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Alison Campbell
Company Secretary
17 May 2022

HSBC Bank plc

Annual Report and Accounts 2021

Registered number - 00014259

HSBC

Contents

Presentation of Information

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

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

Pillar 3 disclosures for the group are also available on www.hsbc.com, under Investors.

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 US dollars.

Cautionary Statement Regarding Forward-Looking Statements

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

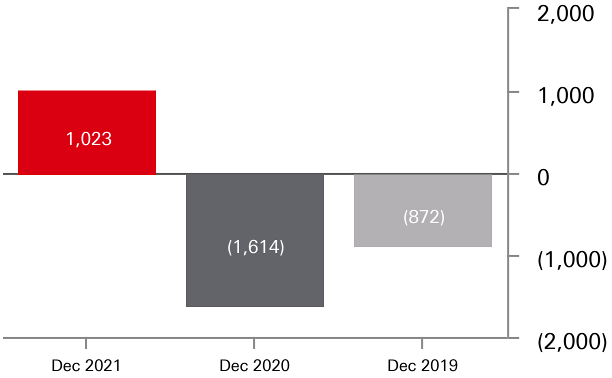
Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and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

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

Highlights

For the year ended 31 December 2021

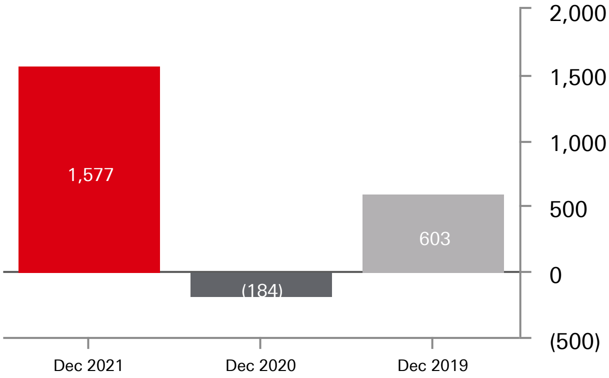
Reported profit/(loss) before tax (£m)



£1,023m

(2020: £(1,614)m)

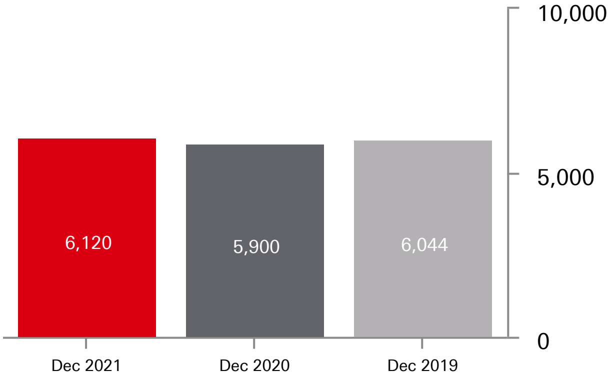
Adjusted profit/(loss) before tax (£m)



£1,577m

(2020: £(184)m)

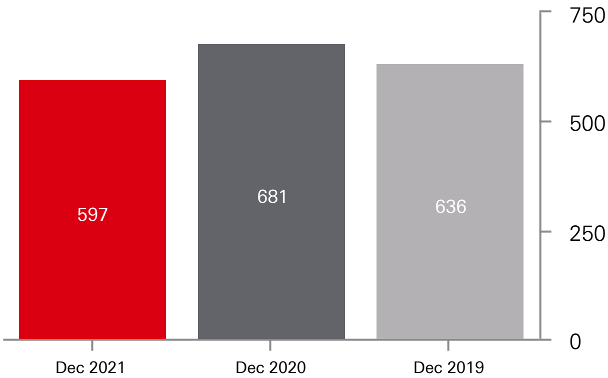
Reported revenue (£m)



£6,120m

(2020: £5,900m)

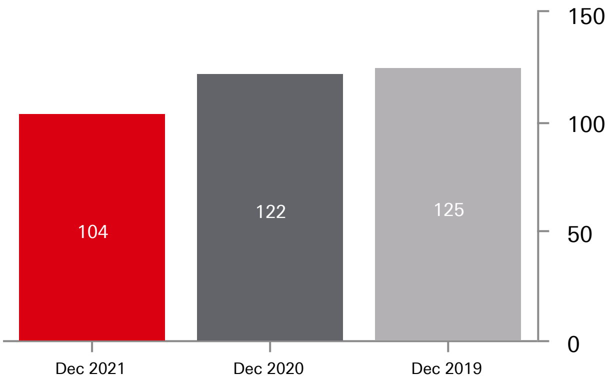
Total assets at period end (£bn)



£597bn

(2020: £681bn)

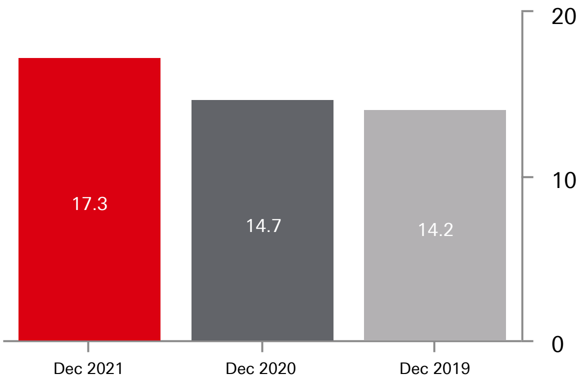
Reported risk-weighted assets at period end (£bn)



£104bn

(2020: £122bn)

Common equity tier 1 ratio at period end (%)



17.3%

(2020: 14.7%)

Key themes of 2021

HSBC Bank plc continued to support the Group through progress on our strategic aims, although challenges in the geopolitical and economic environment remain.

Financial Performance

Performance reflected an improvement in global economic conditions and the impact of lower interest rates. Revenue increased, there were releases of expected credit loss allowances, and operating expenses were lower reflecting the impact of our transformation programme. All of our global businesses generated higher profits compared with 2020. The outlook for net interest income is now more positive, although risks remain as inflation is anticipated to increase across Europe. Read more on pages 13 to 18.

Strategic Transformation

We have continued to progress in our areas of strength and develop our digital capabilities. During the year we announced the planned sale of our retail banking business in France. We have formulated our response to the requirement for an Intermediate Parent Undertaking ('IPU') in line with European Union ('EU') Capital Requirements Directive, as a result of which our subsidiary HSBC Continental Europe plans to acquire HSBC Trinkaus & Burkhardt AG ('HSBC Germany'), HSBC Malta and HSBC Private Bank Luxembourg. More information can be found on pages 4 and 5.

Climate Ambition

As demonstrated at COP26, the Group is playing a leading role in helping to mobilise the transition to a global net zero economy. Since 2020, HSBC Bank plc has supported our customers' transition to net zero and a sustainable future by providing them with $65.2bn of financing and investment; this contributes towards the Group's ambition to provide and facilitate $750bn to $1tn of sustainable financing and investment by 2030. In May 2021, a climate change resolution proposed by the Group's Board was backed by more than 99% of the Group's shareholders at its Annual General Meeting, including a commitment to publish a policy to phase out the financing of coal-fired power and thermal coal mining, by 2030 in the European Union ('EU') / Organisation for Economic Cooperation and Development ('OECD'), and 2040 in all other markets. We are also working with peers and industry bodies to take action on climate change, biodiversity and nature.

Key financial metrics

	2021	2020
For the year (£m)		
Profit/(loss) before tax (reported basis)	**1,023**	(1,614)
Profit/(loss) before tax (adjusted basis)[1]	**1,577**	(184)
Net operating income before change in expected credit losses and other credit impairment charges (reported basis)[2]	**6,120**	5,900
Profit/(loss) attributable to the parent company	**1,041**	(1,488)
At year-end (£m)		
Total equity attributable to shareholders of the parent company	**23,584**	23,666
Total assets	**596,611**	681,150
Risk-weighted assets[3]	**104,314**	122,392
Loans and advances to customers (net of impairment allowances)	**91,177**	101,491
Customer accounts	**205,241**	195,184
Capital ratios (%)[3]		
Common equity tier 1	**17.3**	14.7
Tier 1	**21.0**	18.1
Total capital	**31.7**	27.3
Performance, efficiency and other ratios (annualised %)		
Return on average ordinary shareholders' equity[4]	**4.3**	(7.9)
Return on tangible equity (%)[5]	**6.1**	(2.7)
Cost efficiency ratio (reported basis)[6]	**89.2**	113.6
Cost efficiency ratio (adjusted basis)[6]	**80.9**	89.6
Ratio of customer advances to customer accounts	**44.4**	52.0

1 *Adjusted performance is computed by adjusting reported results for the effect of significant items as detailed on pages 15 to 16.*
2 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
3 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments', which are explained further on page 73. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.*
4 *The return on average ordinary shareholders' equity is defined as profit attributable to shareholders of the parent company divided by the average total shareholders' equity.*
5 *The RoTE is calculated by adjusting reported profit attributable to ordinary shareholders by excluding movements in PVIF and significant items (net of tax), divided by average tangible shareholders' equity excluding fair value of own debt, debt valuation adjustment ('DVA') and other adjustments for the period. The calculation of this measure includes the UK bank levy incurred for the first time in 2021, which was previously paid by Group. Comparative data have not been re-presented.*
6 *Reported cost efficiency ratio is defined as total operating expenses (reported) divided by net operating income before change in expected credit losses and other credit impairment charges (reported), while adjusted cost efficiency ratio is defined as total operating expenses (adjusted) divided by net operating income before change in expected credit losses and other credit impairment charges (adjusted).*

About HSBC Group

With assets of $3.0tn and operations in 64 countries and territories at 31 December 2021, HSBC is one of the largest banking and financial services organisations in the world. Approximately 40 million customers bank with the Group and the Group employs around 220,000 full-time equivalent staff. The Group has around 187,000 shareholders in 128 countries and territories.

Purpose and strategy

HSBC's purpose and ambition

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

HSBC values

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

We value difference

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

The Group is implementing its strategy at pace across the four strategic pillars aligned to its purpose, values and ambition announced in February 2021.

The Group's strategy centres on four key areas: focus on our areas of strength, digitise at scale to adapt our operating model for the future; energise our organisation for growth and lead the transition to net zero.

Focus on our strengths: in each of our global businesses, the Group will focus on areas where we are strongest and have significant opportunities for growth.

Digitise at scale: the Group will focus investments in areas such as technology, to improve our customers' experience while ensuring security and resilience. These investments in technology will also help drive down costs, including through automating our middle and back offices and building solutions to free up office footprint.

Energise for growth: the Group is moving to a leaner and simpler organisation that is energised and fit for the future. The Group aim to inspire a dynamic culture and champion inclusion across the organisation, as well as help employees develop future skills.

Transition to net zero: the Group ambition is to support the transition to a net zero global economy. The Group have set out an ambitious plan to become a net zero bank, to support customers in their transition, and to unlock new climate solutions.

HSBC in Europe

Europe is an important part of the global economy, accounting for nearly 40% of global trade and one quarter of global Gross Domestic Product. In addition, Europe is the world's top exporter of services and second largest exporter of manufactured goods (UNCTAD, 2020). HSBC Bank plc facilitates trade within Europe and between Europe and other jurisdictions where the HSBC Group has a presence.

With assets of £597bn at 31 December 2021, HSBC Bank plc is one of Europe's largest banking and financial services organisations. We employ around 15,000 people across our locations. HSBC Bank plc is responsible for HSBC's European business, apart from UK retail and most UK commercial banking activity which, post ring-fencing, are managed by HSBC UK Bank plc.

HSBC Bank plc's ambition is to simplify its operating model; with a wholesale banking hub for the European Union ('EU') in Paris and a wholesale banking hub for western markets in London.

HSBC Bank plc operates in 20 markets[1] through the three principal operating units detailed below.

The London hub consists of the UK non-ring fenced bank, which provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the Group.

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

HSBC Germany Holdings GmbH serves the European Union's largest economy and one of the leading export nations globally. HSBC Germany's business proposition mirrors the importance of trade and global connectivity.

1 *Full list of markets where HSBC Bank plc has a presence: Armenia, Belgium, Channel Islands and Isle of Man, Czech Republic, France, Germany, Greece, Ireland, Italy, Israel, Luxembourg, Malta, Netherlands, Poland, Russia, South Africa, Spain, Sweden, Switzerland and the UK.*

HSBC Bank plc's strategy and progress on our 2021 commitments

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

HSBC Bank plc exists to open up a world of opportunity for our customers by connecting them to international markets. Europe is the largest trading region in the world and Asia is Europe's biggest and fastest growing external trading partner (UNCTAD, 2020). Below we provide a progress update on our commitments and strategic initiatives for 2021, in line with the Group's strategy.

Focus on our strengths

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

New regulation in the EU provides an opportunity to simplify our structure. In response to the requirement for an IPU in line with the EU Capital Requirements Directive for European Union banking entities, our subsidiary HSBC Continental Europe plans to acquire HSBC Trinkaus & Burkhardt AG ('HSBC Germany'), HSBC Malta, and HSBC Private Bank Luxembourg. HSBC Germany would then be transferred into a newly created branch of HBCE in Germany. This legal entity restructuring remains subject to regulatory approvals.

Following the announcement in June 2021 regarding the planned sale of our French retail operations, a binding Framework Agreement was signed between HSBC Continental Europe and Promontoria MMB SAS ('My Money Group'), its subsidiary Banque des Caraïbes SA (the 'Purchaser') and My Money Bank ('MMB') on 25 November 2021. This step marks the start of an implementation process expected to complete in the second half of 2023, subject to obtaining the authorization of the competent financial, government and regulatory bodies. Until such point, the business remains part of, and will be managed by HSBC

Continental Europe. See Note 34 on page 174 for further financial information on the transaction.

We intend to establish a Paris branch of HSBC Private Luxembourg, from which French clients will be served. The project is due to be completed during 2022 following the conclusion of the associated social process last year. This will enable us to provide an enhanced product range to clients leveraging our high quality infrastructure in Luxembourg.

Digitise at scale

We continue to focus our investments in areas that help optimise our technology capabilities and operations, as well as enhance client experience. Our main areas of focus are Transaction Banking, comprising Global Liquidity and Cash Management (‘GLCM’), Global Trade and Receivable Finance (‘GTRF’) and Foreign Exchange (‘FX’), which are central to our strategy.

Global Liquidity and Cash Management is focused on enhancing our digital and self-serve capabilities for our clients and improving our customer experience. In 2021, we continued to advance our proposition, an example of this involved developing our Liquidity Management Dashboard to facilitate customer cash flow forecasts. Looking ahead, we will continue to develop our offering, to improve our customer experience.

Our ambition for Global Trade and Receivables Finance is to make trade safer, faster and easier. In 2021, we improved key aspects of our proposition by taking steps to: simplify and digitise the client experience, upgrade our infrastructure and connect customers to technology partners. We aim to continue to invest in the future of trade by further developing our capabilities across key areas such as real-time credit decisioning, structured trade and sustainable trade finance.

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

Our Wealth and Private Banking business in the Channel Islands and Isle of Man has focussed on digitising documentation, with the business saving over 600,000 pieces of paper through customers migrating to e-statements and telephone PINs being distributed vis SMS messaging.

During the same period, our technology investments have helped reduce operating costs across the bank.

Energise for growth

In February 2021, we committed to continuing to energise our people, which fundamentally contributes to a more effective, agile and empowered organisation. The main areas of focus are to inspire a dynamic culture, champion inclusion and develop future skills.

Since then, we have been engaging colleagues through numerous initiatives to apply our purpose and values to the delivery of our strategy, how we work and how we serve our customers.

Recruiting the right talent and diversifying our workforce remains important to us as is ensuring we create an environment for our colleagues to learn and grow. We are committed to increasing diverse representation in Europe, especially at senior levels. Our new pan-European Employee Resource Group 'Inclusive Europe' and the Diversity & Inclusion Council has sponsorship from our leaders and will support our actions.

We continue to energise our colleagues through initiatives that help develop their future skills and learning opportunities. During the year we promoted and engaged our employees with an expanded Future Skills curriculum that now incorporates the key strategic skills of Personal, Digital, Data and Sustainability.

Transition to net zero

Becoming a Net Zero Bank

In 2020, the HSBC Group set out ambitions to achieve net zero in the Group’s operations and supply chain by 2030 or sooner and to align the Group’s financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To help achieve HSBC’s ambitions, the Group passed a climate change resolution in the 2021 Annual General Meeting. The resolution included a commitment to set out the next steps in the Group’s transition to net zero, including setting sector-based targets, publishing a thermal coal phase-out policy and reporting annually on progress. The resolution was backed by more than 99% of the Group’s shareholders.

In 2021, the HSBC Group was one of 43 founding members of the Net Zero Banking Alliance (‘NZBA’), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies for the banking sector. The Group also launched a new climate leadership training programme for its top 250 leadership team, in which HSBC Bank plc non-executive directors and executives are included.

In 2021, travel restrictions and lower energy usage due to the Covid-19 outbreak favourably impacted HSBC Bank plc’s greenhouse gas emissions figures. More detail can be found in our Environmental Social and Governance ('ESG') metrics disclosure on page 8.

Supporting our Customers

The Group's climate ambition is to support customers in their transition to net zero and a sustainable future. As part of this, the Group aims to provide and facilitate between $750bn and $1tn of sustainable finance and investment by 2030. To date, HSBC Bank plc has contributed $65.2bn to this ambition led by strong performance from debt capital markets, representing 51% of the Group’s cumulative contribution towards sustainable finance and investments.

The breakdown of the Group’s sustainable finance and investment progress is included in its ESG Data pack. The detailed definitions of the contributing activities for sustainable finance are available in the Group's revised Sustainable Finance Data Dictionary 2021. For the Group's ESG Data Pack, Sustainable Finance Data Dictionary and PwC Assurance Report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Case study: Debt Management Office

In September 2021, HSBC Bank plc acted as Joint Structuring Adviser and Joint Lead Manager on the United Kingdom Debt Management Office's £10bn 12-year inaugural Green gilt transaction with the proceeds to be used on projects to help the UK finance its Green Industrial Revolution. As Joint Structuring Adviser, we supported with establishing the UK Government’s Green Financing Framework published in June 2021.

Unlocking New Climate Solutions

HSBC Group partnered with the World Resources Institute and World Wildlife Fund ("WWF") to launch the $100m Climate Solutions Partnership with the aim to accelerate support for innovative solutions tackling climate change. The programme will run for five years, as a part of this, there are two projects located in France in partnership with the French National Forestry Office and the Earthworm Foundation. Both of these local nature-based projects will contribute to net zero goals by better enabling CO2 capture, preserving biodiversity and engaging the community. HSBC also launched a Business Plan for the Planet campaign to help business transition to a sustainable model. In France, Germany and Malta we issued leadership content around carbon neutrality, ESG and Agrofood. These topics were illustrated with client case studies, content articles, videos and infographics published on our websites, media partnerships and social media. We also engaged on live sessions webinars series with HSBC experts, clients and partners to help small and medium companies transition.

Our Global Businesses

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

Business segments

Our operating model has the following material segments: WPB; CMB; a GBM business which is further split into 3 reportable segments MSS, GB and GBM Other reflecting the reorganisation of the GBM management structure during the year and a Corporate Centre. These segments are supported by Digital Business Services and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources.

Markets & Securities Services ('MSS')

Markets & Securities Services is a products group that services all of the Bank's clients, from those in Global Banking to Commercial Banking and Wealth and Personal Banking. We offer clients a range of services and capabilities including Trading, Financing and Securities Services across asset classes and geographies, supported by dedicated sales and research teams.

Our European teams play a key role in providing cross-asset services, bridging Emerging and Developed Markets, and collaborating with other global businesses to provide clients across the Group with bespoke products and solutions that support their growth ambitions.

We continue to invest in technology and digital transformation to enhance client experience, improve operational efficiencies and future proof the business. We have taken actions to streamline our cost base, optimise the usage of financial resources and enhance returns. Conduct is at the heart of everything we do and we are determined to have the highest conduct standards in the industry.

Global Banking ('GB')

HSBC Global Banking delivers tailored financial solutions to corporate and institutional clients worldwide opening up opportunities through the strength of our global network and capabilities. We provide a comprehensive suite of services including corporate banking, capital markets, advisory, trade services and global liquidity and cash management.

Our European teams take a client-centric approach bringing together relationship and product expertise to deliver financial solutions customised to suit our clients' growth ambitions and financial objectives. We work closely with our business partners including MSS, WPB and CMB, to provide a range of tailored products and services that meet the needs of clients across the bank. Global Banking Europe operates as an integral part of the global business and contributes significant revenues to other regions through our European client base, supporting the Europe ambition to be the leading international wholesale bank.

GBM Other

GBM Other primarily comprises Principal Investments ('PI') and GBM's share of the Bank's Markets Treasury function.

The Principal Investments portfolio ('PI') is focused on delivering investments that align to the group's strategy and seeks to deliver strong returns across a diversified portfolio. Our commitment to sustainable private equity funds contributes directly to the Group's aim to provide and facilitate $750bn and $1tn of sustainable finance and investment by 2030.

Commercial Banking ('CMB')

We have a clear strategy to be the Leading International Corporate Bank in Europe. We help to connect our European customers to our international network of relationship managers and product specialists; supporting their growth ambitions and targets. Our products, which are designed to help our customers seize growth opportunities, range from term loans to region-wide treasury and trade solutions. Commercial Banking is at the centre of creating revenue synergies within the Group: we collaborate closely with our Global Banking and Markets colleagues to provide expertise in capital finance and advisory solutions to support our Commercial Banking clients. Our trade teams within Commercial Banking also provide import and export finance solutions to Global Banking and Markets clients. We also enable customers to gain visibility over their liquidity positions through our main hubs in France and Germany, which in turn helps clients to unlock efficiencies in their Treasury structures. As the European economy pivots to a net zero carbon economy, we are expanding our services and products to provide customers with innovative sustainable finance solutions and ensuring our relationship managers are informed to match these to our clients' net zero ambitions.

Wealth and Personal Banking ('WPB')

In Europe, Wealth and Personal Banking serves customers with their financial needs through Private Banking, Retail Banking, Wealth Management, Insurance and Asset Management.

Our core retail proposition offers a full suite of products including personal banking, mortgages, loans, credit cards, savings, investments and insurance. Alongside this, WPB offers various propositions in certain markets, including Jade, Premier, and Advance; as well as wealth solutions, financial planning and international services. In the Channel Islands and the Isle of Man, we serve local Islanders as well as international customers through our HSBC Expat proposition.

Our Private Banking proposition serves high net worth and ultra-high net worth clients with investable assets greater than $5m in Channel Islands and Isle of Man, France and Germany. The range of services available to private banking clients includes investment management, Private Wealth Solutions and bespoke lending such as lending against financial assets and residential mortgage financing for high-end properties.

Private Banking hosts a 'Next Generation' programme of events to support our client's next generation in building and retaining the wealth within the family. The Private bank offers this through its philanthropy advisory to our clients, which looks at business succession planning. We continue to focus on meeting the needs of our customers, the communities we serve, and our people, whilst working to build the bank of the future.

Adjusted profit/(loss) before tax

MSS	GB	GBM Other	CMB	WPB
£(8)m	**£589m**	**£99m**	**£490m**	**£323m**
(2020: £20m)	(2020: £55m)	(2020: £(52)m)	(2020: £152m)	(2020: £(132)m)

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

How we do business

We conduct our business to support the sustained success of our customers, employees and other stakeholders.

Our approach

The Group recognises that it is important to be clear about who we are and what we stand for to create long-term value for our stakeholders. This will help the Group deliver the strategy and operate our business in a way that is sustainable. Following an extensive consultation with the Group's people and customers, the Group refined our purpose and values. The Group's new purpose is 'Opening up a world of opportunity' with the ambition to be the preferred international financial partner for clients. To achieve this in a way that is sustainable, we are guided by values: we value difference; we succeed together; we take responsibility; and we get it done.

In 2021, our ability to help our stakeholders was more important than ever, as we continued to promote and encourage good conduct through our employees' behaviours and the decisions we take during these unprecedented times. The Group define conduct as delivering fair outcomes for its customers and not disrupting the orderly and transparent operation of financial markets. This is central to the Group's long-term success and ability to serve customers. We have clear policies, frameworks and governance in place to protect them. For further information on conduct, see page 81. Details on our conduct framework are available at www.hsbc.com/conduct.

Fair outcomes

Our conduct approach guides us to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. It complements our purpose and values and – together with more formal policies and the tools we have to do our jobs – provides a clear path to achieving our purpose and delivering our strategy. For further information on conduct, see page 4. For further details on our purpose-led conduct approach framework, see www.hsbc.com/who-we-are. Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on page 9.

Our Covid-19 actions

Having a clear purpose and strong values has never been more important, with the Covid-19 pandemic testing us all in ways we could never have anticipated. Since the world changed in 2020, we adapted to new ways of working and endeavoured to provide support to our customers during this challenging period. In the following section, we have set out further ways that we continued to support our stakeholders.

Our colleagues

We believe diversity makes us stronger and we are dedicated to building a diverse and connected workforce. In 2021, HSBC Bank plc increased representation of women in senior roles to 24.0% narrowly missing our target of 24.3%. However, as we progress beyond the Transformation and into growth mode, we are committed to stretching our gender target further and have set a target of 26.4% (2.4% higher than the 2021 actuals).

In July 2020, the Group set out HSBC's global race commitments, which included the goal of doubling the number of Black employees in senior roles over the following five years. In Europe, we continue to place a strong focus on the quality and transparency of our ethnicity data in countries where it is legally permissible. We are committed to improving our ethnic diversity and put in place important foundations in 2021 through leadership development programmes, inclusive hiring, and investing in the next generation of high-performing diverse talent.

Our Future Skills programme helps prepare our people for the changing skills required in the future workplace. We are encouraging our employees to take ownership of their development and supporting them to do so.

During our Future Skills Summer campaign our new Degreed Learning Experience Platform was formally launched to help colleagues shape their development using both internal and external learning content. As part of the campaign colleagues were encouraged to identify four skills they wanted to personally develop. By the end of 2021, 8,200 colleagues had successfully registered and accessed the platform. More than 8,500 hours of learning were completed by over 3,000 colleagues.

Our Climate ambition

We're playing a leading role in helping to mobilise the transition to a global net zero economy, not just by financing it, but by helping to shape and influence the global policy agenda. The Group has set on-balance sheet financed emissions targets for the oil and gas, and power and utilities sectors, aligned to the IEA's net zero scenario, underpinned by a clear science-based strategy. To support the Group's ambition of net zero financed emissions, unlocking transition finance for our portfolio of clients will be crucial. The Group has changed how disclosures are provided against the Task Force on Climate-Related Disclosures ('TCFD') framework by embedding the content previously provided in a stand-alone TCFD Update within the HSBC Holdings plc *Annual Report and Accounts 2021*. The summary TCFD disclosure can be found on page 63 of the HSBC Holdings plc *Annual Report and Accounts 2021*.

Engaging with our stakeholders

Engaging with our stakeholders is core to being a responsible business. To determine material topics that our stakeholders are interested in, we conduct a number of activities throughout the year, including engagements outlined in the table below.

Our stakeholders	How we engage	Material topics highlighted by the engagement
Customers	Our customers' voices are heard through our interactions with them, surveys and by listening to their complaints	Customer advocacy
Employees	Our colleagues' voices are heard through our employee Snapshot survey, Exchange meetings and our 'speak-up' channels, including our global whistleblowing platform, HSBC Confidential	Future Skills and Diversity & Inclusion
Investors	Our ordinary shares are held by our parent HSBC Holdings plc, however external parties invest in our bond issuance. We engage with these investors via our investor relations programme which enables investor queries alongside a broader programme of management meetings and market engagement	Coal financing policies
Communities	We welcome dialogue with external stakeholders, including non-governmental organisations ('NGOs') and other civil societies groups. We engage directly on specific issues and by taking part in external forums and working groups	Financial Inclusion and Community Investment
Regulators and governments	We proactively engage with regulators and governments to facilitate strong relationships via virtual and in-person meetings, responses to consultations individually and jointly via the industry bodies	Anti-bribery and Corruption
Suppliers	Our ethical and environmental code of conduct for suppliers of goods and services sets out how we engage with our suppliers on ethical and environmental performance	Suppliers ability to service HSBC at an appropriate cost, risk profile and ability to meet the demand by the bank

Supporting our stakeholders through Covid-19

The Covid-19 pandemic continues to create a great deal of uncertainty and disruption for the people, businesses and communities we serve around the world. It is affecting everyone in different ways, with markets at different stages of the crisis.

The outbreak continued to pose significant challenges for our customers. Our immediate priority has been to do what we can to provide them with support and flexibility; with customers doing more of their banking online, we have also deployed new technology to help enable them to engage with us in new ways.

Employee well-being remains a top priority as we transition to new ways of working and continue to navigate through the pandemic. The support we provide is driven by the feedback from our people surveys. In 2021, we launched new tools and training to support mental, physical and financial health. We are also enabling more colleagues to work flexibly and continue to follow social distancing and protection measures in line with local guidance. We firmly believe that helping our people to be healthy and happy is a key enabler of our strategy, and benefits the people and communities we serve.

Our ESG metrics and targets

The Group has established targets, that guide how we do business, including how we operate and how we serve our customers. These include targets designed to help us to make our business – and those of our customers – more environmentally and socially sustainable. They also help us to improve employee advocacy and diversity at senior levels as well as strengthen our market conduct.

The 2021 annual incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and members of the Group Executive Committee have 30% weightings for measures linked to outcomes that underpin the ESG metrics below. ESG metrics are also incorporated into the Europe Chief Executive and Executive Committee member scorecards.

Our Environmental metrics:

HSBC Holdings plc refreshed a number of metrics and targets to better align with its strategy and the vision for ESG, including its ambition to achieve zero net operational emissions by 2030. HSBC Bank plc reports emissions following the Greenhouse Gas Protocol, which incorporates the scope 2 market-based emissions methodology. We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. Due to the nature of our primary business, carbon dioxide is the main type of greenhouse gas applicable to our operations. While the amount is immaterial, our current reporting also incorporates methane and nitrous oxide for completeness. We do not report employee home working emissions. In 2021 we collected data on energy use and business travel for our operations in Europe in France, Germany, Malta, and Switzerland, which accounted for approximately 67% of our FTEs in HSBC Bank plc[1].

At the end of 2021, HSBC Bank plc achieved a 12% reduction in greenhouse gas emissions compared to 2020. Emissions in 2021 were 0.61 tonnes CO_2e per FTE.

For further information regarding our environmental footprint, please visit https://www.hsbc.com/who-we-are/our-climate-strategy/becoming-a-net-zero-bank.

Our Social metrics:

- Employee engagement was 48% as at the end of 2021, up by by 2% compared to 2020[1].
- Employee gender diversity, our target was 24.3% of women in senior leadership roles by the end of 2021. The outcome for 2021 was 24.0% of women in senior leadership roles[2].

Our Governance metrics:

- Sustained delivery of global conduct outcomes, with 97.8% of staff having completed conduct training in 2021. Our target for 2021 was 98%[3].

1 *To estimate the proportion of FTEs in HSBC Bank plc covered by the emissions data collected, we have calculated FTEs reporting into HSBC Bank plc in the relevant countries where emissions data is collected as a proportion of total FTEs in HSBC Bank plc.*
2 *Performance is based on our employee Snapshot results. We transitioned to the employee engagement index in 2020.*
3 *Senior leadership is classified as those at band 3 and above in the Group's global career band structure. We narrowly missed our 2021 target, our focus on improving gender balance in senior leadership across Europe remains a priority for HSBC Bank plc's executive committee for 2022.*
4 *The completion rate shown relates to the 2021 financial crime training module. The 2021 regulatory conduct training has been launched in January 2022 and will run through the first quarter of 2022.*

Responsible Business Culture

We have the responsibility to protect our customers, our communities and the integrity of the financial system. In this section, we outline our requirements under the Non-Financial Reporting Directive.

Environmental matters

In 2021, the Group joined the Net Zero Banking Alliance, a group of 43 international banks to establish a robust and transparent framework for monitoring progress and setting the standard for the banking industry.

In fulfilment of the Group's commitment approved by shareholders at the Group AGM in May 2021, the Group published a policy to phase out thermal coal financing in EU and OECD markets by 2030, and globally by 2040. This incorporates project finance, direct lending, or arranging or underwriting of capital markets transactions to in-scope clients, as well as the refinancing of existing finance facilities.

More information about the Group's assessment of climate risk can be found in the HSBC Holdings plc annual report, under the Task Force on Climate-related Financial Disclosures and climate strategy. HSBC has actively created opportunities for cross sectoral dialogue to advance the topic of sustainability, across key markets. In Germany, HSBC Bank plc and the International Chamber of Commerce organised a two day Pre COP event on climate action, global challenges, international climate policy and the role of business, involving international and national experts from the United Nations, European Union, governments, COP-Presidency (UK), civil society, business and academia. HSBC Armenia also organised, in partnership with the British Embassy, the first conference to promote sustainable finance, titled 'Joining for a Green Future'.

Employee matters

We want to encourage a dynamic and inclusive culture where our colleagues can expect to be treated with dignity, and respect. We are proud to be an organisation that takes action where we find behaviours that falls short of this expectation. We monitor achievement against this goal through metrics that we value. Listening to our colleagues is critical to the business we conduct and is reflected in our purpose and values, which were established through enterprise wide listening and engagement activities. We continue to seek innovative ways that encourage and provide opportunities for our people to speak up about things that are important to them. We recognise that at times people may not feel comfortable speaking up through the usual channels. HSBC Confidential is the Group's global whistleblowing channel, open to colleagues past and present as an anonymous route through which they can raise concerns confidentially at their discretion.

The development of our people is core to the success of our organisation. We continue to develop and implement practices that build employee capability and identify, develop and deploy talented employees; this ensures an appropriate supply of high calibre individuals with the right values, skills and experience for current and future senior management positions.

Since the launch of HSBC University in 2017, we have continued to add to the portfolio of world class leadership and professional development programmes for leaders and people managers including our flagship programmes, Accelerate into Leadership, Accelerating Female Leadership and Leading Business and Functions.

Communities

We have a responsibility to invest in the communities where we operate. We recognise that the world is evolving at a rapid pace and that a range of new and different skills are now needed for people to succeed. For this reason, much of our focus is on charitable partnerships that develop employability and financial capability skills. We also back climate solutions and innovation, and contribute to disaster relief efforts based on need. In 2021 in Europe, we contributed £1.7m to charitable programmes and our employees volunteered 4,200 hours to community activities during the working day.

Human rights

Our commitment to respecting human rights, principally as they apply to our employees, our suppliers and through our financial services lending, is set out in our Human Rights Statement. This statement, along with our statements under the UK's Modern Slavery Act ('MSA'), is available on www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Anti-corruption and anti-bribery

We are committed to high standards of ethical behaviour and operate a zero-tolerance approach to bribery and corruption. Our anti-bribery and corruption policy sets the framework for the Group and this is followed throughout HSBC Bank plc, to comply with anti-bribery and corruption legislation in all jurisdictions in which we operate, and gives practical effect to global initiatives, such as the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Where local legislation is in place in a jurisdiction, local policies are in place as appropriate, for example in France the Sapin II law requirements is adhered to.

The principal risks addressed by our anti-bribery and corruption policy are the risk that our employees, associated persons or customers engage in bribery or corruption, or that the Group does so through its strategic activities.

HSBC conducts business with the commitment to supporting the sustained success of our customers, people and communities.

Non-Financial Information Statement

Disclosures required pursuant to the Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 can be found on the following pages:

Environmental matters (including the impact of the company's business on the environment)	Page 8
The company's employees	Pages 7 to 10 and 94 to 95
Social matters	Page 8
Respect for human rights	Page 9
Anti-corruption and anti-bribery matters	Page 9
Business model	Page 6
Principal risks	Page 19

HSBC creates value by providing products and services to meet our customers' needs. We aim to do so in a way that fits seamlessly into their lives. This helps us to build long-lasting relationships with our customers. HSBC maintains trust by striving to protect our customers' data and information, and delivering fair outcomes for them and if things go wrong, we need to address complaints in a timely manner. Operating with high standards of conduct is central to our long-term success and underpins our ability to serve our customers. Our Conduct Framework guides activities to strengthen our business and increases our understanding of how the decisions we make affect customers and other stakeholders. Details on our Conduct Framework are available at www.hsbc.com.

Section 172 statement

This section, from pages 9 to 11 forms our section 172 statement. It describes how the Directors have performed their duty to promote the success of the bank, including how they have considered and engaged with stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (the 'Act').

The Board considered a range of factors when making decisions and is supported in the discharge of its duties by:

a. an induction programme and ongoing training to provide an understanding of our business and financial performance and prospects;

b. management processes which help ensure that proposals presented to Board and committee meetings for decision include information relevant to determine the action that would most likely promote the success of the bank and involve engagement with stakeholders where relevant to support appropriate decision making; and

c. agenda planning for Board and committee meetings to provide sufficient time for the consideration and discussion of key matters.

Stakeholder Engagement

The Board understands the importance of effective engagement with its stakeholders and is committed to open and constructive dialogue. This helps build trust and allows the Board to better understand the impact of the bank's actions on its stakeholders and respond to the challenges facing the bank. Depending on the nature of the issue in question, however, the relevance of each stakeholder group may differ and not every decision the Board makes will necessarily result in a positive outcome for all stakeholders.

The Board continued to focus its engagement with the bank's six key stakeholders, namely the bank's customers, employees, shareholders and investors, communities, suppliers, and regulators and governments. In discharging its responsibilities, the Board seeks to understand, and have regard to, the interests and priorities of these stakeholders.

For further details regarding the role of the Board and the way in which it makes decisions, including key activities during 2021, please see page 89.

The Board regularly receives reports from management on issues concerning its stakeholders, which it takes into account in its discussions and in its decision-making process as part of their duties under section 172. In addition to this, the Board seeks to understand the interests and views of the bank's stakeholders by engaging with them directly as appropriate. The ongoing impact of the Covid-19 pandemic has restricted the Board's ability to engage with stakeholders face-to-face, but examples of how the Directors engaged with stakeholders are set out below:

Customers

Customers are at the core of the bank's business model: without customers there would be no bank. The Board strives to ensure it has a broad understanding of customers, their needs and challenges, and to give full consideration to these.

During the year, the CEO and his senior management team continued to engage directly with customers, while the Board continued to monitor the bank's approach to supporting customers. The Board received regular reports from senior management on interaction with customers, which included key performance indicators measuring the impacts and challenges to customers as a result of the ongoing Covid-19 pandemic and associated Covid-19 relief payment moratoria, the impact of the free trade agreement between the EU and UK which excluded EU-wide arrangements for financial services, the bank's Europe transformation programme and associated conduct considerations. Dedicated deep dive sessions were also held, with one such session focused on HSBC Life and the Insurance business.

Employees

Employees are critical to the successful operation of the bank and its long-term future.

During the year the Board received regular updates from senior management on various metrics and feedback tools in relation to employees, including updates on Diversity and Inclusion and the Gender Pay Gap. Updates were also provided on the impact on employee wellbeing and how the bank was supporting its staff.

The focus on employees by the Board was also heightened through the frequent updates provided to the Board on the bank's Europe transformation programme and how staff were being impacted by the level of change. These updates considered key areas of people risk and the future of work in a post-pandemic environment.

Shareholders and Investors

The bank is a wholly owned subsidiary of the HSBC Holdings plc and, as such, the Board took into account the implications of its decisions with regard to its ultimate shareholder, HSBC Holdings plc, and its debt security investors.

During the course of the year, the Group Chairman held a number of principal subsidiary chair conferences which were attended by the Chairman of the Board. In addition, Chairs of the Audit and Risk Committees participated in regional Audit and Risk committee forums hosted by their Group counterparts. These were attended both by the bank's Directors as well as Audit and Risk Committee Chairs of material subsidiaries. The Board also received updates from management on the bank's debt issuance programmes.

Regulators and Governments

Directors periodically meet with the bank's regulators, the Financial Conduct Authority ('FCA') and Prudential Regulatory Authority ('PRA'). It is central to the success of the bank that it has strong relationships with these stakeholders and that there is a mutual understanding on expectations and challenges given their impact on customers, the business model and the bank's strategy.

During the year, members of the Board met regularly with regulators both in the UK and Europe and engagement continued during 2021 notwithstanding the logistical challenges posed by the impact and continued national and regional lock-downs due to the Covid-19 pandemic. The Board held a dedicated deep dive session on how HSBC interacts with regulators globally and at the European level to better understand the scope of engagement at executive level with relevant regulators in the region.

Suppliers

Suppliers are critical to supporting the infrastructure and operations of the business and have contractual relationships with the bank.

During the year, the Board received an update on the bank's performance against its statutory reporting obligations in respect of the payment of third party suppliers. This also provided an insight into the impact of its procurement processes and procedures on suppliers.

Communities and Environment

The bank has legal, regulatory and social responsibilities to the community and its environment.

During the year the Board received updates on the Group's evolving climate and sustainable finance strategy and net zero ambition. As we go into 2022, and as a sustainable finance strategy tailored for European business is further developed, the Board will receive updates on the bank's delivery against the ambition and strategy execution.

Employee Engagement

The Chief Executive Officer and senior management are actively involved in the engagement of employees through leadership calls and quarterly all employee webcasts to keep the workforce up-to-date on business developments and answer questions. In addition, the Chief Executive Officer issues a Europe-wide newsletter which updates employees on initiatives across the region. The Board receives regular updates from the Chief Executive Officer and the Head of HR on employee matters, including feedback received through Town Halls and Exchanges, as well as through regular employee surveys. One of the non-executive Directors also has a particular focus on employee matters to enhance the Board's view of people issues and to gain a better understanding of the employee perspective. Further details of the bank's engagement with employees can be found on pages 7 to 10 and 94 to 95.

Principal Decisions

Set out below are some of the principal decisions made by the Board during 2021. In each case, in taking such decisions, the Directors exercised their statutory duties, including the duty to act in the way that they consider, in good faith, would be most likely to promote the success of the bank for the benefit of its members as a whole.

Europe Transformation Programme

Following a revision of the bank's operating plan in 2020 in response to the revised Group strategy, in 2021 the Board continued to oversee and challenge management in their execution of the bank's Europe transformation programme. The bank's continued focus on simplification of its presence in the region included a proposal being brought to the Board in May 2021 for the disposal of the group's non-core retail banking business in France.

Prior to approval, the Board constructively challenged and engaged with senior management to consider the financial and commercial profile of the business itself, alternative proposals in respect of the retail business and the likely consequences of the disposal on the bank's key stakeholders, including customers and its shareholder and investors. In considering stakeholders, the Board also considered the consultation undertaken with relevant French works' councils, and the interests of the bank's employees, in respect of the disposal. Completion of the disposal will involve engagement with other key stakeholders, including relevant regulators.

In reaching its decision, the Board acknowledged the rationale for the transaction in the context of the strategy for the group set by its shareholder and considered the interests of its shareholder in undertaking the disposal. It concluded that the disposal would be a strong enabler in simplifying HSBC's business in Continental Europe, allowing management to accelerate the transformation of the European wholesale banking franchise. Additionally, the Board had regard to customers. In particular, the Board considered the terms negotiated as part of the transaction to help to ensure an effective transition of the business to the buyer in light of the importance of maintaining ongoing support for customers. Furthermore, the proposed sale to an experienced investor, with a strategic focus on retail banking, was recognised as giving support to the development of the retail business over the longer term.

Having taken all of these and other factors into account, including an assessment of the financial merits and risks, and the interests of employees, the Board agreed to proceed with the proposal on the basis that it considered that it was in the best interests of the bank's members as a whole and would promote the long term success of the bank, as subsequently announced by HSBC on 18 June 2021.

Legacy Capital Consent Solicitation

A key regulatory responsibility of the bank for a number of years has been to help facilitate an industry-wide transition from the use of interbank offered rates ('Ibors'), such as the London interbank offered rate ('Libor'), to using near risk free replacement rates ('RFRs') or alternative reference rates. The bank had two externally-issued outstanding English law capital instruments (one of which was issued through a Jersey Limited Partnership vehicle) that contained provisions requiring the interest rate to be determined by reference to a GBP Libor rate.

In view of the anticipated demise of GBP Libor from the end of 2021, in July 2021, the Board considered a proposal to seek consent from the bondholders to amend the terms and conditions of such instruments, to transition them from using GBP Libor to calculate the interest rate to instead use the Sterling Overnight Index Average ('SONIA') rate, which is the RFR recognised as the preferred alternative rate for sterling markets.

As part of its consideration, the Board took into account the impact of the project on the bank's key stakeholders, in particular its investors in such instruments, and its obligations to, and relationship with, its regulators. In this respect, the Board acknowledged the expectations of the regulators that the bank seeks to swiftly transition its portfolio of legacy GBP Libor contracts (which includes these instruments) prior to the anticipated demise date for GBP Libor. From an investor perspective, the Board was mindful of the need to adopt transition terms that were consistent with others in the market and that included the industry agreed adjustment spread to be added to the relevant SONIA rate, to compensate investors for the difference between SONIA and Libor reference rates.

Having considered these factors, the Board recognised and approved the need for the bank to seek the consent of bondholders to transition these instruments, acknowledging that this would be in the best interests of the bank's members as a whole and would promote the long term success of the bank.

Tax

Our approach to tax

We are committed to applying both the letter and the spirit of the law in all territories where we operate, and have adopted the UK Code of Practice for the Taxation of Banks. As a consequence, we seek to pay our fair share of tax in the countries in which we operate. We continue to strengthen our processes to help ensure our banking services are not associated with any arrangements known or suspected to facilitate tax evasion.

HSBC continues to apply global initiatives to improve tax transparency such as:

- the US Foreign Account Tax Compliance Act ('FATCA');
- the OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- the Capital Requirements Directive IV ('CRD IV') Country by Country Reporting;
- the OECD Base Erosion and Profit Shifting ('BEPS') initiative; and
- the UK legislation on the corporate criminal offence ('CCO') of failing to prevent the facilitation of tax evasion.

We do not expect the BEPS or similar initiatives adopted by national governments to adversely impact our results.

Key Performance Indicators

The Board of Directors tracks the group's progress in implementing its strategy with a range of financial and non-financial measures or key performance indicators ('KPIs'). Progress is assessed by comparison with the group strategic priorities, operating plan targets and historical performance. The group reviews its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC's strategy and strategic priorities.

Financial KPIs

	2021	2020
Profit/(loss) before tax (reported) (£m)	**1,023**	(1,614)
Profit/(loss) before tax (adjusted) (£m)	**1,577**	(184)
Cost efficiency ratio (reported) (%)	**89.2**	113.6
Cost efficiency ratio (adjusted) (%)	**80.9**	89.6
Return on tangible equity (%)	**6.1**	(2.7)
Common equity tier 1 capital ratio (%)	**17.3**	14.7

Profit/(loss) before tax (reported/adjusted): Reported profit/(loss) before tax is the profit/(loss) as reported under IFRS. Adjusted profit/(loss) before tax adjusts the reported profit/(loss) for the effect of significant items as detailed on pages 15 to 16.

Reported profit before tax in 2021 was £1,023m compared with a loss before tax of £(1,614)m in 2020. This was primarily driven by lower reported operating expenses driven by the non-recurrence of a £802m impairment of intangible assets in 2020 and lower restructuring and other related costs, including severance costs, arising from the bank's transformation programme. Expected credit losses and other credit impairment charges ('ECL') were significantly lower reflecting an improvement in the economic outlook. Revenue was higher compared with 2020, notably in our insurance manufacturing business in WPB, partly offset by higher restructuring and other related costs comprising disposal losses associated with RWA reductions which related to the commitments at our February 2020 business update.

Adjusted profit before tax was £1,577m compared with a loss before tax of £(184)m in 2020. This was driven by lower ECL and lower operating expenses as well as strong revenue performance. The increase in revenue included positive market impacts on the present value of in-force ('PVIF') insurance contracts in insurance manufacturing in WPB driven by an increase in interest rate yield curves and favourable movements in valuation adjustments in Markets and Securities Services ('MSS'). Operating expenses decreased as a result of the tight control of discretionary spend to reflect the economic outlook and the initial impact of our transformation of the bank. This was partly offset by the UK bank levy incurred in 2021, which was previously paid by the Group. In addition, there was a gain of £191m compared with a loss of £(1)m in 2020 recognised from our share of profit/(loss) from associates.

Reported cost efficiency ratio was 24.4 percentage points lower compared with 2020 driving by higher revenue and lower operating expenses. Reported revenue increased by 3.7% and reported operating expenses decreased by 18.5%, mainly driven by the factors mentioned above.

Adjusted cost efficiency ratio improved by 8.7 percentage points from 2020, reflecting higher revenue and lower costs Revenue increased by 5.6%, mainly driven by favourable PVIF and positive valuation adjustments. Operating expenses decreased by 4.7%, mainly driven by lower costs reflecting our transformation plans partly offset by the UK bank levy and higher variable pay.

Return on tangible equity ('RoTE') is computed by adjusting reported profit attributable to ordinary shareholders by excluding movements in PVIF and significant items (net of tax), divided by average tangible shareholders' equity excluding fair value of own debt, debt valuation adjustment ('DVA') and other adjustments for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests.

We provide RoTE as a way of assessing our performance, which is closely aligned to our capital positions.

CET1 capital ratio represents the ratio of common equity tier 1 capital to total risk-weighted assets ('RWA'). CET1 capital is the highest quality form of capital comprising shareholders' equity and related non-controlling interests less regulatory deductions and adjustments.

The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

The CET1 capital ratio of 17.3% in 2021 increased by 2.6 percentage points from 2020, mainly due to a reduction in RWAs.

Non-financial KPIs

We monitor a range of non-financial KPIs focusing on customers, people, culture and values including customer service satisfaction, employee engagement and diversity and sustainability.

For details on customer service and satisfaction please refer below; for the remaining non-financial KPIs, refer to the Non financial reporting section on page 8 and Corporate Governance section on pages 88 to 96.

Customer service, awards and satisfaction

MSS

Our customers are at the heart of what we do and we are committed to delivering services and capabilities that meet their needs and help them fulfil their ambitions.

In 2021, we won numerous awards and consistently ranked highly with our European clients, including winning Currency Manager of the Year at the European Pension Awards, Western Europe's Best Bank for SMEs by EuroMoney, ranking number one for overall service quality in Continental Europe in the Coalition Greenwich Foreign Exchange study, and ranking number one in both the UK and Ireland as best fund and administration provider in the R&M Investor Services Survey.

These accolades, coupled with multiple milestones and achievements in sustainable finance, demonstrate our unique capabilities to support clients locally and connect them to markets and expertise in the East, as well the key role Europe plays in supporting the Group's strategic priorities.

GB

Within Global Banking Europe we remain committed to providing excellent customer experience and we continue to strive towards improving our proposition to meet client needs.

In 2021, HSBC received a number of external awards, recognising the support we've provided to our clients for example, Investment Bank of the Year for Bonds by The Banker.

Aligned with our strategy of opening up opportunities for our clients, HSBC was also recognised with an Excellence Award in International Network Breadth by the Coalition Greenwich Awards and won seven bond awards from Environmental Finance in 2021. These awards, in particular, highlight the continued strength and differentiation of our ESG capabilities globally as well as the role we play in Europe helping our clients transition to net zero.

