HSBC UK Bank plc

Annual Report and Accounts 2020

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Presentation of information

This document comprises the *Annual Report and Accounts 2020* for HSBC UK Bank plc ('the bank' or 'the Company') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

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

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

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

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

This *Annual Report and Accounts 2020* contains certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore 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 statement.

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

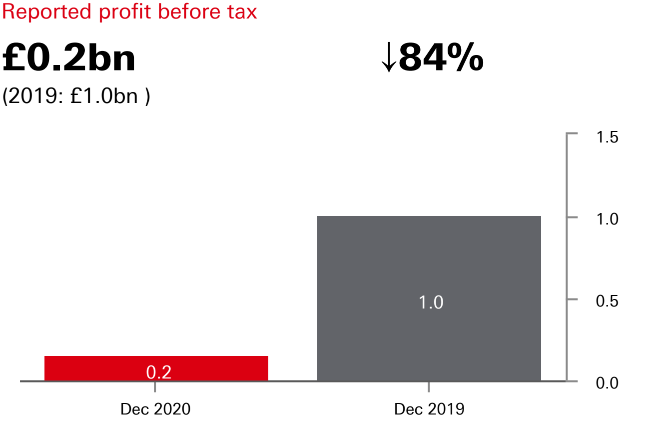
Highlights

For the year ended 31 December 2020

Reported profit before tax

£0.2bn **↓84%**

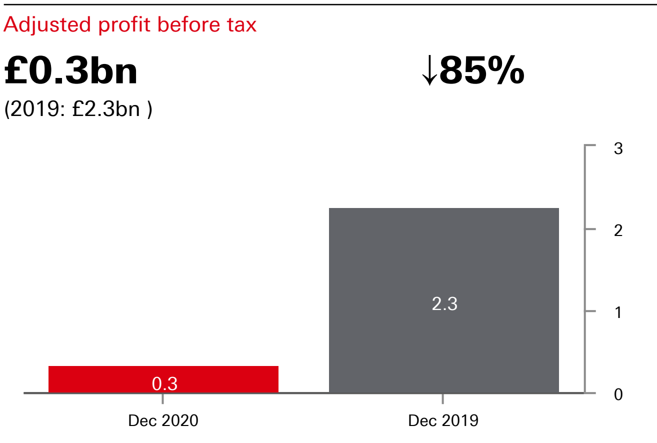
(2019: £1.0bn)



Adjusted profit before tax

£0.3bn **↓85%**

(2019: £2.3bn)



Reported revenue

£6.0bn **↓7%**

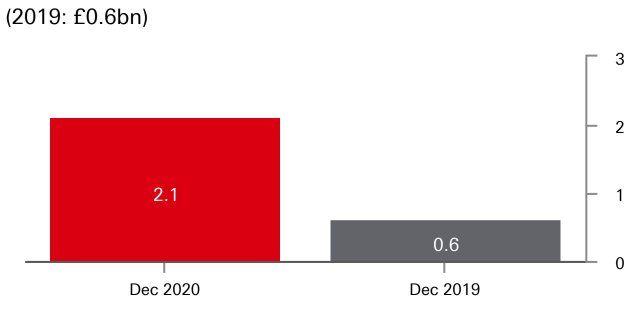
(2019: £6.5bn)

6.0
6.5
Dec 2020
Dec 2019

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

£2.1bn **↑245%**

(2019: £0.6bn)



Loans and advances to customers

£191.2bn **↑4%**

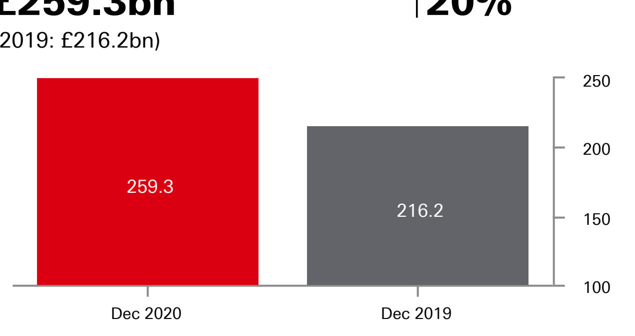
(2019: £183.1bn)

191.2
183.1
Dec 2020
Dec 2019

Customer accounts

£259.3bn **↑20%**

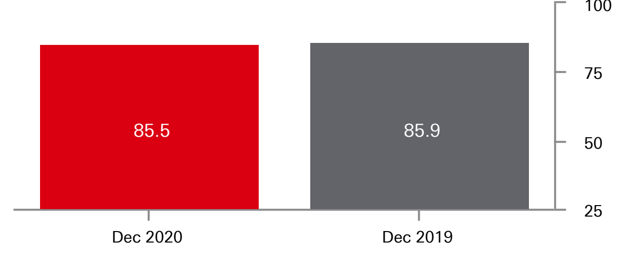
(2019: £216.2bn)



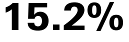
Risk-weighted assets ('RWAs')

£85.5bn

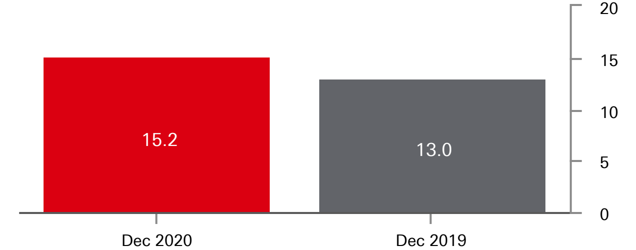
(2019: £85.9 bn)



Common equity tier 1 capital ratio ('CET1')



(2019: 13.0%)



Key financial metrics

	Year ended	
	31 Dec 2020	31 Dec 2019
Reported results		
Reported revenue (£m)	**6,031**	6,484
Reported profit before tax (£m)[2]	**163**	1,010
Reported profit after tax (£m)	**80**	516
Profit attributable to the shareholders of the parent company (£m)	**76**	512
Return on average tangible equity ('RoTE') (%)[2]	**(0.1)**	2.4
Net interest margin (%)	**1.71**	2.05
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (%)	**1.12**	0.34
Adjusted results		
Adjusted revenue (£m)	**6,047**	6,613
Adjusted profit before tax (£m)[2]	**334**	2,263
Cost efficiency ratio (%)[2]	**59.5**	56.5
Adjusted return on average tangible equity ('Adjusted RoTE') (%)[1,2]	**0.5**	9.9
Balance sheet		
Total assets (£m)	**304,864**	257,102
Net loans and advances to customers (£m)	**191,233**	183,056
Customer accounts (£m)	**259,341**	216,214
Average interest-earning assets (£m)	**265,891**	231,701
Loans and advances to customers as % of customer accounts (%)	**73.7**	84.7
Total shareholders' equity (£m)	**22,798**	22,191
Tangible ordinary shareholders equity (£m)	**16,485**	16,001
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3]	**15.2**	13.0
Total capital ratio (%)[3]	**21.3**	19.2
Risk-weighted assets [3] (£m)	**85,477**	85,881
Leverage ratio[3] (%)	**4.8**	5.0
High-quality liquid assets (liquidity value) (£m)	**88,838**	56,822
Liquidity coverage ratio (%)	**198**	165

1 *In the event that the current IAS 19 Pension fund surplus was zero Adjusted RoTE would be (0.1)% (2019: 11.3%). Further detail is on page 127.*
2 *These metrics are tracked as Key Performance Indicators of the group.*
3 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force in the European Union ('EU') at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments' which are explained further on page 55. Leverage ratios are calculated using the end point definition of capital and IFRS 9 regulatory transitional arrangements. Following the end of the transition period following the UK's withdrawal from the EU, any reference to EU regulations and directive (including technical standards) should be read as a reference to the UK's version of that regulation and/or directive, as onshored into UK law under the EU.*

Presentation of non-GAAP measures

In measuring our performance, the financial measures that we use include those derived from our reported results to eliminate factors that distort period-on-period comparisons. Such measures are referred to as adjusted performance. A reconciliation of reported to adjusted performance is provided on pages 14 to 16.

RoTE is computed by adjusting the reported equity for goodwill and intangibles. A reconciliation is provided on page 127, which details the adjustments made to the reported results and equity in calculating RoTE.

About us

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

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

Purpose and values

As set out in the HSBC Group *Annual Report and Accounts 2020*, the HSBC Group purpose and values have been revised. These are planned for a formal launch to employees and other stakeholders in March 2021.

HSBC Group's purpose

Opening up a world of opportunity.

HSBC Group's values

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

What we do

HSBC UK, headquartered in Birmingham, has over 15 million active customers, with over 19,000 Full Time Equivalent ('FTE') employees across the country, supported by a further 9,000 FTE based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

Wealth and Personal Banking

Customers

In 2Q20, we combined our Retail Banking and Wealth Management and Private Banking businesses to form Wealth and Personal Banking.

WPB helps millions of our customers manage their day-to-day finances and manage, protect and grow their wealth. We serve over 14.15 million active customers under four brands: HSBC UK, first direct, Marks and Spencer Financial Services, and John Lewis Financial Services. As well as catering for the mass retail market, we also provide services for emerging affluent, mass affluent and affluent individuals under the following HSBC UK propositions: Advance, Premier, and Jade.

Products and services

We offer a comprehensive set of banking products and services to support retail customers' everyday banking needs including: current and savings accounts, mortgages, unsecured lending, wealth solutions and general insurance.

Commercial Banking

Customers

CMB serves over 848,000 active customers across the UK, ranging from start-ups to multi-national corporates, through four customer groups: Small Business Banking; Business Banking; Mid-Market Enterprises; and Large Corporates.

Products and services

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

Global Banking and Markets

Within HSBC UK we offer products to enable commercial hedging by HSBC UK customers in permitted products under UK legislation, whilst also supporting the foreign currency payments and transaction banking offering for HSBC UK customers. Through close collaboration with HSBC Group we offer other GBM products required by our clients that are not available within HSBC UK.

Corporate Centre

Corporate Centre comprises Markets Treasury, interests in a joint venture, and central stewardship costs that support our businesses.

Our competitive advantages

Full banking capability

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

Value of our network

Within the UK we provide products and services digitally, by phone and face-to-face through 622 branches, bureaux and offices, 60 commercial centres, and four contact centres.

Access to HSBC Group's global network and business synergies

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

We share resources and product capabilities across our businesses and leverage these synergies when serving our customers.

Our strategy

Our 2020 UK strategy was built around four key strategic priorities: customer experience, employee engagement, shareholder value and simplification, enabling our ambition to be simple, safe and sustainable.

Progress in 2020

Customer experience

In 2020, we have seen more of our customers move towards using digital channels. In WPB[1], there has been a 13%[2] Year-on-Year ('YoY') increase in the number of active mobile banking app users, a 42% YoY increase in mobile app logons, and a 42%[3] YoY growth in mobile payments. Additionally, we now have five million WPB customers who are paperless on all of their accounts and a further 1.5 million customers who are paperless for at least one of their accounts. As at the end of December 2020, HSBC UK's mobile app on the Apple app store had a rating of 4.8, and on the Android play store had a rating of 3.8.

WPB's[4] complaint volumes have declined by 45% in FY20 (vs. FY19). This was driven in part by the end of the Payment Protection Insurance ('PPI') complaints programme in 2019. When excluding mass complaints (PPI and Packaged Bank Accounts), complaint volumes in WPB[4] have declined 26% in FY20 (vs FY19).

In the Competition and Markets Authority ('CMA') Service Quality Indicators, HSBC UK was ranked 10th in the February 2020 publication for overall service quality, with a score of 58%. This was a decline of one percentage point and an increase in one ranking position compared to the August 2020 release. first direct climbed one place to second position, and maintained a score of 83%. first direct continue to lead the market in the Customer Recommendation Index, with a score of 92 for 2020, a one-point decline vs. 2019.

In 2020, WPB won several awards including the 'Lender Recognition Award' at the Legal & General awards, for our support to the broker market throughout the pandemic. Our Private Bank won several awards including 'Best Ultra High Net Worth Team' and 'Best UK-based International clients team' in the UK Private Banking categories at the 2020 Wealth Briefing European Awards.

In CMB, our digital business banking active users grew by 10.2% in 2020 to over 546,000, and app downloads surpassed 367,000; a 46% increase since the start of 2020. We introduced the Mobile Cheque Deposit service in May 2020 and have processed over 168,000 cheques totalling £17m in value. In June 2020, we launched Kinetic, our digital small-and medium-sized enterprise ('SME') banking app, and as at the end of December 2020, over 2,800 accounts have been onboarded.

CMB has seen continued progress in the satisfaction of its customers, as measured by Savanta, and is now one of the leading banks for Net Promoter Score within the £2m+ turnover market[5]. CMB continues to be ranked the number one bank in the Savanta Survey for being able to support UK businesses trading internationally.

In 2020, CMB won the 'Best in service for trade finance in the United Kingdom' in the Euromoney Trade Finance Survey 2020. In addition, CMB won the 2020 Greenwich Quality Leader in the United Kingdom for 'Large Corporate Cash Management Quality', 'Corporates FX Service Quality' and 'Large Corporate Banking Quality'.

Employee engagement

According to our bi-annual HSBC UK employee survey, employee engagement improved in 2020, with the metric "I would recommend HSBC UK as a great place to work" increasing by 4 percentage points to 66% (vs. FY19). 50% of UK employees took part in the FY20 Snapshot survey vs. 53% in FY19.

With an increased focus on mental health and well-being during the pandemic, we held a number of well-being events throughout the year, including a wellbeing month in May and a further well-being week in October. Over 60 pieces of content were provided during our well-being month via webcasts, interactive guides and bite sized pre-recorded content. These were made available on our new HSBC UK well-being hub.

Shareholder value

Despite pausing marketing for new customers in 2020, in order to support our existing customers through the Covid-19 pandemic, we continued to attract new personal customers, with around 110,000 customers switching to one of our brands from another provider. We have also increased the number of active CMB customers to over 848,000 (+3.2% vs. FY19).

We continued to focus on our mortgage and commercial lending market share; achieving a 10.3% share of gross mortgage lending[6] (FY19: 8.1%) and increasing mortgage stock share to 7.4% (FY19: 7.0%) as at December 2020. This has seen our mortgage book surpass £110bn, as we continue to help our WPB customers purchase their homes. In 2020, our UK CMB total net lending market share[7] grew from 9.8% to 10.3%.

We have also grown our customer deposits by £43bn to £259bn, with retail deposits increasing in line with reduced customer spending, while commercial deposits have been benefited from government lending schemes remaining on deposit.

Reported Profit Before Tax has been impacted by the Covid-19 pandemic, with a significant increase in ECLs. Adjusted RoTE was 0.5% (Pension Adjusted RoTE was (0.1)%).

For more information on our financial performance in 2020, please refer to pages 12 to 16.

Simplification

We continued to simplify our organisation in 2020, focusing on streamlining business functions, consolidating our technology landscape and optimising internal governance. This helped us to meet our customers' changing needs, save time for our employees and support growth.

We have accelerated the roll-out of digital capabilities and functionality to support customers during the Covid-19 pandemic. This includes enabling customers to complete identification and address verification and access documents and correspondence digitally. Additionally, in August 2020, we launched our new Private Banking platform, Avaloq, which further digitised the onboarding journey for Private Banking customers.

Future focus

In line with the HSBC Group, our strategy will now focus on four key areas:

Focus on our strengths

Using our strengths to play a vital role in the economic and societal recovery.

Digitise at scale

Using technology to deliver fast, easy and secure banking.

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1 HSBC UK only. Does not include first direct, Marks & Spencers Financial Services and John Lewis Financial Services.
2 December 2020 vs. December 2019. The volume of mobile active customers for 30 days.
3 Full year 2020 vs. full year 2019.
4 HSBC UK WPB red brand, Marks and Spencers Financial Services and John Lewis Financial Services only (excludes first direct).
5 Year End Q4 2020.
6 Bank of England ('BoE') Gross Lending, Net Lending and Stock – December 2020.
7 BoE December 2020 YTD Market Share. Total Net Lending includes loans and overdrafts.

Energise for growth

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

Transition to net zero

Realising the net zero transition opportunity.

Becoming a net zero bank

Providing the finance to help our customers transition to a low or net zero carbon economy is one of HSBC Group's key sustainable finance ambitions. In October 2020, HSBC Group set out a three-part plan to help accelerate the transition to net zero through finance.

Net zero bank

HSBC Group aims to align its financed emissions to achieve net zero by 2050 or sooner and be net zero in its operations and supply chain by 2030 or sooner.

The aim is to achieve this by:

- The use of the Paris Agreement Capital Transition Assessment Tool ('PACTA') to develop clear, measurable pathways to net zero.
- Regular, transparent disclosures to communicate our progress in line with the Taskforce on Climate-Related Financial Disclosures ('TCFD') guidelines. More information on HSBC Group's 2020 transition risk assessment is available on: www.hsbc.com/esg
- Collaborating to establish globally consistent standards for financed emissions and carbon offsets.

Sustainable operations

HSBC UK supports the Group's commitment to achieve net zero in our own operations by 2030 or sooner. To achieve this, we continue to work towards our Renewable Electricity commitment ('RE100') to source 100% of our electricity from renewables through power purchase agreements by 2030. Currently around 70% of our UK building portfolio electricity comes from two wind farms and one solar farm.

The Reduce Programme

HSBC Group has committed to globally reduce CO2 emissions by 2 tonnes per FTE by 2020 from 3.5 tonnes per FTE in 2011. By the end of 2020, HSBC Group reached 1.76 tonnes per FTE. Across HSBC Group's UK operations, including HSBC UK, the total carbon emissions in 2020 was 0.51 tonnes per FTE. This is mainly attributed to our ongoing renewable electricity power purchase agreements, along with travel restrictions due to the Covid-19 pandemic.

Wealth and Personal Banking

Sustainable wealth investments at HSBC UK aim to generate long-term financial returns while contributing positively to society. Sustainable investing actively selects companies that have a positive impact on the world. This could be anything from green technology to social initiatives in developing countries/regions. There is no industry-standard definition. We currently follow the Global Sustainable Investing Alliance classification for Sustainable Investment.

Global Sustainable Multi-Asset Portfolios are designed to provide capital growth through investment in assets that meet sustainable investment principles. We currently offer five risk profiled portfolios – 'Cautious', 'Conservative', 'Balanced', 'Dynamic' and 'Adventurous' – which offer global diversification with a higher Environmental, Social and Governance ('ESG') score and a lower carbon intensity than the market. The ESG portfolios are available through both advised and non-advised channels. Performance was strong over 2020 for all portfolios, with 8.4% Balanced portfolio, delivering 1st quartile performance. Flows into the range have been strong with over £212m raised across the ESG portfolios in 2020, reaching a total of £316m across WPB as of December 2020.

Commercial Banking

In 2020, CMB provided more than £937m of sustainable finance lending, which includes Green Loans, Sustainability Linked Loans, and Sustainable Bonds. HSBC UK played a significant role in HSBC Group winning the Euromoney award for 'Western Europe's Best Bank for Sustainable Finance 2020' for the first time.

Building on the success of the launch of our Green Loan proposition in 2019, in 2020 we announced two new sustainable finance products:

- Sustainability Linked Loan: which is aligned to the Loan Market Association's Sustainability Linked Loan Principles ('SLLP'). The facility incentivises customers to achieve ambitious, pre-determined sustainability performance targets. It is available under term loan facilities and revolving credit facilities.
- Green Deposits: whereby our customers' excess liquidity is allocated towards financing green projects, such as renewable energy and energy efficiency projects. Available to all corporate customers, we have seen strong and growing demand throughout the year.

In November 2020, we announced the establishment of our Sustainable Finance Ambassador Network, which aims to fully equip our frontline employees with a deep understanding of the opportunities and risks faced by our clients as a result of the movement towards a more sustainable economy. This network consists of more than 260 employees from all divisions and regions of CMB. Members have access to a fast-track learning programme dedicated to sustainable finance, including the ability to gain a professional qualification.

We have also established the UK Sustainable Finance Forum, which approves all sustainable finance lending in CMB. This ensures all Green and Sustainability Linked Loans meet our product criteria, and adhere to the market standards we align to; the Green Loan Principles and SLLP.

Providing innovative green products – Volution Group plc ('Volution') Case Study

In December 2020, HSBC UK participated in the £150m Sustainability Linked revolving credit facility Volution. Volution are a leading designer and manufacturer of energy efficient indoor air quality solutions. The margin of the facility is linked to annual performance against two sustainability targets that have been identified as core to Volution's strategy to deliver 'Healthy indoor air, sustainably'. The margin of the facility will reduce if Volution is successful in meeting these sustainability targets, with the discount to be invested in further sustainability initiatives and programmes.

Supporting customers expand their portfolio through green financing – Downing Case Study

In July 2020, HSBC UK supported one of the UK's leading developers of purpose-built student accommodation in significantly expanding its rental portfolio with a £57m Green Loan. The sustainable finance funding package has enabled Downing to retain the 24-storey Holbrook building, one of its latest flagship developments, as an investment asset, adding it to their emerging portfolio of rental student accommodation.

The Green Term Loan to Downing to fund Holbrook, which was built to a Building Research Establishment Environmental Assessment Method ('BREEAM') rating of 'Very Good', follows the Europe, the Middle East and Africa ('EMEA') and Asia-Pacific Loan Market Association's Green Loan Principles published in March 2018 to encourage and facilitate environmentally friendly economic activity.

Training and Engagement

HSBC Group relaunched the flagship Sustainability Learning programme in November 2020 to reflect the new Group Climate

Ambition and the changing environment we live and operate in. Over 7,000 HSBC UK employees completed Sustainability modules between November 2018 and October 2020. Following on from launching the Global Climate Action Network in 2019, we saw an increase in engagement across our employees. We now have 20 Climate Action Teams led by advocates across the UK with a reach of around 8,000 employees.

Engaging through research

In 2020, HSBC UK co-funded a report by the Grantham Research Institute at the London School of Economics on the socio-economic challenges associated with achieving a net zero economy for vulnerable regions in the UK. The report contained analysis and recommendations on managing the transition in a fair and equitable way, referred to as a 'Just Transition'. Since the launch of the report, HSBC UK has joined the 'Just Transition Alliance' which is a group of industry stakeholders and leaders seeking to help facilitate a 'Just Transition'.

HSBC UK is also funding open research from University College London on achieving net zero pathways for the commercial agricultural, commercial real estate, manufacturing and transport sectors due to be published over the course of 2021.

How we do business

Our approach

We conduct our business intent on supporting the sustained success of our customers, employees and other stakeholders. This helps us deliver our strategy and operate our business in a way that is sustainable.

In 2020, our ability to help our stakeholders was more important than ever. We define conduct as delivering fair outcomes for our customers and not disrupting the orderly and transparent operation of financial markets. This is central to our long-term success and ability to serve customers. HSBC Group has clear policies, frameworks and governance in place to protect our customers, which encompass the way we behave, design products and services, train and incentivise employees, and interact with customers and each other. Details on our Conduct Framework are available at: www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct

Supporting our stakeholders

The Covid-19 pandemic has created a great deal of uncertainty and disruption for the people, businesses and communities we serve and it is affecting everyone in different ways. We are tailoring our response to the different circumstances and situations in which our stakeholders find themselves. To support our customers and the communities we serve, we have provided a series of support packages in the UK, including both government lending schemes and non-government lending schemes, totalling in excess of £14.1bn.

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

Our customers

We have actively supported our customers through government schemes and non-government scheme lending, as well as flexibility in our existing products. As at the end of December 2020, these support measures included:

- Providing payment holidays to our personal banking customers: Mortgages: 68,000, Personal Loans: 100,000 and Credit Cards: 73,000.
- Supporting our SME customers with 225,400 applications approved through the Bounce Back Loan Scheme ('BBLS') worth £6.9bn, which included BBLS top-up applications.
- Approving 13,386 applications through the Coronavirus Business Interruption Loan Scheme ('CBILS') worth £3.2bn, which included our innovative CBILS Receivables Finance product.
- Helping our larger business customers with 158 applications approved through the Coronavirus Large Business Interruption Loan Scheme ('CLBILS') worth £1.1bn.
- Outside of the government schemes, approving £2.8bn of Covid-19 related lending to our business customers and providing 9,256 capital repayment holidays and 19,988 trade loan extensions.
- Accelerating the roll-out of digital technology to provide faster processing and enable more functionality to be accessed remotely.

We put additional measures in place to better enable our customers, particularly those that were vulnerable or potentially in financial distress, to contact us during the Covid-19 pandemic, including:

- Supporting and prioritising the calls of over 1.6 million WPB customers through the Vulnerable & Key Worker customer line.
- Proactively contacting over 0.6 million WPB customers to see what support they needed, including those that were most vulnerable and those that cancelled mortgage payment direct debits.
- Establishing and maintaining a dedicated Covid-19 helpline for CMB customers.
- CMB Relationship Managers proactively contacting their customers to see what help their businesses needed.

On average, 97% of our HSBC UK branch network remained open throughout 2020.

Our employees' well-being

Our employees continued to show great resilience despite the challenging environment. We thank all our employees for their dedicated commitment and hard work throughout 2020 in the most challenging of circumstances.

We had a strong focus on managing the impacts of the Covid-19 pandemic on our employees' safety and well-being, including:

- The transition to remote working at scale, to help employees remain safe and productive. This has been embedded wherever possible.
- Deploying an interim employee survey in March and April, alongside our usual employee surveys, called, 'Well-being Pulse'. This was designed to check in with employees about how they were feeling and the challenges they were facing.
- Establishing a new branch network operating rhythm to ensure customer areas are managed to maintain social distancing, whilst also improving the supply of hygiene products and personal protective equipment.
- Launching a well-being toolkit and providing regular communications, advice and support, with a particular focus on physical, mental and financial well-being.
- Reviewing and expanding our employee support offering, including healthcare benefits.
- Providing flexibility and support, such as daily online classes, to support our employees with home-schooling.

We have a structured communications approach that uses leadership communications, campaigns and a regular flow of news to help employees to serve our customers better, make sense of our strategy, focus on our commercial priorities and provide clarity on issues. We have adapted our communications to better support our employees in the current working environment, utilising weekly Chief Executive Officer ('CEO') vlogs to ensure we continue to communicate in a way that works for our employees.

It's critical to address mental health issues to enable all employees to thrive. In 2019, mental health awareness training was made available to colleagues globally. This year, we are proud to have joined other companies in founding The Global Business Collaboration for Better Workplace Mental Health. This is a collaboration calling all business leaders to join us with a simple six-point leadership pledge to make mental health in the workplace a priority.

We have built a sense of pride and purpose by recognising our employees' contributions to our business and celebrating the achievements of HSBC UK. In 2020, we held our Annual Spotlight awards virtually with 13,200 nominations and 6,011 winners.

Listening to our employees

It is vital we understand how our employees feel as it helps us give them the right support to thrive and serve our customers well. We capture their views on a range of topics, such as our strategy, culture, behaviour, well-being and working environment, through our internal employee survey, Snapshot, which runs twice yearly. Results are presented to the HSBC UK Executive Committee, the Members of the Board of Directors of HSBC UK ('the Board') and other relevant committees of the functions and businesses. This ensures the attitudes and sentiments of our employees inform decision-making at all levels of HSBC UK, and action can then be taken to tackle areas of concern. Additionally, we also participate in the external Banking Standards Board Annual assessment, comprising an employee survey and qualitative assessment where our employees can also have their say.

Empowering a speak up culture

Having a culture where our employees feel able to speak up is critical. Individuals are actively encouraged to raise concerns about wrongdoing or unethical conduct or unfair treatment. We have multiple channels to enable employees to speak up including whistleblowing, our Human Resources ('HR') Direct platform, our CEO's monthly 'Ask Ian Anything' webcasts, through line manager interaction and suggestion schemes where our employees can propose new ways of working.

Our HSBC Confidential whistleblowing offering provides a platform that enables all employees to raise concerns on any issues outside of the usual escalation channels; in confidence and without fear of retaliation. Concerns raised are investigated thoroughly and independently. HSBC UK does not condone or tolerate any acts of retaliation against anyone who raises a concern.

Our communities

In 2020, HSBC UK donated £7.4m to charities and non-profit organisations running programmes and projects in the UK. In addition, our Everyday Banking team gifted £9m to charities supporting Covid-19 emergency response, our national giving partners and our future skills strategy.

We are committed to helping our employees contribute to their communities, and we encourage volunteering through paid volunteering days.

Charitable funding

At the beginning of the Covid-19 pandemic, HSBC UK made a £1m donation to the National Emergencies Trust Coronavirus Appeal and the British Red Cross. HSBC UK and our customers also raised over £1.4m for 'The Big Night In' appeal working with BBC Children in Need and Comic Relief.

In 2020, our employee-led projects supported 13,100 people across 39 local charities. HSBC UK employees fundraised £1.4m for causes that mattered the most to them and HSBC UK contributed over £1m to compliment employee fundraising efforts. Despite needing to restrict face to face volunteering to safe alternatives, 2,712 employees took paid volunteering leave through activities such as, virtual mentoring and remote support for charities. Employees also gave over 19,782 hours of Covid-19 kindness to support those most in need; from collecting prescriptions, to writing letters to care home residents. We provided additional support through the 'Devices Dot Now' appeal, where we gifted 700 reconditioned laptops to the Good Things Foundation. We also repurposed our Beckenham site to support NHS blood donors and surrendered the remainder of our lease on our Carlisle Commercial Centre to allow the landlord to grant the NHS a lease on the space to set up a Covid-19 Call Centre.

Future skills

We are passionate about giving young people from all walks of life the chance to thrive in the modern world, concentrating on the following areas:

Employability

The Prince's Trust

HSBC UK is The Prince's Trust's largest financial services corporate partner for their employability programmes, which help young people access valuable training and work experience. In 2020, our support enabled over 1,000 young people to take part in these programmes, giving them access to work, education or training. Our work with The Prince's Trust includes the HSBC UK Traineeship Programme, which offers job opportunities in the bank to young people who otherwise may not have considered working in financial services. During the Covid-19 pandemic, we redirected £200,000 of our funding to The Trust's Young Person Relief Fund to enable them to reach and support more young people.

Entrepreneurship skills

Young Enterprise Company Programme

HSBC UK supports Young Enterprise's work to help young people earn and manage money through the Company Programme. The programme aims to empower young people across the UK to set up and run their own student company by creating a product or service of their own. Our 2020 funding has supported 4,125 young people from the most deprived areas of the UK to take part in the Company Programme. We were the headline sponsor for the Company Programme National Final and sponsored an additional Sustainable Business Award.

Financial capability

Money Heroes

In November 2020, HSBC UK announced a 3-year partnership with Young Money to help provide financial education to 1 million young people across the UK. This partnership enabled the creation of Money Heroes, a new programme that brings together teachers and parents to help develop a child's knowledge, skills and attitudes towards money.

Education and financial well-being

The HSBC UK education team has been delivering remote lessons in schools, charities and youth organisations. In 2020, the team delivered sessions attended by 11,633 children with thousands accessing materials on the HSBC UK financial education hub. 'Level Up', a series of financial life lessons for young people aged 16-25, was also added to the education portfolio, providing support to charities, colleges and universities. The financial well-being team delivered over 700 webinars to more than 19,500 employees of corporate clients, providing support and guidance around all aspects of finances.

Our approach to diversity

HSBC UK is focused on developing an inclusive culture where employees from diverse backgrounds can thrive. We expect our employees to treat each other with respect, and we are creating an inclusive culture to support equal opportunities.

As a UK bank with strong connections to markets around the world, we understand the benefits that diversity brings to our customers, our business and our employees. A connected workforce that reflects the communities where we operate helps us meet the needs of our diverse customer-base.

We do not tolerate discrimination, bullying, harassment and victimisation on any ground, including age, race, ethnic or national

origin, colour, mental or physical health conditions, disability, pregnancy, gender, gender expression, gender identity, sexual orientation, marital status or other domestic circumstances, employment status, working hours or other flexible working arrangements, or religion or belief.

To drive this culture, we embed inclusion within employee practices, deliver training, and assess behaviours through performance reviews.

We want to understand the day-to-day experiences of our employees and have introduced practices to understand the diverse employee voice. We track our employee sentiment by diversity group, through our bi-annual internal employee survey. Our 17 Employee Resource Groups ('ERGs') regularly hold focus groups with members and share outputs with the wider business. For many employees, the opportunity to network, participate in events, and gain support with people like themselves is invaluable. For employees looking to learn more about diverse cultures, our ERG's provide a source of education.

We have been working towards a 2020 target for female representation in our most senior roles to be 30% and in HSBC UK we achieved 33.7% as of 31 December 2020.

For more information about diversity and inclusion in HSBC UK, please see section titled 'Diversity and inclusion' on page 67.

Maintaining a responsible business culture

HSBC UK is a leading UK financial institution that aims to be simple, safe and sustainable; this reflects our responsibility to protect our customers, our communities and the integrity of the financial system.

Supporting financial inclusion

We aim to deliver products and services that address financial barriers. We invest in financial education to help customers, employees and people in our communities be confident users of financial services. In 2020, we won the 'Thomas Reuters Foundation's Stop Slavery Innovation Award', in recognition of HSBC's Survivor Bank Programme in the UK.

HSBC UK conceived and piloted the Survivor Bank initiative which is aimed at supporting survivors of Modern Slavery in their efforts to be re-integrated into society and to gain access to banking. We also offer a No Fixed Address service where people without a fixed address can open a bank account with their caseworker using the address of the supporting charity. This service makes it easier and safer to receive benefits and salary, and serves an important building block for financial independence and security.

Respecting human rights

HSBC UK's commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our lending, is set out in the HSBC Group statement on Human Rights. This statement, along with the ESG updates and the statements under the UK's Modern Slavery Act, are available on www.hsbc.com/our-approach/measuring-our-impact

Anti-bribery and anti-corruption

HSBC UK is committed to high standards of ethical behaviour and operates a zero-tolerance approach to bribery and corruption. We consider such activity unethical and contrary to good corporate governance. HSBC Group has a global Anti-Bribery and Corruption ('AB&C') Policy which sets the framework for HSBC UK to comply with AB&C legislation in the UK.

Protecting data

We are committed to protecting the information we hold and process in accordance with the relevant laws and regulations. We continue to strengthen our controls to prevent, detect and react to cyber threats.

Safeguarding the financial system

We remain committed in our efforts to combat financial crime by continuing to invest in new technology to protect our customers and organisation, while supporting key industry initiatives. Fraudulent activity is often more prevalent in times of crisis and we are strengthening and investing in our fraud controls, in order to protect both customers and the bank. Further information can be found in section 'Financial crime and fraud risk' on page 21.

In addition, our CEO is on the Economic Crime Strategic Board, which is chaired by the Home Office Secretary and the Chancellor. Further information can be found in section 'Financial crime risk management' on page 61.

Our approach with our suppliers

HSBC Group's ethical code of conduct for suppliers of goods and services, which must be complied with by all suppliers, sets out minimum standards for economic, environmental and social impacts.

A responsible approach to tax

We seek to pay our fair share of tax and to minimise the possibility of customers using our products and services to evade tax.

Restoring trust

We have sought to learn from past mistakes and we are seeking to develop and implement specific measures designed to prevent recurrence of similar events in the future.

Section 172 statement

Engagement with stakeholders and Board decision making

This section, from pages 9 to 11, forms our section 172 disclosure and addresses the Companies (Miscellaneous Reporting) Regulations 2018.

Stakeholder engagement

There were no changes to the Board's identified key stakeholders during the year. These remain customers, employees, shareholder and debt investors, communities, suppliers, regulators and government. In overseeing the business and performing its duty to promote the long-term success of the bank for the benefit of its stakeholders as a whole, the Board sought to understand, and have appropriate regard to, the interests and priorities of these stakeholders, arising from the likely consequences and potential impact of material decisions that were taken during the course of the year.

For further details on the role of the Board and the way it makes decisions, please see page 64 in the 'Report of the Directors'.

As noted in the Strategic Report, 2020 was an unprecedented year due to the Covid-19 pandemic. The Board was required to take decisions in the context of an extremely uncertain and evolving external environment. Despite logistical challenges, the Board continued to engage directly with many stakeholders and was kept informed indirectly about relevant stakeholder matters through management reports. The ways in which the Board engaged with, and received views from, its key stakeholders during the year included:

Customers

Customers needs continue to be at the core of the bank's business model. The better their needs and challenges are understood the better HSBC UK can support them. Examples of Board engagement in 2020 included:

- CEO Board reports, which included key customer related metrics and performance indicators, such as customer survey feedback and net promoter scores.
- Reports to the Board (including a bespoke dashboard) on the support provided by the bank to help mitigate the immediate impacts of Covid-19 on its customers, including rapid access to internal and Government-sponsored support measures, maintaining service in branches and contact centres and prioritising vulnerable customers.

Further details are provided below under the heading 'Our customers' on page 7.

Employees

Employees are critical to the successful operation of the bank and its long-term future. Examples of Board engagement in 2020 included:

- CEO Board reports, which included updates on employee-related activities and events, such as health and well-being initiatives, as well as metrics on employee attrition, gender diversity and personal conduct cases.
- Results and analysis on bi-annual internal employee surveys (Snapshot) to assess employment sentiment and well-being and updates on the annual external Banking Standards Board survey on bank culture.
- Reports to the Board on the steps taken by the bank to help mitigate the immediate impacts of Covid-19 on its people, adapt and place for the future.

For more details on the bank's employee initiatives and engagement please refer to the 'Our employees' section on pages 7 to 8.

Shareholder and investors

The bank is a wholly owned subsidiary in the HSBC Group, and therefore considers the impact and implications of its decisions with regard to its ultimate shareholder, HSBC Holdings plc, as well as its debt security investors. Examples of Board engagement in 2020 included:

- Presenting to the bank's shareholder on the UK's withdrawal form the European Union ('EU') and HSBC UK's strategy.
- Chairs of the Board's Audit and Risk committees regularly engaged with their HSBC Group counterparts and attended HSBC Group Audit and Risk Committee Conferences together with Executive Directors.
- The Chairman attended the monthly HSBC Group Chairman's Forum, which provided opportunities to engage on common issues and strategic priorities.
- Under the formal escalation process, a number of matters were escalated to the HSBC Group for specific consideration.

Suppliers

Suppliers provide critical support to the infrastructure and operations of the business. Examples of Board engagement in 2020 included:

- Updates from the Chief Operating Officer on third-party suppliers matters such as relationship management, material outsourcing, performance and operational resilience.
- Management papers which considered the potential impact to suppliers and the supply chain, from the UK's withdrawal from the EU and Covid-19.

Communities

The bank has an important role in supporting the communities in which it operates. Examples of the Board engagement in 2020 included:

- Briefings and reports on climate strategy and climate risk.
- Reports on initiatives to deliver the bank's sustainability programme.
- Reports on charitable funding and community support programmes, such as supporting young enterprise schemes and providing financial education to children and young adults.

Further details on these initiatives are set out in 'Our communities' section in the Strategic Report on page 8.

Regulators and Government

Constructive dialogue and relations with the bank's regulators and government are critical to the success of the bank. Examples of Board engagement in 2020 included:

- Meetings between Directors and the bank's regulators, either as part of continuous assessment or on specific issues, such as the PRA's annual presentation to discuss the matters arising from its Periodic Summary Meeting letter.
- Representation on government and regulatory consultations.
- Participation in regulatory or government led industry fora and round table events.

Principal decisions and discussions

Events during 2020 required careful consideration of the needs and interests of the bank's stakeholders. Set out below are examples of principal decisions and discussions that illustrate how Directors had regard to the bank's stakeholders during 2020:

Covid-19 pandemic

The Board oversaw management's response to the Covid-19 pandemic to mitigate the impact of the business, support customers and emerge from the crisis well-positioned for the future.

Management's top priority was the safety and well-being of employees whilst maintaining critical services for customers by providing support proactively, highlighting available digital channels and showing forbearance to those in a position to recover. As the pandemic continued to spread, the Board monitored the impact of colleagues' mental and physical health through internal employee surveys and from discussions with senior management on the well-being of their teams. The Board also monitored management's mitigation of supplier resilience risk which included measures such as early payment of sums due to vulnerable suppliers.

The Board had to respond to increasing regulatory pressure on the banking sector to make available at pace a package of facilities to support customers. This included changes to the bank's short term pricing and product structures, particularly in relation to overdrafts. The Board considered the imperative to support customers in the short term but was mindful of the economic and unintended consequences of such changes in the medium and longer term. The Board supported intense and constructive engagement with our regulators as the pandemic unfolded.

Review of HSBC UK Strategy

The need to assess the appropriateness of the bank's strategy arose from the severity and implications of the Covid-19 pandemic as well as the Government's ongoing trade deal negotiations arising from the UK's withdrawal from the EU. The Board convened additional Board meetings to evaluate the impacts of both for HSBC UK's strategy.

Insights on the UK political and economic environment were gathered from internal experts and advisors, which helped inform the Board's view of the possible wider medium to long-term implications and customer and societal shifts arising from the Covid-19 pandemic. The Board's priority was to ensure HSBC UK remains a sustainable source of economic profit for its shareholder and a critical part of the HSBC Group's international banking network. This would ensure that the bank was able to play its part in supporting the recovery of the UK economy; its customers, communities and employees.

The Board actively engaged with senior management to consider three strategic options, each dependent on the type of economic recovery. Having determined its preferred option, the Board provided constructive challenge to and support of the strategic management actions proposed to deliver the growth plans and reduce the bank's cost base. The Board perceived the need for more radical options to adapt HSBC UK's operating model and cost base in response to likely economic, political and societal challenges. In supporting management actions, the Board remained sensitive to the potential impact of cost reduction measures on its employees and communities and the importance of spreading these across all areas of the bank's operations.

Sustainability Strategy

During the year the Board considered HSBC UK's sustainability strategy in light of Covid-19, the UK's withdrawal from the EU and the HSBC Group's approach to managing climate risk. It took into account reports from management, presentations from subject matter experts in the HSBC Group and external advisers.

The Board saw sustainability as a priority for HSBC UK, given the need to transition to net-zero and support vulnerable communities. The Board encouraged support for the banks' customers on their transition to lower carbon emissions and a stronger focus from management on natural capital related activities. The Board recognised that supporting the government's climate change ambitions, HSBC Group targets and regulatory expectations, would benefit many stakeholders. However, the costs to achieve these could have negative repercussions for its shareholder, customers and suppliers in certain business sectors.

For further details, please refer to the 'Net zero bank'section on page 6.

Economic background and outlook

UK economic outlook

Real UK GDP fell 21.5% over the first half of 2020, before rising 17% over the second half, to give a full year contraction of 9.9% in 2020. The level of GDP remained 6.3% below its pre-pandemic peak at the end of the year[8].

The impact of the Covid-19 pandemic on unemployment has started to be felt, with the headline rate rising from 3.9% in January 2020 to 5.0% in November 2020[7]. However, the true picture remains clouded by the Job Retention Scheme ('JRS'), which 2.4 million people were registered for as of 31 October 2020. HSBC Global Research expects the unemployment rate to rise to 6.7% in the middle of 2021, before starting to fall back slowly.

Wages fell in the early stages of the first lockdown, partly reflecting the pay cut taken by those on furlough. Total pay has since rebounded and was up 3.6% YoY in the three months to November 2020, though a significant part of this was accounted for by a 'composition effect' – i.e. lower paid workers losing their jobs and dropping out of the calculation of the average.

The annual rate of inflation according to the Consumer Price Index ('CPI'), stood at 0.7% in January 2021. The 'core' CPI inflation rate, which strips out food and energy prices, was 1.4%.

Following the spread of a new strain of the Covid-19 virus, England and Scotland announced full national lockdowns on 4 January 2021, while Wales and Northern Ireland implemented lockdowns on 20 December and 26 December 2020 respectively. The lockdowns applied to hospitality, non-essential retail and schools. In response, the UK government has extended the JRS until the end of April 2021, and announced a £4.6bn package of business support.

