HSBC UK Bank plc

Interim Report and Accounts 2022

HSBC

Contents

Presentation of information

This document comprises the *Interim Report 2022* 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.

A full list of abbreviations is provided on page 46.

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').

Our *Pillar 3 Disclosures at 30 June 2022* is expected to be published on or around 9 August 2022 at www.hsbc.com

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2022 with the six months to 30 June 2021. Balance sheet commentary compares the position at 30 June 2022 to 31 December 2021.

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 2021* and therefore focuses on events during the first six months of 2022, 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' represent millions and billions (thousands of millions) of £ sterling, respectively.

Cautionary statement regarding forward-looking statements

The *Interim Report 2022* 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.

About us

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

HSBC UK, headquartered in Birmingham, has over 14.85 million active customers, with over 18,500 FTE employees across the country, supported by a further 5,000 FTE based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

HSBC UK is strongly connected to the rest of the HSBC Group and leverages this network to support customers and grow revenue across key trade corridors around the world. HSBC UK manages its products and services through three businesses:

- Wealth and Personal Banking ('WPB'): Helping millions of our customers manage their day-to-day finances and manage, protect and grow their wealth. In addition to catering for the mass retail market, we also provide services for mass affluent (via Premier), and High Net Worth/Ultra High Net Worth (via Private Bank).
- Commercial Banking ('CMB'): Supporting 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').
- A restricted Global Banking and Markets ('GBM') business: Offering restricted FX products to our customer base and also making available other products from HSBC Bank plc.

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

The *Interim Report and Accounts 2022* outline our business and financial performance aligned to our key strategic pillars:

Focus on our strengths

We seek to use our strengths to play a vital role in the economy, focusing on those areas where we have opportunities to grow, and supporting our customers with the increased cost of living.

Digitise at scale

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

Energise for growth

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

Transition to net zero

Our ambition is to transition to net zero for financed emissions from our portfolio of customers by 2050, and in our own operations and supply chain by 2030.

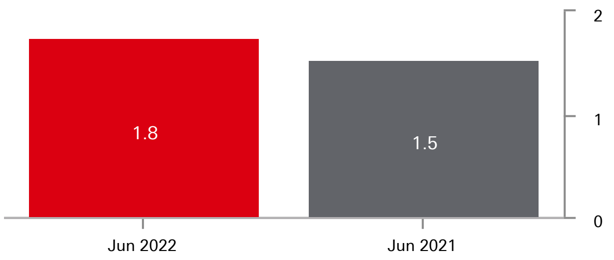
Financial highlights

For the half-year ended 30 June 2022

Reported profit before tax

£1.8bn

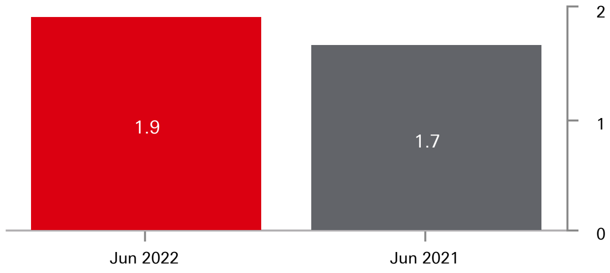
(1H21: £1.5bn)



Adjusted profit before tax

£1.9bn

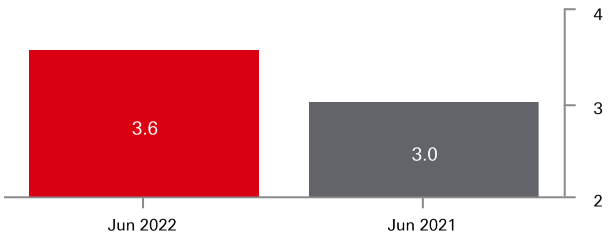
(1H21: £1.7bn)



Reported revenue

£3.6bn

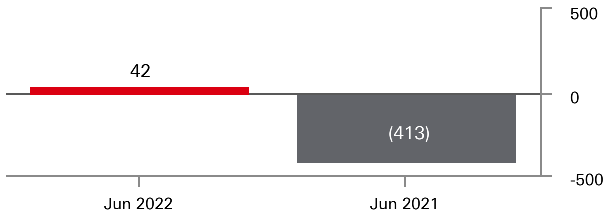
(1H21: £3.0bn)



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

£42m

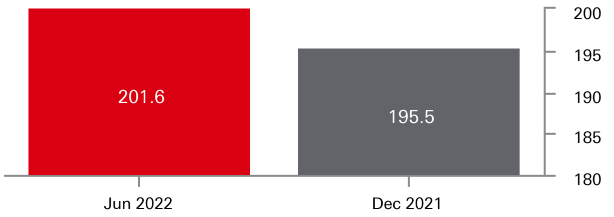
(1H21: £(413)m)



Loans and advances to customers

£201.6bn

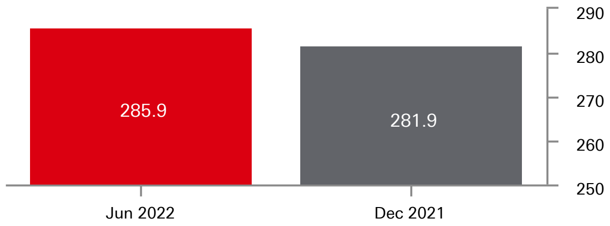
(31 Dec 2021: £195.5bn)



Customer accounts

£285.9bn

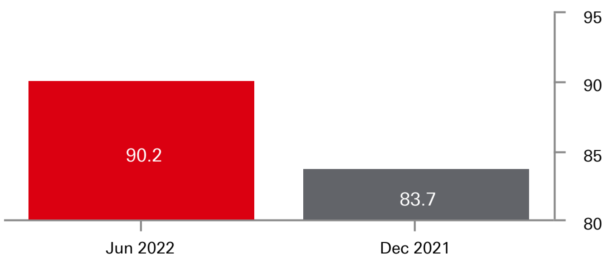
(31 Dec 2021: £281.9bn)



Risk-weighted assets

£90.2bn

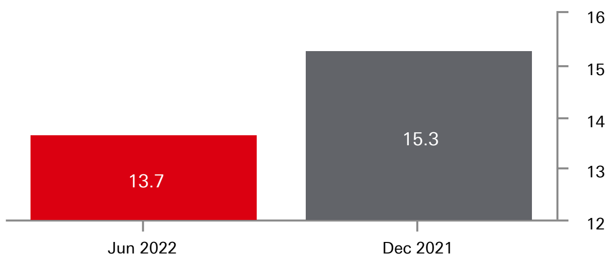
(31 Dec 2021: £83.7 bn)



Common equity tier 1 capital ratio

13.7%

(31 Dec 2021: 15.3%)



Key financial metrics

	Half-year to	
	30 Jun	30 Jun
Reported results	**2022**	2021
Reported revenue (£m)	**3,596**	3,023
Reported profit before tax (£m)[1]	**1,750**	1,540
Reported profit after tax (£m)	**1,469**	981
Profit attributable to the shareholders of the parent company (£m)	**1,466**	978
Return on average tangible equity (annualised) ('RoTE') (%)[1]	**16.4**	11.4
Net interest margin (%)	**1.70**	1.58
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (%)	**0.02**	(0.21)
Adjusted results		
Adjusted revenue (£m)	**3,606**	3,011
Adjusted profit before tax (£m)[1]	**1,924**	1,671
Adjusted cost efficiency ratio (%)[1]	**45.5**	58.2
Adjusted return on average tangible equity (annualised) ('Adjusted RoTE') (%)[1,4]	**17.9**	12.5

	At	
	30 Jun	31 Dec
Balance sheet	**2022**	2021
Total assets (£m)	**348,268**	346,063
Net loans and advances to customers (£m)	**201,636**	195,526
Customer accounts (£m)	**285,917**	281,870
Average interest-earning assets (£m)	**325,781**	303,151
Loans and advances to customers as % of customer accounts (%)	**70.5**	69.4
Total shareholders' equity (£m)	**23,557**	23,745
Tangible ordinary shareholders' equity (£m)	**17,137**	17,332
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[1,2,3]	**13.7**	15.3
Total capital ratio (%)[2,3]	**19.6**	21.6
Risk-weighted assets (£m)[2,3]	**90,209**	83,723
Leverage ratio[2,3] (%)	**5.8**	4.2
High-quality liquid assets (liquidity value) (£m)[3]	**113,457**	120,543
Liquidity coverage ratio (%)[3]	**228**	241

1 *These metrics are tracked as Key Performance Indicators of the group.*
2 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation ('CRR) in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments'. The leverage ratio is calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements, in line with the UK leverage rules that were implemented on 1 January 2022, and excludes central bank claims. Comparatives for 2021 are reported based on the disclosure rules in force at that time, and include claims on central banks. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive as onshored into UK law under the European Union (Withdrawal) Act 2018, and subsequently amended under UK law.*
3 *Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.*
4 *In the event that the current IAS 19 Pension fund surplus were zero, Adjusted RoTE would be 18.6% (1H21: 14.9%). Further detail is on page 45.*

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.

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 45, which details the adjustments made to the reported results and equity in calculating RoTE.

Our purpose and values

Our purpose

Opening up a world of opportunity.

Our values

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

Our strategy

Our strategy comprises the following four pillars:

Focus on our strengths

Supporting our customers

While we have yet to see the full impacts of cost of living pressures, preparing to support our customers remains a top priority. Three in four adults in Britain are saying they are worried about the rising cost of living in 2022, with nearly half already reporting difficulties in paying their energy bills[1]. We are continuously adapting the services, information and tools available to our customers including:

- Creating a new cost of living hub on our website to provide money saving tips and to offer information and guidance on where to go for additional support.
- Launching HSBC@Home virtual webinars designed to help customers build confidence when managing their finances online.
- Proactively engaging and supporting our business customers to navigate rising inflation and supply chain pressures.
- Increasing the number of people in our financial support team and proactively reviewing where hardship might be on the horizon with the aim to help prevent customers from falling into financial difficulty.
- Launched new mobile functionality such as a banking subscription management tool and balance after bills to support budgeting.
- Increased support for vulnerable customers through additional colleague training and increasing the number of people in our specialist support teams.

Financial accessibility and inclusion continue to be key priorities in 2022 and we are taking steps to continuously improve our products and services for customers. In 1H22, we opened over 5,354 bank accounts for Ukrainian settlers and turned all of our UK branches into Safe Spaces, which are being used by anyone who is looking for a safe space to escape domestic violence. Building on our past work to support people with no fixed address we have now opened over 5,015 bank accounts since 2018, including 1,786 accounts for people who are the victims of human trafficking and modern slavery.

We continue to provide support for British businesses to grow through the launch of a £15bn SME Fund. To help funds reach businesses around the UK, we have split the fund into regional pots and have also created funds for key sectors such as International, Technology, Agriculture and Franchise.

1 *Source: Office for National Statistics.*
2 *MarketVue Business Banking from Savanta YE Q1 2022 data. Data weighted by region and turnover to be representative of businesses in G.B.*
3 *Coalition Greenwich 2021 U.K. Middle Market Banking study, interviews conducted between September 2021 and February 2022.*

We have also launched 'Growth Lending', a new £250m pool of assets for high growth tech businesses in the UK. This will support high-growth, loss-making tech scale-ups that are supported by strong equity backing, have proven sales track records, and a clear path to profitability.

Serving our customers

In 2022, we are continuing to focus on strengthening our customer-centric culture by recognising and addressing the needs of our customers. The industry-wide NPS Survey, that runs twice a year, saw first direct ranked number 1 across all retail providers. In WPB, there was a slight decline in customer satisfaction scores in 1H22, decreasing to a score of +9 vs. +12 in 2H21.

In CMB, in the 2021 Coalition Greenwich survey2, undertaken annually, our LC segment consolidated its No.1 ranking position in market leading penetration among customers. In addition, there was further growth in its NPS score, improving its ranking to 2nd.

We have seen a decline in our overall 2Q22 NPS score to -16, as measured by Savanta3, which covers our SBB, BB and MME segments. Our MME segment maintained its strong NPS performance with no other bank scoring higher, with BB and SBB seeing reductions in their NPS score vs FY21.

We acknowledge that there is more work to be done to consistently meet and exceed customer needs.

Shareholder value

We continue to focus on growing our mortgage market share, as we continue to help our retail customers purchase their homes. As of 30 June 2022, we provided £13.4bn of gross new mortgage lending (1H21: £14.7bn) and increased our stock market share to 7.6% (FY21: 7.5%). This has seen our mortgage book surpass £122bn. We have also extended access to our mortgages through more than 850 brokers and launched cashback incentives for purchases across our residential and buy-to-let offerings. We have also helped over 400,000 customers manage their cash flow through providing credit cards and personal loans.

Commercial lending (loans and overdrafts) has increased 1% on prior year and is ahead of pre-pandemic levels, despite the roll-off of government loan scheme balances. This has been supported by the continued momentum in trade finance, with assets up 57% on prior year on a period end basis. As at 31 May 2022, our net commercial lending market share was 9.6% (10.1% in 1H21).

Digitise at scale

We aim to use technology to deliver fast, easy and secure banking, with a critical focus on delivering our key digital priorities across our two main business areas, WPB and CMB.

In CMB, we continued to enhance HSBC Kinetic, our mobile-first SME banking service, by launching small business loans, providing access to real-time funding for loans up to £10,000, and new external partnerships, such as TalkTalk Business, bringing holistic support to SMEs. As at 30 June 2022, HSBC Kinetic has on-boarded over 39,000 customers. We have also improved Global Wallet, our multi-currency virtual wallet, with increased functionality, allowing customers to track payments and top up from overdraft facilities.

We continue to improve our Digital Business Banking channel with enhanced self-service functionality such as Live-Sign, which provides customers with the ability to register, amend online payment limits and request a business debit card without posting a physical form.

In WPB, we continue to launch new functionality within our Mobile Banking App, such as in-app messaging and fraud payment alerts. We also completed our Digital Security Platform ('DSP') rollout, creating simpler mobile registrations and resets.

We continue with our plans to transform first direct. In 2022, we launched a range of personal financial management enhancements to our Mobile Banking App including transaction enrichment and instant card authorisation.

We have also expanded our current account offering through entering the secondary account market, opening up first direct to more customers.

Energise for growth

Supporting our employees

Employee engagement

During 2022, we have continued to focus on our employees' well-being and engagement, with key activities including: well-being month, learning at work week, recognition awards, developing leadership capability and 'all colleague' strategy roadshows. Our approach to well-being continues to evolve as we look to support employees who are managing the longer term impacts of the pandemic and navigating new ways of hybrid working, that allows a positive and flexible balance of work locations, whilst ensuring we continue to put our customers first.

We have made a number of targeted interventions to support our employees' well-being, including access to a Digital GP, enabling employees to speak to a medical professional, at any time, free of charge.