CMB

Customer experience and satisfaction are fundamental priorities for Commercial Banking in Europe. We measure a number of metrics, track customer service levels and gather direct customer feedback to ensure our solutions and channels remain relevant and fit for our customers' needs today. In 2021, we launched Europe 1 Form, a single document addressing all of a clients' onboarding requirements to enable an account being opened. These type of initiatives help to improve our customers' journeys and experience, and ensures that we continue to achieve internal operating efficiencies. We have also pivoted towards a centralised booking model, which has enabled us to provide regional coverage to our customers and helped to support our their needs on a pan-European basis. Looking ahead, we will continue to support our customers to formulate transition plans to achieve their net-zero targets.

WPB

In WPB Europe, enhancing customer experience and improving satisfaction remains integral to our strategy. This is monitored through a number of customer satisfaction metrics covering branch, contact centre and digital channels. We recognise the importance of customer feedback and continue to enhance our insights to gain a better understanding of our clients to provide a more personalised and relevant service.

Digital continues to be a principal area of investment; enhancing customer experience, reducing processing costs and driving the sustainability agenda. In Expat we have launched a new mobile app including the deployment of soft token. This will reduce the need for over 20,000 hard tokens being sent to customers globally. Our Private Banking arm is also committed to enhancing digital offerings, including enhanced capabilities to support our advisory offering, and improved internal platforms and software to support our people in delivering excellent client service.

We recognise that enhancing customer satisfaction is an evolving process and are committed to ensure our investments and focus are prioritised to achieve this.

Economic background and outlook

UK

Continued recovery amid high inflation

The UK economy grew by 1% in the fourth quarter of 2021, bringing the level of output to 0.4% above its pre-pandemic level. While the UK only tightened restrictions modestly over the winter in response to concerns surrounding the Omicron variant of COVID-19, the pace of economic growth slowed and uncertainty remains high. Much of the expansion through 2021 was driven by household and government spending. On the other hand, business investment and exports have been subdued (10% and 18% below their pre-pandemic peaks). Headwinds related to the UK's exit from the EU might have played a role.

As the economy has rebounded, it has run into supply constraints, both in terms of global supply chain disruption, and labour shortages. The former might be constraining trade and manufacturing, while the latter has been associated with record job vacancy levels.

These supply issues, coupled with significant rises in energy prices – wholesale gas prices in particular – have led to a sharp rise in inflationary pressure. The annual CPI inflation rate stood at 5.5% in January 2022, more than double the Bank of England's 2% target. Inflation is expected to rise further in the near term, with sharp rises in regulated utility prices set for April.

Looking ahead, HSBC Research expects the UK economy to continue to normalise following the worst of the pandemic-related disruption, with GDP growing by 4% in 2022 and by 1.6% in 2023. As energy and supply-related pressures eventually ease, HSBC Research expects CPI inflation to start falling back through 2022, then fall to around the 2% mark in 2023.

UK rates could rise this year

Given inflation strength and 'tightness' in the labour market, the Bank of England ('BoE') has begun to tighten monetary policy, with a 15 basis point rise in Bank Rate in December and a 25 basis point increase in January, lifting the rate to 0.50%. HSBC Research expects another three rate increases in 2022 bringing Bank Rate up to 1.25%. The BoE has announced that, with Bank Rate now at 0.50%, it will stop reinvesting maturing government bonds held as part of its Quantitative Easing ('QE') programme.

Fiscal policy, which has been highly supportive since the onset of the pandemic, is set to achieve a narrowing in the government budget deficit over the coming years. As part of the consolidation, and in order to meet the increasing spending commitments relating to an ageing population, taxes as a share of the overall economy are set to rise, according to the government's forecasts, to levels not seen since early the 1950s.

Eurozone

Recovering from renewed Covid-19 concerns

Even before heightened concerns about the Omicron variant, Covid-19 cases were rising sharply in several European countries. In response, several countries curtailed hospitality-sector opening hours and tightened restrictions for unvaccinated people. This has compounded ongoing headwinds from supply chain disruption, which has weighed on the manufacturing sector in particular. And economic growth slowed in the fourth quarter, from 2.2% to 0.3%, though that allowed GDP to return to its pre-pandemic peak. More recently, case numbers have been in decline and the business surveys point to a pick-up in near-term growth.

Despite the softening in overall activity at the turn of the year, the labour market has remained robust. In December 2021, the eurozone unemployment rate declined from 7.1% to 7.0%. That compares to a December 2020 peak of 8.4% and a February 2020 level of 7.3%.

As a result of sharp rises in energy prices, and supply disruption, annual eurozone consumer price inflation reached a record high of 5.1% in January 2022. Importantly though, eurozone wage cost pressures remain fairly contained, keeping a lid on underlying inflation rates.

HSBC Research expects a continued economic recovery, with eurozone GDP growing by 3.5% in 2022 and 2.3% in 2023. Meanwhile, as long as wage pressures remain in check, and assuming an easing in supply disruption, inflation is likely to fall sharply over the coming months. HSBC Research sees the headline inflation rate falling to around the 2% mark in early 2023.

Eurozone interest rates could rise this year

Although eurozone wage pressures appear to remain fairly soft, significant upside news to inflation, alongside the ongoing economic recovery, means that the European Central Bank ('ECB') has signalled the possibility of paring back monetary policy stimulus. In December the ECB announced that it will end its Pandemic Emergency Purchase Programme ('PEPP') in March 2022.

Beyond that, HSBC Research expects the ECB to end net asset purchases under its regular Asset Purchase Programme ('APP') by the end of September 2022, paving the way for a 25 basis point rise in the Deposit Rate (from -0.50% to -0.25%) in October 2022, then another 25 basis point increase in March 2023. In mid-February, market prices pointed to a faster pace of ECB tightening, with more than 40bps of rate rises priced in for 2022.

Financial summary

Use of alternative performance measures

Our reported results are prepared in accordance with International Financial Reporting Standards ('IFRSs'), as detailed in the Financial Statements starting on page 107. In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort year-on-year comparisons. These are considered alternative performance measures.

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

Adjusted performance

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

We use 'significant items' to describe collectively the group of individual adjustments excluded from reported results when arriving at adjusted performance. These items are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business. We consider adjusted performance provides useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses year-on-year performance.

Summary consolidated income statement for the year ended

	2021 £m	2020 £m
Net interest income	**1,754**	1,898
Net fee income	**1,413**	1,400
Net income from financial instruments measured at fair value	**3,432**	2,314
Gains less losses from financial investments	**60**	95
Net insurance premium income	**1,906**	1,559
Other operating income	**594**	417
Total operating income[1]	**9,159**	7,683
Net insurance claims, benefits paid and movement in liabilities to policyholders	**(3,039)**	(1,783)
Net operating income before change in expected credit losses and other credit impairment charges[1]	**6,120**	5,900
Change in expected credit losses and other credit impairment charges	**174**	(808)
Net operating income	**6,294**	5,092
Total operating expenses excluding impairment of goodwill and other intangible assets[2]	**(5,416)**	(5,903)
Impairment of goodwill and other intangible assets	**(46)**	(802)
Operating profit/(loss)	**832**	(1,613)
Share of profit/(loss) in associates and joint ventures	**191**	(1)
Profit/(loss) before tax	**1,023**	(1,614)
Tax credit	**23**	136
Profit/(loss) for the year	**1,046**	(1,478)
Profit/(loss) attributable to the parent company	**1,041**	(1,488)
Profit attributable to non-controlling interests	**5**	10

1 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*
2 *Total operating income and expense include significant items as detailed on pages 14 to 16.*

Reported performance

Performance in 2021 was stronger compared with 2020, which was heavily impacted by the Covid-19 pandemic.

Reported profit before tax was £1,023m, compared with a loss before tax in 2020 of £(1,614)m, an increase of £2,637m. This was mainly due to a significant reduction in operating expenses, a net release in ECL compared with charges in 2020, and stronger revenue performance.

Reported revenue was £220m higher, largely driven by favourable market impacts on the present value of in-force ('PVIF') long-term insurance contracts in insurance manufacturing in WPB. Also, 2020 revenue included a significant negative impact from valuation adjustments in MSS. This was partly offset in 2021 by higher restructuring and other related costs comprising disposal losses associated with RWA reductions, related to the commitments at our February 2020 business update. ECL were lower driven by a net release in 2021 compared with net charge in 2020 as a result of the deteriorating economic outlook during the onset of the Covid-19 outbreak. Operating expenses were lower, mainly driven by the non-recurrence of a impairment of goodwill and other intangible assets and lower transformation costs, partly offset by the UK bank levy incurred for the first time in 2021. In addition, there was also a gain compared with a loss in 2020 recognised from our share of profit/(loss) from associates.

Net interest income ('NII') decreased by £144m or 8% compared with the prior year. NII was lower mainly driven by the impact of lower interest rate environment, notably in Retail deposits in WPB and in GLCM (in Global Banking). Revenue was also lower due to a reduction in balance sheet lending as a result of the transformation programme to reduce RWAs. This was partly offset by a reduction in the funding cost of trading assets, and through initiatives to reduce the overall funding costs of the bank through retiring more expensive wholesale funding.

Net fee income increased by £13m or 1% compared with the prior year, primarily in WPB largely in Asset Management driven by favourable market conditions and in Retail due to higher fees commission driven by increased levels of customer activity compared to 2020, which was impacted by the Covid-19 pandemic.

Net income from financial instruments measured at fair value increased by £1,118m or 48% compared with the prior year. In WPB, revenue increased primarily reflecting a stronger equity market performance and higher interest rate yields in France compared with 2020 when the value of equity and unit trust assets supporting insurance contracts were heavily impacted by the Covid-19 outbreak.

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

Revenue also increased in MSS largely driven by lower adverse credit and funding valuation adjustments compared with 2020. Excluding this, revenue was lower, as 2020 benefited from higher market volatility supporting a particularly strong performance within Global Foreign Exchange and Global Debt Markets, notably in the UK.

By contrast, revenue decreased in GBM Other, mainly driven by higher restructuring and other related costs comprising disposal losses associated with RWA reductions, related to the commitments at our February 2020 business update.

Gains less losses from financial investments decreased by £35m, mainly driven by lower gains on the disposal of bonds held at fair value through other comprehensive income ('FVOCI') in Markets Treasury.

Net insurance premium income increased by £347m or 22%, in WPB, from insurance manufacturing revenue in France driven by higher new business volumes.

Net insurance claims, benefits paid and movement in liabilities to policyholders increased by £1,256m or 70%, primarily in the insurance business in WPB. The increase was driven by higher returns on financial assets supporting contracts where the policyholder is subject to part or all of the investment risks. The gains recognised on the financial assets measured at fair value through profit and loss that are held to support these insurance contract liabilities are reported in 'Net income from financial instruments designated at fair value'. This was partly offset by a increase in premium income.

Other operating income increased by £177m or 42%, mainly due to favourable market impacts, notably on PVIF, in insurance manufacturing in WPB. This reflected a stronger equity market performance and higher interest rate yields on the valuations of the liabilities under insurance contracts. This was partly offset by lower revenue in GBM Other due to lower intercompany recharge recoveries from other entities in the Group, with an offsetting decrease in operating expenses.

Changes in expected credit losses and other credit impairment charges ('ECL') were a net release of £174m in 2021, compared with a net charge of £808m in 2020. The net release in 2021 reflected an improvement in the economic outlook and a stabilisation of credit risk. This compared with the significant build-up of stage 1 and stage 2 allowances in 2020 due to the worsening economic outlook at the onset of the Covid-19 outbreak. The reduction in ECL compared with 2020 also reflected lower levels of stage 3 charges.

Total operating expenses excluding impairment of goodwill and other intangible assets decreased by £487m or 8%, mainly driven by a reduction in staff costs, lower contractor and consultancy spend, and lower discretionary spend, in line with our transformation plan. In addition, there was also lower expenses related to severance costs arising from cost efficiency measures across our global businesses and function. This reduction was partly offset by the UK bank levy incurred in 2021, which was previously paid by the Group.

Impairment of goodwill and other intangible assets was £756m lower compared with the prior year. In 2020, operating expenses included a £802m goodwill impairment which principally comprised the write-off of capitalised software. This mainly related to our businesses in the UK and France and reflected the underperformance and deterioration in the future forecasts of these businesses, substantially relating to prior periods.

Share of profit/(loss) in associates and joint ventures was a profit of £191m compared with a loss of £(1)m in 2020. The profit in 2021 included a £93m true-up of prior year valuations in the underlying investments of an associate.

Tax credit was £113m lower compared with 2020. The effective tax rate of 2.3% for 2021 included favourable non-recurring items in respect of tax rate changes, prior period adjustments and the recognition of previously unrecognised deferred tax assets in France.

The effective tax rate of 8.4% for 2020, representing a tax credit on loss before tax, was mainly due to the non-recognition of deferred tax on the loss in France for the period.

Adjusted performance

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

	MSS £m	GB £m	GBM Other £m	CMB £m	WPB £m	Corporate Centre £m	Total £m
31 Dec 2021							
Reported revenue	**2,043**	**1,367**	**310**	**1,096**	**1,276**	**28**	**6,120**
Significant revenue items	**12**	**—**	**269**	**(1)**	**(1)**	**(69)**	**210**
– fair value movements on financial instruments[1]	**12**	**—**	**(5)**	**(1)**	**(1)**	**—**	**5**
– restructuring and other related costs[2]	**—**	**—**	**274**	**—**	**—**	**(69)**	**205**
Adjusted revenue	**2,055**	**1,367**	**579**	**1,095**	**1,275**	**(41)**	**6,330**
31 Dec 2020[3]							
Reported revenue	1,966	1,381	437	1,132	1,035	(51)	5,900
Significant revenue items	2	—	187	1	—	(93)	97
– fair value movements on financial instruments[1]	2	—	2	1	—	(2)	3
– restructuring and other related costs[2]	—	—	185	—	—	(91)	94
Adjusted revenue	1,968	1,381	624	1,133	1,035	(144)	5,997

1 Includes fair value movements on non-qualifying hedges and debt valuation adjustments on derivatives.
2 Includes losses associated with the RWA reduction commitments.
3 A change in reportable segments was made in 2021. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138.

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

	MSS £m	GB £m	GBM Other £m	CMB £m	WPB £m	Corporate Centre £m	Total £m
31 Dec 2021							
Reported operating expenses	**(2,064)**	**(918)**	**(588)**	**(611)**	**(981)**	**(300)**	**(5,462)**
Significant cost items	**—**	**—**	**103**	**(1)**	**6**	**236**	**344**
– restructuring and other related costs	**—**	**—**	**103**	**(1)**	**6**	**236**	**344**
– settlements and provisions in connection with legal and regulatory matters	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– impairment of other intangible assets	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted operating expenses	**(2,064)**	**(918)**	**(485)**	**(612)**	**(975)**	**(64)**	**(5,118)**
31 Dec 2020[2]							
Reported operating expenses	(1,950)	(878)	(1,351)	(773)	(1,169)	(584)	(6,705)
Significant cost items	1	—	679	114	41	498	1,333
– restructuring and other related costs[1]	—	—	218	79	5	377	679
– settlements and provisions in connection with legal and regulatory matters	1	—	—	—	—	8	9
– impairment of other intangible assets	—	—	461	35	36	113	645
Adjusted operating expenses	(1,949)	(878)	(672)	(659)	(1,128)	(86)	(5,372)

1 Includes the write down of software £148m.
2 A change in reportable segments was made in 2021. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138.

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

	MSS £m	GB £m	GBM Other £m	CMB £m	WPB £m	Corporate Centre £m	Total £m
31 Dec 2021							
Reported profit/(loss) before tax	**(20)**	**589**	**(273)**	**492**	**318**	**(83)**	**1,023**
Net impact on reported profit and loss	**12**	**—**	**372**	**(2)**	**5**	**167**	**554**
– Significant revenue items	**12**	**—**	**269**	**(1)**	**(1)**	**(69)**	**210**
– Significant cost items	**—**	**—**	**103**	**(1)**	**6**	**236**	**344**
Adjusted profit/(loss) before tax	**(8)**	**589**	**99**	**490**	**323**	**84**	**1,577**
31 Dec 2020[1]							
Reported profit/(loss) before tax	17	55	(918)	37	(173)	(632)	(1,614)
Net impact on reported profit and loss	3	—	866	115	41	405	1,430
– Significant revenue items	2	—	187	1	—	(93)	97
– Significant cost items	1	—	679	114	41	498	1,333
Adjusted profit/(loss) before tax	20	55	(52)	152	(132)	(227)	(184)

1 A change in reportable segments was made in 2021. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138.

Adjusted performance

Adjusted profit before tax was £1,577m compared with a loss before tax of £(184)m in 2020, up £1,761m. This reflected lower ECL, a strong revenue performance and lower operating expenses. There was also a gain in our share of profit in associates and joint ventures compared with a loss in 2020. ECL were significantly lower mainly reflecting an improvement in the economic outlook from 2020. Adjusted revenue performance was stronger largely driven by the impact of volatile items including favourable market impacts on insurance manufacturing in WPB and favourable valuation adjustments in MSS. Adjusted operating expenses were lower as a result of our transformation plans and continued prudent management of discretionary spend. This was partly offset by the UK bank levy which incurred in 2021.

Adjusted revenue increased by £333m or 6%, partly offset by unfavourable movements in foreign exchange. Excluding this, revenue increased primarily in WPB, MSS and Corporate Centre. The increase in WPB reflected favourable market impacts on insurance manufacturing as equity markets performance remained strong compared with 2020, which was heavily impacted by the Covid-19 pandemic. In MSS, adjusted revenue was higher driven by lower adverse credit and funding valuations and continued momentum in Equities performance, partly offset by lower revenue in Global FX driven by lower market volatility. Revenue also increased in Corporate Centre, primarily due to a fair value gain from a long-standing investment in a Germany-based company. There were also gains from disposals in Legacy Credit.

Adjusted ECL were £982m lower compared with 2020. There was a net release of £174m compared with a net charge of £808m in 2020. In 2021, there were releases of stage 1 and 2 provisions reflecting an improvement in the economic outlook and a stabilisation of credit risk, compared with a significant build-up of allowances in the first half of 2020 at the onset of the Covid-19 outbreak. There were also lower charges against specific wholesale customers during 2021 compared with 2020.

Adjusted operating expenses decreased by £254m or 5%, in part due to favourable movements in foreign exchange. Excluding this, operating expenses decreased as we reviewed and re-prioritised spend aligning with our transformation plans and to reflect the economic outlook. This resulted in a reduction in FTE, tight control of contractor and consultancy spend as well as lower discretionary spend. This decrease was partly offset by the UK bank levy booked in 2021, which was previously paid by the Group.

Share of profit/(loss) in associates and joint ventures was a profit of £191m compared with a loss of £(1)m in 2020. Profit in 2021 included a £93m true-up of prior year valuations in the underlying investments of an associate.

Markets and Securities Services

Adjusted loss before tax was £(8)m compared to a profit before tax of £20m, down £28m compared with 2020. This was driven by higher operating expenses, largely offset by higher revenue.

Revenue increased by £87m or 4%, mainly driven by lower adverse credit and funding valuations compared with 2020 and a stronger performance in Equities, notably in structured derivatives, driven by higher market volatility. This was partly offset by lower revenue in Global FX as, in 2020, there was an exceptional level of volatility and client activity driven by the onset of the Covid-19 outbreak.

Operating expenses increased by £115m or 6%, largely driven by an increase in performance-related pay reflecting higher revenue and a higher Single Resolution Fund ('SRF') levy in France and Germany. This was partly offset by a reduction in staff costs resulting from our transformation cost-saving initiatives.

Global Banking

Adjusted profit before tax was £589m, an increase of £533m compared with 2020, largely driven by lower ECL, partly offset by higher operating expenses.

Revenue decreased by £14m or 1%, mainly driven by unfavourable movements in foreign exchange. Excluding this, revenue remained broadly stable compared with 2020. This was despite a reduction in interest rates in the first half of 2020 and lower customer balances in 2021, reflecting actions taken to reduce RWAs as part of our transformation. Revenue in 2020 included mark-to-market losses which were not repeated in 2021.

ECL net credit of £139m compared to a net charge of £448m in 2020. The net credit in 2021 mainly reflected releases of stage 1 and stage 2 allowances as the economic outlook improved. This compared with the significant build-up of charges in 2020 resulting from the deterioration in the economic situation due to the Covid-19 outbreak.

Operating expenses were £40m or 5% higher compared with 2020, mainly driven by higher performance-related pay, partly offset by a reduction in staff costs resulting from our transformation cost-saving initiatives.

Global Banking and Markets Other

Adjusted profit before tax was £99m, compared with a loss before tax of £(52)m in 2020. This was largely driven by lower operating expenses and gains from disposals in Principal Investments ('PI').

Revenue decreased by £45m or 7%, mainly driven by lower intercompany cost recoveries which resulted from a change in billing methodology of GBM costs, where recharges and recoveries were moved to other entities in the Group (with an offsetting reduction in operating expenses). This was partly offset by higher revenue in PI driven by gains following disposals of a number of funds in 2021 compared with losses in 2020.

Operating expenses decreased by £187m or 28% compared with 2020, including the move of certain GBM costs from the bank to other entities in the Group (offset by lower intercompany recoveries in revenue). In addition, there was a reduction in staff costs and performance-related pay resulting from our transformation initiatives. This was partly offset by the UK bank levy incurred in 2021.

Commercial Banking

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

Adjusted profit before tax was £490m, up by £339m compared with 2020. This was mainly driven by lower ECL and lower operating expenses, partly offset by lower revenue.

Revenue decreased by £38m or 3% compared with 2020. This was primarily in Credit and Lending due to lower customer balances reflecting actions taken to reduce RWAs as part of transformation. Revenue also decreased in GLCM driven by the lower interest rate environment despite growth in average deposit balances. This was partly offset by an increase in revenue allocated from Markets Treasury.

ECL net credit of £7m compared with a net charge of £322m in 2020. The net credit in 2021 largely reflected releases of stage 1 and stage 2 allowances reflecting the improved economic outlook. In 2020, there was significant build-up of charges resulting from the deterioration in the economic situation driven by the Covid-19 outbreak. In addition, stage 3 charges were lower compared with 2020.

Operating expenses decreased by £47m or 7%, mainly driven by a reduction in staff costs resulting from transformation initiatives. There were also lower corporate real estate costs due to lower depreciation as certain assets have been fully written down.

Wealth and Personal Banking ('WPB')

Adjusted profit before tax of £323m, up £456m compared with 2020. This was primarily due to higher revenue, lower operating expenses and lower ECL.

Revenue increased by £241m or 19%, mainly in insurance manufacturing in France and in the UK, largely from positive market impacts, notably on PVIF, driven by favourable equity market performance and higher interest rate yields on insurance contracts. This partly offset by lower revenue in Retail in France and in the Channel Islands and Isle of Man, mainly from deposits due to the low interest rate environment, despite growth in average balances.

ECL net credit of £23m compared with a net charge of £39m in 2020. This mainly reflected an improvement in the economic outlook from 2020.

Operating expenses decreased by £152m or 23%. This was driven by the non-recurrence of an impairment of real estate assets in France in 2020. In addition, there were lower technology costs and lower corporate real estate costs due to lower depreciation as certain assets have been fully written down.

Corporate Centre

Adjusted profit before tax of £96m compared with a loss before tax of £227m in 2020. This was mainly driven by a profit in associates and joint ventures compared with a loss in 2020, lower operating expenses and higher revenue.

Revenue was higher by £104m, primarily driven by gains on portfolio disposals in Legacy Credit compared with losses in 2020. The increase was also driven by a fair-value gain from a long-standing investment in a Germany-based brokerage company.

ECL net charge of £2m in 2021 compared with a net release of £5m in 2020, mainly driven by losses in Legacy Credit following disposals.

Operating expenses decreased by £22m or 26%, largely driven by lower intercompany recharges from other entities in the Group, with an offsetting decrease in revenue.

Shares of profit/(loss) in associates and joint ventures was a profit of £191m, of which £93m was due to a true-up of prior year valuations in the underlying investments of an associate. This compared with a loss of £(1)m in 2020.

Dividends

The consolidated reported profit for the year attributable to the shareholders of the bank was £1,041m.

No dividend in respect of 2021 was declared on the ordinary share capital during the year.

Further information about the results is given in the consolidated income statement on page 108.

Review of business position

Summary consolidated balance sheet at 31 Dec

	2021 £m	2020 £m
Total assets	**596,611**	681,150
– cash and balances at central banks	**108,482**	85,092
– trading assets	**83,706**	86,976
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**18,649**	16,220
– derivatives	**141,221**	201,210
– loans and advances to banks	**10,784**	12,646
– loans and advances to customers	**91,177**	101,491
– reverse repurchase agreements – non-trading	**54,448**	67,577
– financial investments	**41,300**	51,826
– other assets	**46,844**	58,112
Total liabilities	**572,896**	657,301
– deposits by banks	**32,188**	34,305
– customer accounts	**205,241**	195,184
– repurchase agreements – non-trading	**27,259**	34,903
– trading liabilities	**46,433**	44,229
– financial liabilities designated at fair value	**33,608**	40,792
– derivatives	**139,368**	199,232
– debt securities in issue	**9,428**	17,371
– liabilities under insurance contracts	**22,264**	22,816
– other liabilities	**57,107**	68,469
Total equity	**23,715**	23,849
Total shareholders' equity	**23,584**	23,666
Non-controlling interests	**131**	183

Total reported assets were 12.4% lower than at 31 December 2020. The group maintained a strong and liquid balance sheet with the ratio of customer advances to customer accounts decreasing to 44.4% from 52.0% as at 31 December 2020 driven by ongoing loan book optimisation efforts.

Assets

Cash and balances at central banks increased by 27.5% as a result of increased customer deposits and decreased reverse repurchase agreements and advances to customers positions.

Trading assets and financial assets designated at fair value slightly reduced due to changes in business and product mix during the year.

Derivative assets decreased by 29.8% due to a combination of market movement and trades compression and novation.

Non-trading reverse repurchase agreements decreased by 19.4% primarily due to changes in market conditions.

Financial investments decreased by 20.3% as a result of optimisation strategy.

Liabilities

Customer accounts increased by 5.2%, which is consistent with our funding strategy to grow customer deposits and increase stable funding.

Total of trading liabilities and financial liabilities designated at fair value balances has decreased by 5.9%.

Debt securities in issue decreased by 45.7% in line with the funding strategy.

Non-trading repurchase agreements decreased by 21.9% as a result of market activities.

Derivative liabilities decreased by 30.0%. This is in line with derivative assets as the underlying risk is broadly matched.

Equity

Total shareholder's equity remained broadly unchanged as compared to 2020.

Net interest margin

Net interest margin is calculated by dividing net interest income as reported in the income statement by the average balance of interest-earning assets. Average balances are based on daily averages of the group's activities.

Net interest income

	2021	2020
	£m	£m
Interest income	**3,149**	4,086
Interest expense	**(1,395)**	(2,188)
Net interest income	**1,754**	1,898
Average interest-earning assets	**354,324**	369,617
	%	%
Gross interest yield[1]	**0.51**	0.74
Less: gross interest payable[1]	**(0.01)**	(0.27)
Net interest spread[2]	**0.50**	0.47
Net interest margin[3]	**0.50**	0.51

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 liabilities.*
3 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

Summary of interest income by asset type

	2021			2020		
	Average balance	**Interest income**	**Yield[1]**	Average balance	Interest income	Yield[1]
	£m	**£m**	**%**	£m	£m	%
Short term funds and loans and advances to banks	**119,025**	**(221)**	**(0.19)**	90,841	(113)	(0.12)
Loans and advances to customers	**99,151**	**1,585**	**1.60**	116,518	2,058	1.77
Reverse repurchase agreements – non-trading	**57,630**	**(132)**	**(0.23)**	68,573	22	0.03
Financial investments	**45,142**	**497**	**1.10**	51,335	652	1.27
Other interest-earning assets	**33,376**	**67**	**0.20**	42,350	118	0.28
Total interest-earning assets	**354,324**	**1,796**	**0.51**	369,617	2,737	0.74

1 *Interest yield calculations include negative interest on assets recognised as interest expense in the income statement.*

Summary of interest expense by type of liability and equity

	2021			2020		
	Average balance	**Interest expense**	**Cost[1]**	Average balance	Interest expense	Cost[1]
	£m	**£m**	**%**	£m	£m	%
Deposits by banks	**32,891**	**(186)**	**(0.57)**	28,812	(60)	(0.21)
Customer accounts	**150,048**	**95**	**0.06**	143,807	321	0.22
Repurchase agreements – non-trading	**32,916**	**(192)**	**(0.58)**	38,829	(129)	(0.33)
Debt securities in issue – non-trading	**38,727**	**258**	**0.67**	52,781	546	1.03
Other interest-bearing liabilities	**36,811**	**68**	**0.18**	47,384	160	0.34
Total interest-bearing liabilities	**291,393**	**43**	**0.01**	311,613	838	0.27

1 *Interest payable calculations include negative interest on liabilities recognised as interest income in the income statement.*

Risk overview

The group continuously identifies and monitors risks. This process, which is informed by its risk factors and the results of its stress testing programme, gives rise to the classification of certain financial and non-financial risks. Changes in the assessment of these risks may result in adjustments to the group's business strategy and, potentially, its 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. We also incur insurance risk. In addition to these banking risks, we have identified top and emerging risks with the potential to have a material impact on our financial results, or reputation and the sustainability of our long-term business model.

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 21 to 87.

During 2021, a number of changes to our top and emerging risks have been made, to reflect the revised assessment of their effect on the group. Some risks were removed towards the end of 2021 as current concerns in these areas were considered as having been absorbed effectively into business as usual risk management practices. These risks were the UK's exit from the EU, market illiquidity and Covid-19. Covid-19 has been maintained as an Area of Special Interest reflecting the continued impact of the pandemic on our operations in 2021.

Environmental, social and governance also replaced Climate-related risks to cover the wider scope of climate, nature and human rights risks.

Risk		Mitigants
Externally driven		
Geopolitical risk	▲	We continually assess the impact of geopolitical events, including the ongoing impacts of the Covid-19 pandemic, on our businesses and exposures across the group, and take steps to mitigate them, where required and possible, to help ensure we remain within our risk appetite. The relationship between the UK and the EU may come under more severe strain in 2022 over multiple disputes, most notably the Northern Ireland Protocol and possible triggering of Article 16 that could have potential repercussions on the terms of trade between the UK and the EU. We will continue to work with regulators, governments and our customers to manage the risks created by the UK's exit from the EU as they arise, particularly across those industry sectors most impacted. In addition with tensions continuing to rise between Russia and Ukraine, we will continue to monitor the development of this situation and any potential implications for the group.
Cyber threat and unauthorised access to systems	▶	We protect the group and our customers by strengthening our cyber defences, helping us to execute our business priorities safely and keep our customers' information secure. We employ a defence in depth approach to cyber security and continue to focus on controls to prevent, detect and mitigate the impacts of persistent and increasingly advanced cyber threats with a specific emphasis on vulnerability management, malware defences, protections against unauthorised access and third-party risk. We closely monitor the continued dependency on widespread remote working and online facilities.
Regulatory focus on conduct of business	▶	We proactively monitor for regulatory developments to ensure they are interpreted and implemented effectively and in a timely way. We engage with regulators, policy makers and standard setters as appropriate, to help make a positive contribution to the evolving regulatory landscape. We also track closely the key themes currently driving the regulatory compliance agenda, which include: consumer protection and customer vulnerability; the impact of digital services and innovation; Ibor transition; regulatory reporting obligations; mitigating the risk of inappropriate market conduct; and environmental, social and governance ('ESG') matters, with a particular focus on climate change, diversity and inclusion considerations and enhancements to ESG disclosure and reporting obligations.
Financial crime and fraud risk	▶	We continued to support our customers as the Bank's financial crime landscape evolved due to the Covid-19 pandemic and as broad geopolitical, socioeconomic and technological shifts happened across our markets. We continued to make improvements to our financial crime controls as emerging risks were identified and to invest in advanced analytics and artificial intelligence as key elements of our next generation of tools to fight financial crime.
Ibor transition	▶	We remain focused on completing the system and product updates to support the transition of demising Libor benchmarks, in particular US dollar Libor. We continue to support the transition of all legacy contracts referencing demised and demising Ibor benchmarks, including from any sterling or Japanese yen contracts using 'synthetic' Libor. Throughout 2022 there will be an increasing focus on customer engagement for US dollar Libor related transition activities.
Environmental, social and governance	▲	We continue to develop our approach to managing ESG risk, noting that the risk has increased owing to the pace and volume of regulatory developments globally, with the focus on formalising climate risk management, enhanced disclosures, and integration of other ESG risks such as nature-related risks and human rights. Some stakeholders are also placing more emphasis on financial institutions' actions and investment decisions in respect of ESG.
Internally driven		
People risk	▲	We monitor workforce capacity and capability requirements in line with our published growth strategy. We have put in place measures to support our people to work safely during the Covid-19 pandemic, and to integrate them back into the workplace as government restrictions ease. We monitor people risks that may arise due to business transformation to help sensitively manage redundancies and support impacted employees. People Risk is heightened as a result of the ongoing pandemic conditions, including long periods of working from home, and impacts from our transformation programme. This has affected our staff's resilience, wellbeing and level of engagement over time, with increased attrition seen in some areas of our business.
IT systems infrastructure and resilience	▶	We continue to monitor and improve our IT systems and network resilience, both on our premises and on the Cloud to minimise service disruption and improve customer experience. To support the business strategy, we strengthened our end to end management, build and deployment controls and system monitoring capabilities. We continue to seek to reduce the complexity of our technology estate and consolidate our core banking systems onto a single strategic platform.

Risk		Mitigants
Internally driven		
Execution risk	▲	We monitored and managed our change execution risk, including capacity and resources to meet the increased delivery demand across both strategic transformation projects, regulatory deliverables and remediation activities throughout 2021. Our transformation programme continues to oversee all initiatives mobilised to deliver the commitments made to restructure the business and reduce costs by the end of 2022. Execution risk is heightened by the inter-dependencies between projects within our transformation programme, which are primarily centred on France and Germany. A number of these initiatives impact our colleagues and are supported by increased levels of investment in technology. We are working to strengthen our change management practices to deliver sustainable change efficiently and safely, aligned to a new Group change framework launched during the first half of 2021.
Model risk	▶	We continue to strengthen our oversight of models. Our model risk policy is fully embedded, including updated controls around the monitoring and use of models. New model risk appetite measures have been rolled out which are more forward looking and will help our businesses and functions manage model risk more effectively. Redevelopment of capital models to reflect the evolving regulatory requirements are also either in progress or pending regulatory approval for implementation.
Data management	▶	We protect our customers and organisation by making focused investments in capabilities that manage data risk. We focus on controls that manage data governance, usage, integrity, privacy and retention. During 2021, we refreshed our data strategy and continued to improve our approach to data risk management and reporting.
Third party risk management	▶	We continually enhance our third-party risk management framework as our supply chain evolves, and to stay aligned to the latest regulatory expectations. We closely monitor for Covid-19-related impacts on the delivery of services to the group, with businesses and functions taking appropriate action where needed.

▲ Risk has heightened during 2021
▶ Risk remains at the same level as 2020

On behalf of the Board
Dave Watts, Director
21 February 2022
Registered number 00014259

Risk

Our approach to risk

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 the group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- Strong capital position, defined by regulatory and internal ratios.
- Liquidity and funding management for each entity on a stand-alone basis.

Operating model

- Ambition to generate returns in line with our risk appetite and strong risk management capability.
- Ambition to deliver sustainable earnings and appropriate returns for shareholders.

Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any group business.

Enterprise-wide application

Our risk appetite encapsulates consideration of financial and non-financial risks and is expressed in both quantitative and qualitative terms. It is applied at the global business level, at the group level and to material European entities.

Our risk management framework

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

The bank's 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 faces, such as cyber-attacks, poor customer outcomes and loss of data. Actively managing non-financial risks is crucial to serving our customers effectively and having a positive impact on society. During 2021 we continued to strengthen the control environment and our approach to the management of non-financial risks, as is 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 non-financial risks. This is overseen by the Operational and Resilience Risk function, headed by the Group 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, whereby the activity a member of staff undertakes drives which line they reside within. 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, encouraging collaboration and enabling efficient coordination of risk and control activities. The three lines are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.

- The third line of defence is our Internal Audit function, which provides independent assurance that the group's 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.

Risk management

As a provider of banking and financial services, the group actively manages risk as a core part of its day-to-day activities. It continues to maintain a strong liquidity position and is well positioned for the evolving regulatory landscape.

Stress testing

Stress testing is an important tool that is used by banks, as part of their internal risk management, 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 to a range of adverse shocks and to assess their capital adequacy.

HSBC Bank plc is subject to regulatory stress testing in several jurisdictions. These requirements are increasing in frequency and granularity. They include the programmes of the Bank of England ('BoE'), Prudential Regulation Authority ('PRA') and the European Banking Authority ('EBA'). Assessment by 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.

A number of internal macroeconomic and event-driven scenarios specific to the European region were considered and reported to senior management during the course of the year. The selection of stress scenarios is based upon the output of our top and emerging risks identified and our risk appetite. The results help the Board and senior management to set our risk appetite and confirm the strength of our strategic and financial plans. Our risk appetite is set at a level that enables the group to withstand future stress impacts.

In 2021, the Group participated in the successful completion of the BoE solvency stress testing exercise. The Solvency Stress Test Scenario depicts a synchronised, global, double-dip recession in 2021, driven by a continuation and intensification of economic and financial shocks experienced in 2020 as a result of the Covid-19 pandemic. Unemployment rises sharply in the stress, with certain sectors such as hospitality, leisure, construction and transport more affected than others.

Traded risk shocks are consistent with the macro-economic scenario. The global stress causes financial market participants' perceptions of risk to increase, and their risk appetite to diminish. The traded risk shocks are lower than those included in the 2019 exercise. This is, in part, because of a smaller rise in risk premia in the stress scenario given an expectation from market participants that markets remain functional despite the broader macroeconomic stress.

The BoE published the results of the 2021 Solvency Stress Test in December 2021, confirming that these tests did not reveal any capital inadequacies for the HSBC Group. In 2021, the Group participated also in the Climate Biennial Exploratory Scenario ('CBES') exercise of BoE.

The CBES objective was to test the resilience of the UK financial system to the physical and transition risks associated with different climate pathways. The BoE has indicated that CBES was a learning exercise for both participating banks and the BoE. CBES will not be used to set capital requirements but to understand the collective impact on the wider economy and also explore vulnerabilities of current business models to future climate policy pathways and how the Group is expected to adjust it's business models in response to these climate change impacts.

Key developments and risk profile

Key developments in 2021

We continued to actively manage the risks resulting from the Covid-19 pandemic and its impacts on our customers and operations during 2021, as well as other key risks described in this section. In addition, we enhanced our risk management in the following areas:

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

Top and emerging risks

Top and emerging risks are those that may impact on the financial results, reputation or business model of the bank. If these risks were to occur, they could have a material effect on the group. The exposure to these risks and our risk management approach are explained in more detail below.

Externally driven

Geopolitical risk

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

We will increasingly need to consider potential regulatory, reputational and market risks arising from the evolving geopolitical landscape.

The Covid-19 pandemic brought supply chain issues into focus and has heightened geopolitical tensions, which could have potential ramifications for the group and our customers.

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

Political disagreements between the UK and the EU, notably over the future operation of the Northern Ireland Protocol, has meant work on the creation of a framework for voluntary regulatory cooperation in financial services following the UK's withdrawal from the EU has stalled. While negotiations are continuing, it is unclear whether or when an agreement will be reached, and this has led to speculation that the UK may trigger Article 16 of the Protocol, which could suspend the operation of the Protocol in certain respects. Any decision to do so could be met with retaliatory action by the EU, complicating the terms of trade between the UK and the EU and potentially preventing progress in other areas such as financial services.

Mitigating actions

- We closely monitor geopolitical and economic developments in key markets and sectors and undertake scenario analysis where appropriate. This helps us to take portfolio actions where necessary, including enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management action being taken to rebalance exposures and manage risk appetite where necessary.
- We regularly review key portfolios to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through any downturn is appropriate.
- We continue to monitor geopolitical tensions involving Russia and Ukraine and any potential impacts on the group and our customers.
- We continue to monitor the UK's relationship with the EU, and assess the potential impact on our people, operations and portfolios.
- We have taken steps, where necessary, to enhance physical security in those geographical areas deemed to be at high risk from terrorism and military conflicts.

Cyber threat and unauthorised access to systems

We continue to operate in a challenging cyber threat environment, which requires ongoing investment in business and technical controls to defend against these threats.

Key threats include unauthorised access to our data, 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 our business and our customers we strengthened our controls to reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to enhance our cybersecurity capabilities, including cloud security, identity and access management, metrics and data analytics, and third-party security reviews. An important part of our defence strategy is ensuring our people remain aware of cybersecurity issues and know how to report incidents.
- We report and review cyber risk and control effectiveness regularly 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 globally in several industry bodies and working groups to share information about tactics employed by cyber-crime groups and to collaborate in fighting, detecting and preventing cyber-attacks on financial organisations.

Regulatory focus on conduct of business

We keep abreast of the emerging regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; operational resilience; how digital and technology changes, including payments, are impacting financial institutions; how we are ensuring good customer outcomes, including addressing customer vulnerabilities; regulatory reporting; and employee compliance. We monitor regulatory developments closely and engage with regulators, as appropriate, to help ensure new regulatory requirements are implemented effectively and in a timely way.

The competitive landscape in which we operate may be impacted by future regulatory changes and government intervention. In the UK, potential regulatory developments include any legislative changes resulting from a statutory review for ring-fencing, which has been undertaken by an independent panel appointed by HM Treasury. The panel has recommended several adjustments to the regime and HM Treasury is reviewing these recommendations. Legislative amendments may be proposed in due course.

Mitigating actions

- We monitor for regulatory developments to understand the evolving regulatory landscape and respond with changes in a timely way.
- We engage, wherever possible, with governments and regulators to make a positive contribution to regulations and ensure that new requirements are considered properly and can be implemented effectively. We hold regular meetings with relevant authorities to discuss strategic contingency plans, including those arising from geopolitical issues.
- We launched our simplified conduct approach to align to our new purpose and values, in particular the value 'we take responsibility'.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to prevent and detect financial crime. The financial crime threats we face have continued to evolve, often in tandem with broader geopolitical, socioeconomic and technological shifts in our markets, leading to challenges such as managing conflicting laws and approaches to legal and regulatory regimes. Financial crime risk evolved during the Covid-19 pandemic, notably with the manifestation of fraud risks linked to the economic slowdown and resulting deployment of government relief measures. The accelerated digitisation of financial services has fostered significant changes to the payments ecosystem, including a multiplicity of providers and new payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as financial institutions.

This is presenting increasing challenges to the industry in terms of maintaining required levels of transparency, notably where institutions serve as intermediaries. Developments around digital assets and currencies, notably the role of stablecoins and central bank digital currencies, have continued at pace, with an increasing regulatory and enforcement focus on the financial crimes linked to these types of assets.

Expectations with respect to the intersection of ESG issues and financial crime as our organisation, customers and suppliers transition to net zero, are increasing, not least with respect to potential 'greenwashing'. Companies also face a heightened regulatory focus on both human rights issues and environmental crimes, from a financial crime perspective. We also continue to face increasing challenges presented by national data privacy requirements, which may affect our ability to manage financial crime risks holistically and effectively.

Mitigating actions

- We are strengthening our fraud and surveillance controls, and investing in next generation capabilities to fight financial crime through the application of advanced analytics and artificial intelligence.
- We are looking at the impact of a rapidly changing payments ecosystem to ensure our financial crime controls remain appropriate for changes in customer behaviour and gaps in regulatory coverage, including the development of procedures and controls to manage the risks associated with direct and indirect exposure to digital assets and currencies.
- We are assessing our existing policies and control framework to ensure that developments in the ESG space are considered and the risks mitigated.
- We work with jurisdictions and relevant international bodies to address data privacy challenges through international standards, guidance, and legislation to help enable effective management of financial crime risk.
- We work closely with our regulators and engage in public-private partnerships, playing an active role in shaping the industry's financial crime controls for the future, notably with respect to the enhanced, and transparent, use of technology.

Ibor transition

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

Following the UK's Financial Conduct Authority ('FCA') announcement 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, we have been actively working to transition legacy contracts from Ibors to products linked to near risk-free replacement rates ('RFRs') or alternative reference rates. In March 2021, in accordance with the 2017 FCA announcement, ICE Benchmark Administration Limited ('IBA') announced that it would cease publication of 24 of the 35 main Libor currency interest rate benchmark settings from the end of 2021, and that the most widely used US dollar Libor settings would cease from 30 June 2023. The FCA subsequently used its regulatory powers to compel IBA to publish the remaining six sterling and Japanese yen settings, from 1 January 2022, under an amended methodology, commonly known as 'synthetic' Libor. As a result, our focus during 2021 was on the transition of legacy contracts referencing the Euro Overnight Index average ('Eonia') and the Libor settings that demised from the end of 2021, including those settings subsequently being published on a 'synthetic' basis.

During 2021, we continued the development of IT and RFR product capabilities, implemented supporting operational processes, and engaged with our clients to discuss options for the transition of their legacy contracts. The successful implementation of new processes and controls, as well as the transition of contracts away from Ibors, reduced the heightened financial and non-financial risks to which we were exposed. However, while all but exceptional Libor contract issuance ceased in 2021, or from the end of 2021 for US dollar Libor, we remain exposed to material risks. These include, from so-called 'tough legacy' contracts, that have not been able to be transition to a new rate and will use a 'synthetic' Libor or a contractual fallback rate, and from legacy contracts that reference US dollar Libor, which are expected to demise from June 2023.

Financial risks have been largely mitigated as a result of the implementation of model and pricing changes. However, differences in US dollar Libor and its replacement RFR, Secured Overnight Funding Rate ('SOFR'), create a basis risk in the trading book and banking book due to the asymmetric adoption of SOFR across assets, liabilities and products that we need to actively manage through appropriate financial hedging. Additionally, the comparatively limited use of SOFR for new RFR products to date and lack of alignment around conventions could potentially delay transition of some US dollar Libor contracts into 2023. This would compress the amount of time to transition these contracts, which could lead to heightened operational and conduct-related risk as a result.

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

These risks are present in different degrees across our product offering.

Transition of Legacy contracts

During 2021, we successfully transitioned over 90% of legacy Ibor lending contracts in sterling, Swiss franc, euro and Japanese yen Libor interest rates, as well as Eonia, directly or via appropriate fallback mechanisms. The majority of the remaining contracts will transition in advance of their next interest payment date, with only a small proportion of 'tough legacy' contracts remaining. We expect that out of approximately 1000 lending contracts there will be less than 20 'tough legacy' contracts, the majority of which will be transitioned to alternative rates during 2022. Our approach to transition 'tough legacy' and US dollar legacy Ibor contracts will differ by product and business area, but will be based on the lessons learned from the successful transition of contracts during 2021. We will continue to communicate with our clients and investors in a structured manner and be client led in the timing and nature of the transition.

For derivatives, approximately 99% of our sterling, Swiss franc, euro and Japanese yen Libor interest rate exposures at the end of 2021 had successfully transitioned directly or via appropriate fallback mechanisms, leaving a small number of 'tough legacy' contracts. There are expected to be less than 20 bilateral derivatives trades that remain 'tough legacy,' the majority of which are expected to mature or transition in 2022. We anticipate our 'tough legacy' and US dollar exposure will continue to reduce through 2022 as a result of contract maturities, and active transition. We will continue to look to actively reduce our US dollar exposure by transitioning trades ahead of the demise date of 30 June 2023, by working with our clients to determine their needs and how we transition their contracts. Additionally, we are working with market participants, including clearing houses, to ensure we are able to transition our cleared derivative contracts as the US dollar Libor benchmark demise date approaches.

For our loan book, approximately 85% of our reported exposure at the end of 2021 linked to sterling, Swiss franc, euro and Japanese yen Libor interest rate contracts that required no further client negotiation but remained drawn on Libor as they have yet to reach their next interest payment date. The majority of the remaining exposure linked to benchmarks that demised from the end of 2021 relates to contracts where discussions with our clients and other market participants, for syndicated transactions, have continued in early 2022, in advance of their next scheduled interest payment date, and this has led to further transitions being completed.

A small number of 'tough legacy' contracts, less than 20, that were unable to transition prior to their first interest payment date in 2022, are expected to use legislative reliefs, such as 'synthetic' Libor, or an alternative rate determined by the contractual fallback language and in the main will be transitioned during 2022. For the remaining demising Ibors, notably US dollar Libor, we have implemented new products and processes and updated our systems in readiness for transition. Global Banking, Commercial Banking and Global Private Banking have begun to engage with clients who have upcoming contract maturities with a view to refinancing using an appropriate replacement rate. Further communications and outreach to customers with US dollar Libor contracts with later maturities will occur in due course.

Where we hold bonds issued by other institutions, we have remained dependent on the issuer's agents to engage in the transition process, although analysis will be undertaken of the issuers in US dollar Libor bonds to reduce our exposure, as occurred through 2021.

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

Mitigating actions

- The global Ibor transition programme, which is overseen by the Group Chief Risk and Compliance Officer, will continue to deliver IT and operational processes to meet its objectives.
- We carry out extensive training, communication and client engagement to facilitate appropriate selection of new rates and products.
- We have dedicated teams in place to support the transition.
- We actively transitioned legacy contracts and ceased new issuance of Libor-based contracts, other than those allowed under regulatory exemptions, with associated monitoring and controls.
- We assess, monitor and dynamically manage risks arising from Ibor transition, and implement specific mitigating controls when required.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to 'tough legacy' contracts.

Financial instruments impacted by IBOR reforms

Interest Rate Benchmark Reform Phase 2, the amendments to IFRSs issued in August 2020, represents the second phase of the IASB's project on the effects of interest rate benchmark reform.

The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships.

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. Instead they 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.

(audited)

	Financial instruments yet to transition to alternative benchmarks, by main benchmark			
	USD Libor	GBP Libor	EONIA	Others[1]
At 31 Dec 2021	£m	£m	£m	£m
Non-derivative financial assets[2]				
Loans and advances to customers	**5,999**	**2,562**	**—**	**26**
Financial investments	**1,171**	**140**	**—**	**—**
Others	**693**	**499**	**—**	**—**
Total non-derivative financial assets	**7,863**	**3,201**	**—**	**26**
Non-derivative financial liabilities				
Subordinated liabilities	**1,145**	**—**	**—**	**—**
Others	**479**	**181**	**—**	**—**
Total non-derivative financial liabilities	**1,624**	**181**	**—**	**—**
Derivative notional contract amount				
Foreign exchange	**8,288**	**1,568**	**—**	**1,080**
Interest rate	**1,567,577**	**215,377**	**1,679**	**76,059**
Others	**—**	**—**	**—**	**—**
Total derivative notional contract amount	**1,575,865**	**216,945**	**1,679**	**77,139**
At 31 Dec 2020				
Non-derivative financial assets[2]				
Loans and advances to customers	7,782	4,323	1	183
Financial investments	1,187	406	—	—
Others	1,043	1,033	—	1
Total non-derivative financial assets	10,012	5,762	1	184
Non-derivative financial liabilities[2]				
Subordinated liabilities	1,135	900	—	—
Others	798	510	3	1
Total non-derivative financial liabilities	1,933	1,410	3	1
Derivative notional contract amount				
Foreign exchange	6,296	2,768	—	8,148
Interest rate	1,694,279	865,545	196,515	126,545
Others	7	—	—	—
Total derivative notional contract amount	1,700,582	868,313	196,515	134,693

1 *Comprises financial instruments referencing other significant demising benchmark rates (euro Libor, Swiss franc Libor, Japanese Yen Libor, SOR and THBFIX Sibor).*
2 *Gross carrying amount excluding allowances for expected credit losses.*
3 *The amounts in the above table do not represent amounts at risk as the steps to transition for certain trades have been completed.*

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

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

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

Environmental, social and governance risk

We are subject to financial and non-financial risks associated with environmental, social and governance related matters ('ESG') which can impact us both directly and indirectly through our customers.

