021, are now reported under Employee compensation and benefits rather than General and administrative expenses.*

The accompanying notes on pages 49 to 55, the adjusted performance tables in the 'Financial summary' section on pages 9 to 10, and the following disclosures in the Risk section on pages 12 to 27 form an integral part of these condensed financial statements: 'Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation' 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'.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2021	30 Jun 2020
	£m	£m
Profit/(loss) for the period	**981**	(353)
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**(80)**	80
– fair value gains/(loss)	**(23)**	170
– fair value gains transferred to the income statement on disposal	**(74)**	(66)
– expected credit (recoveries)/losses recognised in the income statement	**(5)**	5
– income taxes	**22**	(29)
Cash flow hedges	**—**	11
– fair value losses	**—**	(1)
– fair value losses reclassified to the income statement	**1**	16
– income taxes	**(1)**	(4)
Exchange differences	**(3)**	4
– other exchange differences	**(3)**	4
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(736)**	914
– before income taxes	**(812)**	1,315
– income taxes[1]	**76**	(401)
Other comprehensive income/(expense) for the period, net of tax	**(819)**	1,009
Total comprehensive income for the period	**162**	656
Attributable to:		
– ordinary shareholders of the parent company	**159**	653
– non-controlling interests	**3**	3
Total comprehensive income for the period	**162**	656

1 *The income tax credit of £76m arising on Remeasurement of defined benefit asset/liability includes an income tax charge of £139m arising upon the remeasurement of deferred tax following the substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023.*

Consolidated balance sheet

		At	
		30 Jun	31 Dec
		2021	2020
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**99,163**	76,429
Items in the course of collection from other banks		**284**	253
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*6*	**37**	26
Derivatives		**234**	155
Loans and advances to banks		**1,792**	1,514
Loans and advances to customers		**191,904**	191,233
Reverse repurchase agreements – non-trading		**1,857**	2,485
Financial investments		**14,627**	19,309
Prepayments, accrued income and other assets		**8,675**	9,310
Current tax assets		**—**	49
Interests in joint ventures		**8**	8
Goodwill and intangible assets	*9*	**4,124**	4,093
Total assets		**322,705**	304,864
Liabilities and equity			
Liabilities			
Deposits by banks		**1,066**	540
Customer accounts		**273,641**	259,341
Repurchase agreements – non-trading		**6,971**	6,150
Items in the course of transmission to other banks		**163**	132
Derivatives		**156**	365
Debt securities in issue		**875**	866
Accruals, deferred income and other liabilities		**1,952**	1,941
Current tax liabilities		**315**	—
Provisions	*10*	**679**	979
Deferred tax liabilities		**1,834**	1,677
Subordinated liabilities		**12,078**	10,015
Total liabilities		**299,730**	282,006
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**7,755**	7,838
Retained earnings		**3,949**	3,749
Total shareholders' equity		**22,915**	22,798
Non-controlling interests		**60**	60
Total equity		**22,975**	22,858
Total liabilities and equity		**322,705**	304,864

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2021	30 Jun 2020
	£m	£m
Profit/(loss) before tax	**1,540**	(403)
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**209**	180
Net gain from investing activities	**(76)**	(66)
Change in expected credit losses gross of recoveries and other credit impairment charges	**(366)**	1,647
Provisions including pensions	**(2)**	(17)
Share-based payment expense	**7**	8
Other non-cash items included in profit before tax	**1**	—
Elimination of exchange differences[1]	**176**	(613)
Changes in operating assets	**(460)**	(4,437)
Changes in operating liabilities	**15,053**	29,330
Contributions paid to defined benefit plans	**(167)**	(180)
Tax received/(paid)	**58**	(356)
Net cash from operating activities	**15,973**	25,093
Purchase of financial investments	**(6,952)**	(21,236)
Proceeds from the sale and maturity of financial investments	**12,029**	12,004
Net cash flows from the purchase and sale of property, plant and equipment	**(14)**	(25)
Net investment in intangible assets	**(143)**	(146)
Net cash from investing activities	**4,920**	(9,403)
Subordinated loan capital issued[2]	**4,520**	—
Subordinated loan capital repaid[3]	**(2,079)**	—
Dividends paid to shareholders of the parent company and non-controlling interests	**(60)**	(167)
Net cash from financing activities	**2,381**	(167)
Net increase in cash and cash equivalents	**23,274**	15,523
Cash and cash equivalents at the beginning of the period	**77,422**	38,086
Exchange differences in respect of cash and cash equivalents	**(21)**	166
Cash and cash equivalents at the end of the period	**100,675**	53,775