These announcements come on top of the £280bn worth of measures since March 2020, according to costings published by the Office for Budget Responsibility alongside the Spending Review on 25 November 2020. HSBC Global Research forecasts a budget deficit of 17.7% of GDP in the fiscal year 2020/21, taking public sector net debt to GDP to over 100% of GDP.

Meanwhile, the BoE Bank Rate was cut from 0.75% to 0.10% in March 2020, and the BoE announced an additional £200bn of quantitative easing. It then announced another £100bn of government bond purchases in June 2020 and another £150bn in November 2020. The latter programme is expected to last until the end of 2021, but HSBC Global Research expect another £100bn of purchases to be announced in May 2021.

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period, the UK continued to be bound by EU laws and regulations. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified by the UK on 30 December 2020. It includes a joint declaration of cooperation, and, in the coming months, both parties are expected to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation. The exit of the UK from the EU is likely to increase market volatility and economic risk, which could adversely impact our profitability and prospects for growth.

Considerable uncertainty remains as to the trajectory for the remainder of the year, with much depending on the speed and efficacy of the vaccine rollout and lifting of restrictions. The full impact from the Covid-19 pandemic and disruption related to the UK's withdrawal from the EU could be partially offset by pent-up demand, with households having saved money due to the restrictions. After the fall of 9.9% in 2020, HSBC Global Research expects UK GDP to rise 4.7% in 2021 and then 5.4% in 2022. Additionally, the BoE Bank Rate is also expected to remain on hold at 0.10% at least through this year and next.

For more information about the UK's withdrawal from the EU, please refer to the 'Process of UK withdrawal from the EU' in the Report of Directors on page 25.

Key Performance Indicators

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

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

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

Financial KPIs

Financial KPIs are included in the summary of Key Financial Metrics on page 3 and a review of these are detailed in the Financial Summary sections on pages 12 to 16 and the Capital section on pages 52 to 55.

Non-Financial KPIs

We also monitor a range of non-financial KPIs focusing on our strategic priorities of customer experience, employee engagement, shareholder value growth and simplification, which can be found on page 5. For internal risk metrics, please refer to the risk report on pages 19 to 61 and for diversity, inclusion and employee development, please refer to the corporate governance report on pages 62 to 68.

[8] *Office for National Statistics*

Financial summary

Summary consolidated income statement for the year ended

	Year ended	
	Audited	
	31 Dec 2020	31 Dec 2019
	£m	£m
Net interest income	**4,551**	4,752
Net fee income	**1,016**	1,230
Net income from financial instruments held for trading or managed on a fair value basis	**357**	400
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(1)**	2
Gains less losses from financial investments	**73**	48
Other operating income	**35**	52
Net operating income before change in expected credit losses and other credit impairment charges [1]	**6,031**	6,484
Change in expected credit losses and other credit impairment charges	**(2,115)**	(613)
Net operating income	**3,916**	5,871
Total operating expenses[1]	**(3,753)**	(4,861)
Operating profit	**163**	1,010
Profit before tax	**163**	1,010
Tax expense	**(83)**	(494)
Profit for the year	**80**	516
Profit attributable to shareholders of the parent company	**76**	512
Profit attributable to non-controlling interests	**4**	4

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue and it includes significant items as detailed on pages 14 to 15.*

Reported performance

2020 Full Year ('FY') reported profit before tax of £163m, £847m lower than 2019 FY reported profit before tax of £1,010m, driven by higher ECL and lower revenue offset by lower operating expenses.

Net interest income (**'NII'**) decreased by £201m, or 4%, due to the impact of lower UK interest rates from March 2020.

Net fee income (**'NFI'**) decreased by £214m, or 17%, due to FCA rule changes to overdraft pricing from March 2020, where overdraft fees are no longer charged, reduction in consumer spending and lower volumes of CMB fee based revenue due to volume reductions, both as a result of Covid-19.

Net income from financial instruments held for trading or managed on a fair value basis decreased by £43m, principally due to the reduction in foreign exchange income due to adverse market conditions impacting commercial customer foreign exchange payment volumes and reduced demand for foreign currency from retail customers due to Covid-19 travel restrictions.

Gains less losses from financial investments increased by £25m due to higher disposal gains realised by the Markets Treasury desk to protect increases in the value of the portfolio in volatile markets.

Other operating income decreased by £17m, due to adjustment reflecting changes in contractual cash flows relating to unsecured lending payment holidays in WPB in 2020.

ECL increased by £1,502m in 2020, due to the expected future credit losses resulting from the deteriorating UK forward economic outlook for 2021 due to the Covid-19 pandemic, and increased actual defaults in CMB.

Total operating expenses decreased by £1,108m or 23%, driven by the following significant items:

- UK customer redress provisions, including payment protection insurance ('PPI') provisions, decreased by £1,050m from £1,013m in 2019, to a release of £37m in 2020.

Offset by:

- Restructuring and other related costs increased by £68m from £111m in 2019 to £179m in 2020.
- Guaranteed Minimum Pension equalisation ('GMP') cost of £13m in 2020.

Excluding significant items, operating expenses decreased by £139m or 4%.

For further details of significant items affecting revenue and costs, please refer to significant revenue/cost items by business segment on pages 14 to 15.

Net interest income

	Year ended	
	31 Dec 2020	31 Dec 2019
	£m	£m
Interest income	**5,197**	5,696
Interest expense	**(646)**	(944)
Net interest income	**4,551**	4,752
Average interest-earning assets	**265,891**	231,701
	%	%
Gross interest yield[1]	**1.95**	2.46
Less: Gross interest payable[1]	**(0.32)**	(0.53)
Net interest spread[2]	**1.63**	1.93
Net interest margin[3, 4]	**1.71**	2.05

1 *Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('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.*
4 *Net interest margin of 1.71% includes a reduction of 1bps (2019: 5bps) due to significant items.*

Net interest margin ('NIM') decreased from 2.05% in 2019 to 1.71% in 2020. This was driven from the UK interest rate reductions in March 2020.

Return on average tangible equity ('RoTE') (%)

RoTE (%) is measured as the profit attributable to the ordinary shareholders divided by the reported equity adjusted for goodwill and intangibles. The 2020 RoTE of (0.1%) was 2.5% lower than the 2019 RoTE of 2.4%, driven by lower reported profit before tax.

Non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs, as detailed in the financial statements starting on page 79. In measuring our performance, the financial measures that we use include those derived from our reported results to eliminate factors that distort YoY comparisons. These are considered non-GAAP financial measures.

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

Adjusted performance

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

We use significant items to describe collectively the group of individual adjustments excluded from the results when arriving at adjusted performance. An item might be deemed significant if the item is not incurred as part of the normal operational activities of the individual segment, separate identification and explanation of the item is necessary for users to gain a proper understanding of the performance of the business, and it is quantitatively and qualitatively material to the group's consolidated financial statements. Customer remediation and redress programmes, (which constitute the majority of the group's significant items), are considered and assessed separately against the above criteria prior to recognition as a significant item. Significant items, which are detailed on pages 14 to 15, are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business. We consider adjusted performance to provide useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses YoY performance.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

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

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.

Change in reportable segments

During 2020, we made the following realignments within our internal reporting to the CODM:

- We simplified our matrix organisational structure by combining GPB and RBWM to form WPB.
- We reallocated our reporting of Markets Treasury, formerly Balance Sheet Management function, from Corporate Centre to the global businesses.

Comparative data has been re-presented accordingly.

A description of the global businesses is provided in the Strategic Report, page 4.

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

31 Dec 2020	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**3,276**	**2,621**	**156**	**(6)**	**6,047**
– external	**3,191**	**2,573**	**346**	**(63)**	**6,047**
– inter-segment	**85**	**48**	**(190)**	**57**	**—**
– *of which: net interest income/(expense)*	***2,703***	***1,871***	**—**	***(7)***	***4,567***
Change in expected credit losses and other credit impairment charges	**(843)**	**(1,272)**	**—**	**—**	**(2,115)**
Net operating income/(expense)	**2,433**	**1,349**	**156**	**(6)**	**3,932**
Total operating income/(expenses)	**(2,328)**	**(1,196)**	**(86)**	**12**	**(3,598)**
Operating profit	**105**	**153**	**70**	**6**	**334**
Adjusted profit before tax	**105**	**153**	**70**	**6**	**334**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**71.1**	**45.6**	**55.1**	**(200.0)**	**59.5**
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers (net)	**124,041**	**66,930**	**—**	**262**	**191,233**
Customer accounts	**160,190**	**99,434**	**—**	**(283)**	**259,341**
31 Dec 2019[1]					
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	3,691	2,758	176	(12)	6,613
– external	3,684	2,785	173	(29)	6,613
– inter-segment	7	(27)	3	17	—
– *of which: net interest income/(expense)*	*2,903*	*1,976*	*1*	*(2)*	*4,878*
Change in expected credit losses and other credit impairment charges	(314)	(299)	—	—	(613)
Net operating income/(expense)	3,377	2,459	176	(12)	6,000
Total operating (expenses)/income	(2,469)	(1,213)	(122)	67	(3,737)
Operating profit	908	1,246	54	55	2,263
Adjusted profit before tax	908	1,246	54	55	2,263
	%	%	%	%	%
Adjusted cost efficiency ratio	66.9	44.0	69.3	(558.3)	56.5
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers (net)	118,025	64,772	—	259	183,056
Customer accounts	140,658	75,758	—	(202)	216,214

1 *A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly.*

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

31 Dec 2020	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Revenue	**3,273**	**2,608**	**156**	**(6)**	**6,031**
Significant revenue items	**3**	**13**	**—**	**—**	**16**
– customer remediation and related matters	**3**	**12**	**—**	**—**	**15**
– restructuring and other related costs	—	**1**	**—**	**—**	**1**
Adjusted revenue/(expense)	**3,276**	**2,621**	**156**	**(6)**	**6,047**
31 Dec 2019[1]					
Revenue	3,567	2,753	176	(12)	6,484
Significant revenue items	124	5	—	—	129
– customer remediation and related matters	124	5	—	—	129
– restructuring and other related costs	—	—	—	—	—
Adjusted revenue/(expense)	3,691	2,758	176	(12)	6,613

1 *A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly.*

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

31 Dec 2020	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Operating expenses	**(2,355)**	**(1,223)**	**(86)**	**(89)**	**(3,753)**
Significant cost items	**27**	**27**	**—**	**101**	**155**
– restructuring and other related costs[2]	**73**	**25**	**—**	**81**	**179**
– customer remediation and related matters	**(46)**	**2**	**—**	**7**	**(37)**
– guaranteed minimum pension benefits equalisation	**—**	**—**	**—**	**13**	**13**
Adjusted operating (expenses)/income	**(2,328)**	**(1,196)**	**(86)**	**12**	**(3,598)**

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

31 Dec 2019[1]	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Operating expenses	(3,525)	(1,238)	(122)	24	(4,861)
Significant cost items	1,056	25	—	43	1,124
– restructuring and other related costs[2]	57	11	—	43	111
– customer remediation and related matters	999	14	—	—	1,013
– guaranteed minimum pension benefits equalisation	—	—	—	—	—
Adjusted operating (expenses)/income	(2,469)	(1,213)	(122)	67	(3,737)

1 A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly.
2 Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.

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

	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
31 Dec 2020					
Profit/(loss) before tax	**75**	**113**	**70**	**(95)**	**163**
Net Impact on reported profit and loss	**30**	**40**	**—**	**101**	**171**
– significant revenue items	**3**	**13**	**—**	**—**	**16**
– significant cost items	**27**	**27**	**—**	**101**	**155**
Adjusted profit before tax	**105**	**153**	**70**	**6**	**334**
31 Dec 2019[1]					
Profit/(loss) before tax	(272)	1,216	54	12	1,010
Net Impact on reported profit and loss	1,180	30	—	43	1,253
– significant revenue items	124	5	—	—	129
– significant cost items	1,056	25	—	43	1,124
Adjusted profit before tax	908	1,246	54	55	2,263

1 A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly.

Adjusted performance

Our adjusted profit before tax in 2020 decreased by £1,929m compared with 2019, to a profit of £334m. This reflected higher ECL, lower revenue offset by lower operating expenses.

Adjusted revenue decreased by £566m or 9%, with decreases in WPB and CMB due to lower UK interest rates and other impacts of Covid-19, including overdraft pricing and reduced activity. This has been partially offset by increased mortgage and CMB lending revenue.

ECL increased by £1,502m, due to amounts recognised to reflect UK economic uncertainty in 2020 and the forward expected future credit losses resulting from the deteriorating UK forward economic outlook for 2021 due to the Covid-19 pandemic, and increased actual defaults in CMB.

Adjusted operating expenses decreased by £139m or 4%, due to cost savings in WPB and back office operations and lower costs in GBM foreign currency exchange services. Offset by additional HSBC Holdings plc costs recharges to HSBC UK in 2020 and a lower benefit arising from our material pension surplus as discount rates fell.

The 2020 adjusted RoTE of 0.5% was 9.4% lower than the 2019 adjusted RoTE of 9.9% driven by lower adjusted profit before tax.

Adjusted cost efficiency ratio is measured as total adjusted operating expenses divided by adjusted net operating income before ECL. The adjusted cost efficiency ratio in 2020 increased by 3.0% vs. 2019, from 56.5% to 59.5%

Wealth and Personal Banking

Adjusted profit before tax of £105m in 2020 was £803m lower than the adjusted profit before tax of £908m in 2019, driven by higher ECL, lower revenue, offset by lower operating expenses.

Revenue decreased by £415m or 11%, primarily due to lower UK interest rates and other impacts of Covid-19, including overdraft pricing, partially offset by an increase in mortgage revenue.

ECL increased by £529m, due to amounts recognised to reflect the deteriorating UK forward economic outlook for 2021 due to the Covid-19 pandemic.

Operating expenses decreased by £141m or 6%, due to actions taken to reduce the direct costs of the business including lower staff, travel and entertaining and digital business service costs.

Commercial Banking

Adjusted profit before tax of £153m in 2020 was £1,093m lower than the adjusted profit before tax of £1,246m in 2019, due to lower revenue and higher ECL.

Revenue decreased by £137m or 5%, driven by the impact of lower UK interest rates and lower volumes of fee based revenue as a result of Covid-19, partially offset by revenue from lending growth.

ECL increased by £973m, due to amounts recognised to reflect the deteriorating UK forward economic outlook for 2021 due to the Covid-19 pandemic, and increased actual defaults.

Operating expenses decreased by £17m or 1%, driven by the non repeat of redress costs in 2019, lower travel and entertainment, marketing, training and investment costs. This was partially offset by additional costs incurred in relation to the administration of Covid-19 related lending products.

Global Banking and Markets

Adjusted profit before tax of £70m in 2020 was £16m, or 30%, higher than the profit before tax of £54m in 2019.

Revenue decreased by £20m or 11%, principally due to reduced foreign currency payment flows due to the adverse market conditions.

Operating expenses decreased by £36m or 30%.

Corporate Centre

Adjusted profit before tax of £6m in 2020 was £49m lower than the profit before tax of £55m in 2019, driven by higher operating expenses caused by the reduced benefit arising from our material pension surplus as discount rates fell.

Dividends

The consolidated reported profit for the year attributable to the shareholders of the bank was £76m.

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

Further information regarding dividends is given in Note 6.

Summary consolidated balance sheet as at

	31 Dec 2020 £m	31 Dec 2019 £m
Total assets	**304,864**	257,102
– cash and balances at central banks	**76,429**	37,030
– items in the course of collections from other banks	**253**	504
– financial assets designated and otherwise mandatory measured at fair value	**26**	66
– derivative assets	**155**	121
– loans and advances to banks	**1,514**	1,389
– loans and advances to customers	**191,233**	183,056
– reverse repurchase agreements – non trading	**2,485**	3,014
– financial investments	**19,309**	19,737
– prepayment, accrued income and other assets	**9,318**	8,212
– current and deferred tax assets	**49**	—
– goodwill and intangible assets	**4,093**	3,973
Total liabilities	**282,006**	234,851
– deposits by banks	**540**	529
– customer accounts	**259,341**	216,214
– repurchase agreements – non trading	**6,150**	98
– items in the course of transmission to other banks	**132**	343
– derivative liabilities	**365**	201
– debt securities in issue	**866**	3,142
– accruals, deferred income and other liabilities	**1,941**	1,834
– current and deferred tax liabilities	**1,677**	1,632
– provisions	**979**	1,325
– subordinated liabilities	**10,015**	9,533
Total equity	**22,858**	22,251
– total shareholders' equity[1]	**22,798**	22,191
– non-controlling interests	**60**	60

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

The group maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts decreased to 73.7% compared to 84.7% at 31 December 2019 driven from a 20% increase on customer accounts.

Assets

Cash and balances at central banks increased by £39.4bn due to a growth in customer account balances.

Loans and advances to customers increased by £8.2bn due to growth in retail and commercial lending, particularly in retail mortgages and Covid-19 related products (Bounce Back Loans ('BBLS'), Coronavirus Business Interruption Loans ('CBILs') and Coronavirus Large Business Interruption Loans ('CLBILs')).

Liabilities

Customer accounts increased by £43.1bn due to growth in commercial and retail current and savings accounts. The growth reflected customers spending less during lockdown and the depositing of loans from government backed schemes.

Repurchase agreements – non trading has increased by £6.1bn, and Debt securities in issue has decreased by £2.3bn as part of balance sheet management activities to proactively manage liquidity and margin.

Equity

Total shareholders' equity increased by £0.6bn.

Risk overview

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

Our banking risks include credit risk, treasury risk, market risk, resilience risk, regulatory compliance risk, financial crime and fraud risk and model risk.

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 17 to 51.

During 2020, a number of changes to our top and emerging risks have been made, to reflect the revised assessment of their effect on HSBC UK.

A new risk has been added in 2020 for the Covid-19 outbreak.

Risk		Mitigants
Externally driven		
Covid-19 outbreak	●	Since the Covid-19 outbreak in the UK, we have worked with the UK Government, regulators and our customers to implement measures to mitigate the financial and non-financial impacts of the outbreak on our clients and the UK economy. We have successfully invoked business continuity plans to effectively manage our operations under the constraints imposed by the UK Government in response to the outbreak, and have introduced measures to enable our people to work safely and flexibly during the outbreak.
Financial crime and fraud risk	▶	We continue to support the business and our customers throughout the Covid-19 outbreak, while ensuring that our controls remain effective to manage financial crime risk. We progressed with our plans to improve our fraud controls and we continue to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime.
Geopolitical risk	▲	We continually assess the impact of geopolitical events on our businesses and exposures across HSBC UK, and take steps to mitigate them, where required and possible, to help ensure we remain within our risk appetite. A new trading relationship between the UK and the EU commenced on 1 January 2021. We will continue to work with regulators, governments and our customers to manage the risks created by the UK's exit from the EU as they arise, particularly across those industry sectors most impacted.
Turning of the credit cycle	▲	We regularly undertake detailed reviews of our portfolios and proactively manage credit facilities to customers and sectors likely to come under stress as a result of macroeconomic and geopolitical events including the UK's exit from the EU. Covid-19 has resulted in an unprecedented global economic slowdown with a significant increase in credit stress across our portfolios. We have increased the frequency and depth of our monitoring activities with Covid-19 vulnerability assessments performed as part of customer reviews. The government support schemes may delay the full impacts of the outbreak on some of these businesses in the short term, but we are mindful of potential increasing impairments as time progresses. Stress tests and other sectoral reviews were performed to identify portfolios or customers who were experiencing or were likely to experience financial difficulty as a result of Covid-19. Particular emphasis has been maintained on the housing market, Real Estate and Retail industry sectors as particularly vulnerable. We are also increasing resources to help address the increased level of credit defaults in the current environment.
Regulatory developments	▲	We monitor closely for regulatory developments and engage with regulators, as appropriate, to help ensure that new regulatory requirements are implemented effectively and in a timely way. In addition to developments driven by the Covid-19 outbreak, we are keeping abreast of the emerging regulatory agenda, which is increasingly focused on diversity, sustainable development, climate change, operational resilience, digital services, and innovation. Covid-19 has driven some medium-term reprioritisation by regulators, with a renewed and currently increased focus on customers and vulnerabilities.
Information security risk and cyber crime	▶	We endeavour to protect HSBC UK and our customers by continuing to strengthen our cyber defences, helping enable the safe execution of our business priorities and the security of our customers' information. Our data-driven approach, grounded in strong controls that mitigate advanced cyber threats, enhances our capability in threat detection, access controls and resiliency.
Ibor transition	▲	We remain focused on providing alternative rate products and making them available to our customers, along with updating the supporting processes and systems, to replace Ibors. We continue to engage with industry participants and regulatory working groups to support an orderly transition.
Climate-related risks	▲	We continue to enhance identification, oversight and management of climate-related risks. Following the publication of the HSBC Group's climate ambition, we are developing business plans and capabilities to execute it, and are participating in the Group's dedicated climate risk programme. Our climate risk management framework and approach, developed over 2020, will further mature throughout 2021 and we will further develop our risk appetite and key indicators. We also participated in the HSBC Group climate stress test pilot to build deeper climate risk insights and expertise.
Internally driven		
People risk	▲	We continue to monitor workforce capacity and capability requirements in line with our strategy and any emerging issues. We have also put in place measures to ensure that our people are properly supported and able to work safely during the Covid-19 outbreak. We are monitoring people risks that may arise due to business transformation to help ensure that we sensitively manage any redundancies and support impacted employees.
IT systems infrastructure and resilience	▶	We actively monitor and improve service resilience across our technology infrastructure to minimise service disruption to our customers, and enhance our service management disciplines and change execution capabilities. We continued to adapt our IT systems during 2020 to support our customers and operations during the Covid-19 outbreak.
Execution risk	▲	We continue to strengthen our prioritisation and governance processes for significant strategic, regulatory and compliance projects. With business continuity plans in place and significant remote working in place, the impact of Covid-19 on major change programmes continues to be closely monitored.
Model risk	▲	We continue to strengthen oversight of models and the second line of defence Model Risk Management function. We are embedding a new model risk policy, which includes updated controls around use and monitoring of models. New Model Risk Appetite measures have been developed for implementation in 1Q 2021. Potential revisions to capital models to reflect the current extreme economic shocks and various government support measures resulting from Covid-19 are under way.
Conduct and customer detriment	▲	We continue to enhance our management of conduct in a number of areas, including the treatment of potentially vulnerable customers, governance of product arrangements, and encouragement of a 'Speak Up' culture. At the forefront of current conduct risk considerations is the fair treatment of customers in financial difficulty.
Data management	▶	We continue to enhance and advance our insights, data aggregation, reporting and decisions through ongoing improvement and investments in data governance, data quality, data privacy, data architecture, and analytics (including machine learning and artificial intelligence capabilities). Our work to modernise our data infrastructure also continues, building on the Cloud to increase flexibility and scalability and improve our fit-for-purpose data while also respecting the evolving regulatory landscape regarding the localisation of data. This is a crucial component of effectively managing our risk.
Third party risk management	▶	We continue to enhance our third-party risk management programme to help ensure compliance with our third party risk policy and required standards. We work closely with our third parties to monitor performance and, as a result of the Covid-19 outbreak, their financial stability. In 2021, we will continue to strengthen our third-party risk framework and improve our technology, process and people capabilities.

- ▲ Risk has heightened during 2020
- ▶ Risk remains at the same level as 2019
- ● New Risk introduced during 2020

The Strategic Report comprising pages 2 to 16 was approved by the Board on 22 February 2021 and is signed on its behalf by

John David Stuart

Director
HSBC UK Bank plc
Registered number: 9928412

Risk

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Our risk appetite

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

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

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

Financial position

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

Operating model

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

Business practice

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

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is defined as the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events.

Our risk management framework

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

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

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

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

Non-financial risk includes some of the most material risks HSBC UK faces, such as cyber attacks, poor customer outcomes, loss of data and the current Covid-19 pandemic. Actively managing non-financial risk is crucial to serving our customers effectively and having a positive impact on society. During 2020, we continued to strengthen the control environment and our approach to the management of non-financial risk, as broadly set out in our risk management framework. The management of non-financial risk focuses on governance and risk appetite, providing a single view of the non-financial risks that matter most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of risks. This is overseen by the Operational and Resilience Risk function, headed by the HSBC UK Head of Operational and Resilience Risk.

Three lines of defence

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

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

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

Risk appetite

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

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

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

Risk management

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

We use a comprehensive risk management framework across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This outlines the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

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

Stress testing

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

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

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

Although the annual Bank of England ('BoE') concurrent stress testing exercise was cancelled in 2020, the BoE expects firms to consider and develop appropriate internal stress scenarios for their own use.

Both the 2019 concurrent stress test and the 2020 internal stress tests confirm that HSBC UK is well positioned to withstand potential shocks.

Key developments and risk profile

Key developments in 2020

We have actively managed the risks resulting from the Covid-19 outbreak and its impacts on our customers and operations during 2020, as well as other key risks described in this section.

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

- In January 2020, we simplified our approach and articulation of risk management through the combination of our enterprise risk management framework and our operational risk management framework.
- A new model risk policy is being progressively implemented to improve how we manage model risk and meet enhanced external expectations.
- We continued to focus on simplifying our approach to non-financial risk management. We are driving more effective oversight and better end-to-end identification and management of non-financial risks.
- We established the Treasury Risk Management function. This function is a dedicated second line of defence, providing independent oversight of treasury activities across capital risk, liquidity and funding risk, structural foreign exchange risk, interest rate in the banking book together with pension risk.
- We continue to support the business and our customers throughout the global pandemic, while continuing to manage financial crime risk. We continued to invest in both advanced analytics and artificial intelligence, which remain key components of our next generation of tools to fight financial crime.
- We formed a new Operational and Resilience Risk combined sub-function. The sub-function provides robust oversight over the first line of defence and the risk stewards, supported by clear plans and evidenced by effective and timely independent challenge. The sub-function helps ensure that the first line of defence are focused firmly on priority tasks. By bringing the two teams together, we expect to benefit from improved stewardship, better risk management capabilities and better outcomes for our customers.

Top and emerging risks

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

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

Externally driven

Covid-19

The Covid-19 outbreak continues to dominate the political and economic landscape as it did throughout much of 2020. The twin shocks of a public health emergency and the resultant economic fallout have been felt around the world, and hit both advanced and emerging markets. The closure of borders threatened medical and food supplies for many markets, and there is the potential for countries and territories to focus efforts on building resilient supply chains closer to home to be less vulnerable to global shocks.

After an initial decrease in levels of Covid-19 in the third quarter of 2020, the UK Government returned to more stringent measures in the fourth quarter to tackle a second wave of Covid-19. The emergence of a new variant in the UK during December 2020, necessitated the introduction of a third national lockdown on 4 January 2021. However, the development of Covid-19 vaccines has raised hopes of widespread immunisations being achieved by the end of 2021 and UK Government measures to restrict mobility being eased.

Mitigating actions

- We have successfully invoked business continuity plans to effectively manage our operations under the constraints posed by the UK Government in response to the outbreak.
- We have built up our operational capacity rapidly in response to UK Government support measures aimed at combating the impacts of the Covid-19 outbreak and have been responding to complex conduct considerations and heightened risk of fraud related to these programmes.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to prevent and detect financial crime. Financial crime threats continue to evolve, often in tandem with increased geopolitical developments, posing challenges for financial institutions to keep abreast of developments and manage conflicting laws. The global economic slowdown as a result of the Covid-19 outbreak is resulting in an increase in fraud risk, as fraudulent activity is often more prevalent in times of crisis. Ongoing digital developments around virtual currencies, stablecoins and central bank digital currencies have continued, with the industry's financial crime risk assessment and management frameworks in the early stages of development. The evolving regulatory environment continues to present an execution challenge. The HSBC Group continues to see increasing challenges presented by national data privacy requirements in a global organisation, which may affect its ability to effectively manage financial crime risks. There has also been an increase in media and public scrutiny on how financial crime is managed within financial institutions.

In December 2012, among other agreements, HSBC Holdings plc ('HSBC Holdings') agreed to an undertaking with the UK Financial Services Authority, which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and consented to a cease-and-desist consent order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. The HSBC Group also agreed to retain an independent compliance monitor (who is, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme (the 'Skilled Person/Independent Consultant'). This had applicability to HSBC UK. Reflective of our significant progress in strengthening financial crime risk management capabilities, our engagement with the Skilled Person was terminated in first quarter of 2020 and, in second quarter of 2020, a new Skilled Person with a narrower mandate was appointed to assess the remaining areas that require further work for us to transition fully to business-as-usual financial crime risk management. Thereafter, in 2020, the FCA issued a new, more tailored Direction that replaces the previous Direction issued in 2013. The Independent Consultant will continue to carry out an annual OFAC compliance review at the FRB's discretion. The role of the Skilled Person/ Independent Consultant is discussed on page 21.

Mitigating actions

- We continue to enhance our financial crime risk management capabilities. We are investing in next generation capabilities to fight financial crime through the application of advanced analytics and artificial intelligence.
- We are strengthening and investing in our fraud controls, to introduce next generation anti-fraud capabilities to protect both customers and the bank.
- We continue to educate our staff and our customers on emerging digital products and associated risks.
- We have developed procedures and controls to manage the risks associated with direct and indirect exposure to virtual currencies, and we continue to monitor external developments.
- We continue to work with government and law enforcement agencies to address data privacy challenges through international standards, guidance, and legislation to enable effective management of financial crime risk.
- We continue to take steps designed to ensure that the reforms we have put in place are both effective and sustainable over the long term.
- We continue to work closely with our regulators and engage in Public Private Partnerships, such as the Joint Money Laundering Intelligence Taskforce, playing an active role in shaping the industry's financial crime controls for the future.

Geopolitical risk

We continually assess the impact of geopolitical events on our businesses and exposures across HSBC UK, and take steps to mitigate them, where required and possible, to help ensure we remain within our risk appetite.

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified on 30 December 2020 and with respect to Financial Services, it includes a joint declaration of cooperation and both parties are expected in the coming months to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation. As expected, the passport arrangement expired at the end of the transition period, and therefore HSBC UK has lost its existing EU regulatory permissions to continue servicing clients in the European Economic Area ('EEA') from 1 January 2021.

- Clients: the UK's departure from the EU is likely to impact our clients operating models, including their supply chains, working capital requirements, investment decisions and financial markets infrastructure access. The vast majority of our EEA incorporated clients have already been migrated from the UK to HSBC Continental Europe (or another EEA entity) and we are in the process of following-up with the residual population.
- People: our priority is to ensure that we continue to support our clients and people under the new Trade and Cooperation Agreement, and help minimise any disruption.

Mitigating actions

- We continue to track and close the remaining actions including client migrations, resolution of any potential product restrictions for our customers.
- We are undertaking a comprehensive impact assessment of the Trade and Cooperation Agreement to understand the range of potential implications for our customers, our products and our business.
- We actively monitor our portfolio to identify areas of stress, supported by stress testing analyses. Vulnerable sectors or asset classes, third party dependencies are subject to additional management review to determine if any adjustments to risk policy or appetite are required.
- We will actively participate in external discussions in relation to the development of an appropriate Equivalence framework
- We continue to stay very close to our clients, via proactive communications and dedicated channels to respond to customer queries, and will monitor for any operational and/or other impacts as a consequence of the Trade and Cooperation Agreement, in particular Trade clients due to the increased documentation requirement to comply with import/export licence procedures as well as rules of origin.
- We are supporting our EEA employees resident in the UK with their settlement applications.
- We will continue to work with regulators, governments and our clients in an effort to manage risks as they arise, particularly across the most impacted sectors.

Turning of the credit cycle

The credit cycle in the UK has now turned, driven chiefly by the impacts and uncertainty caused by the Covid-19 pandemic across the globe. The UK saw a decline in GDP of 9.9% in 2020 and the

impacts of the pandemic on economic activity will continue to be seen in 2021, following the introduction of a third national lockdown in the UK. The mortgage market rebounded extremely well in 2020, following closure of the market due to government restrictions. Both house price and completed property transactions indices continue to record increases, likely driven by pent up demand during the first enforced lockdown and the introduction of stamp duty rule changes. There remains uncertainty concerning the impact of the UK's withdrawal from the EU, with the new barriers to the movements of goods, services and people from the EU, representing ongoing headwinds to economic growth.

Mitigating actions

- We closely monitor economic developments in key markets and sectors and undertake scenario analysis. This enables us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures. We also continue to monitor certain high risk portfolios such as Retail, Construction, Commercial Real Estate and service companies within Oil and Gas. Government support schemes e.g. CBILS, CLBILS and BBL's have been implemented to support customers impacted by Covid-19.
- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management actions being taken to rebalance exposures and manage risk appetite where necessary.
- Reviews of key portfolios are undertaken regularly to ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn are appropriate. In 2020, we have undertaken specific reviews of portfolios in sectors showing vulnerability such as Retail, Commercial Real Estate, Hotels, Hospitality, Oil and Gas, Automotive, and Construction and Contracting. Detailed performance monitoring is reviewed on a monthly basis, which includes early warning indicators and a view of concentration risks. Portfolio limits (industry, product and country) governing wholesale credit have been re-assessed and reductions implemented where appropriate.

Regulatory developments

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

Mitigating actions

- We have an active programme in place to identify and assess the impact of new and amended regulation impacting on HSBC UK. This includes active engagement with government, regulatory and industry bodies in the UK to feedback on key proposals to ensure that new requirements are considered properly by regulators and the financial sector and can be implemented effectively.
- We have engaged proactively with regulators and the government regarding the policy changes issued in response to the Covid-19 outbreak to help our customers and to contribute to an economic recovery. We are also actively engaged in the HM Treasury review of the Future Regulatory Framework which is designed to ensure that the shape of the regulatory framework is fit for purpose following the UK's exit from the EU.

Information security risk and cyber crime

HSBC UK and other organisations continue to operate in an increasingly hostile cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats. Key threats include unauthorised access to online customers, advanced malware attacks, attacks on third-party suppliers and security vulnerabilities being exploited..

Mitigating actions

- We continually evaluate threat levels for the most prevalent attack types and their potential outcomes. To further protect HSBC UK and our customers we strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, infiltration of payment systems and denial of service attacks.
- We continue to enhance our cybersecurity capabilities, including threat detection, access control as well as back-up and recovery. An important part of our defence strategy is ensuring our people remain aware of cybersecurity issues and know how to report incidents.
- Cyber risk is a priority area for the Board. We report and review cyber risk and control effectiveness quarterly at executive and non-executive Board level. We also report it across our businesses and functions, to help ensure appropriate visibility and governance of the risk and mitigating actions.
- We participate in law enforcement and industry schemes to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations.

Ibor transition

Throughout 2020, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and transition from legacy Ibor contracts, has continued to implement the required IT and operational changes necessary to facilitate an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates.

These changes have enabled HSBC UK to meet regulatory endorsed milestones related to product readiness and the clearing house led transition to RFR discounting. Additionally, to further support our business and our customers, our programme's scope has widened to include additional interest rate benchmarks, which now have a plan for demise in the near future.

We have identified financial and non-financial risks related to the transition and developed key actions to mitigate the identified risks. These risks include those associated with the continued sale of products referencing Ibor through 2020. HSBC UK has, however, actively removed certain Ibor referencing products from sale, and implemented processes and controls to manage the continued sale of Ibor products to meet our clients' needs. As products referencing Ibor continue to be sold, and RFR products are developed, considerations relating to the enforceability of fallback provisions and the evolution of RFR market conventions have potentially increased legal and compliance risks.

Furthermore, the impact of the Covid-19 outbreak has compressed timelines for client engagement and potentially increased the resilience risks associated with the rollout of new products, transition of legacy contracts, and new RFR sales.

Mitigating actions

- HSBC UK is part of the HSBC Group's global programme to facilitate an orderly transition from Ibors for our business and our clients. The UK is a lead market for the required transition activity. In HSBC UK, programme activity is sponsored by the UK Chief Risk Officer, who chairs the UK Ibor Transition Project Steering Committee ('PSC').
- We have dedicated teams in place to support the development of and transition to alternative rate and replacement RFR products.
- We have and continue to carry out extensive training, communication and client engagement to facilitate appropriate selection of products.
- We are implementing IT and operational changes to enable a longer transition window.
- We met the third quarter 2020 regulatory endorsed milestones for implementing changes to contractual documentation,

- We assess, monitor and dynamically manage risks, and implement specific mitigating controls when required.
- We continue to engage with regulatory and industry bodies actively to mitigate risks relating to hedge accounting changes, multiple RFR market conventions, and so-called 'tough legacy' contracts that have no appropriate replacements or no likelihood of renegotiation to transition. This includes providing feedback and responses on recent IBA and FCA consultations.

Climate-related risks

Climate change can impact a number of our risk types:

- Transition Risk, arising from the move to a low-carbon economy, such as through policy, regulatory and technological changes.
- Physical Risk, through increasing severity and/or frequency of severe weather events or other climatic events (e.g. sea level rise, flooding).

These have potential to cause both idiosyncratic and systemic risks, resulting, over time, in potential financial and non-financial impacts for HSBC UK. Financial impacts could materialise, for example, through greater transactional losses and/or increased capital requirements. Non-financial impacts could materialise, for example, if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our Climate Ambition. Climate-related risks have increased over 2020, primarily as a result of the pace and volume of policy and regulatory changes. This impacts the bank both directly and indirectly through impacts on our customers.

Mitigating actions

- The Chief Risk Officer is responsible for climate financial risks under the UK Senior Managers Regime. The Chief Risk Officer is a member of the Board and the Executive Committee and, where appropriate, provides verbal or written updates on climate risk.
- Our Board manages climate-related risks that our outside of our risk appetite, and is supported by a dedicated Climate Risk Management Meeting where oversight and shaping of our approach for managing climate risk takes place. We have also established a Climate Risk Programme to drive the delivery of our plans relating to the enhancement of our risk management approach.
- The HSBC Group Risk Committee endorsed risk appetite statement has been enhanced with quantitative metrics to articulate the risks from climate change, and we plan to iteratively develop our risk appetite and key indicators through 2021.
- In 2020, we formalised our overall approach to climate risk management and introduced policies, process and controls. For example, we have established a Transition Risk Framework to better understand our exposure to the highest transition risk sectors and we continue to engage with our customers to understand and support their low-carbon strategies. In response to our stress testing scenario based risk assessments, we are in the process of implementing policy changes to manage the physical risk facing our retail mortgage portfolio where properties are particularly vulnerable geographically to natural hazard risk, such as flooding. We will continue to assess what data are available and required to further develop metrics to improve our assessment and management of climate risks and opportunities in line with strategy and risk appetite.
- HSBC UK implements HSBC Group sustainability risk policies as part of its broader reputational risk framework. We focus our policies on sensitive sectors which may have a high adverse impact on people or on the environment and in which we have a significant number of customers. This includes sectors with potentially high carbon impacts including power generation, mining, agricultural commodities and forestry. Future policy reviews will be informed by our Climate Ambition and risk appetite.
- HSBC UK has participated in the HSBC Group climate stress test pilot to enhance our knowledge of climate risk and to inform the development of our approach to climate risk management, including the continuous enhancement of our risk appetite statement. This Group stress test pilot included the UK residential mortgage portfolio, Corporate Real Estate portfolio and some of the Commercial Banking portfolio, particularly those in high risk sectors. This pilot is also aimed to help us prepare and build the necessary capabilities to execute the Bank of England's BES Climate Scenario in 2021.

Internally driven

People risk

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

Mitigating actions

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

IT systems infrastructure and resilience

The HSBC Group is committed to investing in the reliability and resilience of its IT systems and critical services, many of which are relied upon by HSBC UK. The HSBC Group does so to protect its customers and ensure they do not receive disruption to services, which could result in reputational and regulatory damage.

Mitigating actions

- We continue to invest in transforming how software solutions are developed, delivered and maintained, with a particular focus on providing high-quality, stable and secure services. As part of this, we are concentrating on improving system resilience and service continuity testing. We have enhanced the security features of our software development life cycle and improved our testing processes and tools.
- During 2020, we have upgraded many of our IT systems, simplified our service provision and replaced older IT infrastructure and applications. These enhancements led to continued global improvements in service availability during 2020 for both our customers and employees.

Execution risk

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

Mitigating actions

- Our prioritisation and governance processes for significant projects are monitored by the HSBC UK Executive Committee.
- In 2020, we continued to manage execution risk through closely monitoring the punctual delivery of critical initiatives, internal and external dependencies, and key risks, to allow better portfolio management.

Model risk

Model risk arises whenever business decision-making includes reliance on models. We use models in both financial and non-financial contexts and in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking; models can need redevelopment as market conditions change, as evidenced in 2020 by the model redevelopment required for estimating credit losses post Covid-19. This is due to the dramatic change to inputs to these models such as GDP, unemployment rates and housing prices as a result of Covid-19 impacts on the global economies.

Mitigating actions

- We enhanced the monitoring and review of loss model performance through our Model Risk Management function as part of a broader quarterly process to determine loss levels. The Model Risk Management team aims to provide strong and effective review and challenge of any future redevelopment of these models.
- The Risk Steward is providing close monitoring of changes in model behaviour working closely with business and function model owners and sponsors.
- We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management whilst retaining a consistent approach.
- We worked with the model owners of internal-ratings-based models to increase our engagement on management of model risk with the PRA.
- We refreshed model risk controls through the Risk Control Assessment process and businesses and functions completed testing of these new enhanced controls to assess and understand model risk.
- We developed new Risk Appetite measures focused on forward looking model risk supported by upgrades to the Model Inventory System to provide more granular measurement and management of model risk for multiple applications of a single model.

Conduct and customer detriment

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

Mitigating actions

- We have continued to enhance our management of conduct including our product governance arrangements, the treatment of potentially vulnerable customers and management of related third party risks.
- We have enhanced our conduct training to support our people, including how to recognise potential vulnerabilities and we encourage and support a ‘Speak Up’ Culture.
- We have revised our conduct risk framework and enhanced our management information. Covid-19’s impact, indicates a likelihood of increasing future conduct risk and as a result we continue to actively monitor non-financial risk profiles across all business areas.
- We have adapted our controls and risk management processes to reflect our conduct outcomes, ensuring that those risks that have the greatest impact on our customers are given heightened focus.

Data management

HSBC UK uses a large number of systems and applications to support key business processes and operations. As a result, we often need to reconcile multiple data sources, including customer data sources, to reduce the risk of error. We, along with other organisations, also need to meet external/regulatory obligations such as the General Data Protection Regulation (‘GDPR’), Basel Committee for Banking Supervision ('BCBS') 239, and Basel III.

Mitigating actions

- We are progressively improving data quality across a large number of systems globally. Our data management, aggregation and oversight continues to strengthen and enhance the effectiveness of internal systems and processes. We are implementing data controls for end-to-end critical processes to improve our data capture at the point of entry and throughout the data lifecycle.
- Through our global data management framework we are expanding and enhancing our data governance to proactively monitor the quality of critical customer product, reference and transaction data and resolving associated data issues in a timely manner.
- We continue to modernise our data and analytics infrastructure through investments in advanced capabilities in cloud visualisation, machine learning and artificial intelligence platforms.
- We continue to help protect customer data via our global data privacy framework that establishes data privacy practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations where HSBC UK operates.
- To help our employees keep abreast of data privacy laws and regulations we continue to hold data privacy awareness training highlighting our commitment to protect personal data for customers, employees and stakeholders.

Third-party risk management

We utilise third parties for the provision of a range of services, in common with other financial service providers. Risks arising from the use of third-party service providers may be less transparent and therefore more challenging to manage or influence. It is critical that we ensure we have appropriate risk management policies, processes and practices. These should include adequate control over the selection, governance and oversight of third parties, particularly for key processes and controls that could affect operational resilience. Any deficiency in our management of risks arising from the use of third parties could affect our ability to meet strategic, regulatory or customer expectations.

Mitigating actions

- We continued to embed our third-party management framework in the first line of defence through a dedicated

team. Processes, controls and technology to asses third-party service providers against key criteria and associated control monitoring testing and assurance have been deployed.

- We have worked closely with our third-party providers, which have faced constraints and enhanced oversight on their operations during the Covid-19 outbreak.