Climate-related risk increased over 2021, owing to the pace and volume of policy and regulatory changes regionally, particularly on climate risk management, stress testing and scenario analysis and disclosures. If we fail to meet regulatory expectations or requirements on climate risk management, this could have regulatory compliance and reputational impacts.

We face increased reputational, legal and regulatory risks as we make progress towards the HSBC Group's net zero ambition, as stakeholders are likely to place greater focus on our actions, disclosures and financing decisions related to this. We will face additional risks if we are perceived to mislead stakeholders regarding our climate strategy, the climate impact of a product or service, or regarding the commitments of our customers.

To track and report on our progress towards achieving our ambition, we rely on internal and external data, guided by certain industry standards. While emissions reporting has improved over time, data remains of limited quality and consistency. Methodologies we have used may evolve in line with market practice and regulation as well as due to developments in climate science. Any developments in data and methodologies could result in revisions, meaning that reported figures may not be reconcilable or comparable year-on-year. We may also have to re-evaluate our progress towards the HSBC Group's climate-related ambition in future and this could result in reputational, legal and regulatory risks.

Climate risk will also have an impact on model risk, as models play an important role in risk management and the financial reporting of climate-related risks. The uncertain impacts of climate change and data limitations, present challenges to creating reliable and accurate model outputs.

We could also face increased resilience; retail credit; and wholesale credit risks owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns.

These risks could impact our own critical operations, resulting in customer detriment and operational losses for the group. Our customers' operations and assets could also be affected, reducing their ability to afford mortgage or loan repayments, leading to credit risk impacts for the firm.

There is increasing evidence that a number of nature-related risks beyond climate change – which include risks that can be represented more broadly by economic dependence on nature – can and will have significant economic impact. These risks arise when the provision of natural services – such as water availability, air quality, and soil quality – is compromised by overpopulation, urban development, natural habitat and ecosystem loss, and other environmental stresses beyond climate change. They can show themselves in various ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both the group and our customers.

Mitigating actions

- We continue to deepen our understanding of the drivers of climate risk and managing our exposure to climate risk is a priority. Our dedicated Climate Risk Oversight Forums are responsible for shaping and overseeing our approach and providing support in managing climate risk in the region.
- Our climate risk programme continues to accelerate the development of our climate risk management capabilities across four key pillars – governance and risk appetite, risk management, stress testing and scenario analysis and disclosures. We are also enhancing our approach to greenwashing risk.
- In December 2021, the HSBC Group published its thermal coal phase-out policy committing to phase out the financing of coal-fired power and thermal coal mining in EU/OECD markets by the end of 2030, and globally by the end of 2040. The policy helps us chart the path to net zero and is a component of our approach towards managing the climate risk of our lending portfolio and wider banking activities.
- We have started to incorporate the outcomes and insights from the Bank of England's Climate Biennial Exploratory Scenario into climate risk management, and are currently engaged in the 2022 ECB Climate Risk Stress Test.
- We have delivered climate risk training to our legal entity board and wider target audiences.
- In 2021, we joined several industry working groups dedicated to helping us access and manage nature-related risks, such as the Taskforce on Nature-Related Financial Disclosure ('TNFD'). Our asset management business also published its biodiversity policy to publicly explain how our analysts address nature-related issues.
- We continue to engage with our customers, investors and regulators proactively on the management of climate risks. We also engage with initiatives actively, including the EU Taxonomy disclosures, Climate Financial Risk Forum, Equator Principles, Taskforce on Climate-related Financial Disclosures and CDP (formerly the Carbon Disclosure Project) to drive best practice for climate risk management.

For further details on ESG, see our ESG review on page 8 and for further details on our approach to climate risk management, see 'Areas of special interest' on page 28. For further details on ESG risk management see 'Financial crime and fraud risk on page 23.

Internally driven

People risk

Our success in delivering our strategic priorities and managing the regulatory environment proactively depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the Covid-19 pandemic is challenging particularly due to organisational restructuring. Changed working arrangements, local Covid-19 restrictions and health concerns during the pandemic also impact on employee mental health and well-being.

Mitigating actions

- We have put in place measures to help support our people so they are able to work safely during the Covid-19 pandemic.
- We promote a diverse and inclusive workforce and provide active support across a wide range of health and wellbeing activities. We continue to build our speak up culture through active campaigns.
- We monitor people risks that have arisen due to organisational restructuring, helping to ensure we manage redundancies sensitively and support impacted employees.

- Launch of the Future Skills Curriculum through HSBC University to help provide the critical skills that will enable employees and HSBC 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 group's Executive Committee.
- We have robust plans in place, driven by senior management, to mitigate the effect of external factors that may impact our employment practices. Political, legislative and regulatory challenges are closely monitored to minimise the impact on the attraction and retention of talent and key performers.

IT systems infrastructure and resilience

HSBC is committed to investing in the reliability and resilience of its IT systems and critical services. HSBC does so in order to protect its customers and ensure they do not receive disruption to services, which could result in reputational and regulatory damage.

The group's strategy includes simplification of our technology estate to reduce complexity and costs; this includes consolidation of our core banking systems onto a single strategic platform. The target state will leverage existing and known technology, and will be simpler and easier to maintain. However, as with any strategic transformation programme risks associated with implementation must be managed continuously.

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 2021, 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 2021 for both our customers and employees.
- We manage implementation risks arising from the simplification of our technology estate continuously via thorough oversight of these risks at all levels of the programme and reporting up to our Risk Committee.

Execution risk

In order to deliver our strategic objectives and meet mandatory regulatory requirements, it is important for the group 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 implications of the disposal of our French retail business, large transformation programmes including the simplification and integration of our IT Systems and other restructuring programmes across Europe.

Mitigating actions

- Our prioritisation and governance processes for significant projects are monitored by the group's Executive Committee.
- We continue to work to strengthen our change management practices to deliver sustainable change, increased adoption of Agile ways of working, and a more consistent standard of delivery. For HSBC Bank plc, this includes embedding of an improved Group-wide change framework released in the first half of 2021, which sets out the mandatory principles and standards to be adhered to when leading and delivering change.

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. This was required following the outbreak of Covid-19 as some models used for estimating credit losses needed to be redeveloped due to the significant change to inputs including GDP, unemployment rates and housing prices; and the varying government support measures introduced.

Prior to the Covid-19 outbreak a key area of focus was improving and enhancing our model risk governance, and this activity continued throughout 2021. We prioritised the redevelopment and validation of internal ratings-based ('IRB') and internal models methods ('IMM') models, in relation to counterparty credit, as part of the IRB repair and Basel III programmes with a key focus on enhancing the quality of data used as model inputs.

Mitigating actions

- We appointed model risk stewards for our key entities to support, oversee and guide the global businesses and functions on model risk management. The risk stewards provide close monitoring of changes in model behaviour, working closely with business and function model owners and sponsors.
- We worked with the model owners of IRB models and traded risk models to increase our engagement on management of model risk with key regulators including the PRA and the ECB.
- We embedded the model risk policy and model risk standards in all business and functions to enable a more risk-based approach to model risk management.
- We made further enhancements to our control framework for models used in financial reporting processes to address the control weaknesses that emerged as a result of significant increases in model adjustments and overlays that were applied to compensate for the impact of Covid-19 on models and to introduce a requirement for the second line of defence to approve material models prior to use.
- The model inventory system was enhanced to support the management of model risk for multiple applications of a single model.
- We have submitted the first set of IRB models for regulatory approval in 2021. The redevelopment and validation of remaining IRB and IMM models for counterparty credit and our internal models approach ('IMA') for traded risk models is in progress. Models are expected to undergo PRA approval over the next 12 months.

Data management

We use a large number of systems and growing quantities of data to support our customers. Risk arises if data is incorrect, unavailable, misused, or if the privacy of our customers and colleagues is unprotected. Along with other banks and financial institutions, we need to meet external regulatory obligations and laws that cover data, such as the Basel Committee on Banking Supervisions 239 guidelines and the General Data Protection Regulation ('GDPR').

Mitigating actions

- Through our global data management framework, we monitor proactively the quality, availability and security of data that supports our customers and internal processes. We resolve any identified data issues in a timely manner.
- We have made improvements to our data policies and are implementing an updated control framework to enhance the end-to-end management of data risk by our businesses and functions.
- We protect customer data via our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations.

- We continue to modernise our data and analytics infrastructure through investments in Cloud technology, data visualisation, machine learning and artificial intelligence.
- We educate our employees on data risk and data management and have delivered global mandatory training on the importance of protecting data and managing data appropriately.

Third Party Risk Management

We use third parties to provide a range of services, in common with other financial service providers. Risks arising from the use of third-party service providers and their supply chain may be less transparent. It is critical that we ensure we have appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our strategic approach and meet our customer and regulatory expectations.

Mitigating actions

- We have enhanced our control framework for external supplier arrangements to ensure the risks associated with third-party arrangements are understood and managed effectively by our businesses and functions across the group.
- We have applied the same control standards to intra-group arrangements as we have for external third-party arrangements to ensure we are managing them effectively.
- We are implementing the changes required by our new third-party risk policy to comply with new regulations as defined by our regulators.

Areas of special interest

Risks related to Covid-19

Despite the successful roll-out of vaccines across the world, the Covid-19 pandemic and its effect on the global economy have continued to impact our customers and organisation. The global vaccination roll-out in 2021 helped reduce the social and economic impact of the Covid-19 pandemic and high vaccination rates are enabling many countries across Europe in 2022 to ease Covid-19-related restrictions on activity and constraints on travel. However, the emergence of the Omicron variant in late 2021, demonstrated the continued risk new variants pose.

The pandemic necessitated governments to respond at unprecedented levels to protect public health, and to support local economies and livelihoods. The resulting government support measures and restrictions have created additional challenges, given the rapid pace of change and significant operational demands. Renewed outbreaks, particularly those resulting from the emergence of variants of the virus, emphasise the ongoing threat of Covid-19 and could result in further tightening of government restrictions. There remains a divergence in approach taken by countries to the level of restrictions on activity and travel. Such diverging approaches to future pandemic waves could prolong or worsen supply chain and international travel disruptions.

We continue to support our personal and business customers through market-specific measures initiated during the Covid-19 pandemic, and by supporting government schemes that focus on the parts of the economy most impacted by the pandemic. For further details of our customer relief programmes, see page 60.

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

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

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

Despite the ongoing economic recovery, significant uncertainties remain in assessing the duration and impact of the Covid-19 pandemic, including whether any subsequent outbreaks result in a reimposition of government restrictions. There is a risk that economic activity remains below pre-pandemic levels for a prolonged period, increasing inequality across markets, and it will likely be some time before societies return to pre-pandemic levels of social interactions. As a result, there may still be a requirement for additional mitigating actions including further use of adjustments, overlays and model redevelopment.

Governments and central banks in major economies have deployed extensive measures to support their local populations. This is expected to reverse partially in 2022. Central banks in major markets are expected to raise interest rates, but such increases are expected to be gradual and monetary policy is expected to remain accommodative overall. Governments are also expected to reduce the level of fiscal support they offer households and businesses as the appetite for broad lockdowns and public health restrictions decreases. Government debt has risen in most advanced economies, and is expected to remain high into the medium term. High government debt burdens have raised fiscal vulnerabilities, increasing the sensitivity of debt service costs to interest rate increases and potentially reducing the fiscal space available to address future economic downturns. HSBC's Central scenario used to calculate impairment assumes that economic activity will continue to recover through 2022, surpassing peak pre-pandemic levels of GDP in our key markets. It is assumed that private sector growth accelerates, ensuring a strong recovery is sustained even as pandemic-related fiscal support is withdrawn. However, there is a high degree of uncertainty associated with economic forecasts in the current environment and there are significant risks to our Central scenario. The degree of uncertainty varies by our key markets, driven by country specific trends in the evolution of the pandemic, associated policy responses and ongoing impacts felt from the Trade and Cooperation Agreement in place between the UK and the EU from 1 January 2021. For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 41.

We continue to monitor the situation closely, and given the novel and prolonged nature of the pandemic, additional mitigating actions may be required.

Climate-related risks

Climate change can have an impact across HSBC's risk taxonomy through both transition and physical channels.

Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes.

Physical risk can arise through increasing frequency and severity of weather or other climatic events, such as flooding, or chronic changes in precipitation patterns, temperatures or sea levels.

These have the potential to cause both idiosyncratic and systemic risks, resulting in potential financial and non-financial impacts for the group. Financial impacts could materialise if transition and physical risks impact the ability of our customers to repay their loans. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to achieve our climate ambition.

How climate risk can impact our customers

Climate change could impact our customers in two main ways. Firstly, customer business models may fail to align to a low-carbon economy, which could mean that new climate-related regulation, policy or technological changes would have a material impact on their business. Secondly, extreme weather events or chronic changes in weather patterns may damage our customers' assets and supply chain leaving them unable to operate their business or perhaps even live in their home.

One of the most valuable ways we can help our customers navigate the transition challenges and to become more resilient to the physical impacts of climate change is through financing and investment. To do this effectively, we must understand the risks they are facing.

The table below summarises the key categories of transition and physical risk, with examples of how our customers might be affected financially by climate change and the shift to a low-carbon economy.

Climate risk		Main causes of financial impact on customers
Transition	Policy and legal	Mandates on, and regulation of, existing products and services Litigation from parties who have suffered from the effects of climate change
	Technology	Replacement of existing products with lower emission options
	End-demand (market)	Changing consumer behaviour
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction
Physical	Acute	Increased frequency and severity of weather events
	Chronic	Changes in precipitation patterns Rising temperatures

Integrating climate into enterprise-wide risk management

Our approach to climate risk management is aligned to HSBC Group's risk management framework and three line of defence model which sets out how we identify, assess and manage our risks. This approach ensures the Board and senior management have visibility and oversight of our key climate risks.

Climate Risk Appetite

Our developing climate risk appetite measures support the oversight and management of the financial and non-financial risks from climate change, meet regulatory expectations and support the business to deliver our climate ambition in a safe and sustainable way. Our initial measures are focused on the oversight and management of our key climate risks: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance.

Our future ambition for our climate risk appetite is to:

- Adapt the Risk Appetite Statement metrics to incorporate forward looking transition plans and net zero commitments.
- Expand to consider other financial and non-financial risks.
- Use enhanced scenario analysis capabilities.
- Broaden the scope of risks to include climate considerations in Market Risk, Liquidity Risk, Legal Risk and Environmental Risk management.

Climate Risk Policies, Processes and Controls

We are integrating climate risk into the supporting policies, processes and controls for our key climate risks and we will continue to update these as our climate risk management capabilities mature over time. For example, we have updated our policy on product management and developed the first version of a climate risk scoring tool for our corporate portfolios. In addition, HSBC Group has published the new Thermal Coal Phase-Out Policy and we are implementing this in the region.

Climate Risk Governance and Reporting

Our key climate risks are reported and governed through our climate risk governance structure. Our Climate Risk Oversight Forums are responsible for the oversight, management and escalation of all climate related matters in the region. The regional Risk Management Meeting and the Risk Committee receive scheduled updates on climate risk, and regular updates on our climate risk appetite and top and emerging climate risks.

Our Chief Risk Officer is responsible for the manner by which financial risks from climate change should be identified and managed in line with the group's risk management framework.

We have assessed the impact of climate risk on our balance sheet and have concluded that there is no material impact on the financial statements for the year ended 31 December 2021.

Climate Risk Programme

Our dedicated Climate Risk Programme continues to accelerate the development of our climate risk management capabilities. The key achievements in 2021 include:

- We delivered tailored training sessions on climate risk to our legal entity board.
- We delivered training to colleagues across the three lines of defence to increase their understanding of how climate risk can impact their role, and we also included an introduction to our climate ambition in our global mandatory training.
- We developed our climate risk scoring tool for corporate customers for use in priority regions, which builds on our corporate transition questionnaire.
- We have continued to develop our climate stress testing and scenario analysis capabilities, including model development to deliver on the ECB climate stress testing exercise.

We will continue to enhance our climate risk management capabilities throughout 2022. This will include the further roll-out of training, refinement of our risk appetite, enhancement of our climate risk scoring tool and increasing the availability and quality of data so that new metrics can be developed.

How climate risk can impact the group

Below, we provide detail on how climate risk impacts to our customers might manifest across our key climate risks, and the potential time frames involved using four main drivers under transition risk; policy and legal, technology, end-demand (market) and reputational; and two main drivers under physical risk; acute and chronic.

Risk management framework

	Financial risks		Strategic risk	Non-financial risk	
Risk type	**Wholesale credit**	**Retail credit**	**Strategic risk (reputational)**	**Resilience risk**	**Regulatory compliance risk**
Timescale[1]	**Short–long term**	**Medium–long term**	**Short–long term**	**Short–long term**	**Short–medium**
Transition risk drivers					
– Policy and legal	●	●			●
– Technology	●				
– End-demand (market)	●	●			
– Reputational	●	●	●		
Physical risk drivers					
– Acute – increased frequency and severity of weather event	●	●		●	
– Chronic – changes in weather pattern	●	●		●	

1 *Short term: less than one year; medium term: period to 2030; long term: period to 2050.*

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing 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 32) The risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: • measured as the amount that could be lost if a customer or counterparty fails to make repayments; • monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance for risk managers.
Treasury risk (see page 70) 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 minimum ratios; • monitored and projected against appetites and using stress and scenario testing; and • managed through control of resources in conjunction with risk profiles and cashflows.
Market risk (see page 77) The risk that movements in market factors such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices 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 exposures arising from our insurance operations are discussed on page 84.	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, 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') and the RMM in various global businesses.
Resilience risk (see page 80) 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, crossborder 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 reviews.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Regulatory compliance risk (see page 81)		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe the letter and spirit of relevant laws, codes, rules, regulations and standards of good practice. This could result in poor market or customer outcomes leading to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: • measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk (see page 81)		
Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity through HSBC, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: • measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of, and assessment by, our regulatory compliance teams; • monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and • managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model risk (see page 83)		
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; and • managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight. Our insurance operations are also subject to some of the same risks as our banking operations, and these, are covered by the Group's risk management processes. There are though specific risks inherent to the insurance operations as noted below.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risk (see page 84)		
For insurance entities, Financial risk includes the risk of not being able to effectively match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible.	Exposure to financial risks arises from: • market risk affecting the fair values of financial assets or their future cash flows; • credit risk; and • liquidity risk of entities not being able to make payments to policyholders as they fall due.	Financial risk is: • measured (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) for liquidity risk, in terms of internal metrics, including stressed operational cash flow projections; • monitored through a framework of approved limits and delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design and asset liability matching and bonus rates.
Insurance risk (see page 84)		
The risk that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: • measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; • monitored though a framework of approved limits and delegated authorities; and • managed through a robust risk control framework that outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit risk

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

Credit risk management

Key developments in 2021

We continued to actively manage the risks resulting from the Covid-19 outbreak and its impacts on our customers and operations in 2021. For further details of market-specific measures to support our personal and business customers, see page 28. Outside these Covid-19 initiatives, there have been no material changes to credit risk policy and we continue to apply the requirements of IFRS 9 'Financial Instruments' within Credit risk.

Climate Risk

For our Global Banking and Commercial Banking wholesale clients operating in high transition risk sectors, a detailed Transition Risk Questionnaire is completed which assess both the climate risk the client faces and their plans to adapt to a Net Zero world. This information is taken into consideration as part of the broader client credit assessment. During 2022, we will broaden our assessments to include other high risk sectors which may be vulnerable to other climate considerations, including physical risk. This will also be embedded as part of the usual credit assessment process.

Governance and structure

We have established group-wide credit risk management and related IFRS 9 processes. We continue to actively assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating action, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit risk sub-function

(Audited)

Credit approval authorities are delegated by the Board to the Chief Executive together with the authority to sub-delegate them. The Credit risk sub-function in Risk is responsible for the key policies and processes for managing credit risk, which include formulating credit policies and risk rating frameworks, guiding the appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

- to maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- to both partner and challenge global 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.

Key risk management process

IFRS 9 'Financial Instruments' process

The IFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

Modelling and data

The Group has established IFRS 9 modelling and data processes in various geographies, which are subject to internal model risk governance including independent review of significant model developments.

Implementation

A centralised impairment engine performs the ECL calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

Governance

Management review forums are established in order to review and approve the impairment results. Management review forums have representatives from Credit Risk and Finance. Required members of the committee are the heads of Wholesale Credit, Market Risk, and Wealth and Personal Banking Risk, as well as the global business Chief Financial Officers and the Chief Accounting Officer.

Concentration of 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. The group uses a number of controls and measures to minimise undue concentration of exposure in the group's 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 PD.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating	12-month probability of default %	Internal credit rating	12 month probability-weighted PD %
Quality classification[1,2]						
Strong	BBB and above	A- and above	CRR1 to CRR2[1]	0 – 0.169	Band 1 and 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170 – 0.740	Band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	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	B- to C	CRR6 to CRR8	4.915 – 99.999	Band 6	20.001 – 99.999
Credit impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

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

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and 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 in Note 1.2(i) on the Financial Statements.

Renegotiated loans and forbearance

'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.

Loans that have been identified as renegotiated retain this designation until maturity or derecognition.

For details of our policy on derecognised renegotiated loans, see Note 1.2(i) on the financial statements.

Credit quality of renegotiated loans

On execution of a renegotiation, the loan will also be classified as credit impaired if it is not already so classified. In wholesale lending, all facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a renegotiated loan.

Wholesale renegotiated loans are classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans generally remain credit impaired until repayment, write-off or derecognition.

Renegotiated loans and recognition of expected credit losses

(Audited)

For retail lending, unsecured renegotiated loans are generally segmented from other parts of the loan portfolio. Renegotiated expected credit loss assessments reflect the higher rates of losses typically encountered with renegotiated loans. For wholesale lending, renegotiated loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in renegotiated loans.

Impairment assessment

(Audited)

For details of our impairment policies on loans and advances and financial investments see Note 1.2(i) on the financial statements.

Write-off of loans and advances

(Audited)

For details of our accounting policy on the write-off of loans and advances, see Note 1.2(i) on the financial statements.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due. The standard period runs until the end of the month in which the account becomes 180 days contractually delinquent. Write-off periods may be extended, generally to no more than 360 days past due. However, in exceptional circumstances, they may be extended further.

For secured facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued.

Any secured assets maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default require additional monitoring and review to assess the prospect of recovery.

There are exceptions in a few countries where local regulation or legislation constrain earlier write-off, or where the realisation of collateral for secured real estate lending takes more time. In the event of bankruptcy or analogous proceedings, write-off may occur earlier than the maximum periods stated above. Collection procedures may continue after write-off.

Credit risk in 2021

At 31 December 2021, gross loans and advances to customers and banks of £103.1bn decreased by £12.5bn, compared with 31 December 2020. This included adverse foreign exchange movements of £4.3bn. Excluding foreign exchange movements, the decline was driven by a £7.1bn decrease in wholesale loans and advances to customers and a £1.5bn decrease in loans and advances to banks. This was partly offset by a £0.4bn increase in personal loans and advances .

During the first half of 2021, the group experienced a release in allowances for ECL, reflecting an improvement of the economic outlook. This trend continued during the second half of the year following better than expected levels of credit performance and lower levels of stage 3 charges. However, in the later part of the year the trend slowed down due to the emergence of the new Covid-19 Omicron variant. Excluding foreign exchange movements, the allowance for ECL in relation to loans and advances to customers decreased by £258m from 31 December 2020.

This was attributable to:

- a £225m decrease in wholesale loans and advances to customers, of which £156m was driven by stages 1 and 2; and
- a £33m increase in personal loans and advances to customers, of which £14m was driven by stages 1 and 2.

During the first six months of the year, the group experienced significant migrations from stage 2 to stage 1, reflecting an improvement of the economic outlook. This trend continued during the second half of 2021 as forward economic guidance ('FEG') remained broadly stable in comparison with 30 June 2021.

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

The ECL release for 2021 was £174m, inclusive of recoveries, Uncertainty remains as some countries emerge from the pandemic at different speeds of recovery, government support measures unwind and the emergence of new strains of the virus test the efficacy of vaccination programmes.

During 2021, we continued to provide Covid-19-related support to customers under the current policy framework. For further details of market-specific measures to support our personal and business customers, see page 60.

Summary of credit risk

The following disclosure presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS9 are applied and the associated allowance for ECL. The allowance for ECL decreased from £1,632m at 31 December 2020 to £1,240m at 31 December 2021.

The allowance for ECL at 31 December 2021 comprised of £1,168m (2020: £1,497m) in respect of assets held at amortised cost, £72m (2020: £135m) in respect of loans and other credit related commitments, and financial guarantees, and £19m (2020: £22m) in respect of debt instruments measured at FVOCI.

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

(Audited)

	31 Dec 2021		31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The group	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**92,331**	**(1,154)**	102,960	(1,469)
– personal	**25,394**	**(163)**	26,499	(208)
– corporate and commercial	**56,087**	**(964)**	62,987	(1,168)
– non-bank financial institutions	**10,850**	**(27)**	13,474	(93)
Loans and advances to banks at amortised cost	**10,789**	**(5)**	12,662	(16)
Other financial assets measured at amortised cost	**202,137**	**(9)**	202,763	(12)
– cash and balances at central banks	**108,482**	**—**	85,093	(1)
– items in the course of collection from other banks	**346**	**—**	243	—
– reverse repurchase agreements – non trading	**54,448**	**—**	67,577	—
– financial investments	**10**	**—**	15	—
– prepayments, accrued income and other assets[2]	**38,851**	**(9)**	49,835	(11)
Total gross carrying amount on balance sheet	**305,257**	**(1,168)**	318,385	(1,497)
Loans and other credit related commitments	**115,695**	**(55)**	143,036	(112)
– personal	**2,269**	**(1)**	2,211	(1)
– corporate and commercial	**63,352**	**(48)**	75,863	(89)
– financial	**50,074**	**(6)**	64,962	(22)
Financial guarantees[3]	**11,054**	**(17)**	3,969	(23)
– personal	**26**	**—**	32	—
– corporate and commercial	**9,894**	**(16)**	2,735	(19)
– financial	**1,134**	**(1)**	1,202	(4)
Total nominal amount off balance sheet[4]	**126,749**	**(72)**	147,005	(135)
	432,006	**(1,240)**	465,390	(1,632)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	**41,188**	**(19)**	51,713	(22)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 110 includes both financial and non-financial assets.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

(Audited)

	31 Dec 2021		31 Dec 2020	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
The bank	**£m**	**£m**	£m	£m
Loans and advances to customers at amortised cost	**34,286**	**(350)**	43,831	(590)
– personal	**3,680**	**(6)**	3,582	(13)
– corporate and commercial	**21,182**	**(308)**	26,014	(494)
– non-bank financial institutions	**9,424**	**(36)**	14,235	(83)
Loans and advances to banks at amortised cost	**6,782**	**(4)**	8,078	(15)
Other financial assets measured at amortised cost	**135,033**	**(1)**	135,900	(1)
– cash and balances at central banks	**63,008**	**—**	48,777	—
– items in the course of collection from other banks	**211**	**—**	37	—
– reverse repurchase agreements-non trading	**39,708**	**—**	50,137	—
– financial investments	**3,337**	**—**	2,214	—
– prepayments, accrued income and other assets[2]	**28,769**	**(1)**	34,735	(1)
Total gross carrying amount on balance sheet	**176,101**	**(355)**	187,809	(606)
Loans and other credit related commitments	**31,255**	**(29)**	45,308	(81)
– personal	**589**	**—**	352	—
– corporate and commercial	**19,175**	**(26)**	25,444	(66)
– financial	**11,491**	**(3)**	19,512	(15)
Financial guarantees[3]	**1,270**	**(7)**	1,510	(13)
– personal	**3**	**—**	3	—
– corporate and commercial	**527**	**(6)**	457	(9)
– financial	**740**	**(1)**	1,050	(4)
Total nominal amount off balance sheet[4]	**32,525**	**(36)**	46,818	(94)
	208,626	**(391)**	234,627	(700)

	Fair value	**Memorandum allowance for ECL[5]**	Fair value	Memorandum allowance for ECL[5]
	£m	**£m**	£m	£m
Debt instruments measured at FVOCI	**23,152**	**(4)**	28,699	(9)

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 110 includes both financial and non-financial assets.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
5 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2021

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	80,730	9,121	2,478	2	92,331	(86)	(158)	(908)	(2)	(1,154)	0.1	1.7	36.6	100.0	1.2
– personal	24,255	686	453	–	25,394	(22)	(16)	(125)	–	(163)	0.1	2.3	27.6	–	0.6
– corporate and commercial	46,237	8,066	1,782	2	56,087	(58)	(137)	(767)	(2)	(964)	0.1	1.7	43.0	100.0	1.7
– non-bank financial institutions	10,238	369	243	–	10,850	(6)	(5)	(16)	–	(27)	0.1	1.4	6.6	–	0.2
Loans and advances to banks at amortised cost	10,750	39	–	–	10,789	(4)	(1)	–	–	(5)	–	2.6	–	–	–
Other financial assets measured at amortised cost	202,048	47	42	–	202,137	–	–	(9)	–	(9)	–	–	21.4	–	–
Loan and other credit-related commitments	107,922	7,571	202	–	115,695	(25)	(22)	(8)	–	(55)	–	0.3	4.0	–	–
– personal	2,152	114	3	–	2,269	(1)	–	–	–	(1)	–	–	–	–	–
– corporate and commercial	56,325	6,829	198	–	63,352	(20)	(20)	(8)	–	(48)	–	0.3	4.0	–	0.1
– financial	49,445	628	1	–	50,074	(4)	(2)	–	–	(6)	–	0.3	–	–	–
Financial guarantees[1]	10,215	740	99	–	11,054	(3)	(7)	(7)	–	(17)	–	0.9	7.1	–	0.2
– personal	23	2	1	–	26	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	9,257	540	97	–	9,894	(2)	(7)	(7)	–	(16)	–	1.3	7.2	–	0.2
– financial	935	198	1	–	1,134	(1)	–	–	–	(1)	0.1	–	–	–	0.1
At 31 Dec 2021	**411,665**	**17,518**	**2,821**	**2**	**432,006**	**(118)**	**(188)**	**(932)**	**(2)**	**(1,240)**	**–**	**1.1**	**33.0**	**100.0**	**0.3**

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

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

Stage 2 days past due analysis at 31 December 2021

(Audited)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD[1,2]*	*30 and > DPD[1,2]*	Stage 2	*1 to 29 DPD[1,2]*	*30 and > DPD[1,2]*	Stage 2	*1 to 29 DPD[1,2]*	*30 and > DPD[1,2]*
The group	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	9,121	*56*	*237*	(158)	*(1)*	*(1)*	1.7	*1.8*	*0.4*
– personal	686	*49*	*29*	(16)	*(1)*	*(1)*	2.3	*2.0*	*3.4*
– corporate and commercial	8,066	*7*	*199*	(137)	–	–	1.7	–	–
– non-bank financial institutions	369	–	*9*	(5)	–	–	1.4	–	–
Loans and advances to banks at amortised cost	39	–	–	(1)	–	–	2.6	–	–
Other financial assets measured at amortised cost	47	–	–	–	–	–	–	–	–

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

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

(Audited)

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

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

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

(Audited)

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2021

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	30,105	3,197	984	–	34,286	(33)	(47)	(270)	–	(350)	0.1	1.5	27.4	–	1.0
– personal	3,544	88	48	–	3,680	(1)	(2)	(3)	–	(6)	–	2.3	6.3	–	0.2
– corporate and commercial	17,608	2,893	681	–	21,182	(28)	(45)	(235)	–	(308)	0.2	1.6	34.5	–	1.5
– non-bank financial institutions	8,953	216	255	–	9,424	(4)	–	(32)	–	(36)	–	–	12.5	–	0.4
Loans and advances to banks at amortised cost	6,775	7	–	–	6,782	(3)	(1)	–	–	(4)	–	14.3	–	–	0.1
Other financial assets measured at amortised cost	134,984	21	28	–	135,033	–	–	(1)	–	(1)	–	–	3.6	–	–
Loan and other credit-related commitments	28,911	2,301	43	–	31,255	(15)	(11)	(3)	–	(29)	0.1	0.5	7.0	–	0.1
– personal	585	2	2	–	589	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	17,010	2,124	41	–	19,175	(12)	(11)	(3)	–	(26)	0.1	0.5	7.3	–	0.1
– financial	11,316	175	–	–	11,491	(3)	–	–	–	(3)	–	–	–	–	–
Financial guarantees[1]	1,060	150	60	–	1,270	(1)	–	(6)	–	(7)	0.1	–	10.0	–	0.6
– personal	2	1	–	–	3	–	–	–	–	–	–	–	–	–	–
– corporate and commercial	437	31	59	–	527	–	–	(6)	–	(6)	–	–	10.2	–	1.1
– financial	621	118	1	–	740	(1)	–	–	–	(1)	0.2	–	–	–	0.1
At 31 Dec 2021	**201,835**	**5,676**	**1,115**	**–**	**208,626**	**(52)**	**(59)**	**(280)**	**–**	**(391)**	**–**	**1.0**	**25.1**	**–**	**0.2**

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

Stage 2 days past due analysis at 31 December 2021

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*	Stage 2	*Of which: 1 to 29 DPD[1]*	*Of which: 30 and > DPD[1]*
The bank	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	3,197	*19*	*6*	(47)	*(1)*	*–*	1.5	*5.3*	*–*
– personal	88	*19*	*6*	(2)	*(1)*	*–*	2.3	*5.3*	*–*
– corporate and commercial	2,893	*–*	*–*	(45)	*–*	*–*	1.6	*–*	*–*
– non-bank financial institutions	216	*–*	*–*	–	*–*	*–*	–	*–*	*–*
Loans and advances to banks at amortised cost	7	*–*	*–*	(1)	*–*	*–*	14.3	*–*	*–*
Other financial assets measured at amortised cost	21	*–*	*–*	–	*–*	*–*	–	*–*	*–*

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

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

(Audited)

	Gross carrying/nominal amount[2]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total	Stage 1	Stage 2	Stage 3	POCI[3]	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	34,629	7,921	1,279	2	43,831	(79)	(158)	(351)	(2)	(590)	0.2	2.0	27.4	100.0	1.3
– personal	3,455	70	57	—	3,582	(1)	(8)	(4)	—	(13)	—	11.4	7.0	—	0.4
– corporate and commercial	18,670	6,424	918	2	26,014	(70)	(121)	(301)	(2)	(494)	0.4	1.9	32.8	100.0	1.9
– non-bank financial institutions	12,504	1,427	304	—	14,235	(8)	(29)	(46)	—	(83)	0.1	2.0	15.1	—	0.6
Loans and advances to banks at amortised cost	7,995	83	—	—	8,078	(12)	(3)	—	—	(15)	0.2	3.6	—	—	0.2
Other financial assets measured at amortised cost	135,843	35	22	—	135,900	—	—	(1)	—	(1)	—	—	4.5	—	—
Loan and other credit-related commitments	39,343	5,905	60	—	45,308	(28)	(48)	(5)	—	(81)	0.1	0.8	8.3	—	0.2
– personal	338	14	—	—	352	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	21,895	3,492	57	—	25,444	(23)	(39)	(4)	—	(66)	0.1	1.1	7.0	—	0.3
– financial	17,110	2,399	3	—	19,512	(5)	(9)	(1)	—	(15)	—	0.4	33.3	—	0.1
Financial guarantees[1]	1,203	253	54	—	1,510	(2)	(4)	(7)	—	(13)	0.2	1.6	13.0	—	0.9
– personal	2	1	—	—	3	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	331	73	53	—	457	(1)	(1)	(7)	—	(9)	0.3	1.4	13.2	—	2.0
– financial	870	179	1	—	1,050	(1)	(3)	—	—	(4)	0.1	1.7	—	—	0.4
At 31 Dec 2020	219,013	14,197	1,415	2	234,627	(121)	(213)	(364)	(2)	(700)	0.1	1.5	25.7	100.0	0.3

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

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

(Audited)

	Gross carrying amount			Allowance for ECL			ECL coverage %		
		Of which:	*Of which:*		*Of which:*	*Of which:*		*Of which:*	*Of which:*
	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*1 to 29 DPD[1]*	*30 and > DPD[1]*
The bank	£m	*£m*	*£m*	£m	*£m*	*£m*	%	*%*	*%*
Loans and advances to customers at amortised cost:	7,921	*16*	*8*	(158)	*(1)*	*(1)*	2.0	*6.3*	*12.5*
– Personal	70	*15*	*8*	(8)	*(1)*	*(1)*	11.4	*6.7*	*12.5*
– Corporate and commercial	6,424	*1*	—	(121)	—	—	1.9	—	—
– Non-bank financial institutions	1,427	—	—	(29)	—	—	2.0	—	—
Loans and advances to banks at amortised cost	83	—	—	(3)	—	—	3.6	—	—
Other financial assets measured at amortised cost	35	—	—	—	—	—	—	—	—

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

Stage 2 decomposition as at 31 December 2021

The following disclosure presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers.

The table below discloses the reasons why an exposure moved into stage 2 originally, and is therefore presented as a significant increase in credit risk since origination.

The Quantitative classification is predominantly related to exposures where the adjusted 12-month PD is greater than the average 12-month PD; or accounts with a significant increase in credit risk when the origination PD has doubled.

The Qualitative classification primarily accounts for management judgemental adjustments, CRR deterioration, and other reasons.

For further details on our approach to the assessment of significant increase in credit risk, see 'Summary of significant accounting policies' on page 119.

Loans and advances to customers[1]

	Gross carrying amount				Allowance for ECL				
	Personal	Corporate and commercial	Non-bank financial institutions	Total	Personal	Corporate and commercial	Non-bank financial institutions	Total	ECL Coverage % Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	%
Quantitative	561	3,611	162	4,334	(13)	(41)	(1)	(55)	1.3
Qualitative	102	4,260	198	4,560	(2)	(96)	(4)	(102)	2.2
30 DPD backstop[2]	23	195	9	227	(1)	–	–	(1)	0.4
Total Stage 2	686	8,066	369	9,121	(16)	(137)	(5)	(158)	1.7
The bank									
Quantitative	26	1,731	95	1,852	(2)	(9)	–	(11)	0.6
Qualitative	62	1,162	121	1,345	–	(36)	–	(36)	2.7
30 DPD backstop[2]	–	–	–	–	–	–	–	–	–
Total Stage 2	88	2,893	216	3,197	(2)	(45)	–	(47)	1.5

1 *Where balances satisfy more than one of the above three criteria for determining a significant increase in credit risk, the corresponding gross exposure and ECL have been assigned in order of categories presented.*
2 *Days past due ('DPD').*

Credit exposure

Maximum exposure to credit risk

(Audited)

This section provides information on balance sheet items and their offsets as well as loan and other credit-related commitments. The offset on derivatives remains in line with the movements in maximum exposure amounts.

'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 other guarantees 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.

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, collateral held in the form of financial instruments that are not held on balance sheet and short positions in securities. In addition, for financial assets held as part of linked insurance/investment contracts the risk is predominantly borne by the policyholder. See Note 28 on the financial statements for further details of collateral in respect of certain loans and advances and derivatives.

Collateral available to mitigate credit risk is disclosed in the Collateral section on page 64.

Maximum exposure to credit risk

(Audited)

	2021			2020		
	Maximum exposure	Offset	Net	Maximum exposure	Offset	Net
The group	£m	£m	£m	£m	£m	£m
Loans and advances to customers held at amortised cost	91,177	(7,057)	84,120	101,491	(8,717)	92,774
– personal	25,231	–	25,231	26,291	(3)	26,288
– corporate and commercial	55,123	(6,228)	48,895	61,819	(7,662)	54,157
– non-bank financial institutions	10,823	(829)	9,994	13,381	(1,052)	12,329
Loans and advances to banks at amortised cost	10,784	(88)	10,696	12,646	(137)	12,509
Other financial assets held at amortised cost	202,455	(10,239)	192,216	203,084	(10,604)	192,480
– cash and balances at central banks	108,482	–	108,482	85,092	–	85,092
– items in the course of collection from other banks	346	–	346	243	–	243
– reverse repurchase agreements – non trading	54,448	(10,239)	44,209	67,577	(10,604)	56,973
– financial investments	10	–	10	15	–	15
– prepayments, accrued income and other assets	39,169	–	39,169	50,157	–	50,157
Derivatives	141,221	(139,668)	1,553	201,210	(200,137)	1,073
Total on balance sheet exposure to credit risk	445,637	(157,052)	288,585	518,431	(219,595)	298,836
Total off-balance sheet	146,261	–	146,261	165,368	–	165,368
– financial and other guarantees[1]	26,840	–	26,840	18,177	–	18,177
– loan and other credit-related commitments	119,421	–	119,421	147,191	–	147,191
At 31 Dec	591,898	(157,052)	434,846	683,799	(219,595)	464,204

1 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30, net of ECL.*

Maximum exposure to credit risk (continued)

The bank	2021 Maximum exposure £m	2021 Offset £m	2021 Net £m	2020 Maximum exposure £m	2020 Offset £m	2020 Net £m
Loans and advances to customers held at amortised cost	**33,936**	**(7,047)**	**26,889**	43,241	(8,711)	34,530
– personal	**3,674**	**–**	**3,674**	3,569	–	3,569
– corporate and commercial	**20,874**	**(6,224)**	**14,650**	25,520	(7,661)	17,859
– non-bank financial institutions	**9,388**	**(823)**	**8,565**	14,152	(1,050)	13,102
Loans and advances to banks at amortised cost	**6,778**	**–**	**6,778**	8,063	–	8,063
Other financial assets held at amortised cost	**135,109**	**(9,045)**	**126,064**	135,948	(10,003)	125,945
– cash and balances at central banks	**63,008**	**–**	**63,008**	48,777	–	48,777
– items in the course of collection from other banks	**211**	**–**	**211**	37	–	37
– reverse repurchase agreements – non trading	**39,708**	**(9,045)**	**30,663**	50,137	(10,003)	40,134
– financial investments	**3,337**	**–**	**3,337**	2,214	–	2,214
– prepayments, accrued income and other assets	**28,845**	**–**	**28,845**	34,783	–	34,783
Derivatives	**125,787**	**(123,964)**	**1,823**	182,066	(181,925)	141
Total on balance sheet exposure to credit risk	**301,610**	**(140,056)**	**161,554**	369,318	(200,639)	168,679
Total off-balance sheet	**41,034**	**–**	**41,034**	54,899	–	54,899
– financial and other guarantees[1]	**8,592**	**–**	**8,592**	8,640	–	8,640
– loan and other credit-related commitments	**32,442**	**–**	**32,442**	46,259	–	46,259
At 31 Dec	**342,644**	**(140,056)**	**202,588**	424,217	(200,639)	223,578

1 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 30, net of ECL.*

Concentration of exposure

We have a number of businesses with a broad range of products. We operate in a number of markets with the majority of our exposures in UK and France.

For an analysis of:

- financial investments, see Note 15 on the financial statements;
- trading assets, see Note 10 on the financial statements;
- derivatives, see page 67 and Note 14 on the financial statements; and
- loans and advances by industry sector and by the location of the principal operations of the lending subsidiary or by the location of the lending branch, see page 62 for wholesale lending and page 67 for personal lending.

Credit deterioration of financial instruments

(Audited)

A summary of our current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2 and stage 3 (credit impaired) and POCI financial instruments can be found in Note 1.2 on the financial statements.

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

Despite a broad recovery in economic conditions during 2021, ECL estimates continued to be subject to a high degree of uncertainty and management judgements and estimates continue to reflect a degree of caution, both in the selection of economic scenarios and their weightings, and through management judgemental adjustments. Releases of provisions were made progressively as economic conditions recovered and by 31 December 2021 the majority of the 2020 uplift in ECL provisions had been reversed.

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

Methodology

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

In the second quarter of 2020, to ensure that the severe risks associated with the pandemic were appropriately captured, management added a fourth, more severe, scenario to use in the measurement of ECL. Starting in the fourth quarter of 2021, HSBC's methodology has been adjusted so that the use of four scenarios, of which two are Downside scenarios, is the standard approach to ECL calculation.

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

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

Description of economic scenarios

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

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

Economic forecasts remain subject to a high degree of uncertainty. Risks to the economic outlook are dominated by the progression of the pandemic, vaccine roll-out and the public policy response. Geopolitical risks also remain significant and include continued differences between the US and other countries with China over a range of economic and strategic defence issues. Continued uncertainty over the long-term economic relationship between the UK and EU also present downside risks.

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

The consensus Central scenario

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

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

Regional differences in the speed of economic recovery in the Central scenario reflect differences in the progression of the pandemic, roll-out of vaccination programmes, national level restrictions imposed and scale of support measures. Global GDP is expected to grow by 4.2% in 2022 in the Central scenario and the average rate of global GDP growth is 3.1% over the five-year forecast period. This exceeds the average growth rate over the five-year period prior to the onset of the pandemic.

The key features of our Central scenario are:

- Economic activity in our top markets continues to recover. GDP grows at a moderate rate and exceeds pre-pandemic levels across all our key markets in 2022.
- Unemployment declines to levels only slightly higher than existed pre-pandemic, with the exception of France where the downward trend in unemployment, related to structural changes to the labour market, resumes.
- Covid-19-related fiscal spending recedes in 2022 as fewer restrictions on activity allow fiscal support to be withdrawn. Deficits remain high in several countries as they embark on multi-year investment programmes to support recovery, productivity growth and climate transition.
- Inflation across many of our key markets remains elevated through 2022. Supply driven price pressures persist through the first half of 2022 before gradually easing. In subsequent years, inflation quickly converges back towards central bank target rates.
- Policy interest rates in key markets rise gradually over our projection period, in line with economic recovery.
- The West Texas Intermediate oil price is forecast to average $62 per barrel over the projection period.

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

The Central scenario was first created with forecasts available in November, and subsequently updated in December.

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

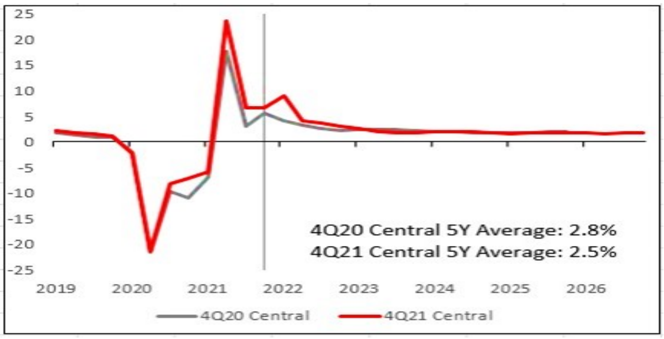
Central scenario 2022–2026

	UK	France
	%	%
GDP growth rate		
2022: Annual average growth rate	**5.0**	**3.9**
2023: Annual average growth rate	**2.1**	**2.1**
2024: Annual average growth rate	**1.9**	**1.6**
5-year average	**2.5**	**2.1**
Unemployment rate		
2022: Annual average rate	**4.5**	**8.0**
2023: Annual average rate	**4.3**	**7.7**
2024: Annual average rate	**4.2**	**7.6**
5-year average	**4.3**	**7.7**
House price growth		
2022: Annual average growth rate	**5.5**	**4.9**
2023: Annual average growth rate	**3.3**	**4.6**
2024: Annual average growth rate	**3.3**	**4.0**
5-year average	**3.5**	**3.9**
Short-term interest rate		
2022: Annual average rate	**1.0**	**(0.5)**
2023: Annual average rate	**1.3**	**(0.3)**
2024: Annual average rate	**1.2**	**(0.1)**
5-year average	**1.2**	**(0.2)**
Probability	**60**	**60**

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

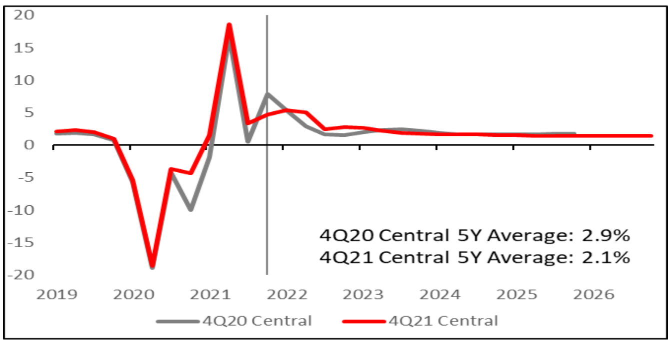
GDP growth: Comparison

UK



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

France



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

The consensus Upside scenario

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

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

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

Consensus Upside scenario best outcome

	UK		France	
	%		%	
GDP growth rate	9.9	(1Q22)	7.0	(2Q22)
Unemployment rate	3.0	(4Q23)	6.6	(4Q23)
House price growth	7.4	(2Q23)	6.8	(2Q22)
Short term interest rate	0.7	(1Q22)	(0.5)	(1Q22)
Probability	10		10	

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

Downside scenarios

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

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

While Covid-19 and related risks dominate the economic outlook, geopolitical risks also present a threat. These risks include:

- continued differences between the US and other countries with China, which could affect sentiment and restrict global economic activity; and
- potential disagreements between the UK and the EU, which may hinder the ability to reach a more comprehensive agreement on trade and services, despite the Trade and Cooperation Agreement averting a disorderly UK departure.

The consensus Downside scenario

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

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

Consensus Downside scenario worst outcome

	UK		France	
	%		%	
GDP growth rate	(0.5)	(3Q23)	0.5	(4Q23)
Unemployment rate	5.6	(4Q22)	9.1	(3Q22)
House price growth	(4.2)	(1Q23)	2.0	(4Q22)
Short-term interest rate	0.2	(4Q23)	(0.5)	(1Q22)
Probability	15		15	

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

Downside 2 scenario

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

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

Downside 2 scenario worst outcome

	UK		France	
	%		%	
GDP growth rate	(4.6)	(4Q22)	(4.6)	(4Q22)
Unemployment rate	7.5	(2Q23)	10.0	(4Q23)
House price growth	(14.2)	(2Q23)	(6.0)	(2Q23)
Short-term interest rate	1.6	(2Q22)	0.4	(2Q22)
Probability	15		15	

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

Scenario weighting

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

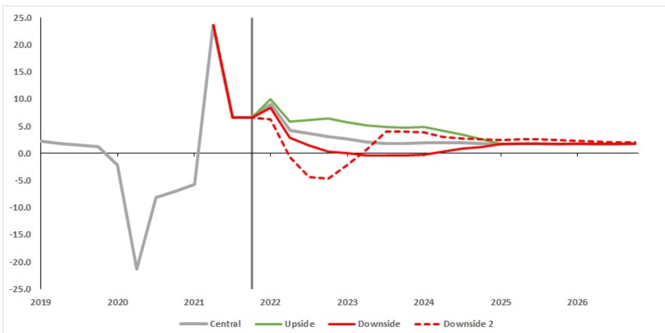
To inform its view, management has considered the progression of the virus in individual countries, the speed of vaccine roll-outs, the degree of current and expected future government support and connectivity with other countries. Management has also been guided by the policy response and economic performance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

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

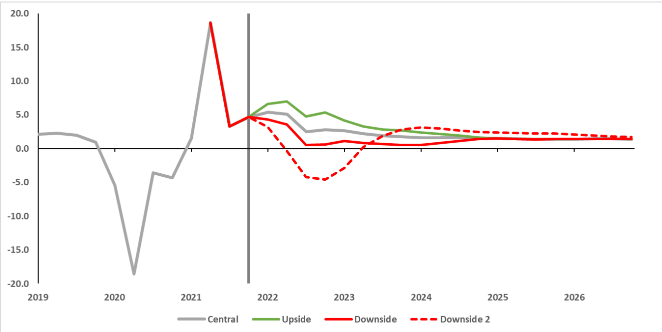
The UK and France faced the greatest economic uncertainties of our key markets. The emergence of Omicron exacerbated the rise in case rates and hospitalisations in both countries, necessitating the imposition of new restrictions. These increase uncertainties around economic growth and employment. Accordingly, the Central scenario was assigned a 60% weight in both countries. The two Downside scenarios were given a combined probability weighting of 30% for both the UK and France.