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the period are attributable from issuance of securities £4,520m (2020: nil). Non-cash changes during the period included foreign exchange gains of £34m (2020: nil).*
3 *Subordinated liabilities changes during the period are attributable to repayments of £2,079m (2020: nil).*

Consolidated statement of changes in equity

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Group re-organisation reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**9,015**	**2,196**	**3,749**	**146**	**1**	**7,691**	**22,798**	**60**	**22,858**
Profit for the period	—	—	978	—	—	—	978	3	981
Other comprehensive income (net of tax)	—	—	(736)	(83)	—	—	(819)	—	(819)
– debt instruments at fair value through other comprehensive income	—	—	—	(80)	—	—	(80)	—	(80)
– cash flow hedges	—	—	—	—	—	—	—	—	—
– remeasurement of defined benefit asset/ liability	—	—	(736)	—	—	—	(736)	—	(736)
– exchange differences	—	—	—	(3)	—	—	(3)	—	(3)
Total comprehensive income for the period	—	—	242	(83)	—	—	159	3	162
Dividends to shareholders	—	—	(57)	—	—	—	(57)	(3)	(60)
Other movements[1]	—	—	15	—	—	—	15	—	15
At 30 Jun 2021	**9,015**	**2,196**	**3,949**	**63**	**1**	**7,691**	**22,915**	**60**	**22,975**
At 1 Jan 2020	9,015	2,196	3,292	9	(12)	7,691	22,191	60	22,251
Loss for the period	—	—	(356)	—	—	—	(356)	3	(353)
Other comprehensive income (net of tax)	—	—	914	84	11	—	1,009	—	1,009
– debt instruments at fair value through other comprehensive income	—	—	—	80	—	—	80	—	80
– cash flow hedges	—	—	—	—	11	—	11	—	11
– remeasurement of defined benefit asset/ liability	—	—	914	—	—	—	914	—	914
– exchange differences	—	—	—	4	—	—	4	—	4
Total comprehensive income for the period	—	—	558	84	11	—	653	3	656
Dividends to shareholders	—	—	(164)	—	—	—	(164)	(3)	(167)
Other movements[1]	—	—	34	—	—	—	34	—	34
At 30 Jun 2020	9,015	2,196	3,720	93	(1)	7,691	22,714	60	22,774

1 Relates primarily to £10m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (1H20: £28m).

2 The Group reorganisation reserve ('GRR') is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring-fenced businesses that were notionally transferred from HSBC Bank plc.

Notes on the 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 UK have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as adopted by the UK. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC UK's financial position and performance since the end of 2020.

These financial statements should be read in conjunction with the *Annual Report and Accounts 2020*.

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 as adopted by the UK and IFRSs issued by the IASB in terms of their application to HSBC UK. The financial statements for the year ended 31 December 2021 will be prepared in accordance with UK-adopted international accounting standards 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 our critical accounting estimates and judgements are those that relate to effective interest rate applied to interest income recognised on credit card lending, impairment of amortised cost and FVOCI debt financial assets, provisions for liabilities, impairment of goodwill and defined benefit pension obligations. There were no changes in the current period to the critical accounting estimates and judgements applied in 2020, which are stated on pages 88 to 96 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.

(d) Future accounting developments

There were no accounting standards issued as at 30 June 2021 but not adopted which would have an impact on the group accounts.

(e) Going concern

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

(f) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 88 to 96 of the *Annual Report and Accounts 2020*, as are the methods of computation.

2 Net fee income

	Half-year to	
	30 Jun 2021	30 Jun 2020
Net fee income by product	**£m**	£m
Account services	**129**	142
Funds under management	**54**	52
Cards	**182**	185
Credit facilities	**65**	60
Imports/exports	**14**	15
Insurance agency commission	**24**	22
Receivables finance	**43**	40
Other	**92**	93
Fee income	**603**	609
Less: fee expense	**(127)**	(79)
Net fee income	**476**	530
Net fee income by global business		
Wealth and Personal Banking	**224**	275
Commercial Banking	**342**	342
Global Banking and Markets	**(89)**	(85)
Corporate Centre	**(1)**	(2)

3 Post-employment benefit plans

We operate a pension plan for our employees called the HSBC Bank (UK) Pension Scheme ('the plan'). Details of the plan are explained on page 98 of the *Annual Report and Accounts 2020*, and details of the policies and practices associated with the plan on page 54 of the *Annual Report and Accounts 2020.*