Areas of special interest

During 2020, a number of areas have been identified and considered as part of our top and emerging risks because of the effect they may have on HSBC UK.

Process of UK withdrawal from the European-Union

The UK left the EU on 31 January 2020 and entered a transition period until 31 December 2020. A Trade and Cooperation Agreement between the EU and the UK was agreed on 24 December 2020 and ratified by the UK on 30 December 2020. It includes a joint declaration of cooperation, and, in the coming months, both parties are expected to enter discussions with the aim of agreeing a Memorandum of Understanding establishing the framework for this cooperation. As expected, the current passport arrangement expired at the end of the transition period, and therefore financial Institutions in the UK including HSBC UK lost their existing EU regulatory permissions or 'passporting rights' to continue servicing clients in the European Economic Area ('EEA') from 1 January 2021. The Trade and Cooperation Agreement mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fishery, transport, data and security. However, it included limited elements on financial services, and, as a result, did not change HSBC UK's planning in relation to the UK's withdrawal from the EU.

Our programme to manage the impact of the UK leaving the EU has now been largely completed. It was based on the assumption of a scenario whereby the UK exits the transition period without the financial passporting or regulatory equivalence framework that supports cross-border business.

Legal entity restructuring

Changes in legal entity structure are likely to be minor and limited to our existing branch in Ireland. We previously used our Irish branch, that relied on passporting out of the UK, for the placement of excess Euro deposits. This is no longer possible. To mitigate this, we have on-boarded appropriate counterparties for foreign exchange swaps and repos, which will enable the Markets Treasury team in HSBC UK to manage the euro position in line with how other non-Sterling currencies are managed.

Customer migrations

The UK's departure from the EU was likely to have an impact on our CMB clients' operating models, including their working capital requirements, investment decisions and financial markets infrastructure access. The vast majority of our impacted EEA incorporated clients have already been migrated from the UK to HSBC Continental Europe (or another EEA entity) and we are in the process of following-up with the residual population.

Employees

We are supporting our EEA staff resident in the UK with their settlement applications. We have carried out detailed reviews of our credit portfolios to determine those sectors and customers most vulnerable to the UK's exit from the EU and will continue to monitor any implications for our clients in adhering to the new requirements under the agreement. For further details, please see 'Impact of UK economic uncertainty on ECL' on page 36.

Ibor transition

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

The FCA announced in July 2017 that it would no longer continue to persuade or require panel banks to submit rates for the London interbank offered rate ('Libor') after 2021. In addition, the 2016 EU Benchmark Regulation, which aims to ensure the accuracy, robustness and integrity of interest rate benchmarks, has resulted in other regulatory bodies' reassessment of their national benchmarks, including the Euro Overnight Index Average ('Eonia'). As a result, in the UK, an industry-led national working group, the RFRWG is actively discussing the mechanisms for an orderly transition of Libor currencies

The transition process away from Ibors, including the transition of legacy contracts that reference Ibors, exposes HSBC UK to material execution risks, and increases some financial and non-financial risks.

As our Ibor transition programme progresses into the execution phase, resilience and operational risks, are heightened. This is due to an expected increase in the number of new near risk-free rate ('RFR') products being rolled out, compressed timelines for the transition of legacy Ibor contracts and the extensive systems and process changes required to facilitate both new products and the transition. This is being exacerbated by the current interest rate environment where low Libor rates, in comparison with replacement RFR, could affect decisions to transition contracts early, further compressing transition timelines. Regulatory compliance, legal and conduct risks may also increase as a result of both the continued sale of products referencing Ibors, and the sale of new products referencing RFRs, principally due to the lack of established market conventions, and the timelines for transition.

Financial risks resulting from the discontinuation of Ibors and the development of market liquidity in RFRs will also affect HSBC UK throughout transition. The differences in Ibor and RFR interest rates will create a basis risk that we need to actively manage through appropriate financial hedging. Basis risk in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.

The continued orderly transition from Ibors continues to be the programme's key objective through 2021 and can be broadly grouped into two workstreams: the development of alternative rate and RFR product capabilities and the transition of legacy Ibor contracts.

Development of alternative rate and RFR product capabilities

All global businesses have actively developed and implemented system and operational capabilities for alternative rates, such as policy interest rates, and replacement RFR products during 2020. The offering of RFR products is expected to be expanded, with further releases for products referencing the Sterling Overnight Index Average ('Sonia') and the Secured Overnight Financing Rate ('SOFR') set for the first half of 2021, in addition to products linked to other RFRs set to be released throughout 2021.

These developments and the reduced suitability of Ibor products have enabled HSBC UK to cease selling certain Ibor linked products. Notably, Libor-linked loan products have been demised for Business Banking and mid-market enterprise segments.

While Ibor sales do continue, Ibor exposures that have post-2021 maturities are reducing, aided by market compression of Ibor trades, and undertaking new transactions in alternative rate and replacement RFR products, as market liquidity builds.

Transition legacy contracts

In addition to offering alternative rate and replacement RFR products, the development of new product capabilities will also help facilitate the transition of legacy Ibor and Eonia products. HSBC UK has begun to engage clients to determine their ability to transition in line with the readiness of alternative rate and replacement RFR products. The Covid-19 outbreak and the interest rate environment may have affected clients' abilities to transition early, and has resulted in compressed timelines for the transition of legacy Ibor contracts. However, for some US dollar Libor legacy contracts, this timing risk may be mitigated in part by the recent

announcement by the Libor benchmark administrator, ICE Benchmark Administration Limited, to consult on extending the publication of overnight and one, three, six and 12 month US dollar Libor settings to 30 June 2023. Despite the proposed extension, regulatory and industry guidance has been clear that market participants should cease writing new US dollar Libor contracts as soon as is practicable, and in any event by the end of 2021. While the extended deadline will result in additional US dollar Libor transactions maturing before cessation, not all of them will, so it is possible that other proposed solutions, including legislative relief, will still be needed. The FCA continues to consult with the industry about how best to manage 'tough legacy' scenarios, including possibly using a synthetic Libor.

For HSBC UK's loan book, our global businesses have developed commercial strategies that include active client engagement and communication, providing detailed information on RFR products to determine our clients' abilities to transition to a suitable alternative rate or replacement RFR product, before Ibor cessation.

Financial instruments impacted by Ibor reforms

(Audited)

Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit and loss that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria. These amendments apply from 1 January 2021 with early adoption permitted. HSBC UK has adopted the amendments from 1 January 2020.

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

1 *Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks: five London interbank offered rates ('Libor'), the Euro Overnight Index Average ('Eonia') and the Singapore Interbank Offered Rate ('Sibor').*
2 *Gross carrying amount excluding allowances for expected credit losses.*

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

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date after 31 December 2021, the date by which Libor is expected to cease;
- are recognised on HSBC UK's consolidated balance sheet.

The administrator of Libor, ICE Benchmark Administration ('IBA'), has announced a proposal to extend the publication date of most USD Libor tenors until 30 June 2023. Publication of one-week and two-month tenors will cease after 31 December 2021. This proposal, if endorsed, would reduce the amounts presented in the above table as some financial instruments included will reach their contractual maturity date prior to 30 June 2023.

Risks related to Covid-19

The Covid-19 pandemic and its effect on the global economy have impacted HSBC UK's customers and our performance, and the future effects of the pandemic are uncertain. There remains a risk of subsequent waves of infection, as evidenced by recently emerged new, more transmissible variants of the virus. Renewed outbreaks emphasise the ongoing threat of Covid-19 even in countries that have recorded lower than average cases so far.

Government restrictions imposed around the world to limit the spread of Covid-19 resulted in a sharp contraction in global economic activity during 2020, including in the UK. The extent of any recovery in economic activity and reduction in the UK's unemployment rate in 2021 will be dependent upon successful rollout of the vaccination programme, coupled with effective non-pharmacological measures to contain the virus, such as the 'track and trace' system and restrictions to mobility that will lead to a decline in infections across over the course of the year. There is a high degree of uncertainty associated with economic forecasts in the current environment and the degree of uncertainty for the UK will be influenced by the evolution of the pandemic, associated policy responses and any impacts felt from the new Trade and Cooperation Agreement in place between the UK and the EU from 1 January 2021.

The UK Government has deployed extensive measures to support households and corporates. Measures implemented include income support to households and funding support to corporates, while measures taken by the Bank of England include cuts to interest rates, support to funding markets and asset purchases. These measures are expected to be unwound gradually as government restrictions ease and as economic activity increases. The Bank of England is expected to maintain record-low interest rates for a considerable period of time and the debt burden of the UK Government is expected to rise significantly.

HSBC UK has initiated numerous measures to support our personal and business customers through these challenging times, including mortgage assistance, payment holidays, the waiving of certain fees and charges, and liquidity relief for businesses facing market uncertainty and supply chain disruption. We are also working closely with the UK Government and its supporting schemes that focus on the parts of the UK economy most impacted by Covid-19. We have been a provider of the UK Government's Coronavirus Business Interruption Loan Scheme from the beginning. For details of our customer relief programmes see pages 30.

It is recognised that above measures expose HSBC UK to heightened risks. The rapid introduction and varying nature of the UK Government support schemes, as well as customer expectations, has led to increased operational risks for HSBC UK with large-scale changes implemented in a short period of time. These risks have included complex conduct considerations, increased reputational risk and increased risk of fraud, which are likely to be heightened further as and when the UK Government support schemes are unwound. We are focused upon avoiding and mitigating any conduct risks that may arise from the implementation decisions we have had to make and also those that may be created if our customers find themselves in financial difficulties as a result of Covid-19.

At 31 December 2020, our CET1 ratio was 15.2% compared with 13.0% at 31 December 2019, and our liquidity coverage ratio

('LCR') was 198% compared with 165% at 31 December 2019. Our capital, funding and liquidity position is expected to help us to continue supporting our customers throughout the Covid-19 outbreak.

The Covid-19 outbreak has led to a weakening in UK GDP, a key input used for calculating ECL, and there remains the risk of more adverse economic scenarios given its ongoing impact. Furthermore, ECL will also arise from parts of our business impacted by the disruption to supply chains. The impact will vary by sectors of the UK economy, with retail, transport, hospitality and commercial real estate among those facing distress. The impact of the outbreak on the long-term prospects of businesses in these sectors is uncertain and may lead to significant ECL charges on specific exposures, which may not be fully captured in current ECL estimates. In addition, in times of crisis, fraudulent activity is often more prevalent, leading to potentially significant ECL charges or operational losses. The significant changes in economic and market drivers, customer behaviours and government actions caused by Covid-19 have materially impacted the performance of financial models. IFRS 9 model performance has been dramatically impacted over the course of 2020 which has increased reliance on management judgment in determining the appropriate level of ECL estimates. These models are driven by forecasts of economic factors such as GDP and unemployment. Many of these models were not able to deliver reliable outputs given the dramatic volatility in these forecasts, many of which significantly exceeded observed historic extremes, as a consequence of the global economic crisis. There has also been extensive support measures deployed by the UK Government to support livelihoods and businesses which could not be predicted by models.

In order to address some model limitations and performance issues, we have redeveloped key models used to calculate ECL estimates. These models have been independently validated by the Model Risk Management team and have been assessed as having the ability to deliver reliable credit loss estimates. While this has reduced the reliance on management judgement for determining ECL estimates in some portfolios, the current uncertain economic outlook coupled with the expected end to government support schemes has led to management judgemental adjustments still being required.

The Model Risk Management team is reviewing IFRS 9 model performance on a quarterly basis to assess whether or not the models in place can deliver reliable outputs. These assessments provide the credit teams with a view of model reliability. IFRS 9 model redevelopment will continue as the economic consequences of the Covid-19 outbreak become clearer over time as economic conditions normalise and actual credit losses occur.

As a result of the Covid-19 outbreak, business continuity responses have been implemented and the majority of service level agreements have been maintained. We have not experienced any major impacts to the supply chain from our third-party service providers due to Covid-19. The risk of damage or theft to HSBC UK's physical assets or criminal injury to our employees remains unchanged and no significant incidents have impacted our buildings or people.

There remain significant uncertainties in assessing the duration of the Covid-19 outbreak and its impact. The actions taken by the UK Government and the BoE, provide an indication of the potential severity of the downturn and post-recovery environment, which from a commercial, regulatory and risk perspective could be significantly different to past crises and persist for a prolonged period. A continued prolonged period of significantly reduced economic activity as a result of the impact of the outbreak would have a materially adverse effect on our financial condition, results of operations, prospects, liquidity, capital position and credit ratings. We continue to monitor the situation closely, and given the novel or prolonged nature of the outbreak, additional mitigating actions may be required.

Interest rate environment

The Bank Rate in the UK has been further reduced by the BoE since the timelines and path for economic recovery has been adversely impacted and the likelihood of negative rates in the UK has increased. This raises a number of risks and concerns. We have a programme of work that is confirming our operational capabilities for negative rates and improving our readiness where required. This programme is focused upon ensuring that our systems and processes can accommodate zero, near zero or negative rates and determining the resulting impacts on our customers, while being fully mindful of all regulatory constraints. For some products, deposit or asset rates can be floored at zero, or decisions may be made not to pass through the negative rates to customers. This approach results in our commercial margins being compressed, which will be reflected in our profitability. The pricing of this risk will need to be carefully considered, given the significant impact that prolonged low interest rates are likely to have on our net interest income. If there is a rebalancing of portfolios toward fee-generating business and trading activities to offset reduced profits, we may become exposed once rates start rising again. These factors may challenge the long-term profitability of the banking sector, including HSBC UK.

Our material banking risks

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

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 28)		
The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • measured as the amount that could be lost if a customer or counterparty fails to make repayments; • monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Treasury Risk (see page 52)		
The risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post-employment benefits to staff and their dependants.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: • measured through appetites set as target and ratios; • monitored and projected through appetites and using stress and scenario testing and; • managed through control resources in conjunction with risk profiles and cashflows.
Market risk (see page 57)		
The risk that movements in market factors, including but not limited to interest rates, credit spreads and foreign exchange rates will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: • trading portfolios; and • non-trading portfolios.	Market risk is: • measured using sensitivities, value at risk ('VaR') and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; • monitored using VaR sensitivities, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and • managed using risk limits approved by the risk management meeting ('RMM').
Resilience risk (see page 59)		
Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events. These may be driven by rapid technological innovation, changing behaviours of our consumers, cyber threats and attacks, cross border dependencies, and third party relationships.	Resilience risk is: • measured through a range of metrics with defined maximum acceptable impact tolerances and against our agreed risk appetite; • monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and • managed by continuous monitoring and thematic review.
Regulatory compliance risk (see page 60)		
The risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business.	Regulatory compliance risk arises from the risks associated with breaching our duty to our customers and other counterparties, inappropriate market conduct and breaching other regulatory requirements.	Regulatory compliance risk is: • measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime and fraud risk (see page 61)		
The risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity including both internal and external fraud.	Financial crime and fraud risk arises from day-to-day banking operations.	Financial crime and fraud risk is: • measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; • monitored against our financial crime risk appetite statement and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model risk (see page 62)		
Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: • measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; • monitored against model risk appetite statements, insight from the independent review function, feedback from internal and external audits, and regulatory reviews; • managed by creating and communicating appropriate policies, procedures and guidance, training employees in their application, and supervising their adoption to ensure operational effectiveness.

Credit risk overview

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

Credit risk management

(Audited)

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

The principal objectives of our credit risk management are:

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

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

Its responsibilities are:

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

Concentration of credit risk exposure

(Audited)

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

Credit quality of financial instruments

(Audited)

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

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

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

Wholesale lending

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

Retail lending

Retail lending credit quality is based on a 12-month point-in-time probability-weighted probability of default ('PD').

Credit quality classification

		Debt securities and other bills	Wholesale lending		Retail lending	
	Footnotes	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12-month probability-weighted PD %
Quality classification	1, 2					
Strong		**A- and above**	**CRR1 to CRR2**	**0.000–0.169**	**Band 1 and 2**	**0.000–0.500**
Good		**BBB+ to BBB-**	**CRR3**	**0.170–0.740**	**Band 3**	**0.501–1.500**
Satisfactory		**BB+ to B and unrated**	**CRR4 to CRR5**	**0.741–4.914**	**Band 4 and 5**	**1.501–20.000**
Sub-standard		**B- to C**	**CRR6 to CRR8**	**4.915–99.999**	**Band 6**	**20.001–99.999**
Credit-impaired		**Default**	**CRR9 to CRR10**	**100.000**	**Band 7**	**100.000**

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

Quality classification definitions

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

Renegotiated loans and forbearance

(Audited)

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

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

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

Refinance risk

Personal lending

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

Wholesale lending

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

Impairment assessment

(Audited)

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

Write-off of loans and advances

(Audited)

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

Personal lending

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

Wholesale lending

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

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

Customer relief programmes

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

Personal lending

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

Wholesale lending

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

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

Market-wide schemes

Personal Lending

Mortgages

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

Other personal lending payment holidays

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

Wholesale Lending

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

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

HSBC UK specific measures

Wholesale lending

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

Credit risk in 2020

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

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

More details analysis of ECL can be found on pages 36 and 41.

A summary of our current policies and practices regarding credit risk is set out on pages 28 and 29.

Summary of credit risk

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

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

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

(Audited)

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	Allowance for ECL[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
The group	£m	£m	£m	£m
Loans and advances to customers at amortised cost	194,426	(3,193)	184,734	(1,678)
– personal	124,245	(1,449)	117,669	(738)
– corporate and commercial	67,354	(1,701)	64,537	(933)
– non-bank financial institutions	2,827	(43)	2,528	(7)
Loans and advances to banks at amortised cost	1,515	(1)	1,390	(1)
Other financial assets measured at amortised cost	80,486	(2)	41,871	—
– cash and balances at central banks	76,429	—	37,030	—
– items in the course of collection from other banks	253	—	504	—
– reverse repurchase agreements – non-trading	2,485	—	3,014	—
– prepayments, accrued income and other assets[2]	1,319	(2)	1,323	—
Total gross carrying amount on-balance sheet	276,427	(3,196)	227,995	(1,679)
Loans and other credit related commitments	70,215	(190)	63,858	(60)
– personal	39,715	(16)	37,422	(6)
– corporate and commercial	29,568	(172)	25,599	(54)
– non-bank financial institutions	932	(2)	837	—
Financial guarantees	935	(17)	1,077	(5)
– personal	118	—	25	—
– corporate and commercial	573	(17)	685	(5)
– non-bank financial institutions	244	—	367	—
Total nominal amount off-balance sheet[3]	71,150	(207)	64,935	(65)
At 31 Dec	347,577	(3,403)	292,930	(1,744)

	Fair value	Memorandum allowance for ECL[4]	Fair value	Memorandum allowance for ECL[4]
	£m	£m	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	19,309	(6)	19,737	(1)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 82 includes both financial and non-financial assets.*
3 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

(Audited)

	31 Dec 2020		31 Dec 2019	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The bank	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**189,632**	**(2,832)**	175,301	(1,400)
– personal	**120,765**	**(1,208)**	110,274	(581)
– corporate and commercial	**60,079**	**(1,581)**	54,691	(813)
– non-bank financial institutions	**8,788**	**(43)**	10,336	(6)
Loans and advances to banks at amortised cost	**3,791**	**(1)**	4,644	(1)
Other financial assets measured at amortised cost	**80,221**	**(2)**	41,874	—
– cash and balances at central banks	**76,419**	**—**	37,020	—
– items in the course of collection from other banks	**137**	**—**	355	—
– reverse repurchase agreements – non-trading	**2,485**	**—**	3,014	—
– prepayments, accrued income and other assets[2]	**1,180**	**(2)**	1,485	—
Total gross carrying amount on-balance sheet	**273,644**	**(2,835)**	221,819	(1,401)
Loans and other credit related commitments	**55,496**	**(182)**	49,432	(57)
– personal	**28,107**	**(12)**	25,891	(5)
– corporate and commercial	**26,546**	**(168)**	23,041	(52)
– non-bank financial institutions	**843**	**(2)**	500	—
Financial guarantees	**935**	**(17)**	1,066	(5)
– personal	**118**	**—**	15	—
– corporate and commercial	**573**	**(17)**	684	(5)
– non-bank financial institutions	**244**	**—**	367	—
Total nominal amount off-balance sheet[3]	**56,431**	**(199)**	50,498	(62)
At 31 Dec	**330,075**	**(3,034)**	272,317	(1,463)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**19,309**	**(6)**	19,737	(1)

1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the bank's balance sheet on page 85 includes both financial and non-financial assets.
3 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
4 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.

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

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

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

(Audited)

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

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

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

Stage 2 days past due analysis at 31 December 2020

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	*Of which:*
		Up-to-date[1]	*1 to 29 DPD*[2,3]	*30 and > DPD*[2,3]		*Up-to-date*[1]	*1 to 29 DPD*[2,3]	*30 and > DPD*[2,3]		*Up-to-date*[1]	*1 to 29 DPD*[2,3]	*30 and > DPD*[2,3]
	£m	*£m*	*£m*	*£m*	£m	*£m*	*£m*	*£m*	%	*%*	*%*	*%*
Loans and advances to customers at amortised cost:	28,802	*28,307*	*334*	*161*	(1,651)	*(1,520)*	*(71)*	*(60)*	5.7	*5.4*	*21.3*	*37.3*
– personal	6,871	*6,428*	*298*	*145*	(893)	*(783)*	*(59)*	*(51)*	13.0	*12.2*	*19.8*	*35.2*
– corporate and commercial	21,152	*21,100*	*36*	*16*	(728)	*(707)*	*(12)*	*(9)*	3.4	*3.4*	*33.3*	*56.3*
– non-bank financial	779	*779*	–	–	(30)	*(30)*	–	–	3.9	*3.9*	–	–
Loans and advances to banks at amortised cost	1	*1*	–	–	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	54	*54*	–	–	–	–	–	–	–	–	–	–

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2019 (continued)

(Audited)

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	168,351	13,177	3,179	27	184,734	(214)	(626)	(838)	—	(1,678)	0.1	4.8	26.4	1.2	0.9
– personal	112,398	4,069	1,202	—	117,669	(76)	(385)	(277)	—	(738)	0.1	9.5	23.0	—	0.6
– corporate and commercial	53,843	8,710	1,957	27	64,537	(135)	(238)	(560)	—	(933)	0.3	2.7	28.6	1.2	1.4
– non-bank financial institutions	2,110	398	20	—	2,528	(3)	(3)	(1)	—	(7)	0.1	0.8	5.0	—	0.3
Loans and advances to banks at amortised cost	1,390	—	—	—	1,390	(1)	—	—	—	(1)	0.1	—	—	—	0.1
Other financial assets measured at amortised cost	41,834	28	9	—	41,871	—	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	61,059	2,456	341	2	63,858	(27)	(14)	(19)	—	(60)	0.1	0.6	5.6	0.9	0.1
– personal	36,974	369	79	—	37,422	(6)	—	—	—	(6)	—	—	—	—	—
– corporate and commercial	23,323	2,013	261	2	25,599	(21)	(14)	(19)	—	(54)	0.1	0.7	7.3	0.9	0.2
– financial	762	74	1	—	837	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	898	142	37	—	1,077	(2)	(2)	(1)	—	(5)	0.2	1.4	2.7	—	0.5
– personal	25	—	—	—	25	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	534	114	37	—	685	(2)	(2)	(1)	—	(5)	0.4	1.8	2.7	—	0.7
– financial	339	28	—	—	367	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2019	273,532	15,803	3,566	29	292,930	(244)	(642)	(858)	—	(1,744)	0.1	4.1	24.1	1.2	0.6

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

Stage 2 days past due analysis at 31 December 2019 (continued)

(Audited)

	Gross carrying amount[1]				Allowance for ECL				ECL coverage %		
	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*	*Of which:*	Stage 2	*Of which:*	*Of which:*
		Up-to-date	*1 to 29 DPD*	*30 and > DPD*		*Up-to-date*	*1 to 29 DPD*	*30 and > DPD*		*1 to 29 DPD*	*30 and > DPD*
	£m	*£m*	*£m*	*£m*	£m		*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	13,177	*12,601*	*364*	*212*	(626)	*(535)*	*(43)*	*(48)*	4.8	*11.8*	*22.6*
– personal	4,069	*3,678*	*242*	*149*	(385)	*(309)*	*(35)*	*(41)*	9.5	*14.5*	*27.5*
– corporate and commercial	8,710	*8,525*	*122*	*63*	(238)	*(223)*	*(8)*	*(7)*	2.7	*6.6*	*11.1*
– non-bank financial institutions	398	*398*	—	—	(3)	*(3)*	—	—	0.8	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	28	*28*	—	—	—	—	—	—	—	—	—

1 *Days past due ('DPD'). Up to date accounts in Stage 2 are not shown in amounts presented above.*

Credit exposure

Maximum exposure to credit risk

(Audited)

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

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

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

Other credit risk mitigants

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

Maximum exposure to credit risk

(Audited)

	31 Dec 2020			31 Dec 2019		
	Maximum exposure	**Offset**	**Net**	Maximum exposure	Offset	Net
The group	**£m**	**£m**	**£m**	£m	£m	£m
Loans and advances to customers held at amortised cost	**191,233**	**(3,330)**	**187,903**	183,056	(3,804)	179,252
– personal	**122,796**	**—**	**122,796**	116,931	(26)	116,905
– corporate and commercial	**65,653**	**(3,200)**	**62,453**	63,604	(3,594)	60,010
– non-bank financial institutions	**2,784**	**(130)**	**2,654**	2,521	(184)	2,337
Loans and advances to banks at amortised cost	**1,514**	**—**	**1,514**	1,389	—	1,389
Other financial assets held at amortised cost	**80,627**	**—**	**80,627**	42,006	—	42,006
– cash and balances at central banks	**76,429**	**—**	**76,429**	37,030	—	37,030
– items in the course of collection from other banks	**253**	**—**	**253**	504	—	504
– reverse repurchase agreements – non-trading	**2,485**	**—**	**2,485**	3,014	—	3,014
– prepayments, accrued income and other assets	**1,460**	**—**	**1,460**	1,458	—	1,458
Derivatives	**155**	**(41)**	**114**	121	(26)	95
Total on-balance sheet exposure to credit risk	**273,529**	**(3,371)**	**270,158**	226,572	(3,830)	222,742
Total off-balance sheet	**75,744**	**—**	**75,744**	70,654	—	70,654
– financial guarantees and similar contracts	**3,246**	**—**	**3,246**	3,413	—	3,413
– loan and other credit-related commitments	**72,498**	**—**	**72,498**	67,241	—	67,241

Concentration of exposures

(Audited)

The diversification of our lending portfolio and our broad range of businesses and products ensured that we did not overly depend on any one business segment to generate growth in 2020.

Loans and advances to customers and banks held at amortised cost

The table on page 34 analyses loans and advances by industry sector to show any concentration of credit risk exposures.

Other financial assets held at amortised cost

Financial investments

Our holdings of government and government agency debt securities, corporate debt securities, asset-backed securities and other securities were spread across a range of issuers in 2020 with 95% (2019: 97%) invested in government or government agency debt securities.

Items in the course of collection from other banks

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

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

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

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

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to HSBC Group's top and emerging risks. Three of these scenarios are drawn from consensus forecasts and distributional estimates. These include a Central scenario, a Downside and an Upside scenario that represent meaningfully different outcomes from the Central. The Central scenario is created using the average of a panel of external forecasters, while consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters views of the entire range of outcomes.

Management has chosen to use a fourth scenario to represent its view of severe downside risks. The use of an additional scenario is in line with HSBC Group's FEG methodology and has been regularly used over the course of 2020. Management may include additional scenarios if it feels that the consensus scenarios do not adequately capture the top and emerging risks. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions, and may result in shocks that drive economic activity permanently away from trend.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed internally by the HSBC Group specifically for the purpose of calculating ECL.

The world economy experienced a deep economic shock in 2020, including that of the UK. As Covid-19 spread globally, the UK government and governments elsewhere sought to limit the human impact by imposing significant restrictions on mobility, in turn driving the deep falls in activity that were observed in the first half of the year. Restrictions were eased as cases declined in response to the initial measures, which supported an initial rebound in economic activity by the third quarter of 2020. This increase in mobility and emergence of the UK variant unfortunately led to renewed transmission of the virus in December 2020, placing the UK healthcare system under significant burden, leading governments to re-impose restrictions on mobility and causing economic activity to decline once more.

Economic forecasts are subject to a high degree of uncertainty in the current environment. Limitations of forecasts and economic models require a greater reliance on management judgement in addressing both the error inherent in economic forecasts and in assessing associated ECL outcomes. The scenarios used to calculate ECL in the *Annual Report and Accounts 2020* are described below.

The consensus Central scenario

HSBC UK's Central scenario features an improvement in economic growth in 2021 as activity and employment gradually return to the levels experienced prior to the outbreak of Covid-19.

Despite the sharp contraction in activity, government fiscal support played a crucial role in averting significant financial distress. At the same time, the UK government and the Bank of England implemented a variety of measures, which included lowering the main policy interest rate, implementing emergency support measures for funding markets, and either restarting or increasing quantitative easing programmes to support economies and the financial system. The UK government and the Bank of England are expected to continue to work together to ensure that households and firms receive an appropriate level of financial support until restrictions on economic activity and mobility can be materially eased. Such support intends to ensure that labour and housing markets do not experience abrupt, negative corrections and also intends to limit the extent of long term structural damage to economies.

Our Central scenario incorporates expectations that the UK government will be successful in the implementation of its large vaccination programme, first by vaccinating critical groups and then increasing coverage to include the wider population. The deployment of mass vaccination programmes marks a significant step forward in combating the virus and will ease the burden on the UK's National Healthcare Service over the course of 2021.

The key features of our Central scenario are:

- Growth in UK GDP in 2021. Economic activity will recover, supported by a successful rollout of the vaccination programme. We expect the vaccination programme, coupled with effective non-pharmacological measures to contain the virus ('track and trace' systems and restrictions to mobility) to lead to a significant decline in infections by the end of 2021.
- Government support programmes will continue to provide support to households and businesses in 2021. We expect a gradual reversion of the unemployment rate to pre-crisis levels over the course of the projection period as a result of economic recovery and due to the orderly withdrawal of fiscal support.
- Inflation will converge towards target.
- Bank of England base rate will remain at current levels for an extended period and will increase very modestly towards the end of our projection period. Bank of England will continue to provide assistance through their asset purchase programmes as needed.

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

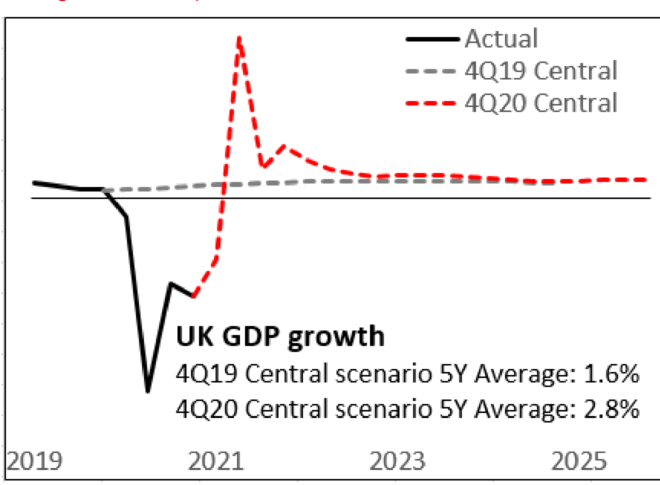
Central scenario

	Average 2021 Q1–2025 Q4	Average 2020–2024
	UK	UK
GDP growth rate (%)	2.8	1.6
Inflation (%)	N/A	2.0
Unemployment (%)	5.6	4.4
Short-term interest rate (%)	0.2	0.6
10-year Treasury bond yields (%)	N/A	1.7
House price growth (%)	1.9	3.0
Equity price growth (%)	N/A	2.8
Probability (%)	40	55

A brief graphical comparative with the Central scenario at the end of 2019 reveals the extent of economic dislocation that occurred in 2020 and the impact this has had on central projections made at the end of the year.

The emergent nature of the Covid-19 outbreak at the end of 2019 meant that, consistent with other banks, HSBC UK's Central scenario did not, on a forward-looking basis, consider the impact of the virus. Our Central scenario at the 2019 year-end projected moderate growth over a five-year horizon, with strong prospects for employment and a gradual increase in policy interest rates by the Bank of England. The onset of the virus led to a fundamental reassessment of our central forecast and the distribution of risks over the course of 2020. Our Central scenario at the end of 2020, as described above, is based on assumptions that are considerably different.

GDP growth: Comparison.



The consensus Upside scenario

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

The scenario is consistent with a number of key upside risk themes. These include the orderly and rapid global abatement of Covid-19 via successful containment and prompt deployment of a vaccine; continued support from fiscal and monetary policy and smooth relations between the UK and the EU which enables the two parties to swiftly reach a comprehensive agreement on trade and services.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario applied at 31 December 2020 and 31 December 2019.

Consensus Upside scenario

	Best outcome 2021 Q1–2025 Q4
	UK
GDP growth rate (%)	**19.9 (2Q21)**
Inflation (%)	**N/A**
Unemployment (%)	**3.7 (4Q22)**
Short-term Interest rate (%)	**0.1 (2Q22)**
10-year Treasury bond yields (%)	**N/A**
House price growth (%)	**6.9 (4Q22)**
Equity price growth (%)	**N/A**
Probability (%)	**5**

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

The Downside scenarios

2021 is expected to be a year of economic recovery, but the progression and management of the pandemic presents a key risk to global growth. A new and more contagious strain of the virus increased the transmission rate in the UK and resulted in stringent restrictions to mobility towards the year end. This viral strain observed in the UK, together with aggressive strains observed in other countries including South Africa and Brazil, introduce the risk that transmission may increase significantly in 2021 and also raise concerns around the efficacy of vaccines as the virus mutates. The UK may keep significant restrictions to mobility in place for an extended period of time and at least until critical segments of the population can be vaccinated. Further risks to international travel also arise.

A number of vaccines have been developed and approved for use at a rapid pace and plans to vaccinate significant proportions of the UK populations in 2021 are a clear positive for economic recovery. While we expect the vaccination programme to be successful, the government and National Health Service face challenges that could affect the speed and spread of vaccinations. These challenges include the logistics of vaccinating a significant proportion of the population within a limited timeframe. Supply challenges could affect the pace of roll-out, 'vaccine wars' could disrupt supply and the efficacy of vaccines is yet to be determined. Government support programmes in 2020 was supported by accommodative actions taken by the Bank of England. These measures by the UK government and the Bank of England have provided households and firms with significant support. An inability or unwillingness to continue with such support or the untimely withdrawal of support present a downside risk to growth.

The consensus Downside scenario

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

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

The following table describes key macroeconomic variables and the probabilities assigned in the Consensus Downside scenario applied at 31 December 2020 and 31 December 2019.

Downside scenario

	Worst outcome 2021 Q1–2025 Q4
	UK
GDP growth rate (%)	**(7.6) (1Q21)**
Inflation (%)	**N/A**
Unemployment (%)	**9.4 (4Q21)**
Short-term Interest rate (%)	**0.1 (1Q21)**
10-year Treasury bond yields (%)	**N/A**
House price growth (%)	**(10.8) (4Q21)**
Equity price growth (%)	**N/A**
Probability (%)	**40**

Note: extreme point in the consensus Downside is 'worst outcome' in the scenario, i.e. lowest GDP growth, highest unemployment rate etc, in first two years of the scenario (2021Q1-2022Q4).

Additional Downside scenarios for the UK

An additional Downside scenario that features a global recession has been created to reflect management's view of severe risks. Infections rise in 2021 and setbacks to vaccine programmes imply that successful roll-out of vaccines only occurs towards the end of 2021 and it takes until the end of 2022 for the pandemic to come to an end. The UK government and the Bank of England are unable to significantly increase fiscal and monetary programmes, which results in abrupt corrections in labour and asset markets.

The table below describes key macro-economic variables and the probability for the Additional Downside scenario applied at 31 December 2020:

Additional Downside scenario worst outcome

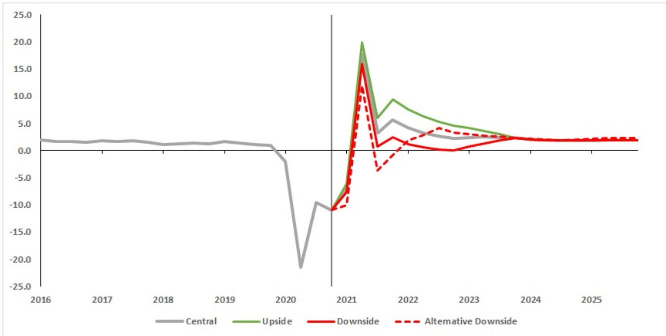
	Worst outcome 2021 Q1–2025 Q4
GDP growth rate (%)	**(10.1) (1Q21)**
Unemployment (%)	**9.8 (3Q21)**
Short-term interest rate (%)	**0.8 (2Q21)**
House price growth (%)	**(14.5) (4Q21)**
Probability (%)	**15**

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

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

The UK faces the significant economic uncertainty. In the UK, the discovery of a more infectious strain of the virus and subsequent national restrictions on activity imposed before the end of the year has resulted in considerable uncertainty in the economic outlook. Given these considerations, the Central and the consensus Downside scenario for the UK have each been assigned 40% probability. This reflects management's view that as a result of elevated uncertainty, the Central scenario cannot be viewed as the single most likely outcome. The additional Downside scenario has been assigned 15% probability to reflect the view that the balance of risks is weighted to the downside, with the remaining 5% probability weighted to the consensus Upside scenario.

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



In comparison, at 31 December 2019 three Alternative Downside scenarios were maintained reflecting management's view of the distribution of economic risks at that time. These scenarios reflected management's judgement that the consensus distribution did not adequately reflect the risks that stemmed from the UK's departure from the EU on 31 January 2020. The emergent nature of the Covid-19 outbreak at the end of 2019 meant that its impacts was not considered in any of the Alternative Downside Scenarios. The three scenarios were UK Alternative Downside 1, which reflected a long-lasting recession with a weak recovery (probability weighting 25%), UK Alternative Downside 2, a tail risk scenario involving a steep depreciation in sterling and an increase in inflation (probability weighting 5%), and UK Alternative Downside 3, a tail risk which considered the impacts of the other 2 scenarios over a longer period of time (probability weighting 5%).

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has increased during 2020 as a result of the economic effects of the Covid-19 outbreak, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a very high degree of estimation uncertainty, particularly in assessing Downside scenarios;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 outbreak. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues given muted default experience to date. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in the wholesale calculation of ECL

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

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

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

How economic scenarios are reflected in the retail calculation of ECL

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

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

Management judgemental adjustments

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

The most severe projections at 31 December 2020 of macroeconomic variables are outside the historical observations on which IFRS 9 models have been built and calibrated to operate.

Moreover, the complexities of governmental support programmes, the impacts on customer behaviours and the unpredictable pathways of the pandemic have never been modelled. Consequently, HSBC UK's IFRS 9 models, in some cases, generate outputs that appear overly sensitive when compared with other economic and credit metrics. Governmental support programmes and customer payment reliefs have dislocated the correlation between economic conditions and defaults on which models are based. Management judgemental adjustments are required to ensure that an appropriate amount of ECL impairment is recognised.

HSBC UK have internal governance in place to regularly monitor management judgemental adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. During 2020 the composition of modelled ECL and management judgemental adjustments changed significantly, reflecting the path of the pandemic, containment efforts and government support measures, and this is expected to continue to be the case until economic conditions improve. Wider-ranging model changes will take time to develop

and need more real data on which models can be developed. Models will be revisited over time once the full impacts of Covid-19 are observed. Therefore, we anticipate significant management judgemental adjustments for the foreseeable future.

Management judgemental adjustments made in estimating the reported ECL at 31 December 2020 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from the pandemic, and as a result of the regular process of model development and implementation. It shows the adjustments applicable to the scenario-weighted ECL numbers. Adjustments in relation to Downside scenarios are more significant, as results are subject to greater uncertainty.

Management judgemental adjustments to ECL[1]

	Retail £m	Wholesale £m	Total £m
Low-risk counterparties (banks, sovereigns and government entities)	–	5	5
Corporate lending adjustments	–	357	357
Retail lending PD adjustments	(569)	(256)	(825)
Retail model default suppression adjustment	977	386	1,363
Other retail lending adjustments	(61)	–	(61)
Total	347	492	839

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

During 2020, management judgemental adjustments reflected the volatile economic conditions associated with the Covid-19 pandemic.

At 31 December 2020, wholesale management judgmental adjustments were an ECL increase of £492m, comprising £362m relating to Wholesale portfolios and £130m relating to Retail SME portfolios which use Retail models. The wholesale adjustments compared with a reduction made at 30 June 2020 following an improvement in macroeconomic assumptions, with models operating closer to their calibration range and following recalibration for stressed conditions.

Adjustments to corporate exposures principally reflect the outcome of management judgments for high-risk and vulnerable sectors, supported by credit experts input, quantitative analyses and benchmarks. Considerations include potential default suppression during 2020 in some of these high risk and vulnerable sectors due to government intervention and support. This also includes adjustments to ECL on SME exposures as a result of the temporary suppression of defaults through various government programmes.

At 31 December 2020, retail management judgemental adjustments led to an ECL increase of £347m, primarily from additional ECL of £977m to reflect adjustments to the timing of default which has been delayed by government support and customer relief measures on potential defaults, notably through delaying an increase in unemployment. The retail model default suppression adjustment was applied as defaults remain temporarily suppressed due to government support and customer relief programmes which have supported stabilised portfolio performance. Retail models are reliant on the assumption that as macroeconomic conditions deteriorate, defaults will crystallise. This adjustment aligns the increase in default due to changes in economic conditions to the period of time when defaults are expected to be observed. The retail model default suppression adjustment will be monitored and updated prospectively to ensure appropriate alignment with expected performance taking into consideration the levels and timing of government support and customer relief programmes. The same judgement applied to retail SME exposures led to an ECL increase of £386m.

This was partially offset by adjustments to retail lending PD outputs of £(569)m for unintuitive model responses, primarily where economic forecasts were beyond the bounds of the model development period. The Downside unemployment forecasts were outside the historical bounds on which the model was developed resulting in unintuitive levels of PD. This adjustment reduced the sensitivity of PD in the Downside scenarios to better align with the historical correlation between changes in levels of unemployment and defaults. The same judgement applied to retail SME exposures led to an ECL decrease of £256m. Other retail lending adjustments included a decrease of £142m relating to personal loan exposures arising from modelling limitations, and an increase of £47m relating to credit card exposures reflecting higher recent loss experience. A number of other adjustments were made to address areas such as data and model limitations and impacts of customer relief.

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 ('LGD') of a particular portfolio were sensitive to these changes.

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

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impractical 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 analysis

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

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions

	2020 UK £m	2019[2] UK £m
ECL of financial instruments subject to significant measurement uncertainty at 31 Dec[1]		
Reported ECL	**1,237**	430
Consensus scenarios		
Central scenario	**914**	320
Upside scenario	**613**	286
Downside scenario	**1,359**	378
Alternative scenarios		
UK additional Downside scenario[3]	**2,238**	580
Tail risk scenarios (UK alternative Downside scenarios 2 and 3)	**N/A**	1,008-1,115

1 *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
2 *ECL sensitivities for 2019 exclude portfolios utilising less complex modelling approaches and management judgemental adjustments only included in Reported ECL.*
3 *The Alternative Downside ('AD') scenario used for 2019 had an ECL impact of £634m with AD2 and AD3 scenarios with ECL impacts of £1,213m and £1,097m respectively.*

At 31 December 2020, the higher sensitivity is largely driven by the more severe impacts of the downside scenarios relative to the central and probability weighted scenarios.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2020 UK £m	2019 UK £m
ECL of loans and advances to customers at 31 Dec[2]		
Reported ECL	**1,429**	708
Consensus scenarios		
Central scenario	**1,283**	584
Upside scenario	**903**	519
Downside scenario	**1,561**	694
Alternative scenarios		
UK additional Downside scenario[3]	**1,810**	910
Tail risk scenarios (UK alternative Downside scenarios 2 and 3)	**N/A**	1,138-1,297

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*
2 *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied.*
3 *The alternative downside scenario was used for 2019.*

Mortgages reflected the lowest level of ECL sensitivity across most markets as collateral values remain resilient. Credit cards and other unsecured lending are more sensitive to economic forecasts, which have deteriorated in 2020 due to the Covid-19 pandemic.