Speak-up culture

We foster and encourage a strong speak-up culture where all of our employees feel able to raise issues. Employees make use of a variety of speak up channels such as our confidential whistleblowing helpline and our HR Direct platform. The HSBC Confidential whistleblowing line enables employees to raise concerns in confidence and anonymously if they wish, without fear of retaliation and reprisal. Concerns are investigated thoroughly and independently by specialist investigation teams and HSBC UK does not condone or tolerate any acts of retaliation against those involved in internal investigations.

Diversity and Inclusion

In 2021, we relaunched our Diversity and Inclusion strategy (Representation, Respect, Reputation) with the aim to be a truly inclusive business, opening up a world of opportunity for our customers, our employees and the wider communities we serve:

- Representation: We aim for representation for our colleagues to reflect the diversity of the UK population at all levels.
- Respect: We treat people with respect driving an inclusive culture where everybody feels that they belong, can reach their full potential and are able to speak up.
- Reputation: We aspire for a positive reputation and want our customers, employees and wider communities to trust us to be an inclusive business that values difference.

We work closely with our 16 Employee Resource Groups, with over 18,000 members, to champion education, awareness and facilitate open discussions on ways we can improve. Our newest employee resource group aims to support employees who can face challenges in the journey to start a family.

Supporting our community

Community partnerships

Financial Capability: Money Heroes

Through a further partnership with BBC Children in Need, the Money Heroes programme has been adapted to support children with special educational needs and physical disabilities ('SEND'). This new content will reach 10,000 of the hardest to reach young people across the UK over the next 12 months and support SEND provision across schools. In May 2022, the Money Heroes free teacher training course became CPD certified, making it the first accredited primary age financial education programme to count towards a teacher's professional development.

Financial Capability: #Merky

Our partnership with #Merky (founded by the rapper Stormzy) is supporting financial education through a books in school's programme, as well as continuing to help young Black people to access higher education.

Employability: The Prince's Trust

This year celebrates 10 years of our partnership with The Prince's Trust, and together we have helped over 52,000 young people to re-engage with education, learn new skills and secure employment across the UK. In addition, we launched our new Social Inclusion Fund partnership with The Prince's Trust in July 2021. Since launch, the programme has supported nearly 250 young Black entrepreneurs to explore self-employment through the Prince's Trust Enterprise programmes across London, the West Midlands and Bristol.

National Trust: Access to nature

We have supported the National Trust to deliver a range of Access to Nature workshops, allowing nearly 6,000 school children with limited access to outdoor spaces to receive lessons across National Trust sites in the next year.

Transition to net zero

In March 2022, HSBC Holdings plc announced plans to continue its leadership on climate change and outlined three steps it will take to turn its net zero ambition for its portfolio of clients into business transformation across the Group:

- Publish a Group-wide Climate Transition Plan in 2023. The plan will explain how the HSBC Group will implement its net zero ambition and the changes underway across the HSBC Group. This plan will bring together HSBC Group's climate strategy, and 2030 and 2050 science-based targets, with how it plans to embed this into its strategy, processes, policies and governance.
- Science-aligned phase down of fossil fuel finance. HSBC Group committed to phase down its financing of fossil fuels to what is required to limit the global temperature rise to 1.5°C. In February 2022, HSBC Group announced on-balance sheet financed emissions targets for the oil and gas, and the power and utilities sectors, with more sectors to follow later in 2022.
- In 2022, the HSBC Group will undertake a review of and update its wider financing and investment policies critical to achieving net zero by 2050.

Becoming net zero in our operations

In 2022, HSBC UK has been involved in a variety of initiatives:

- We have updated our company car policy to include electric vehicles or plug-in hybrids only.
- We have also launched an employee salary sacrifice scheme for electric vehicles.
- We have also increased the allowance for our cycle to work scheme to enable employees to purchase electric bikes.
- We continue to grow our Sustainable Finance Ambassador network, which now has over 1,000 colleagues, with the aim to fully equip our frontline employees with a deep understanding of the opportunities and risks faced by our clients as a result of the movement towards a more sustainable economy.

Supporting our customers

As part of its ambition to support our customers through the transition, the HSBC Group aims to provide $750bn to $1tn of sustainable finance and investments by 2030 to help its customers transition to lower carbon emissions. In 2022, HSBC UK continued to support the Group's ambition:

- In CMB, we provided more than £1.7bn of sustainable finance lending, which includes green loans, sustainability linked loans and sustainable bonds. For further details on the framework we use to define sustainable finance and investment, please refer to the HSBC Holdings plc *Interim Report and Accounts 2022*.
- We launched our Green SME Fund in January 2022 and as at 30 June 2022, we had received 321 applications to the value of £97m, with the average loan value of £100,000.
- We have published climate thought-leadership research and toolkits on our Centre for Sustainable Finance, including our 2022 Fragile Planet report on scoring climate risks, research on the role of carbon dioxide removals, and Net-Zero Scenario Analysis for the financial sector.

Unlocking climate solutions

The HSBC Group has partnered with World Resources Institute ('WRI') and World Wildlife Fund ('WWF') to form a five-year philanthropic partnership with the aim to help create commercial climate solutions. In the UK, we have supported this via:

- A partnership with the National Trust: since the start of the partnership in May 2021, 480,000 native trees have been planted across England, Wales and Northern Ireland with an ambition for two million trees in total to be planted by 2024.
- Working together with the National Trust for Scotland, we are supporting a land management project in Dumfries and Galloway. The partnership has restored 23 hectares of wetland and woodland, with major work to be completed by 2024.
- Our partnerships with the University of Birmingham and Imperial College London have enabled us to support over 60 climate innovation ventures to date that are developing cleaner technology, through structured training and mentorship to help them scale up.

Economic background and outlook

UK economic outlook

HSBC Global Research forecasts UK GDP growth of 3.2% in 2022, followed by 0.5% in 2023, with inflation, supply-driven challenges and rising interest rates weighing on activity. The UK labour market has outperformed relative to expectations, in common with those of other developed market economies. The unemployment rate stood at 3.8% in May 2022 – close to the 48-year low it fell to in March, with strong job creation over the first half of the year and surveys pointing to severe shortages of labour across sectors.

However, constrained supply and an economic slowdown are expected to reduce momentum next year, and there is a risk of a recession. HSBC Global Research forecasts unemployment averaging 3.9% in 2022 and then 4.3% in 2023, and total pay growth of 5.9% in 2022 and 4.7% in 2023.

The UK CPI inflation rose to 9.4% year on year in June 2022, and HSBC Global Research expects it to continue to rise to a peak of 12% in October 2022 (when household energy prices are set to rise by another 60%). CPI inflation is then expected to fall back to 2.7% by the end of 2023.

As a consequence of the rise in inflation, the BoE has raised the Bank Rate five times since December 2021, taking it to 1.25% in June 2022. HSBC Global Research forecasts four further rate rises, two of 50bps in August and September, and then two of 25bps, in November and December. This would take the Bank Rate to 2.75% by the end of the year. The BoE has also ceased reinvesting maturing gilts in its Asset Purchase Facility, and will report back in August on plans for active sales. The effect of this policy remains unclear as it has not been implemented either in the UK or elsewhere before, but the withdrawal of liquidity may have a tightening impact on financial conditions.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2022	30 Jun 2021
	£m	£m
Net interest income	**2,752**	2,292
Net fee income	**597**	476
Net income from financial instruments held for trading or managed on a fair value basis	**173**	147
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**32**	12
Gains less losses from financial investments	**21**	76
Other operating income	**21**	20
Net operating income before change in expected credit losses and other credit impairment charges	**3,596**	3,023
Change in expected credit losses and other credit impairment charges	**(42)**	413
Net operating income	**3,554**	3,436
Total operating expenses[1]	**(1,804)**	(1,896)
Operating profit	**1,750**	1,540
Profit before tax	**1,750**	1,540
Tax expense	**(281)**	(559)
Profit for the period	**1,469**	981
Profit attributable to shareholders of the parent company	**1,466**	978
Profit attributable to non-controlling interests	**3**	3

1 *Total operating expenses include significant items as detailed on pages 8 and 10.*

Reported performance

In 1H22 reported profit before tax was £1,750m, £210m or 14% higher than the reported profit before tax of £1,540m in 1H21.

Net interest income increased by £460m or 20%, mainly due to the impact of higher base interest rates on customer deposit spreads and increased customer deposit balances offset by mortgage margin compression due to very competitive market conditions in 1H22.

Net fee income increased by £121m or 25%, due to growth across both CMB and WPB products as the market recovers following the Covid-19 pandemic and a lower profit share payment made from Marks and Spencer Financial Services plc as profit was impacted by significant ECL releases in 1H21.

Net income from financial instruments held for trading or managed on a fair value basis increased by £26m or 18%, principally due to foreign exchange income as market conditions impacting commercial customer foreign exchange payment volumes and demand for foreign currency from retail customers improved following the lifting of Covid-19 travel restrictions.

Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss increased by £20m, primarily due to a fair value gain of £32m in 1H22 following the revaluation of equity investments.

Gains less losses from financial investments decreased by £55m, due to lower disposal gains realised by the Markets Treasury desk due to the volatile market conditions in 1H22.

Other operating income was in line with 1H21.

ECL increased by £455m from a release of £413m in 1H21 to a charge of £42m in 1H22. The 1H22 charge included additional stage 1 and stage 2 allowances in respect of the impacts of the Russia-Ukraine war and heightened economic uncertainty and inflationary pressures. These factors were in part offset by the release of our remaining Covid-19-related allowances. This compared with a net release in 1H21 primarily relating to Covid-19-related allowances previously built up in 2020.

Total operating expenses decreased by £92m or 5%, due to reduced staff and back-office operations costs, as we continue to actively manage our cost base, and reduced UK customer redress provisions. This was partially offset by increased restructuring programme and technology investment costs.

Tax expense The effective tax rate is 16.1% (1H21: 36.3%). The effective tax rate is reduced by 9.8% by a credit arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3%, with effect from 1 April 2023.

Net interest income

	Half-year to	
	30 Jun 2022	30 Jun 2021
	£m	£m
Interest income	**3,113**	2,503
Interest expense	**(361)**	(211)
Net interest income	**2,752**	2,292
Average interest-earning assets	**325,781**	293,342
	%	%
Gross interest yield[1]	**1.93**	1.72
Less: Gross interest payable[1]	**(0.29)**	(0.19)
Net interest spread[2]	**1.64**	1.53
Net interest margin[3]	**1.70**	1.58

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

Net interest margin increased from 1.58% in 1H21 to 1.70% in 1H22. This was driven by the UK interest rate increases in 2022, with increased yields on cash at central banks and customer lending, partly offset by an increase in interest expense on customer accounts.

Return on average tangible equity

RoTE is measured as the profit attributable to ordinary shareholders divided by the reported equity adjusted for goodwill and intangibles.

The 1H22 RoTE of 16.4% was 5.0% higher than the 1H21 RoTE of 11.4%, driven by higher reported profit before tax.

Alternative performance measures

Our reported results are prepared in accordance with IFRSs, as detailed in the interim condensed financial statements starting on page 34.

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 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 are presented in the Corporate Centre.

A description of the Global businesses is provided in the Strategic Report of the *Annual Report and Accounts 2021.*

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

	Half-year to 30 Jun 2022				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**1,961**	**1,587**	**71**	**(13)**	**3,606**
– external	**1,898**	**1,503**	**188**	**18**	**3,607**
– inter-segment	**63**	**84**	**(117)**	**(31)**	**(1)**
– *of which: net interest income*	***1,642***	***1,099***	**–**	***22***	***2,763***
Change in expected credit losses and other credit impairment charges	**(167)**	**125**	**–**	**–**	**(42)**
Net operating income/(expense)	**1,794**	**1,712**	**71**	**(13)**	**3,564**
Total operating expenses/ income	**(1,110)**	**(534)**	**(16)**	**20**	**(1,640)**
Operating profit	**684**	**1,178**	**55**	**7**	**1,924**
Adjusted profit before tax	**684**	**1,178**	**55**	**7**	**1,924**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**56.6**	**33.6**	**22.5**	**153.8**	**45.5**

	At 30 Jun 2022				
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**136,413**	**65,456**	**–**	**(233)**	**201,636**
Customer accounts	**183,439**	**102,637**	**–**	**(159)**	**285,917**

	Half-year to 30 Jun 2021				
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)/income	(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 31 Dec 2021				
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers	131,700	63,784	–	42	195,526
Customer accounts	178,685	103,375	–	(190)	281,870

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

	Half-year to 30 Jun 2022				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Revenue	**1,952**	**1,585**	**71**	**(12)**	**3,596**
Significant revenue items	**9**	**2**	**–**	**(1)**	**10**
– customer redress programmes	**9**	**2**	**–**	**–**	**11**
– restructuring and other related costs	**–**	**–**	**–**	**(1)**	**(1)**
Adjusted revenue/(expense)	**1,961**	**1,587**	**71**	**(13)**	**3,606**

	Half-year to 30 Jun 2021				
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

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

	Half-year to 30 Jun 2022				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Operating expenses	**(1,131)**	**(545)**	**(16)**	**(112)**	**(1,804)**
Significant cost items	**21**	**11**	**–**	**132**	**164**
– restructuring and other related costs[1]	**26**	**10**	**–**	**129**	**165**
– customer redress programmes	**(5)**	**1**	**–**	**3**	**(1)**
Adjusted operating (expenses)/income	**(1,110)**	**(534)**	**(16)**	**20**	**(1,640)**

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

	Half-year to 30 Jun 2021				
	WPB	CMB	GBM	Corporate Centre	Total
	£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)

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 for the period

	Half-year to 30 Jun 2022				
	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Profit/(loss) before tax	**654**	**1,165**	**55**	**(124)**	**1,750**
Net impact on reported profit and loss	**30**	**13**	**—**	**131**	**174**
– significant revenue items	**9**	**2**	**—**	**(1)**	**10**
– significant cost items	**21**	**11**	**—**	**132**	**164**
Adjusted profit before tax	**684**	**1,178**	**55**	**7**	**1,924**
	Half-year to 30 Jun 2021				
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

Adjusted performance

Our adjusted profit before tax in 1H22 increased by £253m or 15%, to £1,924m. This reflected higher revenue and lower operating expenses partially offset by higher ECL.

Adjusted revenue increased by £595m or 20%, with increases in WPB and CMB due to the impact of higher base interest rates on customer deposit margin, increased customer deposit balances and increased activity as the market recovers from the Covid-19 pandemic offset by mortgage margin compression.

ECL increased by £455m, as described on page 8 'Reported Performance'.

Adjusted operating expenses decreased by £113m or 6%, due to reduced staff and back-office operations costs, partially offset by increased technology investment costs.

Wealth and Personal Banking

Adjusted profit before tax of £684m in 1H22 was £44m or 7%, higher than 1H21, driven by higher revenue and lower operating costs, offset by higher ECL.

Adjusted revenue increased by £333m or 20%, primarily due to increased customer deposit balances and the impact of higher base interest rates on customer deposit spreads.