Net assets/(liabilities) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit assets
	£m	£m	£m
At 30 Jun 2021	**29,507**	**(23,153)**	**6,354**
At 31 Dec 2020	31,130	(24,173)	6,957

Post-employment defined benefit plan actuarial financial assumptions

Key actuarial assumptions for the plan

	Discount rate	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%
At 30 Jun 2021	**1.95**	**3.35**	**3.25**	**3.05**
At 31 Dec 2020	1.45	3.05	3.00	2.75

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
At 30 Jun 2021	**SAPS S3[1]**	**27.3**	**28.7**	**28.4**	**30.0**
At 31 Dec 2020	SAPS S3[2]	27.0	28.5	28.1	29.7

1 *Self-administered pension scheme ('SAPS') S3 table (male: 'Normal health pensioners, Light' version and females: 'Normal health pensioners, Heavy' version) with a multiplier of 1 for males and females pensioners. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2020 core projection model with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum. Separate tables have been applied to lower paid pensioners and dependants.*
2 *Self-administered pension scheme ('SAPS') S3 table (male: 'Normal health pensioners, Light' version and females: 'Normal health pensioners, Heavy' version) with a multiplier of 1 for males and females pensioners. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2019 core projection model with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum. Separate tables have been applied to lower paid pensioners and dependants.*

The assumed terms on which members commute part of their pension in exchange for a lump sum at retirement have been updated to align with the new commutation factors in force with effect from 1 July 2021.

Commutation conversion factors

	Conversion terms[1]	
	Pre 30 June 2009 service[2]	Post 30 Jun 2009 service[2]
Pensionable service	£	£
At 30 Jun 2021	**26.56**	**23.88**
At 31 Dec 2020	23.95	21.64

1 *Cash per £1 per annum pension at age 60.*
2 *It is assumed that all active and deferred members take 20% of their pension as tax free cash.*

4 Tax

Tax charge

The effective tax rate is 36.3% (1H20: 12.4%). The effective tax rate is increased by 12.4% by a charge arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25%, with effect from 1 April 2023. The effective tax rate excluding this item is 23.9% and reflects the statutory tax rate of 27% (including the 8% banking surcharge) and tax relief on AT1 coupon payments. The effective tax rate for 1H20 was reduced by 14.6% by a charge arising from the remeasurement of the group's deferred tax balances following the reversal of the planned reduction in the main rate of UK corporation tax from 19% to 17%, which was due to be effective from 1 April 2020. This decreased the effective tax rate because a loss before tax was reported for 1H20.

5 Dividends

On 1 August 2021, the Directors declared a first interim dividend to ordinary shareholders of £228m in respect of the financial year ending 31 December 2021. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholder of the parent company

	Half-year to			
	30 Jun 2021		30 Jun 2020	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	–	–	2,000	100

Total coupons on capital securities classified as equity

		Half-year to	
		30 Jun 2021	30 Jun 2020
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**28**	32
– £1,100m	Dec 2024	**29**	32
Total		**57**	64

6 Fair values of financial instruments carried at fair value

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

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2021				At 31 Dec 2020			
	Valuation techniques				Valuation techniques			
	Quoted market price	**Using observable inputs**	**With significant unobservable input**		Quoted market price	Using observable inputs	With significant unobservable input	
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**25**	**12**	**—**	**37**	26	—	—	26
Derivatives	**2**	**232**	**—**	**234**	5	150	—	155
Financial investments	**14,353**	**274**	**—**	**14,627**	19,013	296	—	19,309
Liabilities								
Derivatives	**7**	**149**	**—**	**156**	2	363	—	365

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency. There were no transfers between Level 1 and Level 2 during 2021 and 2020.