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

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

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

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

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

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

(Audited)

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

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

1 *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2020, these amounted to £0.6bn (2019: £0.8bn) and were classified as Stage 1 with no ECL.*

Credit quality of financial instruments

(Audited)

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

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 29.

Distribution of financial instruments by credit quality

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satis-factory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**112,291**	**27,119**	**41,784**	**9,641**	**3,591**	**194,426**	**(3,193)**	**191,233**
– personal	**104,776**	**7,875**	**8,682**	**1,709**	**1,203**	**124,245**	**(1,449)**	**122,796**
– corporate and commercial	**6,449**	**18,857**	**32,071**	**7,619**	**2,358**	**67,354**	**(1,701)**	**65,653**
– non-bank financial institutions	**1,066**	**387**	**1,031**	**313**	**30**	**2,827**	**(43)**	**2,784**
Loans and advances to banks held at amortised cost	**1,515**	**—**	**—**	**—**	**—**	**1,515**	**(1)**	**1,514**
Cash and balances at central banks	**76,429**	**—**	**—**	**—**	**—**	**76,429**	**—**	**76,429**
Items in the course of collection from other banks	**253**	**—**	**—**	**—**	**—**	**253**	**—**	**253**
Reverse repurchase agreements – non-trading	**2,485**	**—**	**—**	**—**	**—**	**2,485**	**—**	**2,485**
Other assets	**1,072**	**73**	**152**	**1**	**21**	**1,319**	**(2)**	**1,317**
– endorsements and acceptances	**1**	**32**	**24**	**1**	**—**	**58**	**—**	**58**
– accrued income and other	**1,071**	**41**	**128**	**—**	**21**	**1,261**	**(2)**	**1,259**
Debt instruments measured at fair value through other comprehensive income[1]	**18,844**	**—**	**—**	**—**	**—**	**18,844**	**(6)**	**18,838**
Out-of-scope for IFRS 9								
Derivatives	**111**	**29**	**14**	**1**	**—**	**155**	**—**	**155**
Total gross carrying amount on balance sheet	**213,000**	**27,221**	**41,950**	**9,643**	**3,612**	**295,426**	**(3,202)**	**292,224**
Percentage of total credit quality	**72.1%**	**9.2%**	**14.2%**	**3.3%**	**1.2%**	**100.0%**	**—**	**—**
Loan and other credit related commitments	**33,954**	**20,545**	**13,615**	**1,815**	**286**	**70,215**	**(190)**	**70,025**
Financial guarantees	**338**	**183**	**319**	**70**	**25**	**935**	**(17)**	**918**
In-scope: Irrecoverable loan commitments and financial guarantees	**34,292**	**20,728**	**13,934**	**1,885**	**311**	**71,150**	**(207)**	**70,943**
Loan and other credit related commitments	**161**	**569**	**1,644**	**85**	**14**	**2,473**	**—**	**2,473**
Performance and other guarantees	**211**	**895**	**914**	**258**	**64**	**2,342**	**(15)**	**2,327**
Out-of-scope: Revocable loan commitments and Non-financial guarantees	**372**	**1,464**	**2,558**	**343**	**78**	**4,815**	**(15)**	**4,800**
Total nominal amount off balance sheet	**34,664**	**22,192**	**16,492**	**2,228**	**389**	**75,965**	**(222)**	**75,743**
At 31 Dec 2020	**247,664**	**49,413**	**58,442**	**11,871**	**4,001**	**371,391**	**(3,424)**	**367,967**
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	111,802	29,968	35,518	4,600	3,206	184,734	(1,678)	183,056
– personal	104,316	6,339	5,400	412	1,202	117,669	(738)	116,931
– corporate and commercial	6,905	23,002	28,614	4,032	1,984	64,537	(933)	63,604
– non-bank financial institutions	581	627	1,144	156	20	2,528	(7)	2,521
Loans and advances to banks held at amortised cost	1,385	—	5	—	—	1,390	(1)	1,389
Cash and balances at central banks	37,030	—	—	—	—	37,030	—	37,030
Items in the course of collection from other banks	504	—	—	—	—	504	—	504
Reverse repurchase agreements – non-trading	3,014	—	—	—	—	3,014	—	3,014
Other assets	1,063	110	141	—	9	1,323	—	1,323
– endorsements and acceptances	6	52	13	—	—	71	—	71
– accrued income and other	1,057	58	128	—	9	1,252	—	1,252
Debt instruments measured at fair value through other comprehensive income[1]	19,580	—	—	—	—	19,580	(1)	19,579
Out-of-scope for IFRS 9								
Derivatives	84	30	6	1	—	121	—	121
Total gross carrying amount on balance sheet	174,462	30,108	35,310	4,601	3,215	247,696	(1,680)	246,016
Percentage of total credit quality	70.40%	12.20%	14.20%	1.90%	1.30%	100.00%	—	—
Loan and other credit related commitments	36,988	15,950	10,009	568	343	63,858	(60)	63,978
Financial guarantees	381	295	315	49	37	1,077	(5)	1,072
In-scope: Irrecoverable loan commitments and financial guarantees	37,369	16,245	10,324	617	380	64,935	(65)	64,870
Loan and other credit related commitments	429	1,587	1,233	163	32	3,444	—	3,444
Performance and other guarantees	487	903	788	142	31	2,351	(9)	2,342
Out-of-scope: Revocable loan commitments and Non-financial guarantees	916	2,490	2,021	305	63	5,795	(9)	5,786
Total nominal amount off balance sheet	38,285	18,735	12,345	922	443	70,730	(74)	70,656
At 31 Dec 2019	212,747	48,843	47,655	5,523	3,658	318,426	(1,754)	316,672

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

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	**112,291**	**27,119**	**41,784**	**9,641**	**3,591**	**194,426**	**(3,193)**	**191,233**
– Stage 1	**111,587**	**24,532**	**25,301**	**613**	**—**	**162,033**	**(467)**	**161,566**
– Stage 2	**704**	**2,587**	**16,483**	**9,028**	**—**	**28,802**	**(1,651)**	**27,151**
– Stage 3	**—**	**—**	**—**	**—**	**3,555**	**3,555**	**(1,053)**	**2,502**
– POCI	**—**	**—**	**—**	**—**	**36**	**36**	**(22)**	**14**
Loans and advances to banks at amortised cost	**1,515**	**—**	**—**	**—**	**—**	**1,515**	**(1)**	**1,514**
– Stage 1	**1,514**	**—**	**—**	**—**	**—**	**1,514**	**(1)**	**1,513**
– Stage 2	**1**	**—**	**—**	**—**	**—**	**1**	**—**	**1**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**80,239**	**73**	**152**	**1**	**21**	**80,486**	**(2)**	**80,484**
– Stage 1	**80,239**	**71**	**101**	**—**	**—**	**80,411**	**(2)**	**80,409**
– Stage 2	**—**	**2**	**51**	**1**	**—**	**54**	**—**	**54**
– Stage 3	**—**	**—**	**—**	**—**	**20**	**20**	**—**	**20**
– POCI	**—**	**—**	**—**	**—**	**1**	**1**	**—**	**1**
Loan and other credit-related commitments	**33,954**	**20,545**	**13,615**	**1,815**	**286**	**70,215**	**(190)**	**70,025**
– Stage 1	**33,914**	**20,083**	**9,284**	**162**	**—**	**63,443**	**(81)**	**63,362**
– Stage 2	**40**	**462**	**4,331**	**1,653**	**—**	**6,486**	**(70)**	**6,416**
– Stage 3	**—**	**—**	**—**	**—**	**285**	**285**	**(38)**	**247**
– POCI	**—**	**—**	**—**	**—**	**1**	**1**	**(1)**	**—**
Financial guarantees	**338**	**183**	**319**	**70**	**25**	**935**	**(17)**	**918**
– Stage 1	**338**	**169**	**155**	**12**	**—**	**674**	**(7)**	**667**
– Stage 2	**—**	**14**	**164**	**58**	**—**	**236**	**(7)**	**229**
– Stage 3	**—**	**—**	**—**	**—**	**25**	**25**	**(3)**	**22**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**228,337**	**47,920**	**55,870**	**11,527**	**3,923**	**347,577**	**(3,403)**	**344,174**
Debt instruments at FVOCI[1]	**18,844**	**—**	**—**	**—**	**—**	**18,844**	**(6)**	**18,838**
– Stage 1	**18,844**	**—**	**—**	**—**	**—**	**18,844**	**(6)**	**18,838**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**18,844**	**—**	**—**	**—**	**—**	**18,844**	**(6)**	**18,838**
Loans and advances to customers at amortised cost	111,802	29,968	35,158	4,600	3,206	184,734	(1,678)	183,056
– stage 1	111,521	28,609	27,314	610	—	168,351	(214)	168,137
– stage 2	281	1,062	7,844	3,990	—	13,177	(626)	12,551
– stage 3	—	—	—	—	3,179	3,179	(838)	2,341
– POCI	—	—	—	—	27	27	—	27
Loans and advances to banks at amortised cost	1,385	—	5	—	—	1,390	(1)	1,389
– stage 1	1,385	—	5	—	—	1,390	(1)	1,389
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	41,611	110	141	—	9	41,871	—	41,871
– stage 1	41,610	109	115	—	—	41,834	—	41,834
– stage 2	1	1	26	—	—	28	—	28
– stage 3	—	—	—	—	9	9	—	9
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	36,988	15,950	10,009	568	343	63,858	(60)	63,798
– stage 1	36,859	15,785	8,304	111	—	61,059	(27)	61,032
– stage 2	129	165	1,705	457	—	2,456	(14)	2,442
– stage 3	—	—	—	—	341	341	(19)	322
– POCI	—	—	—	—	2	2	—	2
Financial guarantees	381	295	315	49	37	1,077	(5)	1,072
– stage 1	381	288	206	23	—	898	(2)	896
– stage 2	—	7	109	26	—	142	(2)	140
– stage 3	—	—	—	—	37	37	(1)	36
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	192,167	46,323	45,628	5,217	3,595	292,930	(1,744)	291,186
Debt instruments at FVOCI[1]								
– stage 1	19,580	—	—	—	—	19,580	(1)	19,579
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2019	19,580	—	—	—	—	19,580	(1)	19,579

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

Credit-impaired loans

(Audited)

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

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

Renegotiated loans and forbearance

The following table shows the gross carrying amounts of the group's holdings of renegotiated loans and advances to customers by industry sector and by stages. Wholesale renegotiated loans are classified as Stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans are deemed to remain credit-impaired until repayment or derecognition. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans. For details on customer relief schemes see page 30.

A summary of our current policies and practices for renegotiated loans and forbearance is set out in 'Credit risk management' on page 28.

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

	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	**–**	**–**	**545**	**–**	**545**
– first lien residential mortgages	**–**	**–**	**382**	**–**	**382**
– other personal lending	**–**	**–**	**163**	**–**	**163**
Wholesale	**189**	**206**	**827**	**36**	**1,258**
– corporate and commercial	**186**	**202**	**827**	**36**	**1,251**
– non-bank financial institutions	**3**	**4**	**–**	**–**	**7**
At 31 Dec 2020	**189**	**206**	**1,372**	**36**	**1,803**
Allowance for ECL					
Personal	**–**	**–**	**(120)**	**–**	**(120)**
– first lien residential mortgages	**–**	**–**	**(24)**	**–**	**(24)**
– other personal lending	**–**	**–**	**(96)**	**–**	**(96)**
Wholesale	**(7)**	**(6)**	**(133)**	**(22)**	**(168)**
– corporate and commercial	**(7)**	**(6)**	**(133)**	**(22)**	**(168)**
– non-bank financial institutions	**–**	**–**	**–**	**–**	**–**
At 31 Dec 2020	**(7)**	**(6)**	**(253)**	**(22)**	**(288)**
Gross carrying amount					
Personal	–	–	472	–	472
– first lien residential mortgages	–	–	326	–	326
– other personal lending	–	–	146	–	146
Wholesale	292	354	915	27	1,588
– corporate and commercial	292	354	909	27	1,582
– non-bank financial institutions	–	–	6	–	6
At 31 Dec 2019	292	354	1,387	27	2,060
Allowance for ECL					
Personal	–	–	(87)	–	(87)
– first lien residential mortgages	–	–	(31)	–	(31)
– other personal lending	–	–	(56)	–	(56)
Wholesale	(1)	(24)	(277)	–	(302)
– corporate and commercial	(1)	(24)	(277)	–	(302)
– non-bank financial institutions	–	–	–	–	–
At 31 Dec 2019	(1)	(24)	(364)	–	(389)

Wholesale lending

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

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

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

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

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

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

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

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

Commercial real estate

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

Commercial real estate lending

	2020	2019
	£m	£m
Gross loans and advances		
Stage 1	**10,689**	12,094
Stage 2	**2,949**	1,986
Stage 3	**516**	716
POCI	**—**	—
At 31 Dec	**14,154**	14,796
– *of which: renegotiated loans*	***453***	*589*
Allowance for ECL	**(303)**	(226)

Refinance risk in commercial real estate

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

Commercial real estate gross loans and advances maturity analysis

	2020	2019
	£m	£m
< 1 year	**7,818**	7,775
1-2 years	**3,308**	3,661
2-5 years	**2,185**	3,057
> 5 years	**843**	303
At 31 Dec	**14,154**	14,796

Collateral and other credit enhancement held

(Audited)

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

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

Collateral on loans and advances

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

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

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 93.

Commercial real estate loans and advances

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

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

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

(Audited)

	2020		2019	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Not collateralised	**4,191**	**0.6**	4,143	0.1
Fully collateralised	**9,036**	**0.2**	12,742	—
LTV ratio:				
– less than 50%	**2,605**	**0.2**	4,469	0.1
– 51% to 75%	**4,891**	**0.2**	6,682	—
– 76% to 90%	**1,359**	**0.2**	1,247	0.1
– 91% to 100%	**181**	**0.2**	344	0.1
Partially collateralised (A):	**1,003**	**0.2**	411	0.1
– *collateral value on A*	***656***		*373*	
Total	**14,230**	**0.3**	17,296	0.1
Stage 2				
Not collateralised	**2,238**	**1.8**	1,296	1.2
Fully collateralised	**1,709**	**0.6**	840	1.4
LTV ratio:				
– less than 50%	**774**	**0.4**	416	2.0
– 51% to 75%	**656**	**0.7**	355	0.7
– 76% to 90%	**256**	**0.8**	12	6.0
– 91% to 100%	**23**	**2.3**	57	0.7
Partially collateralised (B):	**522**	**0.8**	224	0.2
– *collateral value on B*	***180***		*42*	
Total	**4,469**	**1.2**	2,360	1.2
Stage 3				
Not collateralised	**291**	**52.3**	49	92.4
Fully collateralised	**233**	**10.1**	305	12.7
LTV ratio:				
– less than 50%	**41**	**5.5**	32	6.2
– 51% to 75%	**73**	**15.8**	52	4.0
– 76% to 90%	**101**	**5.9**	54	4.6
– 91% to 100%	**18**	**19.9**	167	19.3
Partially collateralised (C):	**143**	**27.6**	383	27.9
– *collateral value on C*	***88***		*126*	
Total	**667**	**32.2**	737	25.9
POCI				
Not collateralised	**—**	**—**	—	—
Fully collateralised	**—**	**—**	—	—
LTV ratio:				
– less than 50%	**—**	**—**	—	—
– 51% to 75%	**—**	**—**	—	—
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**—**	**—**	—	—
Partially collateralised (D):	**—**	**—**	—	—
– *collateral value on D*	**—**		—	
Total	**—**	**—**	—	—
At 31 Dec	**19,366**	**1.6**	20,393	1.1

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

(Audited)

	2020		2019	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Rated CRR/ PD1 to 7				
Not collateralised	**6,419**	**1.0**	5,437	0.3
Fully collateralised	**10,693**	**0.2**	13,524	0.1
Partially collateralised (A):	**1,524**	**0.3**	630	0.1
– *collateral value on A*	***835***		*411*	
Total	**18,636**	**0.5**	19,591	0.2
Rated CRR/ PD 8				
Not collateralised	**11**	**7.1**	2	8.5
Fully collateralised	**51**	**4.5**	58	7.6
LTV ratio:				
– less than 50%	**11**	**9.3**	21	13.2
– 51% to 75%	**29**	**2.2**	18	4.7
– 76% to 90%	**4**	**14.7**	11	4.7
– 91% to 100%	**7**	**1.7**	8	3.0
Partially collateralised (B):	**1**	**52.0**	5	3.0
– *collateral value on B*	***1***		*4*	
Total	**63**	**5.9**	65	7.2
Rated CRR/ PD9 to 10				
Not collateralised	**291**	**52.3**	49	92.4
Fully collateralised	**233**	**10.1**	305	12.7
LTV ratio:				
– less than 50%	**41**	**5.5**	32	6.2
– 51% to 75%	**73**	**15.8**	52	4.0
– 76% to 90%	**101**	**5.9**	54	4.6
– 91% to 100%	**18**	**19.9**	167	19.3
Partially collateralised (C):	**143**	**27.6**	383	27.9
– *collateral value on C*	***88***		*126*	
Total	**667**	**32.2**	737	25.9
At 31 Dec	**19,366**	**1.6**	20,393	1.1

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

(Audited)

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

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

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

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

(Audited)

	2020		2019	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	£m	%	£m	%
Stage 1				
Not collateralised	40,112	0.6	40,356	0.3
Fully collateralised	12,435	0.4	18,775	0.1
LTV ratio:				
– less than 50%	4,377	0.3	8,000	0.1
– 51% to 75%	5,220	0.4	6,918	0.1
– 76% to 90%	1,654	0.4	2,312	0.2
– 91% to 100%	1,184	0.4	1,545	0.1
Partially collateralised (A):	4,940	0.5	5,809	0.1
– *collateral value on A*	*2,549*		*2,679*	
Total	57,487	0.6	64,940	0.2
Stage 2				
Not collateralised	15,016	3.7	7,164	2.4
Fully collateralised	6,192	2.2	1,751	2.2
LTV ratio:				
– less than 50%	1,503	1.6	659	2.4
– 51% to 75%	3,916	2.3	717	2.0
– 76% to 90%	342	3.2	196	2.3
– 91% to 100%	431	2.0	179	2.0
Partially collateralised (B):	2,831	2.7	1,117	1.4
– *collateral value on B*	*1,242*		*279*	
Total	24,039	3.2	10,032	2.3
Stage 3				
Not collateralised	1,305	27.8	994	29.4
Fully collateralised	276	11.7	295	15.4
LTV ratio:				
– less than 50%	109	8.3	58	22.3
– 51% to 75%	116	13.8	148	8.5
– 76% to 90%	37	6.9	52	29.7
– 91% to 100%	14	31.3	37	12.2
Partially collateralised (C):	335	25.7	234	22.3
– *collateral value on C*	*207*		*115*	
Total	1,916	25.1	1,523	25.6
POCI				
Not collateralised	37	(60.9)	–	–
Fully collateralised	–	–	–	–
LTV ratio:				
– less than 50%	–	–	–	–
– 51% to 75%	–	–	–	–
– 76% to 90%	–	–	–	–
– 91% to 100%	–	–	–	–
Partially Collateralised (D):	–	–	29	1.2
– *collateral value on D*	–		*2*	
Total	37	60.9	29	1.2
At 31 Dec	83,479	1.9	76,524	1.0

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

(Audited)

	2020		2019	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	£m	%	£m	%
Rated CRR/ PD 8				
Not collateralised	654	8.9	208	12.9
Fully collateralised	121	9.5	77	4.9
LTV ratio:				
– less than 50%	17	13.3	29	5.9
– 51% to 75%	63	6.7	25	6.1
– 76% to 90%	10	21.5	21	2.4
– 91% to 100%	31	9.3	2	2.2
Partially collateralised (A):	127	9.1	40	4.9
– *collateral value on A*	*61*		*25*	
Total	*902*	*9.0*	325	10.1
Rated CRR/ PD9 to 10				
Not collateralised	1,342	28.7	994	29.4
Fully collateralised	276	11.7	295	15.4
LTV ratio:				
– less than 50%	109	8.3	58	22.3
– 51% to 75%	116	13.8	148	8.5
– 76% to 90%	37	6.9	52	29.8
– 91% to 100%	14	31.3	37	12.3
Partially collateralised (B):	335	25.7	263	20.0
– *collateral value on B*	*207*		*117*	
Total	*1,953*	*25.8*	1,552	25.1
At 31 Dec	2,855	20.5	1,877	22.5

Other credit risk exposures

(Audited)

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

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

Personal lending

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

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

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

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

	Nominal amount				Allowance for ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2020	**39,464**	**302**	**67**	**39,833**	**(15)**	**(1)**	**—**	**(16)**

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	99,197	1,387	880	101,464	(12)	(14)	(92)	(118)
– *of which: interest only (including offset)*	*19,480*	*980*	*143*	*20,603*	*(4)*	*(9)*	*(17)*	*(30)*
Other personal lending	13,201	2,682	322	16,205	(64)	(371)	(185)	(620)
– other	7,383	1,287	163	8,833	(36)	(159)	(99)	(294)
– credit cards	5,818	1,395	159	7,372	(28)	(212)	(86)	(326)
At 31 Dec 2019	112,398	4,069	1,202	117,669	(76)	(385)	(277)	(738)

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

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 Dec 2019	36,999	369	79	37,447	(6)	—	—	(6)

Mortgage lending

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

We have continued see net growth in our Mortgage business of £9.2bn in 2020. We have maintained strong presence in the market through 2020 while, where appropriate, strengthening our affordability controls and credit policy to reflect the more uncertain economic outlook.

The quality of our mortgage book remained high, with negligible defaults and impairment allowances. The average LTV ratio on new lending was 70%, compared with an estimated 51% for the overall mortgage portfolio.

Exposure to interest-only mortgage loans

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

The exposure of interest-only mortgage loans at the end of 2020 is of £11bn and the profile of maturing is as follows:

HSBC interest-only mortgage loans

	£m
Matured interest-only mortgage loans[1]	**124**
Interest-only mortgage loans by maturity	
– 2021	**261**
– 2022	**287**
– 2023	**366**
– 2024	**298**
– 2025–2029	**2,429**
– post 2029	**7,261**
At 31 Dec 2020	**11,026**

1 *Includes interest-only mortgages which have reached their contractual maturity date, but were unsettled at the end of 2020.*

At the end of 2020, the average LTV ratio of the interest-only mortgage loans was 41%, and 99% had a LTV ratio of 75% or less.

Of the interest-only mortgage loans that expired in 2018, 89% were repaid within 12 months of expiry with a total of 98% being repaid within 24 months of expiry. For those expiring during 2019, 89% were fully repaid within 12 months of expiry.

Exposure to offset mortgage in first direct

The offset mortgage in first direct is a flexible way for our customers to take control of their finances. It works by grouping together the customer's mortgage, savings and current accounts to off-set their credit and debit balances against their mortgage exposure which at the end of 2020 is of £6.3bn with an average LTV ratio of 37%.

Collateral and other credit enhancements held

(Audited)

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

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

(Audited)

	2020		2019	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Fully collateralised	**114,109**	**—**	105,857	—
LTV ratio:				
– less than 50%	**55,036**	**—**	52,213	—
– 51% to 60%	**17,260**	**—**	16,292	—
– 61% to 70%	**16,807**	**—**	14,796	—
– 71% to 80%	**15,053**	**—**	13,131	—
– 81% to 90%	**9,365**	**—**	8,289	—
– 91% to 100%	**588**	**0.1**	1,136	—
Partially collateralised (A):	**203**	**0.1**	243	—
LTV ratio:				
– 101% to 110%	**62**	**0.3**	67	0.1
– 111% to 120%	**31**	**—**	36	—
– greater than 120%	**110**	**—**	140	—
– *collateral value on A*	***150***		*174*	
Total	**114,312**	**—**	106,100	—
Stage 2				
Fully collateralised	**3,063**	**1.4**	1,426	0.9
LTV ratio:				
– less than 50%	**1,771**	**1.2**	852	0.7
– 51% to 60%	**531**	**1.3**	169	1.4
– 61% to 70%	**444**	**1.3**	197	1.2
– 71% to 80%	**179**	**2.9**	175	1.0
– 81% to 90%	**101**	**3.7**	27	2.9
– 91% to 100%	**37**	**2.5**	6	1.1
Partially collateralised (B):	**4**	**2.6**	17	1.7
LTV ratio:				
– 101% to 110%	**3**	**0.9**	15	1.3
– 111% to 120%	**—**	**0.5**	1	3.6
– greater than 120%	**1**	**6.3**	1	4.6
– *collateral value on B*	***3***		*15*	
Total	**3,067**	**1.4**	1,443	0.9
Stage 3				
Fully collateralised	**757**	**12.3**	876	9.9
LTV ratio:				
– less than 50%	**488**	**10.9**	527	7.8
– 51% to 60%	**102**	**15.1**	119	10.0
– 61% to 70%	**82**	**12.8**	102	10.6
– 71% to 80%	**58**	**13.7**	74	19.1
– 81% to 90%	**21**	**22.3**	36	12.1
– 91% to 100%	**6**	**18.2**	18	25.3
Partially collateralised (C):	**12**	**20.0**	19	27.2
LTV ratio:				
– 101% to 110%	**7**	**16.7**	8	19.6
– 111% to 120%	**3**	**18.5**	5	21.7
– greater than 120%	**2**	**33.5**	6	42.9
– *collateral value on C*	***7***		*18*	
Total	**769**	**12.4**	895	10.3
At 31 Dec	**118,148**	**0.1**	108,438	0.1

Treasury risk

Overview

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

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

Approach and Policy

(Audited)

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

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

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

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

Treasury Risk Management

Key developments in 2020

In 2020, we established the Treasury Risk Management function. This function is a dedicated second line of defence, providing independent oversight of treasury activities across capital risk, liquidity and funding risk, structural foreign exchange risk, interest rate risk in the banking book together with pension risk. The approach to treasury risk management is evolving. This will operate across the group focusing on both adequacy of capital and sufficiency of returns.

The Covid-19 outbreak has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures related to customer support, operational capacity and to the RWA, capital and liquidity frameworks.

In the EU, the measures included a package known as the 'CRR Quick Fix' that was enacted in June 2020. This implemented some of the beneficial elements of the CRR II, which were originally scheduled for June 2021, together with other amendments to mitigate any undue volatility in capital ratios arising from the outbreak. This included the amended transitional provisions on the regulatory capital treatment of IFRS 9, the revised small-and medium-sized enterprise ('SME') and infrastructure supporting factors, and changes to the capital treatment of software assets. In large part, the package came into effect in 2020 and therefore has been transposed into UK law, following the UK's withdrawal from the EU.

While the PRA confirmed in December 2020 that the revised treatment of software assets had been onshored into UK law, it also announced its intention to consult in 2021 on a reversal of the changes. It has recommended that firms not base their distribution decisions on any capital increase from applying the new rules.

Throughout 2020, we complied with the PRAs regulatory capital adequacy requirements, including those relating to stress testing.

During 2020 we worked with the fiduciaries of our pension plan to ensure robust and timely actions were taken in response to the Covid-19 outbreak, including the smooth transition to remote working for plan providers and dealing appropriately with affected plan members. Our de-risking programme provided protection against the volatility in financial markets that resulted from the outbreak's economic impact.

For further details, refer to our Pillar 3 Disclosures at 31 December 2020.

Governance and structure

Capital and liquidity are the responsibility of the Executive Committee and directly addressed by HSBC UK Board. Treasury risks are managed through the Asset and Liability Committee ('ALCO') and overseen by the Risk Management Meeting ('RMM').

The Asset, Liability and Capital Management ('ALCM') function is responsible for managing interest rate risk in the banking book ('IRRBB'). It maintains the transfer pricing framework and informs ALCO of the overall banking book interest rate risk exposure. Banking book interest rate positions may be transferred to be managed by the Markets Treasury business, previously known as Balance Sheet Management, within the market risk limits approved by the RMM. Effective governance of Markets Treasury is supported by the dual reporting lines it has to the Chief Executive Officer of GBM and to the Group Treasurer, with Risk acting as a second line of defence.

Pension risk is managed by a network of regional pension risk forums. The UK Scheme Pension Oversight Forum, which is chaired by the HSBC UK Chief Risk Officer, is responsible for the governance and oversight of all pension plans sponsored by HSBC UK.

The HBUK section of the HSBC Bank (UK) Pension Scheme is an occupational pension scheme as defined by the Pension Schemes Act 1993. It is set up under trust and the assets are held separately to those of HSBC UK. It is regulated by the Pensions Regulator.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

We aim to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our strategy, meeting capital requirements at all times. Our capital management policy is underpinned by a capital management framework and our ICAAP. The framework incorporates key capital risk appetites for CET1, tier 1 capital, total capital, minimum requirements for own funds and eligible liabilities ('MREL'). The ICAAP is an assessment of HSBC UK's capital position, outlining both regulatory and internal capital resources and requirements resulting from the business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange and interest rate risk in the banking book.

We maintain a comprehensive liquidity and funding risk management framework ('LFRF'), which aims to enable us to withstand very severe liquidity stresses. The LFRF comprises policies, metrics and controls designed to ensure that management have oversight of our liquidity and funding risks in to manage them appropriately.

We manage liquidity and funding risk to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP which ensures we have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time

horizons, including intraday. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses our capability to effectively manage liquidity and funding. 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 LFRF across the group.

Planning and performance

Capital and risk-weighted asset ('RWA') plans form part of the annual operating plan that is approved by the Board. Capital and RWA forecasts are submitted to 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 the our management's objectives. We evaluate and manage business returns by using a return on average tangible equity measure.

Funding and liquidity plans form part of the annual operating plan that is approved by the Board with the Board level appetite measures being the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'). An appropriate funding and liquidity profile is managed through a wider set of measures:

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

The LCR and NSFR metrics are to be supplemented by an internal liquidity metric in 2021.

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs and/or capital position. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary. We closely monitor and consider future regulatory change. We continue to evaluate the impact upon our capital requirements of regulatory developments, including the amendments to the Capital Requirements Regulation, the Basel III reforms package, as well as the increase in geopolitical risk namely the UK's withdrawal from the EU.

The Basel Committee has recommended a one-year delay in effective date, which means Basel III reforms are now expected to impact from 1 January 2023.

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

There remains a significant degree of uncertainty in the impact due to the number of national discretions within Basel's reforms, the need for further supporting technical standards to be developed and the lack of clarity regarding their implementation following the UK's withdrawal from the EU. Furthermore, the impact does not take into consideration the possibility of offsets against Pillar 2, which may arise as the shortcomings within Pillar 1 are addressed.

To address concerns about the variability and comparability of the capital requirements under the IRB Approach to credit risk, the EU has undertaken a review of the requirements and proposed a series of changes to the framework. This includes changes to the definition of default and to the methodologies for risk parameter estimation. Broadly, these changes are being implemented in the UK and will take effect from 1 January 2022.

In September 2020, the PRA published a consultation to introduce risk-weight floors for UK mortgages subject to the IRB approach. The PRA has proposed that each individual mortgage should be subject to a 7% risk-weight floor. In addition, there will an exposure-weighted average portfolio risk-weight of at least 10% for all IRB UK residential mortgage exposures. The PRA is also proposing to implement the changes from 1 January 2022.

Further details can be found in the 'Regulatory developments' section of our Pillar 3 Disclosures at December 2020.

Stress testing and recovery planning

We use stress testing to evaluate the robustness of plans and risk portfolios, inform the ILAAP and support recovery planning as well as meeting the requirements for stress testing set out by regulators. It is an important exercise that is used to evaluate how much funding and liquidity we require in setting risk appetite.

We maintain contingency plans that can be enacted in the event of internal or external triggers which threaten the liquidity, capital or funding position. We also have established recovery plans addressing the actions that management would consider taking in a stress scenario if the position deteriorates and threatens to breach risk appetite and regulatory minimum levels. These plans set out a range of appropriate actions which could feasibly be executed in a stressed environment to strengthen the group's liquidity, capital and funding position.

During 2020, in light of the Covid-19 outbreak, we carried out additional internal testing on baseline and stressed scenarios. The results of these stress tests were considered in determining capital actions to manage the group's position.

Additionally, further stress testing was carried out to include scenarios relating to the impact of the UK's withdrawal from the EU.

Measurement of interest rate risk in the banking book processes

Assessment and risk appetite

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

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

- net interest income ('NII') sensitivity;
- economic value of equity ('EVE') sensitivity; and
- Hold-to-Collect and Sell Stressed Value at Risk ('SVaR').

NII sensitivity

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

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

or in the business that originates the risk to mitigate the effect of interest rate movements.

The NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the 'down-shock' scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable. This is a change from the NII sensitivity methodology applied in the Annual Report and Accounts 2019, where market rates were floored to zero, unless the central bank rate was already negative as in the case of the euro.

EVE Sensitivity

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

Hold-to-Collect and Sell SVaR

Hold-to-collect and Sell SVaR is a quantification of the potential losses to a 99% confidence level of the portfolio of securities and derivatives held under a Hold to Collect and Sell business model in the Markets Treasury business and 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 one-year period going back to the beginning of 2007 and the assumed holding period is 60 days.

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

Other group risks

Structural foreign exchange exposures

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

The group does not have investments in subsidiaries in non-sterling currencies.

Pension risk management process

Pension risk is the risk of increased costs to HSBC UK from offering post-employment benefit plans to its employees.

Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk also includes the operational and reputational risk of sponsoring pension plans.

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

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

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

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

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

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

The defined benefit plan invests contributions in a range of investments designed to limit the risk of assets failing to meet the plan's liabilities. In pursuit of these long-term objectives, an overall target allocation of the defined benefit plan assets between asset classes is established. Bonds and derivatives, comprising 98% of the Scheme's investments as at 31 December 2020, are allocated to match expected benefit outflows so as to reduce interest, inflation and currency risk. Each permitted asset class has its own benchmarks, such property valuation indices or liability characteristics. Any changes in expected returns from the investments may also change future contribution requirements.

The benchmarks are reviewed on a manager by manager basis at least once every three to five years and more frequently if required by circumstances. The process takes account of changes in the plan's liabilities. The most significant benchmark is the interest rate and inflation hedging programme and this was last reviewed during 2019. The assets are invested in a diverse range of assets to reduce any concentrations of risk.

In addition, the defined benefit plan holds longevity swap contracts with The Prudential Insurance Company of America ('PICA') a subsidiary of Prudential Financial, Inc. and with Swiss Re. The arrangements provide long term protection to the defined benefit plan against costs resulting from pensioners or their dependants living longer than initially expected and at inception covered approximately three-quarters of the pensioner liabilities (50% with PICA and 25% with Swiss Re).

Capital risk in 2020

Capital overview

Capital adequacy metrics

	Footnotes	At 31 Dec 2020	2019
Available capital (£m)	1		
Common equity tier 1 capital		**12,963**	11,202
Tier 1 capital		**15,197**	13,453
Total regulatory capital		**18,171**	16,462
Risk-weighted assets (£m)			
Credit risk	2	**74,690**	75,353
Counterparty credit risk		**122**	198
Market risk		**156**	27
Operational risk		**10,509**	10,303
Total risk-weighted assets		**85,477**	85,881
Capital ratios (%)			
Common equity tier 1		**15.2**	13.0
Total tier 1		**17.8**	15.7
Total capital		**21.3**	19.2
Leverage ratio			
Total leverage ratio exposure measure (£m)		**317,196**	268,271
Leverage ratio (%)		**4.8**	5.0

1 *Unless otherwise stated, all figures are calculated using the EU's regulatory transitional arrangements for IFRS 9 'Financial Instruments' in Article 473a of the Capital Requirements Regulation.*

2 *'Credit risk' here, and in all tables where the term is used, excludes counterparty credit risk.*

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements for IFRS 9 'Financial Instruments', including paragraph four within Article 473a of the Capital Requirements Regulation, published by the EU on 27 December 2017. These transitional arrangements permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact of IFRS 9 on loan loss allowances is defined as:

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

Any add-back must be tax affected and accompanied by a recalculation of capital deduction thresholds, exposure and RWAs. The impact is calculated separately for portfolios using the standardised ('STD') and internal-ratings based ('IRB') approaches.

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

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

In the current period, the add-back to the capital base amounted to £1,074m under the IRB approach and £32m under the STD approach.

At 31 December 2019, the add-back to the capital base was nil under the IRB approach and £16m under the STD approach.

Own funds

Own funds disclosure

(Audited)

Ref*		At 31 Dec 2020 £m	31 Dec 2019 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**9,015**	9,015
	– ordinary shares	**9,015**	9,015
2	Retained earnings	**12,040**	10,978
3	Accumulated other comprehensive income (and other reserves)	**700**	(211)
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(46)**	161
6	**Common equity tier 1 capital before regulatory adjustments**	**21,709**	19,943
28	Total regulatory adjustments to common equity tier 1	**(8,746)**	(8,741)
29	**Common equity tier 1 capital**	**12,963**	11,202
36	Additional tier 1 capital before regulatory adjustments	**2,234**	2,251
44	**Additional tier 1 capital**	**2,234**	2,251
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**15,197**	13,453
51	Tier 2 capital before regulatory adjustments	**2,967**	3,009
	Tier 2 capital: regulatory adjustments	**7**	—
57	Total regulatory adjustments to tier 2 capital	**7**	—
58	**Tier 2 capital**	**2,974**	3,009
59	**Total capital**	**18,171**	16,462

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

Throughout 2020, we complied with the PRA's regulatory capital adequacy requirements.

At 31 December 2020, our common equity tier 1 ('CET1') ratio increased to 15.2% from 13.0% at 31 December 2019.

CET1 capital increased during the year by £1.8bn, mainly due to add-back of loan loss allowances recognised on the non-credit-impaired book as per IFRS 9 transitional rules, a decrease in excess expected loss deduction and changes to the capital treatment of software assets.

Our Pillar 2A requirement at 31 December 2020, as per the PRA's Individual Capital Requirement based on a point-in-time assessment, was 4.51% of RWAs, of which 2.53% was met by CET1.

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk					
	WPB	CMB	GBM	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2020	**24,278**	**60,148**	**341**	**1,087**	**27**	**85,881**
Asset size	**(440)**	**(3,103)**	**105**	**(207)**	**129**	**(3,516)**
Asset quality	**1,123**	**3,035**	**—**	**47**	**—**	**4,205**
Model updates	**—**	**81**	**(1)**	**—**	**—**	**80**
– portfolios moving onto IRB approach	**—**	**—**	**—**	**—**	**—**	**—**
– new/updated models	**—**	**81**	**(1)**	**—**	**—**	**80**
Methodology and policy	**100**	**(1,799)**	**(1)**	**527**	**—**	**(1,173)**
– internal updates	**100**	**(162)**	**(1)**	**(30)**	**—**	**(93)**
– external updates – regulatory	**—**	**(1,637)**	**—**	**557**	**—**	**(1,080)**
Total RWA movement	**783**	**(1,786)**	**103**	**367**	**129**	**(404)**
RWAs at 31 Dec 2020	**25,061**	**58,362**	**444**	**1,454**	**156**	**85,477**

RWAs decreased by £0.3bn in the year, mainly from a reduction in asset size (£3.5bn) and regulatory measures in response to Covid-19 (£1.6bn), partially offset by the effects of credit migration (£4.2bn).

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

Methodology and policy

RWAs decreased during the year due to an increase in the SME supporting factor benefit as part of the CRR 'Quick Fix' relief package; offset by an increase in RWAs from the change in treatment of software assets.

The increase in RWAs arising from the move to FIRB was offset by data remediation achieved under our transformation programme and other management actions.

Asset size

WPB RWAs decreased due to a reduction in personal loans, overdrafts and credit cards balances offset by increased mortgage lending.

CMB RWAs decreased due to a switch in customer lending to Government Guaranteed Covid lending schemes, reductions achieved under our transformation programme and other management actions.

Asset quality

WPB RWAs increased by £1.1bn due to the deteriorating UK macro-economic outlook from Covid-19. CMB RWAs increased by £3.0bn due to adverse credit migration.

Leverage ratio

Our leverage ratio, calculated in accordance with the Capital Requirements Regulation, was 4.8% at 31 December 2020, down from 5.0% at 31 December 2019. The change in the treatment of software assets benefited our leverage ratio by 0.1%.

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

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. Our *Pillar 3 Disclosures at 31 December 2020* is published on HSBC Group's website, www.hsbc.com, under 'Investors'.

Liquidity and funding risk in 2020

Liquidity metrics

At 31 December 2020, we were above regulatory minimum levels. We maintain sufficient unencumbered liquid assets to comply with regulatory requirements. The liquidity value of these liquid assets is shown in the table below along with the LCR level on a European Commission ('EC') basis.

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

Our liquidity and funding position as at the end of 2020 is analysed in the following sections.

HSBC UK liquidity group[1]

	At	
	31 Dec 2020	31 Dec 2019
LCR (%)	**198**	165
HQLA (£m)	**88,838**	56,822
Net outflows (£m)	**44,865**	34,355
NSFR (%)	**164**	150

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

Liquid assets

As at 31 December 2020 we had a total of £88,838m of highly liquid unencumbered LCR eligible liquid assets (31 December 2019: £56,822m) held in a range of asset classes and currencies. Of these, 99% were eligible as level 1 (31 December 2019: 99%).

The below tables reflects the composition of the liquidity pool by asset type and currency at 31 December 2020:

	Liquidity pool	Cash	Level 1	Level 2
	£m	£m	£m	£m
Cash and balance at central bank	**75,770**	**75,770**	**—**	**—**
Central and local government bonds	**9,981**	**—**	**9,868**	**113**
Regional government PSE	**381**	**—**	**197**	**184**
International organisation and MDBs	**1,181**	**—**	**1,181**	**—**
Covered bonds	**663**	**—**	**297**	**366**
Other	**862**	**—**	**862**	**—**
Total at 31 Dec 2020	**88,838**	**75,770**	**12,405**	**663**
Total at 31 Dec 2019	56,822	36,385	19,943	494

	£	$	€	Other	Total
	£m	£m	£m	£m	£m
Liquidity pool at 31 Dec 2020	**79,137**	**7,263**	**2,029**	**409**	**88,838**
Liquidity pool at 31 Dec 2019	45,886	6,365	4,424	147	56,822

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. The following 'Funding sources and uses' table provides a consolidated view of how our balance sheet is funded, and should be read in light of the LFRF, which requires we manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. In 2020, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

(Audited)	2020 £m	2019 £m
Sources		
Customer accounts	**259,341**	216,214
Deposits by banks	**540**	529
Repurchase agreements – non-trading	**6,150**	98
Debt securities in issue	**866**	3,142
Accruals, deferred income and other liabilities	**32**	27
– cash collateral, margin and settlement accounts	**32**	27
Subordinated liabilities	**10,015**	9,533
Total equity	**22,858**	22,251
Other balance sheet liabilities	**5,062**	5,308
At 31 Dec	**304,864**	257,102

Funding Uses

(Audited)	2020 £m	2019 £m
Uses		
Loans and advances to customers	**191,233**	183,056
Loans and advances to banks	**1,514**	1,389
Reverse repurchase agreements – non-trading	**2,485**	3,014
Prepayments, accrued income and other assets[1]	**220**	123
– cash collateral, margin and settlement accounts	**220**	123
Financial investments	**19,309**	19,737
Cash and balances with Central banks	**76,429**	37,030
Other balance sheet assets	**13,674**	12,753
At 31 Dec	**304,864**	257,102

1 *Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 82 includes both financial and non-financial assets.*

Market risk

Overview

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

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

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

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

Market risk management

Key developments in 2020

There were no material changes to our policies and practices for the management of market risk in 2020.