ECL increased by £325m, from a release of £158m in 1H21 to a charge of £167m in 1H22, as described on page 8 'Reported Performance'.

Adjusted operating expenses decreased by £36m or 3%, due to actions taken to reduce the direct staff costs of the business and lower back-office operations costs, partially offset by increased technology investment costs.

Commercial Banking

Adjusted profit before tax of £1,178m in 1H22 was £183m or 18%, higher than 1H21, due to higher revenue and lower operating expenses, offset by higher ECL.

Adjusted revenue increased by £260m or 20%, driven by the impact of higher base interest rates on customer deposit margin, growth in fee-based revenue, higher lending balances and margins, and a fair value gain of £32m in 1H22 following the revaluation of equity investments.

ECL increased by £130m due to a lower release in provisions in 1H22 compared to 1H21, as described on page 8 'Reported Performance'.

Adjusted operating expenses decreased by £53m or 9%, driven by lower staff and back-office operations costs, partially offset by increased technology investment 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 £55m in 1H22 was £13m or 31%, higher than 1H21 due to higher revenue.

Adjusted revenue increased by £12m or 20%, due to increases in foreign exchange payment volumes and demand from retail customers following the lifting of Covid-19 travel restrictions.

Adjusted operating expenses remained flat on 1H21.

Corporate Centre

Adjusted profit before tax of £7m in 1H22 was £13m higher than the loss before tax of £6m in 1H21, driven by lower operating expenses due to the increased benefit arising from our material pension surplus as discount rates improved.

Dividends

The consolidated reported profit for the period attributable to the shareholder of the bank was £1,466m.

A total interim dividend of £666m was paid during the year, out of which £491m relates to the previous financial year which was paid in lieu of a final dividend on the ordinary share capital and £175m was paid in respect of the current financial year. £63m of dividends were paid in respect of additional tier 1 capital instruments.

On 20 July 2022, the Directors resolved to pay an interim dividend to the ordinary shareholder of the parent company of £341m in respect of the financial year ending 31 December 2022.

Further information regarding dividends is given in Note 5.

Summary consolidated balance sheet

	At	
	30 Jun 2022	31 Dec 2021
	£m	£m
Total assets	**348,268**	346,063
– cash and balances at central banks	**100,927**	112,478
– financial assets designated and otherwise mandatory measured at fair value	**152**	79
– derivative assets	**343**	64
– loans and advances to banks	**5,472**	1,914
– loans and advances to customers	**201,636**	195,526
– reverse repurchase agreements – non-trading	**11,122**	7,988
– financial investments	**14,851**	14,377
– other assets	**13,765**	13,637
Total liabilities	**324,651**	322,258
– deposits by banks	**10,729**	11,180
– customer accounts	**285,917**	281,870
– repurchase agreements – non-trading	**9,877**	10,438
– derivative liabilities	**134**	292
– debt securities in issue	**852**	900
– other liabilities	**17,142**	17,578
Total equity	**23,617**	23,805
– total shareholders' equity[1]	**23,557**	23,745
– 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 2022 to that at 31 December 2021.

HSBC UK maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts marginally increased to 70.5% compared to 69.4% at 31 December 2021.

Assets

Cash and balances at central banks decreased by £11.6bn due to continued growth in customer lending.

Loans and advances to customers increased by £6.1bn, mainly due to growth in retail mortgage lending by £4.4bn and an increase in commercial lending by £1.4bn. Reverse repurchase agreements increased by £3.1bn as part of markets treasury activities to manage liquidity and margin.

Liabilities

Customer accounts increased by £4.0bn, mainly in retail current and savings accounts, driven by continued subdued customer spending compounded by increases in interest rates.

Equity

Total shareholders' equity, including non-controlling interests, decreased by £0.2bn or 0.8% compared with 31 December 2021. This reflected the effects of profits generated of £1.5bn, dividend payments of £0.7bn and reduction in OCI of £0.9bn. The net losses in OCI included adverse movement of £0.3bn on financial instruments designated as hold-to-collect-and-sell, which are held as hedges to our exposure to interest rate movements, as a result of the increase in term market yield curves in 1H22 and adverse movement of £0.6bn on cash flow hedges driven by the impact of increasing interest rates on fixed swap hedges.

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 17 to 27 of the *Annual Report and Accounts 2021.*

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.

Heightened geopolitical tensions and challenging macroeconomic events, including the repercussions from the Russia-Ukraine war, have impacted our customers and our organisation throughout the first half of 2022. While the Covid-19 pandemic has continued to cause varying degrees of uncertainty, the vaccination roll-out in the UK has helped to reduce the social and economic impacts on the country.

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

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.

Capital and liquidity remain at the core of our risk appetite framework, with forward-looking statements informed by stress testing. We continue to develop our climate risk appetite as we engage with businesses on including climate risk in decision making and starting to embed climate risk appetite into business planning.

Top and emerging risks

Our top and emerging risks report identifies forward-looking risks so that they can be considered in determining whether any incremental action is needed to either prevent them from materialising or to limit their effect.

Top risks are those that may have a material impact on the financial results, reputation or business model of HSBC UK in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on HSBC UK.

Our suite of top and emerging risks is subject to regular review by senior governance forums. We continue to monitor closely the identified risks and ensure robust management actions are in place, as required.

Our current top and emerging risks are summarised on the next page and discussed in more detail on page 19 of our *Annual Report and Accounts 2021.*

Risk	Trend	Description
Externally driven		
Geopolitical and macroeconomic risk	▲	Our operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Heightened geopolitical tensions, alongside the economic impacts that continue to result from the Covid-19 pandemic, have also disrupted supply chains globally, with potential ramifications for HSBC UK. Inflation and rising interest rates in the UK have created a marked economic slowdown which will affect our customers and our business.
Covid-19 pandemic	▼	Due to the roll-out of vaccines and a significant reduction in hospitalisations and deaths in the UK, the government removed all mobility restrictions in the first half of 2022. However, the Covid-19 pandemic and its effect on the global economy have continued to impact our customers and performance. We are also mindful that renewed outbreaks and new Covid-19 variants and sub-variants pose a continuing risk and could result in the UK Government introducing new restrictions, which could impact our personal and business customers.
Regulatory developments	▶	The regulatory risk environment continues to be complex, given heightened geopolitical tensions. There has been increased regulatory focus on operational and cyber resilience, diversity and inclusion, consumer protection, sanctions, crypto-asset related risks and wider anti-money laundering controls. These, alongside other regulatory priorities, may result in change requirements across HSBC UK in the short to medium term. We continue to monitor regulatory and wider industry developments closely and engage with regulators as appropriate.
Information security risk and cyber crime	▶	HSBC UK is exposed to the risk of service disruption resulting from technology failures or malicious activity by internal or external threats. In response to the recent geopolitical events, including the Russia-Ukraine war, we have further strengthened our monitoring approach. HSBC UK operates a continuous improvement programme to protect our technology operations and to counter a hostile and fast evolving cyber threat environment.
Ibor transition	▼	We are primarily exposed to regulatory compliance, legal and resilience risks as part of the transition away from demising Ibor benchmarks, in advance of their cessation dates, to new reference rates. As a result, we continue to take into account the fairness of client outcomes, our compliance with regulatory expectations and the operation of our systems and processes. We continue to support the transition of a small number of contracts in demised Ibors and have begun our customer engagement for US dollar Libor transition. HSBC UK has significantly fewer US dollar Libor facilities to transition, versus the number transitioned for GBP Libor and therefore we consider the risk to have decreased in the first half of 2022.

Risk	Trend	Description
Externally driven		
Environmental, social and corporate governance	▲	We are exposed to ESG risks which include climate change; greenwashing risk; nature and biodiversity related risks; respecting social impacts and human rights. These risks have increased owing to the pace of regulatory developments, with stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. If we fail to meet evolving regulatory and stakeholder expectations on ESG risk management as a result of any event, behaviour, action or inaction, this may result in financial and non-financial risks for HSBC UK, including potential reputational consequences potentially causing stakeholders to form a negative view of the bank.
Digital currencies and disintermediation risk	▶	With the increasing attention of the public, governments, regulatory bodies and central banks on digital currencies, including cryptocurrencies, the banking landscape has the potential to move significantly to a more direct linkage between currency providers and payment participants, to the possible detriment of intermediaries, such as HSBC UK. The current information suggests that developed economies would look to utilise the existing banking intermediary networks and infrastructure for any CBDC issuance, rather than a bilateral approach between a central bank and the end users. However, we continue to monitor advances in technology and thinking to understand how changes may impact our customers and business. We closely monitor and assess the potential for consequent financial crime and the resulting impact on payment transparency and architecture.
Internally driven		
People risk	▲	HSBC UK is exposed to risks associated with employee retention, talent availability and compliance with employment laws and regulations. The Covid-19 pandemic has also created workforce capacity challenges and impacted employee well-being. Heightened demand for talent in the UK labour market, coupled with the cost of living crisis and continuing Covid-19-related challenges, have led to increased attrition and attraction challenges, and continuing pressure on employees.
IT systems infrastructure and resilience	▶	We continue to monitor and improve IT systems and network resilience to minimise service disruption and improve HSBC UK customer experience, through for example our Operational Resilience programme. To support the business strategy, we have continued to strengthen our end to end management, build and deployment controls and system monitoring capabilities.
Model risk	▲	Evolving regulatory requirements are driving material changes to models across the banking industry, with a particular focus on capital models. The macroeconomic environment and new technologies such as machine learning are also driving changes to the model risk landscape. A key area of focus is ensuring our standards, processes and controls are adequate to identify, measure and manage the resulting model risks.
Financial crime and fraud risk	▶	We continue to support our customers against a backdrop of complex geopolitical, socioeconomic and technological challenges, including the Russia-Ukraine war. We are monitoring the direct and indirect impacts of the war on HSBC UK, and using our sanctions compliance capabilities to respond to the new sanctions regulations, noting the challenges that arise in implementing the complex, novel and ambiguous aspects of certain sanctions. Fraud, particularly third-party payment fraud continues to be a key area of focus for HSBC UK, with a number of technological enhancements either deployed or due to be deployed over the remainder of 2022, with the aim to limit losses to within agreed tolerance levels.
Conduct and customer detriment	▶	Following the launch of the Purpose-Led Conduct Approach in 2021, HSBC UK has been working through a detailed action plan to ensure that the approach is fully embedded across the group. As such, HSBC UK's conduct journey has continued to evolve, focusing on the five Purpose-Led outcomes to ensure that we recognise the impact our actions and decisions have on our customers and markets. The Purpose-Led Conduct Approach fully integrated conduct into our Risk Management framework, offering 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 use data to serve our customers and run our internal operations, often in real-time within digital experiences and processes. If this data is not accurate and timely, our ability to serve customers, operate with resilience, or meet regulatory requirements could be impacted. We need to ensure that data is kept confidential, and that we comply with the growing number of laws and regulations governing data privacy and the cross-border movement of data.
Third-party risk management	▶	We procure services and goods from a range of third parties. It is critical that we have appropriate risk management policies and processes over the selection and governance of third parties. This includes third parties' supply networks, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.
Execution risk	▶	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. Given the scale, complexity and pace of strategic change at HSBC UK, we must monitor, manage and oversee execution risk to ensure our change portfolios and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

▲ Risk has heightened during the first half of 2022
▶ Risk remains at the same level as 2021
▼ Risk has decreased during the first half of 2022

Areas of key interest

During the first half of 2022, a number of areas were 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 geopolitical and macroeconomic risk and climate-related risks.

Geopolitical and macroeconomic risk

Our operations and portfolios are exposed to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/ or physical damage to our assets.

Being part of the wider HSBC Group, the group may be adversely affected by increased geopolitical tensions across the different jurisdictions in which the HSBC Group operates and any broader economic pressures that the HSBC Group or parts of the HSBC Group may face. Heightened geopolitical tensions, alongside challenges resulting from the Covid-19 pandemic, have disrupted supply chains globally and created potential negative ramifications for HSBC UK. The Russia-Ukraine war has led to elevated geopolitical tensions and resulted in the US, the UK and the EU, as well as other territories, imposing significant sanctions and other trade restrictions against the Russian Government and its officials, alongside individuals with close ties to the Russian Government and a number of Russian financial institutions and companies. Russia has implemented certain countermeasures in response. We are monitoring the direct and indirect impacts of the war and continue to respond to the extensive sanctions and trade restrictions that have been imposed. The challenges that arise in implementing the complex, novel and ambiguous aspects of certain sanctions could create additional regulatory compliance and reputational risks for the group.

Against a backdrop of this ongoing uncertainty, UK economic growth has slowed. Inflationary pressures driven by increases in commodity prices and energy costs, partly caused by the war in Ukraine, have created a cost of living crisis and the BoE has increased interest rates in an attempt to control the rising inflation.

HSBC UK has some direct exposure to Russia. This is not material in the context of the overall size of our credit portfolios. However, second order impacts from the Russia-Ukraine war and other geopolitical events remain uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in our ECL estimates. Higher inflationary concerns in the UK are having an impact on ECL. We have continued to carry out enhanced monitoring of model outputs and use of model overlays, including management adjustments based on the expert judgement of senior credit risk managers. Inflation has been considered both directly in certain models, and assessed via adjustments where not directly considered. Continuing economic uncertainty in the UK resulting from heightened inflation could cause ECL model inputs to produce modelled loss results that are not reliable. UK Government programmes implemented during the Covid-19 pandemic to support businesses and individuals also impacted the level of credit losses, which in turn may have impacted the longer-term reliability of our loss and capital models. As a result, these models may require significant change.

Political disagreements between the UK and the EU, notably over the future operation of the Northern Ireland Protocol have stalled the creation of a framework for voluntary regulatory cooperation in financial services following the UK's withdrawal from the EU. While negotiations are continuing, it is unclear whether or when an agreement over the Northern Ireland Protocol will be reached, particularly as the UK Government is currently in a period of political uncertainty amid a leadership election to replace Boris Johnson as Prime Minister.

In June 2022, the UK Government published proposed legislation that seeks to amend the Northern Ireland Protocol in a number of respects. The terms of such proposal may be subject to legal challenge by the EU and any such dispute, together with any action that the EU may take in response, could further complicate the terms of trade between the UK and the EU and potentially prevent progress in other areas such as financial services. We are monitoring the situation closely, including the potential impacts on our customers.

Political tensions between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, may affect the group and its customers by creating regulatory, reputational and market risks. The US, the UK, the EU, Canada and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies. In response to foreign sanctions and trade restrictions, China has imposed sanctions and trade restrictions and enacted laws that could impact the group and its customers. We continue to monitor the situation closely.

Despite the successful roll-out of vaccines in the UK and around the world, the Covid-19 pandemic and its effect on the global economy have continued to impact our customers and organisation. High vaccination rates in 2022 maintained across the UK have enabled the removal of Covid-19-related restrictions on activity and constraints on travel. Countries continue to differ in their approach to restrictions and where restrictions remain, this could prolong or worsen supply chain and international travel disruptions. Renewed outbreaks and new Covid-19 variants and sub-variants pose a continuing risk and could result in the UK Government reintroducing restrictions, which could impact our personal and business customers in the UK.