7 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities and non-trading repurchase and reverse repurchase agreements are explained on pages 104 and 105 of the *Annual Report and Accounts 2020.*

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

	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	**1,792**	**1,792**	1,514	1,514
Loans and advances to customers	**191,904**	**192,962**	191,233	191,711
Reverse repurchase agreements – non-trading	**1,857**	**1,857**	2,485	2,485
Liabilities				
Deposits by banks	**1,066**	**1,066**	540	540
Customer accounts	**273,641**	**273,641**	259,341	259,341
Repurchase agreements – non-trading	**6,971**	**6,971**	6,150	6,150
Debt securities in issue	**875**	**865**	866	849
Subordinated liabilities	**12,078**	**12,416**	10,015	10,411

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

8 Derivatives Interest Rate Benchmark Reform

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 European Overnight Index Average rate ('Eonia'). Existing financial instruments (such as derivatives, loans and bonds) designated in relationships referencing these benchmarks are expected to transition to new RFRs in different ways and at different times. External progress on the transition to RFRs is being monitored, with the objective of ensuring a smooth transition for the group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship, but may arise due to the transition of existing products included in the designation, a change in expected volumes of products to be issued, a change in contractual terms of new products issued, or a combination of these factors. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The hedged items that are affected by IASB Ibor reform Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue', and 'Deposits by banks'.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibor reform and in scope of 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]
	€	£	$	Total		
	£m	£m	£m	£m	£m	£m
Fair value hedges	**75**	**1,750**	**2,171**	**3,996**	**10,161**	**14,157**
Cash flow hedges	**—**	**100**	**—**	**100**	**2,000**	**2,100**
At 30 Jun 2021	**75**	**1,850**	**2,171**	**4,096**	**12,161**	**16,257**
Fair value hedges	1,264	3,750	2,197	7,211	13,310	20,521
Cash flow hedges	—	295	—	295	1,000	1,295
At 31 Dec 2020	1,264	4,045	2,197	7,506	14,310	21,816

1 *The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*

9 Goodwill

Impairment testing

As described on pages 110 to 111 of the *Annual Report and Accounts 2020*, we test goodwill for impairment at 1 October each year and whenever there is an indication that goodwill may be impaired. At 30 June 2021, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions, including the impact of the Covid-19 outbreak and there was no indication of goodwill impairment.

10 Provisions

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3,4]	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2021	**93**	**64**	**588**	**11**	**756**
Additions	**36**	**—**	**57**	**24**	**117**
Amounts utilised	**(38)**	**(4)**	**(207)**	**—**	**(249)**
Unused amounts reversed	**(26)**	**—**	**(61)**	**(1)**	**(88)**
Exchange and other movements	**—**	**—**	**(1)**	**—**	**(1)**
At 30 Jun 2021	**65**	**60**	**376**	**34**	**535**
Contractual commitments[1]					
At 1 Jan 2021					**223**
Net change in expected credit loss provision					**(79)**
At 30 Jun 2021					**144**
Total Provisions					
At 1 Jan 2021					**979**
At 30 Jun 2021					**679**

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*
2 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*
3 *Additional provisions of £57m were recorded in the consolidated income statement under net interest income (£14)m, net fee income (£5m) and operating expenses (£38m).*
4 *Reversals of £61m were recorded in the consolidated income statement under net interest income (£29m) and operating expenses (£32m).*

Payment protection insurance

At 30 June 2021, £201m (31 December 2020: £242m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of PPI policies in previous years. Payments totalling £53m were made during the first six months of 2021, and the provision was increased by £12m.

Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of an estimated number of future claims. However, the volume and quality of future claims through legal channels, and the amount of any compensation to be paid, remain uncertain and based upon a number of assumptions. The provision increase of £12m is primarily driven by revisions to those assumptions, based on recent claims experience. The provision also includes claims made by the Official Receiver to pursue redress amounts in respect of bankrupt and insolvent customers, and payment in respect of these claims was made on 2 July 2021.

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

Sensitivity to key assumptions

An increase/decrease in customer redress volumes of 1,000 received through legal channels would increase/decrease the redress provision by approximately £4m, based on observed settlement rates, average redress levels and average associated handling costs during 1H21.

Collections and recoveries related matters

At 30 June 2021, a provision of £90m (31 December 2020: £223m) was held relating to the liability for redress payable to customers following a review of collections and recoveries practices in the UK, including HSBC UK. During the first six months of 2021, redress payments and incurred operating costs totalled £113m, in addition to a net release of £20m of provision. This release takes account of the impact on the estimated cost of redress of the actual number of customers impacted and cost of redress paid.

Restructuring costs

The restructuring costs provision relates to severances costs, including severances related to pension augmentations.