Market risk governance

(Audited)

The following diagram summarises the main business areas where trading and non-trading market risks reside, and the market risk measures used to monitor and limit exposures.

	Trading risk	Non-trading risk
Risk types	• Foreign exchange • Interest rates	• Interest rates • Credit spreads • Foreign exchange
Global business	GBM	GBM, ALCM, CMB and WPB
Risk measure	Value at risk | Sensitivity | Stress testing	Value at risk | Sensitivity | Stress testing

Market risk is managed and controlled through limits approved by the Group Chief Risk Officer for HSBC Holdings. These limits are allocated across business lines and to the Group's legal entities, including HSBC UK. The level of limits set is based on the overall risk appetite for HSBC UK being cascaded down to the individual entities and the limits required for the individual desks to be able to execute their stated business strategy under the HSBC UK ring-fencing Exceptions Policy. The market risk limits are endorsed by HSBC UK RMM. HSBC UK has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. HSBC UK is required to assess the market risks arising in its business and to transfer them either to its local Markets or Markets Treasury unit for management, or to separate books managed under the supervision of the local Asset and Liability Management Committee ('ALCO'). The Traded Risk function enforces the controls around trading in permissible instruments approved for HSBC UK as well as following completion of the new product approval process.

Market risk measures

Monitoring and limiting market risk exposures

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

Sensitivity analysis

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

Value at risk ('VaR')

(Audited)

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

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

Stress testing

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

Stress testing is implemented at legal entity, regional and overall Group levels. Scenarios are tailored to capture the relevant events or market movements at each level. The risk appetite around potential stress losses is set and monitored against referral limits.

Market risk reverse stress tests are undertaken on the premise that there is a fixed loss. The stress testing process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stressed VaR and stress testing, together with reverse stress testing provides management with insights regarding the 'tail risk' beyond VaR for which appetite is limited.

Trading portfolios

Back-testing

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

Non-trading portfolios

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

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

Defined benefit pension scheme

Market risk also arises within HSBC UK's defined benefit pension plan to the extent that the obligations of the plan are not fully matched by assets with determinable cash flows. Refer to Pension risk section on page 46 for additional information.

Market risk in 2020

Global financial conditions worsened rapidly with the onset of the Covid-19 outbreak from mid-February. Market volatility reached extreme levels across most asset classes and equity prices fell sharply. In credit markets, spreads and yields reached multi-year highs. Financial markets stabilised from April onwards, as governments in several developed countries announced economic recovery programmes and key central banks intervened to provide liquidity and support asset prices. Global equity markets substantially recovered from their losses in March and credit spreads reverted towards pre-Covid-19 levels. During the second half of 2020 markets remained susceptible to further bouts of volatility triggered by increases in Covid-19 cases and various geopolitical risks. Market sentiment improved after positive vaccine news and the US presidential elections in November 2020, adding momentum to the performance of risky assets. We managed market risk prudently during 2020. Sensitivity exposures remained within appetite as the business pursued its core activity during the outbreak. Market risk continued to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis.

Trading portfolios

(Audited)

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

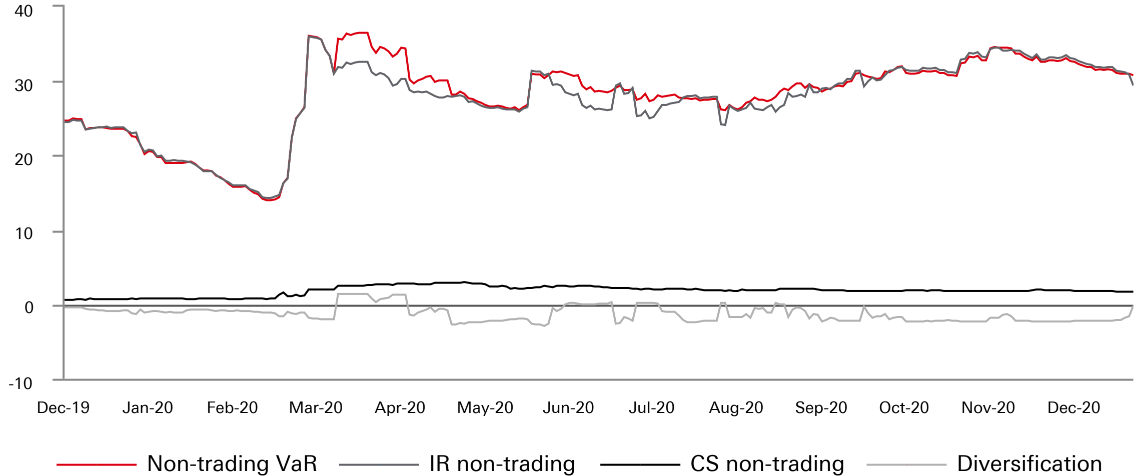
Value at Risk of the non-trading portfolios

(Audited)

Non-trading VaR of the group includes contributions from Markets Treasury and ALCO book positions. It is primarily driven by interest rate risk of the non-trading Markets Treasury positions which have the most significant market risk limits with HSBC UK. These limits and corresponding exposures are the consequence of Markets Treasury needing to meet its twin objectives of managing the structural interest rate risk transferred from the global businesses and the management of the entity's LAB. The daily levels of total non-trading VaR is the interest rate risk exposure held within Markets Treasury (£29.4m interest rate VaR as at 31 December 2020). The main contributor of interest rate risk with Markets Treasury are the securities held within the LAB and their corresponding hedge.

During the first quarter of 2020, the VaR for non-trading activity increased from 31 December 2019 with spikes seen particularly during March due to unprecedented levels of volatility in the markets caused by the Covid-19 outbreak. Extreme volatility in the yields of sovereign debt and interest swaps, coupled with volatility in the spread of agencies and supranational led to an overall increase in the non-trading VaR during this period. During the second quarter of 2020, the interest rate VaR reduced as HSBC UK own credit spread levels improved reducing the interest rate risk mismatch between HSBC UK capital issuances and the associated interest rate hedges in the ALCM books. The total non-trading book VaR was much more stable during second half of 2020 noting a gradual increase in VaR throughout the period as the Markets Treasury business deployed the cash within the LAB into securities as opportunities arise. The daily levels of total non-trading VaR over the last year are set out in the graph below.

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



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

Non-trading VaR, 99% 1 day

(Audited)

	Credit spread	Interest Rates	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m
Balance at 31 Dec 2020	**1.7**	**29.4**	**(0.2)**	**30.8**
Average	**1.8**	**27.6**	**(1.3)**	**28.1**
Maximum	**3.0**	**36.0**		**36.5**
Minimum	**0.6**	**14.3**		**14.0**
Balance at 31 Dec 2019	0.6	24.5	(0.4)	24.7
Average	0.8	14.1	(0.9)	13.9
Maximum	1.5	25.3		25.5
Minimum	0.5	8.7		8.4

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

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

Resilience risk

Overview

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

Resilience Risk management

Key developments in 2020

In line with the increasing expectations from customers, regulators and our Board, and in response to a continually evolving threat landscape that the wider industry faces, we combined Operational and Resilience Risk to form a new Operational and Resilience Risk sub-function. This sub-function provides robust non-financial risk steward oversight of the bank's business, functions, legal entities and critical business services management of risks, supported by effective and timely independent challenge. We carried out several initiatives during the year:

- We established a single HSBC UK team accountable for oversight of core Operational and Resilience Risk activities across all business lines and functions, focused on emerging risks as well as material products and services.
- We implemented business and function aligned teams focused on emerging risks as well as material products and services.
- We deployed risk management oversight of the most material transformation programmes.
- We implemented central services including governance, reporting and transformation.
- We created a standalone assurance capability that provides independent review and evaluation of end to end processes, risks and key controls.

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

Governance and structure

The Operational and Resilience Risk target operating model provides a consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven risk types related to: third parties and supply-chain; information; technology and cyber security; payments and manual processing; physical security; business interruption and contingency risk, buildings unavailability; and workplace safety. Operational and Resilience Risk is governed in HSBC UK through the RMM and our Risk Committee with clear global escalation routes through to the Non-Financial Risk Management Board ('NFRMB'), chaired by the Group Chief Risk Officer and the Group Risk Management Meeting ('GRMM').

Key risk management process

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

Business operations continuity

As a result of Covid-19, we successfully implemented business continuity responses and continued to maintain the majority of service level agreements. We did not experience any major impacts to the supply chain from our third-party services providers

due to Covid-19. The risk of damage or theft to our physical assets or criminal injury to our employees remains unchanged and no significant incidents impacted our buildings or people.

Compliance risk management

To reflect the growing maturity and effectiveness of its regulatory compliance and financial crime risk management functions, during 2020 HSBC Group and HSBC UK re-designed and delivered an integrated operating model for the Compliance function. The accompanying re-structure provides greater accountability for our Compliance team, led by the HSBC UK Chief Compliance Officer, which will support the Group Chief Compliance Officer in aligning the way in which we manage all compliance risks to the needs and aims of the wider business, and in making our compliance risk management processes and procedures more efficient and effective.

Regulatory compliance risk management

Overview

Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and as a consequence incur fines and penalties and suffer damage to our business.

Regulatory compliance risk arises from the risks associated with breaching our duty to our customers, inappropriate market conduct and breaching regulatory licensing, permission and rules.

Key developments in 2020

The key developments in the policies and practices for the management of regulatory compliance risk in 2020 included changes to our wider approach to the governance and structure of the Compliance function more generally, described above in the Compliance risk management section, those driven by our regulators and ongoing work to continue to raise standards related to the conduct of our business, in each case as described below.

Regulatory developments

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

As a consequence of the Covid-19 outbreak, and the serious economic impacts it is having in the UK, the UK government and the FCA have introduced a number of measures designed to support both retail and business customers, with particular focus on vulnerability and financial difficulty. Due to the nature and volume of these initiatives, certain other planned activities have been postponed or cancelled. However, the following continue to be areas of particular focus:

- Consideration of the UK's cash infrastructure, including measures designed to maintain access to cash for consumers.
- Proposed plans to increase consumer access to financial advice in the UK.
- Proposals to provide greater levels of protection and remediation to small- and medium-sized enterprises.
- Proposals for strengthening operational resilience and for outsourcing, and third party risk management.
- Consideration of digital regulatory reporting, and the future of data collection by the regulators.
- Review and proposed approach to the UK payments infrastructure and regulation.
- Measures to prevent financial crime including market abuse and fraud.

Through the UK's membership of the EU, HSBC UK has been both directly and indirectly subject to European financial services regulation. The UK left the EU on 31 January 2020 but was subject to EU law during a transition and implementation period, which ended on 31 December 2020. At the end of the transition and implementation period, the HSBC Group and its subsidiaries in the UK ceased to be subject to EU law.

On 30 December 2020, the UK and the EU signed a Trade and Cooperation Agreement ('TCA') setting out their future relationship. The TCA is in force in the UK and the agreement applies provisionally in the EU, pending completion of the ratification procedures necessary to bring it into force. The financial services provisions of the agreement are limited. In particular, the TCA provided nothing new to replace the passporting arrangements which allowed UK and EU firms access to each other's markets. The agreement preserves the respective rights of both the UK and EU to put in place measures for prudential reasons.

In a declaration accompanying the TCA, the UK and EU have agreed to establish structured regulatory cooperation on financial services, with the aim of establishing a durable and stable relationship. The declaration states that these arrangements will allow for 'transparency and appropriate dialogue in the process of adoption, suspension and withdrawal of equivalence decisions" and "enhanced cooperation and coordination'. The UK and EU have also committed to agree, by March 2021, a Memorandum of Understanding establishing the framework for this cooperation and to discuss how to move forward with equivalence determinations between them.

HM Treasury published its first consultation on 19 October 2020 marking the launch of the second phase of its Future Regulatory Framework review to consider the changes needed to the financial system to reflect the UK's new position outside the EU. As expected, the government considers that the current Financial Services and Markets Authority model, which delegates the setting of regulatory standards to expert, independent regulators working within a policy framework set by the government and Parliament, continues to be the most effective approach. A second consultation is expected in 2021, which will set out a final package of proposals and how they will be delivered.

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

Conduct of business

In 2020, HSBC UK continued to promote and encourage good conduct through its people's behaviour and decision making to deliver fair outcomes for its customers, and to maintain financial market integrity. During 2020:

- We continued to champion a strong conduct and customer-focused culture.
- We have introduced a number of measures throughout the Covid-19 outbreak to support our customers in financial difficulties, ensuring that government schemes are effectively implemented and that customers and employees have the right support in unprecedented conditions.
- We have adapted our controls and risk management processes to reflect our conduct outcomes, ensuring that those risks that have the greatest impact on our customers are given heightened focus.
- We have also continued to work to emphasise and to create an environment in which employees are encouraged and feel safe to speak up, and have placed a particular focus on the importance of well-being during the current pandemic through regular top down communications, virtual town halls, videos and podcasts.
- We continued to further embed conduct within our business line processes. We worked closely to mitigate the conduct impacts of the group's strategic transformation programme and of key business change programmes such as those relating to the UK's withdrawal from the EU and Ibor transition.
- We delivered our sixth annual mandatory training course on conduct to reinforce its importance for all employees.

- We continued to refresh our approach to conduct arrangements across the bank with a view to ensuring that the arrangements remain appropriate for the nature of our business.

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

Financial crime risk management

Overview

Financial crime risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing. Financial crime risk arises from day-to-day banking operations.

Key developments in 2020

In 2020, HSBC UK continued to strengthen its fight against financial crime and to enhance its financial crime risk management capability. Along with other areas of the bank, we have faced challenges posed by the Covid-19 outbreak, and a number of measures were introduced during this period to support the business and our customers. These included:

- Supporting the most vulnerable customers and those in financial difficulty, including raising awareness of fraud during this period.
- Proactive engagement with the business to ensure financial crime risks were considered as part of Covid-19 related decisions.
- Seconding Compliance employees to the business to assist with supporting the establishment of government relief measures.
- Supporting customers through policy exceptions, including the allowance of email instructions instead of face-to-face, and the introduction of virtual onboarding.

As a result of the evolving geopolitical situation in 2020, the bank has implemented measures to strengthen its financial crime risk management framework. The sanctions regulatory environment has remained changeable and uncertain during the course of 2020 due to the end of the UK's withdrawal from the EU transition period. We comply with all of the applicable sanctions regulations in UK, and continue to monitor the geopolitical landscape for ongoing developments. We have also continued to progress several key financial crime risk management initiatives, including:

- Strengthening our anti-fraud capabilities, focusing on threats posed by new and existing technologies, and delivering a comprehensive fraud training programme across the bank.
- Benefitting from our continued investment in the use of artificial intelligence ('AI') and advanced analytics techniques to manage financial crime risk, and publishing our principles for the ethical use of Big Data and AI.
- Strengthening our ability to combat money laundering and terrorist financing. In particular, we focused on the use of technology to enhance our risk management processes whilst minimising the impact to our customers. We also continued to develop our approach of intelligence led financial crime risk management, in part through enhancements to our automated transaction monitoring systems.

Governance

Since establishing a global framework of financial crime risk management committees in 2018, we have continued to strengthen and review the effectiveness of our governance framework to manage financial crime risk. Formal governance committees are held at an entity and Lines of Business level. They help to enable compliance with the letter and the spirit of all applicable financial crime laws and regulations, as well as our own standards, values and policies relating to financial crime risks. The HSBC UK Financial Crime Risk Management Meeting is chaired by the HSBC UK Chief Compliance Officer. As a reflection of the growing maturity and effectiveness of our financial crime risk management, and in line with HSBC Group, this meeting was integrated with the HSBC UK Risk Management Meeting in January 2021.

Key risk management processes

We continued to deliver a programme to further enhance our policies and controls around identifying and managing the risks of bribery and corruption across the business. Recognising that the fight against financial crime is a constant challenge, the Group and HSBC UK have maintained investment in operational controls and new technology to deter and detect criminal activity in the banking system. We continued to simplify our governance and policy frameworks, and the management information reporting process that demonstrates the effectiveness of our financial crime controls. HSBC UK remains committed to enhancing its risk assessment capabilities and to delivering more proactive risk management, including ongoing investment in the next generation of capabilities to fight financial crime by applying advanced analytics and AI.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system, and helping to protect the communities we serve. We are a strong advocate of public-private partnerships and participate in a number of information-sharing initiatives. We are a constructive partner to the government and international standard setters. During 2020, we continued to work in partnership with the Joint Money Laundering Intelligence Taskforce to bring further benefit to the bank by enhancing the understanding of financial crime risks through information sharing, and supporting economic crime reform through work with the UK Economic Crime Strategic Board, the government and law enforcement agencies.

Skilled Person / Independent Consultant

Following expiration in December 2017 of the anti-money laundering Deferred Prosecution Agreement entered into with the US Department of Justice ('DoJ'), the then Monitor has continued to work in his capacity as a Skilled Person under Section 166 of the Financial Services and Markets Act under the Direction issued by the UK Financial Conduct Authority ('FCA') in 2013. He has also continued to work in his capacity as an Independent Consultant under a cease-and-desist consent order ('the Order') issued by the US Federal Reserve Board ('FRB'). This work is applicable to HSBC UK.

The Skilled Person has assessed the progress of the HSBC Group towards being able to effectively manage its financial crime risk on a business-as-usual basis. This has applicability to HSBC UK. In 2020, the Skilled Person issued his final report, concluding that HSBC Group has continued to make material progress towards its financial crime risk target end state in terms of key systems, processes and people, albeit noting areas of potential improvements. At the request of the FCA, HSBC Group's engagement with the Skilled Person concluded in the first quarter of 2020. In the second quarter of 2020, a new Skilled Person was appointed to operate with a narrower mandate and in July 2020, the FCA issued a new tailored Direction, replacing the previous Direction issued in 2013. The new Skilled Person issued one report in 2020, concluding that HSBC Group is on par with peers in certain areas of the specific elements of our financial crime management framework that he has reviewed. However, the Skilled Person also identified opportunities for further improvements. In 2021, the new Skilled Person will assess certain operational elements that were not covered in 2020.

In 2020, the Independent Consultant completed his seventh annual Office of Foreign Assets Control ('OFAC') assessment, which was primarily focused on HSBC Group's sanctions programme and included HSBC UK. For the first time, the Independent Consultant concluded that HSBC Group and HSBC UK are now substantially compliant with all paragraphs of the Order within the scope of the annual assessment. However, the

Independent Consultant has determined that certain areas within the Group's sanctions compliance programme require further strengthening. An eighth annual assessment will take place in the first half of 2021. It is likely that a new Independent Consultant will be appointed to carry out an annual OFAC compliance review, at the FRB's discretion.

Model risk

Overview

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

Key developments in 2020

In 2020, we carried out a number of initiatives to further develop and embed the Model Risk Management, including:

- We updated the model risk policy and introduced model risk standards to enable a more risk-based approach to model risk management whilst retaining a consistent approach.
- Working with the businesses and functions, new model risk controls were developed in the Risk Control Library. These controls formed the basis for Model Risk Control Assessments that have been implemented for businesses and functions.
- We are introducing new risk appetite measures and metrics that provide forward looking measures of model risk.
- The Independent Model Validation team has begun a transformation programme that will utilise advanced analytics and new workflow tools with the objective of providing a more risk based, efficient and effective management of model validation processes.
- The consequence of Covid-19 on IFRS 9 model performance and reliability has resulted in enhanced monitoring of those models and related model adjustments. Dramatic changes to model inputs such as GDP and unemployment rates have made the model results unreliable. As a result, greater reliance has been placed on management underlays/overlays based on business judgement to derive expected credit losses.
- New IFRS 9 models for portfolios that required the largest model overlays during 2020 have been redeveloped, validated and implemented in the fourth quarter of 2020. Limited new data was available for use in the recalibrations, therefore judgmental post-model adjustments were required to allow for the economic effects of the pandemic not captured by the models.

Governance and structure

We placed greater focus on our model risk activities during 2020, and to reflect this, we elevated Model Risk Management to a function in its own right within the Global Risk Structure, where it had previously been structured as a sub-function within Global Risk Strategy.The global team now reports directly to the Global Chief Risk Officer. The HSBC UK Head of Model Risk Management reports to the HSBC UK CRO, as well as the Group Chief Model Risk Officer.

Key risk management processes

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

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

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

Corporate governance report

The following disclosures read together with those in the Strategic Report, including the Section 172 Statement on pages 9 to 11 which includes reporting on employee engagement on page 10 describes how the Board has discharged its duty under section 172 of the Companies Act 2006 (the 'Act'), and the requirements of the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Reporting Regulations').

Stakeholders:	Page 9 section 172 statement
Employees:	Page 7 How we do business, Page 10 section 172 statement, Pages 62 to 68 Corporate Governance
Communities / the environment:	Page 7 How we do business
Regulators:	Page 7 How we do business, Page 10 section 172 statement
Suppliers:	Page 7 How we do business, Page 10 section 172 statement

Corporate governance statement

The Company is committed to high standards of corporate governance and as a subsidiary of HSBC Holdings plc, is subject to HSBC Group's corporate governance policies, principles, frameworks and procedures. The Company also complies with its relevant legal and regulatory governance requirements, including but not limited to rules set out in the PRA Rulebook for Ring-Fenced Bodies. As such, the Company and its Board considers these corporate governance requirements to be comprehensive and robust and has therefore not chosen to adopt a corporate governance code, such as the FRC UK Corporate Governance Code or Wates Corporate Governance Principles.

During the year ended 31 December 2020 and to the date of this report, the Company has complied with all of HSBC Group's corporate governance policies, principles, frameworks and procedures and also with its legal and regulatory corporate governance obligations.

The Directors that have served during the full financial year ended 31 December 2020, and to the date of this report, are set out below:

Directors

Dame Clara Furse

Chairman and independent non-executive Director

Chairman of the Chairman's Nominations and Remuneration Committee.

Appointed to the Board: April 2017

Clara is a non-executive director of Vodafone Group plc and Amadeus IT Group, S.A. She is a member of the Panel of Senior Advisors to Chatham House and of Bocconi University's International Advisory Council. Former appointments include: external member of the Bank of England's Financial Policy Committee; lead independent director of the UK's Department for Work and Pensions; Chief Executive of the London Stock Exchange; Group Chief Executive of Credit Lyonnais Rouse; member of the Shanghai International Financial Advisory Council and non-executive director of Euroclear plc, LCH Clearnet Group Ltd., Fortis SA, Nomura Holdings and the Legal & General Group.

John David Stuart (known as Ian Stuart)

Executive Director and Chief Executive Officer

Chairman of the Executive Committee.

Appointed to the Board: May 2017

Ian has been Chief Executive Officer and director of HSBC UK Bank plc since May 2017 and is an Executive Committee member of HSBC Holdings plc. He joined the HSBC Group as a Group General Manager and Head of Commercial Banking Europe in 2014, having previously led the corporate and banking businesses in Barclays and Natwest. He started his career at the Bank of Scotland and has worked in financial services for over four decades. Ian is also a business ambassador for Meningitis Now and a member of the Economic Crime Strategic Board.

Jonathan James Calladine (known as James Calladine)

Executive Director and Chief Risk Officer

Member of the Executive Committee.

Appointed to the Board: October 2017

James joined the HSBC Group in 1983. He took up the post of UK Chief Risk Officer and was appointed to the Board in October 2017. Former HSBC Group roles include: Chief Risk Officer for the HSBC Group's Latin American operations; regional Chief Risk Officer for Continental Europe; and Senior Manager, Internal Audit in Asia Pacific.

James Coyle

Independent non-executive Director

Chairman of the Audit Committee and a member of the Risk Committee and Chairman's Nominations and Remuneration Committee.

Appointed to the Board: May 2018

James is Chairman of Marks & Spencer Unit Trust Management Limited and a non-executive director of Marks and Spencer Financial Services plc and chairman of HSBC Trust Company (UK) Limited. He is also a non-executive director and chairman of the Audit and Risk Committee of Scottish Water, a non-executive director and chairman of the Audit and Risk Committee of Honeycomb Investment Trust plc, and an independent non-executive member of Deloitte UK Oversight Board. Former appointments include: chairman of the board and chairman of the Audit and Risk Committee of World First UK Limited; member of Committees of the Financial Reporting Council, Group Financial Controller for Lloyds Banking Group; Group Chief Accountant of Bank of Scotland; member of the Audit Committee of the British Bankers Association; non-executive director of the Scottish Building Society; and a non-executive director and chairman of the Audit Committee of Vocalink plc.

Mridul Hegde CB

Independent non-executive Director

Chairman of the Risk Committee and a member of the Audit Committee and the Chairman's Nominations and Remuneration Committee.

Appointed to the Board: February 2018

Mridul's former appointments include: non-executive Director of the UK Municipal Bonds Agency and member of its Risk and Audit Committee; and senior roles at the Financial Reporting Council and HM Treasury, where she was Director of Financial Stability during the 2008 financial crisis and prior to that, Director of Public Spending.

Dame Denise Holt

Non-executive Director

Member of the Audit Committee until 31 October 2020.

Appointed to the Board: May 2018

Denise chairs the Council of the University of Sussex. Her former appointments include: non-executive director and member of the Risk Committee of HSBC Bank plc; chairman of Marks and Spencer Financial Services plc; non-executive director and member of the audit and risk committee of Iberdrola SA; member of the board of governors at Nuffield Health; member of the board of Ofqual (examinations regulators) and of the NHS pay review body. Denise had an extensive executive career in the Foreign & Commonwealth Office which included 40 years' experience of working in government, with postings in Ireland, Brazil and, as a senior Ambassador, in Mexico and Spain.

Alan Keir

Non-executive Director

Member of the Audit Committee and Risk Committee.

Appointed to the Board: February 2018

Alan is a non-executive director of Sumitomo Mitsui Bank Europe and Majid Al Futtaim Holdings. He is Honorary President of Horizons, the Association for former HSBC Group employees. Former appointments include a variety of senior executive roles within the HSBC Group. He was a Group Managing Director of HSBC Holdings plc from 2011 until his retirement from the Group in March 2016. He has previously served on the boards of HSBC Bank plc, HSBC Turkey, HSBC Trinkaus and Burkhardt, HSBC Bank Middle East and HSBC France. He is also a former Board member of the British Bankers Association, the UK-UAE Business Council, the Private Sector Council for GREAT (a government campaign to promote the best of Great Britain) and the University of Bradford School of Management Advisory Board. He has also sat on the Advisory Council of TheCityUK.

Rosemary Leith

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: February 2018

Rosemary is a non-executive director of the World Wide Web Foundation and of YouGov plc where she chairs the Remuneration Committee and is also a member of the Audit Committee. Rosemary is a Trustee of the National Gallery where she chairs the Digital Advisory Board and a member of the Advisory Council of Glasswing Ventures, Motive Partners and the Queens University School of Business. She is a Fellow at Harvard University's Berkman Klein Centre. Former appointments include: director of the Almeida Theatre, member of the Advisory Board of Infinite Analytics and Oxford University Wolfson College, and chair of the Council on Cyber security for the World Economic Forum, Global Agenda Council.

David Lister

Independent non-executive Director

Member of the Risk Committee, member of the Audit Committee until 31 October 2020.

Appointed to the Board: May 2018

David is a non-executive director and chairman of HSBC Private Bank (UK) Limited, Marks and Spencer Financial Services plc and FDM Group (Holdings) plc. He is also a director of The Caledonian Club Trust Limited and a member of the board of governors at Nuffield Health. His former appointments include: non-executive director of Interxion Holding N.V, non-executive director of CIS General Insurance Limited, Weatherbys Limited and the Department for Work and Pensions; trustee of The Tech Partnership Limited; and Group Chief Information Officer at each of National Grid, Royal Bank of Scotland, Reuters and Boots.

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

Independent non-executive Director

Member of the Chairman's Nominations and Remuneration Committee and member of the Audit Committee from 1 December 2020. Member of the Risk Committee until 31 October 2020.

Appointed to the Board: February 2018

Leslie is the non-executive chairman of Euromoney Institutional Investor plc. His former appointments include: non-executive director and deputy chairman of Crest Nicholson Holdings plc, senior independent director and chairman of the remuneration committee of DCC plc, non-executive chairman of Robert Walters plc, SIG plc and Weener Plastic Packaging Group. In his executive career Leslie was the Group CEO of United Biscuits plc and Rexam plc; and Executive Vice President Global Retail and Chairman, Europe of Royal Dutch Shell plc.

David Watts

Executive Director and Chief Financial Officer

Member of the Executive Committee.

Appointed to the Board: October 2017

Dave joined the HSBC Group in 1994. He took up the post of UK Chief Financial Officer and was appointed to the Board in October 2017. Former HSBC Group roles include: Chief Financial Officer for: HSBC Bank plc, Global Commercial Banking, the Middle East and North Africa, Group HSBC Technology and Operations, Global Banking, and HSBC Securities (USA) Inc; Head of Group Cost and Investment Reporting & Analysis; and Manager Treasury Services, France.

Company Secretary

Nicola Black

Nicola joined the HSBC Group in 2000 and was appointed Company Secretary in May 2017. She previously served as Company Secretary of HSBC Bank plc (2014-2017) and prior to that as Assistant Group Company Secretary, HSBC Holdings plc.

Board of Directors

The role of the Board is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board is collectively responsible for the long-term success of the Company and delivery of sustainable value to its shareholders.

The Board sets the strategy for the Company and approves the risk appetite statement, capital and operating plans presented by management for the achievement of the strategic objectives it has set.

The Board is comprised of a majority of independent non-executive directors. The roles of the Chairman and Chief Executive Officer are separate. The Chairman leads the Board and is responsible for its effectiveness and the Chief Executive Officer leads the business and is responsible for executing the strategy.

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

During 2020 the Board held six routine meetings, a Strategy day and an additional seven ad-hoc meetings. It also received a series of briefings on regulatory and forward-looking matters and received information from management between meetings. Directors all have full access to all relevant information on a timely basis, access to the advice of the company secretary, and are entitled to obtain independent external advice at the Company's expense.

Directors' emoluments

Details of the emoluments of the Directors of the Company for 2020, disclosed in accordance with the Companies Act, are shown in Note 3 'Employee compensation and benefits'.

Board committees

The Board has established a number of committees to assist it in discharging its responsibilities. The Board committees derive their authority from the Board and are accountable to it. Each Board Committee has a Terms of Reference that sets out the scope of the delegation and responsibilities, the membership of the committee and its reporting requirements to the Board.

All of the members of the Chairman's Nominations and Remuneration Committee, and the majority of members of the Audit and Risk Committees, are independent non-executive Directors. The Chairman of each Board committee reports to each Board meeting on their activities between Board meetings.

At the date of this report, the Board has the following committees:

Audit Committee

The Audit Committee has been delegated responsibility for oversight of financial reporting related matters and internal financial controls.

The Committee met five times during the year and routinely invites senior management from Finance, Internal Audit and the External Auditor to its meetings to assist the Committee in discharging its delegated responsibilities. The Committee also meets separately with the External Audit Partner and Internal Audit at least twice each year without any management present.

During the year ended 31 December 2020 the Committee has reviewed and provided oversight on: the HSBC UK group's financial reporting; the integrity of financial statements and disclosures, and management's application of key accounting policies and significant accounting judgements; cost management; financial performance; liquidity, funding and capital adequacy monitoring; the Company's Annual Operating Plan; the nature and scope of Internal Audit reviews; the effectiveness of the internal financial reporting control systems; the effectiveness of the Internal Audit function; and the external audit process.

On 31 October 2020, David Lister and Denise Holt retired as members of the committee and Leslie Van de Walle was appointed as a member with effect from 1 December 2020. The current members are: James Coyle (Committee Chairman); Mridul Hegde, Alan Keir and Leslie Van de Walle.

Risk Committee

The Risk Committee has been delegated responsibilities from the Board in relation to risk related matters and enterprise risks impacting the Company and its subsidiaries, risk governance and internal control systems (other than internal financial control systems).

The Committee met six times during the year and routinely invites senior management from Risk, Compliance, Finance, Legal, Internal Audit and the External Auditor to discharge its delegated responsibilities. They also met separately twice during year with each of the Chief Risk Officer, Internal Auditor and External Audit Partner, without any management present.

During the year ended 31 December 2020, the committee has among other matters: provided oversight over risk-related matters including financial and non-financial risk; assessed the Company's risk profile and how risks are controlled, mitigated and controlled; considered current and forward-looking risk exposures; the Company's risk appetite and tolerance to inform the Company's strategy and business plans and made recommendations to the Board; reviewed the Company's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process, and stress testing, and made recommendations, as appropriate, to the Board; considered the risk management framework and effectiveness of the non-financial internal control systems; reviewed reports from Compliance and Legal; and considered the effectiveness of the Chief Risk Officer and risk management function.

During the year Leslie Van de Walle retired as a member of the committee on 31 October 2020. The current members are: Mridul Hegde (Committee Chairman); James Coyle; Alan Keir; Rosemary Leith; and David Lister.

Chairman's Nominations and Remuneration Committee

The Chairman's Nominations and Remuneration Committee has been delegated responsibilities from the Board in relation to

nomination and remuneration for the Company and its subsidiaries, such as: keeping the Board and Board committee compositions under review; leading the process for identifying and nominating candidates for appointment to the Board; overseeing a continuous and proactive process for planning and assessment of candidates to ensure the orderly succession of certain senior management appointments within the Company as well as certain board and senior executive appointments for material subsidiaries of the Company; and reviewing the implementation and appropriateness of the Group's remuneration framework, its alignment with the risk appetite, business strategy, culture and values and long-term interests of the Company and its subsidiaries, and the remuneration decisions relating to the Company's senior executives. The Committee also has responsibility for the oversight of the whistleblowing arrangements of the Company and its subsidiaries.

The Committee met seven times during the year and regularly invites the CEO and senior management in HR to attend meetings to help it discharge its delegated responsibilities.

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

The current members are: Dame Clara Furse (Committee Chairman); James Coyle; Mridul Hegde; and Leslie Van de Walle.

Executive Committee

The Executive Committee was established by the Board to operate as a general management committee, exercising all of the powers, authorities and discretions of the Board in so far as they concern the management and day-to-day running of the Company, in accordance with such policies and directions as the Board may from time to time determine. The committee is chaired by the Company's Chief Executive Officer and the membership comprises his senior management team. This committee meets regularly throughout the year and in 2020 met 11 times.

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

Post balance sheet events

Details on post balance sheet events can be found in Note 28 to the financial statements.

Likely future developments

Details on the likely future developments in the business can be found in the 'Future Focus' sections on pages 5 and 6.

Companies (Miscellaneous Reporting) Regulations 2018

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Engagement with employees (Sch.7 Para 11 and 11A 2008/2018 Regs), s172 Statement) on pages 9 to 11 and engagement with suppliers, customers and others in a business relationship with the bank (Sch.7 Para 11B 2008 Regs) on pages 9 to10, policy concerning the employment of disabled persons (Sch.7 Para 10 2008 Regs) on page 67, financial instruments (Sch.7 Para 6 2008 Regs) on pages 19 to 61, hedge accounting policy (Sch.7 Para 6 2008 Regs) Note 9 on pages 105 to 108.

Dividends

Information about dividends is provided on page 16 of the Strategic Report.

Internal control

The Board is responsible for establishing a framework of controls to enable the assessment and management of risk and sets the Company's Risk Appetite Statement. This is discharged through reviewing the effectiveness of risk management and internal control systems and by determining the appetite and tolerance levels for the types of risks the Company is willing to take in order to achieve its strategic objectives for its long-term success and the benefit of its stakeholders.

The Company has:

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

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

The key risk management and internal control procedures, that have been in place throughout the year ended 31 December 2020 and up to the date of approval of this report, include:

- Global Principles: The HSBC Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and employees fairly at all times.
- HSBC Group Risk Management Framework: This provides the framework for how the group is governed and overseen, to ensure: that risks are managed in the same way across HSBC Group; there is a strong risk culture; there is awareness of risks, to identify material risks and take better decisions; there are sufficient controls in place; and there is delivery of fair outcomes for customers and maintenance of orderly and transparent operation of financial markets. It applies to all types of risk relevant to business and operational activities.
- Delegations of authority: Subject to certain matters reserved to the Board, the Board has delegated powers and authority to manage the day-to-day running of the Company within certain limits to the CEO and its Executive Committee. The CEO is permitted to sub-delegate such powers and authorities, within those limits, as he sees fit.
- Risk identification and monitoring: Systems and procedures are in place to identify, measure, monitor, control and report on the material risk types facing the group.
- Changes in market conditions/practices: Processes are in place to identify new risks arising from changes in market conditions/ practices or customer behaviours, which could expose the

group to heightened risk of loss or reputational damage. The Company maintains a top and emerging risks profile for the group which enables it to identify current and forward-looking risks and to take action which either prevents them from materialising or mitigates their impact.

- Employee responsibility for risk management: All employees are responsible for identifying and managing risk within the scope of their role under the Global Principles. The Company has a three lines of defence model, which is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The first line of defence are the risk and control owners who identify, assess, manage and report key risks and operate and monitor the controls. The second line of defence are the risk stewards that set policies and guidelines for managing risks and provide advice and guidance to support the policies and challenges the first line of defence (the risk owners) on effective management of risk. Internal Audit are the third line of defence providing assurance to the Board and management that the risk management approach and processes are designed and operating effectively.

Strategic plans: Strategic plans are prepared annually for each of the lines of business that make up the group, within the framework of the HSBC Group's overall strategy. The relevant lines of business strategic plans are incorporated into the five year HSBC UK Country Strategic Plan, which is refreshed every three years, and approved by the Company's Board. Progress against the Country Strategic Plan is reported regularly to the Executive Committee, Board and the HSBC Group Executive Committee. The Company also approves an annual financial Annual Operating Plan, which is informed by detailed analysis of risk appetite, stress-testing exercises, and the types and quantum of risk that the Company is prepared to take, within the parameters set by the HSBC Group, to execute its strategy, and also sets out the key business initiatives and the financial impact of those initiatives in order to determine the most appropriate use of the Company's resources. The key risk management and internal control procedures over financial reporting include the following:

- Financial reporting: The financial reporting process for preparing the consolidated Annual Report and Accounts 2020 is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements. These are issued to by the HSBC Group to HSBC UK that are cascaded to all reporting entities within the group in advance of each reporting period end. The submission of the Company's financial information is subject to certification by the CFO, and analytical review procedures undertaken at reporting entity and group levels.
- Disclosure Committee: The Disclosure Committee comprises certain executive management and supports the discharge of the Company's obligations in relation to its debt securities listed and traded on the London Stock Exchange. In particular, it considers whether a new event or circumstance constitutes inside information, reviews all material disclosures and considers and advises upon any requests and reports to be made by any subsidiaries or affiliates of its group with regard to inside information.
- Audit Committee: The Board's Audit Committee reviews the financial reporting disclosures for any material errors, misstatements or omissions with regard to the integrity of financial statements and disclosures and provides oversight over internal financial controls. It is supported by structures and processes within the group's Finance and Risk functions that provide analytical review of financial reporting and the maintenance of accounting records, and seek the committee's support regarding material accounting policies and practices before they are agreed with the External Auditors.
- Risk Committee: The Board's Risk Committee provides oversight over internal controls systems and the status of principal risks, and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or incidents have occurred which indicate gaps in the control framework or in adherence to policies, the committee reviews reports prepared by management that analyse the cause of the issue, any lessons learned and actions proposed to address the issue.

During the year, the Risk Committee and Audit Committee kept under review the effectiveness of this system of internal controls and reported regularly to the Board. In carrying out their respective reviews, the committees receive regular reports from: business and operational risk assessments; heads of key risk functions covering all internal controls, both financial and non-financial; internal audit reports; external audit reports; prudential reviews; and regulatory reports. More details on the committee's responsibilities and activities during the year are set out in the Board Committees section on page 64.

Employees

Health and safety

At HSBC UK we are committed to providing a safe and healthy working environment for everyone. We strive to ensure best health and safety management practices are adopted and aim for standards that reflect HSBC UK core values.

Chief operating officers have overall responsibility for ensuring that global policies, procedures and safeguards are put into practice locally, and that all legal requirements are met.

To put our commitment into practice, we delivered a range of programmes in 2020 to help us understand and manage effectively the risks we face and improve the buildings in which we operate:

- We carried out risk assessments that took into consideration the published UK Government guidance and implemented a range of processes and controls, in line with expert medical advice, to protect our employees, contractors and customers from the risks of Covid-19.
- In our branches, to create a Covid-19 Secure environment we managed the number of customers entering at one time so that social distancing was maintained, installed auto dispensing hand sanitiser gel stations at the entrances for use by customers and employees, installed perspex screens between counter positions and ATMs to reduce close contact, required everyone to wear a face covering and enhanced our cleaning regimes.
- In our offices and contact centres, to create a Covid-19 Secure environment for those employees who were unable to perform their role from home we installed auto dispensing hand sanitiser gel stations at the entrances, created one way routes around the building with separate entrance and exit points, utilised socially distanced workstations, required the wearing of face coverings when moving around in the building and enhanced our cleaning regimes.
- We also supported our employees in ensuring they had appropriate advice, support and equipment to enable healthy and safe home working, including the provision of furniture and assistive technology where required.
- We developed and implemented an improved health and safety training and awareness programme for all employees, ensuring roles and responsibilities were clear and understood. The programme forms part of the mandatory annual training for all of our employees.
- This year our training was supplemented by the development of a Covid-19 e-learning module, completed by those employees who continued to attend our offices, and regularly updated briefing materials for employees working in our Retail Branches.
- We further developed our suite of management information dashboards to continually improve our awareness and management of our key risks.
- We continued to focus on enhancing the safety culture in our supply chain through our 'SAFER Together' programme,

building the awareness and capability to act and behave in the safest way.

- We continued to deliver our 'Eat Well Live Well' programme, educating and informing our employees on how to make healthy food and drink choices: and enhancing the programme to provide digital educational and information resources, including a suite of videos and recipe ideas.

Employee health and safety

	Footnotes	2020	2019
Number of workplace fatalities		**—**	—
Number of RIDDOR reportable injuries	1	**10**	15
All injury rate per 100,000 employees	2	**518**	1,559

1 *RIDDOR – The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.*
2 *The significantly lower number in 2020 reflects the reduced occupancy of buildings during the Covid-19 pandemic.*

Well-being

At HSBC UK we recognise the value our people bring to the organisation. The well-being and engagement of our workforce is a key priority for us. We work with teams across every business area to develop initiatives and interventions that support our people and improve both their well-being confidence and capability.

We provide a range of tools, guidance and benefits to support our employees to enhance and improve their physical, mental and financial well-being.

We also provide a range of volunteering opportunities for employees to connect with local communities. We are investing in the knowledge and capability of our managers to help foster teams where people feel confident and comfortable in talking about wellbeing matters.

Diversity and inclusion

Our workforce reflects the communities where we operate. Different ideas and perspectives help us meet diverse customer needs, innovate, manage risk and grow our business in a sustainable way.

Building a Diverse and Inclusive Culture

People from many different backgrounds contribute to HSBC UK's success and we take steps to foster an environment where people are valued, respected and supported to fulfil their full potential.

- Inclusive hiring principles guide recruitment decisions. Behaviours are assessed at application. Managers receive training to counteract potential biases. And we take steps to ensure that we recruit people from a broad range of backgrounds.
- Developing inclusive behaviours. New employees join our Global Discovery Programme, learning about HSBC Group's culture, values and ways for working at induction. Inclusion principles are red-threaded throughout mandatory learning. Inclusive leadership is a key part of our leadership curriculum.
- Speak up culture. Employees undertake training to raise awareness of Speak Up. Diverse employees can access support from our trained ERG Speak Up Guardians.
- Committed leadership. Our Executive regularly review diversity data and inclusion plans. Executive's sponsor key projects and delivery of inclusion is embedded within Executive performance management.

Focus on ethnicity

HSBC UK is a founder signatory of the UK Race at Work Charter. We are long term sponsors of the UK Ethnicity Awards and proud of all of our employees who support or have been recognised for their efforts to promote ethnicity inclusion. The Black Lives Matter movement which rose to prominence in spring 2020, caused us to pause and review if were really doing enough.