Our Central scenario used to calculate impairment assumes that UK economic growth will slow in the near term due to the impacts of supply disruptions and price inflation with growth to return to its long-term expected trend in later years. However, there is a high degree of uncertainty associated with economic forecasts in the current environment and there are significant risks to our Central scenario. For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 17.

We continue to monitor the geopolitical and macroeconomic situation closely, and given the significant uncertainties, additional mitigating actions may be required.

Climate-related risks

The pace of policy and regulatory developments focusing on climate risk management, disclosures, stress testing and scenario analysis continue to increase in 2022. We remain committed to the HSBC Group climate ambition to align our own operations and supply chain to net zero by 2030, and the financed emissions from our portfolio of customers to net zero by 2050. As announced by the HSBC Group in March 2022, the Group intends to publish a climate transition plan in 2023, and have committed to a science-aligned phase-down of fossil fuel finance, and a review of its wider financing and investment policies critical to achieving net zero by 2050.

Our most material risks in terms of managing climate risk relate to corporate and retail client financing within our banking portfolio, but there are also significant responsibilities in relation to our employee pension plans, and we continue to monitor the impacts of climate risk, and further embed our approach across our key risk areas and business lines.

We have refreshed our credit risk policy to further embed climate risk considerations into our corporate credit decisions for new money requests. We also delivered training to select colleagues in risk to raise awareness of how climate risk is likely to impact certain high transition risk sectors and the associated credit risk considerations. We continue to develop guidance for our other higher transition risk sectors. To help with risk assessment, our developing client transition and physical risk questionnaire is currently live across 10 sectors to improve our understanding of the level of transition risk and physical risk exposure.

We are also focused on embedding climate considerations into our retail credit risk management processes and have implemented metrics to support monitoring for properties with heightened climate-related physical risk exposure.

Transition risk efforts have focused on assessing the potential risk to our mortgage portfolio by using current and potential energy efficiency ratings for individual properties, sourced from property

EPC data. We are working towards improving the proportion of properties on our book with an EPC rating of C or above, and on improving the EPC data coverage. We have approximately 54% of properties in our portfolio with a valid EPC certificate (dated within the last 10 years) as at May 2022.

In addition to financial risks arising in our corporate and retail banking portfolio, we could also face increased reputational, legal and regulatory risks as we make progress towards our net zero ambition, as stakeholders are likely to place a greater focus on our actions, investment decisions and disclosures related to this ambition. We will face 'Greenwashing' risks if we are perceived to mislead stakeholders regarding our climate strategy, the climate impact of a product or service, or regarding the commitments of our customers, including within our marketing material and campaigns. In response to this risk, we have published internal guidance to stakeholders across our business to increase awareness across the first and second lines of defence and our product governance framework has been expanded to improve the management of greenwashing risk throughout the whole product lifecycle.

We continued to develop our climate stress testing and scenario capabilities, including model development, and delivered regulatory climate stress tests. These are being used to further improve our understanding of our risk exposures for use in risk management and business decision making.

While climate risk reporting – and in particular reporting on financed emissions – has improved over time, we continue to focus on data quality and consistency with the development of our risk appetite and metrics.

Methodologies we have used may develop over time in line with market practice and regulations, as well as owing to developments in climate science. Any developments in data and methodologies could result in revisions to reported data going forward, including on financed emissions, meaning that reported figures may not be reconcilable or comparable year-on-year.

Key developments in the first half of 2022

During the first half of 2022, we continued to actively manage those risks related to the Russia-Ukraine war and broader macroeconomic and geopolitical uncertainties alongside the continued risks resulting from the Covid-19 pandemic, as well as other key risks described in this section.

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

- We have continued to improve our risk governance decision making, particularly with regard to the governance of treasury risk to ensure senior executives have appropriate oversight and visibility of macroeconomic trends around inflation and interest rates.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including by capturing the materiality, oversight and individual monitoring of these risks.
- We enhanced our third-party risk management framework and processes to improve visibility of the role our material third parties play in our operational resilience and including compliance with regulatory requirements by our supply network. Further work on enhancing the framework will continue during 2022.
- We enhanced, and continue to embed, the governance and oversight around model adjustments and related processes for IFRS 9 models.
- We are refreshing our financial crime policies, ensuring they remain up-to-date and address changing and emerging risks, and we continue to monitor regulatory changes.

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 27 of the *Annual Report and Accounts 2021*.

Credit risk in the first half of 2022

There were no material changes to credit risk policy in the first half of 2022.

During 1H22, we adopted the EBA 'Guidelines on the application of definition of default' for our retail portfolios. This did not have a material impact on our retail portfolios. This was undertaken for our wholesale lending portfolios during 2021.

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 2021, the IFRS 9 allowance for ECL was £1,934m. This allowance has decreased by £168m to £1,766m at 30 June 2022.

The IFRS 9 allowance for ECL at 30 June 2022 comprises £1,697m in respect of assets held at amortised cost and £68m in respect of loan commitments and financial guarantees. There is £1m allowance for ECL in respect of debt instruments measured at 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 2022		At 31 Dec 2021	
	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	**203,332**	**(1,696)**	197,381	(1,855)
– personal	**136,104**	**(825)**	131,318	(767)
– corporate and commercial	**65,033**	**(868)**	63,927	(1,085)
– non-bank financial institutions	**2,195**	**(3)**	2,136	(3)
Loans and advances to banks at amortised cost	**5,472**	**—**	1,914	—
Other financial assets measured at amortised cost	**117,138**	**(1)**	122,133	(1)
– cash and balances at central banks	**100,927**	**—**	112,478	—
– items in the course of collection from other banks	**383**	**—**	299	—
– reverse repurchase agreements – non-trading	**11,122**	**—**	7,988	—
– financial investments	**3,165**	**—**	—	—
– prepayments, accrued income and other assets[2]	**1,541**	**(1)**	1,368	(1)
Total gross carrying amount on-balance sheet	**325,942**	**(1,697)**	321,428	(1,856)
Loans and other credit-related commitments	**65,556**	**(67)**	67,394	(73)
– personal	**39,533**	**(9)**	39,889	(9)
– corporate and commercial	**24,503**	**(58)**	26,843	(64)
– non-bank financial institutions	**1,520**	**—**	662	—
Financial guarantees	**1,146**	**(1)**	1,102	(3)
– personal	**369**	**—**	317	—
– corporate and commercial	**524**	**(1)**	490	(2)
– non-bank financial institutions	**253**	**—**	295	(1)
Total nominal amount off-balance sheet[3]	**66,702**	**(68)**	68,496	(76)
	392,644	**(1,765)**	389,924	(1,932)

	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	**11,686**	**(1)**	14,377	(2)

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 36, includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

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

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

	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	**177,929**	**21,249**	**4,133**	**21**	**203,332**	**(247)**	**(780)**	**(663)**	**(6)**	**(1,696)**	**0.1**	**3.7**	**16.0**	**28.6**	**0.8**
– personal	**124,109**	**11,130**	**865**	**—**	**136,104**	**(98)**	**(513)**	**(214)**	**—**	**(825)**	**0.1**	**4.6**	**24.7**	**—**	**0.6**
– corporate and commercial	**51,762**	**9,990**	**3,260**	**21**	**65,033**	**(147)**	**(266)**	**(449)**	**(6)**	**(868)**	**0.3**	**2.7**	**13.8**	**28.6**	**1.3**
– non-bank financial institutions	**2,058**	**129**	**8**	**—**	**2,195**	**(2)**	**(1)**	**—**	**—**	**(3)**	**0.1**	**0.8**	**—**	**—**	**0.1**
Loans and advances to banks at amortised cost	**5,471**	**1**	**—**	**—**	**5,472**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**117,070**	**52**	**16**	**—**	**117,138**	**(1)**	**—**	**—**	**—**	**(1)**	**—**	**—**	**—**	**—**	**—**
Loan and other credit-related commitments	**62,575**	**2,739**	**242**	**—**	**65,556**	**(27)**	**(23)**	**(17)**	**—**	**(67)**	**—**	**0.8**	**7.0**	**—**	**0.1**
– personal	**39,201**	**262**	**70**	**—**	**39,533**	**(9)**	**—**	**—**	**—**	**(9)**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**21,895**	**2,436**	**172**	**—**	**24,503**	**(18)**	**(23)**	**(17)**	**—**	**(58)**	**0.1**	**0.9**	**9.9**	**—**	**0.2**
– financial	**1,479**	**41**	**—**	**—**	**1,520**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial guarantee and similar contracts	**1,050**	**80**	**16**	**—**	**1,146**	**—**	**—**	**(1)**	**—**	**(1)**	**—**	**—**	**6.3**	**—**	**0.1**
– personal	**362**	**7**	**—**	**—**	**369**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**442**	**66**	**16**	**—**	**524**	**—**	**—**	**(1)**	**—**	**(1)**	**—**	**—**	**6.3**	**—**	**0.2**
– financial	**246**	**7**	**—**	**—**	**253**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2022	**364,095**	**24,121**	**4,407**	**21**	**392,644**	**(275)**	**(803)**	**(681)**	**(6)**	**(1,765)**	**0.1**	**3.3**	**15.5**	**28.6**	**0.4**
Loans and advances to customers at amortised cost	174,917	18,436	4,008	20	197,381	(315)	(692)	(843)	(5)	(1,855)	0.2	3.8	21.0	25.0	0.9
– personal	126,904	3,361	1,053	—	131,318	(122)	(353)	(292)	—	(767)	0.1	10.5	27.7	—	0.6
– corporate and commercial	45,957	15,000	2,950	20	63,927	(191)	(338)	(551)	(5)	(1,085)	0.4	2.3	18.7	25.0	1.7
– non-bank financial institutions	2,056	75	5	—	2,136	(2)	(1)	—	—	(3)	0.1	1.3	—	—	0.1
Loans and advances to banks at amortised cost	1,914	—	—	—	1,914	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	122,085	32	16	—	122,133	(1)	—	—	—	(1)	—	—	—	—	—
Loan and other credit-related commitments	63,642	3,492	260	—	67,394	(32)	(26)	(15)	—	(73)	0.1	0.7	5.8	—	0.1
– personal	39,527	287	75	—	39,889	(8)	(1)	—	—	(9)	—	0.3	—	—	—
– corporate and commercial	23,524	3,134	185	—	26,843	(24)	(25)	(15)	—	(64)	0.1	0.8	8.1	—	0.2
– financial	591	71	—	—	662	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	963	123	16	—	1,102	(1)	—	(2)	—	(3)	0.1	—	12.5	—	0.3
– personal	308	9	—	—	317	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	393	81	16	—	490	—	—	(2)	—	(2)	—	—	12.5	—	0.4
– financial	262	33	—	—	295	(1)	—	—	—	(1)	0.4	—	—	—	0.3
At 31 Dec 2021	363,521	22,083	4,300	20	389,924	(349)	(718)	(860)	(5)	(1,932)	0.1	3.3	20.0	25.0	0.5

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

Measurement uncertainty and sensitivity analysis of ECL estimates

There continues to be a high degree of uncertainty in relation to economic scenarios. The increased risks of lower economic growth with higher inflation and unemployment have been exacerbated by the geopolitical environment and the effects of global supply chain disruption. In addition, there are ongoing risks relating to Covid-19. The level and speed of recovery from the global pandemic remains volatile.

As a result of this uncertainty, management judgements and estimates continue to reflect a degree of caution both in the selection of economic scenarios and their weightings, and in the use of management judgemental adjustments, described in more detail below. Additional stage 1 and 2 allowances were recorded in respect of the heightened levels of uncertainty.

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 weigh the results by probability to determine an unbiased ECL estimate.

Methodology

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

Of the four standard scenarios, three are drawn from consensus forecasts and distributional estimates. The fourth scenario, Downside 2, represents management's view of severe downside risks. In the second quarter of 2022 ('2Q22'), management chose to use an additional fifth scenario, known as Downside 1, to ensure that current supply-side risks are sufficiently reflected in forward economic guidance. The scenario is designed to capture the implications of a sustained global supply shock that keeps inflation elevated for a long period, raises unemployment and depresses GDP growth.

The use of an additional scenario is in line with HSBC Group's forward economic guidance methodology. Management may include additional scenarios when consensus scenarios are determined to inadequately capture the economic risks faced by the bank. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions aligned to an identified risk, and may incorporate shocks that drive economic activity permanently away from its long-term 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.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Risks to the outlook are dominated by the actions of Central Banks as they raise interest rates to bring inflation back to target and curtail a rise in inflation expectations. The implications of the Russia-Ukraine war remain a key source of uncertainty. Other geopolitical risks such as the evolution of the UK's relationship with the EU also present downside risks.

The five global scenarios used for the purpose of calculating ECL at 30 June 2022 are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario, the Downside 1 scenario and the Downside 2 scenario.

The scenarios used to calculate ECL in the *Interim Report 2022* are described below.

The consensus Central scenario

HSBC Group's Central scenario features a gradual slow down in GDP growth through 2022 and 2023, following a strong recovery in 2021. Unemployment is expected to remain low through this period.

GDP forecasts have been lowered in recent quarters. The sharp rise in inflation, related to supply shortages and rising commodity prices, has started to weigh on growth as costs rise and real income growth stalls.

The Central scenario assumes that inflation peaks in 2022 and, supported by tighter monetary policy, reverts back towards BoE's targets by the end of 2023.

UK GDP is expected to grow by 3.7% in 2022 in the Central scenario. The average rate of UK GDP growth is expected to be 1.6% over the forecast period, which is in line with the average growth rate over the five-year period prior to the onset of the Covid-19 pandemic.

In the UK, the Central scenario assumes the following:

- Economic growth is expected to slow in the near term as supply chain disruptions and price inflation diminish purchasing power. Growth is expected to return to its long-term expected trend in later years as supply chain issues are assumed to ease and inflation returns to its target.
- Unemployment is expected to remain close to pre-Covid-19 pandemic levels and the labour market remains tight across the UK.
- Inflation is expected to remain elevated in 2022 as commodity, food and goods prices remain elevated. Inflation is subsequently expected to converges back to BoE's targets over the next two years of the forecast.
- Policy interest rates in the UK are expected to rise over the first 18 months of the projection period as the BoE tightens policy to bring inflation back towards its target. Thereafter they settle at a higher level than they were pre-Covid-19 pandemic.
- The Central scenario was first created from consensus forecasts available in May, and subsequently updated in June. Probability weights assigned to the Central scenario reflects differences in the level of uncertainty seen in economic forecast across markets.