Legal proceedings and regulatory matters

Further details of 'Legal proceedings and regulatory matters' are set out in Note 12. Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

11 Contingent liabilities, contractual commitments and guarantees

	At 30 Jun 2021 £m	At 31 Dec 2020 £m
Guarantees and other contingent liabilities:		
– financial guarantees[1]	**907**	935
– performance and other guarantees	**2,235**	2,342
At the end of the period	**3,142**	3,277
Commitments:[2]		
– documentary credits and short-term trade-related transactions	**135**	75
– forward asset purchases and forward deposits placed	**218**	507
– standby facilities, credit lines and other commitments to lend	**70,200**	72,106
At the end of the period	**70,553**	72,688

1 *Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

2 *Includes £68bn of commitments at 30 June 2021 (31 December 2020: £70bn), to which the impairment requirements in IFRS 9 are applied where HSBC UK has become party to an irrevocable commitment.*

The preceding table discloses the nominal principal amounts of off-balance sheet liabilities and commitments for the group, which represent the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 10.

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

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 12.

12 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 at 30 June 2021. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK 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 Group 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 Group engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, was terminated. 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 61 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 Group continues to cooperate with the FCA's investigation, which is at or nearing completion.

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

Film Finance Litigation

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

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

In June 2020, two separate claims were issued against HSBC UK (as successor to PBGB's business) in the High Court of England and Wales by two separate groups of investors in Eclipse film finance schemes in connection with PBGB's role in the development of the Zeus film finance schemes. These actions are ongoing.

In April 2021, HSBC UK was served with a claim issued in the High Court of England and Wales in connection with PBGB's role in the development of the Zeus film finance schemes. This action is at an early stage.

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

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

Collections and recoveries related investigation

Various HSBC Group companies, including HSBC UK, are subject to an ongoing investigation by the FCA in connection with collections and recoveries operations in the UK. HSBC UK is cooperating with the investigation.

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

Foreign exchange related matters

In January 2018, following the conclusion of the US Department of Justice's ('DoJ') investigation into the Group's historical foreign exchange activities, HSBC Holdings entered into a three-year deferred prosecution agreement with the Criminal Division of the DoJ (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. In January 2021, the FX DPA expired and, in July 2021, the DoJ filed a motion to dismiss the charges deferred by the FX DPA, which remains pending.

In February 2019, various HSBC Group companies were named as defendants in a claim issued in the High Court of England and Wales that alleges foreign exchange-related misconduct. This matter is ongoing. There are many factors that may affect the range of outcomes, and the resulting financial impact, of this matter, which could be significant.

PPI

Although the FCA deadline for bringing PPI complaints has passed, customers can still commence litigation for PPI mis-selling. Further details are contained in Note 10.

13 Transactions with related parties

On 21 June 2021 the immediate parent company of the group changed from HSBC UK Holdings Limited to HSBC Holdings plc, who are also the ultimate parent company of the group.

Apart from the change in immediate parent company, there were no other changes to the related party transactions described in 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 other 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*.

14 Events after the balance sheet date

On 1 August 2021, the Directors declared a first interim dividend to ordinary shareholders of £228m in respect of the financial year ending 31 December 2021. No liabilities are recognised in the financial statements in respect of this dividend as described in Note 5.

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

15 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. The *Interim Report 2021* was approved by the Board of Directors on 1 August 2021. The statutory accounts of HSBC UK 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.

Reconciliation of alternative performance measures

Return on equity and return on tangible equity

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

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

Return on Equity and Return on Tangible Equity

	Half-year to	
	30 Jun 2021	30 Jun 2020
	$m	$m
Profit/(loss)		
Profit/(loss) attributable to the ordinary shareholders of the parent company	**1,276**	(517)
Significant items (net of tax)	**129**	27
Adjusted profit/(loss) attributable to the ordinary shareholders of the parent company	**1,405**	(490)
Equity		
Average shareholders' equity	**31,358**	29,094
Additional Tier 1	**(3,021)**	(2,780)
Average ordinary shareholders' equity	**28,337**	26,314
Effect of goodwill and other intangibles (net of deferred tax)	**(5,681)**	(5,095)
Average tangible ordinary shareholders' equity	**22,656**	21,219
Ratio	**%**	%
Return on equity (annualised)	**9.1**	(4.0)
Return on average tangible equity (annualised)[1]	**11.4**	(4.9)
Adjusted return on average tangible equity (annualised)	**12.5**	(4.6)

1 *In the event that the current IAS 19 Pension fund surplus was zero, additional CET1 capital would be required to be held and Adjusted RoTE would be 14.9% (1H20:(6.8)%); we refer to this as Pension Adjusted RoTE.*

HSBC UK Bank plc

1 Centenary Square
Birmingham B1 1HQ
United Kingdom
Telephone: 03456 040 626
www.hsbc.co.uk