In July 2020 following conversations between our Embrace ERG and business leaders, we made a series of commitments to support more black and ethnic minority employees to succeed. Delivery of actions against our commitments is in partnership between Embrace and business leaders and to date includes:

- Executive sponsorship and support. Our Executive Sponsor for ethnicity in collaboration with our Ethnicity ERG, Embrace, established a steering committee and working group, who meet monthly to drive the ethnicity agenda forward
- Helping black and ethnic minority employees to succeed. We have introduced targeted development for high-performing Black and Ethnic Minority employees with the potential to become future leaders.
- Focus on recruitment. We've introduced 'Licence to Hire' Inclusivity training for hiring managers and entered partnerships with external consultancies to support our recruitment of ethnic minority talent.
- Making equality in the workplace everyone's responsibility. We've held 'Let's talk about race' conversations across the business, and run events focusing on talking about race, awareness of unconscious bias and cultural change.
- Zero tolerance of racism. Our Embrace ERG (and others) worked with HR to develop our ERG 'Speak Up Guardian' programme.
- Measuring and tracking our progress. In October, we declared our Ethnicity Data profile in the UK. This February we are publishing our ethnicity pay gap.

Disability Confident

HSBC UK is a Disability Confident Employer and a Carer Confident Employer. We are members of the Valuable 500 and Founder Members of the Purple Light Up campaign. In 2020 we completed the Business Disability Forum Assessment of our business and achieved the Silver Standard. We were headline sponsors of the Business Disability Forum Conference.

In 2020 our Ability Confident Plan actions included:

- Commitment and leadership. Our CEO is Global sponsor for HSBC Disability.
- Workplace adjustments. Our dedicated workplace adjustments service provides assistive tech and equipment. For the March 2020 lockdown, all 2000 users were contacted and measures put in place to ensure that assistive equipment was available to enable home working.
- Supportive recruitment. Our disability recruitment specialist provides one to one support for applicants requiring adjustments.
- Accessibility criteria is used for our sites and virtual banking.
- Employee support and engagement. Over 2000 people are members of our Ability ERG. Throughout the pandemic, Ability provided regular check in calls for people with disabilities and carers. Ability consulted with business leaders on well-being, mental health and pandemic response.

Gender Balance

HSBC UK is a member of BITC Gender campaign and Women in Banking and Finance. We provide updates on our gender plans annually to HM Treasury as part of our commitments to the Women in Finance Charter.

Our Gender Plan includes the following:

- Senior accountability. Our ExCo members have a gender target within performance objectives. Our gender target for 2020 was to achieve 30% female representation amongst our senior leaders; we achieved 33.7%.
- Targeted development. Our dedicated women's future leaders development programmes supported 288 women from across the UK this year.
- Education and awareness. Our BALANCE ERG with our Executive, hosted virtual events to celebrate International Women's and International Men's days.

LGBT+ Pride

HSBC Group is a member of Stonewall. In the UK we are headline sponsors of Birmingham Pride. In 2020, our LGBT+ ERG, Pride, was a finalist of the UK LGBT Awards.

Key actions taken to support LGBT+ include:

- Cross-business accountability. Our cross-business LGBT+ group delivers plans against Stonewall best practice criteria
- Education and awareness. 1,500 employees are members of our UK Pride ERG. Our customer services team undertake LGBT+ awareness training
- LGBT+ customer support. In 2020, branches across the UK displayed our Pride manifesto and branch employees wore our Pride badge.

More information about our approach to diversity and inclusion can be found at HSBC.com

Employee development

The development of all our employees is essential to the future strength of our business and also in retaining high-calibre individuals with the values, skills and experience for current and future roles.

HSBC University, the home of learning at the HSBC Group, provides training programmes, educational resources and opportunities for connectivity, research and community engagement – with the core offering themed around leadership, risk management, strategy and performance, as well as business-specific technical training.

Over the last year, HSBC University has invested heavily in developing its offering to build the skills of the ever changing work-force required to deliver banking in the future. To that end, courses and resources have been curated/created to support the nine key behaviours identified as priorities for the future, incorporating 22 skills. Alongside this, enhancements to our Leadership Essentials programmes have resulted in the development of more accessible digital learning modules.

Whilst delivering learning during the pandemic has been a challenge, it has expedited a transition to digital learning, providing flexibility for the business and the learner. Well-being and Mental Health Awareness training for all employees and line managers have remained a focus in this difficult year.

HSBC UK is making progress in the move to a modern learning culture where, 'on demand' resources are available for our learners to access as the need arises, driving a departure from 'done to', mandatory learning and moving to a self-driven learner-led culture. We commit to continually develop the skills and capability of our employees to empower them to realise their potential for the future, enabling them and the business to remain competitive.

Employee share schemes

The HSBC Group offers HSBC UK employees two options to voluntarily participate in HSBC Group Share purchase schemes, helping to align the interests of employees with the creation of shareholder value. Our Sharesave plan, of which 69% of our eligible UK population participate, allows employees to save an amount of money each month over a three- or five-year period and these savings can be used to purchase shares at a previously agreed discounted rate. Our Share Investment Plan allows employees to purchase shares each month from their pre-tax pay and should they be held for a minimum period of time, any proceeds from the sale of the shares are released free from tax or National Insurance contributions.

Auditor

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

Conflicts of interest and indemnification of Directors

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

Indemnification of Directors

The Company's Articles of Association provide that Directors and directors of associated companies are entitled to be indemnified out of the assets of the company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Such qualifying third party indemnity provisions have been in place during the financial year, and remain in place, but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

Statement on going concern

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

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

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

- A description of the group's strategic direction;
- A summary of the group's financial performance and a review of performance by business;
- Reports and updates regarding regulatory and internal stress testing. While the Bank of England cancelled their industry-wide stress test exercises in 2020, a number of internal stress tests were conducted in 2020, including Covid-19 related and the UK's withdrawal from the EU tests;
- The group's approach to capital management and its capital position; and
- The top and emerging risks facing the group, as appraised by the Directors, along with details of the group's approach to mitigating those risks and its approach to risk management in general.

In addition, the objectives, policies and processes for managing credit, liquidity and market risk are set out in the 'Report of the Directors: Risk'.

The Report of the Directors comprising pages 19 to 68 was approved by the Board on 22 February 2021 and is signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

Disclosure of Information to the Auditor and Statement of Directors' Responsibilities

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information. The Directors are responsible for preparing the *Annual Report and Accounts 2020*, comprising the consolidated financial statements of the group and parent company financial statements for the Company in accordance with applicable laws and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and group and parent company financial statements for each financial year. The Directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the European Union and have elected to prepare the Company's financial statements on the same basis.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors are satisfied that the group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have responsibility for the maintenance and integrity of the *Annual Report and Accounts 2020* as they appear on the bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the names of whom are set out in the Governance section of the Directors' Report on pages 19 to 68 of the *Annual Report and Accounts 2020*, confirm to the best of their knowledge:

- In accordance with rule 4.1.12(3)(a) of the Disclosure Rules and Transparency Rules, the consolidated financial statements, which have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the European Union, have been prepared in accordance with the applicable set of accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The management report represented by the Strategic Report and Directors' Report has been prepared in accordance with rule 4.1.12(3)(b) of the Disclosure Rules and Transparency Rules, and includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties that the group faces.

Approved by the Board on 22 February 2021 and signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

- the consolidated income statement for the year ended 31 December 2020;
- the consolidated statement of comprehensive income for the year ended 31 December 2020;
- the consolidated balance sheet at 31 December 2020;
- the consolidated statement of cash flows for the year ended 31 December 2020;
- the consolidated statement of changes in equity for the year ended 31 December 2020;
- the HSBC UK Bank plc balance sheet at 31 December 2020;
- the HSBC UK Bank plc statement of cash flows for the year ended 31 December 2020;
- the HSBC UK Bank plc statement of changes in equity for the year ended 31 December 2020; and
- the notes to the financial statements, which include a description of the significant accounting policies.

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

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1.1(a) to the financial statements, the group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 4 to the financial statements, we have provided no non-audit services to the group or the parent company in the period from 1 January 2020 to 31 December 2020.

Our audit approach

Overview

- Overall group materiality: £79m (2019: £107m), based on 5% of the 3 year average of adjusted profit before tax.
- Overall parent company materiality: £72m (2019: £93m), based on 5% of the 3 year average of adjusted profit before tax.

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

The following areas were identified as key audit matters for the group and parent company. These are discussed in further detail in the Appendix:

- Expected credit loss ('ECL') provision for loans and advances
- Conduct Matter
- Recognition of income under Effective Interest Rate ('EIR') accounting
- Valuation of defined benefit pension surplus
- Information Technology ('IT') Access Management
- Impact of Coronavirus disease ('Covid-19')

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the group and industry, we identified the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations, UK Listing Rules, Pensions legislation, Anti-Bribery and Corruption legislation, Anti-Money Laundering legislation and the UK tax legislation. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates.

Our audit procedures included challenging estimates and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss provisions of loans and advances to customers and provisioning for a conduct related matter (see related key audit matters in the Appendix), and identifying and testing journal entries, in particular journal entries posted with unusual account combinations, which were back dated or posted by senior management. Audit procedures performed by the engagement team included a review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators including the FCA and PRA, review of correspondence with the group's external legal advisors, enquiries of management, enquiries of legal counsel and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

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

The impact of Coronavirus disease ('Covid-19') on the audit is a new key audit matter this year. Valuation of goodwill relating to the Private Banking ('PB') cash generating unit ('CGU'), which was a key audit matter last year, is no longer included because of HSBC UK simplification of its matrix organisational structure by combining the Global Private Banking ("GPB") and Retail Banking and Wealth Management ('RBWM') business lines to form Wealth and Private Banking ('WPB'), meaning that goodwill impairment is no longer assessed at the GPB level. In addition, Customer Redress – Payment Protection Insurance ('PPI'), which was a key audit matter last year, is no longer included because there has been a significant reduction in the amount and level of estimation uncertainty in relation to the provision by 31 December 2020. Otherwise, the key audit matters are consistent with last year. The key audit matters are discussed further in the Appendix.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

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

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

As a result of our scoping, for the parent company we determined that an audit of the complete financial information of HSBC UK Bank plc was necessary, owing to its financial significance. The group audit engagement partner was also the partner on the audit of the HSBC UK Bank plc significant reporting unit.

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

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

Materiality

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

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

	Group financial statements	Parent company financial statements
Overall materiality	£79m (2019: £107m)	£72m (2019: £93m)
How we determined it	3 year average of 5% of adjusted profit before tax	3 year average of 5% of adjusted profit before tax
Rationale for benchmark applied	Adjusted profit before tax is the primary measure used by shareholders in assessing the performance of the group and the parent company and removes the impact of significant items that distort year-on-year comparisons. In determining overall materiality, we have adjusted for the impact of certain customer redress and restructuring programmes as they are large items unrelated to the underlying performance of the group and parent company. Whilst adjusted profit before tax is still considered the most suitable benchmark, we have used a three year average to eliminate the significant impact Covid-19 has had on performance in 2020.	

For each reporting unit in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across reporting units was £4m to £72m.

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

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £3m (group audit and parent company audit) (2019: £4.6m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Performed a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of Covid-19 on the financial and operating performance of the group.
- Understanding and evaluating the group's financial forecasts and the group's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and the Report of the Directors for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2017 to 31 December 2020.

Hamish Anderson *(Senior Statutory Auditor)*

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham

22 February 2021

Appendix: Key audit matters discussed with the Audit Committee

The key audit matters are discussed below together with an explanation of how the audit was tailored to address these specific areas. All key audit matters are applicable to both the group and parent company.

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

Nature of key audit matter

Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty, both of which have significantly increased as a result of Covid-19.

Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. Specifically these included,

- Forward looking economic scenarios and their likelihoods,
- Customer risk ratings ('CRRs') and probability of defaults, and
- The recoverability of credit impaired wholesale exposures.

The modelling methodologies that use these assumptions, as well as other data, to estimate ECL are complex and not standardised. The modelling methodologies are developed using historical experience, which can result in limitations in their reliability to appropriately estimate ECL. These limitations are often addressed with adjustments, which are inherently judgemental and subject to estimation uncertainty.

The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions that vary across industry sectors. Covid-19 related government support programmes and regulatory interventions have impacted economic factors such as GDP and unemployment, and consequently the extent and timing of customer defaults.

These factors have increased the uncertainty around judgements made in determining the severity and likelihood of macroeconomic variable (MEV) forecasts across the different economic scenarios used in ECL models. Furthermore, these conditions are outside the bounds of historical experience used to develop the models and where models produce plausible results, resulting in significantly greater limitations in their reliability to estimate ECLs.

Management has made significant adjustments to ECL to address these limitations through management judgemental adjustments to modelled outcomes. The nature and extent of these limitations and the resulting changes to ECL varies across different retail and wholesale portfolios. In addition, certain models have been redeveloped during 2020.

The determination of CRRs is based on quantitative scorecards, with qualitative adjustments for relevant factors. The extent of qualitative adjustments has increased due to Covid-19. The uncertainty caused by Covid-19 also increases judgement involved in estimating expected cash flows and collateral valuations for specific impairments on credit impaired wholesale exposures.

Matters discussed with the Audit Committee

We held discussions with the Audit Committee covering governance and controls over ECL, with a significant focus on the impact of Covid-19. We also discussed a number of other areas, including:

- The severity and likelihood of MEV forecasts in economics scenarios, reflecting the impact of Covid-19;
- The identification and assessment of model limitations and resulting changes and adjustments to ECL, in particular for approaches adopted in response to Covid-19;
- Models that were redeveloped during the year;
- Model validation and monitoring;
- The migration of customer risk ratings;
- Assumptions around the recoverability of significant wholesale exposures;
- The disclosures made to explain ECL, in particular the impact of Covid-19 on determining ECL and the resulting estimation uncertainty.

Procedures performed to support our discussions and conclusions

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

We also tested controls over:

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

We involved our economic experts in assessing the reasonableness of the severity and likelihood of MEV forecasts. These assessments considered the sensitivity of ECLs to variations in the severity and likelihood of MEVs for different economic scenarios.

We involved our modelling experts in assessing the appropriateness of modelling methodologies that were redeveloped during the year, and for a sample of those models, we independently reperformed the modelling for certain aspects of the ECL calculation. We also assessed the appropriateness of modelling methodologies that did not change during the year, giving specific consideration to Covid-19 and whether post model adjustments (PMAs) were needed. In addition, we performed testing over:

- The compliance of ECL methodologies and assumptions with the requirements of IFRS 9;
- A sample of critical data used in the year end ECL calculation and to estimate management judgemental adjustments;
- Critical data, assumptions and discounted cash flows for a sample of credit impaired wholesale exposures;
- A sample of CRRs applied to wholesale exposures.

We evaluated and tested the audited Credit Risk disclosures made in the Annual Report and Accounts 2020.

Relevant references in the Annual Report and Accounts 2020

Note 1: Basis of preparation and significant accounting policies 1.2(g) Impairment of amortised cost and FVOCI financial assets, page 91.

Summary of credit risk, page 31.

Measurement uncertainty and sensitivity analysis of ECL estimates, page 36.

Conduct Matter

Nature of key audit matter	Matters discussed with the Audit Committee
A number of deficiencies have been identified in the Bank's internal processes that have resulted in customer detriment. The provision for these matters reflects the expected cost of repayment of historic fees and interest, distress and inconvenience payments and related operational remediation activities. Management grouped customers into cohorts based on the nature of the matter. The volume of customers impacted and expected redress amounts to be paid are the key assumptions underlying the provision. Customer redress payments have been made to date for most of the cohorts. The year end provision is mainly for one cohort with a number of assumptions and judgements applied to determine the population of impacted customers and the redress amount.	We discussed with the Audit Committee the process performed by management to estimate the impacted populations for the main cohort outstanding at the year end. We also discussed the assumptions used in determining the expected redress for each cohort. We discussed the results of our controls and substantive testing. We also discussed alternative scenarios and the range of sensitivity in concluding on the adequacy of the provision held.

Procedures performed to support our discussions and conclusions

- Evaluated the design and tested the operating effectiveness of key controls over key inputs to the calculated provision.
- Evaluated the completeness of impacted cohorts identified by management by comparing these to customer populations expected to be affected by process deficiencies.
- Examined the appropriateness of the provisioning model and underlying estimates used. Tested the appropriateness of customer populations identified for the cohorts and the estimated redress per customer.
- Tested the accuracy of the model calculations and considered the sensitivity of the provision to possible changes in outcome.
- Observed management's review and challenge forums to assess the appropriateness of the provision.
- Perform inquiry with the Skilled Person regarding the project progress, key areas of focus and issues identified to date.
- Evaluated whether the disclosures within the financial statements appropriately address the uncertainties inherent to determining the provision and the sensitivity of the provision to changes in key assumptions.

Relevant references in the Annual Report and Accounts 2020

Note 1: Basis of preparation and significant accounting policies 1.2(j) Provisions, page 95.

Note 19: Provisions, page 112.

Recognition of interest income under Effective Interest Rate accounting

Nature of key audit matter	Matters discussed with the Audit Committee
Loans and advances are recognised at amortised cost, with the associated interest income recognised using the Effective Interest Rate ('EIR') method. The majority of interest income is automatically calculated by the loan administration systems and requires no management intervention or judgement. EIR accounting requires management to recognise income and expenses directly related to a loan over its expected life. The most significant area where EIR accounting is applied is in relation to credit cards, where interest income is required to be recognised over the period that a customer is expected to have the credit card, including interest free promotional periods, which results in an EIR asset being recognised. Management uses judgement and performance of historic credit card portfolios to estimate customer spending levels, the total interest income expected to be earned, and the expected period that customers will use their credit cards. Changes in these assumptions could have a material impact on the EIR adjustments and hence the interest income recognised. The Covid-19 pandemic has impacted the way that customers have used their credit cards, for example lower spending levels during 2020 given lockdowns. Management have incorporated the changes in customer behaviour and updated their assumptions related to future customer spend levels.	Discussions with the Audit Committee focused on the key judgements and assumptions including the level of expected customer balances and interest yields during the promotional offers, the retention of balances after the end of the promotional period and consideration as to how historic experience is consistent with that expected in the future. We discussed the impact on key areas of judgements applied in response to the Covid-19 outbreak, including the impact on customer behaviour and future projections of spending levels. We also discussed the results of our audit work including testing of management controls and substantive testing.

Procedures performed to support our discussions and conclusions

- Tested the controls over data input and checked the accuracy of model calculations.
- Observed management's governance meetings for the setting, challenge and approval of key assumptions, including monitoring of actual trends compared to forecast assumptions.
- Tested the appropriateness of models used by management in EIR calculations, and critically assessed and challenged the appropriateness of the key assumptions, including expected life of customer accounts and assessing whether the use of customer balance and yield curves based on historic data were appropriately reflective of current behaviour and an appropriate indicator of the future.
- Performed sensitivity analyses of key assumptions to understand the materiality of the impact that potential realistic changes in assumptions may have, either individually or in combination, on the EIR asset.
- Performed testing over the reasonableness of adjustments related to Covid-19, and the impact on customer behaviour.
- Assessed the sufficiency of the disclosures in the financial statements relating to significant assumptions made in the EIR calculation, including disclosure of sensitivities.

Relevant references in the Annual Report and Accounts 2020

Note 1: Basis of preparation and significant accounting policies 1.2(b) Income and expense, page 90.

Valuation of defined benefit pension surplus

Nature of key audit matter	Matters discussed with the Audit Committee
HSBC UK Bank plc's ('HSBC UK') defined benefit pension scheme is in a net surplus position as at 31 December 2020. Defined benefit obligation The valuation of the defined benefit obligation of HSBC UK is dependent on a number of actuarial assumptions, with the discount rate, inflation rate and mortality rates being the key assumptions driving the obligation. Changes in these assumptions can have a material impact on the valuation due to the long duration of the pension obligations and as such the valuation is considered to be judgemental. Pension Assets HSBC UK has various classes of unquoted assets including, complex pooled investments vehicles, long dated derivatives, longevity swaps, infrastructure loan notes and direct property investments. Management uses valuation experts to determine the value of certain classes of unquoted plan assets, including property, longevity swap valuations and infrastructure loan notes. The valuation of the other asset classes is obtained from the scheme custodian and investment manager. The estimation of fair value for unquoted plan assets is subjective, relying on models and unobservable inputs and therefore significant judgement is required to estimate the fair value of these unquoted financial instruments.	We discussed with the Audit Committee the key judgements made by management in setting the actuarial assumptions used to determine the value of the defined benefit obligation and the results of the work performed on valuation of unquoted plan assets. We also discussed the results of the work performed by our actuarial experts and how the key assumptions compared to our independently compiled expected ranges.

Procedures performed to support our discussions and conclusions

- Tested the controls for determining the actuarial assumptions used in calculating the valuation of future pension obligations and the approval of those assumptions by senior management.
- Evaluated the objectivity and competence of management's actuarial expert involved in the valuation of the defined benefit obligation.
- Engaged our actuarial experts to understand the judgements made by management and management's actuarial expert in determining the key financial and demographic assumptions used in the calculation of the liability.
- Assessed the reasonableness of the assumptions using independently compiled expected ranges based on market observable indices and our market experience.
- Performed testing over the members' data used in calculating the obligation.
- Obtained independent confirmations from both the custodian and investment manager of material investment balances.
- Engaged our valuations experts to independently review a sample of more complex unquoted investments including property and long dated derivative swaps, futures, longevity swaps and infrastructure loan notes.
- In respect of more complex pooled investments, including private equity funds, we performed one or more of the following additional procedures;
  - For fair values based on NAV statements from fund managers, we inspected NAV statements.
  - Agreed valuation statements from fund managers to audited fund financial statements where they were available.
  - Review of investment managers controls reports in respect of valuation controls.
  - Review of recent transaction prices for the fund where available.

Relevant references in the Annual Report and Accounts 2020

Note 1: Basis of preparation and significant accounting policies 1.2(h) Employee compensation and benefits, page 94.
Note 3: Employee compensation and benefits, page 96.

Information Technology (‘IT’) Access Management

Nature of key audit matter	Matters discussed with the Audit Committee
HSBC Group has operations across a number of countries supporting a wide range of products and services, resulting in an IT environment that is large, complex and increasingly reliant on third parties. HSBC UK ’s financial reporting processes rely upon a significant element of this IT environment, both within Finance and the business and operations more broadly. Access management controls are an important part of the IT environment to ensure both access and changes made to systems and data are appropriate. Our audit approach relies extensively on the effectiveness of IT access management. As part of our audit work in prior periods, we identified control deficiencies in relation to IT access management for systems and data relevant to financial reporting. Management has an ongoing remediation programme to address these matters.	The significance of IT access management to our audit was discussed at Audit Committee meetings during the year, as well as progress on the remediation programme, control deficiencies identified and related audit responses.

Procedures performed to support our discussions and conclusions

IT access management controls were tested for systems and data relevant to financial reporting that we relied upon as part of our audit. Specifically we tested controls over:

- Authorising new access requests;
- The timely removal of access rights;
- Periodic monitoring of the appropriateness of access rights to systems and data;
- Restricting highly privileged access to appropriate personnel;
- The accuracy of information about IT users to facilitate access management;
- Segregation of access across IT and business functions;
- Changes made to systems and data; and
- Understanding and assessing reliance on third parties, including Service Organisation controls reports.

We also independently assessed password policies and system configurations, and performed substantive audit procedures in relation to access right removal, privileged access, IT user information and segregation of duties. We performed further testing where control deficiencies were identified, including:

- Where inappropriate access was identified, we understood and assessed the nature of the access, and where possible, obtained additional evidence on the appropriateness of activities performed; and,
- Where necessary, identified and tested compensating business controls and performed other audit procedures that addressed the risk that inappropriate changes were made to systems and data.

Impact of Coronavirus disease (Covid-19)

Nature of key audit matter	Matters discussed with the Audit Committee
The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of most substantial impacts being the transition to remote working. A substantial proportion of HSBC UK’s employees worked remotely during 2020, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the financial statements. The impact on the most significant accounting judgements and our audit is set out in the ‘Expected credit losses ('ECL') provision for loans and advances’ key audit matter in this report. We have also considered the impact of the Covid-19 pandemic in our conclusions relating to going concern.	We discussed our assessment of the impact of Covid-19 on HSBC UK’s operations and control environment with the Audit Committee. We also explained how we planned to execute our audit with substantially all of our audit team working remotely.

Procedures performed to support our discussions and conclusions

We engaged with the Board and management at HSBC UK in a manner consistent with our previous audits, albeit remotely using video and telephone calls. Substantially all of the information and audit evidence we needed for the HSBC UK audit was provided in electronic format. We shared information, including the audit evidence provided to us by HSBC UK, using share-screen functionality in video calls and our secure encrypted information sharing software.

We understood and assessed the transition of HSBC UK employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls.

Where HSBC UK undertook new business activities as a result of Covid-19, for example, the government sponsored lending programmes, we assessed the audit risks and designed appropriate audit procedures.

Financial statements

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Consolidated income statement

for the year ended 31 December

	Notes	2020 £m	2019 £m
Net interest income		**4,551**	4,752
– interest income[1,2,3]		**5,197**	5,696
– interest expense[4]		**(646)**	(944)
Net fee income	2	**1,016**	1,230
– fee income		**1,191**	1,456
– fee expense		**(175)**	(226)
Net income from financial instruments held for trading or managed on a fair value basis		**357**	400
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(1)**	2
Gains less losses from financial investments		**73**	48
Other operating income		**35**	52
Net operating income before change in expected credit losses and other credit impairment charges		**6,031**	6,484
Change in expected credit losses and other credit impairment charges		**(2,115)**	(613)
Net operating income		**3,916**	5,871
Employee compensation and benefits	3	**(985)**	(934)
General and administrative expenses		**(2,404)**	(3,601)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(181)**	(170)
Amortisation and impairment of intangible assets		**(183)**	(156)
Total operating expenses		**(3,753)**	(4,861)
Operating profit		**163**	1,010
Profit before tax		**163**	1,010
Tax expense	5	**(83)**	(494)
Profit for the year		**80**	516
Attributable to:			
– ordinary shareholders of the parent company		**76**	512
– non-controlling interests		**4**	4
Profit for the year		**80**	516

1 *Interest income recognised on financial assets measured at amortised cost is £5,015m (2019: £5,459m).*
2 *Interest income recognised on financial assets measured at FVOCI is £182m (2019: £237m).*
3 *Interest revenue calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*
4 *Interest expense on financial instruments, excluding interest on trading liabilities designated or otherwise mandatorily measured at fair value is £638m (2019: £943m).*

Consolidated statement of comprehensive income

for the year ended 31 December

	2020	2019
	£m	£m
Profit for the year	**80**	516
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	**142**	(4)
– fair value gains	**258**	42
– fair value gains transferred to the income statement on disposal	**(73)**	(48)
– expected credit losses recognised in the income statement	**6**	1
– income taxes	**(49)**	1
Cash flow hedges	**13**	34
– fair value gains	**2**	39
– fair value losses reclassified to the income statement	**15**	7
– income taxes	**(4)**	(12)
Exchange differences	**(5)**	1
– other exchange differences	**(5)**	1
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**553**	(207)
– before income taxes	**823**	(268)
– income taxes	**(270)**	61
Other comprehensive income/(expense) for the year, net of tax	**703**	(176)
Total comprehensive income for the year	**783**	340
Attributable to:		
– ordinary shareholders of the parent company	**779**	336
– non-controlling interests	**4**	4
Total comprehensive income for the year	**783**	340

Consolidated balance sheet

at 31 December

	Notes	2020 £m	2019 £m
Assets			
Cash and balances at central banks		**76,429**	37,030
Items in the course of collection from other banks		**253**	504
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	**26**	66
Derivatives	9	**155**	121
Loans and advances to banks		**1,514**	1,389
Loans and advances to customers		**191,233**	183,056
Reverse repurchase agreements – non-trading		**2,485**	3,014
Financial investments	10	**19,309**	19,737
Prepayments, accrued income and other assets	16	**9,310**	8,203
Current tax assets		**49**	—
Interests in joint ventures	12	**8**	9
Goodwill and intangible assets	15	**4,093**	3,973
Total assets		**304,864**	257,102
Liabilities and equity			
Liabilities			
Deposits by banks		**540**	529
Customer accounts		**259,341**	216,214
Repurchase agreements – non-trading		**6,150**	98
Items in the course of transmission to other banks		**132**	343
Derivatives	9	**365**	201
Debt securities in issue	17	**866**	3,142
Accruals, deferred income and other liabilities	18	**1,941**	1,834
Current tax liabilities		**—**	409
Provisions	19	**979**	1,325
Deferred tax liabilities	5	**1,677**	1,223
Subordinated liabilities	20	**10,015**	9,533
Total liabilities		**282,006**	234,851
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**7,838**	7,688
Retained earnings		**3,749**	3,292
Total shareholders' equity		**22,798**	22,191
Non-controlling interests		**60**	60
Total equity		**22,858**	22,251
Total liabilities and equity		**304,864**	257,102

The accompanying notes on pages 88 to 126, and the audited sections in: the 'Financial Summary' on pages 12 to 16 and the 'Report of the Directors' on pages 19 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

John David Stuart

Director

Consolidated statement of cash flows

for the year ended 31 December

	2020 £m	2019 £m
Profit before tax	**163**	1,010
Adjustments for non-cash items:		
Depreciation and amortisation	**364**	326
Net gain from investing activities	**(73)**	(49)
Change in expected credit losses gross of recoveries and other credit impairment charges	**2,180**	697
Provisions including pensions	**28**	1,248
Share-based payment expense	**22**	17
Elimination of exchange differences[1]	**(85)**	255
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**133**	(161)
Change in loans and advances to banks and customers	**(10,353)**	(8,306)
Change in reverse repurchase agreements – non-trading	**529**	408
Change in financial assets designated and otherwise mandatorily measured at fair value	**40**	(31)
Change in other assets	**(773)**	511
Change in deposits by banks and customer accounts	**43,138**	10,879
Change in repurchase agreements – non-trading	**6,052**	(541)
Change in debt securities in issue	**(2,276)**	3,142
Change in other liabilities	**93**	(1,621)
Contributions paid to defined benefit plans	**(202)**	(115)
Tax paid	**(404)**	(360)
Net cash from operating activities	**38,576**	7,309
Purchase of financial investments	**(27,644)**	(19,300)
Proceeds from the sale and maturity of financial investments	**28,848**	12,629
Net cash flows from the purchase and sale of property, plant and equipment	**(58)**	(69)
Net investment in intangible assets	**(303)**	(319)
Net cash from investing activities	**843**	(7,059)
Subordinated loan capital issued[2]	**—**	4,619
Dividends paid to shareholders of the parent company and non-controlling interests	**(226)**	(455)
Net cash from financing activities	**(226)**	4,164
Net increase in cash and cash equivalents	**39,193**	4,414
Cash and cash equivalents at 1 Jan	**38,086**	33,817
Exchange differences in respect of cash and cash equivalents	**143**	(145)
Cash and cash equivalents at 31 Dec[3]	**77,422**	38,086
Cash and cash equivalents comprise:		
– cash and balances at central banks	**76,429**	37,030
– items in the course of collection from other banks	**253**	504
– loans and advances to banks of one month or less	**677**	787
– treasury bills, other bills and certificates of deposit less than three months	**—**	23
– cash collateral and net settlement accounts	**195**	85
– less: items in the course of transmission to other banks	**(132)**	(343)
Cash and cash equivalents at 31 Dec[3]	**77,422**	38,086

Interest received was £5,204m (2019: £5,648m) and interest paid was £705m (2019: £987m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £nil (2019: £4,619m). Non-cash changes during the year included foreign exchange gains/(losses) of £92m (2019: £(23)m).*
3 *At 31 December 2020 £nil (2019: £627m) was not available for use by the group, £nil (2019: £627m) related to mandatory deposits at central banks.*

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves				Total share-holders' equity	Non-controlling interests	Total equity
				Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group re-organisation reserve[2]			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	**9,015**	**2,196**	**3,292**	**9**	**(12)**	**—**	**7,691**	**22,191**	**60**	**22,251**
Profit for the year	**—**	**—**	**76**	**—**	**—**	**—**	**—**	**76**	**4**	**80**
Other comprehensive income (net of tax)	**—**	**—**	**553**	**137**	**13**	**—**	**—**	**703**	**—**	**703**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**142**	**—**	**—**	**—**	**142**	**—**	**142**
– cash flow hedges	**—**	**—**	**—**	**—**	**13**	**—**	**—**	**13**	**—**	**13**
– remeasurement of defined benefit asset/liability	**—**	**—**	**553**	**—**	**—**	**—**	**—**	**553**	**—**	**553**
– exchange differences	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**(5)**	**—**	**(5)**
Total comprehensive income for the year	**—**	**—**	**629**	**137**	**13**	**—**	**—**	**779**	**4**	**783**
Dividends to shareholders	**—**	**—**	**(222)**	**—**	**—**	**—**	**—**	**(222)**	**(4)**	**(226)**
Other movements[1]	**—**	**—**	**50**	**—**	**—**	**—**	**—**	**50**	**—**	**50**
At 31 Dec 2020	**9,015**	**2,196**	**3,749**	**146**	**1**	**—**	**7,691**	**22,798**	**60**	**22,858**
At 1 Jan 2019	9,015	2,196	3,405	14	(46)	(2)	7,691	22,273	60	22,333
Profit for the year	—	—	512	—	—	—	—	512	4	516
Other comprehensive income (net of tax)	—	—	(207)	(5)	34	2	—	(176)	—	(176)
– debt instruments at fair value through other comprehensive income	—	—	—	(4)	—	—	—	(4)	—	(4)
– cash flow hedges	—	—	—	—	34	—	—	34	—	34
– remeasurement of defined benefit asset/liability	—	—	(207)	—	—	—	—	(207)	—	(207)
– exchange differences	—	—	—	(1)	—	2	—	1	—	1
Total comprehensive income for the year	—	—	305	(5)	34	2	—	336	4	340
Dividends to shareholders	—	—	(451)	—	—	—	—	(451)	(4)	(455)
Other movements[1]	—	—	33	—	—	—	—	33	—	33
At 31 Dec 2019	9,015	2,196	3,292	9	(12)	—	7,691	22,191	60	22,251

1 *Relates primarily to £31m pension assets transfer from HSBC Global Services (UK) Limited (2019: £33m) and share based payments costs of £18m in 2020 (2019: £10m).*

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

HSBC UK Bank plc balance sheet

at 31 December

	Notes	2020 £m	2019 £m
Assets			
Cash and balances at central banks		**76,419**	37,020
Items in the course of collection from other banks		**137**	355
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	**26**	66
Derivatives	9	**155**	118
Loans and advances to banks		**3,790**	4,643
Loans and advances to customers		**186,800**	173,901
Reverse repurchase agreements – non-trading		**2,485**	3,014
Financial investments	10	**19,309**	19,737
Investments in subsidiaries	13	**1,014**	1,600
Prepayments, accrued income and other assets	16	**8,985**	8,216
Current tax assets		**48**	—
Interests in joint ventures	12	**5**	5
Goodwill and intangible assets	15	**1,030**	881
Total assets		**300,203**	249,556
Liabilities and equity			
Liabilities			
Deposits by banks		**2,161**	4,277
Customer accounts		**256,353**	207,830
Repurchase agreements – non-trading		**6,150**	98
Items in the course of transmission to other banks		**129**	336
Derivatives	9	**365**	197
Debt securities in issue	17	**641**	2,917
Accruals, deferred income and other liabilities	18	**1,809**	2,271
Current tax liabilities		**—**	362
Provisions	19	**870**	1,114
Deferred tax liabilities	5	**1,710**	1,255
Subordinated liabilities	20	**9,936**	9,454
Total liabilities		**280,124**	230,111
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**5,395**	5,245
Retained earnings		**3,473**	2,989
Total equity		**20,079**	19,445
Total liabilities and equity		**300,203**	249,556

Profit after tax for the year was £104m (2019: £273m).

The accompanying notes on pages 88 to 126, and the audited sections of the 'Report of the Directors' on pages 19 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 22 February 2021 and signed on its behalf by:

John David Stuart

Director

HSBC UK Bank plc statement of cash flows

for the year ended 31 December

	2020 £m	2019 £m
Profit before tax	**184**	715
Adjustments for non-cash items:		
Depreciation and amortisation	**339**	289
Net gain/(loss) from investing activities	**(69)**	435
Change in expected credit losses gross of recoveries and other credit impairment charges	**1,952**	537
Provisions including pensions	**23**	1,005
Share-based payment expense	**21**	14
Elimination of exchange differences[1]	**(85)**	255
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**134**	(162)
Change in loans and advances to banks and customers	**(14,010)**	(8,392)
Change in reverse repurchase agreements – non-trading	**529**	408
Change in financial assets designated and otherwise mandatorily measured at fair value	**40**	(31)
Change in other assets	**204**	322
Change in deposits by banks and customer accounts	**46,407**	10,984
Change in repurchase agreements – non-trading	**6,052**	(541)
Change in debt securities in issue	**(2,276)**	2,917
Change in other liabilities	**(365)**	(875)
Contributions paid to defined benefit plans	**(202)**	(115)
Tax paid	**(356)**	(286)
Net cash from operating activities	**38,522**	7,479
Purchase of financial investments	**(27,644)**	(19,300)
Proceeds from the sale and maturity of financial investments	**28,848**	12,629
Net cash flows from the purchase and sale of property, plant and equipment	**(39)**	(50)
Net investment in intangible assets	**(302)**	(306)
Net cash from investing activities	**863**	(7,027)
Subordinated loan capital issued[2]	**—**	4,619
Dividends paid to shareholders of the parent company	**(222)**	(451)
Net cash from financing activities	**(222)**	4,168
Net increase in cash and cash equivalents	**39,163**	4,620
Cash and cash equivalents at 1 Jan	**38,148**	33,673
Exchange differences in respect of cash and cash equivalents	**143**	(145)
Cash and cash equivalents at 31 Dec[3]	**77,454**	38,148
Cash and cash equivalents comprise:		
– cash and balances at central banks	**76,419**	37,020
– items in the course of collection from other banks	**137**	355
– loans and advances to banks of one month or less	**832**	1,001
– treasury bills, other bills and certificates of deposit less than three months	**—**	23
– cash collateral and net settlement accounts	**195**	85
– less: items in the course of transmission to other banks	**(129)**	(336)
Cash and cash equivalents at 31 Dec[3]	**77,454**	38,148

Interest received was £4,913m (2019: £5,183m), interest paid was £672m (2019: £971m) and dividends received were £42m (2019: £180m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £nil (2019: £4,619m). Non-cash changes during the year included foreign exchange gains/(losses) of £92m (2019: (£23)m).*
3 *At 31 December 2020, £nil (2019: £617m) was not available for use by the bank, £nil (2019: £617m) related to mandatory deposits at central banks.*

HSBC UK Bank plc statement of changes in equity

for the year ended 31 December

				Other reserves				
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group re-organisation[2] reserve	Total share-holders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	**9,015**	**2,196**	**2,989**	**9**	**(12)**	**—**	**5,248**	**19,445**
Profit for the year	**—**	**—**	**104**	**—**	**—**	**—**	**—**	**104**
Other comprehensive income (net of tax)	**—**	**—**	**553**	**137**	**13**	**—**	**—**	**703**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**142**	**—**	**—**	**—**	**142**
– cash flow hedges	**—**	**—**	**—**	**—**	**13**	**—**	**—**	**13**
– remeasurement of defined benefit asset/liability	**—**	**—**	**553**	**—**	**—**	**—**	**—**	**553**
– exchange differences	**—**	**—**	**—**	**(5)**	**—**	**—**	**—**	**(5)**
Total comprehensive income for the year	**—**	**—**	**657**	**137**	**13**	**—**	**—**	**807**
Dividends to shareholders	**—**	**—**	**(222)**	**—**	**—**	**—**	**—**	**(222)**
Other movements[1]	**—**	**—**	**49**	**—**	**—**	**—**	**—**	**49**
At 31 Dec 2020	**9,015**	**2,196**	**3,473**	**146**	**1**	**—**	**5,248**	**20,079**
At 1 Jan 2019	9,015	2,196	3,341	14	(46)	(2)	5,248	19,766
Profit for the year	—	—	273	—	—	—	—	273
Other comprehensive income (net of tax)	—	—	(207)	(5)	34	2	—	(176)
– debt instruments at fair value through other comprehensive income	—	—	—	(4)	—	—	—	(4)
– cash flow hedges	—	—	—	—	34	—	—	34
– remeasurement of defined benefit asset/liability	—	—	(207)	—	—	—	—	(207)
– exchange differences	—	—	—	(1)	—	2	—	1
Total comprehensive income for the year	—	—	66	(5)	34	2	—	97
Dividends to shareholders	—	—	(451)	—	—	—	—	(451)
Other movements[1]	—	—	33	—	—	—	—	33
At 31 Dec 2019	9,015	2,196	2,989	9	(12)	—	5,248	19,445

1 *Relates primarily to £31m pension assets transfer from HSBC Global Services (UK) Limited in 2020 (2019: £33m) and share based payments costs of £17m in 2020 (2019: £9m).*

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

Notes on the financial statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC UK and the separate financial statements of the bank comply with international accounting standards in conformity with the requirements of the Companies Act 2006 and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. 'Interest Rate Benchmark Reform – Phase 2,' which amends IFRS 9, IAS 39 'Financial Instruments', IFRS 7 'Financial Instruments,' IFRS 4 'Insurance Contracts' and IFRS 16 'Leases', was adopted for use in the UK and EU in January 2021 and has been early adopted as set out below. Therefore, there were no unendorsed standards effective for the year ended 31 December 2020 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2020

Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 issued in August 2020 represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

These amendments apply from 1 January 2021 with early adoption permitted. HSBC UK adopted the amendments from 1 January 2020 and made the additional disclosures as required by the amendments. Further information is included in Note 9 and in 'Financial instruments impacted by Ibor reform' on page 26.

Other changes

In addition, the group has adopted a number of interpretations and amendments to standards, which have had an insignificant effect on the consolidated financial statements of the group and the separate financial statements of the bank. Other than as noted above, accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments to IFRSs which are effective from 1 January 2021. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2022 and 1 January 2023. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of the bank.

New IFRSs

IFRS 17 'Insurance Contracts'

The IASB has published IFRS 17 'Insurance Contracts'. IFRS 17 has not yet been endorsed but is not expected to have a significant impact on the consolidated financial statements of the group and the separate financial statements of the bank.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2020* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments are included in the 'Report of the Directors | Risk' on pages 19 to 62; and
- capital disclosures are included in the 'Report of the Directors | Risk' on pages 55 to 57.

In publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in Section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain

critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Segmental analysis

HSBC UK's chief operating decision-maker is the group Chief Executive, supported by the group Executive Committee, and operating segments are reported in a manner consistent with the internal reporting provided to the group Chief Executive and the group Executive Committee.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Products and services'.

(g) Going concern

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

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The election is made for each business combination.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on the business lines described in the Strategic Report. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects	• The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control • Key assumptions used in estimating goodwill impairment are described in Note 15.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of the group, based on either financial statements made up to 31 December, or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for

impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Critical accounting estimates and judgements

The effective interest rate applied to interest income recognised on credit card lending includes significant estimates and judgements related to their behavioural life. This life is estimated based on internal models and is reviewed regularly to reflect actual experience. The application of the effective interest rate method to credit card lending has resulted in the recognition of £129m (2019: £147m) within loans and advances to customers at 31 December 2020.