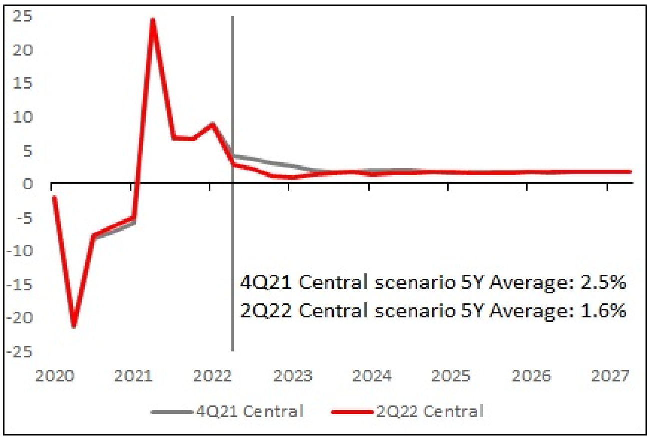
The following table describes key macroeconomic variables and the probability assigned in the consensus Central scenario at 30 June 2022.

Central scenario applied at 30 June 2022

	3Q22-2Q27
	%
GDP growth rate	
2022: Annual average growth rate	3.7
2023: Annual average growth rate	1.4
2024: Annual average growth rate	1.6
5-year average	1.6
Unemployment rate	
2022: Annual average rate	4.0
2023: Annual average rate	4.2
2024: Annual average rate	4.1
5-year average	4.1
House price growth	
2022: Annual average growth rate	9.2
2023: Annual average growth rate	2.9
2024: Annual average growth rate	2.9
5-year average	3.3
Inflation rate	
2022: Annual average rate	8.3
2023: Annual average rate	4.7
2024: Annual average rate	2.1
5-year average	3.2
Probability	50.0

The graphs compare the respective Central scenario at year end 2021 with current economic expectations in the second quarter of 2022.

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features a faster rate of GDP growth during the first two years, before converging to long-run expected trends. The scenario is demand-driven and is consistent with a number of key upside risk themes. These include faster resolution of supply chain issues; a rapid and peaceful conclusion to the Russia-Ukraine war; and improved 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	4.3	(2Q24)
Unemployment rate	3.2	(2Q24)
House price growth	9.8	(3Q22)
Inflation rate	10.2	(3Q22)
Probability	10	

Note: extreme point in the consensus Upside is 'best outcome' in the scenario, for example, highest GDP growth and the lowest unemployment rate, in the first two years of the scenario. Inflation is positively correlated with GDP in the Upside scenario, and the 'best outcome' also refers to the cyclical high point..

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks.

Inflation and the monetary policy response to it have become a key concern for UK growth. Supply chain disruptions, caused by the Covid-19 pandemic and the Russia-Ukraine war, have led to sharp rises in commodity prices and headline price inflation in the UK. A key concern is that inflation expectations become unanchored from BoE targets, particularly as labour markets and labour supply shortages across some sectors are putting upward pressure on wages. The de-anchoring of inflation expectations would raise the risk that inflation remains elevated for longer, exacerbating cost pressures and the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from BoE, a steeper trajectory for interest rates and ultimately, economic recession.

Covid-19-related risks also remain significant. Despite the easing of Covid-19-related restrictions across the UK, the emergence of new Covid-19 variants and sub-variants with greater vaccine-resistance that necessitates a stringent public health policy response remains a key risk to the UK outlook.

The geopolitical environment also presents risks, including

- a prolonged Russia-Ukraine war with further escalation beyond Ukraine's borders; and
- the deterioration of the trading relationship between the UK and the EU over the Northern Ireland Protocol.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario. In this scenario, GDP growth weakens, unemployment rates rises and asset prices fall. The scenario is structured as a demand shock where inflation and commodity prices fall, before gradually recovering towards their long-run expected trend.

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

Consensus Downside scenario worst outcome

	UK %	
GDP growth rate	(0.7)	(2Q23)
Unemployment rate	5.5	(2Q23)
House price growth	(4.1)	(3Q23)
Inflation rate	0.7	(2Q24)
Probability	–	

Note: Extreme point in the consensus downside is 'worst outcome' in the scenario, for example the lowest GDP growth, and the highest unemployment rate in the first two years of the scenario. Inflation is positively correlated with GDP in the Downside scenario, and the 'worst outcome' refers to the cyclical low point.

Downside 1 scenario

An additional Downside scenario has been created to explore the implications of a prolonged period of high price inflation, a more aggressive upward path for policy interest rates, higher unemployment and a global recession.

In this scenario the Russia-Ukraine war leads to a sustained supply shock that keeps inflation elevated above the baseline for a longer period than in the other scenarios. The scenario assumes that BoE is slow to respond, but as inflation expectations start to de-anchor from the inflation target, it resorts to taking stronger action. The rise in interest rates is expected to cause a severe tightening of financial conditions that ultimately results in an economic contraction later in the projection period.

The following table describes key macroeconomic variables and the probabilities assigned in the Downside 1 scenario.

Downside 1 scenario worst outcome

	UK %	
GDP growth rate	(3.7)	(1Q25)
Unemployment rate	6.6	(1Q24)
House price growth	(11.9)	(1Q24)
Inflation rate	9.5	(3Q22)
Probability	30	

Note: Extreme point in the Downside 1 is 'worst outcome' in the scenario, for example the lowest GDP growth and the highest inflation and unemployment rate.

Downside 2 scenario

The Downside 2 scenario features a deep recession and reflects management's view of the tail of the economic risk distribution. It incorporates the crystallisation of a number of risks simultaneously, including further escalation of the Russia-Ukraine war, worsening of supply chain disruptions and the emergence of a vaccine-resistant Covid-19 variant or sub-variant that necessitates a stringent public health policy response.

This scenario features an initial supply-side shock that pushes up inflation. This impulse is expected to prove short lived as a large downside demand shock causes commodity prices to correct sharply and the UK price inflation to slow as a severe and prolonged recession takes hold.

The following table describes key macroeconomic variables and the probability assigned in the Downside 2 scenario.

Downside 2 scenario worst outcome

	UK %	
GDP growth rate	(6.3)	(2Q23)
Unemployment rate	8.5	(3Q23)
House price growth	(15.2)	(3Q23)
Inflation rate	(2.2)	(4Q23)
Probability	10	

Note: Extreme point in the Downside 2 is 'worst outcome' in the scenario, for example the lowest GDP growth, and the highest unemployment rate in first two years of the scenario. After a temporary increase, inflation remains positively correlated with GDP in the Downside 2 scenario, and the 'worst outcome' refers to the scenario low point.

Scenario weightings

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

A key consideration in 2Q22 has been the high level of uncertainty attached to the Central scenario projections. These concerns focused on:

- the risks of higher inflation given the risks attached to gas supply security in Europe and global oil supply, which raises the possibility of a more significant impact on real incomes and GDP growth; and

- market interest rate expectations that imply a rapid and significant change to the interest rate environment.

In the UK the surge in price inflation and a squeeze on household real incomes have led to strong monetary policy response from BoE. Economic and financial volatility remains elevated due to uncertainty around the implications of higher interest rates.

For the UK, the consensus Upside and Central scenarios have a combined weighting of 60%.

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 2021* under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has remained high since 31 December 2021 including judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts. There is judgement in making assumptions about the effects of inflation, supply chain disruption and length of time and severity of the continuing economic effects of the Covid-19 pandemic and health policy responses;
- estimating the economic effects of those scenarios on ECL, particularly as the historical relationship between macroeconomic variables and defaults might not reflect the dynamics of high inflation scenarios.

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 37 of the *Annual Report and Accounts 2021*. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

Economic forecasts and ECL model response to these forecasts are subject to a high degree of uncertainty in the current environment, and models continue to be supplemented by management judgemental adjustments where required.

Management judgemental adjustments

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

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.

The wholesale and retail management judgemental adjustments are presented as part of the global and HSBC UK business impairment committees with representation from Model Risk Management. This is in line with the governance process for IFRS 9 as set out on page 27 of the *Annual Report and Accounts 2021.*

The drivers of the management judgemental adjustments continue to evolve with the economic environment.

At 30 June 2022 management judgemental adjustments reduced by £196m compared with 31 December 2021. Adjustments related to Covid-19 were reduced, while adjustments for sector-specific risks, sanctions and geopolitical risks were maintained. They were also maintained to account for elevated uncertainty under the high inflation scenarios.

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.

Given the level of economic uncertainty and idiosyncratic events, we believe that management judgemental adjustments will continue be a key component of ECL for the foreseeable future.

Management judgemental adjustments made in estimating the reported ECL at 30 June 2022 are set out in the following table.

Management judgemental adjustments to ECL at 30 June 2022[1]

	Retail £m	Wholesale £m	Total £m
Low-risk counterparties (banks, sovereigns and government entities)	—	—	—
Corporate lending adjustments	—	130	130
Retail lending adjustments	133	—	133
Total	**133**	**130**	**263**

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

	Retail £m	Wholesale £m	Total £m
Low-risk counterparties (banks, sovereigns and government entities)	—	3	3
Corporate lending adjustments	—	314	314
Retail lending adjustments	142	—	142
Total	142	317	459

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

In the wholesale portfolio, management judgemental adjustments were an ECL increase of £130m comprising £80m relating to Corporate portfolios and £50m relating to Retail SME portfolios which use Retail models (31 December 2021: £317m increase including £33m from Retail SME).

- Supported by credit experts' input, portfolio risk metrics and quantitative analyses, these adjustments principally reflected the outcome of management judgements for high-risk and vulnerable sectors, in particular in the downside 1 scenario. The highest increase was observed in the real estate sector.
- The adjustments relating to a low-credit risk exposures of £3m at 31 December 2021 have been discontinued.

In the retail portfolio, management judgemental adjustments were an ECL increase of £133m at 30 June 2022 (31 December 2021: £142m increase).

- These adjustments were primarily in relation to macroeconomic impacts, including adjustments to address inflation risks which were not fully captured by the modelled output, with a number of other smaller retail lending adjustments relating to data and models.
- Pandemic-related economic recovery adjustments of £41m at 31 December 2021 to adjust for the effects of the volatile pace of recovery from the Covid-19 pandemic have been discontinued, given the key economic variables driving ECL models have now stabilised after the rapid improvements during the emergence from the pandemic.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

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

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude some small portfolios, and as such cannot be directly compared with personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the Downside 1 scenario was introduced during 1H22 and therefore was not present at 31 December 2021.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2022 £m	31 Dec 2021 £m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2022		
Reported ECL	**455**	584
Consensus scenarios		
Central scenario	**307**	455
Upside scenario	**262**	371
Downside scenario	**374**	598
Downside 1 scenario	**558**	—
Downside 2 scenario	**1,210**	1,295

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

At 30 June 2022, a significant level of ECL sensitivity was observed. This higher ECL impact was largely driven by significant exposure in downside risks of specific sectors.

Compared with 31 December 2021, the Downside 2 ECL impact was lower, mostly driven by a a reduction of adjustments for uncertainty due to the Covid-19 pandemic, and changes to exposure and macroeconomic forecasts.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2022 £m	31 Dec 2021 £m
ECL of loans and advances to customers at 30 June 2022		
Reported ECL	**802**	738
Consensus scenarios		
Central scenario	**655**	636
Upside scenario	**576**	562
Downside scenario	**764**	769
Downside 1 scenario	**947**	—
Downside 2 scenario	**1,341**	1,514

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

At 30 June 2022, a significant level of 100% scenario-weighted ECL sensitivity was observed. Mortgages reflected the lowest level of ECL sensitivity 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 2022. Compared with 31 December 2021, the Downside 2 ECL impact was lower due to the improvements in the macroeconomic forecast.

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

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

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

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying 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 2022	**240,386**	**(348)**	**22,039**	**(718)**	**4,283**	**(860)**	**20**	**(5)**	**266,728**	**(1,931)**
Transfers of financial instruments:	**(3,563)**	**(96)**	**2,770**	**109**	**793**	**(13)**	**–**	**–**	**–**	**–**
– transfers from stage 1 to stage 2	**(15,610)**	**54**	**15,610**	**(54)**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers from stage 2 to stage 1	**12,348**	**(142)**	**(12,348)**	**142**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers to stage 3	**(397)**	**2**	**(928)**	**68**	**1,325**	**(70)**	**–**	**–**	**–**	**–**
– transfers from stage 3	**96**	**(10)**	**436**	**(47)**	**(532)**	**57**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**86**	**–**	**(111)**	**–**	**(1)**	**–**	**–**	**–**	**(26)**
Changes due to modifications not derecognised	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
New financial assets originated or purchased	**22,876**	**(41)**	**–**	**–**	**–**	**–**	**–**	**–**	**22,876**	**(41)**
Asset derecognised (including final repayments)	**(14,128)**	**24**	**(1,618)**	**37**	**(384)**	**13**	**–**	**–**	**(16,130)**	**74**
Changes to risk parameters – further lending/ repayment	**(3,891)**	**36**	**873**	**6**	**(44)**	**79**	**1**	**–**	**(3,061)**	**121**
Changes to risk parameters – credit quality	**–**	**73**	**–**	**(97)**	**–**	**(156)**	**–**	**(1)**	**–**	**(181)**
Changes to model used for ECL calculation	**–**	**(8)**	**–**	**(29)**	**–**	**–**	**–**	**–**	**–**	**(37)**
Assets written off	**–**	**–**	**–**	**–**	**(257)**	**257**	**–**	**–**	**(257)**	**257**
Others[2]	**3,850**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,850**	**–**
At 30 Jun 2022	**245,530**	**(274)**	**24,064**	**(803)**	**4,391**	**(681)**	**21**	**(6)**	**274,006**	**(1,764)**
ECL release/(charge) for the period		**170**		**(194)**	**–**	**(65)**		**(1)**		**(90)**
Recoveries										**35**
Others										**9**
Total change in ECL for the period										**(46)**
At 1 Jan 2021	226,574	(559)	35,528	(1,728)	3,850	(1,091)	38	(23)	265,990	(3,401)
Transfers of financial instruments:	7,393	(717)	(8,936)	855	1,543	(138)	–	–	–	–
– transfers from stage 1 to stage 2	(13,961)	92	13,961	(92)	–	–	–	–	–	–
– transfers from stage 2 to stage 1	21,731	(787)	(21,731)	787	–	–	–	–	–	–
– transfers to stage 3	(591)	5	(1,541)	218	2,132	(223)	–	–	–	–
– transfers from stage 3	214	(27)	375	(58)	(589)	85	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	461	–	(83)	–	(1)	–	–	–	377
Changes due to modifications not derecognised	–	–	–	–	(1)	–	–	–	(1)	–
New financial assets originated or purchased	46,099	(114)	–	–	–	–	–	–	46,099	(114)
Asset derecognised (including final repayments)	(27,037)	30	(3,248)	162	(417)	21	–	–	(30,702)	213
Changes to risk parameters – further lending/ repayment	(12,643)	132	(1,305)	182	(119)	182	(18)	4	(14,085)	500
Changes to risk parameters – credit quality	–	432	–	(66)	–	(406)	–	14	–	(26)
Changes to model used for ECL calculation	–	(13)	–	(40)	–	–	–	–	–	(53)
Assets written off	–	–	–	–	(573)	573	–	–	(573)	573
Others	–	–	–	–	–	–	–	–	–	–
At 31 Dec 2021	240,386	(348)	22,039	(718)	4,283	(860)	20	(5)	266,728	(1,931)
ECL release/(charge) for the period		928		155	–	(204)		18		897
Recoveries										100
Others										(24)
Total change in ECL for the period										973