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

UK



France



Critical accounting estimates and judgements

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

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

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2021, and judgemental adjustments were still required to support modelled outcomes.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2021.

For our wholesale portfolios, a global methodology is used for 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.

For our retail portfolios, 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 the 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, segment or portfolio level to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgement applied following management review and challenge.

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

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

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

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

Management judgemental adjustments are reviewed under the governance process for IFRS 9 (as detailed in the section 'Credit risk management' on page 32). Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2021 are set out in the following table.

The table includes adjustments in relation to data and model limitations, including those driven by late-breaking events and sector-specific risks and as a result of the regular process of model development and implementation.

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

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	–	(4)	(4)
Corporate lending adjustments	–	31	31
Retail lending probability of default adjustments	–	–	–
Retail model default timing adjustments	–	–	–
Macroeconomic-related adjustments	17	–	17
Pandemic-related economic recovery adjustments	3	–	3
Other retail lending adjustments	–	–	–
Total	**20**	**27**	**47**

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

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	(5)	8	3
Corporate lending adjustments	–	56	56
Retail lending probability of default adjustments	(10)	–	(10)
Retail model default timing adjustments	3	–	3
Macroeconomic-related adjustments	11	–	11
Pandemic-related economic recovery adjustments	–	–	–
Other retail lending adjustments	4	–	4
Total	**3**	**64**	**67**

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

Management judgemental adjustments at 31 December 2021 were an increase to ECL of £27m for the wholesale portfolio and an increase to ECL of £20m for the retail portfolio.

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

At 31 December 2021, wholesale management judgemental adjustments were an ECL increase of £27m (31 December 2020: £64m increase).

- Adjustments relating to low credit-risk exposures decreased ECL by £4m at 31 December 2021 (31 December 2020: £8m increase). These were mainly to highly rated banks, sovereigns and US government-sponsored entities, where modelled credit factors did not fully reflect the underlying fundamentals of these entities or the effect of government support and economic programmes in the Covid-19 environment. The decrease in adjustment impact relative to 31 December 2020 was mostly driven by increased alignment of modelled outcomes to management expectations following changes in systems and data.
- Adjustments to corporate exposures increased ECL by £31m at 31 December 2021 (31 December 2020: £56m increase). These principally reflected the outcome of management judgements for high-risk and vulnerable sectors in some of our key markets, supported by credit experts' input, portfolio risk metrics, quantitative analyses and benchmarks. Considerations include risk of individual exposures under different macroeconomic scenarios and comparison of key risk metrics to pre-pandemic levels, resulting in either releases or increases to ECL. The decrease in adjustment impact relative to 31 December 2020 was mostly driven by management judgements as a result of the effect of further improvement of macroeconomic scenarios on modelled outcomes and increased dislocation of modelled outcomes to management expectations for high-risk sectors and due to late-breaking events not fully reflected in the underlying data.

At 31 December 2021, retail management judgemental adjustments were an ECL increase of £20m (31 December 2020: £3m increase).

- Pandemic-related economic recovery adjustments increased ECL by £3m (31 December 2020: £0) to adjust for the effects of the volatile pace of recovery from the pandemic. This is where in management's judgement, supported by quantitative analyses of portfolio and economic metrics, modelled outcomes are overly sensitive given the limited observed deterioration in the underlying portfolio during the pandemic.
- Positive macroeconomic-related adjustments have remained broadly stable in comparison to 31 December 2020.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

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

Wholesale and retail sensitivity

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

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1,2]

	UK £m	France £m
ECL of loans and advances to customers at 31 December 2021		
Reported ECL	**104**	**98**
Consensus scenarios		
Central scenario	**90**	**89**
Upside scenario	**71**	**78**
Downside scenario	**109**	**120**
Downside 2 scenario	**189**	**138**
Gross carrying amount[2]	**142,450**	**120,955**
ECL of loans and advances to customers at 31 December 2020		
Reported ECL	317	88
Consensus scenarios		
Central scenario	219	82
Upside scenario	156	73
Downside scenario	339	98
Additional Downside scenario	657	178
Gross carrying amount[2]	137,825	123,444

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

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK £m	France £m
ECL of loans and advances to customers at 31 December 2021		
Reported ECL	**5**	**91**
Consensus scenarios		
Central scenario	**4**	**91**
Upside scenario	**4**	**91**
Downside scenario	**5**	**92**
Downside 2 scenario	**10**	**93**
Gross carrying amount	**2,007**	**18,295**

IFRS 9 ECL sensitivity to future economic conditions[1]

	UK	France
ECL of loans and advances to customers at 31 December 2020		
Reported ECL	12	114
Consensus scenarios		
Central scenario	11	113
Upside scenario	8	111
Downside scenario	14	115
Additional Downside scenario	17	118
Gross carrying amount	1,980	19,254

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

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

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

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

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

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

(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
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	184,715	(180)	31,726	(378)	3,352	(1,050)	40	(12)	219,833	(1,620)
Transfers of financial instruments	5,245	(66)	(5,617)	90	372	(24)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(8,431)	14	8,431	(14)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	13,714	(78)	(13,714)	78	–	–	–	–	–	–
– Transfers to Stage 3	(93)	–	(401)	28	494	(28)	–	–	–	–
– Transfers from Stage 3	55	(2)	67	(2)	(122)	4	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	43	–	(22)	–	(5)	–	–	–	16
New financial assets originated or purchased	72,348	(55)	–	–	–	–	–	–	72,348	(55)
Asset derecognised (including final repayments)	(57,098)	6	(3,481)	32	(454)	95	(3)	2	(61,036)	135
Changes to risk parameters – further lending/repayments	(16,766)	76	(3,927)	62	(213)	40	(29)	2	(20,935)	180
Changes to risk parameters – credit quality	–	54	–	7	–	(176)	–	–	–	(115)
Changes to model used for ECL calculation	–	2	–	9	–	–	–	–	–	11
Assets written off	–	–	–	–	(152)	152	(5)	5	(157)	157
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange	(7,512)	2	(1,060)	10	(126)	46	(1)	1	(8,699)	59
Others[2]	(1,320)	–	(170)	2	–	(1)	–	–	(1,490)	1
At 31 Dec 2021	179,612	(118)	17,471	(188)	2,779	(923)	2	(2)	199,864	(1,231)
ECL income statement release/(charge) for the period		126		88		(46)		4		172
Recoveries										3
Others										(23)
Total ECL income statement release for the period										152

	At 31 Dec 2021		12 months ended 31 Dec 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL release/(charge)
	£m	£m	£m
As above	199,864	(1,231)	152
Other financial assets measured at amortised cost	202,137	(9)	(1)
Non-trading reverse purchase agreement commitments	30,005	–	–
Performance and other guarantees not considered for IFRS 9			18
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	432,006	(1,240)	169
Debt instruments measured at FVOCI	41,188	(19)	5
Total allowance for ECL/total income statement ECL release for the period	n/a	(1,259)	174

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2021, these amounted to £(1)bn and were classified as Stage 1 with no ECL.*

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

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

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

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

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

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

(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
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	78,422	(121)	14,161	(213)	1,395	(363)	2	(2)	93,980	(699)
Transfers of financial instruments	4,795	(27)	(4,840)	39	45	(12)	–	–	–	–
– Transfers from Stage 1 to Stage 2	(2,261)	3	2,261	(3)	–	–	–	–	–	–
– Transfers from Stage 2 to Stage 1	7,043	(29)	(7,043)	29	–	–	–	–	–	–
– Transfers to Stage 3	–	–	(59)	13	59	(13)	–	–	–	–
– Transfers from Stage 3	13	(1)	1	–	(14)	1	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	13	–	(1)	–	(1)	–	–	–	11
New financial assets originated or purchased	11,532	(31)	–	–	–	–	–	–	11,532	(31)
Asset derecognised (including final repayments)	(11,861)	2	(1,836)	17	(80)	4	(2)	1	(13,779)	24
Changes to risk parameters – further lending/repayments	(13,051)	58	(1,813)	32	(190)	4	–	–	(15,054)	94
Changes to risk parameters – credit quality	–	48	–	59	–	13	–	–	–	120
Changes to model used for ECL calculation	–	2	–	9	–	–	–	–	–	11
Assets written off	–	–	–	–	(78)	78	(1)	1	(79)	79
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
Foreign exchange	(76)	–	(15)	–	(4)	1	–	–	(95)	1
Others[2]	(4,051)	–	–	–	–	–	–	–	(4,051)	–
At 31 Dec 2021	65,710	(56)	5,657	(58)	1,088	(276)	(1)	–	72,454	(390)
ECL income statement release for the period		92		116		20		1		229
Recoveries										1
Others										(23)
Total ECL income release for the period										207

	At 31 Dec 2021		12 months ended 31 Dec 2021
	Gross carrying/nominal amount	Allowance for ECL	ECL release
	£m	£m	£m
As above	72,454	(390)	207
Other financial assets measured at amortised cost	135,033	(1)	1
Non-trading reverse purchase agreement commitments	1,139	–	–
Performance and other guarantees not considered for IFRS 9			4
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	208,626	(391)	212
Debt instruments measured at FVOCI	23,152	(4)	5
Total allowance for ECL/total income statement ECL release for the period	n/a	(395)	217

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2021, these amounted to £(4)bn and were classified as Stage 1 with no ECL.*

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

(Audited)

	Non-credit – impaired				Credit – impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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
The bank	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	94,937	(77)	4,582	(77)	753	(242)	38	(24)	100,310	(420)
Transfers of financial instruments:	(12,397)	(27)	11,422	47	975	(20)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(17,892)	36	17,892	(36)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	5,676	(68)	(5,676)	68	—	—	—	—	—	—
– Transfers to Stage 3	(183)	5	(845)	17	1,028	(22)	—	—	—	—
– Transfers from Stage 3	2	—	51	(2)	(53)	2	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	26	—	(34)	—	—	—	—	—	(8)
New financial assets originated or purchased	14,911	(43)	—	—	—	—	—	—	14,911	(43)
Asset derecognised (including final repayments)	(7,687)	2	(666)	2	(167)	9	(15)	1	(8,535)	14
Changes to risk parameters – further lending/repayments	(5,898)	35	(1,201)	13	(25)	(9)	2	(3)	(7,122)	36
Changes to risk parameters – credit quality	—	(54)	—	(129)	—	(232)	—	1	—	(414)
Changes to model used for ECL calculation	—	10	—	(36)	—	—	—	—	—	(26)
Assets written off	—	—	—	—	(118)	118	(23)	23	(141)	141
Credit related modifications that resulted in derecognition	—	—	—	—	(16)	4	—	—	(16)	4
Foreign exchange	(60)	7	24	1	(2)	4	—	—	(38)	12
Others[2]	(5,384)	—	—	—	(5)	5	—	—	(5,389)	5
At 31 Dec 2020	78,422	(121)	14,161	(213)	1,395	(363)	2	(2)	93,980	(699)
ECL income statement charge for the period		(24)		(184)		(232)		(1)		(441)
Recoveries										—
Others										(12)
Total ECL income statement charge for the period										(453)

	At 31 Dec 2020		12 months ended 31 Dec 2020
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	£m	£m	£m
As above	93,980	(699)	(453)
Other financial assets measured at amortised cost	135,900	(1)	4
Non-trading reverse purchase agreement commitments	4,747	—	—
Performance and other guarantees not considered for IFRS 9			(3)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	234,627	(700)	(452)
Debt instruments measured at FVOCI	28,699	(9)	(5)
Total allowance for ECL/total income statement ECL charge for the period	n/a	(709)	(457)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes the period on period movement in exposures relating to other HSBC Group companies. As at 31 December 2020, these amounted to £(5)bn and were classified as Stage 1 with no ECL.*

Credit quality

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 the probability of default ('PD'), whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition.

Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 33.

Distribution of financial instruments by credit quality at 31 December 2021

(Audited)

The group	Gross carrying/notional amount Strong £m	Good £m	Satisfactory £m	Sub-standard £m	Credit impaired £m	Total £m	Allowance for ECL £m	Net £m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	41,339	20,531	23,469	4,512	2,480	92,331	(1,154)	91,177
– personal	18,956	4,136	1,793	56	453	25,394	(163)	25,231
– corporate and commercial	16,533	13,867	19,597	4,305	1,785	56,087	(964)	55,123
– non-bank financial institutions	5,850	2,528	2,079	151	242	10,850	(27)	10,823
Loans and advances to banks held at amortised cost	8,649	320	1,815	5	—	10,789	(5)	10,784
Cash and balances at central banks	108,133	198	151	—	—	108,482	—	108,482
Items in the course of collection from other banks	343	—	3	—	—	346	—	346
Reverse repurchase agreements – non-trading	47,071	6,355	1,022	—	—	54,448	—	54,448
Financial investments	2	—	8	—	—	10	—	10
Prepayments, accrued income and other assets	36,558	666	1,574	11	42	38,851	(9)	38,842
– endorsements and acceptances	105	61	23	—	7	196	—	196
– accrued income and other	36,453	605	1,551	11	35	38,655	(9)	38,646
Debt instruments measured at fair value through other comprehensive income[1]	36,410	1,899	1,406	118	—	39,833	(19)	39,814
Out-of-scope for IFRS 9								
Trading assets	28,110	5,331	8,985	350	—	42,776	—	42,776
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,246	304	2,644	3	—	5,197	—	5,197
Derivatives	111,471	25,487	4,054	207	2	141,221	—	141,221
Total gross carrying amount on balance sheet	420,332	61,091	45,131	5,206	2,524	534,284	(1,187)	533,097
Percentage of total credit quality	78.7%	11.4%	8.4%	1.0%	0.5%	100.0%		
Loans and other credit-related commitments	71,741	21,860	20,018	1,874	202	115,695	(55)	115,640
Financial guarantees	8,412	1,088	1,245	210	99	11,054	(17)	11,037
In-scope: Irrevocable loan commitments and financial guarantees	80,153	22,948	21,263	2,084	301	126,749	(72)	126,677
Loans and other credit-related commitments	2,134	1,114	432	94	7	3,781	—	3,781
Performance and other guarantees	7,738	4,359	3,130	490	116	15,833	(31)	15,802
Out-of-scope: Revocable loan commitments and non-financial guarantees	9,872	5,473	3,562	584	123	19,614	(31)	19,583

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Distribution of financial instruments by credit quality at 31 December 2020 (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	43,077	24,780	26,477	5,619	3,007	102,960	(1,469)	101,491
– personal	19,232	4,341	2,251	141	534	26,499	(208)	26,291
– corporate and commercial	16,340	17,132	22,330	5,023	2,162	62,987	(1,168)	61,819
– non-bank financial institutions	7,505	3,307	1,896	455	311	13,474	(93)	13,381
Loans and advances to banks held at amortised cost	10,518	721	1,412	11	—	12,662	(16)	12,646
Cash and balances at central banks	84,964	—	129	—	—	85,093	(1)	85,092
Items in the course of collection from other banks	240	—	3	—	—	243	—	243
Reverse repurchase agreements – non-trading	57,282	8,370	1,920	5	—	67,577	—	67,577
Financial investments	2	—	13	—	—	15	—	15
Prepayments, accrued income and other assets	47,928	566	1,285	17	39	49,835	(11)	49,824
– endorsements and acceptances	62	2	31	2	2	99	(1)	98
– accrued income and other	47,866	564	1,254	15	37	49,736	(10)	49,726
Debt instruments measured at fair value through other comprehensive income[1]	46,029	2,487	405	153	—	49,074	(22)	49,052
Out-of-scope for IFRS 9								
Trading assets	34,302	5,996	9,493	410	—	50,201	—	50,201
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,460	1,152	587	4	—	4,203	—	4,203
Derivatives	165,868	30,113	4,299	890	40	201,210	—	201,210
Total gross carrying amount on balance sheet	492,670	74,185	46,023	7,109	3,086	623,073	(1,519)	621,554
Percentage of total credit quality	79%	12%	8%	1%	—	100%		
Loans and other credit-related commitments	97,281	26,361	17,081	2,047	266	143,036	(112)	142,924
Financial guarantees	1,340	1,153	1,020	334	122	3,969	(23)	3,946
In-scope: Irrevocable loan commitments and financial guarantees	98,621	27,514	18,101	2,381	388	147,005	(135)	146,870
Loans and other credit-related commitments	2,525	986	578	177	1	4,267	—	4,267
Performance and other guarantees	6,728	3,808	3,145	422	179	14,282	(51)	14,231
Out-of-scope: Revocable loan commitments and non-financial guarantees	9,253	4,794	3,723	599	180	18,549	(51)	18,498

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Distribution of financial instruments by credit quality at 31 December 2021

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	16,993	9,038	6,467	804	984	34,286	(350)	33,936
– personal	1,909	850	860	13	48	3,680	(6)	3,674
– corporate and commercial	8,120	6,649	5,003	729	681	21,182	(308)	20,874
– non-bank financial institutions	6,964	1,539	604	62	255	9,424	(36)	9,388
Loans and advances to banks held at amortised cost	6,427	166	187	2	—	6,782	(4)	6,778
Cash and balances at central banks	63,008	—	—	—	—	63,008	—	63,008
Items in the course of collection from other banks	211	—	—	—	—	211	—	211
Reverse repurchase agreements – non-trading	32,877	5,916	915	—	—	39,708	—	39,708
Financial investments	3,337	—	—	—	—	3,337	—	3,337
Prepayments, accrued income and other assets	28,524	121	94	2	28	28,769	(1)	28,768
– endorsements and acceptances	90	61	13	—	7	171	—	171
– accrued income and other	28,434	60	81	2	21	28,598	(1)	28,597
Debt instruments measured at fair value through other comprehensive income[1]	21,748	64	1,039	—	—	22,851	(4)	22,847
Out-of-scope for IFRS 9								
Trading assets	18,318	5,082	8,470	350	—	32,220	—	32,220
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	138	—	2,504	2	—	2,644	—	2,644
Derivatives	98,698	24,160	2,854	75	—	125,787	—	125,787
Total gross carrying amount on balance sheet	290,279	44,547	22,530	1,235	1,012	359,603	(359)	359,244
Percentage of total credit quality	80.7%	12.4%	6.3%	0.3%	0.3%	100.0%		
Loans and other credit-related commitments	20,446	6,663	3,651	452	43	31,255	(29)	31,226
Financial guarantees	630	89	471	20	60	1,270	(7)	1,263
In-scope: Irrevocable loan commitments and financial guarantees	21,076	6,752	4,122	472	103	32,525	(36)	32,489
Loans and other credit-related commitments	620	383	126	86	1	1,216	—	1,216
Performance and other guarantees	4,846	1,939	480	56	13	7,334	(7)	7,327
Out-of-scope: Revocable loan commitments and non-financial guarantees	5,466	2,322	606	142	14	8,550	(7)	8,543

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Distribution of financial instruments by credit quality at 31 December 2020 (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	20,109	12,752	8,496	1,193	1,281	43,831	(590)	43,241
– personal	1,804	816	880	25	57	3,582	(13)	3,569
– corporate and commercial	7,870	9,401	6,785	1,038	920	26,014	(494)	25,520
– non-bank financial institutions	10,435	2,535	831	130	304	14,235	(83)	14,152
Loans and advances to banks held at amortised cost	7,256	412	410	—	—	8,078	(15)	8,063
Cash and balances at central banks	48,777	—	—	—	—	48,777	—	48,777
Items in the course of collection from other banks	37	—	—	—	—	37	—	37
Reverse repurchase agreements – non-trading	41,057	7,213	1,862	5	—	50,137	—	50,137
Financial investments	2,214	—	—	—	—	2,214	—	2,214
Prepayments, accrued income and other assets	34,495	94	120	4	22	34,735	(1)	34,734
– endorsements and acceptances	44	2	22	—	2	70	(1)	69
– accrued income and other	34,451	92	98	4	20	34,665	—	34,665
Debt instruments measured at fair value through other comprehensive income[1]	27,762	62	3	—	—	27,827	(9)	27,818
Out-of-scope for IFRS 9								
Trading assets	21,486	5,922	9,406	410	—	37,224	—	37,224
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	94	788	382	4	—	1,268	—	1,268
Derivatives	150,837	26,966	3,625	638	—	182,066	—	182,066
Total gross carrying amount on balance sheet	354,124	54,209	24,304	2,254	1,303	436,194	(615)	435,579
Percentage of total credit quality	81%	13%	6%	—	—	100%		
Loans and other credit-related commitments	29,939	10,375	4,422	512	60	45,308	(81)	45,227
Financial guarantees	913	134	376	33	54	1,510	(13)	1,497
In-scope: Irrevocable loan commitments and financial guarantees	30,852	10,509	4,798	545	114	46,818	(94)	46,724
Loans and other credit-related commitments	475	235	148	173	1	1,032	—	1,032
Performance and other guarantees	4,670	1,701	623	127	35	7,156	(13)	7,143
Out-of-scope: Revocable loan commitments and non-financial guarantees	5,145	1,936	771	300	36	8,188	(13)	8,175

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	41,339	20,531	23,469	4,512	2,480	92,331	(1,154)	91,177
– stage 1	40,831	19,376	19,077	1,446	–	80,730	(86)	80,644
– stage 2	508	1,155	4,392	3,066	–	9,121	(158)	8,963
– stage 3	–	–	–	–	2,478	2,478	(908)	1,570
– POCI	–	–	–	–	2	2	(2)	–
Loans and advances to banks at amortised cost	8,649	320	1,815	5	–	10,789	(5)	10,784
– stage 1	8,620	311	1,814	5	–	10,750	(4)	10,746
– stage 2	29	9	1	–	–	39	(1)	38
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	192,107	7,219	2,758	11	42	202,137	(9)	202,128
– stage 1	192,105	7,214	2,727	2	–	202,048	–	202,048
– stage 2	2	5	31	9	–	47	–	47
– stage 3	–	–	–	–	42	42	(9)	33
– POCI	–	–	–	–	–	–	–	–
Loans and other credit-related commitments	71,741	21,860	20,018	1,874	202	115,695	(55)	115,640
– stage 1	71,074	19,960	16,337	551	–	107,922	(25)	107,897
– stage 2	667	1,900	3,681	1,323	–	7,571	(22)	7,549
– stage 3	–	–	–	–	202	202	(8)	194
– POCI	–	–	–	–	–	–	–	–
Financial guarantees	8,412	1,088	1,245	210	99	11,054	(17)	11,037
– stage 1	8,340	951	849	75	–	10,215	(3)	10,212
– stage 2	72	137	396	135	–	740	(7)	733
– stage 3	–	–	–	–	99	99	(7)	92
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2021	322,248	51,018	49,305	6,612	2,823	432,006	(1,240)	430,766
Debt instruments at FVOCI[1]								
– stage 1	36,005	1,825	1,292	–	–	39,122	(10)	39,112
– stage 2	405	74	114	118	–	711	(9)	702
– stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 Dec 2021	36,410	1,899	1,406	118	–	39,833	(19)	39,814

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The group	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	43,077	24,780	26,477	5,619	3,007	102,960	(1,469)	101,491
– stage 1	42,579	21,351	17,556	1,693	—	83,179	(129)	83,050
– stage 2	498	3,429	8,921	3,926	—	16,774	(297)	16,477
– stage 3	—	—	—	—	2,966	2,966	(1,031)	1,935
– POCI	—	—	—	—	41	41	(12)	29
Loans and advances to banks at amortised cost	10,518	721	1,412	11	—	12,662	(16)	12,646
– stage 1	10,479	674	1,372	8	—	12,533	(13)	12,520
– stage 2	39	47	40	3	—	129	(3)	126
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	190,416	8,936	3,350	22	39	202,763	(12)	202,751
– stage 1	190,407	8,924	3,321	7	—	202,659	(2)	202,657
– stage 2	9	12	29	15	—	65	—	65
– stage 3	—	—	—	—	39	39	(10)	29
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	97,281	26,361	17,081	2,047	266	143,036	(112)	142,924
– stage 1	95,270	21,398	11,758	530	—	128,956	(34)	128,922
– stage 2	2,011	4,963	5,323	1,517	—	13,814	(68)	13,746
– stage 3	—	—	—	—	266	266	(10)	256
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	1,340	1,153	1,020	334	122	3,969	(23)	3,946
– stage 1	1,337	883	496	123	—	2,839	(4)	2,835
– stage 2	3	270	524	211	—	1,008	(10)	998
– stage 3	—	—	—	—	121	121	(9)	112
– POCI	—	—	—	—	1	1	—	1
At 31 Dec 2020	342,632	61,951	49,340	8,033	3,434	465,390	(1,632)	463,758
Debt instruments at FVOCI[1]								
– stage 1	45,958	2,424	233	—	—	48,615	(12)	48,603
– stage 2	71	63	172	153	—	459	(10)	449
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2020	46,029	2,487	405	153	—	49,074	(22)	49,052

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers at amortised cost	**16,993**	**9,038**	**6,467**	**804**	**984**	**34,286**	**(350)**	**33,936**
– stage 1	16,757	8,305	4,964	79	—	30,105	(33)	30,072
– stage 2	236	733	1,503	725	—	3,197	(47)	3,150
– stage 3	—	—	—	—	984	984	(270)	714
– POCI	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	**6,427**	**166**	**187**	**2**	**—**	**6,782**	**(4)**	**6,778**
– stage 1	6,427	160	186	2	—	6,775	(3)	6,772
– stage 2	—	6	1	—	—	7	(1)	6
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	**127,957**	**6,037**	**1,009**	**2**	**28**	**135,033**	**(1)**	**135,032**
– stage 1	127,956	6,037	991	—	—	134,984	—	134,984
– stage 2	1	—	18	2	—	21	—	21
– stage 3	—	—	—	—	28	28	(1)	27
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	**20,446**	**6,663**	**3,651**	**452**	**43**	**31,255**	**(29)**	**31,226**
– stage 1	20,307	6,469	2,135	—	—	28,911	(15)	28,896
– stage 2	139	194	1,516	452	—	2,301	(11)	2,290
– stage 3	—	—	—	—	43	43	(3)	40
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	**630**	**89**	**471**	**20**	**60**	**1,270**	**(7)**	**1,263**
– stage 1	630	89	324	17	—	1,060	(1)	1,059
– stage 2	—	—	147	3	—	150	—	150
– stage 3	—	—	—	—	60	60	(6)	54
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2021	**172,453**	**21,993**	**11,785**	**1,280**	**1,115**	**208,626**	**(391)**	**208,235**
Debt instruments at FVOCI[1]								
– stage 1	21,748	64	1,035	—	—	22,847	(2)	22,845
– stage 2	—	—	4	—	—	4	(2)	2
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2021	**21,748**	**64**	**1,039**	**—**	**—**	**22,851**	**(4)**	**22,847**

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
The bank	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	20,109	12,752	8,496	1,193	1,281	43,831	(590)	43,241
– stage 1	19,650	10,014	4,918	47	—	34,629	(79)	34,550
– stage 2	459	2,738	3,578	1,146	—	7,921	(158)	7,763
– stage 3	—	—	—	—	1,279	1,279	(351)	928
– POCI	—	—	—	—	2	2	(2)	—
Loans and advances to banks at amortised cost	7,256	412	410	—	—	8,078	(15)	8,063
– stage 1	7,254	366	375	—	—	7,995	(12)	7,983
– stage 2	2	46	35	—	—	83	(3)	80
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	126,580	7,307	1,982	9	22	135,900	(1)	135,899
– stage 1	126,579	7,306	1,953	5	—	135,843	—	135,843
– stage 2	1	1	29	4	—	35	—	35
– stage 3	—	—	—	—	22	22	(1)	21
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	29,939	10,375	4,422	512	60	45,308	(81)	45,227
– stage 1	28,569	8,176	2,453	145	—	39,343	(28)	39,315
– stage 2	1,370	2,199	1,969	367	—	5,905	(48)	5,857
– stage 3	—	—	—	—	60	60	(5)	55
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	913	134	376	33	54	1,510	(13)	1,497
– stage 1	910	121	170	2	—	1,203	(2)	1,201
– stage 2	3	13	206	31	—	253	(4)	249
– stage 3	—	—	—	—	54	54	(7)	47
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2020	184,797	30,980	15,686	1,747	1,417	234,627	(700)	233,927
Debt instruments at FVOCI[1]								
– stage 1	25,570	62	—	—	—	25,632	(7)	25,625
– stage 2	—	—	3	—	—	3	(2)	1
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2020	25,570	62	3	—	—	25,635	(9)	25,626

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)

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 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. 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 60.

A summary of our current policies and practices for renegotiated loans and forbearance is set out in 'Credit risk management' on page 32.

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

The group	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	**—**	**—**	**132**	**—**	**132**
– first lien residential mortgages	**—**	**—**	**96**	**—**	**96**
– other personal lending	**—**	**—**	**36**	**—**	**36**
Wholesale	**49**	**192**	**706**	**2**	**949**
– corporate and commercial	**49**	**192**	**702**	**2**	**945**
– non-bank financial institutions	**—**	**—**	**4**	**—**	**4**
At 31 Dec 2021	**49**	**192**	**838**	**2**	**1,081**
Allowance for ECL					
Personal	**—**	**—**	**(15)**	**—**	**(15)**
– first lien residential mortgages	**—**	**—**	**(11)**	**—**	**(11)**
– other personal lending	**—**	**—**	**(4)**	**—**	**(4)**
Wholesale	**(1)**	**(5)**	**(218)**	**(2)**	**(226)**
– corporate and commercial	**(1)**	**(5)**	**(218)**	**(2)**	**(226)**
– non-bank financial institutions	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2021	**(1)**	**(5)**	**(233)**	**(2)**	**(241)**
The group					
Gross carrying amount					
Personal	—	—	122	—	122
– first lien residential mortgages	—	—	97	—	97
– other personal lending	—	—	25	—	25
Wholesale	43	348	773	40	1,204
– corporate and commercial	43	348	773	40	1,204
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	43	348	895	40	1,326
Allowance for ECL					
Personal	—	—	(18)	—	(18)
– first lien residential mortgages	—	—	(14)	—	(14)
– other personal lending	—	—	(4)	—	(4)
Wholesale	(1)	(9)	(211)	(12)	(233)
– corporate and commercial	(1)	(9)	(211)	(12)	(233)
– non-bank financial institutions	—	—	—	—	—
At 31 Dec 2020	(1)	(9)	(229)	(12)	(251)

The bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	**—**	**—**	**3**	**—**	**3**
– first lien residential mortgages	**—**	**—**	**2**	**—**	**2**
– other personal lending	**—**	**—**	**1**	**—**	**1**
Wholesale	**40**	**158**	**431**	**—**	**629**
– corporate and commercial	**40**	**158**	**431**	**—**	**629**
At 31 Dec 2021	**40**	**158**	**434**	**—**	**632**
Allowance for ECL					
Personal	**—**	**—**	**—**	**—**	**—**
– first lien residential mortgages	**—**	**—**	**—**	**—**	**—**
– other personal lending	**—**	**—**	**—**	**—**	**—**
Wholesale	**(1)**	**(2)**	**(124)**	**—**	**(127)**
– corporate and commercial	**(1)**	**(2)**	**(124)**	**—**	**(127)**
At 31 Dec 2021	**(1)**	**(2)**	**(124)**	**—**	**(127)**

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

The bank	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
Gross carrying amount					
Personal	—	—	7	—	7
– first lien residential mortgages	—	—	6	—	6
– other personal lending	—	—	1	—	1
Wholesale	39	181	520	2	742
– corporate and commercial	39	181	520	2	742
At 31 Dec 2020	39	181	527	2	749
Allowance for ECL					
Personal	—	—	—	—	—
– first lien residential mortgages	—	—	—	—	—
– other personal lending	—	—	—	—	—
Wholesale	(1)	(4)	(124)	(2)	(131)
– corporate and commercial	(1)	(4)	(124)	(2)	(131)
At 31 Dec 2020	(1)	(4)	(124)	(2)	(131)

Customer relief programmes

In response to the Covid-19 pandemic, governments and regulators around the world introduced a number of support measures for both personal and wholesale customers in market-wide schemes. The following table presents the number of personal accounts/wholesale customers and the associated drawn loan values of customers under these schemes and HSBC-specific measures for major markets at 31 December 2021. When schemes expire, accounts and customers and their associated drawn balances are no longer reported under relief regardless of their repayment status. In relation to personal lending, the majority of relief measures, including payment holidays, relate to existing lending, while in wholesale lending the relief measures comprise payment holidays, refinancing of existing facilities and new lending under government-backed schemes. .

At 31 December 2021, the gross carrying value of loans to personal customers under relief was £36m and wholesale customers under relief was £3,428m. We continue to monitor the recoverability of loans granted under customer relief programmes, including loans to a small number of customers that were subsequently found to be ineligible for such relief. The ongoing performance of such loans remains an area of uncertainty at 31 December 2021.

Personal lending

Extant at 31 December 2021		UK	HSBC Continental Europe[1]	Germany	Other markets[2]	Total
Market-wide schemes						
Number of accounts granted mortgage customer relief	00s	—	—	—	—	—
Drawn loan value of accounts granted mortgage customer relief	£m	—	—	—	—	—
Number of accounts granted other personal lending customer relief	00s	—	5	—	—	5
Drawn loan value of accounts granted other personal lending customer relief	£m	—	32	—	—	32
HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	—	—	—	—	—
Drawn loan value of accounts granted mortgage customer relief	£m	—	—	—	—	—
Number of accounts granted other personal lending customer relief	00s	—	<1	—	—	<1
Drawn loan value of accounts granted other personal lending customer relief	£m	—	4	—	—	4
Total personal lending to major markets under market-wide schemes and HSBC-specific measures						
Number of accounts granted mortgage customer relief	00s	—	—	—	—	—
Drawn loan value of accounts granted mortgage customer relief	£m	—	—	—	—	—
Number of accounts granted other personal lending customer relief	00s	—	5	—	—	5
Drawn loan value of accounts granted other personal lending customer relief	£m	—	36	—	—	36
Market-wide schemes and HSBC-specific measures – mortgage relief as a proportion of total mortgages	%	—	—	—	—	—
Market-wide schemes and HSBC-specific measures – other personal lending relief as a proportion of total other personal lending loans and advances	%	—	0.2	—	—	0.2

Wholesale lending

Extant at 31 December 2021		UK	HSBC Continental Europe[1]	Germany	Other markets[2]	Total
Market-wide schemes						
Number of customers under market-wide schemes	00s	<1	49	<1	1	50
Drawn loan value of customers under market-wide schemes	£m	1	2,918	63	39	3,021
HSBC-specific measures						
Number of customers under HSBC-specific measures	00s	—	<1	—	—	<1
Drawn loan value of customers under HSBC-specific measures	£m	—	407	—	—	407
Total wholesale lending to major markets under market-wide schemes and HSBC-specific measures						
Number of customers	00s	<1	49	<1	1	50
Drawn loan value	£m	1	3,325	63	39	3,428
Market-wide schemes and HSBC-specific measures as a proportion of total wholesale lending loans and advances	%	—	12.3	1.1	4.0	5.9

1 *HSBC Continental Europe includes France and branches in Spain, Poland and Greece.*
2 *Other markets include Malta and Armenia.*

Personal lending (continued)

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

Wholesale lending (continued)

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

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

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

Market-wide schemes The following narrative provides further details on the major government and regulatory schemes offered in France and Germany.

Personal lending

France – Other personal lending

The Prêt garanti par l'Etat ('PGE') government scheme provides term lending to professionals, firms, business owners, craftsmen and micro-entrepreneurs for a maximum duration of six years including a first year deferral. The maximum relief value is at 25% of baseline turnover with the maximum amount of €2.25m granted. Borrowers need to confirm that Covid-19 has placed them under temporary financial hardship and that they didn't experience financial difficulties before the crisis.

Wholesale lending

France

The PGE government scheme provides term lending to all registered French companies, excluding real estate special purpose vehicles ('SPVs'), banks, and companies subject to insolvency proceedings, for a maximum duration of one year (with the option to amortise up to five years). The maximum loan value is linked to turnover.

Germany – wholesale lending

Kreditanstalt für Wiederaufbau ('KfW') Coronavirus Aid provides lending to corporates for a maximum tenor of ten years.

HSBC-specific measures

France business banking lending

Payment holidays offered to professionals, firms, business owners, craftsmen and micro-entrepreneurs.

France wholesale lending

Payment holidays offered to commercial banking customers focused largely on business banking or lower end micro and medium enterprises. The duration is between 3 and 18 months and there is no specific maximum loan value.

Wholesale lending

This section provides further details on the countries and industries comprising wholesale loans and advances to customers and banks. Industry granularity is also provided by stage with geographical data presented for loans and advances to customers and banks, loans and other credit-related commitments and financial guarantees.

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
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	46,237	8,066	1,782	2	56,087	(58)	(137)	(767)	(2)	(964)
– agriculture, forestry and fishing	157	7	7	–	171	–	–	(5)	–	(5)
– mining and quarrying	1,207	86	58	–	1,351	(1)	(1)	(5)	–	(7)
– manufacture	7,327	1,624	281	2	9,234	(8)	(14)	(72)	(2)	(96)
– electricity, gas, steam and air-conditioning supply	2,891	49	30	–	2,970	(3)	(1)	(4)	–	(8)
– water supply, sewerage, waste management and remediation	215	–	4	–	219	–	–	(4)	–	(4)
– construction	641	116	97	–	854	(2)	(2)	(40)	–	(44)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,743	889	192	–	8,824	(4)	(8)	(132)	–	(144)
– transportation and storage	3,254	1,570	205	–	5,029	(9)	(20)	(56)	–	(85)
– accommodation and food	831	409	80	–	1,320	(4)	(10)	(20)	–	(34)
– publishing, audiovisual and broadcasting	2,390	81	50	–	2,521	(2)	(2)	(12)	–	(16)
– real estate	4,849	891	280	–	6,020	(9)	(32)	(159)	–	(200)
– professional, scientific and technical activities	2,522	669	221	–	3,412	(3)	(8)	(60)	–	(71)
– administrative and support services	8,765	1,204	178	–	10,147	(9)	(21)	(161)	–	(191)
– public administration and defence, compulsory social security	376	180	–	–	556	–	–	–	–	–
– education	22	5	3	–	30	–	(1)	(1)	–	(2)
– health and care	473	47	6	–	526	(1)	(4)	(5)	–	(10)
– arts, entertainment and recreation	104	116	5	–	225	–	(3)	(3)	–	(6)
– other services	1,427	66	85	–	1,578	(3)	(2)	(28)	–	(33)
– activities of households	–	2	–	–	2	–	–	–	–	–
– government	1,027	45	–	–	1,072	–	–	–	–	–
– asset-backed securities	16	10	–	–	26	–	(8)	–	–	(8)
Non-bank financial institutions	10,238	369	243	–	10,850	(6)	(5)	(16)	–	(27)
Loans and advances to banks	10,750	39	–	–	10,789	(4)	(1)	–	–	(5)
At 31 Dec 2021	67,225	8,474	2,025	2	77,726	(68)	(143)	(783)	(2)	(996)
By country										
UK	27,765	3,001	832	–	31,598	(34)	(43)	(233)	–	(310)
France	29,287	3,492	572	1	33,352	(27)	(62)	(396)	(1)	(486)
Germany	4,628	1,175	328	–	6,131	–	(17)	(73)	–	(90)
Other countries	5,545	806	293	1	6,645	(7)	(21)	(81)	(1)	(110)
At 31 Dec 2021	67,225	8,474	2,025	2	77,726	(68)	(143)	(783)	(2)	(996)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	65,582	7,369	295	–	73,246	(22)	(27)	(15)	–	(64)
Financial	50,380	826	2	–	51,208	(5)	(2)	–	–	(7)
At 31 Dec 2021	115,962	8,195	297	–	124,454	(27)	(29)	(15)	–	(71)
By geography										
Europe	115,962	8,195	297	–	124,454	(27)	(29)	(15)	–	(71)
– of which: UK	*25,662*	*2,910*	*87*	–	*28,659*	*(16)*	*(11)*	*(3)*	–	*(30)*
– of which: France	*77,664*	*1,273*	*37*	–	*78,974*	*(3)*	*(3)*	*(4)*	–	*(10)*
– of which: Germany	*10,113*	*3,693*	*127*	–	*13,933*	*(4)*	*(8)*	*(1)*	–	*(13)*

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

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	46,773	14,052	2,121	41	62,987	(100)	(225)	(831)	(12)	(1,168)
– agriculture, forestry and fishing	108	8	9	—	125	—	—	(5)	—	(5)
– mining and quarrying	1,110	215	108	—	1,433	(1)	(3)	(2)	—	(6)
– manufacture	8,598	2,900	286	13	11,797	(11)	(34)	(93)	(3)	(141)
– electricity, gas, steam and air-conditioning supply	2,532	299	29	—	2,860	(3)	(3)	(5)	—	(11)
– water supply, sewerage, waste management and remediation	260	44	4	—	308	—	(2)	(3)	—	(5)
– construction	589	265	131	2	987	(7)	(17)	(46)	(2)	(72)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,074	1,779	283	1	9,137	(10)	(22)	(171)	(1)	(204)
– transportation and storage	3,506	2,175	253	—	5,934	(31)	(30)	(81)	—	(142)
– accommodation and food	964	408	23	—	1,395	(2)	(8)	(12)	—	(22)
– publishing, audiovisual and broadcasting	2,381	424	50	—	2,855	(2)	(16)	(11)	—	(29)
– real estate	5,256	1,266	393	—	6,915	(17)	(28)	(194)	—	(239)
– professional, scientific and technical activities	3,219	1,409	179	25	4,832	(3)	(14)	(53)	(6)	(76)
– administrative and support services	6,470	2,336	259	—	9,065	(8)	(19)	(125)	—	(152)
– public administration and defence, compulsory social security	449	147	—	—	596	(1)	(1)	—	—	(2)
– education	26	76	1	—	103	—	(3)	(1)	—	(4)
– health and care	490	127	9	—	626	(1)	(10)	(6)	—	(17)
– arts, entertainment and recreation	127	85	4	—	216	—	(3)	(3)	—	(6)
– other services	2,443	25	100	—	2,568	(2)	(2)	(20)	—	(24)
– activities of households	2	—	—	—	2	—	—	—	—	—
– government	1,153	53	—	—	1,206	(1)	—	—	—	(1)
– asset-backed securities	16	11	—	—	27	—	(10)	—	—	(10)
Non-bank financial institutions	11,415	1,748	311	—	13,474	(11)	(35)	(47)	—	(93)
Loans and advances to banks	12,533	129	—	—	12,662	(13)	(3)	—	—	(16)
At 31 Dec 2020	70,721	15,929	2,432	41	89,123	(124)	(263)	(878)	(12)	(1,277)
By country										
UK	32,869	7,695	1,097	2	41,663	(87)	(147)	(310)	(2)	(546)
France	25,378	4,514	739	2	30,633	(16)	(55)	(417)	(2)	(490)
Germany	5,460	1,692	334	—	7,486	(4)	(20)	(68)	—	(92)
Other countries	7,014	2,028	262	37	9,341	(17)	(41)	(83)	(8)	(149)
At 31 Dec 2020	70,721	15,929	2,432	41	89,123	(124)	(263)	(878)	(12)	(1,277)

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] 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
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	67,077	11,141	379	1	78,598	(32)	(58)	(18)	—	(108)
Financial	62,701	3,459	4	—	66,164	(6)	(19)	(1)	—	(26)
At 31 Dec 2020	129,778	14,600	383	1	144,762	(38)	(77)	(19)	—	(134)
By geography										
Europe	129,778	14,600	383	1	144,762	(38)	(77)	(19)	—	(134)
– of which: UK	*34,908*	*6,066*	*109*	—	*41,083*	*(29)*	*(51)*	*(12)*	—	*(92)*
– of which: France	*80,356*	*1,992*	*49*	—	*82,397*	*(3)*	*(9)*	*(3)*	—	*(15)*
– of which: Germany	*11,208*	*5,711*	*193*	—	*17,112*	*(2)*	*(9)*	*(1)*	—	*(12)*

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

Collateral and other credit enhancement

(Audited)

Although collateral can be an important mitigant of credit risk, it is the group's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of 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 our exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low.

Mitigants may include a charge on borrowers' specific assets, such as real estate or financial instruments. Other credit risk mitigants include short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominantly borne by the policyholder. Additionally, risk may be managed by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees. Guarantees are normally taken from corporates and export credit agencies. Corporates would normally provide guarantees as part of a parent/subsidiary relationship and span a number of credit grades. The export credit agencies will normally be investment grade.

Certain credit mitigants are used strategically in portfolio management activities. While single name concentrations arise in portfolios managed by Global Banking and Commercial Banking, it is only in Global Banking that their size requires the use of portfolio level credit mitigants. Across Global Banking, risk limits and utilisations, maturity profiles and risk quality are monitored and managed proactively. This process is key to the setting of risk appetite for these larger, more complex, geographically distributed customer groups. While the principal form of risk management continues to be at the point of exposure origination, through the lending decision-making process, Global Banking also utilises loan sales and credit default swap ('CDS') hedges to manage concentrations and reduce risk. These transactions are the responsibility of a dedicated Global Banking portfolio management team. Hedging activity is carried out within agreed credit parameters, and is subject to market risk limits and a robust governance structure. Where applicable, CDSs are entered into directly with a central clearing house counterparty. Otherwise our exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

CDS mitigants are held at portfolio level and are not included in the expected loss calculations. CDS mitigants are not reported in the following tables.

Collateral on loans and advances

The following tables include off-balance sheet loan commitments, primarily undrawn credit lines.

The collateral measured in the following tables consists of charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 122.

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

Other corporate, commercial and financial (non-bank) loans are analysed separately in the following table, which focuses on the countries containing the majority of our loans and advances balances. For financing activities in other corporate and commercial lending, 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.

Wholesale lending – corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral for key countries by stage (excluding commercial real estate)

(Audited)

	Total		Of which: UK		France		Germany	
	Gross carrying/ nominal amount	ECL coverage	*Gross carrying/ nominal amount*	*ECL coverage*	*Gross carrying/ nominal amount*	*ECL coverage*	*Gross carrying/ nominal amount*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*	*£m*	*%*
Stage 1								
Not collateralised	109,435	0.1	*40,298*	*0.1*	*52,583*	*–*	*11,479*	*–*
Fully collateralised	10,399	0.1	*6,133*	*0.1*	*2,221*	*0.1*	*708*	*–*
LTV ratio:								
– less than 50%	2,450	0.2	*1,649*	*0.1*	*587*	*–*	*–*	*–*
– 51% to 75%	3,543	0.1	*2,124*	*–*	*989*	*0.1*	*–*	*–*
– 76% to 90%	801	0.1	*446*	*–*	*349*	*–*	*–*	*–*
– 91% to 100%	3,605	–	*1,914*	*–*	*296*	*–*	*708*	*–*
Partially collateralised (A):	3,424	0.1	*85*	*–*	*3,248*	*0.1*	*–*	*–*
– *collateral value on A*	*2,661*		*51*		*2,555*		*–*	
Total Stage 1	123,258	0.1	*46,516*	*0.1*	*58,052*	*–*	*12,187*	*–*
Stage 2								
Not collateralised	11,024	0.9	*4,365*	*0.9*	*1,890*	*1.5*	*3,942*	*0.6*
Fully collateralised	1,675	1.1	*608*	*0.8*	*639*	*1.1*	*243*	*0.4*
LTV ratio:								
– less than 50%	689	1.7	*217*	*1.4*	*350*	*1.1*	*–*	*–*
– 51% to 75%	253	0.8	*217*	*0.9*	*34*	*2.9*	*–*	*–*
– 76% to 90%	271	0.4	*165*	*–*	*106*	*0.9*	*–*	*–*
– 91% to 100%	462	0.9	*9*	*–*	*149*	*1.3*	*243*	*0.4*
Partially collateralised (B):	1,573	0.9	*4*	*–*	*1,567*	*0.9*	*–*	*–*
– *collateral value on B*	*1,408*		*3*		*1,404*		*–*	
Total Stage 2	14,272	0.9	*4,977*	*0.9*	*4,096*	*1.2*	*4,185*	*0.5*
Stage 3								
Not collateralised	1,598	37.2	*669*	*25.1*	*378*	*86.0*	*393*	*17.8*
Fully collateralised	148	16.2	*77*	*7.8*	*10*	*50.0*	*24*	*16.7*
LTV ratio:								
– less than 50%	76	18.4	*41*	*7.3*	*6*	*50.0*	*–*	*–*
– 51% to 75%	22	13.6	*19*	*10.5*	*2*	*50.0*	*–*	*–*
– 76% to 90%	18	5.6	*17*	*–*	*1*	*–*	*–*	*–*
– 91% to 100%	32	15.6	*–*	*–*	*1*	*100.0*	*24*	*16.7*
Partially collateralised (C):	216	27.3	*35*	*17.1*	*165*	*27.3*	*–*	*–*
– *collateral value on C*	*152*		*22*		*123*		*–*	
Total Stage 3	1,962	34.6	*781*	*23.0*	*553*	*67.8*	*417*	*17.7*
POCI								
Not collateralised	–	–	*–*	*–*	*–*	*–*	*–*	*–*
Fully collateralised	–	–	*–*	*–*	*–*	*–*	*–*	*–*
LTV ratio:								
– less than 50%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 51% to 75%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 76% to 90%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
– 91% to 100%	–	–	*–*	*–*	*–*	*–*	*–*	*–*
Partially collateralised (D):	2	100.0	*–*	*–*	*2*	*100.0*	*–*	*–*
– *collateral value on D*	*2*		*–*		*2*		*–*	
Total POCI	2	100.0	*–*	*–*	*2*	*100.0*	*–*	*–*
At 31 Dec 2021	139,494	0.6	*52,274*	*0.5*	*62,703*	*0.7*	*16,789*	*0.6*

Wholesale lending – corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral for key countries by stage (excluding commercial real estate) (continued)

(Audited)

	Total		Of which: UK		France		Germany	
	Gross carrying/ nominal	ECL coverage	Gross carrying/ nominal	ECL coverage	Gross carrying/ nominal	ECL coverage	Gross carrying/ nominal	ECL coverage
The group	£m	%	£m	%	£m	%	£m	%
Stage 1								
Not collateralised	117,820	0.1	49,970	0.1	47,647	—	13,685	—
Fully collateralised	12,232	0.1	8,241	0.2	2,163	—	638	—
LTV ratio:								
– less than 50%	1,886	0.3	1,019	0.3	543	—	—	—
– 51% to 75%	4,403	0.2	3,489	0.2	901	—	—	—
– 76% to 90%	751	0.1	267	0.4	360	—	—	—
– 91% to 100%	5,192	—	3,466	—	359	—	638	—
Partially collateralised (A):	3,476	0.1	59	—	3,167	0.1	—	—
– collateral value on A	2,855		32		2,621		—	
Total Stage 1	133,528	0.1	58,270	0.1	52,977	—	14,323	—
Stage 2								
Not collateralised	23,132	1.0	12,398	1.2	2,447	1.1	6,220	0.4
Fully collateralised	1,838	1.2	630	1.0	649	1.1	290	0.3
LTV ratio:								
– less than 50%	824	1.5	326	1.2	348	0.6	—	—
– 51% to 75%	334	1.2	269	0.4	45	2.2	—	—
– 76% to 90%	47	2.1	26	3.8	17	—	—	—
– 91% to 100%	633	0.8	9	—	239	1.3	290	0.3
Partially collateralised (B):	2,629	0.7	87	2.3	2,528	0.6	—	—
– collateral value on B	2,223		14		2,200		—	
Total Stage 2	27,599	1.0	13,115	1.2	5,624	0.9	6,510	0.4
Stage 3								
Not collateralised	1,803	36.3	740	29.7	529	63.9	441	15.2
Fully collateralised	210	9.5	152	1.3	12	66.7	21	14.3
LTV ratio:								
– less than 50%	25	28.0	2	—	7	57.1	—	—
– 51% to 75%	27	29.6	17	5.9	3	66.7	—	—
– 76% to 90%	120	0.8	118	0.8	1	100.0	—	—
– 91% to 100%	38	10.5	15	—	1	100.0	21	14.3
Partially collateralised (C):	275	24.0	71	11.3	191	26.2	—	—
– collateral value on C	182		40		136		—	
Total Stage 3	2,288	32.4	963	23.9	732	54.1	462	15.2
POCI								
Not collateralised	37	27.0	2	100.0	—	—	—	—
Fully collateralised	—	—	—	—	—	—	—	—
LTV ratio:								
– less than 50%	—	—	—	—	—	—	—	—
– 51% to 75%	—	—	—	—	—	—	—	—
– 76% to 90%	—	—	—	—	—	—	—	—
– 91% to 100%	—	—	—	—	—	—	—	—
Partially collateralised (D):	3	100.0	—	—	3	100.0	—	—
– collateral value on D	3		—		3		—	
Total POCI	40	32.5	2	100.0	3	100.0	—	—
At 31 Dec 2020	163,455	0.7	72,350	0.7	59,336	0.8	21,295	0.5

Other credit risk exposures

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 ('ABSs') and similar instruments which are supported by underlying pools of financial assets. Credit risk associated with ABSs is reduced through the purchase of credit default swap ('CDS') protection;
- Trading loan and advances mainly pledged against cash collaterals are posted to satisfy margin requirements. There is limited credit risk on trading loans and advances since in the event of default of the counterparty these would be set off against the related liability. Reverse repos and stock borrowings are by their nature collateralised.