Judgements	Estimates
• The estimated life is reviewed annually and management has assessed seven years as continuing to be the most appropriate life. The impact of reducing the estimated life to six years would be a reduction in EIR asset of £16m. • A key metric is the stick rate, being the proportion of acquired balances which remain on book after the end of promotional period. Where actual experience differs from forecasts, an adjustment to the carrying value of the asset is required to be recognised in the financial statements.	Management has assessed the sensitivity of balance and interest assumptions by considering the impact of changes as follows: • a decrease in the closing balance stick rate assumption of 5% would decrease the asset value by £6.5m (2019: £7.7m); • similarly, a decrease in the assumed interest yield of 5% would decrease the asset value by £17.8m (2019: £17.0m). (The interest yield assumption is the amount of interest receivable over the life of the account).

Non-interest income and expense

The group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when it delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The group buys and sells currencies to customers, as principal and presents the results of this activity, including the related gains and losses from changes in foreign exchange rates, as trading.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the solely payments of principal and interest ('SPPI') test, see (d).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 7, 'Fair values of financial instruments carried at fair value'.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Finance lease receivables

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any impairment allowance. The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment.

(e) Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Where the derivatives are managed with debt securities issued by the group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(g) Impairment of amortised cost and FVOCI financial assets

ECL are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial

assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently, as set out below.

Credit impaired (stage 3)

The group determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications other than renegotiated loans

Loan modifications that are not identified as renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC UK rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD'), which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 25 – Risk rating scales.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporates all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected, and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the group calculates ECL using three main components: a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The group leverages the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	Through the cycle (represents long-run average PD throughout a full economic cycle). The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages.	Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). Default backstop of 90+ days past due for all portfolios.
EAD	Cannot be lower than current balance.	Amortisation captured for term products.
LGD	Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn). Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. Discounted using cost of capital. All collection costs included.	Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral). No floors. Discounted using the original effective interest rate of the loan. Only costs associated with obtaining/selling collateral included.
Other		Discounted back from point of default to balance sheet date.

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis and may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 36.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk. • Determining the lifetime and point of initial recognition of overdrafts and credit cards. • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss. • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.	• The sections marked as audited on pages 36 to 41, 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(h) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a pension plan which provides defined benefit and defined contribution pensions.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets (see policy (c), after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The cost of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

Critical accounting estimates and judgements

The most significant critical accounting estimates relate to the determination of key assumptions applied in calculating the defined benefit pension obligation.

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation and the sensitivity of the calculation to different assumptions are described in Note 3.

(i) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(j) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations. • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. • Provisions for customer remediation also require significant levels of estimation. The amounts of provisions recognised depend on a number of different assumptions, the most significant of which are the uphold rate and average redress for complaints yet to be worked. More information about these assumptions is included in Note 19.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(k) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying values of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 15).

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(l) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

2 Net fee income

	Year ended	
	31 Dec	31 Dec[1]
	2020	2019
Net fee income by product	**£m**	£m
Account services[2]	**263**	357
Funds under management	**105**	88
Cards[2]	**369**	507
Credit facilities	**121**	103
Imports/exports	**29**	49
Insurance agency commission	**47**	47
Receivables finance	**84**	85
Other	**173**	220
Fee income	**1,191**	1,456
Less: fee expense	**(175)**	(226)
Net fee income	**1,016**	1,230
Net fee income by global business		
Wealth and Personal Banking	**514**	695
Commercial Banking	**682**	725
Global Banking and Markets	**(177)**	(180)
Corporate Centre	**(3)**	(10)

1 *A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly. For further guidance, refer to page 13 under Segmental analysis.*
2 *At 31 December 2020, HSBC UK changed its accounting practice to include certain Account services fee income within Cards. Comparatives have been re-presented. The net effect of these changes reduced Account services and increased Cards by £184m (2019: £226m).*

Net fee income includes £977m of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2019: £1,125m), £133m of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2019: £174m), £13m of fees earned on trust and other fiduciary activities (2019: £69m).

3 Employee compensation and benefits

	2020	2019
	£m	£m
Wages and salaries	**889**	887
Social security costs	**87**	89
Post-employment benefits	**9**	(42)
Year ended 31 Dec	**985**	934

Average number of persons employed by the group during the year

	2020	2019[1]
Wealth and Personal Banking	**16,856**	17,650
Commercial Banking	**5,102**	5,058
Global Banking and Markets	**55**	54
Corporate Centre	**187**	273
Year ended 31 Dec	**22,200**	23,035

1 *A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly. For further guidance, refer to page 13 under Segmental analysis.*

Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2020	2019
	£m	£m
Restricted share awards	**4**	6
Savings-related and other share award option plans	**18**	10
Year ended 31 Dec	**22**	16

HSBC Group share awards

Award	Policy
Deferred share awards (including annual incentive awards, LTI awards delivered in shares) and GPSP	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. • Deferred share awards generally vest over a period of three, five or seven years. • Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. • Awards granted from 2010 onwards are subject to a malus provision prior to vesting. • Awards granted to Market Risk Takers from 2015 onwards are subject to clawback post vesting.
International Employee Share Purchase Plan ('ShareMatch')	• The plan was first introduced in Hong Kong in 2013 and now includes employees based in 27 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC Group share awards

	2020	2019
	Number	Number
	(000s)	(000s)
Restricted share awards outstanding at 1 Jan	**1,288**	999
Additions during the year	**1,308**	1,156
Released in the year	**(1,008)**	(831)
Forfeited in the year	**(63)**	(36)
Restricted share awards outstanding at 31 Dec	**1,525**	1,288
Weighted average fair value of awards granted (£)	**5.21**	5.98

HSBC Group share option plans

Plans	Policy
Savings-related share option plans ('Sharesave')	• Eligible employees can save up to £500 per month with the option to use the savings to acquire shares. • Exercisable within six months following either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2019: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC Group share option plans

	Savings-related share option plans	
	Number	WAEP[1]
	(000s)	£
Outstanding at 1 Jan 2020	**28,470**	**4.84**
Granted during the year	**51,386**	**2.63**
Exercised during the year	**(787)**	**4.49**
Expired during the year	**(309)**	**4.59**
Forfeited during the year	**(18,945)**	**4.83**
Outstanding at 31 Dec 2020	**59,815**	**2.96**
– Of which exercisable	***3,460***	***4.59***
Weighted average remaining contractual life (years)	**3.65**	
Outstanding at 1 Jan 2019	24,463	4.97
Granted during the year	14,125	4.69
Exercised during the year	(5,152)	4.43
Expired during the year	(37)	4.24
Forfeited during the year	(4,929)	5.45
Outstanding at 31 Dec 2019	28,470	4.84
– Of which exercisable	*891*	*4.53*
Weighted average remaining contractual life (years)	2.78	

1 *Weighted average exercise price.*

Post-employment benefit plans

We operate a pension plan for our employees called the HBUK section of the HSBC Bank (UK) Pension Scheme ('the plan'), which has both defined benefit and defined contribution sections. The HSBC Bank (UK) Pension Scheme was fully sectionalised in 2018 to meet the requirements of the Banking Reform Act.

The Pension Risk section on page 54 contains details about the policies and practices associated with the plan.

The defined benefit section was closed to future benefit accrual in 2015, with Group defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by the HSBC Group. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The investment strategy of the plan is to hold the majority of assets in bonds, with the remainder in a diverse range of investments. It also includes some interest rate swaps to reduce interest rate risk and inflation swaps to reduce inflation risk. The investment strategy is not static and will evolve to reflect the structure of liabilities within the plan.

The latest funding valuation of the plan at 31 December 2019 was carried out by Colin G Singer, at Willis Towers Watson Limited, who is a Fellow of the UK Institute and Faculty of Actuaries, using the projected unit credit method. At that date, the market value of the plan's assets was £31.1bn and this exceeded the value placed on its liabilities on an ongoing basis by £2.5bn, giving a funding level of 109%. These figures include defined contribution assets amounting to £2.4bn. The main differences between the assumptions used for assessing the liabilities for this funding valuation and those used for IAS19 are more prudent assumptions for discount rate, inflation rate and life expectancy. The next funding valuation will have an effective date of 31 December 2022.

Although the plan was in surplus at the valuation date, an additional contribution of £160m will be made to the plan in 2021 to support a lower-risk investment strategy over the longer term.

The actuary also assessed the value of the liabilities if the HBUK section of the plan were to have been stopped and an insurance company asked to secure all future pension payments. This is generally larger than the amount needed on the ongoing basis described above because an insurance company would use more prudent assumptions and include a more prudent allowance for the future administrative expenses of the plan. Under this approach, the amount of assets needed was estimated to be £33bn at 31 December 2019.

The Trust Deed gives the ability for HSBC UK to take a refund of surplus assets after the plan has been run down such that no further beneficiaries remain. In assessing whether a surplus is recoverable HSBC UK has considered its right to obtain a future refund together with the rights of third parties such as trustees. On this basis, any net surplus in the HBUK section of the plan is recognised in HSBC UK's financial statements.

Guaranteed Minimum Pension Equalisation

Following a judgement issued by the High Court of Justice of England and Wales in 2018, we estimated the financial effect of equalising benefits in respect of guaranteed minimum pensions ('GMP') equalisation, and any potential conversion of GMPs into non-GMP benefits, to be an approximate 0.9% increase in the plan's liabilities for members of the plan, or £187m. This was recognised in the Income Statement in 2018. A further judgement by the High Court on 20 November 2020 ruled that GMPs should be also equalised for those who had previously transferred benefits from the plan to another arrangement, with an estimated £13m consequently being recognised in 2020. We continue to assess the impact of GMP equalisation.

Income statement charge

	2020	2019
	£m	£m
Defined benefit pension plans	**(65)**	(115)
Defined contribution pension plans	**74**	73
Pension plans	**9**	(42)
Year ended 31 Dec	**9**	(42)

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit assets/(liabilities)
	£m	£m	£m
At 1 Jan 2020	**28,647**	**(22,811)**	**5,836**
Service cost	**—**	**(38)**	**(38)**
– current service cost	**—**	**(7)**	**(7)**
– past service cost	**—**	**(31)**	**(31)**
Net interest income/(cost) on the net defined benefit asset/(liability)	**566**	**(448)**	**118**
Remeasurement effects recognised in other comprehensive income	**2,474**	**(1,651)**	**823**
– return on plan assets (excluding interest income)	**2,474**	**—**	**2,474**
– actuarial losses financial assumptions	**—**	**(2,478)**	**(2,478)**
– actuarial gain other[1]	**—**	**827**	**827**
Transfers to/from the scheme	**151**	**(120)**	**31**
Benefits paid	**(895)**	**895**	**—**
Other movements[2]	**187**	**—**	**187**
At 31 Dec 2020	**31,130**	**(24,173)**	**6,957**
At 1 Jan 2019	26,687	(20,846)	5,841
Service cost	—	(26)	(26)
– current service cost	—	(7)	(7)
– past service cost and gains/(losses) from settlements	—	(19)	(19)
Net interest income/(cost) on the net defined benefit asset/(liability)	736	(571)	165
Remeasurement effects recognised in other comprehensive income	1,729	(1,998)	(269)
– return on plan assets (excluding interest income)	1,729	—	1,729
– actuarial losses financial assumptions	—	(2,392)	(2,392)
– actuarial gain other[1]	—	394	394
Transfers to/from the scheme	195	(162)	33
Benefits paid	(795)	795	—
Other movements[2]	95	(3)	92
At 31 Dec 2019	28,647	(22,811)	5,836

1 *Actuarial gain other includes gains for demographic assumptions of £67m (2019: £146m).*
2 *Other movements of Fair value of plan assets includes contributions by HSBC UK of £203m (2019: £116m), less administrative costs £16m (2019: £21m).*

HSBC UK expects to make total contributions of £170m to defined benefit pension plans during 2021, including £160m paid to support a lower-risk investment strategy over the longer term. Benefits expected to be paid from the plan to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plan

	2021	2022	2023	2024	2025	2026–2030
	£m	£m	£m	£m	£m	£m
The plan[1]	933	961	990	1,020	1,050	5,742

1 *The duration of the defined benefit obligation is 17.4 years under the disclosure assumptions adopted (2019:18.1 years).*

Fair value of plan assets by asset classes

	31 Dec 2020			31 Dec 2019		
	Value	**Quoted market price in active market**	**No quoted market price in active market**	Value	Quoted market price in active market	No quoted market price in active market
	£m	**£m**	**£m**	£m	£m	£m
The plan						
Fair value of plan assets	**31,130**	**27,603**	**3,527**	28,647	25,658	2,989
– equities	**196**	**5**	**191**	501	236	265
– bonds fixed income[1]	**12,985**	**12,459**	**526**	12,093	12,093	—
– bonds index linked	**13,526**	**13,526**	**—**	11,883	11,883	—
– derivatives	**1,445**	**—**	**1,445**	1,551	—	1,551
– property	**810**	**—**	**810**	1,173	—	1,173
– other[2]	**2,168**	**1,613**	**555**	1,446	1,446	—

1 *Bonds fixed income, includes £(1,445)m (2019: £(1,290)m) in relation to repurchase agreements.*
2 *Other includes £510m (2019: £280m) of quoted pooled investment vehicles and £555m (2019: £nil) of unquoted pooled investment vehicles.*

Post-employment defined benefit plan actuarial financial assumptions

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

Key actuarial assumptions for the plan

	Discount rate	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%
UK				
At 31 Dec 2020	**1.45**	**3.05**	**3.00**	**2.75**
At 31 Dec 2019	2.00	3.10	2.90	3.65

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
UK					
At 31 Dec 2020	**SAPS S3[1]**	**27.0**	**28.5**	**28.1**	**29.7**
At 31 Dec 2019	SAPS S2[2]	28.0	29.4	28.2	29.8

1 *Self-administered pension scheme ('SAPS') S3 table (male : 'Normal health pensioners, Light' version and females: 'Normal health pensioners, Heavy' version) with a multiplier of 1 for males and females pensioners. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2019 core projection model with an initial addition to improvements of 0.25% per annum and a long-term rate of improvement of 1.25% per annum.Separate tables have been applied to lower paid pensioners and dependants.*
2 *Self-administered pension scheme ('SAPS') S2 table (males: 'Normal Health Pensioners' version; females: 'All Pensioners' version) with a multiplier of 0.94 for males and 1.15 for females. Improvements are projected in accordance with the Continuous Mortality Investigation ('CMI') 2018 core projection model with a long-term rate of improvement of 1.25% per annum. Separate tables have been applied to lower paid pensioners and dependants.*

The effect of changes in key assumptions on the plan

	Impact on HSBC Bank (UK) Pension Scheme Obligation			
	Financial impact of increase		Financial impact of decrease	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(1,014)**	(987)	**1,082**	1,055
Inflation rate – increase/decrease of 0.25%	**638**	590	**(608)**	(559)
Pension payments and deferred pensions – increase/decrease of 0.25%	**957**	639	**(895)**	(776)
Pay – increase/decrease of 0.25%	**44**	54	**(43)**	(55)
Change in mortality – increase of 1 year	**1,064**	958	**N/A**	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this in unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Directors' emoluments

The aggregate emoluments of the Directors of the Company, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2020	2019
	£000	£000
Fees paid to non-executive Directors	**1,721**	1,793
Salaries and other emoluments[1]	**3,171**	3,459
Annual incentives[2]	**840**	901
Long-term incentives[3]	**360**	253
Year ended 31 Dec	**6,092**	6,406

1 *Salaries and other emoluments include Fixed Pay Allowances.*
2 *Discretionary annual incentives for the Executive Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Company's ultimate parent company, HSBC Holdings plc. Incentive awards made to Executive Directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £419,982 (2019: £450,576) in cash and £419,982 (2019: £450,576) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2020.*
3 *The amount shown is comprised of £225,569 (2019: £125,505) in deferred cash and £134,035 (2019: £127,395) in deferred Restricted Shares. These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2021. The total deferral period of deferred cash and share awards is no less than five years up to a maximum of seven years. Grants with a five-year deferral vest in five equal tranches on each anniversary of the grant date on a pro-rate basis. Grants with a seven-year deferral vest in five equal tranches on each anniversary from the third anniversary of the grant date on a pro-rata basis.The deferral periods and pro-rata calculations are in line with the requirements set out in the Remuneration rules applicable to Material Risk Takers. The share awards are subject to a retention period of six months to one year upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.*

No Directors exercised share options over HSBC Holdings plc ordinary shares during the year (2019: no Directors).

Awards were made to three Directors under HSBC Holdings plc long-term incentive plans in respect of qualifying services rendered in 2020 (2019: 3). During 2020, three Directors received shares in respect of awards in HSBC Holdings plc long-term incentive plans that vested during the year (2019: 3).

No retirement benefits accrued to Directors during the year in respect of their qualifying services (2019: no Directors). Three Directors received cash in lieu of pension contributions during the year in respect of their qualifying services (2019: 3). Cash received in lieu of pension is included in the salary and other emoluments disclosure in the table above.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2020	2019
	£000	£000
Salaries and other emoluments	1,749	2,104
Annual incentives[1]	453	503
Long-term incentives[2]	223	124
Year ended 31 Dec	**2,425**	2,731

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown is comprised of £226,549 (2019: £251,721) in cash and £226,549 (2019: £251,721) in Restricted Shares.*
2 *The amount shown is comprised of £136,615 (2019: £60,472) in deferred cash and £86,735 (2019: £63,902) in deferred Restricted Shares.*

These amounts represent a portion of the total award that will vest following satisfaction of the vesting condition attached to the 2020 awards. The total period of deferral for these cash and share awards is seven years with pro-rata vesting in five equal tranches between the third and seventh anniversary of the date granted. The vested share awards are then subject to a one-year retention period.

The highest paid Director received shares in respect of qualifying services under an HSBC Holdings plc long term incentive plan.

Pension contributions of £nil were made by the Company in respect of services by the highest paid Director during the year (2019: £nil).

4 Auditors' remuneration

	2020	2019
	£m	£m
Audit fees payable to PwC	5.6	5.1
Other audit fees payable	2.0	1.8
Year ended 31 Dec	**7.6**	6.9

Fees payable by the group to PwC

	2020	2019
	£m	£m
Audit fees for HSBC UK Bank plc's statutory audit[1]	4.5	4.0
Fees for other services provided to the group	3.1	2.9
– audit of the group's subsidiaries[2]	1.1	1.1
– audit-related assurance services[3]	2.0	1.8
Year ended 31 Dec	**7.6**	6.9

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC UK Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*
2 *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*
3 *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim and quarter reviews.*

No fees were payable to PwC as principal auditor for the following types of services: internal audit services and services related to litigation, recruitment and remuneration.

Fees payable for non-audit services for HSBC UK Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

5 Tax

Tax expense

	2020	2019
	£m	£m
Current tax	(10)	429
– for this year	(37)	452
– adjustments in respect of prior years	27	(23)
Deferred tax	93	65
– origination and reversal of temporary differences	36	71
– effect of changes in tax rates	58	(4)
– adjustments in respect of prior years	(1)	(2)
Year ended 31 Dec	**83**	494

The tax rate applying to HSBC UK Bank plc and its banking subsidiaries was 27%, comprising 19% UK corporation tax rate plus 8% surcharge tax rate on UK banking profits. The tax rate applicable for non-banking entities is 19% (2019:19%).

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2020		2019	
	£m	%	£m	%
Profit before tax	**163**		1,010	
Tax expense				
Taxation at UK corporation tax of 19.00% (2019: 19.00%)	**31**	**19.0**	192	19.0
Items increasing the tax charge in 2020:				
– change in tax rates	**58**	**35.6**	(4)	(0.4)
– adjustments in respect of prior period liabilities	**26**	**16.0**	(25)	(2.4)
– non-deductible costs in respect of regulatory and legal matters	**16**	**9.8**	—	—
– UK banking surcharge	**9**	**5.5**	73	7.2
Items reducing tax charge in 2020:				
– deductions for AT1 coupon payments	**(34)**	**(20.9)**	(36)	(3.6)
– non-deductible UK customer redress	**(23)**	**(14.1)**	301	29.8
– other permanent disallowables	**—**	**—**	(7)	(0.7)
Year ended 31 Dec	**83**	**50.9**	494	48.9

The effective tax rate for the year was 50.9% (2019: 48.9%). This is higher than the UK rate of corporation tax for banking entities of 27% (2019: 27%), with the largest adjusting item being a charge of £58m (2019: £nil) resulting from the remeasurement of deferred tax balances following cancellation of the planned reduction in the UK rate of corporation tax from 19% to 17% from 1 April 2020. This charge arises on the deferred tax liability associated with the defined benefit pension surplus, partially offset by credits arising on deferred tax assets.

Movement of deferred tax assets and liabilities

	Loan impairment provisions	Cash flow hedges	FVOCI reserves	Defined benefit pension	Fixed and intangible assets	Other	Total
	£m	£m	£m	£m	£m	£m	£m
The group							
At 1 Jan 2020	**130**	**4**	**(3)**	**(1,459)**	**98**	**7**	**(1,223)**
Income statement	**(7)**	**—**	**—**	**(109)**	**20**	**3**	**(93)**
Other comprehensive income	**—**	**(3)**	**(49)**	**(311)**	**—**	**2**	**(361)**
At 31 Dec 2020	**123**	**1**	**(52)**	**(1,879)**	**118**	**12**	**(1,677)**
Assets	**123**	**1**	**—**	**—**	**118**	**12**	**254**
Liabilities	**—**	**—**	**(52)**	**(1,879)**	**—**	**—**	**(1,931)**
At 1 Jan 2019	147	16	(4)	(1,460)	99	13	(1,189)
Income statement	(17)	—	—	(41)	(1)	(6)	(65)
Other comprehensive income	—	(12)	1	42	—		31
At 31 Dec 2019	130	4	(3)	(1,459)	98	7	(1,223)
Assets	130	4	—	—	98	7	239
Liabilities	—	—	(3)	(1,459)	—	—	(1,462)
The bank							
At 1 Jan 2020	**121**	**4**	**(3)**	**(1,459)**	**80**	**2**	**(1,255)**
Income statement	**(7)**	**—**	**—**	**(109)**	**15**	**9**	**(92)**
Other comprehensive income	**—**	**(3)**	**(49)**	**(311)**	**—**	**—**	**(363)**
At 31 Dec 2020	**114**	**1**	**(52)**	**(1,879)**	**95**	**11**	**(1,710)**
Assets	**114**	**1**	**—**	**—**	**95**	**11**	**221**
Liabilities	**—**	**—**	**(52)**	**(1,879)**	**—**	**—**	**(1,931)**
At 1 Jan 2019	137	16	(4)	(1,460)	81	6	(1,224)
Income statement	(16)	—	—	(41)	(1)	(4)	(62)
Other comprehensive income	—	(12)	1	42	—	—	31
At 31 Dec 2019	121	4	(3)	(1,459)	80	2	(1,255)
Assets	121	4	—	—	80	2	207
Liabilities	—	—	(3)	(1,459)	—	—	(1,462)

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the bank and the group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance. Management is satisfied that although the bank and the group recorded a tax loss for the year, as a result of the impacts of Covid-19, the aforementioned evidence is sufficient to support recognition of all deferred tax assets.

6 Dividends

Dividends to the shareholder of the parent company

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

Total coupons on capital securities classified as equity

	First call date	2020 £m	2019 £m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**60**	65
– £1,100m	Dec 2024	**62**	66
Total		**122**	131

7 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that can be accessed at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**26**	**–**	**–**	**26**	65	1	–	66
Derivatives	**5**	**150**	**–**	**155**	2	119	–	121
Financial investments	**19,013**	**296**	**–**	**19,309**	19,285	452	–	19,737
Liabilities								
Derivatives	**2**	**363**	**–**	**365**	4	197	–	201
The bank								
Recurring fair value measurements at 31 Dec								
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**26**	**–**	**–**	**26**	65	1	–	66
Derivatives	**5**	**150**	**–**	**155**	2	116	–	118
Financial investments	**19,013**	**296**	**–**	**19,309**	19,285	452	–	19,737
Liabilities								
Derivatives	**2**	**363**	**–**	**365**	3	194	–	197

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

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

8 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	£m	£m	£m	£m	£m
The group					
At 31 Dec 2020					
Assets					
Loans and advances to banks	**1,514**	**—**	**1,514**	**—**	**1,514**
Loans and advances to customers	**191,233**	**—**	**420**	**191,291**	**191,711**
Reverse repurchase agreements – non-trading	**2,485**	**—**	**2,485**	**—**	**2,485**
Liabilities					
Deposits by banks	**540**	**—**	**540**	**—**	**540**
Customer accounts	**259,341**	**—**	**259,341**	**—**	**259,341**
Repurchase agreements – non-trading	**6,150**	**—**	**6,150**	**—**	**6,150**
Debt securities in issue	**866**	**—**	**641**	**208**	**849**
Subordinated liabilities	**10,015**	**—**	**10,411**	**—**	**10,411**
At 31 Dec 2019					
Assets					
Loans and advances to banks	1,389	—	1,389	—	1,389
Loans and advances to customers	183,056	—	531	183,744	184,275
Reverse repurchase agreements – non-trading	3,014	—	3,014	—	3,014
Liabilities					
Deposits by banks	529	—	529	—	529
Customer accounts	216,214	—	216,214	—	216,214
Repurchase agreements – non-trading	98	—	98	—	98
Debt securities in issue	3,142	—	3,142	—	3,142
Subordinated liabilities	9,533	—	10,094	—	10,094
The bank					
At 31 Dec 2020					
Assets					
Loans and advances to banks	**3,790**	**—**	**3,790**	**—**	**3,790**
Loans and advances to customers	**186,800**	**—**	**420**	**186,848**	**187,268**
Reverse repurchase agreements – non-trading	**2,485**	**—**	**2,485**	**—**	**2,485**
Liabilities					
Deposits by banks	**2,161**	**—**	**2,161**	**—**	**2,161**
Customer accounts	**256,353**	**—**	**256,353**	**—**	**256,353**
Repurchase agreements – non-trading	**6,150**	**—**	**6,150**	**—**	**6,150**
Debt securities in issue	**641**	**—**	**641**	**—**	**641**
Subordinated liabilities	**9,936**	**—**	**10,332**	**—**	**10,332**
At 31 Dec 2019					
Assets					
Loans and advances to banks	4,643	—	4,643	—	4,643
Loans and advances to customers	173,901	—	531	174,480	175,011
Reverse repurchase agreements – non-trading	3,014	—	3,014	—	3,014
Liabilities					
Deposits by banks	4,277	—	4,277	—	4,277
Customer accounts	207,830	—	207,830	—	207,830
Repurchase agreements – non-trading	98	—	98	—	98
Debt securities in issue	2,917	—	2,917	—	2,917
Subordinated liabilities	9,454	—	10,015	—	10,015

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

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the group expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC believes are consistent with those that would be used by market participants in valuing such loans; and new business rates estimates for similar loans.

The fair value of loans reflects expected credit losses at the balance sheet date and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Deposits by banks and customer accounts

The fair values of deposits are approximated by their carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. When quoted market prices are unavailable, these instruments are valued using valuation techniques, the inputs for which are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

9 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**13,688**	**—**	**73**	**—**	**73**	**165**	**—**	**165**
Interest rate	**21,388**	**21,816**	**1,117**	**625**	**1,742**	**1,121**	**739**	**1,860**
Gross total fair values	**35,076**	**21,816**	**1,190**	**625**	**1,815**	**1,286**	**739**	**2,025**
Offset (Note 22)					**(1,660)**			**(1,660)**
At 31 Dec 2020	**35,076**	**21,816**	**1,190**	**625**	**155**	**1,286**	**739**	**365**
Foreign exchange	7,733	803	64	2	66	65	14	79
Interest rate	9,405	20,250	340	288	628	342	353	695
Gross total fair values	17,138	21,053	404	290	694	407	367	774
Offset (Note 22)					(573)			(573)
At 31 Dec 2019	17,138	21,053	404	290	121	407	367	201

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	**13,688**	**—**	**73**	**—**	**73**	**165**	**—**	**165**
Interest rate	**21,388**	**21,816**	**1,117**	**625**	**1,742**	**1,121**	**739**	**1,860**
Gross total fair values	**35,076**	**21,816**	**1,190**	**625**	**1,815**	**1,286**	**739**	**2,025**
Offset (Note 22)					**(1,660)**			**(1,660)**
At 31 Dec 2020	**35,076**	**21,816**	**1,190**	**625**	**155**	**1,286**	**739**	**365**
Foreign exchange	7,355	803	60	2	62	61	14	75
Interest rate	9,385	20,251	341	288	629	342	353	695
Gross total fair values	16,740	21,054	401	290	691	403	367	770
Offset (Note 22)					(573)			(573)
At 31 Dec 2019	16,740	21,054	401	290	118	403	367	197

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Use of derivatives

We undertake derivative activity for two primary purposes: to create risk management solutions for clients and to manage and hedge our own risks.

Trading derivatives

Most of the group's derivative transactions relate to sales and trading activities. Sales activities include marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities principally includes risk management. Risk management activity is undertaken to manage the risks arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Hedge accounting derivatives

The group applies hedge accounting to manage interest rate risk and foreign exchange risk. The 'Report of the Directors Risk' presents more details on how these risks arise and how they are managed by the group.

Fair value hedges

The group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet	Change in fair value[2]
Hedged risk	£m	£m	£m	presentation	£m
Interest rate[3]	**20,521**	**623**	**739**	**Derivatives**	**53**
At 31 Dec 2020	**20,521**	**623**	**739**		**53**
Interest rate[3]	17,740	280	350	Derivatives	62
At 31 Dec 2019	17,740	280	350		62

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
	Assets	Liabilities	Assets	Liabilities	Balance sheet	Change in fair value[1]	Recognised in profit and loss	Profit and loss
Hedged risk	£m	£m	£m	£m	presentation	£m	£m	presentation
Interest rate[4]	**15,798**		**164**		**Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income**	**321**	**3**	**Net income from financial instruments held for trading or managed on a fair value basis**
		6,001		**573**	**Subordinated Liabilities[3]**	**(371)**		
At 31 Dec 2020	**15,798**	**6,001**	**164**	**573**		**(50)**	**3**	
Interest rate[4]	12,289		133		Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income	148	4	Net income from financial instruments held for trading or managed on a fair value basis
		6,292		219	Subordinated Liabilities[3]	(206)		
At 31 Dec 2019	12,289	6,292	133	219		(58)	4	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were liabilities of £27m (2019: £26m) for FVOCI.*
3 *The notional amount of non-dynamic fair value hedges is equal to £5,947m (2019: £6,019m), of which the weighted-average maturity date is May 2028 and the weighted average swap rate is 1.71% (2019: 1.78%). These hedges are all internal to HSBC Group and hedges internal funding between Group and HSBC UK.*
4 *The hedged risk 'interest rate' includes inflation risk.*

The hedged item is either the benchmark interest rate risk portion within the fixed rate of the hedged item or the full fixed rate and it is hedged for changes in fair value due to changes in the benchmark interest rate risk.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

The disclosures for the group are materially the same as the disclosures for the bank.

Cash flow hedges

The group's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The group applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps, these are considered dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument					Hedged Item	Ineffectiveness	
	Carrying amount				Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation				Profit and loss presentation
Hedged risk	**£m**	**£m**	**£m**		**£m**	**£m**	**£m**	
Foreign currency	**—**	**—**	**—**	**Derivatives**	**(9)**	**(9)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**1,295**	**2**	**—**	**Derivatives**	**11**	**11**	**—**	
At 31 Dec 2020	**1,295**	**2**	**—**		**2**	**2**	**—**	
Foreign currency	803	2	14	Derivatives	16	16	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	2,510	8	3	Derivatives	24	23	1	
At 31 Dec 2019	3,313	10	17		40	39	1	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

Sources of hedge ineffectiveness may arise from basis risk, including but not limited to timing differences between the hedged items and hedging instruments and hedges using instruments with a non-zero fair value.

During the year to 31 December 2020, £nil (2019: Profit of £1m) was recognised due to hedge ineffectiveness.

The disclosures for the group are materially the same as the disclosures for the bank.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign Currency
	£m	£m
Cash flow hedging reserve at 1 Jan 2020	**(15)**	**3**
Fair value gains/(losses)	**11**	**(9)**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	**9**	**6**
Income taxes	**(4)**	**—**
Cash flow hedging reserve at 31 Dec 2020	**1**	**—**
Cash flow hedging reserve at 1 Jan 2019	(24)	(22)
Fair value gains/(losses)	23	16
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	(2)	9
Income taxes	(12)	—
Cash flow hedging reserve at 31 Dec 2019	(15)	3

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

The first set of amendments ('Phase 1') to IFRS 9 and IAS 39, published in September 2019 and endorsed in January 2020, primarily allows the assumption that the interbank offered rates ('Ibors') are to continue unaltered for the purposes of forecasting hedged cash flows until such time as the uncertainty of transitioning to near risk free rates ('RFRs') is resolved. The second set of amendments ('Phase 2'), issued in August 2020 and endorsed in January 2021, allows the modification of hedge documentation to reflect the components of hedge relationships that have transitioned to RFRs on an economically equivalent basis as a direct result of the Ibor transition.

While the application of Phase 1 amendments is mandatory for accounting periods starting on or after 1 January 2020, the group chose to early apply the Phase 2 amendments from the beginning of 2020. Significant judgement will be required in determining when Ibor transition uncertainty is resolved and therefore decide when Phase 1 amendments cease to apply and when some of the Phase 2 amendments can be applied.

The notional of the derivatives impacted by the Ibors reform but which are not used in designated hedge accounting relationships is disclosed on page 26 in the section 'Financial instruments impacted by Ibor reform'.

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

The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the Balance Sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue', and 'Deposits by banks'.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the group that is expected to be directly affected by market-wide Ibors reform and in scope of Phase 1 and Phase 2 amendments. The cross-currency swaps designated in hedge accounting relationships and affected by Ibors reform are not significant and have not been presented below:

Hedging instrument impacted by Ibor reform held by the group

	Hedging instrument					
	Impacted by Ibor reform				Not impacted by Ibor reform	Notional amount[1]
	€	£	$	Total		
	£m	£m	£m	£m	£m	£m
Fair value hedges	**1,264**	**3,750**	**2,197**	**7,211**	**13,310**	**20,521**
Cash flow hedges	**—**	**295**	**—**	**295**	**1,000**	**1,295**
At 31 Dec 2020	**1,264**	**4,045**	**2,197**	**7,506**	**14,310**	**21,816**
Fair value hedges	675	4,243	2,523	7,441	10,299	17,740
Cash flow hedges	—	2,210	—	2,210	300	2,510
At 31 Dec 2019	675	6,453	2,523	9,651	10,599	20,250

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

During 2019, the main market event in scope of Ibor reform was the change to the calculation of Eonia to be calculated as the euro short-term rate ('€STR') plus a fixed spread of 8.5 basis points. This event had no material impact to the valuation of components of designated hedge accounting relationships and there were no discontinuations of existing designated relationships. The main market events in scope of Ibor reform during 2020 were the changes applied by central clearing counterparties to remunerating euro and US dollar collateral. While there was a minimal valuation impact to the derivatives in scope that are used for hedge accounting, these changes had no discontinuation impact to any of the designated relationships affected.

For further details of Ibor transition, see 'Areas of special interest' in the Risk review on pages 25 to 26.

10 Financial investments

Carrying amount of financial investments

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Financial investments measured at fair value through other comprehensive income	**19,309**	19,737	**19,309**	19,737
– treasury and other eligible bills	**874**	3,708	**874**	3,708
– debt securities	**18,435**	16,029	**18,435**	16,029
At 31 Dec	**19,309**	19,737	**19,309**	19,737

11 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Debt securities	**7,428**	3,238	**7,428**	3,238
Other	**197**	107	**197**	107
Assets pledged at 31 Dec	**7,625**	3,345	**7,625**	3,345

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Financial investments	**7,184**	2,950	**7,184**	2,950
At 31 Dec	**7,184**	2,950	**7,184**	2,950

Collateral received

The fair value of assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that the group is permitted to sell or repledge in the absence of default was £3,436m (2019: £3,691m) and the bank. The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining. The fair value of financial assets accepted as collateral by the group and the bank that have been sold or repledged is £1,302m (2019: nil).

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and securities lent under securities lending agreements. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2020		2019	
	Carrying amount of:		Carrying amount of:	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
The group and bank	**£m**	**£m**	£m	£m
Repurchase agreements	**5,162**	**5,040**	846	98
Securities lending agreements	**2,022**	**—**	2,104	—

12 Interests in joint ventures

Vaultex UK Limited is a joint venture of the bank and the group. Vaultex UK Limited is incorporated in England and its principal activity is that of cash management services. At 31 December 2020, the group had a 50% interest in the £10m issued equity capital (2019: 50%).

For further detail see Note 29.

13 Investments in subsidiaries

Main subsidiaries of HSBC UK Bank plc

	Country of incorporation or registration	**HSBC UK Bank plc's interest in equity capital %**	**Share class**
HSBC Equipment Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Invoice Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Trust Company (UK) Limited	**England and Wales**	**100.00**	**Ordinary £5**
Marks and Spencer Financial Services plc	**England and Wales**	**100.00**	**Ordinary £1**

All the above prepare their financial statements up to 31 December.

Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 29. The principal country of operation is the same as the country of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC UK Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved plans and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- The growth rate reflects inflation and is based on the long-term average for the UK.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each investment are refined to reflect the UK rate of inflation.

On 1 January 2020, substantially all of HSBC Private Bank (UK) Limited's assets and liabilities were transferred to HSBC UK Bank plc after the High Court of Justice formally sanctioned on 9 December 2019 the Banking Business Transfer Scheme (including the acceptance of deposits), the provision of financial services and other related activities from HSBC Private Bank (UK) Limited to HSBC UK Bank plc under Part VII of the Financial Services and Markets Act 2000. An impairment of £483m was recognised on HSBC UK Bank plc's investment in HSBC Private Bank (UK) Limited on 31 December 2019, with there being no outstanding items at 31 December 2019 that would prevent the transfer occurring. The impairment arose because the cost of investment was higher than the consideration received for the net assets being transferred. During 2020, an additional impairment of £4m was recognised in HSBC Private Bank (UK) Limited, due to a reduction in the remaining nets assets of the entity.

14 Structured entities

The group is involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets and investment funds, established either by the group or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type:

	Securitisations £m	Total £m
At 31 Dec 2020	**373**	**373**
At 31 Dec 2019	397	397

Securitisations

In 2019, the group established a structured entity to securitise customer loans and advances to diversify its sources of funding for asset origination and capital efficiency purposes. The loans and advances were transferred by the group to the structured entity synthetically, and the structured entity issued debt securities to investors.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The group's interest in unconsolidated structured entities consist of unit holdings in four funds managed by a third party within the wider HSBC Group. The groups unit holdings are held to facilitate customer transactions and are recognised as Other assets with a carrying value and maximum exposure to loss at 31 December 2020 of £0.2m (2019: £0.2m). The total assets of the funds at 31 December 2020 was £1.2bn (2019: £1.3bn). The group has no liabilities or commitments in respect of the funds.

15 Goodwill and intangible assets

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Goodwill	**3,285**	3,285	**223**	223
Other intangible assets[1]	**808**	688	**807**	658
At 31 Dec	**4,093**	3,973	**1,030**	881

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £808m (2019: £688m). During the year, capitalisation of internally generated software is £302m (2019: £319m), amortisation is £179m (2019: £142m). The amortisation and impairment of intangible assets totalled for the group £183m (2019: £156m).*

Impairment testing

The group's annual impairment test in respect of goodwill allocated to each cash generating unit ('CGU') was performed at 1 July. Subsequently, the annual impairment test date was changed to 1 October to better align the timing of the test with cash flow projections approved by the Board. A review for indicators of impairment is undertaken at 30 June and 31 December.

At 31 December 2020, this review did not identify any indicators of impairment. As a result, no impairment tests have been performed at 31 December 2020. For all CGUs, the annual test performed at 1 October remains the latest impairment test. The disclosures given are at both 1 July and 1 October. The testing at 1 July and 1 October resulted in no impairment of goodwill.

Basis of the recoverable amount

The recoverable amount of all CGUs to which goodwill has been allocated was equal to its value in use ('VIU') at each respective testing date. The VIU is calculated by discounting management's cash flow projections for the CGU. The key assumptions used in the VIU calculation for each CGU are discussed below.

Key assumptions in VIU calculation

Cash-generating unit	Goodwill at 1 Oct 2020 £m	Discount rate %	Growth rate beyond initial cash flow projections %	Goodwill at 1 Jul 2020 £m	Discount rate %	Growth rate beyond initial cash flow projections %	Goodwill at 1 Jul 2019[1] £m	Discount rate %	Nominal growth rate beyond initial cash flow projections %
WPB	**2,046**	**8.3**	**1.8**	**2,046**	**7.9**	**1.8**	2,046	8.4	3.3
CMB	**1,239**	**8.8**	**1.8**	**1,239**	**9.2**	**1.8**	1,239	9.7	3.3
Total	**3,285**			**3,285**			3,285		

1 *A change in reportable segments was made in 2020. Comparative data has been re-presented accordingly. For further guidance, refer to page 13 under Segmental analysis.*

The group's CGUs do not carry on their balance sheets any significant intangible assets with indefinite useful lives, other than goodwill.

Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on the latest plans presented to the Board. The Board challenge and endorse planning assumptions in light of internal capital allocation decisions necessary to support HSBC UK's strategy, current market conditions, and macroeconomic outlook. For the 1 October 2020 impairment test, management's cash flow projections until the end of the first quarter of 2025 were considered.

Discount Rate

The rate used to discount the cash flows is based on the cost of capital assigned to each CGU, which is derived using a CAPM. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the group of business units making up the CGUs. The long-term growth rate reflects inflation for the UK.

Sensitivities of key assumptions in calculating VIU

At 1 October 2020, there were no CGUs deemed sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections.

16 Prepayments, accrued income and other assets

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Prepayments and accrued income	**727**	740	**730**	727
Settlement accounts	**23**	16	**23**	16
Cash collateral and margin receivables	**197**	107	**197**	107
Endorsements and acceptances	**58**	71	**58**	71
Employee benefit assets (Note 3)	**6,957**	5,836	**6,957**	5,836
Right-of-use assets	**275**	311	**258**	292
Other accounts	**520**	530	**325**	691
Owned property, plant and equipment	**553**	592	**437**	476
At 31 Dec	**9,310**	8,203	**8,985**	8,216

Prepayments, accrued income and other assets include £1,361m (2019: £1,364m) of financial assets, the majority of which are measured at amortised cost. Other accounts includes a receivable of £120m (2019: £89m) arising from our profit and loss sharing arrangement with Marks & Spencers plc, which is tested for impairment in line with our accounting policy on the impairment of non-financial assets.

17 Debt securities in issue

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Bonds and medium-term notes[1]	**376**	1,225	**151**	1,000
Other debt securities in issue[2]	**490**	1,917	**490**	1,917
Total debt securities in issue	**866**	3,142	**641**	2,917

1 The group's Bonds and medium-term notes includes £225m (2019: £225m) issued by structured entities.
2 Other debt securities in issue consists of commercial paper and certificates of deposits.

18 Accruals, deferred income and other liabilities

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Accruals and deferred income	**505**	562	**457**	483
Settlement accounts	**19**	14	**19**	14
Cash collateral and margin payable	**13**	13	**13**	13
Endorsements and acceptances	**59**	71	**59**	71
Lease liabilities	**295**	326	**278**	307
Other liabilities	**1,050**	848	**983**	1,383
At 31 Dec	**1,941**	1,834	**1,809**	2,271

For the group, accruals, deferred income and other liabilities include £1,795m (2019: £1,395m), and for the bank £1,749m (2019: £1,917m) of financial liabilities, the majority of which are measured at amortised cost.