1 *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 30 June 2022, these amounted to £0.5bn (2021: £0.8bn) and were classified as stage 1 with no ECL.*

2 *£3.8bn of gross carrying amounts of stage 1 loans and advances to banks, representing the balance maintained as at 30 June 2022 with the BoE to support BACS along with Faster Payments and the cheque-processing Image Clearing System in the UK. The corresponding balance as at 31 December 2021 was reported under 'Cash and balances at central banks'. Comparatives have not been restated.*

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 PD, whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

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

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	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 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	127,606	31,647	35,061	4,864	4,154	203,332	(1,696)	201,636
– stage 1	122,252	28,427	26,511	739	–	177,929	(247)	177,682
– stage 2	5,354	3,220	8,550	4,125	–	21,249	(780)	20,469
– stage 3	–	–	–	–	4,133	4,133	(663)	3,470
– POCI	–	–	–	–	21	21	(6)	15
Loans and advances to banks at amortised cost	5,472	–	–	–	–	5,472	–	5,472
– stage 1	5,471	–	–	–	–	5,471	–	5,471
– stage 2	1	–	–	–	–	1	–	1
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	116,841	108	170	3	16	117,138	(1)	117,137
– stage 1	116,832	103	135	–	–	117,070	(1)	117,069
– stage 2	9	5	35	3	–	52	–	52
– stage 3	–	–	–	–	16	16	–	16
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments	42,229	12,030	10,364	691	242	65,556	(67)	65,489
– stage 1	42,147	11,580	8,673	175	–	62,575	(27)	62,548
– stage 2	82	450	1,691	516	–	2,739	(23)	2,716
– stage 3	–	–	–	–	242	242	(17)	225
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	614	200	267	49	16	1,146	(1)	1,145
– stage 1	614	198	215	23	–	1,050	–	1,050
– stage 2	–	2	52	26	–	80	–	80
– stage 3	–	–	–	–	16	16	(1)	15
– POCI	–	–	–	–	–	–	–	–
At 30 Jun 2022	**292,762**	**43,985**	**45,862**	**5,607**	**4,428**	**392,644**	**(1,765)**	**390,879**
Debt instruments at FVOCI[1]	12,671	–	–	–	–	12,671	(1)	12,670
– stage 1	12,671	–	–	–	–	12,671	(1)	12,670
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 30 Jun 2022	**12,671**	**–**	**–**	**–**	**–**	**12,671**	**(1)**	**12,670**

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	124,378	25,978	36,519	6,478	4,028	197,381	(1,855)	195,526
– stage 1	124,221	24,837	25,096	763	—	174,917	(315)	174,602
– stage 2	157	1,141	11,423	5,715	—	18,436	(692)	17,744
– stage 3	—	—	—	—	4,008	4,008	(843)	3,165
– POCI	—	—	—	—	20	20	(5)	15
Loans and advances to banks at amortised cost	1,914	—	—	—	—	1,914	—	1,914
– stage 1	1,914	—	—	—	—	1,914	—	1,914
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	121,850	110	156	1	16	122,133	(1)	122,132
– stage 1	121,850	109	126	—	—	122,085	(1)	122,084
– stage 2	—	1	30	1	—	32	—	32
– stage 3	—	—	—	—	16	16	—	16
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	42,690	12,513	10,983	948	260	67,394	(73)	67,321
– stage 1	42,688	12,344	8,516	94	—	63,642	(32)	63,610
– stage 2	2	169	2,467	854	—	3,492	(26)	3,466
– stage 3	—	—	—	—	260	260	(15)	245
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	623	170	237	56	16	1,102	(3)	1,099
– stage 1	623	169	155	16	—	963	(1)	962
– stage 2	—	1	82	40	—	123	—	123
– stage 3	—	—	—	—	16	16	(2)	14
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2021	291,455	38,771	47,895	7,483	4,320	389,924	(1,932)	387,992
Debt instruments at FVOCI[1]	14,273	—	—	—	—	14,273	(2)	14,271
– stage 1	14,273	—	—	—	—	14,273	(2)	14,271
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2021	14,273	—	—	—	—	14,273	(2)	14,271

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.*

Wholesale lending

This section provides further detail on the industries in wholesale loans and advances to customers and banks. Industry 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	**51,762**	**9,990**	**3,260**	**21**	**65,033**	**(147)**	**(266)**	**(449)**	**(6)**	**(868)**
– agriculture, forestry and fishing	**3,665**	**369**	**137**	**—**	**4,171**	**(7)**	**(17)**	**(12)**	**—**	**(36)**
– mining and quarrying	**568**	**81**	**51**	**—**	**700**	**(1)**	**(1)**	**(6)**	**—**	**(8)**
– manufacture	**6,235**	**1,283**	**222**	**—**	**7,740**	**(12)**	**(33)**	**(41)**	**—**	**(86)**
– electricity, gas, steam and air-conditioning supply	**339**	**106**	**1**	**—**	**446**	**(1)**	**(2)**	**—**	**—**	**(3)**
– water supply, sewerage, waste management and remediation	**647**	**55**	**21**	**—**	**723**	**(1)**	**(1)**	**(5)**	**—**	**(7)**
– construction	**3,158**	**341**	**190**	**—**	**3,689**	**(13)**	**(17)**	**(31)**	**—**	**(61)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**9,438**	**1,868**	**492**	**—**	**11,798**	**(23)**	**(33)**	**(71)**	**—**	**(127)**
– transportation and storage	**1,594**	**351**	**96**	**—**	**2,041**	**(6)**	**(7)**	**(6)**	**—**	**(19)**
– accommodation and food	**4,131**	**2,615**	**713**	**—**	**7,459**	**(13)**	**(67)**	**(21)**	**—**	**(101)**
– publishing, audiovisual and broadcasting	**1,865**	**332**	**143**	**21**	**2,361**	**(11)**	**(14)**	**(45)**	**(6)**	**(76)**
– real estate	**9,271**	**752**	**499**	**—**	**10,522**	**(24)**	**(13)**	**(122)**	**—**	**(159)**
– professional, scientific and technical activities	**3,439**	**449**	**114**	**—**	**4,002**	**(12)**	**(21)**	**(16)**	**—**	**(49)**
– administrative and support services	**3,964**	**690**	**229**	**—**	**4,883**	**(9)**	**(18)**	**(39)**	**—**	**(66)**
– public administration and defence, compulsory social security	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**
– education	**679**	**90**	**45**	**—**	**814**	**(2)**	**(5)**	**(10)**	**—**	**(17)**
– health and care	**1,476**	**167**	**88**	**—**	**1,731**	**(4)**	**(6)**	**(8)**	**—**	**(18)**
– arts, entertainment and recreation	**428**	**281**	**82**	**—**	**791**	**(3)**	**(7)**	**(9)**	**—**	**(19)**
– other services	**863**	**160**	**137**	**—**	**1,160**	**(5)**	**(4)**	**(7)**	**—**	**(16)**
– activities of households	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**
– assets backed securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Non-bank financial institutions	**2,058**	**129**	**8**	**—**	**2,195**	**(2)**	**(1)**	**—**	**—**	**(3)**
Loans and advances to banks	**5,471**	**1**	**—**	**—**	**5,472**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2022	**59,291**	**10,120**	**3,268**	**21**	**72,700**	**(149)**	**(267)**	**(449)**	**(6)**	**(871)**

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	**22,337**	**2,502**	**188**	**—**	**25,027**	**(18)**	**(23)**	**(18)**	**—**	**(59)**
Financial	**1,725**	**48**	**—**	**—**	**1,773**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2022	**24,062**	**2,550**	**188**	**—**	**26,800**	**(18)**	**(23)**	**(18)**	**—**	**(59)**

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

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

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

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. At 30 June 2022, the increase in stage 2 mortgage lending balances is largely explained by a management adjustment designed to reflect inflation risk in certain segments of our customer base that may be more susceptible to inflationary pressure. Whilst no increase in stress has emerged amongst this customer group, these have been classified as stage 2 as a recognition of the higher perceived risk to inflationary pressure which may occur. This does not have a material impact on ECL given the low LTV profile of these customers. We will continue to monitor the impact of inflation and update the management judgmental adjustments as the inflationary impacts abate or translate into changes in customer behaviour and performance.

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	**113,564**	**8,347**	**553**	**122,464**	**(17)**	**(70)**	**(71)**	**(158)**
– *of which: interest only (including offset)*	***16,721***	***2,002***	***51***	***18,774***	***(2)***	***(23)***	***(16)***	***(41)***
Other personal lending	**10,545**	**2,783**	**312**	**13,640**	**(81)**	**(443)**	**(143)**	**(667)**
– other	**5,817**	**1,460**	**214**	**7,491**	**(48)**	**(179)**	**(89)**	**(316)**
– credit cards	**4,728**	**1,323**	**98**	**6,149**	**(33)**	**(264)**	**(54)**	**(351)**
At 30 Jun 2022	**124,109**	**11,130**	**865**	**136,104**	**(98)**	**(513)**	**(214)**	**(825)**
By portfolio								
First lien residential mortgages	115,464	1,927	686	118,077	(20)	(42)	(101)	(163)
– *of which: interest only (including offset)*	*17,371*	*1,189*	*71*	*18,631*	*(3)*	*(16)*	*(18)*	*(37)*
Other personal lending	11,440	1,434	367	13,241	(102)	(311)	(191)	(604)
– other	6,199	778	245	7,222	(52)	(118)	(115)	(285)
– credit cards	5,241	656	122	6,019	(50)	(193)	(76)	(319)
At 31 Dec 2021	126,904	3,361	1,053	131,318	(122)	(353)	(292)	(767)

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

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 Jun 2022	**39,563**	**269**	**70**	**39,902**	**(9)**	**—**	**—**	**(9)**
At 31 Dec 2021	39,835	296	75	40,206	(8)	(1)	—	(9)

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

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.

A summary of our current policies and practices regarding the management of Treasury risk is set out on pages 49 to 51 of the Annual Report and Accounts 2021.

Treasury risk management

Key developments in the first half of 2022

- Our CET1 capital ratio fell from 15.3% at 31 December 2021 to 13.7% at 30 June 2022, as a result of a £467m reduction in CET1 capital and a £6.5bn increase in risk-weighted assets. The reduction included a 1.7 percentage point impact from regulatory changes that took effect in 1Q22.
- The MTM movement in financial instruments that impacted our CET1 capital ratio arose from the portfolio of HQLA held by our Markets Treasury business as economic hedges of net interest income. This portfolio is accounted for as FVOCI, together with any derivative hedges held to offset the duration risk of the assets. During 1H22 we took steps to reduce the duration risk of this portfolio in order to reduce the immediate capital impact from higher interest rates. The impact of this risk reduction can be seen in the reduction of the HTC&S Stressed VaR exposure from £555m at the end of 2021 to £491m as at the end of 1H22.
- Our portfolio of hold-to-collect-and-sell assets forms a material part of our liquid asset buffer, and the duration risk of the portfolio acts as a hedge to our structural interest rate risk. We have recently approved a new hold-to-collect business model, which is currently being implemented, and certain new purchases of securities will be booked under this model. In future, this portfolio of assets will also form a more material part of our structural interest rate hedging. This will allow more flexibility in managing the market risk of the current HTC&S portfolio to optimise returns from market movements while still safeguarding the group's capital and future earnings.
- There have been no material direct capital or liquidity impacts from the inflationary pressures and increased uncertainty on the forward economic outlook exacerbated by the Russia-Ukraine war, although we continue to monitor developments closely.
- We continued to improve global consistency and control standards across a number of our processes. We are keeping the PRA and other relevant regulators informed of adverse findings from external and internal reviews.
- We continued to build our recovery and resolution capabilities in line with the Group's preferred resolution strategy to meet requirements from the BoE under its RAF. We met our compliance deadline of 1 January 2022 to develop RAF capabilities and the Group publicly disclosed a summary of its preparedness for resolution on 10 June 2022, thereby completing the first RAF cycle. We will continue to enhance our capabilities during the second half of 2022 in discussion with the BoE.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is underpinned by a global capital management framework and our ICAAP. The framework incorporates key capital risk appetites including CET1, total capital, MREL and leverage ratio. 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. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach. The ICAAP supports the determination of our capital risk appetite and target ratios as well as enabling the assessment and determination of capital requirements by the PRA.

We aim to ensure that management has oversight of our liquidity and funding risks through robust governance in line with our Risk Management Framework. We manage liquidity and funding risk at an operating entity level, in accordance with globally consistent policies, procedures and reporting standards. This ensures that obligations can be met in a timely manner, in the jurisdiction where they fall due.

Operating entities 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 operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and controls.

Planning and performance

Capital and RWA plans form part of the annual financial resource plan that is approved by the Board. Capital and RWA forecasts are submitted to the 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 to support growth objectives where returns above internal hurdle levels have been identified, and in order to meet their regulatory and economic capital needs. We evaluate and manage business returns by using a return on average tangible equity measure.

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The Board-level risk appetite measures are the LCR together with an internal liquidity metric and the NSFR. In addition, we use a wider set of measures to manage an appropriate funding and liquidity profile, including depositor concentration limits, wholesale funding concentration limits, intra-day liquidity and other key measures.

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs, capital and/or liquidity position. We closely monitor future regulatory changes and continue to evaluate the impact of these upon our capital and liquidity requirements, particularly those related to the UK's implementation of the outstanding measures to be implemented from the Basel III reforms ('Basel 3.1').

Regulatory developments

Our capital adequacy ratios have been affected by regulatory developments in 2022, including changes to IRB modelling requirements and the UK's implementation of the revisions to the CRR.

Future changes to our ratios will occur with the implementation of Basel 3.1; the PRA is expected to consult on the UK's implementation in the last quarter of 2022, with an effective date of 1 January 2025. The RWA output floor under Basel 3.1 is expected to be subject to a five-year transitional provision. Any impact from the output floor would be towards the end of the transition period.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a comprehensive programme to strengthen our processes, improve consistency, and enhance controls on various aspects of regulatory reporting. We have commissioned a number of independent external reviews, some at the request of our regulators, including one on our credit risk RWA reporting process, which is currently ongoing. These reviews have so far resulted in higher RWAs through improvements in reporting accuracy. There may be further impacts on some of our regulatory ratios, such as the CET1 capital ratio and the LCR.

Stress testing and recovery and resolution planning

We use stress testing to evaluate the robustness of plans and risk portfolios, and to meet the stress testing requirements 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 we require in setting risk appetite for capital and liquidity risk. It is also used to re-evaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target.