Collateral accepted as security that the group is permitted to sell or repledge under these arrangements is described on page 155 of the financial statements.

- The group's maximum exposure to credit risk includes financial guarantees and similar contracts granted; as well as loan and other credit-related commitments. Depending on the terms of the arrangement, we may use additional credit mitigation if a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

For further information on these arrangements, see Note 30 on the financial statements.

Derivatives

We participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to market factors such as interest rates, exchange rates or asset prices.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit value adjustment ('CVA').

The International Swaps and Derivatives Association ('ISDA') master agreement is our preferred agreement for documenting derivatives activity. It is common, and our preferred practice, for the parties involved in a derivative transaction to execute a credit support annex ('CSA') in conjunction with the ISDA master agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients. We manage the counterparty exposure on our OTC derivative contracts by using collateral agreements with counterparties and netting agreements. Currently, we do not actively manage our general OTC derivative counterparty exposure in the credit markets, although we may manage individual exposures in certain circumstances.

We place strict policy restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly USD, EUR and GBP cash and G7 Government Bonds.

Where a collateral type is required to be approved outside the collateral policy, approval is required from a committee of senior representatives from Markets, Legal and Risk.

See Note 28 on the financial statements for details regarding legally enforceable right of offset in the event of counterparty default and collateral received in respect of derivatives

Personal lending

This section provides further details on the countries and products comprising personal loans and advances to customers.

Further product granularity is also provided by stage, with geographical data presented for loans and advances to customers, loan and other credit-related commitments, and financial guarantees.

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
The group	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	6,723	173	234	7,130	(11)	(5)	(65)	(81)
– of which: interest only (including offset)	*3,134*	*115*	*94*	*3,343*	*(1)*	*(2)*	*(27)*	*(30)*
– affordability including ARMs	*451*	*2*	*6*	*459*	*(3)*	*–*	*(1)*	*(4)*
Other personal lending	17,532	513	219	18,264	(11)	(11)	(60)	(82)
– guaranteed loans in respect of residential property	14,387	332	38	14,757	(5)	(2)	(1)	(8)
– Other personal lending which is secured	2,535	136	100	2,771	(3)	(4)	(24)	(31)
– credit cards	318	22	11	351	(1)	(2)	(1)	(4)
– Other personal lending which is unsecured	292	23	70	385	(2)	(3)	(34)	(39)
At 31 Dec 2021	**24,255**	**686**	**453**	**25,394**	**(22)**	**(16)**	**(125)**	**(163)**
By geography								
UK[1]	3,543	88	49	3,680	(1)	(3)	(3)	(7)
France	18,500	497	239	19,236	(10)	(10)	(75)	(95)
Germany	161	47	–	208	–	–	–	–
Other countries	2,051	54	165	2,270	(11)	(3)	(47)	(61)
At 31 Dec 2021	**24,255**	**686**	**453**	**25,394**	**(22)**	**(16)**	**(125)**	**(163)**

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
UK	586	3	2	591	–	–	–	–
France	1,076	20	2	1,098	–	–	–	–
Germany	136	85	–	221	–	–	–	–
Other countries	377	8	–	385	(1)	–	–	(1)
At 31 Dec 2021	**2,175**	**116**	**4**	**2,295**	**(1)**	**–**	**–**	**(1)**

1 *Includes primarily first lien residential mortgages in Channel Islands and Isle of Man.*
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

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

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	7,087	211	265	7,563	(9)	(10)	(77)	(96)
– of which: interest only (including offset)	*3,454*	*151*	*115*	*3,720*	*(1)*	*(3)*	*(30)*	*(34)*
– affordability including ARMs	*394*	*2*	*4*	*400*	*(2)*	*—*	*(1)*	*(3)*
Other personal lending	17,904	763	269	18,936	(9)	(27)	(76)	(112)
– guaranteed loans in respect of residential property	14,625	434	45	15,104	(2)	(4)	(3)	(9)
– Other personal lending which is secured	2,521	94	141	2,756	(3)	(7)	(27)	(37)
– credit cards	288	37	14	339	(2)	(6)	(1)	(9)
– Other personal lending which is unsecured	470	198	68	736	(2)	(10)	(45)	(57)
At 31 Dec 2020	24,991	974	534	26,499	(18)	(37)	(153)	(208)
By geography								
UK[1]	3,455	70	57	3,582	(2)	(9)	(5)	(16)
France	19,230	689	296	20,215	(7)	(20)	(92)	(119)
Germany	124	145	—	269	—	—	—	—
Other countries	2,182	70	181	2,433	(9)	(8)	(56)	(73)
At 31 Dec 2020	24,991	974	534	26,499	(18)	(37)	(153)	(208)

Total personal lending for loans and other credit-related commitments and financial guarantees[2] by stage distribution (continued)

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
UK	340	15	—	355	—	—	—	—
France	1,170	29	3	1,202	—	—	—	—
Germany	65	170	—	235	—	—	—	—
Other countries	442	8	1	451	—	(1)	—	(1)
At 31 Dec 2020	2,017	222	4	2,243	—	(1)	—	(1)

1 Includes primarily first lien residential mortgages in Channel Islands and Isle of Man.
2 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Collateral on loans and advances

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 adjustment for obtaining and selling the collateral and in particular loans shown as 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 for key countries

(Audited)

	Total		Of which: UK		Of which: France	
	Gross exposure	ECL coverage	*Gross exposure*	*ECL coverage*	*Gross exposure*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*
Stage 1						
Fully collateralised	6,915	0.2	*2,789*	*–*	*2,088*	*–*
LTV ratio:						
– less than 50%	3,400	0.1	*1,308*	*–*	*1,110*	*0.1*
– 51% to 60%	1,274	0.2	*540*	*–*	*431*	*–*
– 61% to 70%	1,074	0.2	*452*	*–*	*296*	*–*
– 71% to 80%	776	0.3	*358*	*–*	*177*	*–*
– 81% to 90%	345	0.3	*113*	*–*	*48*	*–*
– 91% to 100%	46	–	*18*	*–*	*26*	*–*
Partially collateralised (A):	90	–	*11*	*–*	*50*	*–*
LTV ratio:						
– 101% to 110%	18	–	*2*	*–*	*12*	*–*
– 111% to 120%	9	–	*1*	*–*	*5*	*–*
– greater than 120%	63	–	*8*	*–*	*33*	*–*
– *collateral value on A*	*63*		*4*		*50*	
Total	7,005	0.2	*2,800*	*–*	*2,138*	*–*
Stage 2						
Fully collateralised	169	3.0	*46*	*–*	*83*	*1.2*
LTV ratio:						
– less than 50%	91	2.2	*18*	*–*	*48*	*2.1*
– 51% to 60%	25	4.0	*6*	*–*	*13*	*–*
– 61% to 70%	34	2.9	*17*	*–*	*12*	*–*
– 71% to 80%	15	6.7	*5*	*–*	*7*	*–*
– 81% to 90%	3	–	*–*	*–*	*2*	*–*
– 91% to 100%	1	–	*–*	*–*	*1*	*–*
Partially collateralised (B):	5	–	*–*	*–*	*2*	*–*
LTV ratio:						
– 101% to 110%	1	–	*–*	*–*	*–*	*–*
– 111% to 120%	1	–	*–*	*–*	*–*	*–*
– greater than 120%	3	–	*–*	*–*	*2*	*–*
– *collateral value on B*	*4*		*–*		*3*	
Total	174	2.9	*46*	*–*	*85*	*1.2*
Stage 3						
Fully collateralised	204	24.5	*9*	*11.1*	*62*	*21.0*
LTV ratio:						
– less than 50%	94	12.8	*6*	*16.7*	*24*	*20.8*
– 51% to 60%	31	19.4	*3*	*–*	*8*	*25.0*
– 61% to 70%	34	23.5	*–*	*–*	*19*	*10.5*
– 71% to 80%	13	38.5	*–*	*–*	*3*	*33.3*
– 81% to 90%	14	42.9	*–*	*–*	*4*	*25.0*
– 91% to 100%	18	72.2	*–*	*–*	*4*	*50.0*
Partially collateralised (C):	30	53.3	*–*	*–*	*24*	*58.3*
LTV ratio:						
– 101% to 110%	2	50.0	*–*	*–*	*2*	*50.0*
– 111% to 120%	2	50.0	*–*	*–*	*2*	*50.0*
– greater than 120%	26	53.8	*–*	*–*	*20*	*60.0*
– *collateral value on C*	*6*		*–*		*6*	
Total	234	28.2	*9*	*11.1*	*86*	*31.4*
At 31 Dec 2021	7,413	1.1	*2,855*	*–*	*2,309*	*1.3*

Personal lending: residential mortgage loans including loan commitments by level of collateral for key countries (continued)

(Audited)

	Total		Of which: UK		Of which: France	
	Gross exposure	ECL coverage	*Gross exposure*	*ECL coverage*	*Gross exposure*	*ECL coverage*
The group	£m	%	*£m*	*%*	*£m*	*%*
Stage 1						
Fully collateralised	7,308	0.1	*2,751*	—	*2,364*	—
LTV ratio:						
– less than 50%	3,110	0.1	*1,018*	—	*1,147*	—
– 51% to 60%	1,074	0.1	*293*	—	*513*	—
– 61% to 70%	991	0.1	*316*	—	*378*	—
– 71% to 80%	789	0.3	*214*	—	*225*	—
– 81% to 90%	505	0.4	*109*	—	*70*	—
– 91% to 100%	839	0.1	*801*	—	*31*	—
Partially collateralised (A):	90	—	*9*	—	*63*	—
LTV ratio:						
– 101% to 110%	21	—	—	—	*13*	—
– 111% to 120%	14	—	*2*	—	*10*	—
– greater than 120%	55	—	*7*	—	*40*	—
– *collateral value on A*	*81*		*5*		*63*	
Total	7,398	0.1	*2,760*	—	*2,427*	—
Stage 2						
Fully collateralised	202	4.0	*34*	*2.9*	*116*	*0.9*
LTV ratio:						
– less than 50%	114	1.8	*17*	—	*64*	*1.6*
– 51% to 60%	31	3.2	*4*	—	*21*	—
– 61% to 70%	22	4.5	—	—	*17*	—
– 71% to 80%	15	13.3	—	—	*10*	—
– 81% to 90%	6	16.7	—	—	*3*	—
– 91% to 100%	14	7.1	*13*	*7.7*	*1*	—
Partially collateralised (B):	10	20.0	—	—	*5*	—
LTV ratio:						
– 101% to 110%	4	25.0	—	—	*2*	—
– 111% to 120%	2	50.0	—	—	—	—
– greater than 120%	4	—	—	—	*3*	—
– *collateral value on B*	*10*		—		*5*	
Total	212	4.7	*34*	*2.9*	*121*	*0.8*
Stage 3						
Fully collateralised	200	22.0	*12*	*8.3*	*69*	*23.2*
LTV ratio:						
– less than 50%	95	13.7	*8*	*12.5*	*30*	*23.3*
– 51% to 60%	34	23.5	*3*	—	*10*	*30.0*
– 61% to 70%	34	26.5	—	—	*16*	*12.5*
– 71% to 80%	23	34.8	*1*	—	*7*	*28.6*
– 81% to 90%	9	44.4	—	—	*2*	*50.0*
– 91% to 100%	5	40.0	—	—	*4*	*25.0*
Partially collateralised (C):	65	50.8	—	—	*36*	*38.9*
LTV ratio:						
– 101% to 110%	10	60.0	—	—	*3*	*33.3*
– 111% to 120%	8	62.5	—	—	*1*	—
– greater than 120%	47	46.8	—	—	*32*	*40.6*
– *collateral value on C*	*35*		—		*17*	
Total	265	29.1	*12*	*8.3*	*105*	*28.6*
At 31 Dec 2020	7,875	1.2	*2,806*	*0.1*	*2,653*	*1.2*

Treasury risk

Overview

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

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

Approach and policy

(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, non-trading book foreign exchange risk, and interest rate risk in the banking book.

Treasury risk management

Key developments in 2021

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

The group's CET1 ratio was 17.3% at 31 December 2021 and the leverage ratio was 4.1%. The group continues to maintain and plan for the appropriate resources required to manage its risk and deliver its strategic objectives, including the sale of the retail banking business in France.

Governance and structure

The Chief Risk Officer is the accountable risk steward for all treasury risks. The Chief Financial Officer is the risk owner for treasury risks with the exception of pension risk which is co-owned together with the regional heads of Performance & Reward.

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

Pension risk is overseen by the Pension Risk Management Meeting.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is underpinned by a global capital management framework and our ICAAP. The framework incorporates key capital risk appetites for CET1, total capital, minimum requirements for own funds and eligible liabilities ('MREL'), and leverage. The ICAAP is an assessment of the Group's capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange, and interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach. The Group's ICAAP supports the determination of the capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators. Subsidiaries prepare ICAAPs in line with global guidance, while considering their local regulatory regimes to determine their own risk appetites and ratios.

We aim to ensure that management have oversight of our liquidity and funding risks by maintaining comprehensive policies, metrics and controls. We manage liquidity and funding risk at an operating entity level to make sure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively in each major entity. These metrics are set and managed locally but are subject to robust review and challenge by the HSBC Group to ensure consistency of approach and application of the Group's policies and controls.

Planning and performance

Capital and risk-weighted asset ('RWA') plans form part of the annual financial resource plan that is approved by the Board. Capital and RWA forecasts are submitted to the ALCO on a monthly basis, and capital and RWAs are monitored and managed against the plan.

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

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

Risks to capital and liquidity

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

Regulatory developments

The PRA has confirmed that software assets will be deducted in full from CET1 capital starting 1 January 2022. This will reverse the beneficial changes to the treatment of software assets that were implemented as part of the EU's response to the Covid-19 pandemic. This will have an immaterial impact on our CET1 ratio.

Overall we expect RWAs to increase by up to 5% as a result of new regulations during 2022. These include the changes to the UK's version of the Capital Requirements Regulation, as well as other regulatory statements including changes to IRB modelling requirements. Following the implementation of the UK's amendments to the Capital Requirements Regulation ('CRR II'), we have adopted the PRA's new rules on net stable funding ratio ('NSFR'), counterparty risk, equity investment in funds, and leverage ratio, which will be reflected in disclosures starting in the first quarter of 2022.

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

Regulatory reporting processes and controls

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

Stress testing and recovery planning

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

In addition to a range of internal stress tests, we are subject to supervisory stress testing in many jurisdictions. These include the programmes of the Bank of England, the European Banking Authority, the European Central Bank, as well as stress tests undertaken in other jurisdictions. The results of regulatory stress testing and our internal stress tests are used when assessing our internal capital requirements through the ICAAP. The outcomes of stress testing exercises carried out by the PRA and other regulators feed into the setting of regulatory minimum ratios and buffers.

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

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

Structural foreign exchange exposures

Structural foreign exchange exposures represent net assets or capital investments in subsidiaries, branches, joint arrangement or associates, together with any associated hedges, the functional currencies of which are currencies other than pound sterling. An entity's functional currency is that of the primary economic environment in which the entity operates. We use the pound sterling as our presentation currency in our consolidated financial statements because sterling forms the major currency in which we transact and fund our business. Exchange rate differences on structural exposures are recognised in other comprehensive income ('OCI').

The structural foreign exchange exposures are managed within limits such that the capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. We may hedge certain structural foreign exchange positions, either at entity level, or by relying on hedges held in other group entities, subject to approved limits.

Measurement of interest rate risk in the banking book

The following measures are used by Treasury to monitor and control interest rate risk in the banking book including:

- Net Interest Income ('NII') sensitivity; and
- Economic Value of Equity ('EVE').

Net interest income sensitivity

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant. This monitoring is undertaken by ALCO.

The group applies a combination of scenarios and assumptions relevant to the businesses as well as applying standard scenarios that are required throughout HSBC Group.

NII sensitivity reflects the group's sensitivity of earnings to changes in market interest rates. We forecast both one year and five year NII sensitivities across a range of interest rate scenarios based on a static balance sheet assumption. Forecasts include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario and prepayment risk. NII is modelled based on no management actions i.e. the risk profile at the month end is assumed to remain constant throughout the forecast horizon.

Economic value of equity

EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario, i.e. the current book value of equity plus the present value of future net interest income in this scenario. EVE sensitivity is the extent to which the EVE value will change due to a pre-specified movement in interest rates, where all other economic variables are held constant.

Pension risk management processes

HSBC provides future pension benefits on a defined contribution basis from many of its European operations. However, there remain future defined benefit pensions provided in the region.

Pension plans are run by local fiduciaries in line with local legislative requirements. The largest pension plan is the HSBC Trinkaus & Burkhardt Pension Scheme which is regulated by the German Company Benefits Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung – Betriebsrentengesetz –BetrAVG).

In defined contribution pension plans, the contributions that HSBC 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 of defined contribution plans is low, it is still exposed to operational and reputational risk.

In defined benefit pension plans, the level of pension benefit is known. Therefore, the level of contributions required by HSBC 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 defined benefit plans, sponsoring group companies, and in some instances employees, make regular contributions in accordance with advice from actuaries and in consultation with the plan's fiduciaries where relevant. These contributions are normally set to ensure that there are sufficient funds to meet the cost of the accruing benefits for the future service of active members. However, higher contributions are required when plan assets are considered insufficient to cover the existing pension liabilities. Contribution rates are typically revised annually or once every three years, depending on the plan.

The defined benefit plans invest contributions in a range of investments designed to limit the risk of assets failing to meet a plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation of the defined benefit plan assets between asset classes is established. In addition, each permitted asset class has its own benchmarks, such as stock market or property valuation indices or liability characteristics. The benchmarks are reviewed at least once every three to five years and more frequently if required by local legislation or circumstances. The process generally involves an extensive asset and liability review.

Capital risk in 2021

Capital overview

Capital adequacy metrics

	At	
	31 Dec 2021	31 Dec 2020
Risk-weighted assets ('RWAs') (£m)		
Credit risk	**67,540**	77,214
Counterparty credit risk	**16,434**	19,344
Market risk	**9,828**	14,589
Operational risk	**10,512**	11,245
Total RWAs	**104,314**	122,392
Capital on a transitional basis (£m)		
Common equity tier 1 ('CET1') capital	**18,007**	18,042
Tier 1 capital	**21,869**	22,165
Total capital	**33,036**	33,438
Capital ratios on a transitional basis (%)		
Common equity tier 1	**17.3**	14.7
Total tier 1	**21.0**	18.1
Total capital ratio	**31.7**	27.3
Leverage ratio (transitional)		
Tier 1 capital (£m)	**21,869**	22,165
Total leverage ratio exposure measure (£m)	**535,562**	565,049
Leverage ratio (%)	**4.1**	3.9
Leverage ratio (fully phased-in)		
Tier 1 capital (£m)	**21,696**	21,732
Total leverage ratio exposure measure (£m)	**535,562**	565,049
Leverage ratio (%)	**4.1**	3.8

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

Capital figures and ratios in the table above are calculated in accordance with the revised Capital Requirements Regulation and Directive, as implemented ('CRR II'). Leverage ratios are calculated using the end point definition of capital and the IFRS 9 regulatory transitional arrangements.

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. Our capital and ratios are presented under these arrangements throughout the table above. Without their application, our CET1 ratio would be 17.2%.

The IFRS 9 regulatory transitional arrangements allow banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The impact is defined as:

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

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

In the current period, the add-back to the capital base amounted to £48m under the STD approach with a tax impact of £12m which resulted in a net add-back of £36m.

Own funds

Own funds disclosure

(Audited)

Ref*		At 31 Dec 2021 £m	At 31 Dec 2020 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**797**	797
	– ordinary shares	**797**	797
2	Retained earnings[1]	**15,511**	17,229
3	Accumulated other comprehensive income (and other reserves)	**1,975**	2,888
5	Minority interests (amount allowed in consolidated CET1)	**57**	66
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[2]	**625**	(1,755)
6	**Common equity tier 1 capital before regulatory adjustments**	**18,965**	19,225
28	Total regulatory adjustments to common equity tier 1[1]	**(958)**	(1,183)
29	**Common equity tier 1 capital**	**18,007**	18,042
36	Additional tier 1 capital before regulatory adjustments	**3,906**	4,167
43	Total regulatory adjustments to additional tier 1 capital	**(44)**	(44)
44	**Additional tier 1 capital**	**3,862**	4,123
45	**Tier 1 capital**	**21,869**	22,165
51	Tier 2 capital before regulatory adjustments	**11,591**	11,724
57	Total regulatory adjustments to tier 2 capital	**(424)**	(451)
58	**Tier 2 capital**	**11,167**	11,273
59	**Total capital**	**33,036**	33,438

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

1 *From 1H21, the new deduction for insufficient coverage for non-performing exposures has been combined with IFRS 9 transitional adjustments. Comparatives have been restated.*

2 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*

At 31 December 2021, our CET1 capital ratio increased to 17.3% from 14.7% at 31 December 2020. This was mainly due to a fall in RWAs.

Throughout 2021, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

Risk-weighted assets

RWA movement by key driver

	Total RWAs £m
RWAs at 1 Jan 2021	**122,392**
Asset size	**(13,682)**
Asset quality	**2,612**
Model updates	**(694)**
Methodology and policy	**(4,071)**
Foreign exchange movement	**(2,243)**
Total RWA movement	**(18,078)**
RWAs at 31 Dec 2021	**104,314**

Risk-weighted assets ('RWAs') decreased by £18.1bn during the year, including a decrease of £2.2bn due to foreign currency translation differences. The £15.9bn decrease (excluding foreign currency translation differences) comprised the movements described by the following comments.

Asset size

Credit risk RWAs fell by £9.1bn due to management actions, lower lending and a fall in securitisation related RWAs, and a reduction in counterparty credit risk RWAs due to management actions and mark-to-market movements.

Market risk RWAs decreased by £4.1bn largely due to the effects of risk mitigation actions, a reduction in the equity and emerging markets bond portfolios and a decrease in stressed value at risk.

The annual calculation of operational risk RWAs led to a £0.5bn fall in RWAs due to lower average revenue and expenses.

Asset quality

The £2.6bn increase in RWAs was mainly due to portfolio changes and credit migration.

Model updates

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

Methodology and policy

The £4.1bn decrease in RWAs was primarily due to risk parameter refinements. This included a £0.2bn increase arising from the adoption of a Pillar 1 approach to the capitalisation of structural foreign exchange risk.

Leverage ratio

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 4.1% at 31 December 2021, up from 3.8% at 31 December 2020. This was mainly due to a decrease in the leverage exposure measure, primarily driven by a reduction in security finance transactions and on balance sheet exposures.

Pillar 3 disclosure requirements

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

Structural foreign exchange exposures

The group's structural foreign currency exposure is represented by the net assets or capital investments in subsidiaries, branches, joint arrangements or associates, the functional currencies of which are currencies other than the sterling.

For our policies and procedures for managing structural foreign exchange exposures, see page 72 of the 'Risk management' section.

Net structural foreign exchange exposures

	2021 £m	2020 £m
Currency of structural exposure		
Euro	**8,068**	8,511
US Dollars	**1,470**	1,081
South African rand	**285**	277
Israeli new shekel	**169**	159
Others, each less than £150m	**319**	446
At 31 Dec	**10,311**	10,474

Liquidity and funding risk in 2021

Liquidity coverage ratio

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

At 31 December 2021, all the group's principal operating entities were within the LCR risk tolerance level established by the Board and applicable under the LFRF.

The following table displays the individual LCR levels for HSBC Bank plc's principal operating entities on the European Commission Delegated Regulation basis.

Operating entities' LCRs

	At	
	31 Dec 2021 %	31 Dec 2020 %
HSBC Bank plc	**150**	136
HSBC Continental Europe	**145**	143
HSBC Germany	**170**	144

HSBC Bank plc LCR increased mainly due to loan book optimisation resulting in lower loan and committed facilities positions.

The LCR increase for HSBC Germany is mainly driven by increased customer deposits and additional TLTRO III funding being raised in June 2021.

In addition to the regulatory metric, the group enhanced its liquidity framework in 2021 to include as 'internal liquidity metric', which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Net stable funding ratio

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

At 31 December 2021, all the group's principal operating entities were within the NSFR risk tolerance level established by the Board and applicable under the LFRF.

Operating entities' NSFRs

	At	
	31 Dec 2021 %	31 Dec 2020 %
HSBC Bank plc[1]	**124**	133
HSBC Continental Europe[2]	**130**	130
HSBC Germany	**163**	138

1 *HSBC Bank plc uses an adjusted NSFR as a basis for establishing stable funding. The adjusted NSFR requires HSBC Bank plc to maintain sufficient stable funding and reflects its long term funding profile commensurate with the risk profile of the balance sheet.*
2 *HBCE abide by the CRR II NSFR definition since JUN21.*

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each depositor segment. To ensure the validity of these assumptions in the sense that the deposit base is sufficient diversified, the depositor concentration is monitored on an ongoing basis.

In addition to this, operating entities monitor the term funding maturity concentration metric to ensure they are not overly exposed to term funding concentration of wholesale market counterparts by the current maturity profile in any defined period.

Liquid assets of the group's principal operating entities

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

Operating entities' liquid assets

	At Estimated liquidity value 31 Dec 2021 £m	At Estimated liquidity value 31 Dec 2020 £m
HSBC Bank plc		
Level 1	**89,805**	88,942
Level 2a	**6,320**	8,260
Level 2b	**3,550**	3,888
HSBC Continental Europe		
Level 1	**39,159**	34,981
Level 2a	**450**	267
Level 2b	**142**	—
HSBC Germany		
Level 1	**13,072**	11,044
Level 2a	**33**	8
Level 2b	**327**	315

Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale securities.

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 operating entities to manage liquidity and funding risk on a stand-alone basis.

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented at other balance sheet lines. In 2021, the level of customer accounts continued to exceed 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 and uses for the group

	2021 £m	2020 £m
Sources		
Customer accounts	**205,241**	195,184
Deposits by banks	**32,188**	34,305
Repurchase agreements – non-trading	**27,259**	34,903
Debt securities in issue	**9,428**	17,371
Cash collateral, margin and settlement accounts	**37,076**	47,173
Subordinated liabilities	**12,488**	13,764
Financial liabilities designated at fair value	**33,608**	40,792
Liabilities under insurance contracts	**22,264**	22,816
Trading liabilities	**46,433**	44,229
– repos	**7,663**	8,441
– stock lending	**1,637**	3,356
– other trading liabilities	**37,133**	32,432
Total equity	**23,715**	23,849
Other balance sheet liabilities	**146,911**	206,764
At 31 Dec	**596,611**	681,150

	2021 £m	2020 £m
Uses		
Loans and advances to customers	**91,177**	101,491
Loans and advances to banks	**10,784**	12,646
Reverse repurchase agreements – non-trading	**54,448**	67,577
Cash collateral, margin and settlement accounts	**34,907**	46,840
Assets held for sale	**9**	90
Trading assets	**83,706**	86,976
– reverse repos	**8,626**	8,182
– stock borrowing	**3,218**	4,137
– other trading assets	**71,862**	74,657
Financial investments	**41,300**	51,826
Cash and balances with central banks	**108,482**	85,092
Other balance sheet assets	**171,798**	228,612
At 31 Dec	**596,611**	681,150

Contingent liquidity risk arising from committed lending facilities

The group provides customers with committed facilities such as standby facilities to corporate customers and committed backstop lines to conduits sponsored by the group. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations. This ensures that under a stress scenario any additional outflow generated by increased utilisation of these committed facilities by either customers or the group's sponsored conduits is appropriately reflected in our liquidity and funding position.

In relation to commitments to customers, the table below shows the level of undrawn commitments outstanding in terms of the five largest single facilities and the largest market sector.

The group's contractual exposures at 31 December monitored under the contingent liquidity risk limit structure

	2021 £bn	2020 £bn
Commitments to conduits		
Multi-seller conduits[1]		
– total lines	**4.2**	5.8
– largest individual lines	**0.2**	0.4
Securities investment conduits – total lines	**1.3**	1.6
Commitments to customers		
– five largest[2]	**10.4**	6.6
– largest market sector[3]	**7.7**	8.0

1 *Exposures relate to the Regency multi-seller conduit. This vehicle provides funding to group customers by issuing debt secured by a diversified pool of customer-originated assets.*
2 *Represents the undrawn balance for the five largest committed liquidity facilities provided to customers, other than those facilities to conduits.*
3 *Represents the undrawn balance for the total of all committed liquidity facilities provided to the largest market sector, other than those facilities to conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an operating entity basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which each operating entity will seek to optimise the use of the available collateral. The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2021 £m	2020 £m
Total on-balance sheet assets at 31 Dec	**596,611**	681,150
Less:		
– reverse repo/stock borrowing receivables and derivative assets	**(207,513)**	(281,125)
– other assets that cannot be pledged as collateral	**(48,350)**	(51,068)
Total on-balance sheet assets that can support funding and collateral needs at 31 Dec	**340,748**	348,957
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**202,794**	213,690
Total assets that can support future funding and collateral needs	**543,542**	562,647
Less:		
– on-balance sheet assets pledged	**(93,513)**	(107,671)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(151,378)**	(154,486)
Assets available to support funding and collateral needs at 31 Dec	**298,651**	300,490

Market risk

Overview

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios.

Exposure to market risk is separated into two portfolios.

Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.

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, financial investments designated as held-to-collect-and-sale ('HTCS'), and exposures arising from the group's insurance operations.

Key developments in 2021

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

Market risk governance

(Audited)

The following 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 and commodities • Interest rates • Credit spreads • Equities	• Interest rates • Credit spreads • Foreign exchange
Risk measure	Value at risk | Sensitivity | Stress testing	Value at risk | Sensitivity | Stress testing

Where appropriate, we apply similar risk management policies and measurement techniques to both trading and non-trading portfolios. Our objective is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our established risk appetite.

Market risk is managed and controlled through limits approved by the group Chief Risk Officer. These limits are allocated across business lines and to the group and its subsidiaries. The majority of HSBC's total VaR and almost all trading VaR reside in GBM. Each major operating entity 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. Each operating entity is required to assess the market risks arising in its business and to transfer them either to its local Markets & Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the local ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as following completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems.

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 the group's risk appetite.

We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR, and stress testing

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates, credit spreads and equity prices, 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 principal factors in determining the level of limits set.

Value at risk

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 regardless of how the group capitalises those exposures. Where there is not an approved internal model, the group uses the appropriate local rules to capitalise exposures.

In addition, the group calculates VaR for non-trading portfolios in order to have a complete picture of risk. The models are predominantly based on historical simulation. VaR is calculated at a 99% confidence level for a one-day holding period. Where we do not calculate VaR explicitly, we use alternative tools like Stress Testing.

The VaR models used by us are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporates the following features:

- historical market rates and prices are calculated with reference to foreign exchange rates and commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99% confidence level and use a one-day holding period.

The nature of the VaR models means that an increase in observed market volatility will most likely lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Risk not in VaR framework

Other basis risks which are not completely covered in VaR are complemented by our risk not in VaR ('RNIV') calculations, and are integrated into our capital framework.

Risk factors are reviewed on a regular basis and either incorporated directly in the VaR models, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. The outcome of the VaR-based RNIV is included in the VaR calculation; a stressed VaR RNIV is also computed for the risk factors considered in the VaR-based RNIV approach.

Stress-type RNIVs include a deal contingent derivatives capital charge to capture risk for these transactions and a de-peg risk measure to capture risk to pegged and heavily managed currencies

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. A standard set of scenarios is utilised consistently across all regions within the HSBC Group. Scenarios are tailored to capture the relevant events or market movements at each level. The risk appetite around potential stress losses for the group 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 and the management of gap risk, provide management with insights regarding the 'tail risk' beyond VaR for which the group's appetite is limited.

Trading portfolios

Back-testing

We routinely validate the accuracy of our VaR models by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business.

The number of back-testing exceptions is used to gauge how well the models are performing. We consider enhanced internal monitoring of a VaR model if more than five profit exceptions or more than five loss exceptions occur in a 250-day period.

We back-test our VaR at set levels of our group entity hierarchy.

Non-trading portfolios

Non-trading VaR of HSBC Bank plc 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 'Non-trading interest rate risk' below, including the role of Markets Treasury. The Group's and HSBC Bank plc's control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading 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 (liquid asset held in held-to-collect-and-sale ('HTCS' books)) and interest rate swaps. The interest rate risk arising from fixed rate government bonds held within HTCS portfolios is reflected within the group's non-trading VaR. Interest rate swaps used by Markets Treasury are typically classified as either a fair value hedge or a cash flow hedge and included within the group's non-trading VaR. Any market risk that cannot be neutralised in the market is managed by HSBC Bank plc ALCM in segregated ALCO books.

Defined benefit pension plans

Market risk also arises within the Bank's defined benefit pension plans to the extent that the obligations of the plans are not fully matched by assets with determinable cash flows. Refer to the Pension risk management processes section on page 73 for additional information.

Market risk in 2021

Financial markets performed well in 2021. During the first half of the year, the rollout of COVID vaccination programmes, loose financial conditions and continued fiscal support contributed to a gradual reopening of major economies. Concerns of rising inflationary pressures were mainly interpreted as transitory. Whilst the path of monetary policies remained uncertain, central banks continued to provide liquidity. This supported risk assets valuations, while volatility in most asset classes was subdued. In the second half of 2021, amid the emergence of new COVID variants, global equities reached further record highs, as investors focused on global economic resilience and corporate earnings. Yields followed a downward trend for most of 3Q-21, before reversing in the final weeks of the year, when markets began pricing a faster pace of interest rate rises in some of the major economies, due to persistently elevated inflation and the expectation of tighter monetary policies. Credit markets remained strong, with credit benchmark indices for investment-grade and high-yield debt close to pre-pandemic levels.

We continued to manage market risk prudently during 2021. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress and scenario analysis.

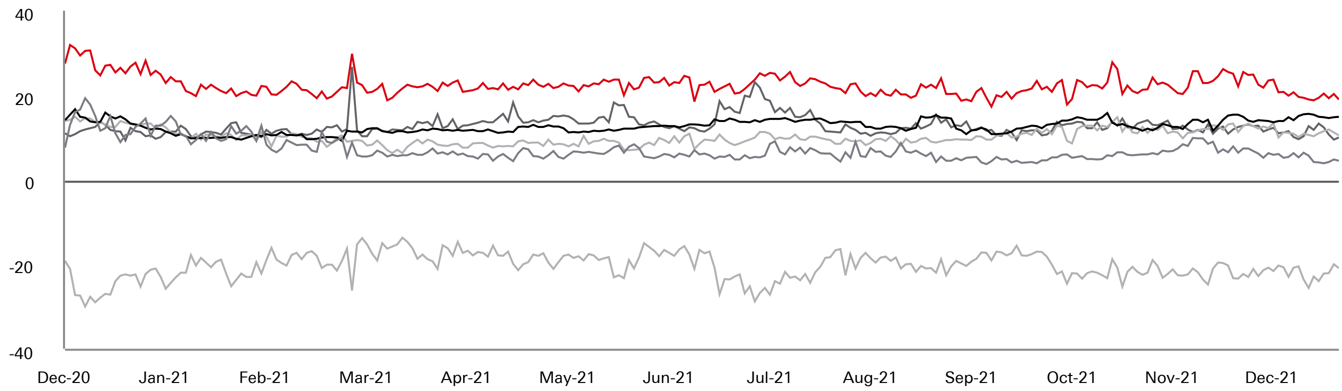
Trading portfolios

Value at risk of the trading portfolios

(Audited)

Trading VaR predominantly resides within Market Securities Services where it was £19m at 31 December 2021 compared with £27.5m at 31 December 2020. The Total Trading VaR peaked at £31.9m early January owing to some negative convexity positions in the FX options portfolio and then rapidly decreased and remained fairly stable during the year, ranging between £15m and £25m. We saw it spike to £29.8m end of March, owing to an unusually large increase of the TRY Rates and the sensitivity of the FX cash desk to that risk factor.

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



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

Trading VaR, 99% 1 day

(Audited)

	Foreign exchange ('FX') and commodity	Interest rate ('IR')	Equity ('EQ')	Credit Spread ('CS')	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m	£m	£m
Balance at 31 Dec 2021	**4.5**	**10.0**	**10.5**	**14.9**	**(20.9)**	**19.0**
Average	**7.1**	**12.8**	**10.2**	**12.6**	**(20.4)**	**22.3**
Maximum	**19.3**	**26.7**	**14.9**	**16.7**	**—**	**31.9**
Minimum	**3.7**	**9.3**	**6.3**	**9.2**	**—**	**17.3**
Balance at 31 Dec 2020	7.6	11.0	13.9	14.1	(19.2)	27.5
Average	6.5	13.5	18.7	14.1	(20.8)	32.1
Maximum	14.2	21.2	33.2	29.2	—	47.7
Minimum	2.0	9.2	8.1	9.6	—	20.9

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

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

Back-testing

In 2021, HSBC Bank plc experienced 5 back testing exceptions in total, 2 of which against the Hypothetical P&L and 3 of which against the Actual P&L.

The first exception against hypothetical P&L occurred in March and was mostly due to a rates sell-off and a decrease of the Equity volatilities.

The second exception against hypothetical P&L occurred at the end of December and was mostly due to a decrease of the Equity volatilities, which had a negative impact on the Equity Derivative desk.

Two of the three exceptions against the Actual P&L were due to the novation of trades from the RWA optimization unit in HBCE. The last exception against the Actual P&L was mostly due to the February month end Independent Price verification and Bid-Offer reserve across HSBC Bank plc and HSBC France.

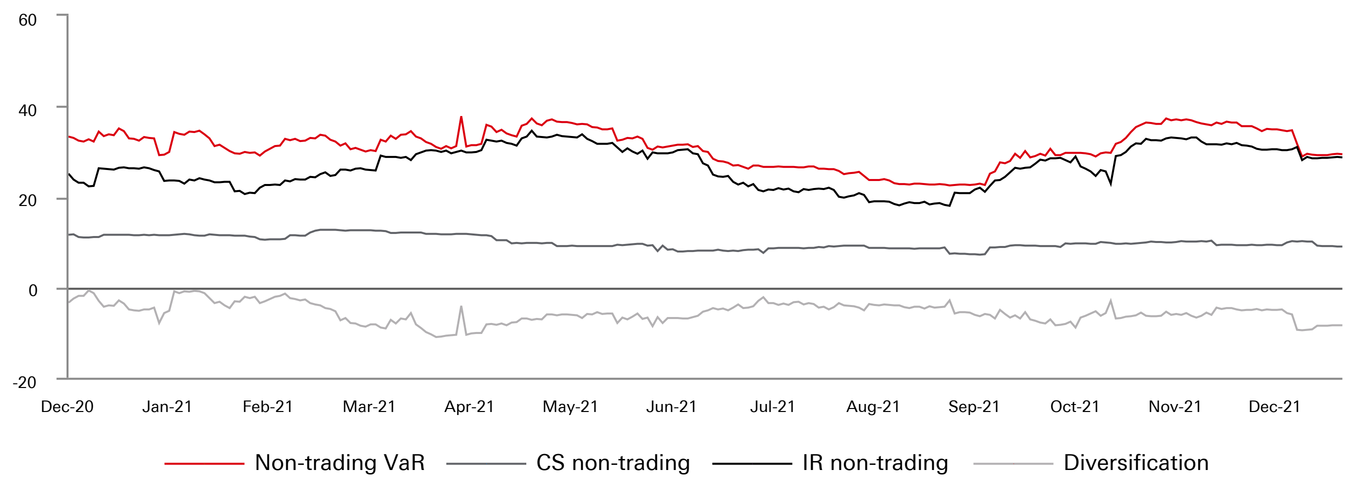
Non-trading portfolios

Value at risk of the non-trading portfolios

(Audited)

The non-trading VaR in 2021 was driven by interest rate risk in the banking book. During the first half of the year, the non-trading VaR trended upwards into the month of May as the Markets Treasury business took advantage of higher yield environment and increased USD and GBP sovereign bond holdings in their book, with non-trading VaR reaching a high of £37.8m. Bond positions receded during Q2 before increasing again at the tail end of Q3 as rates sold off and inflation pressures grew. Markets Treasury business re-deployed cash within the Liquid Asset Buffer (LAB) into local government securities as opportunities arose. The positions and non-trading VaR then declined in December to end the year at £29.4m. 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)

	Interest rate ('IR')	Credit spread ('CS')	Portfolio diversification[1]	Total[2]
	£m	£m	£m	£m
Balance at Balance at 31 Dec 2021	**28.7**	**9.0**	**(8.4)**	**29.4**
Average	**26.6**	**10.0**	**(5.6)**	**31.0**
Maximum	**34.6**	**12.7**	**—**	**37.8**
Minimum	**18.0**	**7.2**	**—**	**22.5**
Balance at 31 Dec 2020	25.1	11.6	(3.4)	33.3
Average	21.9	12.3	(6.3)	27.9
Maximum	28.8	16.6	—	35.0
Minimum	14.3	5.5	—	15.0

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

Resilience Risk

Overview

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

Resilience Risk management

Key developments in 2021

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

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

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

Governance and structure

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

Operational and Resilience Risk is governed in the group 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 and Compliance 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 economic stability. Resilience is determined by assessing whether we are able to continue to provide our most important services, within an agreed level. We accept we will not be able to prevent all disruption, we prioritise investment to continually improve the response and recovery strategies for our most important business services.

Business operations continuity

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

Regulatory compliance risk

Overview

Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, which 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 and inappropriate market conduct, as well as breaching regulatory licensing, permissions and rules.

Key developments in 2021

In 2021, we continued to embed the structural changes made in the prior year to our wider approach to Compliance Risk Management. Further, the integration of the Risk and Compliance Functions in May 2021 has brought together two complimentary functions which will strengthen the Regulatory Conduct mandate and our capability to drive ever greater standards in regard to conduct of our business.

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

Governance and structure

We have evolved our structure in response to ever-changing business and industry needs. We reviewed the effectiveness of our governance framework to manage regulatory compliance risk, such as to enable compliance with the letter and the spirit of all applicable laws and regulations, as well as our own standards, values and policies.

In 2021, the key governance meeting was the HBEU Risk Management Meeting ('RMM'). The RMM acts as the sole governance for risk management across all risk types. The Chief Risk Officer ('CRO'), currently chairs the RMM, attended by the CEO, Business Heads and Risk Stewards. To attend to all compliance related discussions and matters in the RMM, the Chief Compliance Officer is a key member of the RMM.

The Europe Regulatory Conduct capability continues to work closely with the Country Chief Compliance Officers and their respective teams to help them identify and manage regulatory compliance risks across the region. They also work together to ensure good conduct outcomes and provide enterprise-wide support on the regulatory agenda.

Key risk management processes

The Europe Regulatory Conduct function is responsible for setting policies, standards and risk appetite to guide the management of regulatory compliance. It also devises clear frameworks and support processes to mitigate regulatory compliance risks. The capability provides oversight, review and challenge to the Country Chief Compliance Officers and their teams to help them identify, assess and mitigate regulatory compliance risks, where required. The regulatory compliance risk policies are regularly reviewed. Policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach. Relevant reportable events are escalated to the HBEU RMM and to the Group Risk Committee, as appropriate.

Conduct of business

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

a. We understood and serviced our customer's ongoing needs and continued to champion a strong conduct and customer-focused culture.

b. We demonstrated this through providing support to our customers facing financial difficulties as a result of the prolonged impacts of the pandemic and the resulting uncertainty in trading conditions.

c. We acted with integrity through areas such as commencing the integration of Climate Risk into the Risk Management approach to recognise the importance of strengthened controls and oversight for our related activities.

d. We operated resiliently and securely to avoid harm to our customers and markets by continuing to embed conduct within our business line processes and through our Non- Financial and Financial Risk Steward activities.

e. We continued our focus on culture and behaviours as a driver of good conduct outcomes.

f. We placed a particular focus on the importance of well-being and collaborative working as we continued to adapt to changing working practices as the pace of change resulting from the pandemic varied across our markets.

g. We continued to emphasise – and worked to create – an environment in which employees are encouraged and feel safe to speak up.

h. We delivered our annual global mandatory training course on conduct to reinforce the important role we all play in adhering to good conduct and values.

Regulators and governments

We seek strong, open and transparent engagement with all our regulators and have extensive interaction with them as they pursue their regulatory objectives. We engage with governments and policymakers at a regional and national level to make a positive contribution to the evolving regulatory landscape. We also actively monitor changes in the laws and regulations that apply to our activities, and respond to various formal consultations published by governments, regulatory agencies and standard setting bodies, either directly or through input to trade body responses.

Financial crime risk

Overview

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further illegal activity through HSBC, including money laundering, terrorist and proliferation financing, tax evasion, bribery and corruption, sanctions, fraud and market abuse. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Key developments in 2021

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

We also continued to progress several key financial crime risk management initiatives based on an increased use of technology to enhance our processes, while minimising the impact to the customer, including:

- Deployment of a key component of our intelligence-led, dynamic risk assessment capabilities for customer account monitoring in one of our home markets, as well as undertaking key enhancements to our traditional transaction monitoring systems
- Strengthening our anti-fraud capabilities, notably with respect to the early identification of first party lending fraud and the identification of new strategic detection tools
- Ongoing developments in leading-edge surveillance technology and capabilities to identify potential market abuse, including testing Machine Learning within Unauthorised Trading
- Investing in the use of artificial intelligence ('AI') and advanced analytics techniques to manage financial crime risk, notably new automated capabilities in name and transaction screening
- Implementing a market leading gifts and entertainment ('G&E') recording and approval system, which, in combination with an expenses reconciliation tool, allows HSBC to manage its G&E risk consistently and effectively.

Governance and Structure

Since establishing a global framework of financial crime risk management committees, we have continued to review the effectiveness of our governance framework to manage financial crime risk, such as 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.

In 2021, the key financial crime governance meeting, HBEU Financial Crime Risk Management Committee ('FCRMC'), established in June 2017, merged into the HBEU Risk Management Meeting ('RMM'), to support the strategic objectives of reducing bureaucracy and increasing efficiency in decision making. This ensures a more efficient approach to the management of financial crime risk, by streamlining the body for executive governance. This is also due to the success of the FCRMC framework, which helped successfully embed the management of financial crime risk under the three lines of defence model. The RMM now acts as the sole governance for risk management across all risk types. This does not reduce the importance which HSBC places on the management of financial crime risk, nor does it reduce any of the underlying activities or commitments. The Chief Risk Officer ('CRO'), currently chairs the RMM, attended by the CEO and Business Heads. To attend to all financial crime risk related discussions and matters in the RMM, the Chief Compliance Officer and Money Laundering Reporting Officer are key members of the RMM.

Key risk management processes

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

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system and the communities we serve. We participate in numerous public-private partnerships and information-sharing initiatives, also supporting national governments and international standard setters' reform activity. In 2021, there was a particular focus on reform activity in the EU and the UK, where we were front and centre of industry responses to a number of consultation papers focused on the overall effectiveness of the anti-money laundering framework. We also took part in a number of round-tables organised by the Financial Action Task Force, supporting their strategic review, as well as their work on digitisation and beneficial ownership registers. These align with our objectives of promoting a public policy and regulatory environment that embraces the use of technology in building the future financial crime framework to ensure our bank is more resilient and secure, while enabling benefits for customers.

ESG disclosures

We have continued our efforts to combat financial crime risks and reduce their impact on our organisation, our customers and the communities that we serve. These financial crime risks include money laundering, terrorist and proliferation financing, tax evasion, bribery and corruption, sanctions, fraud and market abuse. As part of this work, we have made progress on several key initiatives, enabling us to manage and mitigate these risks more effectively, and further our pioneering work in financial crime risk management across the financial services industry.

HSBC operates a zero tolerance approach to bribery and corruption, and considers such activity to be unethical and contrary to good environmental, social and corporate governance. HSBC, its staff and third parties are prohibited from engaging in or facilitating bribery or corruption. HSBC has a global anti-bribery and corruption policy ('AB&C Policy'), which sets out the key principles and minimum control requirements that enable HSBC to mitigate bribery and corruption risk and comply with all laws and regulations in the countries where we operate, including the UK Bribery Act and France's Loi Sapin II. In order to prevent bribery and corruption, the AB&C Policy requires that all activity:

- must be conducted without intent to bribe or corrupt;
- must be reasonable and transparent;
- must not be considered lavish or disproportionate to the professional relationship;
- must be appropriately documented with business rationale; and
- must be authorised at an appropriate level of seniority.

HSBC requires all staff, board of directors and associated persons comply with the principles in the AB&C Policy. Annual mandatory AB&C training is provided to all staff (including temporary workers and contractors), with additional targeted training tailored to the roles and risk rating of individuals. HSBC carries out regular risk assessments, monitoring and testing of its AB&C programme, with any applicable findings included within the annual AB&C Policy refresh. HSBC also maintains clear whistleblowing policies and processes, to ensure that individuals can confidentially report concerns.