19 Provisions

The group	Restructuring costs[2] £m	Legal proceedings and regulatory matters £m	Customer remediation[3,4] £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	**52**	**4**	**1,190**	**4**	**1,250**
Additions	**89**	**60**	**127**	**8**	**284**
Amounts utilised	**(30)**	**—**	**(557)**	**—**	**(587)**
Unused amounts reversed	**(18)**	**—**	**(172)**	**(1)**	**(191)**
Exchange and Other movements	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2020	**93**	**64**	**588**	**11**	**756**
Contractual commitments[1]					
At 1 Jan 2020					**75**
Net change in expected credit loss provision and other movements					**148**
At 31 Dec 2020					**223**
Total provisions					
At 31 Dec 2019					1,325
At 31 Dec 2020					**979**
Provisions (excluding contractual commitments)					
At 1 Jan 2019	—	—	540	5	545
Additions	59	—	1,297	—	1,356
Amounts utilised	(8)	—	(643)	—	(651)
Unused amounts reversed	—	(3)	(4)	(1)	(8)
Exchange and Other movements	1	7	—	—	8
At 31 Dec 2019	52	4	1,190	4	1,250
Contractual commitments[1]					
At 1 Jan 2019					85
Net change in expected credit loss provision and other movements					(10)
At 31 Dec 2019					75
Total provisions					
At 31 Dec 2018					630
At 31 Dec 2019					1,325

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 £127m (2019: £1,297m) were recorded in the consolidated income statement under net interest income £72m (2019: £138m), net fee income £19m (2019: £44m) and operating expenses £36m (2019: £1,115m).*

4 *Release of £172m (2019: £4m) were recorded in the consolidated income statement under net interest income £50m(2019: £2m), operating expense as £122m (2019: £1m) and net fee income Nil (2019: £1m).*

The bank	Restructuring costs[2] £m	Legal proceedings and regulatory matters £m	Customer remediation[3,4] £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2020	**51**	**4**	**983**	**4**	**1,042**
Additions	**89**	**60**	**103**	**8**	**260**
Amounts utilised	**(30)**	**—**	**(447)**	**—**	**(477)**
Unused amounts reversed	**(18)**	**—**	**(153)**	**(1)**	**(172)**
Exchange and Other movements	**1**	**—**	**—**	**—**	**1**
At 31 Dec 2020	**93**	**64**	**486**	**11**	**654**
Contractual commitments[1]					
At 1 Jan 2020					**72**
Net change in expected credit loss provision and other movements					**144**
At 31 Dec 2020					**216**
Total provisions					
At 31 Dec 2019					1,114
At 31 Dec 2020					**870**

The bank	Restructuring costs[2] £m	Legal proceedings and regulatory matters £m	Customer remediation[3,4] £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2019	—	—	427	4	431
Additions	58	—	1,054	—	1,112
Amounts utilised	(8)	—	(495)	—	(503)
Unused amounts reversed	—	(3)	(4)	—	(7)
Exchange and Other movements	1	7	1	—	9
At 31 Dec 2019	51	4	983	4	1,042
Contractual commitments[1]					
At 1 Jan 2019					84
Net change in expected credit loss provision and other movements					(12)
At 31 Dec 2019					72
Total provisions					
At 31 Dec 2018					515
At 31 Dec 2019					1,114

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 £103m (2019: £1,054m) were recorded in the HSBC UK income statement under net interest income £51m (2019: £126m), net fee income £18m (2019: £32m) and operating expenses £34m (2019: £896m).*
4 *Release of £153m (2019: £4m) under customer remediation was recorded in HSBC UK income statement under net interest income £50m (2019: £2m), operating expense as £103m (2019: £1m) and net fee income Nil (2019: £1m).*

Customer Remediation

Payment protection insurance

At 31 December 2020, £242m (2019: £801m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of payment protection insurance ('PPI') policies in previous years. Of the £801m balance at 31 December 2019, £448m has been utilised during 2020.

A release in provisions of £111m was recognised during the year, primarily reflecting:

- Lower than previously expected volumes of valid claims emerging from information requests received prior to the FCA time bar deadline. This led to a reduction in redress payments;
- A revaluation of expected future payments to be made; and
- An updated estimate of the amount of redress expected to be paid in relation to claims brought by the Official Receiver.

The estimated liability for redress consists of the following components:

- For those claims yet to be received, resolved and paid, including those pursued via litigation, redress is calculated on the basis on the return of the total premiums and related interest paid by the customer, plus simple interest of 8% per annum. Future estimated redress levels are based on historically observed redress paid to customers per policy.
- The provision held with respect to claims brought by the Official Receiver.
- Operating expenses relating to those claims yet to be worked, and with programme closure.

The remaining PPI provision remains sensitive to changes in assumptions and estimates relating to the profile of claims yet to be received or assessed, and to changes in recent experience. This could lead to uphold rates or average redress levels being observed which differ from those included in arriving at the provision.

Sensitivity to key assumptions

- A 20% increase/decrease in the uphold rate and average redress for complaints yet to be worked would increase/decrease the redress provision by approximately £15m.
- A 20% increase/decrease in the volume of future claims received via litigation would increase/decrease the redress provision by approximately £8m.

Collections and recoveries related matters

At 31 December 2020, a provision of £223m (2019: £220m) was held relating to the estimated liability for redress payable to customers following a review of historical collections and recoveries practices in the UK.

The provision has been estimated based on a number of customer cohorts who may have been impacted and the operational costs of the programme. While most of these cohorts have been fully evaluated, there remain a number of assumptions within the provision for the remaining cohorts which are highly judgmental. The provision has been adjusted to reflect the latest available information, but remains subject to significant judgment. As a result, the provision has been increased by £43m to take account of these factors and the impact on the operational costs. In addition, payments have commenced in relation to customers in those cohorts within which redress assessment has been completed.

Redress is expected to be complete during 2021 but work to complete the evaluation of each cohort and finalise relevant data continues, and there is significant judgment still applied surrounding the amount of any redress to be paid.

For the cohorts where judgmental assumptions to calculate the total provision continue to be applied, a 20% increase/decrease in the level of redress to be paid in respect of fees and charges would lead to a £42m increase/decrease in total redress payable.

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

20 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
At amortised cost	**10,015**	9,533	**9,936**	9,454
– subordinated liabilities[1]	**10,015**	9,533	**9,936**	9,454
At 31 Dec	**10,015**	9,533	**9,936**	9,454

1 *Includes £7.0bn (2019: £6.5bn) of eligible debt issued to meet our Minimum requirement for own funds and Eligible Liabilities ('MREL') applicable from 1 January 2020.*

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of the group. Capital securities may be called and redeemed by the group subject to prior notification to and consent of the PRA.

The balance sheet amounts disclosed below are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital principally due to regulatory amortisation and regulatory eligibility limits.

Subordinated liabilities of the group

				Carrying amount	
				2020	2019
		First call date	Maturity date	**£m**	£m
Capital instruments					
Tier 2 instruments					
£550m	HSBC UK Bank plc Subordinated Floating Loan 2028[1]	Jul 2023	Jul 2028	**550**	550
$840m	HSBC UK Bank plc Subordinated Floating Loan 2028[2]	Jul 2023	Jul 2028	**615**	635
£100m	HSBC UK Bank plc 2.8594% Subordinated Loan 2029	Mar 2024	Mar 2029	**100**	100
£1,000m	HSBC UK Bank plc Subordinated Floating Loan 2030[3]	Jul 2025	Jul 2030	**1,000**	1,000
£650m	HSBC UK Bank plc Subordinated Floating Loan 2033[4]	Sep 2028	Sep 2033	**650**	650
Other Tier 2 instruments each less that £100m[5]				**79**	79
Other instruments					
Subordinated loan instruments not eligible for inclusion in regulatory capital					
£350m	HSBC UK Bank plc 1.8777% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**350**	350
£150m	HSBC UK Bank plc 2.1003% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**150**	150
£1,000m	HSBC UK Bank plc 3.2485% MREL eligible Subordinated Loan 2026	Nov 2025	Nov 2026	**1,064**	1,000
£1,000m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2028	Jul 2027	Jul 2028	**1,077**	1,000
£1,000m	HSBC UK Bank plc 3.4602% MREL eligible Subordinated Loan 2029	Aug 2028	Aug 2029	**1,101**	1,000
$3000m	HSBC UK Bank plc 3.9730% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**2,469**	2,269
£750m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**810**	750
At 31 Dec				**10,015**	9,533

1 *The distribution rate is three month sterling Libor plus 1.51%.*
2 *The distribution rate is three month USD Libor plus 1.51%.*
3 *The distribution rate is three month sterling Libor plus 1.78%.*
4 *The distribution rate is three month sterling Libor plus 2.03%.*
5 *Two subordinated notes issued by Marks and Spencer Financial Services plc, £54m maturing 2026 and £25m maturing 2027.*

21 Maturity analysis of assets, liabilities and off-balance sheet commitments

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading derivatives are included in the 'Due not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due over 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	76,429	—	—	—	—	—	—	—	76,429
Items in the course of collection from other banks	253	—	—	—	—	—	—	—	253
Financial assets designated or otherwise mandatorily measured at fair value	23	—	—	—	—	—	—	3	26
Derivatives	73	—	—	—	—	—	9	73	155
Loans and advances to banks	676	—	838	—	—	—	—	—	1,514
Loans and advances to customers	15,833	9,579	7,710	6,090	5,483	17,529	29,114	99,895	191,233
– personal	6,482	2,214	1,668	1,751	1,664	6,453	17,124	85,440	122,796
– corporate and commercial	8,882	7,063	5,737	4,083	3,607	10,520	11,582	14,179	65,653
– financial	469	302	305	256	212	556	408	276	2,784
Reverse repurchase agreements – non-trading	531	851	819	284	—	—	—	—	2,485
Financial investments	2,191	195	437	136	93	1,926	5,552	8,779	19,309
Accrued income and other financial assets	1,097	117	17	14	6	30	77	—	1,358
Total financial assets at 31 Dec 2020	97,106	10,742	9,821	6,524	5,582	19,485	34,752	108,750	292,762
Non-financial assets	—	—	—	—	—	—	—	12,102	12,102
Total assets at 31 Dec 2020	97,106	10,742	9,821	6,524	5,582	19,485	34,752	120,852	304,864
Financial liabilities									
Deposits by banks	530	10	—	—	—	—	—	—	540
Customer accounts[1]	255,990	1,616	384	287	324	661	79	—	259,341
– personal	156,615	633	266	248	319	658	78	—	158,817
– corporate and commercial	92,862	882	113	39	5	3	1	—	93,905
– financial	6,513	101	5	—	—	—	—	—	6,619
Repurchase agreements – non-trading	6,150	—	—	—	—	—	—	—	6,150
Items in the course of transmission to other banks	132	—	—	—	—	—	—	—	132
Derivatives	171	—	—	—	—	4	22	168	365
Debt securities in issue	268	223	—	151	—	—	—	224	866
Accruals and other financial liabilities	1,292	229	25	17	17	53	95	74	1,802
Subordinated liabilities	—	—	—	—	—	—	350	9,665	10,015
Total financial liabilities at 31 Dec 2020	264,533	2,078	409	455	341	718	546	10,131	279,211
Non-financial liabilities	—	—	—	—	—	—	—	2,795	2,795
Total liabilities at 31 Dec 2020	264,533	2,078	409	455	341	718	546	12,926	282,006
Off-balance sheet commitments given									
Loan and other credit-related commitments	72,478	96	—	75	40	—	—	—	72,689
– personal	39,716	—	—	—	—	—	—	—	39,716
– corporate and commercial	31,830	96	—	75	40	—	—	—	32,041
– financial	932	—	—	—	—	—	—	—	932

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	37,030	—	—	—	—	—	—	—	37,030
Items in the course of collection from other banks	504	—	—	—	—	—	—	—	504
Financial assets designated or otherwise mandatorily measured at fair value	57	—	—	—	—	—	—	9	66
Derivatives	63	1	3	2	—	2	8	42	121
Loans and advances to banks	786	—	603	—	—	—	—	—	1,389
Loans and advances to customers	20,484	10,827	7,576	5,774	5,240	17,685	30,911	84,559	183,056
– personal	5,834	4,776	1,839	1,702	1,636	6,216	16,657	78,721	116,931
– corporate and commercial	14,073	5,772	5,461	3,906	3,466	11,003	13,753	6,170	63,604
– financial	577	279	276	166	138	466	501	118	2,521
Reverse repurchase agreements – non-trading	1,671	1,260	83	—	—	—	—	—	3,014
Financial investments	317	1,603	2,085	1,471	227	1,309	6,800	5,925	19,737
Accrued income and other financial assets	1,143	118	27	8	7	39	22	—	1,364
Total financial assets at 31 Dec 2019	62,055	13,809	10,377	7,255	5,474	19,035	37,741	90,535	246,281
Non-financial assets	—	—	—	—	—	—	—	10,821	10,821
Total assets at 31 Dec 2019	62,055	13,809	10,377	7,255	5,474	19,035	37,741	101,356	257,102
Financial liabilities									
Deposits by banks	513	16	—	—	—	—	—	—	529
Customer accounts[1]	211,409	2,401	510	428	539	440	487	—	216,214
– personal	136,192	860	440	400	462	435	485	—	139,274
– corporate and commercial	70,125	1,443	59	27	77	4	2	—	71,737
– financial	5,092	98	11	1	—	1	—	—	5,203
Repurchase agreements – non-trading	98	—	—	—	—	—	—	—	98
Items in the course of transmission to other banks	343	—	—	—	—	—	—	—	343
Derivatives	67	—	—	1	1	3	56	73	201
Debt securities in issue	483	566	868	1,000	—	—	—	225	3,142
Accruals and other financial liabilities	1,223	181	25	17	17	64	120	74	1,721
Subordinated liabilities	—	—	—	—	—	—	—	9,533	9,533
Total financial liabilities at Total financial liabilities at 31 Dec 2019	214,136	3,164	1,403	1,446	557	507	663	9,905	231,781
Non-financial liabilities	—	—	—	—	—	—	—	3,070	3,070
Total liabilities at 31 Dec 2019	214,136	3,164	1,403	1,446	557	507	663	12,975	234,851
Off-balance sheet commitments given									
Loan and other credit-related commitments	67,118	4	1	2	7	114	41	15	67,302
– personal	37,014	—	—	—	—	—	—	—	37,014
– corporate and commercial	28,600	4	1	2	7	114	41	15	28,784
– financial	1,504	—	—	—	—	—	—	—	1,504

1 *'Customers accounts' includes £132,204m (2019: £114,056m) insured by guarantee schemes.*

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due over 3 months but not more than 6 months £m	Due over 6 months but not more than 9 months £m	Due over 9 months but not more than 1 year £m	Due over 1 year but not more than 2 years £m	Due over 2 years but not more than 5 years £m	Due over 5 years £m	Total £m
The bank									
Financial assets									
Cash and balances at central banks	76,419	–	–	–	–	–	–	–	76,419
Items in the course of collection from other banks	137	–	–	–	–	–	–	–	137
Financial assets designated or otherwise mandatorily measured at fair value	23	–	–	–	–	–	–	3	26
Derivatives	73	–	–	–	–	–	9	73	155
Loans and advances to banks	831	320	1,278	135	125	410	675	16	3,790
Loans and advances to customers	15,846	7,837	7,819	6,126	5,421	17,235	27,118	99,398	186,800
– personal	4,690	1,985	1,561	1,636	1,553	6,105	16,607	85,420	119,557
– corporate and commercial	8,711	4,142	5,231	4,009	3,483	9,888	9,402	13,632	58,498
– financial	2,445	1,710	1,027	481	385	1,242	1,109	346	8,745
Reverse repurchase agreements – non-trading	531	851	819	284	–	–	–	–	2,485
Financial investments	2,191	195	437	136	93	1,926	5,552	8,779	19,309
Accrued income and other financial assets	1,112	100	21	2	1	–	–	–	1,236
Total financial assets at 31 Dec 2020	97,163	9,303	10,374	6,683	5,640	19,571	33,354	108,269	290,357
Non-financial assets	–	–	–	–	–	–	–	9,846	9,846
Total assets at 31 Dec 2020	97,163	9,303	10,374	6,683	5,640	19,571	33,354	118,115	300,203
Financial liabilities									
Deposits by banks	1,476	450	60	30	40	75	30	–	2,161
Customer accounts[1]	253,003	1,615	384	287	324	661	79	–	256,353
– personal	154,421	632	266	248	319	658	78	–	156,622
– corporate and commercial	92,946	882	113	39	5	3	1	–	93,989
– financial	5,636	101	5	–	–	–	–	–	5,742
Repurchase agreements – non-trading	6,150	–	–	–	–	–	–	–	6,150
Items in the course of transmission to other banks	129	–	–	–	–	–	–	–	129
Derivatives	171	–	–	–	–	4	22	168	365
Debt securities in issue	267	223	–	151	–	–	–	–	641
Accruals and other financial liabilities	1,279	207	20	16	13	48	93	74	1,750
Subordinated liabilities	–	–	–	–	–	–	350	9,586	9,936
Total financial liabilities at 31 Dec 2020	262,475	2,495	464	484	377	788	574	9,828	277,485
Non-financial liabilities	–	–	–	–	–	–	–	2,639	2,639
Total liabilities at 31 Dec 2020	262,475	2,495	464	484	377	788	574	12,467	280,124
Off-balance sheet commitments given									
Loan and other credit-related commitments	57,968	–	–	–	–	–	–	–	57,968
– personal	28,108	–	–	–	–	–	–	–	28,108
– corporate and commercial	29,018	–	–	–	–	–	–	–	29,018
– financial	842	–	–	–	–	–	–	–	842

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The bank									
Financial assets									
Cash and balances at central banks	37,020	—	—	—	—	—	—	—	37,020
Items in the course of collection from other banks	355	—	—	—	—	—	—	—	355
Financial assets designated or otherwise mandatorily measured at fair value	57	—	—	—	—	—	—	9	66
Derivatives	60	1	3	2	—	2	8	42	118
Loans and advances to banks	1,001	476	1,308	171	149	532	964	42	4,643
Loans and advances to customers	19,016	8,079	8,799	5,428	5,012	16,673	27,475	83,419	173,901
– personal	5,102	2,018	1,496	1,410	1,413	5,514	14,958	77,782	109,693
– corporate and commercial	11,490	3,910	4,608	3,708	3,307	10,142	11,254	5,459	53,878
– financial	2,424	2,151	2,695	310	292	1,017	1,263	178	10,330
Reverse repurchase agreements – non-trading	1,671	1,260	83	—	—	—	—	—	3,014
Financial investments	317	1,603	2,085	1,471	227	1,309	6,800	5,925	19,737
Accrued income and other financial assets	1,413	84	20	1	1	—	—	—	1,519
Total financial assets at 31 Dec 2019	60,910	11,503	12,298	7,073	5,389	18,516	35,247	89,437	240,373
Non-financial assets	—	—	—	—	—	—	—	9,183	9,183
Total assets at 31 Dec 2019	60,910	11,503	12,298	7,073	5,389	18,516	35,247	98,620	249,556
Financial liabilities									
Deposits by banks	4,024	36	46	35	32	60	44	—	4,277
Customer accounts[1]	203,400	2,092	452	428	531	440	487	—	207,830
– personal	130,290	617	391	400	455	436	485	—	133,074
– corporate and commercial	69,419	1,380	50	27	76	4	2	—	70,958
– financial	3,691	95	11	1	—	—	—	—	3,798
Repurchase agreements – non-trading	98	—	—	—	—	—	—	—	98
Items in the course of transmission to other banks	336	—	—	—	—	—	—	—	336
Derivatives	62	—	—	1	1	3	56	74	197
Debt securities in issue	483	566	868	1,001	—	—	—	—	2,918
Accruals and other financial liabilities	1,778	149	23	16	16	60	109	74	2,225
Subordinated liabilities	—	—	—	—	—	—	—	9,454	9,454
Total financial liabilities at 31 Dec 2019	210,181	2,843	1,389	1,481	580	563	696	9,602	227,335
Non-financial liabilities	—	—	—	—	—	—	—	2,776	2,776
Total liabilities at 31 Dec 2019	210,181	2,843	1,389	1,481	580	563	696	12,378	230,111
Off-balance sheet commitments given									
Loan and other credit-related commitments	52,875	—	—	—	—	—	—	—	52,875
– personal	25,891	—	—	—	—	—	—	—	25,891
– corporate and commercial	26,470	—	—	—	—	—	—	—	26,470
– financial	514	—	—	—	—	—	—	—	514

1 *'Customers accounts' includes £130,128m (2019: £111,797m) insured by guarantee schemes.*

Contractual maturity of financial liabilities

The table below shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for derivatives not treated as hedging derivatives). For this reason, balances in the table below do not agree directly with those in our consolidated balance sheet and the bank's balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity. In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments, and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 month £m	Due over 3 month but not more than 1 year £m	Due over 1 year but not more than 5 years £m	Due over 5 years £m	Total £m
Deposits by banks	**530**	**10**	**—**	**—**	**—**	**540**
Customer accounts	**255,990**	**1,617**	**998**	**744**	**—**	**259,349**
Repurchase agreements – non-trading	**6,150**	**—**	**—**	**—**	**—**	**6,150**
Derivatives	**168**	**46**	**92**	**368**	**537**	**1,211**
Debt securities in issue	**318**	**239**	**169**	**98**	**250**	**1,074**
Subordinated liabilities	**24**	**47**	**212**	**1,472**	**12,364**	**14,119**
Other financial liabilities	**1,389**	**219**	**63**	**169**	**83**	**1,923**
	264,569	**2,178**	**1,534**	**2,851**	**13,234**	**284,366**
Loan and other credit-related commitments	**72,477**	**96**	**116**	**—**	**—**	**72,689**
Financial guarantees	**935**	**—**	**—**	**—**	**—**	**935**
At 31 Dec 2020	**337,981**	**2,274**	**1,650**	**2,851**	**13,234**	**357,990**
Proportion of cash flows payable in period	**94%**	**1%**	**–%**	**1%**	**4%**	**100%**
Deposits by banks	505	24	—	—	—	529
Customer accounts	206,683	7,132	1,488	941	—	216,244
Repurchase agreements – non-trading	—	99	—	—	—	99
Derivatives	67	27	31	208	255	588
Debt securities in issue	—	1,233	1,973	103	277	3,586
Subordinated liabilities	—	77	232	1,225	12,595	14,129
Other financial liabilities	1,186	553	58	184	74	2,055
	208,441	9,145	3,782	2,661	13,201	237,230
Loan and other credit-related commitments	67,117	4	10	155	15	67,301
Financial guarantees	1,077	—	—	—	—	1,077
At 31 Dec 2019	276,635	9,149	3,792	2,816	13,216	305,608
Proportion of cash flows payable in period	91%	3%	1%	1%	4%	100%

The bank	Due not more than 1 month £m	Due over 1 month but not more than 3 month £m	Due over 3 month but not more than 1 year £m	Due over 1 year but not more than 5 years £m	Due over 5 years £m	Total £m
Deposits by banks	**1,476**	**451**	**131**	**106**	**—**	**2,164**
Customer accounts	**253,003**	**1,617**	**998**	**744**	**—**	**256,362**
Repurchase agreements – non-trading	**6,150**	**—**	**—**	**—**	**—**	**6,150**
Derivatives	**168**	**46**	**92**	**368**	**537**	**1,211**
Debt securities in issue	**318**	**233**	**151**	**—**	**—**	**702**
Subordinated liabilities	**24**	**47**	**212**	**1,472**	**12,285**	**14,040**
Other financial liabilities	**1,382**	**199**	**53**	**163**	**83**	**1,880**
	262,521	**2,593**	**1,637**	**2,853**	**12,905**	**282,509**
Loan and other credit-related commitments	**57,968**	**—**	**—**	**—**	**—**	**57,968**
Financial guarantees	**935**	**—**	**—**	**—**	**—**	**935**
At 31 Dec 2020	**321,424**	**2,593**	**1,637**	**2,853**	**12,905**	**341,412**
Proportion of cash flows payable in period	**94%**	**1%**	**–%**	**1%**	**4%**	**100%**
Deposits by banks	2,645	1,419	115	110	—	4,289
Customer accounts	200,449	5,050	1,417	940	—	207,856
Repurchase agreements – non-trading	—	99	—	—	—	99
Derivatives	62	27	31	209	255	584
Debt securities in issue	—	1,227	1,954	—	—	3,181
Subordinated liabilities	—	77	232	1,225	12,516	14,050
Other financial liabilities	1,743	520	54	168	74	2,559
	204,899	8,419	3,803	2,652	12,845	232,618
Loan and other credit-related commitments	52,875	—	—	—	—	52,875
Financial guarantees	1,066	—	—	—	—	1,066
At 31 Dec 2019	258,840	8,419	3,803	2,652	12,845	286,559
Proportion of cash flows payable in period	91%	3%	1%	1%	4%	100%

22 Offsetting of financial assets and financial liabilities

The 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements								
				Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[4]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Derivatives (Note 9)	**1,815**	**(1,660)**	**155**	**(28)**	**—**	**(13)**	**114**	**—**	**155**
Reverse repos, stock borrowing and similar agreements classified as:									
– non-trading assets	**2,620**	**(135)**	**2,485**	**—**	**(2,485)**	**—**	**—**	**—**	**2,485**
Loans and advances to customers[2]	**4,893**	**(979)**	**3,914**	**(3,330)**	**—**	**—**	**584**	**—**	**3,914**
At 31 Dec 2020	**9,328**	**(2,774)**	**6,554**	**(3,358)**	**(2,485)**	**(13)**	**698**	**—**	**6,554**
Derivatives (Note 9)	691	(573)	118	(57)	—	(7)	54	3	121
Reverse repos, stock borrowing and similar agreements classified as:									
– non-trading assets	3,697	(683)	3,014	—	(3,014)	—	—	—	3,014
Loans and advances to customers[2]	5,720	(1,326)	4,394	(3,764)	—	—	630	4	4,398
At 31 Dec 2019	10,108	(2,582)	7,526	(3,821)	(3,014)	(7)	684	7	7,533
Financial liabilities									
Derivatives[1] (Note 9)	**2,025**	**(1,660)**	**365**	**(28)**	**—**	**(104)**	**233**	**—**	**365**
Repos, stock lending and similar agreements classified as:									
– non-trading liabilities	**6,285**	**(135)**	**6,150**	**—**	**(6,150)**	**—**	**—**	**—**	**6,150**
Customer accounts[3]	**7,399**	**(979)**	**6,420**	**(3,330)**	**—**	**—**	**3,090**	**—**	**6,420**
At 31 Dec 2020	**15,709**	**(2,774)**	**12,935**	**(3,358)**	**(6,150)**	**(104)**	**3,323**	**—**	**12,935**
Derivatives[1] (Note 9)	770	(573)	197	(57)	—	(32)	108	4	201
Repos, stock lending and similar agreements classified as:									
– non-trading liabilities	781	(683)	98	—	(98)	—	—	—	98
Customer accounts[3]	6,936	(1,326)	5,610	(3,764)	—	—	1,846	4	5,614
At 31 Dec 2019	8,487	(2,582)	5,905	(3,821)	(98)	(32)	1,954	8	5,913

1 *At 31 December 2020, the amount of cash margin paid that had been offset against the gross derivatives liabilities was £300m (2019: £168m).*
2 *At 31 December 2020, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £191,233m (2019: £183,056m) of which £3,914m (2019: £4,394m) was subject to offsetting.*
3 *At 31 December 2020, the total amount of 'Customer accounts' recognised on the balance sheet was £259,341m (2019: £216,214m) of which £6,420m (2019: £5,610m) was subject to offsetting.*
4 *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

23 Called up share capital and other equity instruments

Called up share capital and share premium

HSBC UK Bank plc ordinary shares of £1.00 each, issued and fully paid

	2020		2019	
	Number	**£m**	Number	£m
At 1 Jan and 31 Dec	**50,002**	**—**	50,002	—

HSBC UK Bank plc share premium

	2020	2019
	£m	£m
At 31 Dec	**9,015**	9,015

Total called up share capital and share premium

	2020	2019
	£m	£m
At 31 Dec	**9,015**	9,015

Other equity instruments

HSBC UK Bank plc additional tier 1 instruments

		2020	2019
		£m	£m
£1,096m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2019 onwards)	**1,096**	1,096
£1,100m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2024 onwards)	**1,100**	1,100
At 31 Dec		**2,196**	2,196

The bank has issued capital instruments that are included in the group's capital base as fully CRR II compliant additional tier 1 capital.

Interest on these instruments will be due and payable only at the sole discretion of the bank, and the bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the bank has insufficient distributable items or if the bank fails to satisfy the solvency condition as defined in the instruments terms.

The instruments are undated and are repayable, at the option of the bank, in whole at the initial call date, or on any Interest Payment Date after the initial call date. In addition, the instruments are repayable at the option of the bank in whole for certain regulatory or tax reasons. Any repayments require the prior notification to and consent of the PRA. These instruments rank *pari passu* with the bank's most senior class or classes of issued preference shares and therefore ahead of ordinary shares. These instruments will be written down in whole, together with any accrued but unpaid interest if either the group's solo or consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

24 Contingent liabilities, contractual commitments and guarantees

	The group		The bank	
	2020	2019	2020	2019
	£m	£m	£m	£m
Guarantees and other contingent liabilities:				
– financial guarantees[1]	**935**	1,077	**935**	1,066
– performance and other guarantees	**2,342**	2,351	**2,342**	2,351
At 31 Dec	**3,277**	3,428	**3,277**	3,417
Commitments[2]:				
– documentary credits and short-term trade-related transactions	**75**	95	**75**	95
– forward asset purchases and forward deposits placed	**507**	184	**296**	—
– standby facilities, credit lines and other commitments to lend	**72,106**	67,023	**57,597**	52,780
At 31 Dec	**72,688**	67,302	**57,968**	52,875

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 £70bn (2019: £64bn) for the group and £55bn (2019: £49bn) for the bank of commitments to which the impairment requirements in IFRS 9 are applied where the group/ bank has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 19.

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

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 26.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('FSCS') provides compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. The FSCS may impose a further levy on HSBC UK to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time.

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

25 Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets, property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2020			2019[3]		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables[1]						
– No later than one year	**1,254**	**(63)**	**1,191**	1,332	(87)	1,245
– One to two years	**905**	**(40)**	**865**	938	(42)	896
– Two to three years	**585**	**(23)**	**562**	693	(30)	663
– Three to four years	**337**	**(12)**	**325**	387	(17)	370
– Four to five years	**155**	**(6)**	**149**	216	(9)	207
– Later than 5 years	**173**	**(12)**	**161**	232	(21)	211
31 Dec[2]	**3,409**	**(156)**	**3,253**	3,798	(206)	3,592

1 *Finance leases receivables are disclosed within 'Loans and advances to customers' in the balance sheet.*
2 *ECL of £71m (2019: £50m) is held in respect of loans and advances under Finance lease receivables.*
3 *The 2019 comparative amounts have been re-presented to reflect the change in maturity disclosure from residual contractual maturity to the instalment basis. The impact of these re-presentations is to increase present value amounts of 'No later than one year' by £1,217m, 'One to two years' by £574m, 'Two to three years' by £88m and decrease present value amount of 'Three to four years' by £232m, 'Four to five years' by £470m and 'Later than 5 years' by £1,177m.*

26 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters at 31 December 2020. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013 and again in 2020) as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC Group also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme. In 2020, HSBC Group engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, was terminated. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, a new FRB Independent Consultant will be appointed pursuant to the cease-and-desist order. The roles of each of the FCA Skilled Person and the FRB Independent Consultant are discussed on page 61.

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

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

Film Finance Litigation

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

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

In June 2020, two separate claims were issued against HSBC UK (as successor to PBGB's business) by two separate groups of investors in Eclipse film finance schemes in connection with PBGB's role in the development of such schemes. These matters are at an early stage.

In February 2020, a claim was issued against HSBC UK (as successor to PBGB's business) by two individuals in relation to the Zeus film finance schemes. The claimants failed to serve the claim on time and this claim has now lapsed. Separately, in June 2020, HSBC UK received an application for disclosure of documents by a law firm acting on behalf of a number of investors in the Zeus film finance schemes. This application was dismissed by the court in November 2020.

It is possible that additional actions or investigations will be initiated against HSBC UK as a result of PBGB's historical involvement in the provision of certain film finance-related services. Based on the facts currently known, it is not practicable to predict the resolution of this matter, including the timing or any possible impact on HSBC UK, which could be significant.

Collections and recoveries related investigation

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

Foreign exchange related matters

In January 2021, HSBC Holdings exited its three-year deferred prosecution agreement with the Criminal Division of the US Department of Justice ('DoJ') (the 'FX DPA'), regarding fraudulent conduct in connection with two particular transactions in 2010 and 2011. HSBC Holdings entered into the FX DPA in January 2018, following the conclusion of the DoJ's investigation into HSBC Group historical foreign exchange activities. Under the terms of the FX DPA, the DoJ is expected to file a motion to dismiss the charges deferred by the FX DPA in due course.

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

PPI

Although the FCA deadline for bringing PPI complaints has passed, customers can still commence litigation for PPI mis-selling. Further details are contained in Note 19.

27 Related party transactions

The immediate parent company of the group is HSBC UK Holdings Limited and the ultimate parent company is HSBC Holdings plc. Both are incorporated in England.

Copies of these financial statements may be obtained from the following address:

HSBC Holdings plc
8 Canada Square
London E14 5HQ

The group's related parties include the parent, fellow subsidiaries, joint ventures, post-employment benefit plans for HSBC UK employees, Key Management Personnel ('KMP') of the Company and its ultimate parent company, HSBC Holdings plc, close family members of KMP and entities which are controlled, jointly controlled or significantly influenced by KMP or their close family members.

Particulars of transactions between the group and its related parties are tabulated below in accordance with IAS 24 'Related party disclosures'. The disclosure of the year-end balance and the highest amounts outstanding during the year are considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

The KMP of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the group, and include the Directors of the Company, certain senior executives of the Company, directors of HSBC Holdings plc and certain senior executives of HSBC Holdings plc. The emoluments of those KMP who are not directors or senior executives of the Company are paid by other Group companies who make no recharge to the Company. It is therefore not possible to make a reasonable apportionment of their emoluments in respect of services they have provided to the Company during the year. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The table below represents the compensation for KMP (Directors and certain senior executives) of the Company in exchange for services rendered to the Company for the period they served during the year.

Compensation of Key Management Personnel

	2020	2019[1]
	£000	£000
Short-term employee benefits	8,068	5,703
Post-employment benefits	23	—
Other long-term employee benefits	345	125
Share-based payments	1,017	578
Year ended 31 Dec	**9,453**	6,406

1 *In 2020 the scope of KMP was extended to include certain senior executives of the Company that were not included in 2019. The 2019 comparatives have not been updated to include certain senior executives of the Company.*

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel[1]

	2020		2019[2]	
	Balance at 31 Dec	Highest amounts outstanding during year	Balance at 31 Dec	Highest amounts outstanding during year
	£m	£m	£m	£m
Advances and credits	12	18	17	25
Deposits	25	67	17	83

1 *Includes close family members and entities which are controlled or jointly controlled by KMP or their close family members.*
2 *In 2020 the scope of KMP was extended to include certain senior executives of the Company that were not included in 2019. The 2019 comparatives have not been updated to include certain senior executives of the Company.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

In addition to the requirements of IAS 24, particulars of advances (loans and quasi-loans), credits and guarantees entered into by the bank and its subsidiaries with Directors of the Company are required to be disclosed pursuant to section 413 of the Companies Act 2006. Under the Companies Act, there is no requirement to disclose transactions with other KMP.

Transactions with Directors: advances, credits and guarantees (Companies Act 2006)

	2020	2019
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Loans	**7,273**	12,120

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company[1,2]

	2020		2019	
	Balance at 31 Dec	**Highest amounts outstanding during year**	Balance at 31 Dec	Highest amounts outstanding during the year
	£m	**£m**	£m	£m
Advances and credits	**7**	**13**	6	15
Deposits	**10**	**34**	—	—

1 *Excludes those who are also KMP of the Company.*
2 *Includes close family members and entities which are controlled or jointly controlled by the KMP or their close family members.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Transactions and balances during the year with the joint venture

	2020		2019	
	Balance at 31 Dec	**Highest balance during the year**	Balance at 31 Dec	Highest balance during the year
	£m	**£m**	£m	£m
Unsubordinated amounts due from the joint venture	**105**	**105**	83	90
Amounts due to joint ventures	**75**	**75**	21	21
Guarantees and commitments	**200**	**310**	300	480

The group provides certain banking and financial services to its joint venture, including loans, overdrafts, interest and non-interest-bearing deposits and current accounts. Details of the interest in the joint venture are given in Note 12.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2020				2019			
	Due to/from HSBC Holdings plc		**Due to/from subsidiaries of HSBC Holdings plc**		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	**Highest balance**	**31 Dec**	**Highest balance**	31 Dec	Highest balance	31 Dec	Highest balance
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Derivatives	**—**	**—**	**25**	**61**	—	—	45	46
Loans and advances to banks	**—**	**—**	**594**	**696**	—	—	671	1,526
Reverse repos	**—**	**—**	**213**	**231**	—	—	—	—
Prepayments and accrued income	**—**	**—**	**2**	**14**	—	—	2	12
Other assets	**2**	**3**	**221**	**368**	2	7	239	462
Total related party assets at 31 Dec	**2**	**3**	**1,055**	**1,370**	2	7	957	2,046
Liabilities					—	—	—	—
Deposits by banks	**—**	**—**	**436**	**436**	—	—	283	1,293
Customer accounts	**—**	**—**	**4**	**20**	—	—	1	3
Other liabilities	**95**	**95**	**149**	**767**	56	110	419	1,399
Accruals & Deferred Income	**5**	**11**	**77**	**149**	11	11	86	116
Derivatives	**—**	**—**	**145**	**145**	—	—	118	197
Subordinated liabilities	**—**	**—**	**10,015**	**10,435**	—	79	9,533	9,745
Total related party liabilities at 31 Dec	**100**	**106**	**10,826**	**11,952**	67	200	10,440	12,753

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Income statement				
Interest income	**—**	—	**2**	10
Interest expense	**—**	2	**294**	259
Fee income	**—**	—	**52**	64
Fee expense	**—**	—	**42**	43
Other operating income	**—**	—	**19**	16
General and administrative expenses	**255**	234	**1,692**	1,811

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The bank's transactions and balances during the year with HSBC UK Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2020						2019					
	Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		**Due to/from HSBC Holdings plc**		**Due to/from subsidiaries of HSBC Holdings plc**		Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	**Highest balance**	**31 Dec**	**Highest balance**	**31 Dec**	**Highest balance**	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Assets												
Derivatives	**—**	**—**	**—**	**—**	**25**	**61**	—	—	—	—	43	46
Loans and advances to banks	**2,276**	**3,046**	**—**	**—**	**594**	**696**	3,274	3,311	—	—	662	1,519
Loans and advances to customers	**5,998**	**8,074**	**—**	**—**	**—**	**—**	8,417	8,513	—	—	—	—
Reverse repos	**—**	**—**	**—**	**—**	**213**	**231**	—	—	—	—	—	—
Prepayments and accrued income	**15**	**24**	**—**	**—**	**2**	**14**	24	24	—	—	2	12
Other assets	**1,027**	**1,639**	**2**	**3**	**221**	**367**	1,895	2,303	1	6	226	455
Total related party assets at 31 Dec	**9,316**	**12,783**	**2**	**3**	**1,055**	**1,369**	13,610	14,151	1	6	933	2,032
Liabilities												
Deposits by banks	**1,620**	**2,346**	**—**	**—**	**436**	**436**	3,749	4,135	—	—	283	1,292
Customer accounts	**348**	**926**	**—**	**—**	**1**	**20**	373	373	—	—	1	1
Derivatives	**—**	**—**	**—**	**—**	**145**	**145**	—	—	—	—	117	192
Other liabilities	**39**	**629**	**95**	**95**	**142**	**749**	674	792	48	104	373	1,215
Accruals & Deferred Income	**3**	**7**	**5**	**11**	**77**	**148**	4	8	11	11	86	116
Subordinated liabilities	**—**	**—**	**—**	**—**	**9,936**	**10,356**	—	—	—	—	9,454	9,666
Total related party liabilities at 31 Dec	**2,010**	**3,908**	**100**	**106**	**10,737**	**11,854**	4,800	5,308	59	115	10,314	12,482

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

The group's pension funds had placed deposits of £46m (2019: £169m) with its banking subsidiaries, earning interest of £nil (2019: £0.2m).

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

28 Events after the balance sheet date

These accounts were approved by the Board of Directors on 22 February 2021 and authorised for issue.

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

29 HSBC UK Bank plc's subsidiaries and joint ventures

In accordance with section 409 of the Companies Act 2006 a list of HSBC UK Bank plc subsidiaries and joint ventures, the registered office address and the effective percentage of equity owned at 31 December 2020 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares which are held by HSBC UK Bank plc subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC UK Bank plc unless otherwise indicated.

HSBC UK Bank plc's registered office address is:

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom

Subsidiaries

The undertakings below are consolidated by HSBC UK Bank plc.

Subsidiaries	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	Footnotes
Assetfinance December (F) Limited	100.00	4
Assetfinance June (D) Limited	100.00	4
Assetfinance March (D) Limited	100.00	4
Assetfinance September (G) Limited	100.00	4
B&Q Financial Services Limited	100.00	1, 5
Canada Square Nominees (UK) Limited	100.00	1, 5
HSBC Branch Nominee (UK) Limited	100.00	1,4
HSBC Client Share Offer Nominee (UK) Limited	100.00	1, 2, 6
HSBC Equipment Finance (UK) Limited	100.00	1, 4
HSBC Executor & Trustee Company (UK) Limited	100.00	4
HSBC Finance Limited	100.00	1, 5
HSBC Invoice Finance (UK) Limited	100.00	1, 7
HSBC Private Bank (UK) Limited	100.00	1, 5
HSBC Stockbrokers Nominee (UK) Limited	100.00	1, 2, 6
HSBC Trust Company (UK) Limited	100.00	1, 5
HSBC UK Client Nominee Limited	100.00	1, 4
HSBC Wealth Client Nominee Limited	100.00	1, 4
John Lewis Financial Services Limited	100.00	1, 5
Marks and Spencer Financial Services plc	100.00	1, 8
Marks and Spencer Unit Trust Management Limited	100.00	1, 8
Midland Bank (Branch Nominees) Limited	100.00	1, 4
Midland Nominees Limited	100.00	4
St Cross Trustees Limited	100.00	4
Turnsonic (Nominees) Limited	100.00	4

Joint ventures

The undertakings below are Joint Ventures and equity accounted.

Joint ventures	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	Footnotes
Vaultex UK Limited	50.00	3, 9

Footnotes

1	*Directly held by HSBC UK Bank plc*
2	*Dissolved during the reporting period*
3	*Financial year ended 6 October 2020*

Registered Offices

4	*1 Centenary Square, Birmingham, United Kingdom, B1 1HQ*
5	*8 Canada Square, London, United Kingdom, E14 5HQ*
6	*Hill House, 1 Little New Street, London, United Kingdom, EC4A 3TR*
7	*21 Farncombe Road, Worthing, United Kingdom, BN11 2BW*
8	*Kings Meadow Chester Business Park, Chester, United Kingdom, CH99 9FB*
9	*All Saints Triangle, Caledonian Road, London, United Kingdom, N1 9UT*

Reconciliation of Non-GAAP Financial Measures

Return on equity and return on tangible equity

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

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

Return on Equity and Return on Tangible Equity

	Year ended	
	31 Dec 2020	31 Dec 2019
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**(32)**	504
Significant items (net of tax)	**140**	1,544
Adjusted profit attributable to the ordinary shareholders of the parent company	**108**	2,048
Equity		
Average shareholders' equity	**29,580**	28,567
Additional Tier 1	**(2,835)**	(2,813)
Average ordinary shareholders' equity	**26,745**	25,754
Effect of goodwill and other intangibles (net of deferred tax)	**(5,236)**	(5,013)
Average tangible ordinary shareholders' equity	**21,509**	20,741
Ratio	**%**	%
Return on equity	**(0.1)**	2.0
Return on average tangible equity	**(0.1)**	2.4
Adjusted return on average tangible equity [1]	**0.5**	9.9

1 *Under IAS 19 HSBC UK holds a pension fund surplus, and records pension income to the P&L. 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 (0.1)% (2019: 11.3%); we refer to this as Pension Adjusted RoTE.*

HSBC UK Bank plc

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