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

We have established a recovery plan, which sets out potential options management could take in a range of stress scenarios that could result in a breach of our capital or liquidity risk appetite and regulatory minimum levels. This is to help ensure that our capital and liquidity position can be recovered even in an extreme stress event. We monitor triggers related to internal and external variables that could threaten our capital, liquidity or funding positions.

Recovery and resolution plans form part of the framework safeguarding our financial stability. We are committed to developing its recovery and resolution capabilities further, including in relation to the BoE's RAF.

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 Treasury 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.

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 repayment. 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.

Further details of HSBC UK's risk management of interest rate risk in the banking book can be found in HSBC UK's Pillar 3 Disclosures as at June 2022.

Economic value of equity sensitivity

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

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

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

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

Capital risk

Capital overview

Own funds

Own funds disclosure and capital adequacy metrics[1]

	At	
	30 Jun 2022	31 Dec 2021
	£m	£m
CET1 capital before regulatory adjustments	**21,020**	21,059
Total regulatory adjustments to common equity tier 1	**(8,674)**	(8,246)
CET1 capital	**12,346**	12,813
Additional tier 1 capital before regulatory adjustments	**2,253**	2,254
Additional tier 1 capital	**2,253**	2,254
Tier 1 capital (T1 = CET1 + AT1)	**14,599**	15,067
Tier 2 capital before regulatory adjustments	**3,069**	3,000
Tier 2 capital	**3,069**	3,000
Total regulatory capital	**17,668**	18,067
Risk-weighted assets ('RWAs')		
Credit risk	**79,314**	72,817
Counterparty credit risk	**210**	129
Market risk	**78**	170
Operational risk	**10,607**	10,607
Total risk-weighted assets	**90,209**	83,723
Capital ratios (%)	**%**	%
Common equity tier 1 ratio	**13.7**	15.3
Tier1 ratio	**16.2**	18.0
Total capital ratio	**19.6**	21.6

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

At 30 June 2022, our CET1 capital ratio decreased to 13.7% from 15.3% at 31 December 2021.

The key drivers for the fall in the CET1 capital ratio were:

- an increase in RWAs mainly due to regulatory changes, and
- a decrease in the CET1 due to reversal of the beneficial treatment of software assets, a decline in the FVOCI reserve and an increase in expected loss deduction driven by lower loan loss provisions which was partly offset by profits net of dividends.

At 30 June 2022, our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 4.2% of RWAs, of which 2.4% was met by CET1 capital. Throughout the first half of 2022, we complied with the PRA's regulatory capital adequacy requirements.

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk				Market risk	Total RWAs
	WPB	CMB	GBM	Corporate Centre		
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2022	**24,705**	**56,918**	**367**	**1,563**	**170**	**83,723**
Asset size	**510**	**1,493**	**5**	**(9)**	**(92)**	**1,907**
Asset quality	**(214)**	**(2,200)**	**—**	**(36)**	**—**	**(2,450)**
Methodology and policy	**8,068**	**(569)**	**1**	**(564)**	**—**	**6,936**
– internal updates	**(36)**	**(209)**	**1**	**(74)**	**—**	**(318)**
– external updates – regulatory	**8,104**	**(360)**	**—**	**(490)**	**—**	**7,254**
Foreign exchange movement	**—**	**92**	**—**	**1**	**—**	**93**
Total RWA movement	**8,364**	**(1,184)**	**6**	**(608)**	**(92)**	**6,486**
RWAs at 30 Jun 2022	**33,069**	**55,734**	**373**	**955**	**78**	**90,209**

RWAs increased by £6.5bn during the year mainly from regulatory changes £7.3bn and lending growth £1.9bn, partially offset by reductions due to movements in asset quality £2.5bn.

Methodology and policy

Regulatory changes caused an RWA increase in WPB due to revised IRB modelling requirements, the UK's implementation of CRR II rules and the 10% floor on mortgage risk weights. This increase was partly offset by the reversal of the beneficial changes to the treatment of software assets in Corporate Centre, and a reduction in CMB due to IRB modelling.

CMB RWAs decreased by £0.2bn due to risk parameter refinements and data quality improvements that was partially offset by an increase on account of reporting process and control enhancements as a result of independent external regulatory reviews.

Asset size

CMB corporate loan growth increased RWAs by £1.5bn, and increased mortgage lending contributed most of the £0.5bn increase in WPB.

Asset quality

Asset quality changes led to a £2.5bn fall in RWAs mainly in CMB due to credit migrations and changes in the underlying portfolio mix.

Leverage ratio

	At	
	30 Jun 2022	31 Dec 2021
Total leverage ratio exposure measure (£m)[1]	**253,401**	358,221
Leverage ratio (%)[1]	**5.8**	4.2

1 *The CRR II transitional arrangements for IFRS 9 are applied in the leverage ratio calculation. Comparatives are based on the disclosure rules in force at 31 December 2021.*

Our leverage ratio, calculated in accordance with the PRA's UK Leverage framework implemented on 1 January 2022 (excluding the central bank claims) was 5.8% at 30 June 2022.

The equivalent leverage ratio at December 2021 was 6.3%, the decrease being driven by growth in the balance sheet and reversal of the beneficial treatment of software assets in Tier 1 capital.

The leverage ratio reported at December 2021 was 4.2%, based on the disclosure rules in force at that time. The 1.6% improvement was primarily due to the exclusion of central bank claims following the implementation of the UK Leverage ratio framework from 1 January 2022.

Liquidity and funding risk

Liquidity coverage ratio

At 30 June 2022, we were above regulatory minimum levels. The following table displays the individual LCR levels for HSBC UK Liquidity Group on an PRA rules basis.

HSBC UK Liquidity Group LCR

	At	
	30 Jun 2022	31 Dec 2021
	%	%
HSBC UK Liquidity Group[1]	**228**	241

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

At 30 June 2022, we 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 for December 21 and PRA basis for June 22.

HSBC UK Liquidity Group NSFR

	At	
	30 Jun 2022	31 Dec 2021
	%	%
HSBC UK Liquidity Group	**165**	178

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 2022 £m	31 Dec 2021 £m
HSBC UK Liquidity Group		
Cash	**100,936**	111,128
Level 1	**11,570**	8,695
Level 2	**951**	720
Liquidity pool	**113,457**	120,543

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 2022, 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 2022 £m	31 Dec 2021 £m
Sources		
Customer accounts	**285,917**	281,870
Deposits by banks	**10,729**	11,180
Repurchase agreements – non-trading	**9,877**	10,438
Debt securities in issue	**852**	900
Cash collateral, margin and settlement accounts	**561**	2
Subordinated liabilities	**12,525**	12,487
Total equity	**23,617**	23,805
Other balance sheet liabilities	**4,190**	5,381
	348,268	346,063

Funding Uses

	At	
	30 Jun 2022 £m	31 Dec 2021 £m
Uses		
Loans and advances to customers	**201,636**	195,526
Loans and advances to banks	**5,472**	1,914
Reverse repurchase agreements – non-trading	**11,122**	7,988
Cash collateral, margin and settlement accounts	**441**	294
Financial investments	**14,851**	14,377
Cash and balances with central banks	**100,927**	112,478
Other balance sheet assets	**13,819**	13,486
	348,268	346,063

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.

There were no material changes to the policies and practices for the management of market risk in the first half of 2022.

Directors' responsibility statement

The Directors are required to prepare the condensed consolidated interim financial statements (the 'interim financial statements') on a going concern basis unless it is not appropriate. They are satisfied that the group and bank have the resources to continue in business for the foreseeable future and that the interim 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 financial statements have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting', IAS 34 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules ('DTR') sourcebook of the UK's Financial Conduct Authority;
- this *Interim Report 2022* gives a true, fair, balanced and understandable view of the assets, liabilities, financial position and profit or loss of the group; and
- this *Interim Report 2022* 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 2022 and their impact on the interim 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+, David Lister+, Philippe Leslie Van de Walle+, Marie Claire Baird (Chief Financial Officer), Jenny Goldie-Scot+.

On behalf of the Board

Dame Clara Furse

Chairman

31 July 2022

HSBC UK Bank plc

Registered number 9928412

+ Independent 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 2022* of HSBC UK Bank plc and its subsidiaries (the 'group') for the six month period ended 30 June 2022 (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', International Accounting Standard 34, 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2022;
- 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 notes to the interim financial statements and certain other information[1].

The interim financial statements included in the *Interim Report 2022* of the group have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', International Accounting Standard 34, 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council 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 2022* and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the Interim financial statements and the review

Our Responsibilities and those of the directors

The *Interim Report 2022*, 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 2022* in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the *Interim Report 2022*, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease the operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the *Interim Report 2022* based on our review. Our conclusion, including the Conclusion relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
31 July 2022

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 for the period', 'Significant cost items by business segment – recoveries/(charges) for the period', 'Net impact on profit/(loss) before tax by business segment for the period', '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 2022	30 Jun 2021
	Notes	**£m**	£m
Net interest income		**2,752**	2,292
– interest income		**3,113**	2,503
– interest expense		**(361)**	(211)
Net fee income	*2*	**597**	476
– fee income		**737**	603
– fee expense		**(140)**	(127)
Net income from financial instruments held for trading or managed on a fair value basis		**173**	147
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**32**	12
Gains less losses from financial investments		**21**	76
Other operating income		**21**	20
Net operating income before change in expected credit losses and other credit impairment charges		**3,596**	3,023
Change in expected credit losses and other credit impairment charges		**(42)**	413
Net operating income		**3,554**	3,436
Employee compensation and benefits[1]		**(498)**	(521)
General and administrative expenses[1]		**(1,063)**	(1,166)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(94)**	(97)
Amortisation and impairment of intangible assets		**(149)**	(112)
Total operating expenses		**(1,804)**	(1,896)
Operating profit		**1,750**	1,540
Profit before tax		**1,750**	1,540
Tax expense	*4*	**(281)**	(559)
Profit for the period		**1,469**	981
Attributable to:			
– ordinary shareholders of the parent company		**1,466**	978
– non-controlling interests		**3**	3
Profit for the period		**1,469**	981

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 31 March 2021 were reported under 'General and administrative expenses' and subsequently reported under 'Employee compensation and benefits'.*

The accompanying notes on pages 39 to 44, the adjusted performance tables in the 'Financial summary' section on pages 8 to 10, and the following disclosures in the Risk section on pages 12 to 26 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 2022	30 Jun 2021
	£m	£m
Profit for the period	**1,469**	981
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	**(273)**	(80)
– fair value losses	**(364)**	(23)
– fair value gains transferred to the income statement on disposal	**(21)**	(74)
– expected credit recoveries recognised in the income statement	**(1)**	(5)
– income taxes	**113**	22
Cash flow hedges	**(609)**	—
– fair value losses	**(815)**	—
– fair value (gains)/losses reclassified to the income statement	**(21)**	1
– income taxes	**227**	(1)
Exchange differences	**(2)**	(3)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(53)**	(736)
– before income taxes	**(256)**	(812)
– income taxes[1]	**203**	76
Other comprehensive income/(expense) for the period, net of tax	**(937)**	(819)
Total comprehensive income for the period	**532**	162
Attributable to:		
– ordinary shareholders of the parent company	**529**	159
– non-controlling interests	**3**	3
Total comprehensive income for the period	**532**	162

1 *The income tax credit of £203m (1H21: credit £76m) arising on Remeasurement of defined benefit asset/liability, includes an income tax credit of £136m in 1H22 arising upon the remeasurement of deferred tax following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3% with effect from 1 April 2023 and includes an income tax charge of £139m in 1H21 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
		2022	2021
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**100,927**	112,478
Items in the course of collection from other banks		**383**	299
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*6*	**152**	79
Derivatives		**343**	64
Loans and advances to banks		**5,472**	1,914
Loans and advances to customers		**201,636**	195,526
Reverse repurchase agreements – non-trading		**11,122**	7,988
Financial investments		**14,851**	14,377
Prepayments, accrued income and other assets		**9,165**	9,136
Interests in joint ventures		**9**	9
Goodwill and intangible assets	*8*	**4,208**	4,193
Total assets		**348,268**	346,063
Liabilities and equity			
Liabilities			
Deposits by banks		**10,729**	11,180
Customer accounts		**285,917**	281,870
Repurchase agreements – non-trading		**9,877**	10,438
Items in the course of transmission to other banks		**284**	151
Derivatives		**134**	292
Debt securities in issue		**852**	900
Accruals, deferred income and other liabilities		**2,464**	1,674
Current tax liabilities		**153**	802
Provisions	*9*	**450**	495
Deferred tax liabilities		**1,266**	1,969
Subordinated liabilities		**12,525**	12,487
Total liabilities		**324,651**	322,258
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**6,773**	7,657
Retained earnings		**5,573**	4,877
Total shareholders’ equity		**23,557**	23,745
Non-controlling interests		**60**	60
Total equity		**23,617**	23,805
Total liabilities and equity		**348,268**	346,063

Consolidated statement of cash flows

	Half-year to	
	30 Jun	30 Jun
	2022	2021
	£m	£m
Profit before tax	**1,750**	1,540
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**243**	209
Net gain from investing activities	**(21)**	(76)
Change in expected credit losses gross of recoveries and other credit impairment charges	**86**	(366)
Provisions including pensions	**(27)**	(2)
Share-based payment expense	**7**	7
Other non-cash items included in profit before tax	**(6)**	1
Elimination of exchange differences[1]	**955**	176
Changes in operating assets	**(12,068)**	(460)
Changes in operating liabilities	**2,968**	15,053
Contributions paid to defined benefit plans	**(11)**	(167)
Tax (paid)/received	**(1,088)**	58
Net cash from operating activities	**(7,212)**	15,973
Purchase of financial investments	**(6,577)**	(6,952)
Proceeds from the sale and maturity of financial investments	**6,245**	12,029
Net cash flows from the purchase and sale of property, plant and equipment	**(20)**	(14)
Net investment in intangible assets	**(163)**	(143)
Net cash from investing activities	**(515)**	4,920
Subordinated loan capital issued[2]	**—**	4,520
Subordinated loan capital repaid[2]	**—**	(2,079)
Dividends paid to shareholders of the parent company and non-controlling interests	**(732)**	(60)
Net cash from financing activities	**(732)**	2,381
Net increase/(decrease) in cash and cash equivalents	**(8,459)**	23,274
Cash and cash equivalents at the beginning of the period	**114,134**	77,422
Exchange differences in respect of cash and cash equivalents	**27**	(21)
Cash and cash equivalents at the end of the period	**105,702**	100,675

Interest received was £2,964m (1H 2021: £2,547m) and interest paid was £281m (1H 2021: £229m).