There are currently no concluded legal cases regarding bribery or corruption brought against the issuer or its employees during the reporting period.

We continue to invest in new technology to enable us to make an impact in the fight against financial crime, including the use of contextual monitoring in our trade finance business, the enhancement of our fraud monitoring and market surveillance capabilities and the application of machine learning techniques to improve the accuracy and timeliness of our financial crime detection capabilities, with due care and attention paid to the ethical questions arising with the use of AI in particular.

We are confident our adoption of these new technologies will continue to enhance our ability to respond quickly to suspicious activity and be more granular in our risk assessments, helping to protect our customers and the integrity of the financial system.

Skilled Person & Independent Consultant

In December 2012, HSBC Holdings entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013 and again in 2020), as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act and, for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the Group's AML and sanctions compliance programme.

In 2020, HSBC's engagement with the independent compliance monitor, acting in his roles as both Skilled Person and Independent Consultant, concluded. The role of FCA Skilled Person was assigned to a new individual in the second quarter of 2020. Separately, a new FRB Independent Consultant was appointed in the second quarter of 2021 pursuant to the cease-and-desist order.

The new Skilled Person issued a final report in June 2021, concluding its review. The 2021 FCA Firm Evaluation Letter confirmed that there is no requirement for a further Skilled Person review, finding that "HSBC had delivered its plans and developed an automated transaction monitoring capability that is effective overall". The new Independent Consultant carried out the eighth annual review for the FRB and issued its report in November 2021. Overall, the Independent Consultant assessed that HSBC's OFAC compliance programme is substantially compliant with regulatory expectations and is "well-performing, relative to its purpose and design". For the second year running the Independent Consultant also found HSBC in compliance with each sub-paragraph of the December 2012 FRB Cease and Desist Consent Order (the 'Consent Order').

Model risk

Overview

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

Key developments in 2021

In 2021, we continued to make improvements in our model risk management processes, amid regulatory changes in model requirements.

Initiatives during the year included:

- We redeveloped, validated and submitted critical Internal Ratings Based ('IRB') Approach models for credit risk, Internal Model Method ('IMM') for counterparty credit risk and Internal Model Approach ('IMA') models for market risk to the PRA in response to regulatory capital changes. These new models have been built to enhanced standards using improved data as a result of investment in processes and systems.
- We redeveloped and validated models impacted by changes to alternative rate setting mechanisms due to the IBOR transition.
- We made further enhancements to our control framework for models used in financial reporting processes to address the control weaknesses that emerged as a result of significant increases in model adjustments and overlays that were applied to compensate for the impact of Covid-19 on models and to introduce a requirement for second line of defence to approve material models prior to use.
- Our businesses and functions were more involved in the development and management of models, hiring colleagues who had strong model risk skills. They also put an enhanced focus on key model risk drivers such as data quality and model methodology.
- Our model owners in businesses and functions fully embedded the requirements included in the model risk policy and standards introduced in 2020.
- We delivered a suite of training on model risk to front line teams to improve their awareness of model risk and their adherence to the governance framework.
- We rolled out new model risk appetite measures, which are more forward looking and will help our businesses and functions manage model risk more effectively.
- We continued the transformation of the Model Risk Management team, with changes to the model validation processes, including new systems and processes. Key senior hires were made during the year to lead the business areas and regions to strengthen oversight and expertise within the function. We also made changes to the model inventory system to provide businesses and functions with improved functionality and more detailed information related to model risk.
- We initiated a programme of development related to climate risk and models using advanced analytics and machine learning, which have become critical areas of focus that will grow in importance in 2022 and beyond. We also added qualified specialist skills to the model risk teams to manage the increased model risk.

Governance and structure

The group's Model Risk Committee is chaired by our Chief Risk Officer and provides oversight of model risk. The committee includes senior leaders and risk owners across the Lines of Business and Risk and focuses on model-related concerns and key model risk metrics.

Key risk management processes

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

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

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

Insurance manufacturing operations risk
Overview

The key risks for our insurance manufacturing operations are market risks, in particular interest rate and equity, credit risks and insurance underwriting and operational risks. These have a direct impact on the financial results and capital positions of the insurance operations. Liquidity risk, whilst significant in other parts of the bank, is relatively minor for our insurance operations.

HSBC's insurance business

We sell insurance products worldwide through a range of channels including our branches, direct channels and third-party distributors. The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship.

The insurance contracts we sell relate to the underlying needs of our customers, which we can identify from our point-of-sale contacts and customer knowledge. For the products we manufacture, the majority of sales are of savings, universal life and protection contracts.

We choose to manufacture these insurance products in HSBC subsidiaries based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a small number of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the group a combination of commissions, fees and a share of profits. We distribute insurance products in all of our geographical regions.

Insurance products are sold through all global businesses, but predominantly by WPB and CMB through our branches and direct channels

Insurance manufacturing operations risk management

Key developments in 2021

The insurance manufacturing subsidiaries follow the group's risk management framework. In addition, there are specific policies and practices relating to the risk management of insurance contracts. There were no material changes to the policies and practices over 2021, although enhancements were made to the product pricing and profitability framework to allow for the transition to IFRS17.

Governance

Insurance manufacturing risks are managed to a defined risk appetite, which is aligned to the bank's risk appetite and risk management framework, including the three lines of defence model. For details on the governance framework, see page 21. The Group Insurance Risk Management Meeting oversees the control framework globally and is accountable to the WPB Risk Management Meeting on risk matters relating to the insurance business.

The monitoring of the risks within the insurance operations is carried out by Insurance Risk teams. The Bank's risk stewardship functions support the Insurance Risk teams in their respective areas of expertise.

Stress and scenario testing

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and Group-wide regulatory stress tests, including the Bank of England stress test of the banking system, the European Insurance and Occupational Pensions Authority stress test, and individual country insurance regulatory stress tests.

The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in the HBEU ICAAP and the entities' regulatory Own Risk and Solvency Assessments (ORSAs).

Management and mitigation of key risk types

Market risk

All our insurance manufacturing subsidiaries have market risk mandates and limits that specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk that they may retain. They manage market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- We are able to adjust bonus rates to manage the liabilities to policyholders for products with discretionary participating features ('DPF'). The effect is that a significant portion of the market risk is borne by the policyholder.
- We use asset and liability matching where asset portfolios are structured to support projected liability cash flows. The Group manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. We use models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and ALCOs employ the outcomes in determining how best to structure asset holdings to support liabilities.
- We use derivatives to protect against adverse market movements.
- We design new products to mitigate market risk, such as changing the investment return sharing portion between policyholders and the shareholder.
- We exit, to the extent possible, investment portfolios whose risk is considered unacceptable.

Credit risk

Our insurance manufacturing subsidiaries also have credit risk mandates and limits within which they are permitted to operate, which consider the credit risk exposure, quality and performance of their investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Stress testing is performed on investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report containing a watch-list of investments with current credit concerns, primarily investments that may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly.

Capital and liquidity risk

Capital risk for our insurance manufacturing subsidiaries is assessed in the group's ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the group's economic capital basis, and the relevant local insurance regulatory basis. The group's economic capital basis is largely aligned to European Solvency II regulations.

Risk appetite buffers are set to ensure that the operations are able to remain solvent on both bases, allowing for business-as-usual volatility and extreme but plausible stress events.

Liquidity risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance manufacturing subsidiaries complete quarterly liquidity risk reports and an annual review of the liquidity risks to which they are exposed.

Insurance underwriting risk

Our insurance manufacturing subsidiaries primarily use the following frameworks and processes to manage and mitigate insurance underwriting risks:

- a formal approval process for launching new products or making changes to products;
- a product pricing and profitability framework which requires initial and ongoing assessment of the adequacy of premiums charged on new insurance contracts to meet the risks associated with them;
- a framework for customer underwriting;
- reinsurance which cedes risks above our appetite thresholds to third party reinsurer thereby limiting our exposure; and
- oversight of expense and reserving risks by entity Actuarial Control Committees.

Insurance manufacturing operations risk in 2021

Measurement

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

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	With DPF £m	Unit- linked £m	Other contracts[1] £m	Shareholder assets and liabilities £m	Total £m
Financial assets	**19,384**	**2,924**	**254**	**2,704**	**25,266**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**9,876**	**2,859**	**89**	**1,236**	**14,060**
– derivatives	**47**	**—**	**—**	**1**	**48**
– financial investments – at amortised cost	**815**	**—**	**—**	**42**	**857**
– financial investments – at fair value through other comprehensive income	**7,490**	**—**	**104**	**1,327**	**8,921**
– other financial assets[2]	**1,156**	**65**	**61**	**98**	**1,380**
Reinsurance assets	**—**	**53**	**104**	**—**	**157**
PVIF[3]	**—**	**—**	**—**	**811**	**811**
Other assets and investment properties	**748**	**1**	**—**	**59**	**808**
Total assets at 31 Dec 2021	**20,132**	**2,978**	**358**	**3,574**	**27,042**
Liabilities under investment contracts designated at fair value	**—**	**1,031**	**—**	**—**	**1,031**
Liabilities under insurance contracts	**19,998**	**1,938**	**328**	**—**	**22,264**
Deferred tax[4]	**133**	**6**	**—**	**46**	**185**
Other liabilities	**—**	**—**	**—**	**2,003**	**2,003**
Total liabilities at 31 Dec 2021	**20,131**	**2,975**	**328**	**2,049**	**25,483**
Total equity at 31 Dec 2021	**—**	**—**	**—**	**1,559**	**1,559**
Total liabilities and equity at 31 Dec 2021	**20,131**	**2,975**	**328**	**3,608**	**27,042**
Financial assets	20,261	2,412	249	2,490	25,412
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9,148	2,352	92	991	12,583
– derivatives	76	—	—	2	78
– financial investments – at amortised cost	372	1	—	17	390
– financial investments – at fair value through other comprehensive income	8,724	—	112	1,341	10,177
– other financial assets[2]	1,941	59	45	139	2,184
Reinsurance assets	—	47	134	—	181
PVIF[3]	—	—	—	647	647
Other assets and investment properties	809	1	—	60	870
Total assets at 31 Dec 2020	21,070	2,460	383	3,197	27,110
Liabilities under investment contracts designated at fair value	—	944	—	—	944
Liabilities under insurance contracts	20,962	1,512	342	—	22,816
Deferred tax[4]	107	3	—	39	149
Other liabilities	—	—	—	1,776	1,776
Total liabilities at 31 Dec 2020	21,069	2,459	342	1,815	25,685
Total equity at 31 Dec 2020	—	—	—	1,425	1,425
Total liabilities and equity at 31 Dec 2020	21,069	2,459	342	3,240	27,110

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

Key risk types

Market risk

(Audited)

Description and exposure

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

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are investment contracts with discretionary participating features ('DPF') issued in France. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in fixed interest assets with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns. DPF products expose the bank to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the bank. Amounts are held against the cost of such guarantees. The cost of such guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already explicitly allowed for within the insurance contracts liabilities. The table below shows the total reserve held for the cost of guarantees, the range of investment returns on assets supporting these products and the implied investment return that would enable the business to meet the guarantees. The cost of guarantees decreased to £299m (2020: £347m) primarily due to increases in interest rates and favourable equity performances in France. For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Financial return guarantees

(Audited)

	2021			2020		
	Investment returns implied by guarantee	**Long-term investment returns on relevant portfolios**	**Cost of guarantees**	Investment returns implied by guarantee	Long-term investment returns on relevant portfolios	Cost of guarantees
	%	**%**	**£m**	%	%	£m
Capital	**—**	**0.8 - 2.0**	**127**	—	0.7 - 2.0	162
Nominal annual return	**2.6**	**2.2**	**92**	2.6	2.0	96
Nominal annual return	**4.5**	**2.2**	**80**	4.5	2.0	89
At 31 Dec			**299**			347

Sensitivities

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

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

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

(Audited)

	2021		2020	
	Effect on profit after tax	**Effect on total equity**	Effect on profit after tax	Effect on total equity
	£m	**£m**	£m	£m
+100 basis point parallel shift in yield curves	**119**	**96**	110	89
-100 basis point parallel shift in yield curves	**(229)**	**(203)**	(203)	(179)
10% increase in equity prices	**46**	**46**	39	39
10% decrease in equity prices	**(49)**	**(49)**	(42)	(42)

Credit risk

(Audited)

Description and exposure

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturers:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 85. The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'satisfactory' or higher as defined on page 33, with 100% of the exposure being neither past due nor impaired. Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholder; therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds. The credit quality of these financial assets is included in the table on page 50.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost.

The following table shows the expected undiscounted cash flows for insurance contract liabilities at 31 December 2021. The liquidity risk exposure is wholly borne by the policyholder in the case of unit-linked business and is shared with the policyholder for non-linked insurance.

The profile of the expected maturity of insurance contracts at 31 December 2021 remained comparable with 2020.

The remaining contractual maturity of investment contract liabilities is included within 'Financial liabilities designated at fair value' in Note 27.

Expected maturity of insurance contract liabilities

(Audited)

	Expected cash flows (undiscounted)				
	Within 1 year	**1-5 years**	**5-15 years**	**Over 15 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Unit-linked	**230**	**565**	**927**	**926**	**2,648**
With DPF and Other contracts	**1,341**	**5,102**	**7,318**	**6,415**	**20,176**
At 31 Dec 2021	**1,571**	**5,667**	**8,245**	**7,341**	**22,824**
Unit-linked	222	539	790	672	2,223
With DPF and Other contracts	1,565	5,765	7,735	6,077	21,142
At 31 Dec 2020	1,787	6,304	8,525	6,749	23,365

Insurance underwriting risk

Description and exposure

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapse and expense rates.

The principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The table on page 85 analyses our insurance manufacturing exposures by type of contract.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2020.

Sensitivities

The table below shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. For a portfolio of term assurance, an increase in lapse rates typically has a negative effect on profit due

to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges. We are most sensitive to a change in lapse rates in France.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits. This risk is generally greatest for smaller entities.

Sensitivity analysis

(Audited)

	2021	2020
	£m	£m
Effect on profit after tax and total equity at 31 Dec		
10% increase in mortality and/or morbidity rates	**(20)**	(15)
10% decrease in mortality and/or morbidity rates	**19**	15
10% increase in lapse rates	**(19)**	(19)
10% decrease in lapse rates	**20**	21
10% increase in expense rates	**(40)**	(46)
10% decrease in expense rates	**40**	43

Corporate Governance Report

The statement of corporate governance practices set out on pages 88 to 96, together with the information incorporated by reference, constitutes the Corporate Governance Report of the bank. The following disclosures, read together with those in the Strategic Report, including the section 172 statement on pages 9 and 10 and reporting on employee engagement on pages 7 to 10 describe how the Board has discharged its duty under section 172 of the Companies Act 2006 (the 'Act'), as well as the requirements under the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Reporting Regulations').

Engagement with employees, suppliers, customers and other key stakeholders:

Stakeholder	Page	Section
Customers	Page 9	How we do business
	Page 9	section 172 statement
Employees	Page 9	How we do business
	Pages 9 and 10	section 172 statement
	Pages 94 to 95	Corporate Governance statement
Communities / the environment	Pages 8 and 9	How we do business
Regulators	Page 10	How we do business
	Page 9	section 172 statement
Suppliers	Page 10	How we do business
	Page 9	section 172 statement

The bank, together with the wider Group, is committed to high standards of corporate governance. The Group has a comprehensive range of principles, policies and procedures influenced by the UK Corporate Governance Code with requirements in respect of Board independence, composition and effectiveness to ensure that the Group is well managed, with appropriate oversight and control. During the year, the bank adhered to these corporate governance principles, policies and procedures, as applicable.

Board of Directors

As at 31 December 2021, the Board comprised 10 Directors including the Chair, eight non-executive Directors, and two executive Directors, being the Chief Executive Officer and the Chief Financial Officer. All Directors are subject to election or re-election at the bank's Annual General Meeting ('AGM'). The Directors serving at 31 December 2021 are set out below.

Directors

Stephen O'Connor

Chairman

Chairman of the Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018. Chairman since August 2018.

Stephen is a non-executive Director and Vice Chairman of HSBC Continental Europe, Chairman of Quantile Group Limited and its subsidiary Quantile Technologies Limited, and a Director of the London Stock Exchange plc. He is also a non-executive Director of the FICC Markets Standards Board. He has more than 25 years' investment banking experience in London and New York.

Former appointments include: Senior Independent Director, Chairman of the Risk Committee and member of both the Audit and Nomination Committees of the London Stock Exchange Group plc and Chairman of the International Swaps and Derivatives Association, prior to which he was Managing Director and a member of the Fixed Income Management Committee at Morgan Stanley.

Colin Bell

Executive Director and Chief Executive Officer

Chairman of the Executive Committee and Executive Director of the Board

Appointed to the Board and as Chief Executive Officer: February 2021.

Colin Bell is Chief Executive Officer, HSBC Bank plc and HSBC Europe. He joined HSBC in July 2016 and most recently held the role of Group Chief Compliance Officer until February 2021. He is a member of the Supervisory Board, Remuneration, Nomination and Mediation Committees of HSBC Trinkaus & Burkhardt AG and is an Executive Director of HSBC Bank plc.

Before HSBC, Colin worked at UBS, where he was Head of Compliance and Operational Risk Control. He has more than 10 years of experience in managing risk and financial crime, following 16 years in the British Army.

During his time in the Army, he held a variety of command and staff appointments, including operational tours of Iraq and Northern Ireland, time in the Ministry of Defence, a NATO appointment and completion of the Advanced Command and Staff Course.

David Watts

Executive Director and Chief Financial Officer

Member of the Executive Committee and Executive Director of the Board

Appointed to the Board and as Chief Finance Officer: December 2021.

Dave joined the HSBC Group in 1994 and was previously a Director and Chief Financial Officer of HSBC UK Bank plc.

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.

Norma Dove-Edwin

Independent non-executive Director

Appointed to the Board: October 2021.

Norma serves as Chief Information Officer of ESO at National Grid Plc. She is also a non-executive Director of Pod Point Group Holdings plc.

Former appointments include: Group Chief Data and Information Officer at Places for People and held a number of positions at British American Tobacco Plc including as Head of Global Data Services.

Dame Mary Marsh

Non-executive Director

Member of the Transformation, Operational Resilience and Technology Committee

Appointed to the Board: January 2009.

Mary is a Director of the London Symphony Orchestra, a member of the Governing Body and the Audit and Risk Committee of the London Business School, a Trustee and Deputy Chair of the British Spanish Society and a Trustee of Teach First.

Former appointments include: Non-executive Chair of the Trustees of the Royal College of Paediatrics and Child Health, founding Director of the Clore Social Leadership Programme and Chief Executive of the National Society for the Prevention of Cruelty to Children.

Yukiko Omura

Independent non-executive Director

Member of the Audit Committee

Appointed to the Board: May 2018.

Yukiko is a senior independent non-executive Director of The Private Infrastructure Development Group Limited ('PIDG'). She also serves as a non-executive Director of Assured Guaranty Ltd, and a member of the Supervisory Board of Nishimoto HD Co. Ltd. She has more than 35 years' international professional experience in both the public and private financial sector, performing senior roles for JP Morgan, Lehman Brothers, UBS and Dresdner Bank.

Former appointments include: Chair of GuarantCo Limited, a subsidiary of PIDG, Under-Secretary General and COO/Vice President of the International Fund for Agricultural Development and Executive Vice President and CEO of the Multilateral Investment Guarantee Agency of the World Bank Group.

Juliet Robinson

Independent non-executive Director

Chair of the Transformation, Operational Resilience and Technology Committee and member of the Risk Committee

Appointed to the Board: February 2021.

Former appointments include: Dual role as European Head of Operations and Global Head of Shared Services and Banking Operations and other senior management positions at Morgan Stanley. Prior to 2007 she performed senior roles within Goldman Sachs International.

Dr Eric Strutz

Independent non-executive Director

Chairman of the Risk Committee and member of the Nomination, Remuneration & Governance Committee and Transformation, Operational Resilience and Technology Committee

Appointed to the Board: October 2016.

Eric is a member of the Supervisory Board and Risk Committee and Chairman of the Audit Committee of HSBC Trinkaus & Burkhardt AG, a member of the Board of Directors and the Remuneration Committee and Chairman of the Audit Committee of Global Blue Group Holding AG, and a member of the Advisory Board and Chairman of the Audit & Risk Committee of Luxembourg Investment Company 261 Sarl.

Former appointments include: Vice Chairman and Lead Independent Director of Partners Group Holding AG, where he also Chaired the Risk and Audit Committee, Chief Financial Officer of Commerzbank Group, Partner and Director of the Boston Consulting Group, as well as non-executive Director of Mediobanca Banca di Credito Finanziario SpA.

John Trueman

Deputy Chairman and non-executive Director

Member of the Audit Committee, the Risk Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: September 2004. Deputy Chairman since December 2013.

Former appointments include: Chairman and member of the Risk Committee of HSBC Global Asset Management Limited and Deputy Chairman of S.G. Warburg & Co Ltd.

Andrew Wright

Independent non-executive Director

Chairman of the Audit Committee and member of the Risk Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018.

Andrew is a member of the Supervisory Board and chairs the Risk Committee of HSBC Trinkaus & Burkhardt AG.

Former appointments include: Treasurer to the Prince of Wales and the Duchess of Cornwall, a role he held from May 2012 until June 2019, Global Chief Financial Officer for the Investment Bank at UBS AG, Chief Financial Officer, Europe and the Middle East at Lehman Brothers and Chief Financial Officer for the Private Client and Asset Management Division at Deutsche Bank.

Board Changes during 2021 and following the year-end

Nuno Matos stepped down from the Board and Colin Bell succeeded him as a Director and Chief Executive Officer of the bank and Europe with effect from 22 February 2021.

Stephen Moss stepped down from the Board on 23 February 2021 to take up the position of Chief Executive Officer, Middle East, North Africa and Turkey (MENAT) in April 2021.

Jacques Fleurant stepped down from the Board on 30 September 2021 and Dave Watts succeeded him as a Director and Chief Financial Officer of the bank with effect from 15 December 2021.

Juliet Robinson joined the Board as an independent non-executive Director and member of the Risk Committee with effect from 1 February 2021. In 1 January 2021 she was appointed as Chair of the Transformation, Operational Resilience and Technology Committee.

Norma Dove-Edwin joined the Board as an independent non-executive Director with effect from 28 October 2021.

Company Secretary

The responsibilities of the Company Secretary include ensuring good governance practices at Board level and effective information flows within the Board and its committees and between senior management and the non-executive Directors.

Philip Jockelson acted as Company Secretary of the bank until 28 February 2021 and Alison Campbell was appointed as Company Secretary from 1 March 2021.

Board of Directors

Key responsibilities

The Board, led by the Chair, is responsible amongst other matters for:

(i) promoting the long-term success of the bank and delivering sustainable value to shareholders and other stakeholders;

(ii) entrepreneurial leadership of the bank within a framework of prudent and effective controls which enables risks to be assessed and managed;

(iii) setting the bank's strategy and risk appetite statement including monitoring the bank's risk profile;

(iv) establishing and monitoring the effectiveness of procedures for maintenance of a sound system of control and risk management, and compliance with statutory and regulatory obligations; and

(v) approving the capital and operating plans and material transactions on the recommendation of management.

The role of the non-executive Directors is to support the development of proposals on strategy, hold management to account and ensure the executive Directors are discharging their responsibilities properly by promoting a culture that encourages constructive challenge. Non-executive Directors also review the performance of management in meeting agreed goals and objectives. The Chair regularly meets with the non-executive Directors without executive Directors in attendance after Board meetings, and otherwise, as necessary.

Operation of the Board

During 2021, the Board was required to meet at least six times a year; six additional meetings were scheduled to help facilitate, amongst other things, the execution of the bank's transformation strategy. The Board agenda is agreed with the Chair, working closely with the Company Secretary, in advance of scheduled meetings. The agenda is informed by forward-looking planning and additional emerging matters that require Board oversight or approval.

The Chief Risk Officer, General Counsel, and Company Secretary are regular attendees at Board meetings, and other senior executives attend to contribute their subject matter expertise and insight, as required.

Board activities during 2021

During 2021, the Board focused on the implementation of approved strategy and execution of the bank's transformation programme across the region, supporting senior management and overseeing performance, risk and capital. The Board considered performance against financial and other strategic objectives, key business challenges, emerging risks, business development and relationships with the bank's key stakeholders.

Deep dives on key aspects of the bank's business were also conducted to consider the performance and strategy of targeted businesses and countries. Throughout the year, the Board received regular updates from management including the implementation of regulatory programmes, technology, operations and resilience, as well as people, culture and talent.

During the year the Board also approved the financial, capital, liquidity and funding plans put forward by management and monitored the implementation of plans. Further information on the principal decisions made by the Board during 2021, including in respect of the strategic reset and capital plans is located in the section 172 statement on pages 9 to 11.

Directors' emoluments

Details of the emoluments of the Directors of the bank for 2021, disclosed in accordance with the Act, are shown in Note 5 'Employee compensation and benefits'.

Non-executive Directors do not have service contracts, but are engaged through letters of appointment. There are no obligations in the non-executive Directors' letters of appointment that could give rise to payments other than fees due or payments for loss of office.

Board committees

The Board delegates oversight of certain audit, risk, remuneration, nomination and governance matters to its committees. Each standing Board committee is chaired by a non-executive Board member and has a remit to cover specific topics in accordance with their respective terms of reference. Only non-executive Directors are members of Board committees. The Chairman of each non-executive Board Committee reports to the Board on the activities of the Committee since the previous Board meeting.

Board and Committee effectiveness and performance

The Board understands the importance of, and benefits that derive from regular reviews of the effectiveness of the Board and its committees. In 2020, the bank was subject to an internally facilitated subsidiary governance review of the Group's main subsidiary Boards and Committees. The review focused on (i) the composition, skill-set, time commitment and fees for Boards and Committees; (ii) service quality and scope of governance and secretarial support; and (iii) the effectiveness of the bank's relationship with the Group. The results of the subsidiary governance review of the bank have been considered by the Board and work was progressed during 2021 to address recommendations. An annual review of the terms of reference for the Board and its committees was facilitated by the Corporate Governance and Secretariat function which assessed that the Board and its committees had materially complied with their respective terms of reference during 2021. Executive Directors are also subject to performance evaluation which helps to determine the level of variable pay they receive each year.

At the date of this report, the following are the principal Committees of the Board:

Audit Committee

Key Responsibilities

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of financial reporting related matters, internal controls over financial reporting and implementation of the group policies and procedures for capturing and responding to whistleblower concerns.

The Committee's key responsibilities include:

(i) monitoring and assessing the integrity of the financial statements, formal announcements and supplementary regulatory information in relation to the bank's financial performance;

(ii) reviewing, as applicable, compliance with accounting standards, listing rules, and other requirements in relation to financial reporting;

(iii) reviewing and monitoring the relationship with the external auditor; and

(iv) overseeing the work of Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.

The committee has responsibility for the oversight of the bank's whistleblowing arrangements, and receives regular updates on matters relating to the whistleblowing arrangements that are in place.

Committee activities during 2021

In addition to significant accounting judgements, key matters considered by the Committee during the year were regulatory reporting and control enhancements, interbank offered rates (IBOR) transition, IFRS 17 implementation, the development of climate-related disclosure, pension risk, the bank's financial resources and capital, transformation of the Finance function, the independence, fees and performance of the external auditor, PwC, and updates on key issues identified by Internal Audit related to the bank and its subsidiaries.

The committee also received updates from the Chairs of the Audit committees of key subsidiaries of the Bank, updates from the external auditor on the progress and findings of their audit, and bi-annual updates on the tax position of the bank and its subsidiaries.

Operation of the Committee

The committee held seven scheduled meetings during the year and held separate meetings with each of the Chief Finance Officer, the Chief Risk Officer, the Head of Internal Audit and representatives of the external auditor without management present.

The committee meets regularly with the bank's senior financial and Internal Audit management and the external auditors to consider, among other matters, the bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control relating to financial reporting and the monitoring of the Finance function transformation programme.

The Chief Financial Officer, Financial Controller, Chief Risk Officer, Head of Internal Audit, and Company Secretary are standing attendees and regularly attend Committee meetings to contribute their subject matter expertise and insight. Other members of senior management routinely attended meetings of the Committee. The external auditor attended all meetings.

During 2021 the committee continued to actively engage with the bank's key subsidiaries and key subsidiary audit committees, with regular reporting throughout the year. The Chair of the committee regularly meets with the Chair of the Group Audit Committee (GAC) to help maintain connectivity with the group and develop deeper understanding on judgements around key matters. Further, from time to time the Chair is invited to attend meetings of the GAC on relevant topics. The committee comprises a majority of independent non-executive Directors. The current members are Andrew Wright (Chair), Yukiko Omura and John Trueman.

Significant accounting judgements and related matters considered by the Audit Committee ('AC') for the year ended 2021 included:

Key area	Action taken
Interim and annual reporting	The AC considered key matters in relation to interim and annual reporting, including changes to segmental reporting.
Expected credit loss ('ECL')	The AC considered key judgements in relation to ECL, in particular post-model adjustments in certain sectors due to economic uncertainty.
Valuation of financial instruments	The AC considered key valuation metrics and judgements involved in the determination of the fair value of financial instruments. The AC also considered management's analysis of exit losses upon the novation of certain derivative portfolios and the determination that there was insufficient evidence to support the introduction of fair value adjustments in respect of these.
Going concern	The AC considered a wide range of information relating to present and potential conditions, including projections for profitability, cash flows, liquidity and capital.
Impairment of investment in subsidiaries	The AC reviewed management's periodic assessment of impairment of investments in subsidiaries and paid particular attention to the reliability of cash flow projections and long-term growth rate and discount rate assumptions. Management assessed that there had been no impairment of the bank's investment in HSBC Continental Europe for the year ended 2021 with due regard to the sensitivity of this judgement to changes in assumptions, in particular those relating to the sale of retail banking activities in Continental Europe.
Appropriateness of provisioning for legal proceedings and regulatory matters	The AC received reports from management on the recognition and measurement of provisions and contingent liabilities for legal proceedings and regulatory matters, including investigations by regulators and competition and law-enforcement authorities.
Regulatory reporting	The AC reviewed management's efforts to strengthen and simplify the end-to-end operating and control model, including independent external reviews of key aspects of regulatory reporting.
IBOR transition	The AC considered the implications of benchmark interest rate reform, including the recognition and measurement of financial instruments and related disclosures.
Controls	The AC considered the financial control environment on an ongoing basis through the year, reviewing and challenging remediation actions undertaken and enhancements made. This included confirmation of mitigating controls where programmes of work had not fully completed by the year end. Areas of particular focus in 2021 have been Model Risk Governance, controls over use of external market data, accounting and tax implications of Merger and Acquisition ('M&A') transactions, general ledger substantiation and Financial Statement Disclosures.
Tax	The AC reviewed management's judgements on the recognition and measurement of deferred tax assets and liabilities, in particular those arising from the sale of retail banking activities in Continental Europe, and the accounting and disclosure of retrospective VAT assessments issued by HMRC.
Environmental, Social and Governance ('ESG') Reporting	The AC considered regulatory developments in ESG Reporting, in particular at 31 December 2021 for bank subsidiaries in the European Union.
Restructuring provisions	The AC considered key judgements in relation to restructuring provisions, mainly relating to transformation in Continental Europe and Germany.

Risk Committee

Key Responsibilities

The Risk Committee is accountable to the Board and has overall non-executive responsibility for oversight of risk-related matters and the risks impacting the bank.

The committee's key responsibilities include:

(i) advising the Board on risk appetite-related matters, and key regulatory submissions;

(ii) overseeing and advising the Board on all risk-related matters, including financial risks, non-financial risks and the effectiveness of the bank's conduct framework;

(iii) reviewing, challenging and satisfying itself that the bank's stress testing framework, governance and internal controls are robust; and

(iv) to review the effectiveness of the bank's risk management framework and internal control systems (other than internal financial controls overseen by the Audit Committee).

Committee activities during 2021

Key matters considered by the committee during the year included the bank's approach to the financial and non-financial risks in the context of evolving Covid-19 infections and strict lockdown measures across the region, wholesale credit and market risks including, interbank offered rates ('IBOR') transition, geopolitical, operational and climate-related risks.

The committee also reviewed and challenged management on key regulatory processes, including the bank's internal capital adequacy assessment process ('ICAAP') and the internal liquidity adequacy assessment process ('ILAAP'); recovery and resolution plans (including the bank's response to the Bank of England's Resolvability Assessment Framework requirements); the outcome of stress tests undertaken during the year; and the bank's capital liquidity and funding plans.

Operation of the Committee

The committee held 11 scheduled meetings during the year. The Chief Risk Officer, Chief Financial Officer, Head of Internal Audit, and Head of Risk Strategy are standing attendees and regularly attend committee meetings to contribute their subject matter expertise and insight.

The committee reviews and challenges current and forward-looking risk issues, and the regional senior business leaders are regularly invited to participate at committee meetings, working together with functional and regional leaders across all three lines of defence.

The Chair and members of the committee meet regularly with the bank's senior financial, risk, internal audit and compliance management and the external auditors to consider, among other matters, risk reports and internal audit reports and the effectiveness of compliance activities.

During 2021 the committee continued to actively engage with the bank's key subsidiaries and key subsidiary risk committees, with regular reporting from the respective Chairs throughout the year. The Chair of the committee attended several Group-led meetings to help promote connectivity, escalation and cascade of important topics. The committee comprises a majority of independent non-executive Directors. The current members are: Eric Strutz (Chair), Juliet Robinson, John Trueman and Andrew Wright.

Transformation, Operational Resilience and Technology Committee

Key Responsibilities

The Transformation, Operational Resilience and Technology Committee ('TRT') was established during the year to assist the Board and Risk Committee with their respective responsibilities in relation to the bank's transformation strategy, operational resilience, as well as the governance and oversight of technology.

The Committee's key responsibilities include:

(i) reviewing progress of the transformation strategy and the steps management have taken to manage risk, and to monitor progress against set objectives;

(ii) reviewing the effectiveness of governance frameworks to set and oversee the internal control environment in relation to technology;

(iii) reviewing regional technology strategy, ensuring it is aligned with the adopted business strategies of the bank; and

(iv) overseeing and challenging management on execution of operational resilience objectives and deliverables.

Committee activities during 2021

Key matters considered by the Committee during the year included a review of IT and Cloud strategies, oversight of the bank's operating systems, operational resilience and technology infrastructure, including operational resilience of critical IT and other business services, information and cyber security risks, and major IT change programmes.

The Committee also reviewed and challenged management on the progress and associated risks with respect the transformation strategy, including transformation governance, cost complexity and key change programmes underway.

Operation of the Committee

The Committee has been established for an initial 12-month period from March 2021. The Board has recommended the continuation of the Committee for the duration of 2022.

The Committee held eight scheduled meetings during 2021.

The Chief Operating Officer, Chief Information Officer, Chief Risk Officer, Head of Internal Audit, and Head of Transformation are standing attendees and regularly attend Committee meetings to contribute their subject matter expertise and insight.

The current members are: Juliet Robinson (Chair), Mary Marsh, and Eric Strutz.

Nomination, Remuneration & Governance Committee

Key Responsibilities

The Nomination, Remuneration & Governance Committee has responsibility for:

(i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board;

(ii) the endorsement of the appointment of individuals to certain Board and management positions at the bank's subsidiaries; including proposed fees payable to non-executive Directors on subsidiary boards;

(iii) reviewing the implementation and appropriateness of the Group's Director remuneration policy and the remuneration of the bank's senior executives, including the identification of the Material Risk Taker population for the purposes of the Capital Requirements Directive;

(iv) reviewing and developing the corporate governance framework on behalf of the Board and ensuring it is consistent

with best corporate governance standards and practices while remaining appropriate to the size, complexity and strategy of the bank; and

(v) overseeing the implementation and compliance with the HSBC Group Subsidiary Accountability Framework ('SAF').

Further information in relation to the HSBC's approach to remuneration for group employees is available in the Director's remuneration report on pages 276 - 278 of HSBC's Annual Report and Accounts available on https://www.hsbc.com/investors/results-and-announcements/annual-report.

Committee activities during 2021

Key matters considered by the Committee during the year included the appointment to the Board of new Directors, including an additional independent non-executive Director, as well as a number of senior positions within the bank's executive team, including the Chief Financial Officer.

The Committee undertook a full review of Board composition, succession planning for all material subsidiaries under SAF, approval of a revised Board Diversity Policy. The Committee applies the principles in the policy when considering the composition of the Board, including in relation to gender, ethnicity and age.

Other activities during the year included, the review of key remuneration matters for the bank and its subsidiaries in the context of the HSBC's remuneration framework, including variable and fixed pay allocations, aligned with the bank's risk appetite, and in keeping with the bank's strategy, culture and values, and long-term interests of the bank. The Committee reviewed the annual pay review outcomes across the region.

Operation of the Committee

The Committee held eight scheduled meetings during 2021, with additional meetings arranged to consider specific matters.

The Head of HR and Head of Performance & Reward attend Committee meetings on a regular basis to contribute their subject matter expertise and insight. Other senior executives attend periodically for specific items considered by the Committee.

The Committee comprises a majority of non-executive Directors. The current members are: Stephen O'Connor (Chair), Eric Strutz, Andrew Wright, and John Trueman (for Nomination and Governance matters only).

Executive Committee

The Executive Committee is a committee of the Board and has overall executive responsibility, under formal delegation, for the management and day-to-day running of the bank. The committee is accountable to the Board for overseeing the execution of the bank's strategy.

The purpose of the committee is to support the Chief Executive Officer of the bank in the performance of their duties and exercise of their powers, authorities and discretions in relation to the management of the bank and its subsidiaries. The committee meets on a regular basis and is chaired by the Chief Executive Officer.

During 2021, in addition to its day-to-day oversight of the bank's operations, the committee's principal areas of focus included managing the bank's response to the evolving nature of the Covid-19 pandemic across the region, oversight of the bank's transformation strategy, including the sale of the French retail banking operations, oversight of the performance across the bank's lines of business, review of the bank's financial performance. cost management, and preparing the bank's forward looking Financial Resource Plan. The committee also received updates on regulatory remediation programmes, regulatory engagement themes across the region and the transition to IBOR.

Dividends

Information about dividends paid during the year is provided on page 17 of the Strategic Report and in Note 8 to the financial statements.

Internal control

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the aggregate level and types of risks the bank is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Handbook, procedures have been designed for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the group and accord with the Financial Reporting Council's guidance for Directors issued in 2014, internal control and related financial and business reporting. The procedures have been in place throughout the year and up to 21 February 2022, the date of approval of this *Annual Report and Accounts 2021*.

The key risk management and internal control procedures include the following:

- 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 our colleagues fairly at all times.
- Risk management framework ('RMF'): The risk management framework supports our Global Principles. It outlines the key principles and practices that we employ in managing material risks. It applies to all categories of risk and supports a consistent approach in identifying, assessing, managing and reporting the risks we accept and incur in our activities.
- Delegation of authority within limits set by the Board: Subject to certain matters reserved for the Board, the Chief Executive Officer has been delegated authority limits and powers within which to manage the day-to-day affairs of the group, including the right to sub-delegate those limits and powers. Each relevant executive has authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable. Those individuals are required to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of group companies. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a group-wide basis.
- Risk identification and monitoring: Systems and procedures are in place to identify, assess, control and monitor the material risk types facing the group as set out in the RMF.The group's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.
- 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 group employs a top and emerging risks framework, which contains an aggregate of all current and forward-looking risks and enables it to take action that either prevents them materialising or limits their impact.
- During 2021, due to the prolonged impact of the Covid-19 pandemic on the global economy, banks continued to play an expanded role to support society and customers. The pandemic and its impact on the global economy have impacted many of our customers' business models and income, requiring significant levels of support from both governments and banks. To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices and these continue to be in place. We continue our focus on the quality and timeliness of the data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and other key stakeholders
- Responsibility for risk management: All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. This is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.
- The Board has delegated to the Audit Committee oversight for the implementation of the group's policies and procedures for capturing and responding to whistleblower concerns, ensuring confidentiality, protection and fair treatment of whistleblowers, and receiving reports arising from the operation of those policies as well as ensuring arrangements are in place for independent investigation.
- Strategic plans: Strategic plans are prepared for global businesses, global functions and geographical regions within the framework of the HSBC Group's overall strategy. The bank also prepares and adopts a Financial Resourcing Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that the bank is prepared to take in executing its strategy and sets out the key business initiatives and the likely financial effects of those initiatives.
- The effectiveness of the group's system of risk management and internal control is reviewed regularly by the Board, the Risk Committee and the Audit Committee.
- During 2021, the group continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks with significant progress made enhancing the end-to-end risk and control assessment process. The Risk Committee, supported by the TRT, and the Audit Committee received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the group's framework of controls. In response to the prolonged Covid-19 pandemic, our business continuity responses have been successfully implemented and the majority of service level agreements continue to be maintained.

Internal control over financial reporting

The key risk management and internal control procedures over financial reporting include the following:

- **Entity level controls:** The primary mechanism through which comfort over risk management and internal control systems is achieved, is through assessments of the effectiveness of entity level controls ('ELCs'), and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. ELCs are internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, for example the bank's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees. The design and operational effectiveness of ELCs are assessed annually as part of the assessment of the effectiveness of internal controls over financial reporting.

- **Process level transactional controls:** Key process level controls that mitigate risk of financial mis-statement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues against which action plans are tracked through to remediation. Further details on the group's approach to risk management can be found on page 21. The Audit Committee has continued to receive regular updates on HSBC's ongoing activities for improving the effective oversight of end-to-end business processes and management continues to identify opportunities for enhancing key controls, such as through the use of automation technologies.
- **External Reporting Forum:** The External Reporting Forum reviews financial reporting disclosures made by the bank for any material errors, mis-statements or omissions. The integrity of disclosures is underpinned by structures and processes within the group's Finance and Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records.
- **Disclosure Committee:** The Disclosure Committee considers the external reporting obligations of the bank to ensure compliance with reporting obligations under the EU Market Abuse Regulations.
- **Financial reporting:** The group's financial reporting process is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued to all reporting entities within the group in advance of each reporting period end. The submission of financial information from each reporting entity is supported by a certification by the responsible financial officer and analytical review procedures at subsidiary and group levels.
- **Subsidiary certifications:** Certifications are provided to the Audit Committee and the Risk Committees (full and half yearly) and to the Nomination, Remuneration and Governance Committee (annually) from the audit, risk and remuneration committees of key material subsidiary companies confirming amongst other things that:
  - Audit – the financial statements of the subsidiary have been prepared in accordance with group policies, present fairly the state of affairs of the subsidiary and are prepared on a going concern basis;
  - Risk – the Risk Committee of the subsidiary has carried out its oversight activities consistent with and in alignment to the RMF; and
  - Remuneration – the Remuneration Committee of the subsidiary has discharged its obligations in overseeing the implementation and operation of HSBC's Group Remuneration Policy.

Employees

Health and safety

We are committed to providing a safe and healthy working environment for everyone. We have adopted global policies, mandatory procedures, and incident and information reporting systems across the organisation that reflect our core values and are aligned to international standards. Our global health and safety performance is subject to ongoing monitoring and assurance.

Our Chief Operating Officers have overall responsibility for engendering a positive health and safety culture and ensuring that global policies, procedures and systems are put into practice locally. They also have responsibility for ensuring all local legal requirements are met.

We delivered a range of programmes in 2021 to help us understand and manage our health and safety risks:

- We continued to provide enhancements to our workplaces globally to minimise the risks of Covid-19, including enhancing cleaning, improved ventilation and social distancing measures
- We updated our advice and risk assessment methodology on working from home, providing more awareness and best practices on good ergonomics and wellbeing to be adopted as we transitioned to new ways of working
- We delivered health and safety training and awareness to 49,000 employees and contractors ensuring roles and responsibilities were clear and understood
- We completed the annual safety inspection on all of our buildings globally, subject to local Covid-19 restrictions, to ensure we were meeting our standards and continuously improving our safety performance
- We continued to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, covering the five key elements of best practice safety culture, including speaking up about safety, and recognising excellence
- Our 2021 safety climate survey results showed a continued high level of positive safety culture, significantly above the industry average
- Our Eat Well Live Well programme continued educating and informing our colleagues on how to make healthy food and drink choices. We enhanced the programme to provide digital educational and information resources, including a suite of videos and recipe ideas. The programme was a key component of HSBC's winning entry in the 2021 Global Healthy Workplace Awards

Employee health and safety

	2021	2020	2019
Number of workplace fatalities	**—**	—	—
Number of major injuries to employees[1]	**2**	2	3
All injury rate per 100,000 employees	**14**	35	130

1 *Fractures, dislocation, concussion, hospitalisation, unconsciousness.*

Diversity and Inclusion

Our employees and the societies they represent and serve span many cultures, communities and continents. We believe this diversity makes us stronger, and we are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging. In Europe, we have carried out actions to drive improvements in representation and sentiment across multiple diversity strands, strengthen our employee networks, and improve our diversity data.

We set up a HBEU Diversity and Inclusion Council, including several members from the European Executive Committee in order to reinforce our commitments, engage more closely with our Employee Resources Groups and track our progress.

Throughout the year, more than thirty events and conferences were organised across several European countries on topics such as inclusive leadership, disability, parenthood, resilience, mental health, hypersensitivity, women in leadership, cross-generation, multicultural working environment.

Exchange meetings to discuss key diversity topics including ethnicity and multiculturalism took place in several countries e.g. Germany, Malta, Italy and France.

We actively participated in the #24 hours of Pride through virtual events and building lightening in the UK, Poland, Malta, Luxembourg, France, Channel Islands, Ireland and Italy

We continued to increase Employee Resources Groups (ERG) representation across Europe. In 2021, we launched a new Pan-European ERG called 'Inclusive Europe' aiming to create an inclusive culture, reinforce collaboration between existing ERGs. Our Pride ERGs in countries have gathered to create a European structure. A new 'EmbRace' ERG has been launched in Ireland to promote ethnic diversity and an ERG to support people with disabilities has also been set up in France.

All our ERGs are actively involved in supporting employees locally. Balance, our ERG dedicated to gender diversity, have run a programme (e-Taste of the Top) to give exposure to 27 female talent allowing them to cover a week of leave for very senior positions. A new initiative, Coaching Circles, has been launched to create a peer to peer coaching culture. This is available to all employees.

In 2021, we updated our recruitment training to emphasise the need for inclusivity, and made this mandatory for all hiring managers. We also ran sessions for leadership teams on 'Unconcious Bias' to raise awareness of affinity bias amongst others. In the UK, acknowledging the previous under representation of Black and Ethnic Minority talent on our development programmes and introducing leadership development specifically for talented individuals in this group. In 2021, 189 colleagues at GCB 4 (mid manager) took part in our ethnic minority Accelerate into Leadership programme and, to date, 15% of participants have progressed in their career.

In France, HSBC has signed a charter along with other large financial companies in order to significantly improve female representation.

Gender diversity statistics HSBC Bank plc's overall female representation is improving and we are committed to building a strong pipeline of female talent to improve gender balance in senior leadership across Europe. Our target was 24.3% of women in senior leadership (Global Career Band 0-3) roles by the end of 2021. The outcome for 2021 was 24% of women in senior leadership roles.

Female representation by management level:

All grades – 52.2%

GCB 6-8 Clerical grades – 65.8%

GCB 4-5 Management – 43.6%

GCB 0-3 Senior management – 24%

HBEU Executive Committee – 29.4%

Employment of people with a disability

We strongly believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment. The recruitment, training, development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during their employments with us, efforts are made to continue their employment. Where necessary, we will provide appropriate training, facilities and reasonable equipment. A number of countries have dedicated teams to ensure that barriers to work are removed for colleagues.

Continuous work is done to ensure individual support is provided to make home office adjustments.

Learning and talent development

The development of our people continues to be of critical importance to our organisations success as we develop and implement practices that identifies talent, and builds broad employee capability, together with the right values, skills and experience to meet the future needs of our business. This applies across all levels of our business including the launch of our new General Manager Curriculum in 2021 which will be followed with the launch of a new learning curriculum for our Managing Directors in 2022.

With the launch of our new Learning Experience Platform – Degreed, we continue to make 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 providing opportunities for our colleagues to develop skills and capability that empower them to realise their potential for the future.

HSBC University remains the hub for dedicated HSBC learning and during the year the offering was extended to provided targeted guidance and development to help colleagues navigate through hybrid working patterns and broader Future of Work topics. This sits within the broader offering of HSBC Leadership, risk management, strategy and performance, as well as business-specific technical training all with virtual online formats.

Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies where we have them. We also aim to maintain well-developed communications and consultation programmes with all employee representative bodies and there have been no material disruptions to our operations from labour disputes during the past five years.

Disclosure of information to auditors

The directors are not aware that there is any relevant audit information (as defined in the Companies Act 2006) of which the bank's auditors are unaware and processes are in place to ensure that the bank's auditors are aware of any relevant audit information.

Auditors

PricewaterhouseCoopers LLP ('PwC') are the external auditors 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 auditors. A resolution proposing the re-appointment of PwC as the bank's auditors, and giving authority to the Audit Committee to determine its remuneration, will be submitted to the forthcoming AGM.

Branches

HSBC Bank plc provides a wide range of banking and financial services through 20 markets. HSBC Bank plc is simplifying its operating model to one integrated business supporting a wholesale banking hub for the European Union ('EU') in Paris and a wholesale banking hub for western markets in London. Further information on the bank's branches are located in 'HSBC in Europe' on page 4.

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)	Pages 9 and 10
Engagement with suppliers, customers and others in a business relationship with the bank (Sch.7 Para 11B 2008 Regs)	Page 9
Policy concerning the employment of disabled persons (Sch.7 Para 10 2008 Regs)	Page 95
Financial Instruments (Sch.7 Para 6 2008 Regs)	Pages 32 to 70
Hedge accounting policy (Sch.7 Para 6 2008 Regs)	Note 14, Pages 150 to 154

Articles of Association, Conflicts of interest and indemnification of Directors

The bank's Articles of Association gives the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted policies and procedures for the approval of Directors' conflicts or potential conflicts of interest. On appointment, new Directors are advised of the process for dealing with conflicts and a review of those conflicts that have been authorised, and the terms of those authorisations, is routinely undertaken by the Board.

The Articles of Association of the bank contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of the bank against claims from third parties in respect of certain liabilities. HSBC Group has granted, by way of deed poll, indemnities to the Directors, including former Directors who retired during the year, against certain liabilities arising in connection with their position as a Director of or of any Group company, including the bank and its subsidiaries. Directors are indemnified to the maximum extent permitted by law.

The indemnities that constitute a 'qualifying third-party indemnity provision', as defined by section 234 of the Companies Act 2006, remained in force for the whole of the financial year (or, in the case of Directors appointed during 2020, from the date of their appointment). The deed poll is available for inspection at the registered office of HSBC Holdings.

Additionally, Directors have the benefit of Directors' and Officers' liability insurance. Qualifying pension scheme indemnities have also been granted to the Trustees of the Group's pension schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

Research and Development

In the ordinary course, the lines of business develop new products and services.

Events after the Balance Sheet Date

In its assessment of events after the balance sheet date, the group has considered and concluded that there are no events requiring adjustment or disclosures in the financial statements.