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 to cash flows from issuance of securities £nil (2021: £4,520m) and repayments of £nil (2021: £2,079m). Non-cash changes during the period included foreign exchange gains/(losses) of £(494)m (2021: £34m).*

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 2022	**9,015**	**2,196**	**4,877**	**56**	**(90)**	**7,691**	**23,745**	**60**	**23,805**
Profit for the period	**—**	**—**	**1,466**	**—**	**—**	**—**	**1,466**	**3**	**1,469**
Other comprehensive income (net of tax)	**—**	**—**	**(53)**	**(275)**	**(609)**	**—**	**(937)**	**—**	**(937)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**(273)**	**—**	**—**	**(273)**	**—**	**(273)**
– cash flow hedges	**—**	**—**	**—**	**—**	**(609)**	**—**	**(609)**	**—**	**(609)**
– remeasurement of defined benefit asset/ liability	**—**	**—**	**(53)**	**—**	**—**	**—**	**(53)**	**—**	**(53)**
– exchange differences	**—**	**—**	**—**	**(2)**	**—**	**—**	**(2)**	**—**	**(2)**
Total comprehensive income for the period	**—**	**—**	**1,413**	**(275)**	**(609)**	**—**	**529**	**3**	**532**
Dividends to shareholders	**—**	**—**	**(729)**	**—**	**—**	**—**	**(729)**	**(3)**	**(732)**
Other movements[1]	**—**	**—**	**12**	**—**	**—**	**—**	**12**	**—**	**12**
At 30 Jun 2022	**9,015**	**2,196**	**5,573**	**(219)**	**(699)**	**7,691**	**23,557**	**60**	**23,617**
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

1 Relates primarily to £8m pension assets transferred from HSBC Global Services (UK) Limited and HSBC Bank plc (1H21: £10m).
2 The Group reorganisation reserve is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring-fenced businesses that were notionally transferred from HSBC Bank plc.

Notes on the condensed financial statements

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC UK have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as 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 2021.

These financial statements should be read in conjunction with the *Annual Report and Accounts 2021*, which were prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. These financial statements were also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee.

At 30 June 2022, there were no unendorsed standards effective for the half-year to 30 June 2022 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.

Standards applied during the half-year to 30 June 2022

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. Apart from estimates relating to ECL impairment there were no material changes in the current period to any of the other critical accounting estimates and judgements disclosed in 2021, which are stated on pages 80 to 88 of the *Annual Report and Accounts 2021*.

(c) Composition of the group

There were no material changes in the composition of the group in the half-year to 30 June 2022.

(d) Future accounting developments

There were no accounting standards issued as at 30 June 2022 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 bank have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios as well as considering potential impacts from other top and 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 80 to 88 of the *Annual Report and Accounts 2021*, as are the methods of computation.

2 Net fee income

	Half-year to	
	30 Jun 2022	30 Jun 2021
Net fee income by product	**£m**	£m
Account services	**132**	129
Funds under management	**58**	54
Cards	**278**	182
Credit facilities	**67**	65
Imports/exports	**15**	14
Insurance agency commission	**12**	24
Receivables finance	**49**	43
Other	**126**	92
Fee income	**737**	603
Less: fee expense	**(140)**	(127)
Net fee income	**597**	476
Net fee income by global business		
Wealth and Personal Banking	**282**	224
Commercial Banking	**422**	342
Global Banking and Markets	**(106)**	(89)
Corporate Centre	**(1)**	(1)

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 90 of the *Annual Report and Accounts 2021*, and details of the policies and practices associated with the plan on page 51 of the *Annual Report and Accounts 2021.*

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 2022	**24,350**	**(17,803)**	**6,547**
At 31 Dec 2021	30,578	(23,833)	6,745

Post-employment defined benefit plan actuarial financial assumptions

Key actuarial assumptions for the plan

	Discount rate	Inflation rate (RPI)	Inflation rate (CPI)	Rate of increase for pensions	Rate of pay increase
	%	%	%	%	%
At 30 Jun 2022	**3.83**	**3.32**	**2.95**	**3.22**	**3.20**
At 31 Dec 2021	1.90	3.45	3.20	3.30	3.45

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 2022	**SAPS S3[1]**	**27.3**	**28.7**	**28.5**	**30.0**
At 31 Dec 2021	SAPS S3[1]	27.3	28.8	28.5	30.1

1 *Self-administered pension scheme ('SAPS') S3 table, with different tables and multipliers adopted based on gender, pension amount and member status, reflecting the Scheme's actual mortality experience. Improvements are projected in accordance with the Continuous Mortality Investigation's 2021 core projection model (31 December 2021: the Continuous Mortality Investigation's 2020 core projection model) with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum.*

4 Tax

Tax charge

The effective tax rate is 16.1% (1H21: 36.3%). The effective tax rate is reduced by 9.8% by a credit arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3%, with effect from 1 April 2023. The effective tax rate excluding this item is 25.9% 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 1H21 was increased by 12.4% by a charge arising from the remeasurement of the group's deferred tax balances following substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023.

5 Dividends

On 20 July, 2022, the Directors resolved to pay an interim dividend to the ordinary shareholder of the parent company of £341m in respect of the financial year ending 31 December 2022. 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 2022		30 Jun 2021	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**9,820**	**491**	–	–
Interim dividend in respect of the current year	**3,500**	**175**	–	–
Total	**13,320**	**666**	–	–

Total coupons on capital securities classified as equity

		Half-year to	
		30 Jun 2022	30 Jun 2021
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**31**	28
– £1,100m	Dec 2024	**32**	29
Total		**63**	57

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 2021*.

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2022				At 31 Dec 2021			
	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	120	32	—	152	65	14	—	79
Derivatives	8	335	—	343	1	63	—	64
Financial investments	11,355	331	—	11,686	13,979	398	—	14,377
Liabilities								
Derivatives	3	131	—	134	1	291	—	292

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 2022 and 2021.

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 96 and 97 of the *Annual Report and Accounts 2021.*

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

	At 30 Jun 2022		At 31 Dec 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Assets				
Loans and advances to banks	5,472	5,472	1,914	1,914
Loans and advances to customers	201,636	199,816	195,526	196,146
Reverse repurchase agreements – non-trading	11,122	11,122	7,988	7,988
Financial investments held at amortised cost	3,165	3,089	—	—
Liabilities				
Deposits by banks	10,729	10,729	11,180	11,180
Customer accounts	285,917	285,917	281,870	281,870
Repurchase agreements – non-trading	9,877	9,877	10,438	10,438
Debt securities in issue	852	823	900	892
Subordinated liabilities	12,525	12,072	12,487	12,686

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

8 Goodwill

Impairment testing

As described on page 102 of the *Annual Report and Accounts 2021*, we test goodwill for impairment at 1 October each year and whenever there is an indication that goodwill may be impaired. At 30 June 2022, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

9 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 2022	22	39	256	96	413
Additions	23	–	20	19	62
Amounts utilised	(13)	(5)	(34)	(3)	(55)
Unused amounts reversed	(13)	(2)	(26)	(8)	(49)
Exchange and other movements	20	–	2	(15)	7
At 30 Jun 2022	39	32	218	89	378
Contractual commitments[1]					
At 1 Jan 2022					82
Net change in expected credit loss provision					(10)
At 30 Jun 2022					72
Total provisions					
At 1 Jan 2022					495
At 30 Jun 2022					450

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 £20m were recorded in the consolidated income statement under net interest income £12m, net fee income £2m and operating expenses £6m.*
4 *Reversals of £26m were recorded in the consolidated income statement under net interest income £11m, net fee income £1m and operating expenses £14m.*

Customer remediation

Payment protection insurance

At 30 June 2022, £101m (31 December 2021: £128m) 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 £14m were made during the first six months of 2022, and the provision was decreased by £13m.

Although the deadline for bringing complaints has passed, customers can still commence litigation for PPI mis-selling. Provision has been made for the best estimate of any obligation to pay compensation in respect of future litigation. However, the volume and merits of future litigation, and the amount of any compensation to be paid, remain uncertain and are based upon a number of assumptions.

Collections and recoveries related matters

At 30 June 2022, a provision of £68m (31 December 2021: £64m) was held relating to the estimated liability for redress payable to customers following a review of historical collections and recoveries practices in the UK, including HSBC UK. During the first six months of 2022, redress payments and incurred operating costs totalled £11m and the provision was increased by £15m.

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

10 Contingent liabilities, contractual commitments and guarantees

	At	
	30 Jun 2022	31 Dec 2021
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees[1]	**1,146**	1,102
– performance and other guarantees	**2,524**	2,192
At the end of the period	**3,670**	3,294
Commitments:[2]		
– documentary credits and short-term trade-related transactions	**77**	134
– forward asset purchases and forward deposits placed	**1,012**	236
– standby facilities, credit lines and other commitments to lend	**67,290**	70,071
At the end of the period	**68,379**	70,441

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 £65,556m of commitments at 30 June 2022 (31 December 2021: £67,394m), to which the impairment requirements in IFRS 9 are applied where HSBC UK has become party to an irrevocable commitment.*

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

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

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

The group provides guarantees and similar undertakings on behalf of third-party customers. These guarantees are generally provided in the normal course of the group banking businesses.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and HSBC filed appeals. In February 2022, the Upper Tribunal issued a judgment addressing several preliminary legal issues, which was partially in favour of HMRC and partially in favour of HSBC. HSBC has applied for permission to appeal to the Court of Appeal and is awaiting the Court's decision. If permission is denied, the case will be further heard by the First Tier Tax Tribunal. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT, of which £130m is estimated to be attributable to HSBC UK Bank plc.

11 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2021*. 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 2022. 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.

Film finance litigation

In July and November 2015, two actions were brought by individuals against HSBC Private Bank (UK) Limited ('PBGB') in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty to the claimants, in connection with their participation in certain Ingenious film finance schemes. In December 2018 and June 2019, two further actions were brought against PBGB in the High Court of England and Wales by multiple claimants in connection with lending provided by PBGB to third parties in respect of certain Ingenious film finance schemes in which the claimants participated. In January 2022, the parties reached an agreement to resolve these disputes and, in February 2022, the actions against HSBC UK (as successor to PBGB) were discontinued.

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

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

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.

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 9.

Other regulatory investigations, reviews and litigation

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

- an investigation by the PRA in connection with depositor protection arrangements in the UK; and
- an investigation by the FCA in connection with collections and recoveries operations in the UK.

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

12 Transactions with related parties

There were no changes to the related party transactions described in the *Annual Report and Accounts 2021* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2022. All other related party transactions that took place in the half-year to 30 June 2022 were similar in nature to those disclosed in the *Annual Report and Accounts 2021*.

13 Events after the balance sheet date

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

On 20 July 2022, the Directors resolved to pay an interim dividend to the ordinary shareholder of the parent company of £341m in respect of the financial year ending 31 December 2022. No liability is recognised in the financial statements in respect of this dividend as described in Note 5.

14 Interim Report 2022 and statutory accounts

The information in this *Interim Report 2022* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2022* was approved by the Board of Directors on 31 July 2022. The statutory accounts of HSBC UK Bank plc for the year ended 31 December 2021 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, 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

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 RoE as a way of assessing our performance, which is closely aligned to our capital position. The measures are calculated in US dollars 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 2022	30 Jun 2021
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**1,827**	1,276
Significant items (net of tax)	**165**	129
Adjusted profit attributable to the ordinary shareholders of the parent company	**1,992**	1,405
Equity		
Average shareholders' equity	**30,755**	31,358
Additional Tier 1	**(2,842)**	(3,021)
Average ordinary shareholders' equity	**27,913**	28,337
Effect of goodwill and other intangibles (net of deferred tax)	**(5,463)**	(5,681)
Average tangible ordinary shareholders' equity	**22,450**	22,656
Ratio	**%**	%
Return on equity (annualised)	**13.2**	9.1
Return on average tangible equity (annualised)	**16.4**	11.4
Adjusted return on average tangible equity (annualised)[1]	**17.9**	12.5

1 *Under IAS 19, HSBC UK holds a pension fund surplus, and records pension income in the Income Statement. The IAS 19 pension fund surplus increases Tangible Equity but not CET1. In the event that the IAS 19 Pension fund surplus was zero, Tangible equity and profit would reduce, and Adjusted RoTE would be 18.6% (1H21: 14.9%); we refer to this as Pension Adjusted RoTE.*

Abbreviations

Currencies

£	British pound sterling
$	United States dollar

Abbreviations

1H22	First half of 2022
1H21	First half of 2021
2H21	Second half of 2021
4Q21	Fourth quarter of 2021
2Q22	Second quarter of 2022
1Q23	First quarter of 2023

A

AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1

B

BACS	Bankers' Automated Clearing System
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
BB	Business Banking
BoE	Bank of England
Bps	Basis points. One basis point is equal to one hundredth of a percentage point

C

CBDC	Central bank digital currency
CET1	Common equity tier 1
CMB	Commercial Banking
CODM	Chief Operating Decision Maker
CRR	Customer risk rating
CRR II	Revised Capital Requirements Regulation and Directive, as implemented
CPD	Continuing Professional Development
CPI	Consumer Price Index

D

DTR	Disclosure Guidance and Transparency Rules

E

EBA	European Banking Authority
ECL	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied
ESG	Environmental, social and governance
EU	European Union
EVE	Economic value of equity

F

FCA	Financial Conduct Authority (UK)
FTE	Full-time equivalent staff
FVOCI	Fair value through other comprehensive income
FX	Foreign exchange
FY	Full Year

G

GBM	Global Banking and Markets
GDP	Gross domestic product
group	HSBC UK Bank plc together with its subsidiary undertakings
Group	HSBC Holdings together with its subsidiary undertakings

H

HQLA	High-quality liquid assets
HR	Human Resources
HSBC Group	HSBC Holdings together with its subsidiary undertakings
HSBC Holdings	HSBC Holdings plc, the parent company of HSBC UK
HSBC UK	HSBC UK Bank plc together with its subsidiary undertakings
HTC&S	Hold-to-collect-and-sell

I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
Ibor	Interbank offered rate
ICAAP	Internal capital adequacy assessment process
IFRSs	International Financial Reporting Standards
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal ratings-based

L

LCR	Liquidity coverage ratio
LFRF	Liquidity and Funding Risk management Framework
Libor	London interbank offered rate
LTV	Loan to value

M

MME	Mid-Market Enterprises
MTM	Mark-to-market
MREL	EU minimum requirements for own funds and eligible liabilities

N

NII	Net interest income
NIM	Net interest margin
NPS	Net Promoter Score
NSFR	Net stable funding ratio

O

OCI	Other comprehensive income

P

PBT	Profit before tax
PD	Probability of default
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
Premier	HSBC Premier, HSBC's premium personal global banking service
PwC	PricewaterhouseCoopers LLP and its network of firms

R

RAF	Resolvability Assessment Framework
Revenue	Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit provisions, also referred to as revenue
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RWA	Risk-weighted asset

S

SBB	Small Business Banking
SME	Small and medium-sized enterprise

U

UK	United Kingdom
US	United States of America

V

VaR	Value at risk
VAT	Value-added tax

W

WPB	Wealth and Personal Banking

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