Statement on going concern

The Directors consider it appropriate to prepare the financial statements on the going concern basis. 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;
- 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 21 to 98 was approved by the Board on 21 February 2022 and is signed on its behalf by.

Dave Watts

Director

HSBC Bank plc

21 February 2022

Registered number 00014259

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted accounting standards, and have also applied international financial reporting standards ('IFRSs') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with 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.

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

- select suitable accounting policies and then apply them consistently;
- state whether UK-adopted accounting standards, IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

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

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

Directors' confirmations

The directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

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

- the group and company financial statements, which have been prepared in accordance with UK-adopted accounting standards, IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

Dave Watts

Director

HSBC Bank plc

21 February 2022

Registered number 00014259

Independent auditors’ report to the members of HSBC Bank plc

Report on the audit of the financial statements

Opinion

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

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

We have audited the financial statements, included within the HSBC Bank plc *Annual Report and Accounts 2021* (the 'Annual Report'), which comprise:

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

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

Separate opinion in relation to 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 UK-adopted international accounting standards, 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.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

We performed audits of the complete financial information of two components, namely the UK non-ring-fenced bank and HSBC Continental Europe (HBCE).

For five further components, specific audit procedures were performed over selected significant account balances and financial statement note disclosures.

Key audit matters

- Expected credit losses (‘ECL’) impairment of loans and advances (group and company)
- Valuation of financial instruments (group and company)
- Recognition of deferred tax assets (group); and
- Impairment of investment in subsidiaries (company).

Materiality

- Overall group materiality: £218 million (2020: £222 million) based on 1% of Tier 1 capital.
- Overall company materiality: £140 million (2020: £142 million) based on 1% of Tier 1 capital.
- Performance materiality: £164 million (2020: £166 million) (group) and £105 million (2020: £106 million) (company).

The scope of our audit

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

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit. Compared to last year the number of key audit matters has reduced from six to four. The following are no longer considered to be key audit matters.

- Impact of Covid-19 (group and company) – Given the impact of Covid-19 on working practices and international travel, the majority of our interactions continued to be undertaken virtually, including those with the partners and teams for component audit teams, and with Board members and management. Similarly, a substantial part of our audit testing was performed remotely. We have established practices throughout 2021 for interacting and undertaking our audit testing virtually, consistent with the hybrid working models at both PwC and HSBC.
- The present value of in-force long-term insurance contracts ('PVIF') asset (group) – The risk is reduced due to a reduction in the materiality of changes to judgemental assumptions resulting in lower estimation uncertainty.
- Information Technology ('IT') Access Management (group and company) – Management has remediated a number of the control deficiencies in relation to IT access management.

Recognition of deferred tax assets (group) is a new key audit matter this year. The remaining three key audit matters are consistent with last year.

Expected credit losses – Impairment of loans and advances (group and company)

Nature of the key audit matter

Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating ECL. The significant assumptions that we focus on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. These included assumptions made in determining the following:

- forward looking economic scenarios and their probability weightings for the wholesale portfolios;
- material management judgemental adjustments;
- wholesale customer risk ratings ('CRRs'); and
- estimating expected cash flows and collateral valuations for credit impaired wholesale exposures.

The impact of Covid-19, including the nature and extent of government support, and more recent factors, including supply chain constraints and increasing energy prices, have resulted in unprecedented economic conditions that vary between territories and industries, leading to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable ('MEV') forecasts across the different economic scenarios used in ECL models.

The modelling methodologies used to estimate ECL are developed using historical experience. The impact of the unprecedented economic conditions has resulted in certain limitations in the reliability of these methodologies to forecast the extent and timing of future customer defaults and therefore estimate ECL. In addition, modelling methodologies do not incorporate all factors that are relevant to estimating ECL, such as differentiating the impact on industry sectors of economic conditions. These limitations are addressed with management adjustments, the measurement of which is inherently judgemental and subject to a high level of estimation uncertainty. Management makes other assumptions which are less judgemental or for which variations have a less significant impact on ECL. These assumptions include:

- Model methodologies themselves; and
- Quantitative and qualitative criteria used to assess significant increases in credit risk.

Matters discussed with the Audit Committee

We held discussions with the Audit Committee covering governance and controls over ECL, with a significant focus on judgemental adjustments. We also discussed a number of other areas, including:

- the severity of MEV forecasts in economics scenarios and their related probability weightings;
- management judgemental adjustments and the nature and extent of analysis used to support those adjustments;
- the criteria and conditions used to assess to what extent management judgemental adjustments continue to be needed; and
- management's policies, governance and controls over model validation and monitoring.

How our audit addressed the Key Audit Matter

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

We also tested controls over:

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

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

In addition, we performed substantive testing over:

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

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

Relevant references in the Annual Report and Accounts 2021

- Credit risk, page 32.
- Audit Committee, page 90.
- Note 1.2(i) Impairment of amortised cost and FVOCI financial assets, page 122

Valuation of financial instruments (group and company)

Nature of the key audit matter

The financial instruments held by the group range from those that are traded daily on active markets with quoted prices, to more complex and bespoke positions. The valuation of these financial instruments can require the use of complex valuation models and/or prices or inputs which are not readily observable in the market.

Where significant pricing inputs are unobservable, the financial instruments are classified as Level 3 (L3), per the IFRS 13 fair value hierarchy. Determining unobservable inputs in fair value measurement involves management judgement and is subject to a high degree of estimation uncertainty. There is also a risk that certain L3 portfolios are not valued appropriately due to the complexity of the trades, specifically where valuation modelling techniques result in significant limitations or where there is greater uncertainty around the choice of an appropriate pricing methodology.

Valuation of the L3 asset backed securities held by the Markets & Securities Services business have a significant risk attached to the valuation methodology due to the complexity of the valuation models and lack of observable pricing inputs.

The own credit spread (OCS) adjustment for issued debt instruments held at fair value also forms part of our significant risk due to its underlying modelling complexity as well as unobservability of the inputs.

Matters discussed with the Audit Committee

We discussed with the Audit Committee the results of our review of fair valuation adjustment methodology and the results of our substantive testing which included independent revaluation of a range of financial instruments, including a sample of Level 3 positions.

How our audit addressed the Key Audit Matter

For fair values based on complex valuation models and significant unobservable inputs, specifically asset backed securities and issued debt instruments held at fair value, we performed the following:

- Tested the design and operating effectiveness of key controls supporting the identification and measurement of the valuation of financial instruments, including the independent price verification process.
- Engaged our valuation experts to perform independent revaluation of a sample of trades to determine if management's estimates fell within a reasonable range.

For OCS, we engaged our valuation experts to assess the methodology and underlying assumptions and compare with our knowledge of current industry practice. Controls over the calculation of these adjustments were also tested.

We also evaluated the adequacy and extent of disclosures made in the financial statements in relation to valuation of L3 financial instruments.

Relevant references in the Annual Report and Accounts 2021

- Audit Committee, page 90.
- Note 1.2(c) Valuation of financial instruments, page 120
- Note 11: Fair values of financial instruments carried at fair value, page 140

Recognition of deferred tax assets (group)

Nature of the key audit matter

Recognition of deferred tax assets ('DTAs') relies on an assessment of the availability of future taxable profits against which to recognise accumulated tax losses.

An assessment of the recoverability of deferred tax assets was performed and deferred tax assets of £555m have been recorded in HSBC Continental Europe ('HBCE') of which £261m relates to deductible temporary differences and £294m relates to brought forward tax losses.

As at 31 December 2021, HBCE had accumulated tax losses of £496m, of which £380m arose during 2021. Losses generated in 2019 and 2020 had not previously been recognised on the balance sheet as DTAs given the history of HBCE taxable losses in those years. Management judgement is required when assessing whether there is convincing other evidence of future taxable profits, including over assumptions regarding the forecast cash flows and determination of risk adjustments to such cash flows and with regard to the timing of the reversal of temporary differences.

Management’s assessment required consideration of the impact of the disposal of the French retail business, including the impact that business, and other one off restructuring costs, have had on historical taxable profitability as well as the impact on future taxable profits across a number of scenarios. Significant management judgements and assumptions have been required in determining the quantum and probability of future taxable profits.

Matters discussed with the Audit Committee

We discussed with the Audit Committee our risk assessment with respect to DTA recognition. We held discussions with the Audit Committee covering controls over DTA and we also discussed the results of our challenge of the key judgements and estimates being made with regard to deferred tax.

How our audit addressed the Key Audit Matter

- We tested the design and operating effectiveness of controls over deferred tax asset recognition.
- With the support of our tax specialists we assessed the viability of management’s strategy to recover deferred tax assets.
- We tested key inputs into the deferred tax recognition model, including forecast cash flows to approved plans and consistency with other judgements.
- We challenged management on their methodology and underlying assumptions in arriving at their judgements, including in relation to availability of convincing other evidence of future taxable profits and determination of risk adjustments applied to those forecast taxable profits.
- In assessing these judgements we considered the historic taxable profits and losses and the evidence provided to support the judgement that the criteria for recognition had been reached. We challenged the achievability of management's forecast taxable profits and assumptions made over the future reversal of deferred tax assets and liabilities and reviewed management’s stress and scenario analyses over the likelihood of future taxable profits.

We evaluated and tested the disclosures made in the financial statements in relation to deferred tax.

Relevant references in the Annual Report and Accounts 2021

- Audit Committee Report, page 90.
- Note 1.2(l) Tax, page 126
- Note 7: Tax, page 135

Impairment of investment in subsidiaries (company)

Nature of the key audit matter

An annual impairment indicators assessment is performed for each of the company’s investments in subsidiaries. The sale of the retail banking business in France, for which a framework agreement was signed in November 2021, and the ongoing restructuring within the company's largest subsidiary, HSBC Continental Europe (‘HBCE’), is considered by management to be an indicator of impairment.

An impairment test was performed for the company’s investment in HBCE using a value in use (‘VIU’) model to estimate the recoverable amount. The recoverable amount was higher than the carrying value for this investment and therefore no impairment was recorded. The investment in HBCE amounts to £4.3bn as at 31 December 2021.

The methodology in the VIU model is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management’s judgement, experts engaged by management and market data. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amount. Specifically, these included forecast cash flows for 2022 to 2026, capital requirements, long term growth rates and discount rates.

Matters discussed with the Audit Committee

We discussed the appropriateness of methodologies used and significant assumptions with the Audit Committee, giving consideration to the group’s strategy. We discussed the sensitivity of the impairment assessment to the key assumptions, in particular the forecast cash flows and the discount rate. We also discussed the disclosures made in relation to investment in subsidiaries, including the use of sensitivity analysis to explain estimation uncertainty and the conditions that would result in an impairment being recognised.

How our audit addressed the Key Audit Matter

We tested the control in place over the forecasted cash flow assumptions used to determine the recoverable amounts. We assessed the appropriateness of the methodology used, and the mathematical accuracy of the calculations, to estimate the recoverable amounts. In respect of the significant assumptions, our testing included the following:

- Challenging the achievability of management’s forecast cash flows;
- Obtaining and evaluating evidence where available for critical data relating to significant assumptions, from a combination of historic experience and external market and other group financial information;
- Assessing whether the cash flows included in the model were in accordance with the relevant accounting standard;
- Assessing the sensitivity of the VIU to reasonable variations in significant assumptions, both individually and in aggregate; and
- Determining a reasonable range for the discount rate used within the model, with the assistance of our valuation experts, and comparing it to the discount rate used by management.

We evaluated and tested the disclosures made in the financial statements in relation to investment in subsidiaries.

Relevant references in the Annual Report and Accounts 2021
• Audit Committee Report, page 90.
• Note 1.2(a) Consolidation and related policies, page 119
• Note 18: Investment in subsidiaries, page 156

How we tailored the audit scope

We performed a risk assessment, giving consideration to relevant external and internal factors, including Covid-19, climate change, geopolitical and economic risks, relevant accounting and regulatory developments, the group's strategy and the changes taking place across the group. We also considered our knowledge and experience obtained in prior year audits. As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances, the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the HSBC Holdings plc climate stress testing performed in 2021.

Using our risk assessment, we tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

HSBC Bank plc is structured into five divisions being Markets & Securities Services, Global Banking, GBM Other, Commercial Banking and Wealth and Personal Banking, which are supported by a Corporate Centre. The divisions operate across a number of operations, subsidiary entities and branches ('components') throughout Europe. Within the group's main consolidation and financial reporting system, the consolidated financial statements are an aggregation of the components. Each component submits their financial information to the group in the form of a consolidation pack.

In establishing the overall approach to the group and company audit, we scoped using the balances included in the consolidation pack. We determined the type of work that needed to be performed over the components by us, as the group engagement team, or auditors within PwC UK and from other PwC network firms operating under our instruction ('component auditors').

As a result of our scoping, for the group we determined that audits of the complete financial information of the UK non-ring-fenced bank ('UK NRFB') and HSBC Continental Europe (HBCE) were necessary, owing to their financial significance. We instructed component auditors, PwC UK and PwC France to perform the audits of these components. Our interactions with component auditors included regular communication throughout the audit, including the issuance of instructions, a review of working papers relating to the key audit matters and formal clearance meetings. The group audit engagement partner was also the partner on the audit of the UK NRFB significant component.

We then considered the significance of other components in relation to primary statement account balances and note disclosures. 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 five components, specific audit procedures were performed over selected significant account balances. For the remainder, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and group and company level analytical review procedures.

Certain group-level account balances were audited by the group engagement team.

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:

	Financial statements - group	Financial statements - company
Overall materiality	£218 million (2020: £222 million).	£140 million (2020: £142 million).
How we determined it	1% of Tier 1 capital.	1% of Tier 1 capital.
Rationale for benchmark applied	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.

Tier 1 capital was also used as the benchmark in the prior year. The basis for determining materiality was re-evaluated and we considered other benchmarks, such as profit before tax. Tier 1 capital is a common benchmark for wholly owned banking subsidiaries, because of the focus on financial stability. Tier 1 capital was determined to continue to be an appropriate benchmark given the importance of this metric to the HSBC Bank plc decision making process and to principal users of the financial statements, including the ultimate holding company HSBC Holdings plc.

For each component 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 components was £9 million to £130 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £164 million (2020: £166 million) for the group financial statements and £105 million (2020: £106 million) for the 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 £11 million (group audit) (2020: £7 million) and £7 million (company audit) (2020: £7 million) 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 company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of external risks including Covid-19 and climate change risks.
- Understanding and evaluating the group and company's financial forecasts and 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 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 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 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 Report of the Directors for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and 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 in respect of the financial statements, 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Review of correspondence with and reports to the regulators, including the PRA and FCA;
- Review of reporting to the Audit Committee and Risk Committee in respect of compliance and legal matters;
- Review of a sample of legal correspondence with legal advisors;
- Enquiries of management and review of internal audit reports in so far as they related to the financial statements;
- Obtaining legal confirmations from legal advisors relating to material litigation and compliance matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the determination of fair value for certain financial instruments, the determination of expected credit losses, impairment assessments of investments in subsidiaries and recognition of deferred tax assets (see related key audit matters above);
- Obtaining confirmations from third parties to confirm the existence of a sample of transactions and balances; and
- Identifying and testing journal entries meeting specific fraud criteria, including those posted with certain descriptions, posted and approved by the same individual, backdated journals or posted by infrequent and unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the 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 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 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 directors on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2015 to 31 December 2021.

Other matter

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

Claire Sandford

(Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London

21 February 2022

Financial statements

Notes on the financial statements

Consolidated income statement

for the year ended 31 December

	Notes*	2021 £m	2020 £m
Net interest income		**1,754**	1,898
– interest income[1,2]		**3,149**	4,086
– interest expense[3]		**(1,395)**	(2,188)
Net fee income	2	**1,413**	1,400
– fee income		**2,706**	2,674
– fee expense		**(1,293)**	(1,274)
Net income from financial instruments held for trading or managed on a fair value basis	3	**1,733**	1,758
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	**1,214**	254
Changes in fair value of long-term debt and related derivatives	3	**(8)**	17
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	**493**	285
Gains less losses from financial investments		**60**	95
Net insurance premium income	4	**1,906**	1,559
Other operating income[4]		**594**	417
Total operating income		**9,159**	7,683
Net insurance claims, benefits paid and movement in liabilities to policyholders	4	**(3,039)**	(1,783)
Net operating income before change in expected credit losses and other credit impairment charges[5]		**6,120**	5,900
Change in expected credit losses and other credit impairment charges		**174**	(808)
Net operating income		**6,294**	5,092
Total operating expenses		**(5,462)**	(6,705)
– employee compensation and benefits	5	**(2,023)**	(2,340)
– general and administrative expenses		**(3,265)**	(3,092)
– depreciation and impairment of property, plant and equipment and right of use assets		**(110)**	(372)
– amortisation and impairment of intangible assets	20	**(64)**	(901)
Operating profit/(loss)		**832**	(1,613)
Share of profit/(loss) in associates and joint ventures	17	**191**	(1)
Profit/(loss) before tax		**1,023**	(1,614)
Tax credit	7	**23**	136
Profit/(loss) for the period		**1,046**	(1,478)
Profit/(loss) attributable to the parent company		**1,041**	(1,488)
Profit attributable to non-controlling interests		**5**	10

* *For Notes on the financial statements, see page 118.*
1 *Interest income includes £1,986m (2020: £2,773m) of interest recognised on financial assets measured at amortised cost; £659m (2020: £656m) of negative interest recognised on financial liabilities and £504m (2020: £657m) of interest recognised on financial assets measured at fair value through other comprehensive income. Include within this is £61m (2020: £57m) interest recognised on impaired financial assets.*
2 *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.*
3 *Interest expense includes £616m (2020: £1,299m) of interest on financial liabilities, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value.*
4 *2021 balances include £65m gain recognised from sale of HSBC Trinkaus & Burkhardt AG's one property which was classified as held for sale.*
5 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as 'revenue'.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2021	2020
	£m	£m
Profit/(loss) for the year	**1,046**	(1,478)
Other comprehensive (expense)/income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**(237)**	213
– fair value (losses)/gains	**(247)**	366
– fair value gains transferred to the income statement on disposal	**(63)**	(90)
– expected credit (recoveries)/losses recognised in the income statement	**(5)**	8
– income taxes	**78**	(71)
Cash flow hedges	**(165)**	118
– fair value (losses)/gains	**(40)**	86
– fair value (gains)/losses reclassified to the income statement	**(202)**	72
– income taxes	**77**	(40)
Exchange differences	**(603)**	467
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**44**	(8)
– before income taxes	**61**	(18)
– income taxes	**(17)**	10
Equity instruments designated at fair value through other comprehensive income	**2**	2
– fair value gains	**2**	2
– income taxes	**—**	—
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**2**	67
– fair value gains	**3**	93
– income taxes	**(1)**	(26)
Other comprehensive (expense)/income for the year, net of tax	**(957)**	859
Total comprehensive income/(expense) for the year	**89**	(619)
Attributable to:		
– shareholders of the parent company	**93**	(653)
– non-controlling interests	**(4)**	34
Total comprehensive income/(expense) for the year	**89**	(619)

Consolidated balance sheet

at 31 December

	Notes*	2021 £m	2020 £m
Assets			
Cash and balances at central banks		**108,482**	85,092
Items in the course of collection from other banks		**346**	243
Trading assets	*10*	**83,706**	86,976
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	*13*	**18,649**	16,220
Derivatives	*14*	**141,221**	201,210
Loans and advances to banks		**10,784**	12,646
Loans and advances to customers		**91,177**	101,491
Reverse repurchase agreements – non-trading		**54,448**	67,577
Financial investments	*15*	**41,300**	51,826
Prepayments, accrued income and other assets	*21*	**43,127**	55,565
Current tax assets		**1,135**	444
Interests in associates and joint ventures	*17*	**743**	497
Goodwill and intangible assets	*20*	**894**	766
Deferred tax assets	*7*	**599**	597
Total assets		**596,611**	681,150
Liabilities and equity			
Liabilities			
Deposits by banks		**32,188**	34,305
Customer accounts		**205,241**	195,184
Repurchase agreements – non-trading		**27,259**	34,903
Items in the course of transmission to other banks		**489**	290
Trading liabilities	*22*	**46,433**	44,229
Financial liabilities designated at fair value	*23*	**33,608**	40,792
Derivatives	*14*	**139,368**	199,232
Debt securities in issue		**9,428**	17,371
Accruals, deferred income and other liabilities	*24*	**43,456**	53,395
Current tax liabilities		**97**	139
Liabilities under insurance contracts	*4*	**22,264**	22,816
Provisions	*25*	**562**	861
Deferred tax liabilities	*7*	**15**	20
Subordinated liabilities	*26*	**12,488**	13,764
Total liabilities		**572,896**	657,301
Equity			
Total shareholders' equity		**23,584**	23,666
– called up share capital	*29*	**797**	797
– other equity instruments	*29*	**3,722**	3,722
– other reserves		**(5,670)**	(4,682)
– retained earnings		**24,735**	23,829
Non-controlling interests		**131**	183
Total equity		**23,715**	23,849
Total liabilities and equity		**596,611**	681,150

* *For Notes on the financial statements, see page 118.*

The accompanying notes on pages 118 to 178, and the audited sections of the 'Report of the Directors' on pages 21 to 96 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 21 February 2022 and signed on its behalf by:

Dave Watts

Director

Consolidated statement of cash flows

for the year ended 31 December

	2021	2020
	£m	£m
Profit/(loss) before tax	**1,023**	(1,614)
Adjustments for non-cash items		
Depreciation, amortisation and impairment[1]	**174**	1,273
Net gain from investing activities	**(62)**	(99)
Share of (profit)/losses in associates and joint ventures	**(191)**	1
Change in expected credit losses gross of recoveries and other credit impairment charges	**(171)**	810
Provisions including pensions	**104**	424
Share-based payment expense	**96**	78
Other non-cash items included in profit/loss before tax	**(198)**	135
Elimination of exchange differences[2]	**4,926**	(2,527)
Changes in operating assets and liabilities	**9,602**	35,418
– change in net trading securities and derivatives	**8,157**	8,070
– change in loans and advances to banks and customers	**11,149**	6,780
– change in reverse repurchase agreements – non-trading	**9,538**	16,084
– change in financial assets designated and otherwise mandatorily measured at fair value	**(2,429)**	735
– change in other assets	**10,924**	(7,513)
– change in deposits by banks and customer accounts	**7,940**	28,262
– change in repurchase agreements – non-trading	**(7,643)**	(14,482)
– change in debt securities in issue	**(7,943)**	(7,668)
– change in financial liabilities designated at fair value	**(7,191)**	(402)
– change in other liabilities	**(12,295)**	5,432
– contributions paid to defined benefit plans	**(24)**	(22)
– tax paid	**(581)**	142
Net cash from operating activities	**15,303**	33,899
– purchase of financial investments	**(18,890)**	(21,037)
– proceeds from the sale and maturity of financial investments	**25,027**	17,417
– net cash flows from the purchase and sale of property, plant and equipment	**52**	(70)
– net investment in intangible assets	**(45)**	(150)
– net cash outflow from investment in associates and acquisition of businesses and subsidiaries	**(85)**	(371)
– net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	**—**	57
Net cash from investing activities	**6,059**	(4,154)
– redemption of preference shares and other equity instruments	**—**	(318)
– subordinated loan capital issued	**10,466**	—
– subordinated loan capital repaid[3]	**(10,902)**	(18)
– dividends to the parent company	**(194)**	(263)
– funds received from the parent company	**—**	1,000
– dividends paid to non-controlling interests	**(1)**	—
Net cash from financing activities	**(631)**	401
Net increase/(decrease) in cash and cash equivalents	**20,731**	30,146
Cash and cash equivalents at 1 Jan	**125,304**	92,338
Exchange difference in respect of cash and cash equivalents	**(5,112)**	2,820
Cash and cash equivalents at 31 Dec[4]	**140,923**	125,304
Cash and cash equivalents comprise of		
– cash and balances at central banks	**108,482**	85,092
– items in the course of collection from other banks	**346**	243
– loans and advances to banks of one month or less	**7,516**	8,676
– reverse repurchase agreement with banks of one month or less	**17,430**	21,020
– treasury bills, other bills and certificates of deposit less than three months	**235**	685
– cash collateral and net settlement accounts	**7,403**	9,878
– less: items in the course of transmission to other banks	**(489)**	(290)
Cash and cash equivalents at 31 Dec[4]	**140,923**	125,304

1 *Included within 2020 are the impact of impairment and write-offs related principally to our businesses in the UK and HSBC Continental Europe (£994m).*

2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

3 *Subordinated liabilities changes during the year are attributable to cash flows from issuance £10,466m (2020: Nil)) and repayment of £(10,902)m (2020: £(18)m) of securities as presented in the Consolidated statement of cash flows. Non-cash changes during the year included foreign exchanges gains/(losses) £(512)m (2020: £351m) and fair value gains/(losses) £(82)m (2020: £69m).*

4 *At 31 December 2021, £9,410m (2020: £11,828m) was not available for use by the group, of which £1,393m (2020: £2,460m) related to mandatory deposits at central banks.*

Interest received was £4,285m (2020: £5,424m), interest paid was £2,919m (2020: £3,725m) and dividends received were £704m (2020: £423m).

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves						
	Called up share capital	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve ('GRR')[4]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**797**	**3,722**	**23,829**	**1,309**	**158**	**1,543**	**(7,692)**	**23,666**	**183**	**23,849**
Profit for the year	–	–	1,041	–	–	–	–	1,041	5	1,046
Other comprehensive (expense)/income (net of tax)	–	–	46	(234)	(165)	(595)	–	(948)	(9)	(957)
– debt instruments at fair value through other comprehensive income	–	–	–	(236)	–	–	–	(236)	(1)	(237)
– equity instruments designated at fair value through other comprehensive income	–	–	–	2	–	–	–	2	–	2
– cash flow hedges	–	–	–	–	(165)	–	–	(165)	–	(165)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	2	–	–	–	–	2	–	2
– remeasurement of defined benefit asset/liability	–	–	44	–	–	–	–	44	–	44
– exchange differences	–	–	–	–	–	(595)	–	(595)	(8)	(603)
Total comprehensive income/ (expense) for the year	–	–	1,087	(234)	(165)	(595)	–	93	(4)	89
Dividends to the parent company[2]	–	–	(194)	–	–	–	–	(194)	(1)	(195)
Net impact of equity-settled share-based payments	–	–	(10)	–	–	–	–	(10)	–	(10)
Change in business combinations and other movements[3]	–	–	23	6	–	–	–	29	(47)	(18)
At 31 Dec 2021	**797**	**3,722**	**24,735**	**1,081**	**(7)**	**948**	**(7,692)**	**23,584**	**131**	**23,715**

1 *At 31 December 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £165m. The cumulative change on 31 December 2020 was a loss of £189m.*
2 *The dividends to the parent company are the coupons payment on additional tier 1 instruments.*
3 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG and HSBC Bank Armenia cjsc, increasing the group's interest to 100%.*
4 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Called up share capital	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorganisation reserve ('GRR')	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	24,449	1,089	40	1,098	(7,692)	23,503	509	24,012
Loss for the year	—	—	(1,488)	—	—	—	—	(1,488)	10	(1,478)
Other comprehensive income (net of tax)	—	—	56	216	118	445	—	835	24	859
– debt instruments at fair value through other comprehensive income	—	—	—	214	—	—	—	214	(1)	213
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2	—	2
– cash flow hedges	—	—	—	—	118	—	—	118	—	118
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	67	—	—	—	—	67	—	67
– remeasurement of defined benefit asset/ liability	—	—	(11)	—	—	—	—	(11)	3	(8)
– exchange differences	—	—	—	—	—	445	—	445	22	467
Total comprehensive (expense)/income for the year	—	—	(1,432)	216	118	445	—	(653)	34	(619)
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to the parent company[2]	—	—	(263)	—	—	—	—	(263)	—	(263)
Net impact of equity-settled share-based payments	—	—	11	—	—	—	—	11	—	11
Capital contribution[3]	—	—	1,000	—	—	—	—	1,000	—	1,000
Change in business combinations and other movements[4]	—	—	64	4	—	—	—	68	(360)	(292)
At 31 Dec 2020	797	3,722	23,829	1,309	158	1,543	(7,692)	23,666	183	23,849

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

2 *The dividends to the parent company includes, £51m on preference shares and £212m paid as coupons on additional tier 1 instruments.*

3 *HSBC UK Holdings Limited injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*

4 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*

HSBC Bank plc balance sheet

at 31 December

	Notes*	2021 £m	2020 £m
Assets			
Cash and balances at central banks		**63,008**	48,777
Items in the course of collection from other banks		**211**	37
Trading assets	10	**70,790**	73,035
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	**3,215**	1,865
Derivatives	14	**125,787**	182,066
Loans and advances to banks		**6,778**	8,063
Loans and advances to customers		**33,936**	43,241
Reverse repurchase agreements – non-trading		**39,708**	50,137
Financial investments	15	**26,542**	30,969
Prepayments, accrued income and other assets	21	**31,490**	38,775
Current tax assets		**1,071**	388
Investments in subsidiary undertakings	18	**6,479**	6,458
Goodwill and intangible assets	20	**34**	31
Deferred tax assets	7	**509**	549
Total assets		**409,558**	484,391
Liabilities and equity			
Liabilities			
Deposits by banks		**14,655**	17,484
Customer accounts		**124,706**	119,974
Repurchase agreements – non-trading		**22,344**	26,996
Items in the course of transmission to other banks		**172**	14
Trading liabilities	22	**31,161**	26,673
Financial liabilities designated at fair value	23	**20,869**	24,687
Derivatives	14	**127,651**	181,032
Debt securities in issue		**5,658**	15,356
Accruals, deferred income and other liabilities	24	**30,170**	38,571
Current tax liabilities		**5**	9
Provisions	25	**250**	413
Deferred tax liabilities	7	**—**	3
Subordinated liabilities	26	**12,218**	13,360
Total liabilities		**389,859**	464,572
Equity			
Called up share capital	29	**797**	797
Other equity instruments	29	**3,722**	3,722
Other reserves		**(5,173)**	(4,799)
Retained earnings		**20,353**	20,099
Total equity		**19,699**	19,819
Total liabilities and equity		**409,558**	484,391

* *For Notes on the financial statements, see page 118.*

Profit after tax for the year was £455m (2020: loss after tax £(644)m).

The accompanying notes on pages 118 to 178, and the audited sections of the 'Report of the Directors' on pages 21 to 96 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 21 February 2022 and signed on its behalf by:

Dave Watts

Director

HSBC Bank plc statement of cash flows

for the year ended 31 December

	2021	2020
	£m	£m
Profit/(loss) before tax	**273**	(936)
Adjustments for non-cash items		
Depreciation, amortisation and impairment[1]	**18**	635
Net (gain)/loss from investing activities	**(34)**	(67)
Change in expected credit losses gross of recoveries and other credit impairment charges	**(216)**	457
Provisions including pensions	**42**	154
Share-based payment expense	**71**	56
Other non-cash items included in profit/loss before tax	**(7)**	8
Elimination of exchange differences[2]	**1,073**	108
Changes in operating assets and liabilities	**4,150**	27,197
– change in net trading securities and derivatives	**11,761**	11,580
– change in loans and advances to banks and customers	**9,712**	8,568
– change in reverse repurchase agreements – non-trading	**5,651**	5,890
– change in financial assets designated and otherwise mandatorily measured at fair value	**(1,350)**	1,264
– change in other assets[3]	**4,383**	(3,771)
– change in deposits by banks and customer accounts	**1,903**	12,062
– change in repurchase agreements – non-trading	**(4,652)**	(9,331)
– change in debt securities in issue	**(9,698)**	318
– change in financial liabilities designated at fair value	**(3,831)**	500
– change in other liabilities	**(9,357)**	(71)
– contributions paid to defined benefit plans	**(21)**	(22)
– tax paid	**(351)**	210
Net cash from operating activities	**5,370**	27,612
– purchase of financial investments	**(15,185)**	(13,882)
– proceeds from the sale and maturity of financial investments	**18,285**	11,791
– net cash flows from the purchase and sale of property, plant and equipment	**(4)**	(9)
– net investment in intangible assets	**(8)**	(98)
Net cash from investing activities	**3,088**	(2,198)
– subordinated loan capital issued	**10,466**	—
– subordinated loan capital repaid[4]	**(10,791)**	(313)
– funds received from the parent company	**—**	1,000
– dividends to the parent company	**(194)**	(263)
Net cash from financing activities	**(519)**	424
Net increase/(decrease) in cash and cash equivalents	**7,939**	25,838
Cash and cash equivalents at 1 Jan	**77,605**	51,235
Exchange difference in respect of cash and cash equivalents	**(1,730)**	532
Cash and cash equivalents at 31 Dec	**83,814**	77,605
Cash and cash equivalents comprise of:		
– cash and balances at central banks	**63,008**	48,777
– items in the course of collection from other banks	**211**	37
– loans and advances to banks of one month or less	**4,323**	5,338
– reverse repurchase agreement with banks of one month or less	**9,779**	14,558
– treasury bills, other bills and certificates of deposit less than three months	**175**	279
– cash collateral and net settlement accounts	**6,490**	8,630
– less: items in the course of transmission to other banks	**(172)**	(14)
Cash and cash equivalents at 31 Dec	**83,814**	77,605

1 *Included within 2020 is the impact of impairment related to our business in the UK (£531m).*
2 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
3 *Includes additional investment in subsidiaries £17m (2020: £443m).*
4 *Subordinated liabilities changes during the year are attributable to cash flows from issuance £10,466m (2020: Nil) and repayment of £(10,791)m (2020: £(313)m) of securities as presented in the HSBC Bank plc statement of cash flows. Non-cash changes during the year included foreign exchanges gains(losses) £(489)m (2020: £329m) and fair value gains £(82)m (2020: £69m).*

Interest received was £2,321m (2020: £3,211m), interest paid was £1,827m (2020: £2,539m) and dividends received was £902m (2020: £555m).

HSBC Bank plc statement of changes in equity

for the year ended 31 December

				Other reserves				
	Called up share capital	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve ('GRR')[4]	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**797**	**3,722**	**20,099**	**351**	**55**	**43**	**(5,248)**	**19,819**
Profit for the year	—	—	455	—	—	—	—	455
Other comprehensive (expense)/income (net of tax)	—	—	14	(216)	(137)	(21)	—	(360)
– debt instruments at fair value through other comprehensive income	—	—	—	(215)	—	—	—	(215)
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	(1)
– cash flow hedges	—	—	—	—	(137)	—	—	(137)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	—	—	—	—	—	—
– remeasurement of defined benefit asset/ liability	—	—	14	—	—	—	—	14
– exchange differences	—	—	—	—	—	(21)	—	(21)
Total comprehensive income/(expense) for the period	—	—	469	(216)	(137)	(21)	—	95
Dividends to the parent company[2]	—	—	(194)	—	—	—	—	(194)
Net impact of equity-settled share-based	—	—	(10)	—	—	—	—	(10)
Change in business combinations and other movements[3]	—	—	(11)	—	—	—	—	(11)
At 31 Dec 2021	**797**	**3,722**	**20,353**	**135**	**(82)**	**22**	**(5,248)**	**19,699**

1 *At 31 December 2021, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £72m. The cumulative change on 31 December 2020 was a loss of £76m.*
2 *The dividends to the parent company are the coupons payment on additional tier 1 instruments.*
3 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in Feb 2021, increasing the group's interest from 99.33% to 100.00%.*
4 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

HSBC Bank plc statement of changes in equity (continued)

for the year ended 31 December

				Other reserves				
	Called up share capital	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve ('GRR')	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
1 January 2020	797	3,722	19,876	182	(32)	77	(5,248)	19,374
Loss for the year	—	—	(644)	—	—	—	—	(644)
Other comprehensive income/(expense) (net of tax)	—	—	107	170	87	(28)	—	336
– debt instruments at fair value through other comprehensive income	—	—	—	168	—	—	—	168
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2
– cash flow hedges	—	—	—	—	87	—	—	87
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	92	—	—	—	—	92
– remeasurement of defined benefit asset/ liability	—	—	15	—	—	—	—	15
– exchange differences	—	—	—	—	—	(28)	—	(28)
Total comprehensive (expense)/income for the period	—	—	(537)	170	87	(28)	—	(308)
Capital securities issued during the period	—	—	—	—	—	—	—	—
Dividends to the parent company[2]	—	—	(263)	—	—	—	—	(263)
Net impact of equity-settled share-based payments	—	—	11	—	—	—	—	11
Capital contribution[3]	—	—	1,000	—	—	—	—	1,000
Change in business combinations and other movements[4]	—	—	12	(1)	—	(6)	—	5
At 31 Dec 2020	797	3,722	20,099	351	55	43	(5,248)	19,819

1 *At 31 December 2020, the cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a loss of £76m.*
2 *The dividends to the parent company includes £51m on preference shares and £212m paid as coupons on additional tier 1 instruments.*
3 *HSBC UK Holdings Limited injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*
4 *Additional shares were acquired in HSBC Trinkaus & Burkhardt AG in May 2020, increasing the group's interest from 80.67% to 99.33%.*

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 the group and the separate financial statements of HSBC Bank plc comply with UK-adopted international accounting standards and 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. There were no unendorsed standards effective for the year ended 31 December 2021 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2021

There were no new accounting standards or interpretations that had a significant effect on the group in 2021. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2021 that are applicable to the group. 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 HSBC Bank plc.

New IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020. The standard sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Following the amendments, IFRS 17 is effective from 1 January 2023. The standard has been endorsed for use in the EU but has not yet been endorsed for use in the UK. The group is in the process of implementing IFRS 17. Industry practice and interpretation of the standard are still developing. Therefore, the likely financial impact of its implementation remains uncertain. However, we have the following expectations as to the impact compared with our current accounting policy for insurance contracts, which is set out in policy 1.2(j) below:

- Under IFRS 17, there will be no present value of in-force business ('PVIF') asset recognised. Instead the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM'), representing unearned profit, and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17. The removal of the PVIF asset and the recognition of CSM, which is a liability, will reduce equity. The PVIF asset will be eliminated to equity on transition, together with other adjustments to assets and liabilities to reflect IFRS 17 measurement requirements and any consequential amendments to financial assets in the scope of IFRS 9.
- IFRS 17 requires increased use of current market values in the measurement of insurance liabilities. Changes in market conditions for certain products measured under the general measurement approach are immediately recognised in profit or loss, while changes in market conditions for other products measured under the variable fee approach are included in the measurement of CSM.
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and recognised in the results of insurance services as a reduction in reported revenue, as profit is recognised over the duration of insurance contracts. Costs that are not directly attributable remain in operating expenses. This will result in a reduction in reported operating expenses compared with the current accounting policy.
- We intend to provide an update on the likely financial impacts in later 2022 financial reports, when we expect that this will be reasonably estimable.

(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.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not sterling are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into sterling at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2021* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Report of the Directors: Risk' on pages 21 to 87;

- the 'Own funds' disclosure is included in the 'Report of the Directors: Capital Risk in 2021' on page 73; and
- 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 Bank plc'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 bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Our global businesses' on page 6.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and the company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty that the global Covid-19 pandemic has had on the group'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 bank's investments in subsidiaries are stated at cost less impairment losses.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment 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 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 each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to the investment. The cost of equity percentage is generally derived from a capital asset pricing model and the market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate 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 impairment in subsidiaries are described in Note 18

Group sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. The group is generally not considered a sponsor if the only involvement with the entity is merely administrative.

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 those 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.

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 the group delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain fund management and 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 HSBC'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.

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.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss': This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces and accounting mismatch.
- '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) below.

The accounting policies for insurance premium income are disclosed in Note 1.2(j).

(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. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
• An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs • 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used)	• Details on the group's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonable possible alternative assumptions in determining their fair value are set out in Note 11

(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.

The group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

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.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

(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 HSBC 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) Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at fair value through profit or loss (except for dividend income, which is recognised in profit or loss).

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with

discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.

- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) 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, with changes in fair value generally recorded in the income statement. 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 HSBC 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, cash flow hedges or hedges of net investments in foreign operations 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 trading income'. 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.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses 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’s rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared 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, and the geographical region. 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 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	30bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 32.

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, HSBC 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.

HSBC makes use of the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data • Discounted using cost of capital • All collection costs included	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) • No floors • Discounted using the original effective interest rate of the loan • Only costs associated with obtaining/selling collateral included
Other		• Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as 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 its 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 HSBC 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 HSBC 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 HSBC'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 HSBC 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

HSBC applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may 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 41.

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 • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements	• The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited from page 41 sets out the assumptions used in determining ECL, and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(j) Insurance contracts

A contract is classified as an insurance contract where the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the group issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Net insurance premium income

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and benefits paid and movements in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with DPF

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The group recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

(k) 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 number of pension schemes including defined benefit, defined contribution and post-employment benefit schemes.

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, 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.

(l) 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. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

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.

Critical accounting judgements

The recognition of deferred tax assets depends on judgements
Judgements
• In assessing the probability and sufficiency of future taxable profit, we consider the availability of evidence to support the recognition of deferred tax assets. taking into account the inherent risk in long term forecasting and drivers of recent history of tax losses where applicable, taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganisations. Specific judgements supporting deferred tax assets are described in Note 7.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) 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 value 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. 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.

2 Net fee income

Net fee income by product type

	2021	2020
	£m	£m
Account services	271	239
Funds under management	465	424
Cards	44	44
Credit facilities	246	250
Broking income	368	369
Unit trusts	5	3
Imports/exports	40	41
Remittances	84	62
Underwriting	286	360
Global custody	200	220
Insurance agency commission	17	19
Other	680	643
Fee income	**2,706**	2,674
Less: fee expense	(1,293)	(1,274)
Net fee income	**1,413**	1,400

Net fee income by global business

	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 Dec 2021							
Fee income	**1,251**	**861**	**89**	**415**	**633**	**(543)**	**2,706**
Less: fee expense	(1,245)	(188)	(83)	(54)	(255)	532	(1,293)
Net fee income	**6**	**673**	**6**	**361**	**378**	**(11)**	**1,413**
Year ended 31 Dec 2020[1]							
Fee income	1,243	857	94	407	603	(530)	2,674
Less: fee expense	(1,209)	(172)	(123)	(51)	(245)	526	(1,274)
Net fee income	34	685	(29)	356	358	(4)	1,400

1 *A change in reportable segments was made in 2021. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138*

Net fee income includes £935m of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2020: £883m), £221m of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2020: £176m), £709m of fees earned on trust and other fiduciary activities (2020: £688m), and £61m of fees payable relating to trust and other fiduciary activities (2020: £68m).

3 Net income from financial instruments measured at fair value through profit or loss

	2021	2020
	£m	£m
Net income arising on:		
Net Trading activities	3	1,948
Other instruments managed on a fair value basis	1,730	(190)
Net income from financial instruments held for trading or managed on a fair value basis	**1,733**	1,758
Financial assets held to meet liabilities under insurance and investment contracts	1,305	290
Liabilities to customers under investment contracts	(91)	(36)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**1,214**	254
Derivatives managed in conjunction with the group's issued debt securities	(337)	112
Other changes in fair value	329	(95)
Changes in fair value of designated debt and related derivatives	**(8)**	17
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**493**	285
Year ended 31 Dec	**3,432**	2,314

4 Insurance business

Net insurance premium income

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross insurance premium income	**218**	**429**	**1,360**	**2,007**
Reinsurers' share of gross insurance premium income	**(100)**	**(1)**	**—**	**(101)**
Year ended 31 Dec 2021	**118**	**428**	**1,360**	**1,906**
Gross insurance premium income	205	274	1,185	1,664
Reinsurers' share of gross insurance premium income	(100)	(5)	—	(105)
Year ended 31 Dec 2020	105	269	1,185	1,559

1 *Discretionary participation features.*

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross claims and benefits paid and movement in liabilities	**120**	**550**	**2,420**	**3,090**
– claims, benefits and surrenders paid	**126**	**106**	**1,554**	**1,786**
– movement in liabilities	**(6)**	**444**	**866**	**1,304**
Reinsurers' share of claims and benefits paid and movement in liabilities	**(45)**	**(6)**	**—**	**(51)**
– claims, benefits and surrenders paid	**(68)**	**(1)**	**—**	**(69)**
– movement in liabilities	**23**	**(5)**	**—**	**18**
Year ended 31 Dec 2021	**75**	**544**	**2,420**	**3,039**
Gross claims and benefits paid and movement in liabilities	143	300	1,404	1,847
– claims, benefits and surrenders paid	102	93	1,578	1,773
– movement in liabilities	41	207	(174)	74
Reinsurers' share of claims and benefits paid and movement in liabilities	(64)	—	—	(64)
– claims, benefits and surrenders paid	(62)	(3)	—	(65)
– movement in liabilities	(2)	3	—	1
Year ended 31 Dec 2020	79	300	1,404	1,783

1 *Discretionary participation features.*

Liabilities under insurance contracts

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross liabilities under insurance contracts at 1 Jan 2021	**594**	**1,512**	**20,710**	**22,816**
Claims and benefits paid	**(126)**	**(106)**	**(1,554)**	**(1,786)**
Increase in liabilities to policyholders	**120**	**550**	**2,420**	**3,090**
Exchange differences and other movements[2]	**(32)**	**(18)**	**(1,806)**	**(1,856)**
Gross liabilities under insurance contracts at 31 Dec 2021	**556**	**1,938**	**19,770**	**22,264**
Reinsurers' share of liabilities under insurance contracts	**(93)**	**(53)**	**—**	**(146)**
Net liabilities under insurance contracts at 31 Dec 2021	**463**	**1,885**	**19,770**	**22,118**
Gross liabilities under insurance contracts at 1 Jan 2020	576	1,295	19,638	21,509
Claims and benefits paid	(102)	(93)	(1,578)	(1,773)
Increase in liabilities to policyholders	143	300	1,404	1,847
Exchange differences and other movements[2]	(23)	10	1,246	1,233
Gross liabilities under insurance contracts at 31 Dec 2020	594	1,512	20,710	22,816
Reinsurers' share of liabilities under insurance contracts	(118)	(47)	—	(165)
Net liabilities under insurance contracts at 31 Dec 2020	476	1,465	20,710	22,651

1 *Discretionary participation features.*
2 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included movement in the market value of assets supporting policyholder liabilities, death claims, surrenders, lapses, new business, the declaration of bonuses and other amounts attributable to policyholders.

5 Employee compensation and benefits

	2021	2020
	£m	£m
Wages and salaries	1,609	1,917
Social security costs	341	367
Post-employment benefits[1]	73	56
Year ended 31 Dec	2,023	2,340

1 *Includes £37m (2020: £36m) in employer contributions to the defined contribution pension plans.*

Average number of persons employed by the group during the year

	2021	2020
	£m	£m
MSS	4,322	4,590
GB	2,458	2,857
GBM Other	140	158
CMB	3,023	3,396
WPB	6,709	6,807
Corporate Centre	171	58
Year ended 31 Dec[1,2]	16,823	17,866

1 *A change in reportable segments was made in 2021. Comparatives have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138.*
2 *Average numbers of headcount in corporate centre are allocated in respective businesses on the basis of amounts charged to the respective global businesses.*

Share-based payments

'Wages and salaries' includes the effect of share-based payments arrangements, of which £96m were equity settled (2020: £76m), as follows:

	2021	2020
	£m	£m
Restricted share awards	96	77
Savings-related and other share award option plans	1	2
Year ended 31 Dec	97	79

HSBC share awards

Award	Policy
Deferred share awards (including annual incentive awards, LTI awards delivered shares) and Group Performance Share Plan ('GPSP')	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. An exception to these are the LTI awards, which are subject to performance conditions. • Deferred share awards generally vest over a period of three, five or seven years. • Vested shares may be subject to a retention requirement post-vesting. • Awards are subject to malus and clawback.
International Employee Share Purchase Plan ('ShareMatch')	• The plan was first introduced in Hong Kong in 2013 and now includes employees based in 28 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC share awards

	2021	2020
	Number (000s)	Number (000s)
Restricted share awards outstanding at 1 Jan	24,367	24,578
Additions during the year[1]	15,479	16,823
Released in the year[1]	(16,690)	(16,024)
Forfeited in the year	(1,328)	(1,010)
Restricted share awards outstanding at 31 Dec	21,828	24,367
Weighted average fair value of awards granted (£)	4.49	5.58

1 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

HSBC share option plans

Main plans	Policy
Savings-related share option plans ('Sharesave')	• From 2014, eligible employees for the UK plan can save up to £500 per month with the option to use the savings to acquire shares. • These are generally exercisable within six months following either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. • The exercise price is set at a 20% (2020: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans	
	Number	WAEP[1]
	(000s)	£
Outstanding at 1 Jan 2021	**7,206**	**2.96**
Granted during the year[2]	**984**	**3.25**
Exercised during the year	**(227)**	**3.97**
Expired during the year	**(99)**	**4.70**
Forfeited during the year	**(928)**	**3.68**
Outstanding at 31 Dec 2021	**6,936**	**2.87**
Weighted average remaining contractual life (years)	**2.98**	
Outstanding at 1 Jan 2020	4,245	4.78
Granted during the year[2]	5,909	2.56
Exercised during the year	(107)	4.43
Expired during the year	(78)	4.64
Forfeited during the year	(2,763)	4.79
Outstanding at 31 Dec 2020	7,206	2.96
Weighted average remaining contractual life (years)	3.64	

1 *Weighted average exercise price.*
2 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

Post-employment benefit plans

We operate a number of pension plans throughout Europe for our employees. Some are defined benefit plans, of which HSBC Trinkaus & Burkhardt Pension Plan is the most prominent within the group. The pension risk section on page 73 contains details about policies and practices associated with the pensions plans.

The group's balance sheet includes the net surplus or deficit, being the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future, or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, the group has considered its current right to obtain a future refund or a reduction in future contributions together with the rights of third parties such as trustees.

HSBC Trinkaus & Burkhardt Pension Plan

The plan is a final salary scheme and is calculated based on the employee length of service multiplied by a predefined benefit accrual and earnings. The pension is paid when the benefit falls due and is a specified pension payment, lump-sum or combination thereof. 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 strategic aim of the investment is to achieve, as continuously as possible, an increase in value over time. For this purpose, the fund invests mainly in government bonds, corporate bonds, investment funds and equities. It invests predominantly in developed regions. Overall, emphasis is placed on having a high degree of diversification.

The latest measurement of the defined benefit obligation of the plan at 31 December 2021 was carried out by Tim Voetmann and Hans-Peter Kieselmann, at Willis Towers Watson GmbH, who are Fellows of the German Association of Actuaries ('DAV'), using the projected unit credit method. The next measurement will have an effective date of 31 December 2022.

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Total
	£m	£m	£m
Defined benefit pension plans	**668**	**(742)**	**(74)**
Defined benefit healthcare plans	**—**	**(68)**	**(68)**
At 31 Dec 2021	**668**	**(810)**	**(142)**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			**(196)**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			**54**
Defined benefit pension plans	693	(876)	(183)
Defined benefit healthcare plans	—	(75)	(75)
At 31 Dec 2020	693	(951)	(258)
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			(288)
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			30

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 asset/(liability)	
	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans
	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	**435**	**258**	**(489)**	**(387)**	**(54)**	**(129)**
Service cost	**—**	**—**	**(7)**	**(27)**	**(7)**	**(27)**
– current service cost	**—**	**—**	**(8)**	**(11)**	**(8)**	**(11)**
– past service cost and gains from settlements	**—**	**—**	**1**	**(16)**	**1**	**(16)**
Net interest income/(cost) on the net defined benefit asset/(liability)	**3**	**4**	**(3)**	**(3)**	**—**	**1**
Remeasurement effects recognised in other comprehensive income	**17**	**(2)**	**26**	**16**	**43**	**14**
– return on plan assets (excluding interest income)	**17**	**(2)**	**—**	**—**	**17**	**(2)**
– actuarial gains/(losses)	**—**	**—**	**26**	**16**	**26**	**16**
– other changes	**—**	**—**	**—**	**—**	**—**	**—**
Exchange differences	**(28)**	**(1)**	**29**	**9**	**1**	**8**
Benefits paid	**—**	**(15)**	**10**	**19**	**10**	**4**
Other movements[1]	**7**	**(10)**	**(4)**	**69**	**3**	**59**
At 31 Dec 2021	**434**	**234**	**(438)**	**(304)**	**(4)**	**(70)**
At 1 Jan 2020	405	175	(434)	(325)	(29)	(150)
Service cost	—	—	(12)	(1)	(12)	(1)
– current service cost	—	—	(14)	(10)	(14)	(10)
– past service cost and gains from settlements	—	—	2	9	2	9
Net interest income/(cost) on the net defined benefit asset/(liability)	3	16	(4)	(16)	(1)	—
Remeasurement effects recognised in other comprehensive income	(3)	84	(20)	(79)	(23)	5
– return on plan assets (excluding interest income)	(3)	26	—	—	(3)	26
– actuarial gains/(losses)	—	—	(21)	(27)	(21)	(27)
– other changes	—	58	1	(52)	1	6
Exchange differences	23	—	(24)	(9)	(1)	(9)
Benefits paid	—	(39)	10	46	10	7
Other movements[1]	7	22	(5)	(3)	2	19
At 31 Dec 2020	435	258	(489)	(387)	(54)	(129)

1 Other movements include contributions by the group, contributions by employees, administrative costs and tax paid by plan.
2 The HSBC Trinkaus & Burkhardt Pension Plan and its comparatives have been disclosed as it is considered to be a prominent plan within the group. Figures disclosed comprise this prominent plan and other plans in Germany.

HSBC Trinkaus & Burkhardt AG does not expect to make contributions to the HSBC Trinkaus & Burkhardt Pension Plan during 2022. Benefits expected to be paid from the HSBC Trinkaus & Burkhardt Pension 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 plans

	2022	2023	2024	2025	2026	2027-2031
	£m	£m	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan[1]	**10**	9	9	11	10	59

1 *The duration of the defined benefit obligation is 17.1 years for the HSBC Trinkaus & Burkhardt Pension Plan under the disclosure assumptions adopted (2020: 18.2 years).*

Fair value of plan assets by asset classes

	31 Dec 2021				31 Dec 2020			
	Value	**Quoted market price in active market**	**No quoted market price in active market**	**Thereof HSBC**	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan								
Fair value of plan assets	**434**	**377**	**57**	**—**	435	418	17	—
– equities	**11**	**11**	**—**	**—**	19	19	—	—
– bonds	**112**	**112**	**—**	**—**	109	109	—	—
– other	**311**	**254**	**57**	**—**	307	290	17	—

Post-employment defined benefit plans' principal actuarial financial assumptions

The group determines the discount rates to be applied to its obligations in consultation with the plans' 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

	Discount rate	**Inflation rate**	**Rate of increase for pensions**	**Rate of pay increase**
	%	**%**	**%**	**%**
HSBC Trinkaus & Burkhardt Pension Plan				
At 31 Dec 2021	**1.14**	**1.75**	**1.75**	**1.75**
At 31 Dec 2020	0.70	1.75	1.50	2.50

Mortality tables and average life expectancy at age 65

	Mortality table	**Life expectancy at age 65 for a male member currently:**		**Life expectancy at age 65 for a female member currently:**	
		Aged 65	**Aged 45**	**Aged 65**	**Aged 45**
HSBC Trinkaus & Burkhardt Pension Plan					
At 31 Dec 2021	**RT 2018G**[1]	**20.6**	**23.4**	**24.0**	**26.3**
At 31 Dec 2020	RT 2018G	20.3	23.1	23.8	26.0

1 *Heubeck tables: RT 2018G. It is generally accepted and used mortality tables for occupational pension plans in Germany taking into account future mortality improvements and lighter mortality for higher-paid pensioners.*

The effect of changes in key assumptions

	HSBC Trinkaus & Burkhardt Pension Plan Obligation			
	Financial impact of increase		Financial impact of decrease	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(13)**	(15)	**13**	16
Inflation rate – increase/decrease of 0.25%	**11**	16	**(9)**	(12)
Pension payments and deferred pensions – increase/decrease of 0.25%	**9**	10	**(8)**	(10)
Pay – increase/decrease of 0.25%	**2**	4	**(2)**	(4)
Change in mortality – increase of 1 year	**16**	19	**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 bank, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2021	2020
	£000	£000
Fees[1]	**1,525**	1,256
Salaries and other emoluments[2, 5]	**3,569**	2,321
Annual incentives[3]	**694**	576
Long-term incentives[4]	**511**	727
Year ended 31 Dec	**6,299**	4,880

1 *Fees paid to non-executive Directors.*
2 *Salaries and other emoluments include Fixed Pay Allowances.*
3 *Discretionary annual incentives for executive Directors are based on a combination of individual and corporate performance, and are determined by the Remuneration Committee of the bank's 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 £346,959 (2020: £288,050) in cash and £346,959 (2020: £288,050) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2021.*
4 *The amount shown is comprised of £274,177 (2020: £428,822) in deferred cash, £237,259 (2020: £289,261) in deferred Restricted Shares, and £0 (2020: £8,826) in shares under the Group Performance Share Plan ('GPSP'). 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 vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The deferred share awards are subject to at least a six-month retention period upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc. The cost of any awards subject to service conditions under the HSBC Share Plan 2011 are recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates.*
5 *Includes a payment of £1,380,193 (2020: £93,097) made to a Director as compensation for loss of employment.*

No Director exercised share options over HSBC Holdings plc ordinary shares during the year.

Retirement benefits accruing to one Director under a money purchase scheme in respect of Directors' qualifying services (2020: one Director).

In addition, there were payments during 2021 under unfunded retirement benefit agreements to former Directors of £396,363 (2020: £785,548). The provision at 31 December 2021 in respect of unfunded pension obligations to former Directors amounted to £5,387,505 (2020: £10,245,741).

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2021	2020
	£000	£000
Salaries and other emoluments	**1,399**	1,392
Annual incentives[1]	**558**	417
Long-term incentives[2]	**390**	677
Year ended 31 Dec	**2,347**	2,486

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown comprises £279,225 (2020: £208,736) in cash and £279,225 (2020: £208,736) in Restricted Shares.*
2 *The amount shown comprises £209,492 (2020: £402,567) in deferred cash, £180,147 (2020: £274,104) in deferred Restricted Shares. These amounts relate to a portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2021. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The share awards are subject to a six-month retention period upon vesting.*

No pension contributions were made by the bank in respect of services by the highest paid Director during the year (2020: £19,298).

6 Auditors' remuneration

	2021	2020
	£m	£m
Audit fees payable to PwC	**10.4**	11.3
Other audit fees payable	**0.4**	0.4
Year ended 31 Dec	**10.8**	11.7

Fees payable by the group to PwC

	2021	2020
	£m	£m
Fees for HSBC Bank plc's statutory audit[1]	**4.8**	5.3
Fees for other services provided to the group	**14.3**	13.1
– audit of the group's subsidiaries[2]	**5.6**	6.0
– audit-related assurance services[3]	**5.7**	4.2
– other assurance services[4]	**3.0**	2.9
Year ended 31 Dec	**19.1**	18.4

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC 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 interim reviews.*
4 *Including permitted services relating to attestation reports on internal controls of a service organisation primarily prepared for and used by third-party end user, including comfort letters.*

Fees payable for non-audit services for HSBC Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

7 Tax

Tax expense

	2021	2020
	£m	£m
Current tax	**(187)**	195
– for this year	**(245)**	186
– adjustments in respect of prior years	**58**	9
Deferred tax	**164**	(331)
– origination and reversal of temporary differences	**248**	(339)
– effect of changes in tax rates	**(56)**	(26)
– adjustments in respect of prior years	**(28)**	34
Year ended 31 Dec[1]	**(23)**	(136)

1 *In addition to amounts recorded in the income statement, a tax credit of £135m (2020: charge of £135m) was recorded directly to equity.*

The group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates in 2021 included the UK and France. The UK tax rate applying to HSBC Bank plc and its banking subsidiaries was 27% (2020: 27%), comprising 19% corporation tax plus 8% surcharge on UK banking profits. The applicable tax rate in France was 28% (2020: 32%) and will reduce to 26% from 1 January 2022. Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operate.

During 2021, legislation was enacted to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023, increasing the tax credit for 2021 by £56m due to the remeasurement of deferred tax balances. In the UK Budget on 27 October 2021, HM Treasury announced that the UK banking surcharge rate will reduce from 8% to 3% with effect from 1 April 2023. The reduction in the UK banking surcharge rate has not been reflected for accounting purposes as the legislation to effect this change had not been substantively enacted at the balance sheet date.

In December 2021, the OECD published model rules that provided a template for countries to implement a new global minimum tax rate of 15% from 2023. In January 2022, the UK government opened a consultation on how the UK implements the rules. The impact on HSBC will depend on exactly how the UK implements the model rules, as well as the profitability and local tax liabilities of HSBC's operations in each tax jurisdiction from 2023. Separately, potential changes to tax legislation and tax rates in the countries in which we operate could increase our effective tax rate in future as governments seek revenue to pay for Covid-19 support packages.

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2021		2020	
	£m	%	£m	%
Profit/(loss) before tax	**1,023**		(1,614)	
Tax expense				
Taxation at UK corporation tax rate	**194**	**19.0**	(307)	19.0
Impact of taxing overseas profits at different rates	**7**	**0.7**	(75)	4.6
UK banking surcharge	**(2)**	**(0.2)**	(100)	6.2
Items increasing the tax charge in 2021:				
- impact of temporary differences between French tax returns and IFRS	**324**	**31.7**	—	—
- bank levy	**72**	**7.0**	31	(1.9)
- adjustments in respect of prior periods	**30**	**2.9**	45	(2.8)
Items reducing the tax charge in 2021:				
- tax impact of planned sale of French retail banking business	**(324)**	**(31.7)**	—	—
- non-taxable income and gains	**(92)**	**(9.0)**	(55)	3.4
- impact of changes in tax rates	**(56)**	**(5.5)**	(26)	1.6
- deductions for AT1 coupon payments	**(53)**	**(5.2)**	(51)	3.2
- movements in unrecognised deferred tax	**(47)**	**(4.6)**	321	(19.9)
- effect of profits in associates and joint ventures	**(43)**	**(4.2)**	(3)	0.2
- other permanent differences	**(26)**	**(2.5)**	24	(1.5)
- local taxes and overseas withholding taxes	**(4)**	**(0.4)**	49	(3.0)
- other	**(3)**	**(0.3)**	11	(0.7)
Year ended 31 Dec	**(23)**	**(2.3)**	(136)	8.4

The effective tax rate for the year was (2.3)% (2020: 8.4%), reflecting a tax credit arising on a profit before tax. The tax credit for 2021 included favourable non-recurring items in respect of tax rate changes, prior period adjustments and the recognition of previously unrecognised deferred tax assets in France. The effective tax rate for 2020 was reduced by 19.9% by the non-recognition of deferred tax on losses arising in France.

The signing of a framework agreement for the planned sale of the French retail banking business resulted in a tax deduction (tax value of £324m) for a provision for loss on disposal which was recorded in the French tax return. A deferred tax liability of the same amount arises as a consequence of the temporary difference between the French tax basis and IFRS in respect of this provision.

Accounting for taxes involves some estimation because the tax law is uncertain and the application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. The current tax asset includes an estimate of tax recoverable from HMRC with regards to past dividends received from EU resident companies. The ultimate resolution of this matter involves litigation for which the outcome is uncertain.

Movement of deferred tax assets and liabilities

	Retirement benefits	Loan impairment provisions	Property, plant and equipment	FVOCI investments	Goodwill and intangibles	Relief for tax losses [2]	Other[1]	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Assets	**63**	**66**	**171**	**—**	**157**	**418**	**—**	**875**
Liabilities	**—**	**(9)**	**(6)**	**(166)**	**—**	**—**	**(117)**	**(298)**
At 1 Jan 2021	**63**	**57**	**165**	**(166)**	**157**	**418**	**(117)**	**577**
Income statement	**28**	**(10)**	**51**	**3**	**55**	**(37)**	**(254)**	**(164)**
Other comprehensive income	**(17)**	**2**	**(1)**	**105**	**—**	**—**	**82**	**171**
At 31 Dec 2021	**74**	**49**	**215**	**(58)**	**212**	**381**	**(289)**	**584**
Assets[3]	**74**	**53**	**215**	**—**	**212**	**381**	**—**	**935**
Liabilities[3]	**—**	**(4)**	**—**	**(58)**	**—**	**—**	**(289)**	**(351)**
Assets	82	41	172	—	142	82	2	521
Liabilities	—	(6)	(6)	(123)	—	—	—	(135)
At 1 Jan 2020	82	35	166	(123)	142	82	2	386
Income statement	(37)	22	(1)	(3)	15	351	(16)	331
Other comprehensive income	18	—	—	(40)	—	(15)	(103)	(140)
At 31 Dec 2020	63	57	165	(166)	157	418	(117)	577
Assets[3]	63	66	171	—	157	418	—	875
Liabilities[3]	—	(9)	(6)	(166)	—	—	(117)	(298)

1 *Other deferred tax assets and liabilities relate to share-based payments, cash flow hedges and temporary differences arising between IFRS and French tax returns.*
2 *The deferred tax asset recognised in respect of tax losses mainly relates to France (£294m), the UK (£40m) and US State tax losses of the New York branch of HSBC Bank plc (£28m), all of which are supported by future profit forecasts.*
3 *After netting off balances within countries, the balances as disclosed in the financial statements are as follows: deferred tax assets £599m (2020: £597m); and deferred tax liabilities £15m (2020: £20m).*

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the Company and the Group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance.

The group's net deferred tax asset of £584m (2020: £577m) included a net UK deferred tax asset of £448m (2020: £507m), of which £103m related to UK banking tax losses which are expected to be substantially recovered within one year, and a net deferred asset of £7m (2020: £nil) in France, of which £294m (2020: £nil) related to tax losses which are expected to be substantially recovered within 10 years.

Management is satisfied that although the Company recorded a UK tax loss in the year, the aforementioned evidence is sufficient to support recognition of all UK deferred tax assets. These deferred tax assets are supported by future profit forecasts for the whole of HSBC's UK tax group. This includes a number of companies which are not part of the HSBC Bank plc group, in particular HSBC UK Bank plc and its subsidiaries.

Following the signing of a framework agreement in 2021 for the planned sale of the French retail banking business, that business is now excluded from our deferred tax analysis as its sale is considered probable. Although the French consolidated tax group recorded a tax loss in both 2020 and 2021, this would have been taxable profit if the effects of the retail banking business and other non-recurring items, mainly related to the restructuring of the European business, were excluded. The French net deferred tax asset is supported by forecasts of taxable profit, also taking into consideration the history of profitability in the remaining businesses. No net deferred tax asset was recognised as at 31 December 2020 as management did not consider there to be convincing evidence of sufficient future taxable profits to support recognition.

Movement of deferred tax assets and liabilities

The bank	Retirement benefits £m	Property, plant and equipment £m	Goodwill and intangibles £m	Relief for tax losses[2] £m	Other[1] £m	Total £m
Assets[2]	**16**	**162**	**156**	**416**	**—**	**750**
Lliabilities[2]	**—**	**—**	**—**	**—**	**(204)**	**(204)**
At 1 Jan 2021	**16**	**162**	**156**	**416**	**(204)**	**546**
Income statement	**2**	**45**	**35**	**(347)**	**73**	**(192)**
Other comprehensive income	**(1)**	**—**	**—**	**—**	**154**	**153**
Foreign exchange and other adjustments	**—**	**—**	**—**	**—**	**2**	**2**
At 31 Dec 2021	**17**	**207**	**191**	**69**	**25**	**509**
Assets[3]	**17**	**207**	**191**	**69**	**25**	**509**
Liabilities[3]	**—**	**—**	**—**	**—**	**—**	**—**
Assets	23	151	145	53	—	372
Liabilities	—	—	—	—	(47)	(47)
At 1 Jan 2020	23	151	145	53	(47)	325
Income statement	(10)	11	11	377	(41)	348
Other comprehensive income	3	—	—	(14)	(116)	(127)
At 31 Dec 2020	16	162	156	416	(204)	546
Assets[3]	16	162	156	416	—	750
Liabilities[3]	—	—	—	—	(204)	(204)

1 *Other deferred tax assets and liabilities relate to fair value of own debt, loan impairment allowances, share-based payments and cash flow hedges.*
2 *The deferred tax asset recognised in respect of losses mainly relates to US State tax losses of the New York branch of HSBC Bank plc and losses in the UK; both are supported by future profit forecasts.*
3 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £510m (2020: £549m) and deferred tax liabilities nil (2020: £3m).*

Unrecognised deferred tax

The group

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £1,944m (2020: £2,081m). These amounts consist of unused tax losses, tax credits and temporary differences of £1,141m (2020: £925m) arising in the New York branch of HSBC Bank plc and of £782m (2020: £1,137m) arising in France. Of the unrecognised losses, £394m expire within 10 years (2020: £88m), and the remainder expire after 10 years or do not expire. The value of the French losses which are recognised is based on analysis of the probability of recovery, taking into account forecasting uncertainty.

The bank

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £1,141m (2020: £925m). These amounts include unused tax losses, tax credits and temporary differences arising in the New York branch of HSBC Bank plc of £1,141m (2020: £925m). Of the unrecognised losses, £394m expire within 10 years (2020: £88m), and the remainder expire after 10 years.

There are no unrecognised deferred tax liabilities arising from the group's investments in subsidiaries and branches.

8 Dividends

Dividends to the parent company

	2021		2020	
	£ per share	**£m**	£ per share	£m
Dividends on preference shares classified as equity				
Dividend on HSBC Bank plc non-cumulative third dollar preference shares[1]	**0.001**	**–**	1.47	51
Total	**0.001**	**–**	1.47	51
Total coupons on capital securities classified as equity		**194**		212
Dividends to parent		**194**		263

1 *In 2021,the liquidation value of USD third dollar preference shares reduced to $0.01 per share.*

No dividend was declared on ordinary share capital in respect of 2021 and 2020.

Total coupons on capital securities classified as equity

		2021	2020
	First call date	**£m**	£m
Undated Subordinated additional Tier 1 instruments			
– €1,900m Undated Subordinated Resettable Additional Tier 1 instrument 2015	Dec 2020	**84**	103
– €235m Undated Subordinated Resettable Additional Tier 1 instrument 2016	Jan 2022	**12**	11
– €300m Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**10**	10
– £555m Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**28**	28
– £500m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**24**	24
– €250m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**7**	8
– £431m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Dec 2024	**20**	20
– €200m Undated Subordinated Resettable Additional Tier 1 instrument 2019	Jan 2025	**9**	8
Total		**194**	212

9 Segmental analysis

Basis of preparation

The Chief Executive, supported by the rest of the Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the group's reportable segments. Business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present a reconciliation between reported and adjusted results as required by IFRSs.

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

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

Change in reportable segments

During the year, Global Banking and Markets ('GBM') in Europe has been re-segmented into Market & Securities Services ('MSS'), Global Banking ('GB') and GBM Other to align with the reorganised GBM management structure and internal reporting to the Executive Committee and CODM. This does not change the Group's management of its global GBM strategy.

Comparative data have been re-presented accordingly.

Our businesses

HSBC provides a comprehensive range of banking and related financial services to its customers through its global businesses. The products and services offered to customers are organised by these global businesses.

Our operating model has the following material segments: WPB; CMB; a GBM business which is further split into 3 reportable segments MSS, GB and GBM Other reflecting the reorganisation of the GBM management structure during the year and a Corporate Centre. These segments are supported by Digital Business Services and 11 global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources. These business segment are our reportable segments under IFRS 8 'Operating Segments'.

By operating segment:

Adjusted profit/(loss) before tax

	2021						
	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m	£m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	**2,055**	**1,367**	**579**	**1,095**	**1,275**	**(41)**	**6,330**
– *of which: net interest income/(expense)*	***(232)***	***568***	***224***	***649***	***567***	***(22)***	***1,754***
Change in expected credit losses and other credit impairment charges	**1**	**140**	**5**	**7**	**23**	**(2)**	**174**
Net operating income/(expense)	**2,056**	**1,507**	**584**	**1,102**	**1,298**	**(43)**	**6,504**
Total operating expenses	**(2,064)**	**(918)**	**(485)**	**(612)**	**(975)**	**(64)**	**(5,118)**
Operating profit/(loss)	**(8)**	**589**	**99**	**490**	**323**	**(107)**	**1,386**
Share of loss in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**191**	**191**
Adjusted profit/(loss) before tax	**(8)**	**589**	**99**	**490**	**323**	**84**	**1,577**
	%	**%**	**%**	**%**	**%**		**%**
Adjusted cost efficiency ratio	**100.4**	**67.2**	**83.9**	**55.9**	**76.5**		**80.9**

	2020						
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	1,968	1,381	624	1,133	1,035	(144)	5,997
– *of which: net interest income/(expense)*	*(96)*	*651*	*46*	*686*	*664*	*(53)*	*1,898*
Change in expected credit losses and other credit impairment charges	1	(448)	(4)	(322)	(39)	4	(808)
Net operating income/(expense)	1,969	933	620	811	996	(140)	5,189
Total operating expenses	(1,949)	(878)	(672)	(659)	(1,128)	(86)	(5,372)
Operating profit/(loss)	20	55	(52)	152	(132)	(226)	(183)
Share of profit in associates and joint ventures	—	—	—	—	—	(1)	(1)
Adjusted profit/(loss) before tax	20	55	(52)	152	(132)	(227)	(184)
	%	%	%	%	%		%
Adjusted cost efficiency ratio	99.0	63.6	107.7	58.2	109.0		89.6

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue. It includes inter-segment revenue which is eliminated in Corporate centre, amounting to £124m (2020: £167m).*

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

	2021	2020
	£m	£m
Reported external net operating income by country[1]	**6,120**	5,900
– United Kingdom	**2,937**	2,914
– France	**1,677**	1,528
– Germany	**887**	814
– Other countries	**619**	644

Adjusted results reconciliation

	2021			2020		
	Adjusted	Significant items	Reported	Adjusted	Significant items	Reported
	£m	£m	£m	£m	£m	£m
Revenue[1]	**6,330**	**(210)**	**6,120**	5,997	(97)	5,900
ECL	**174**	**—**	**174**	(808)	—	(808)
Operating expenses	**(5,118)**	**(344)**	**(5,462)**	(5,372)	(1,333)	(6,705)
Share of profit/(loss) in associates and joint ventures	**191**	**—**	**191**	(1)	—	(1)
Profit/(loss) before tax	**1,577**	**(554)**	**1,023**	(184)	(1,430)	(1,614)

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

Adjusted profit/(loss) reconciliation

	2021	2020
	£m	£m
Year ended 31 Dec		
Adjusted profit/(loss) before tax	**1,577**	(184)
Significant items	**(554)**	(1,430)
– fair value movements on financial instruments[1]	**(5)**	(3)
– restructuring and other related costs	**(549)**	(773)
– settlements and provisions in connection with legal and regulatory matters	**—**	(9)
– impairment of other intangible assets	**—**	(645)
Reported profit/(loss) before tax	**1,023**	(1,614)

1 *Includes fair value movements on non-qualifying hedges and debt valuation adjustments on derivatives.*

Balance sheet by business

	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m	£m
31 Dec 2021							
Loans and advances to customers	**2,016**	**37,685**	**197**	**23,529**	**27,574**	**176**	**91,177**
Customer accounts	**34,243**	**74,179**	**4,355**	**50,297**	**41,939**	**228**	**205,241**
31 Dec 2020							
Loans and advances to customers	3,451	42,810	606	25,809	28,638	177	101,491
Customer accounts	23,780	77,393	4,173	48,368	41,258	212	195,184

10 Trading assets

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Treasury and other eligible bills	**2,451**	3,273	**1,872**	2,507
Debt securities	**27,004**	31,399	**17,794**	20,035
Equity securities	**40,930**	36,775	**38,570**	35,810
Trading securities	**70,385**	71,447	**58,236**	58,352
Loans and advances to banks[1]	**4,142**	5,058	**3,559**	4,207
Loans and advances to customers[1]	**9,179**	10,471	**8,995**	10,476
At 31 Dec	**83,706**	86,976	**70,790**	73,035

1 *Loans and advances to banks and customers include reverse repos, stock borrowing and other amounts.*

11 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.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, the group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, the group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the group's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value. The spread applied to these instruments is derived from the spreads at which the group issues structured notes.

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 HSBC can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2021				2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
The group	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**59,813**	**22,549**	**1,344**	**83,706**	60,890	24,475	1,611	86,976
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**6,332**	**9,146**	**3,171**	**18,649**	5,658	7,095	3,467	16,220
Derivatives	**1,987**	**137,418**	**1,816**	**141,221**	1,668	197,568	1,974	201,210
Financial investments	**29,669**	**10,235**	**1,387**	**41,291**	38,347	11,829	1,635	51,811
Liabilities								
Trading liabilities	**32,886**	**12,967**	**580**	**46,433**	29,847	14,264	118	44,229
Financial liabilities designated at fair value	**1,020**	**30,467**	**2,121**	**33,608**	928	38,714	1,150	40,792
Derivatives	**1,105**	**135,809**	**2,454**	**139,368**	1,058	195,078	3,096	199,232
The bank								
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**49,435**	**20,021**	**1,334**	**70,790**	49,650	21,802	1,583	73,035
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**298**	**2,556**	**361**	**3,215**	327	1,227	311	1,865
Derivatives	**1,413**	**122,422**	**1,952**	**125,787**	1,168	178,866	2,032	182,066
Financial investments	**21,806**	**1,346**	**53**	**23,205**	27,011	1,603	141	28,755
Liabilities								
Trading liabilities	**19,367**	**11,240**	**554**	**31,161**	13,681	12,889	103	26,673
Financial liabilities designated at fair value	**—**	**19,306**	**1,563**	**20,869**	—	24,036	651	24,687
Derivatives	**1,066**	**123,863**	**2,722**	**127,651**	960	176,785	3,287	181,032

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	**Trading assets**	**Designated and otherwise mandatorily measured at fair value through profit or loss**	**Derivatives**	**Trading liabilities**	**Designated at fair value**	**Derivatives**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Year ended 31 Dec 2021							
Transfers from Level 1 to Level 2	**366**	**1,731**	**757**	**—**	**27**	**—**	**—**
Transfers from Level 2 to Level 1	**244**	**990**	**399**	**—**	**91**	**—**	**—**
Year ended 31 Dec 2020							
Transfers from Level 1 to Level 2	200	915	—	—	77	6,013	—
Transfers from Level 2 to Level 1	1,557	1,557	71	—	304	—	—

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

Fair value 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 fair value adjustments may no longer be required.

Fair value adjustments

	2021		2020[1]	
	MSS	**Corporate Centre**	MSS	Corporate Centre
	£m	**£m**	£m	£m
Type of adjustment				
Risk-related	**505**	**31**	647	16
– bid-offer	**190**	**—**	252	—
– uncertainty	**37**	**1**	60	1
– credit valuation adjustment	**99**	**26**	211	15
– debt valuation adjustment	**(27)**	**—**	(40)	—
– funding fair value adjustment	**206**	**4**	151	—
– other	**—**	**—**	13	—
Model-related	**19**	**—**	47	—
– model limitation	**19**	**—**	44	—
– other	**—**	**—**	3	—
Inception profit (Day 1 P&L reserves)	**65**	**—**	60	—
At 31 Dec	**589**	**31**	754	16

1 *A change in reportable segments was made in 2021. Comparatives data have been re-presented accordingly. For further guidance, refer to Note 9: Segmental Analysis on page 138.*

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustments

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default, and that the group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC may default, and that it may not pay the full market value of the transactions.

HSBC calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group's entities.

HSBC calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC, to HSBC's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default.

Conversely, HSBC calculates the DVA by applying the PD of HSBC, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to HSBC and multiplying the result by the proportional loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, HSBC uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty. The methodologies do not, in general, account for 'wrong-way risk', which arises when the underlying value of the derivative prior to any CVA is positively correlated to the PD of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed in Note 1.

Fair value valuation bases

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

	Assets					Liabilities			
	Financial Investments	Held for trading	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Held for trading	Designated at fair value	Derivatives	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	**79**	**1**	**2,898**	**—**	**2,978**	**7**	**—**	**—**	**7**
Asset-backed securities	**495**	**97**	**—**	**—**	**592**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**2,120**	**—**	**2,120**
Derivatives	**—**	**—**	**—**	**1,816**	**1,816**	**—**	**—**	**2,454**	**2,454**
Other portfolios	**813**	**1,246**	**273**	**—**	**2,332**	**573**	**1**	**—**	**574**
At 31 Dec 2021	**1,387**	**1,344**	**3,171**	**1,816**	**7,718**	**580**	**2,121**	**2,454**	**5,155**
Private equity including strategic investments	75	3	3,153	—	3,231	3	—	—	3
Asset-backed securities	847	372	18	—	1,237	—	—	—	—
Structured notes	—	—	—	—	—	21	1,147	—	1,168
Derivatives	—	—	—	1,974	1,974	—	—	3,095	3,095
Other portfolios	713	1,236	296	—	2,245	94	3	1	98
At 31 Dec 2020	1,635	1,611	3,467	1,974	8,687	118	1,150	3,096	4,364

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

	Assets					Liabilities			
The bank	**Financial Investments**	**Held for trading**	**Designated and otherwise mandatorily measured at fair value through profit or loss**	**Derivatives**	**Total**	**Held for trading**	**Designated at fair value**	**Derivatives**	**Total**
Private equity including strategic investments	**53**	**—**	**353**	**—**	**406**	**6**	**—**	**—**	**6**
Asset-backed securities	**—**	**97**	**—**	**—**	**97**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**1,563**	**—**	**1,563**
Derivatives	**—**	**—**	**—**	**1,952**	**1,952**	**—**	**—**	**2,722**	**2,722**
Other portfolios	**—**	**1,237**	**8**	**—**	**1,245**	**548**	**—**	**—**	**548**
At 31 Dec 2021	**53**	**1,334**	**361**	**1,952**	**3,700**	**554**	**1,563**	**2,722**	**4,839**
Private equity including strategic investments	56	—	300	—	356	—	—	—	—
Asset-backed securities	85	372	—	—	457	—	—	—	—
Structured notes	—	—	—	—	—	9	651	—	660
Derivatives	—	—	—	2,032	2,032	—	—	3,286	3,286
Other portfolios	—	1,211	11	—	1,222	94	—	1	95
At 31 Dec 2020	141	1,583	311	2,032	4,067	103	651	3,287	4,041

Level 3 instruments are present in both ongoing and legacy businesses. Loans held for securitisation, certain derivatives and predominantly all Level 3 Asset-backed securities are legacy positions. HSBC has the capability to hold these positions.

Private equity including strategic investments

The investment's fair value is estimated: on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; the price at which similar companies have changed ownership; or from published net asset values ('NAVs') received. If necessary, adjustments are made to the NAV of funds to obtain the best estimate of fair value.

Asset-backed securities

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For certain ABSs, such as residential mortgage-backed securities, the valuation uses an industry standard model with assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes, issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data, wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures or estimated from historical data or other sources.

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

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2021	**1,635**	**1,611**	**3,467**	**1,974**	**118**	**1,150**	**3,096**
Total gains/(losses) recognised in profit or loss	**15**	**(77)**	**148**	**1,608**	**11**	**(316)**	**1,362**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(77)**	**–**	**1,608**	**11**	**–**	**1,362**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**148**	**–**	**–**	**(316)**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**15**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')	**(75)**	**(4)**	**(152)**	**(6)**	**(1)**	**(32)**	**(8)**
– financial investments: fair value gains/(losses)	**(27)**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**(48)**	**(4)**	**(152)**	**(6)**	**(1)**	**(32)**	**(8)**
Purchases	**555**	**686**	**543**	**–**	**742**	**1**	**–**
New issuances	**–**	**–**	**–**	**–**	**25**	**2,213**	**–**
Sales	**(417)**	**(209)**	**(813)**	**–**	**(3)**	**(20)**	**–**
Settlements	**(109)**	**(506)**	**(5)**	**(1,722)**	**(504)**	**(1,053)**	**(2,343)**
Transfers out	**(218)**	**(668)**	**(41)**	**(368)**	**(5)**	**(137)**	**(465)**
Transfers in	**1**	**511**	**24**	**330**	**197**	**315**	**812**
At 31 Dec 2021	**1,387**	**1,344**	**3,171**	**1,816**	**580**	**2,121**	**2,454**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	**–**	**(11)**	**51**	**846**	**–**	**102**	**(721)**
– trading income/(expense) excluding net interest income	**–**	**(11)**	**–**	**846**	**–**	**–**	**(721)**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**51**	**–**	**–**	**102**	**–**
At 1 Jan 2020	1,554	3,203	3,737	1,637	40	943	1,681
Total gains/(losses) recognised in profit or loss	14	3	95	1,582	237	87	2,644
– net income from financial instruments held for trading or managed on a fair value basis	–	3	–	1,582	237	–	2,644
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	95	–	–	87	–
– gains less losses from financial investments at fair value through other comprehensive income	14	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')	21	56	(12)	33	1	23	7
– financial investments: fair value gains/(losses)	58	–	2	–	–	–	–
– exchange differences	(37)	56	(14)	33	1	23	7
Purchases	294	442	1,061	–	53	–	–
New issuances	–	–	–	–	5	575	–
Sales	(525)	(791)	(1,435)	–	(198)	–	–
Settlements	(116)	(868)	(79)	(1,138)	(20)	(525)	(1,080)
Transfers out	(61)	(1,336)	(61)	(358)	(7)	(265)	(437)
Transfers in	454	902	161	218	7	312	281
At 31 Dec 2020	1,635	1,611	3,467	1,974	118	1,150	3,096
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	–	(24)	43	505	(1)	(73)	1,171
– trading income/(expense) excluding net interest income	–	(24)	–	505	(1)	–	1,171
– net income from other financial instruments designated at fair value	–	–	43	–	–	(73)	–

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.

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
The bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2021	**141**	**1,583**	**311**	**2,032**	**103**	**651**	**3,287**
Total gains/(losses) recognised in profit or loss	**1**	**(76)**	**77**	**1,730**	**12**	**(246)**	**1,443**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(76)**	**–**	**1,730**	**12**	**–**	**1,443**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**77**	**–**	**–**	**(246)**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**1**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	**(1)**	**(3)**	**(11)**	**–**	**–**	**–**	**–**
– financial investments: fair value gains/(losses)	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**(3)**	**(11)**	**–**	**–**	**–**	**–**
Purchases	**–**	**683**	**2**	**–**	**741**	**–**	**–**
New issuances	**–**	**–**	**–**	**–**	**–**	**2,128**	**–**
Sales	**(2)**	**(186)**	**(13)**	**–**	**–**	**–**	**–**
Settlements	**(3)**	**(505)**	**(5)**	**(1,778)**	**(494)**	**(950)**	**(2,297)**
Transfers out	**(83)**	**(668)**	**–**	**(375)**	**(5)**	**(153)**	**(511)**
Transfers in	**–**	**506**	**–**	**343**	**197**	**133**	**800**
At 31 Dec 2021	**53**	**1,334**	**361**	**1,952**	**554**	**1,563**	**2,722**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	**–**	**(11)**	**1**	**973**	**–**	**46**	**(949)**
– trading income/(expense) excluding net interest income	**–**	**(11)**	**–**	**973**	**–**	**–**	**(949)**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**1**	**–**	**–**	**46**	**–**
At 1 Jan 2020	58	3,198	524	1,659	27	683	1,929
Total gains/(losses) recognised in profit or loss	2	5	44	2,076	235	(22)	2,749
– net income from financial instruments held for trading or managed on a fair value basis	–	5	–	2,076	235	–	2,749
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	44	–	–	(22)	–
– gains less losses from financial investments at fair value through other comprehensive income	2	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	(4)	55	5	2	–	–	–
– exchange differences	(4)	55	5	2	–	–	–
Purchases	–	403	282	–	52	–	–
New issuances	–	–	–	–	–	558	–
Sales	–	(749)	(542)	–	(198)	–	–
Settlements	(6)	(849)	–	(1,551)	(13)	(536)	(1,254)
Transfers out	–	(1,336)	(2)	(385)	(7)	(167)	(524)
Transfers in	91	856	–	231	7	135	387
At 31 Dec 2020	141	1,583	311	2,032	103	651	3,287
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2020	–	(24)	10	523	(1)	(10)	1,287
– trading income/(expense) excluding net interest income	–	(24)	–	523	(1)	–	1,287
– net income from other financial instruments designated at fair value	–	–	10	–	–	(10)	–

1 *Included in 'financial investments: fair value gains/(losses)' in the current year and 'exchange differences' in the consolidated statement of comprehensive income.*

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.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	2021				2020			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
The group	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	92	(70)	—	—	161	(145)	—	—
Designated and otherwise mandatorily measured at fair value through profit or loss	247	(247)	—	—	226	(226)	—	—
Financial investments	15	(15)	51	(50)	26	(26)	49	(49)
Year ended 31 Dec	354	(332)	51	(50)	413	(397)	49	(49)
The bank								
Derivatives, trading assets and trading liabilities[1]	93	(72)	—	—	170	(154)	—	—
Designated and otherwise mandatorily measured at fair value through profit or loss	64	(64)	—	—	54	(54)	—	—
Financial investments	—	—	6	(5)	—	—	10	(10)
Year ended 31 Dec	157	(136)	6	(5)	224	(208)	10	(10)

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

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

	2021				2020			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	232	(234)	7	(7)	193	(195)	7	(7)
Asset-backed securities	39	(20)	1	—	64	(40)	5	(4)
Structured notes	6	(6)	—	—	23	(23)	—	—
Derivatives	29	(34)	—	—	73	(70)	—	—
Other portfolios	48	(38)	43	(43)	60	(69)	37	(38)
Year ended 31 Dec	354	(332)	51	(50)	413	(397)	49	(49)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value				2021		2020	
	Assets	Liabilities	Valuation techniques	Key unobservable inputs	Full range of inputs		Full range of inputs	
	£m	£m			Lower	Higher	Lower	Higher
Private equity including strategic investments	2,978	7	See below	See below	N/A	N/A	N/A	N/A
Asset-backed securities	592	—						
– CLO/CDO[1]	14	—	Market proxy	Bid quotes	—	100	—	100
– Other ABSs	578	—	Market proxy	Bid quotes	—	100	—	100
Structured notes	—	2,120						
– equity-linked notes	—	1,856	Model – Option model	Equity Volatility	6%	124%	0%	115%
				Equity Correlation	34%	99%	(4)%	79%
– fund-linked notes	—	—	Model – Option model	Fund Volatility			0%	21%
– FX-linked notes	—	14	Model – Option model	FX Volatility	3%	99%	0%	23%
– other	—	250						
Derivatives	1,816	2,454						
– Interest rate derivatives:	594	749						
securitisation swaps	211	439	Model – Discounted cash flow	Constant Prepayment Rate	5%	50%	6%	6%
long-dated swaptions	27	54	Model – Option model	IR Volatility	15%	35%	6%	28%
other	356	256						
– FX derivatives:	384	418						
FX options	116	107	Model – Option model	FX Volatility	2%	99%	3%	40%
other	268	311					0%	70%
– Equity derivatives:	706	1,140						
long-dated single stock options	425	586	Model – Option model	Equity Volatility	4 %	138 %	7%	70%
other[2]	281	554						
– Credit derivatives:	132	147						
other	132	147						
Other portfolios	2,332	574						
– repurchase agreements	329	—	Model – Discounted cash flow	IR Curve	1%	5%	—%	5%
– other[3]	2,003	574						
At 31 Dec	**7,718**	**5,155**						

1 *Collateralised loan obligation/collateralised debt obligation.*
2 *Other Equity Derivatives consists mainly of Swaps and OTC Options.*
3 *Other consists of various instruments including investment in funds, repurchase agreement and bonds.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs. The key unobservable inputs would be price and correlation. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available, but there is evidence from instruments with common characteristics. In some cases, it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC portfolio will depend on HSBC's net risk position in respect of each variable.

12 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
The group	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2021					
Assets					
Loans and advances to banks	**10,784**	**—**	**10,786**	**—**	**10,786**
Loans and advances to customers	**91,177**	**—**	**—**	**91,276**	**91,276**
Reverse repurchase agreements – non-trading	**54,448**	**—**	**54,448**	**—**	**54,448**
Financial investments – at amortised cost	**10**	**2**	**—**	**8**	**10**
Liabilities					
Deposits by banks	**32,188**	**—**	**32,102**	**—**	**32,102**
Customer accounts	**205,241**	**—**	**205,236**	**—**	**205,236**
Repurchase agreements – non-trading	**27,259**	**—**	**27,259**	**—**	**27,259**
Debt securities in issue	**9,428**	**—**	**9,286**	**144**	**9,430**
Subordinated liabilities	**12,488**	**—**	**13,118**	**—**	**13,118**
At 31 Dec 2020					
Assets					
Loans and advances to banks	12,646	—	12,649	—	12,649
Loans and advances to customers	101,491	—	—	101,584	101,584
Reverse repurchase agreements – non-trading	67,577	—	67,577	—	67,577
Financial investments – at amortised cost	15	—	7	7	14
Liabilities					
Deposits by banks	34,305	—	34,249	—	34,249
Customer accounts	195,184	—	195,076	104	195,180
Repurchase agreements – non-trading	34,903	—	34,903	—	34,903
Debt securities in issue	17,371	—	17,094	273	17,367
Subordinated liabilities	13,764	—	14,638	—	14,638

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
The bank	**£m**	**£m**	**£m**	**£m**	**£m**
At 31 Dec 2021					
Assets					
Loans and advances to banks	**6,778**	**—**	**6,881**	**—**	**6,881**
Loans and advances to customers	**33,936**	**—**	**—**	**33,921**	**33,921**
Reverse repurchase agreements – non-trading	**39,708**	**—**	**39,708**	**—**	**39,708**
Financial investments – at amortised cost	**3,337**	**—**	**—**	**—**	**—**
Liabilities					
Deposits by banks	**14,655**	**—**	**14,655**	**—**	**14,655**
Customer accounts	**124,706**	**—**	**124,706**	**—**	**124,706**
Repurchase agreements – non-trading	**22,344**	**—**	**22,344**	**—**	**22,344**
Debt securities in issue	**5,658**	**—**	**5,658**	**—**	**5,658**
Subordinated liabilities	**12,218**	**—**	**12,851**	**—**	**12,851**
At 31 Dec 2020					
Assets					
Loans and advances to banks	8,063	—	8,064	—	8,064
Loans and advances to customers	43,241	—	—	43,222	43,222
Reverse repurchase agreements – non-trading	50,137	—	50,137	—	50,137
Financial investments – at amortised cost	2,214	—	2,246	—	2,246
Liabilities					
Deposits by banks	17,484	—	17,483	—	17,483
Customer accounts	119,974	—	119,974	—	119,974
Repurchase agreements – non-trading	26,996	—	26,996	—	26,996
Debt securities in issue	15,356	—	15,356	—	15,356
Subordinated liabilities	13,360	—	14,160	—	14,160

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 HSBC 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: value estimates from third-party brokers reflecting over-the-counter trading activity; 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; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, 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.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

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, from assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

13 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	The group		The bank	
	2021	2020	**2021**	2020
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value	**Designated at fair value and otherwise mandatorily measured at fair value**	Designated at fair value and otherwise mandatorily measured at fair value
	£m	£m	**£m**	£m
Securities	**15,738**	14,620	**418**	398
– debt securities	**2,584**	2,918	**146**	116
– equity securities	**13,154**	11,702	**272**	282
Loans and advances to banks and customers	**2,613**	1,285	**2,498**	1,152
Other	**298**	315	**299**	315
At 31 Dec	**18,649**	16,220	**3,215**	1,865

14 Derivatives

Notional contract amounts and fair values of derivatives by product contract type

	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	**4,737,254**	**4,045**	**49,775**	**266**	**50,041**	**(48,613)**	**(67)**	**(48,680)**
Interest rate	**8,727,934**	**39,553**	**99,744**	**144**	**99,888**	**(96,297)**	**(270)**	**(96,567)**
Equities	**498,980**	**—**	**9,718**	**—**	**9,718**	**(11,881)**	**—**	**(11,881)**
Credit	**134,440**	**—**	**1,582**	**—**	**1,582**	**(2,159)**	**—**	**(2,159)**
Commodity and other	**42,677**	**—**	**681**	**—**	**681**	**(770)**	**—**	**(770)**
Offset (Note 28)					**(20,689)**			**20,689**
At 31 Dec 2021	**14,141,285**	**43,598**	**161,500**	**410**	**141,221**	**(159,720)**	**(337)**	**(139,368)**
Foreign exchange	4,378,792	5,297	60,341	191	60,532	(59,990)	(41)	(60,031)
Interest rate	8,922,892	40,258	155,752	619	156,371	(151,623)	(488)	(152,111)
Equities	481,638	—	10,857	—	10,857	(12,598)	—	(12,598)
Credit	198,306	—	1,874	—	1,874	(2,672)	—	(2,672)
Commodity and other	82,130	—	1,572	—	1,572	(1,816)	—	(1,816)
Offset (Note 28)					(29,996)			29,996
At 31 Dec 2020	14,063,758	45,555	230,396	810	201,210	(228,699)	(529)	(199,232)

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative asset and liability fair values decreased during 2021, driven by yield curve movements and changes in foreign exchange rates.

	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	**4,713,729**	**3,829**	**48,651**	**247**	**48,898**	**(47,771)**	**(67)**	**(47,838)**
Interest rate	**6,846,965**	**27,206**	**80,798**	**193**	**80,991**	**(80,281)**	**(240)**	**(80,521)**
Equities	**478,832**	**—**	**9,153**	**—**	**9,153**	**(11,896)**	**—**	**(11,896)**
Credit	**132,582**	**—**	**1,558**	**—**	**1,558**	**(2,121)**	**—**	**(2,121)**
Commodity and other	**41,308**	**—**	**677**	**—**	**677**	**(765)**	**—**	**(765)**
Offset					**(15,490)**			**15,490**
At 31 Dec 2021	**12,213,416**	**31,035**	**140,837**	**440**	**125,787**	**(142,834)**	**(307)**	**(127,651)**
Foreign exchange	4,329,503	5,059	58,925	178	59,103	(58,831)	(41)	(58,872)
Interest rate	7,019,211	25,135	132,021	691	132,712	(128,249)	(388)	(128,637)
Equities	467,114	—	10,441	—	10,441	(12,697)	—	(12,697)
Credit	195,578	—	1,849	—	1,849	(2,621)	—	(2,621)
Commodity and other	81,513	—	1,561	—	1,561	(1,805)	—	(1,805)
Offset					(23,600)			23,600
At 31 Dec 2020	12,092,919	30,194	204,797	869	182,066	(204,203)	(429)	(181,032)

Use of derivatives

We undertake derivatives activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, 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 the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Substantially all of the group's derivatives entered into with subsidiaries are managed in conjunction with financial liabilities designated at fair value.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Unamortised balance at 1 Jan	**60**	42	**56**	40
Deferral on new transactions	**156**	105	**155**	103
Recognised in the income statement during the year:	**(152)**	(88)	**(147)**	(87)
– amortisation	**(88)**	(57)	**(88)**	(57)
– subsequent to unobservable inputs becoming observable	**(2)**	(2)	**(2)**	(2)
– maturity, termination or offsetting derivative	**(60)**	(28)	**(57)**	(28)
– risk hedged	**(2)**	(1)	**–**	–
Exchange differences and other	**–**	1	**–**	–
Unamortised balance at 31 Dec[1]	**64**	60	**64**	56

1 *This amount is yet to be recognised in the consolidated income statement.*

Hedge accounting derivatives

The group applies hedge accounting to manage the following risks: interest rate and foreign exchange. 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, including debt securities held and issued.

Hedging instrument by hedged risk

	Hedging instrument				
		Carrying amount			
The group	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Hedged risk	**£m**	**£m**	**£m**		**£m**
Interest rate[3]	**24,486**	**139**	**(270)**	**Derivatives**	**159**
At 31 Dec 2021	**24,486**	**139**	**(270)**		**159**
Interest rate[3]	29,737	617	(488)	Derivatives	(364)
At 31 Dec 2020	29,737	617	(488)		(364)

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]**					
The group	**Assets**	**Liabilities**	**Assets**	**Liabilities**		**Change in fair value[1]**	**Recognised in profit and loss**	
Hedged risk	**£m**	**£m**	**£m**	**£m**	**Balance sheet presentation**	**£m**	**£m**	**Profit and loss presentation**
Interest rate[3]	**14,099**	**–**	**167**	**–**	**Financial assets at fair value through other comprehensive income**	**(278)**	**(9)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	1	**–**	**(2)**	**–**	**Loans and advances to banks**	**(2)**		
	997	**–**	**7**	**–**	**Loans and advances to customers**	**(16)**		
	–	**2,844**	**–**	**71**	**Debt securities in issue**	**24**		
	–	**5,841**	**–**	**(77)**	**Subordinated liabilities and deposits by banks[4]**	**104**		
At 31 Dec 2021	**15,097**	**8,685**	**172**	**(6)**		**(168)**	**(9)**	

Hedged item by hedged risk (continued)

The group	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]			Change in fair value[1]	Recognised in profit and loss	
	Assets	Liabilities	Assets	Liabilities				
Hedged risk	£m	£m	£m	£m	Balance sheet presentation	£m	£m	Profit and loss presentation
Interest rate[3]	20,295	—	588	—	Financial assets at fair value through other comprehensive income	409	(14)	Net income from financial instruments held for trading or managed on a fair value basis
	4	—	2	—	Loans and advances to banks	2		
	1,327	—	23	—	Loans and advances to customers	15		
	—	576	—	108	Debt securities in issue	4		
	—	6,483	—	248	Subordinated liabilities and deposits by banks[4]	(80)		
At 31 Dec 2020	21,626	7,059	613	356		350	(14)	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
2 The accumulated amounts 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 £21m (2020: £(29)m) for 'Financial assets at fair value through other comprehensive income', is £nil (2020: £Nil) for 'Deposits by banks' and £19m (2020: £24m) for 'Debt securities in issue'.
3 The hedged risk 'interest rate' includes inflation risk.
4 The notional amount of non-dynamic fair value hedges was £5,886m (2020: £6,178m) of which the weighted-average maturity is March 2026 and the weighted average swap rate is (0.06)% (2020: 0.82%). £5,886m (2020: £6,178m) of these hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.

Hedging instrument by hedged risk

The bank	Hedging instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]
Hedged risk	**£m**	**£m**	**£m**		**£m**
Interest rate[3]	**18,016**	**188**	**(234)**	**Derivatives**	**27**
At 31 Dec 2021	**18,016**	**188**	**(234)**		**27**
Hedged risk	£m	£m	£m		£m
Interest rate[3]	20,725	689	(387)	Derivatives	(280)
At 31 Dec 2020	20,725	689	(387)		(280)

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

The bank	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]			Change in fair value[1]	Recognised in profit and loss	
	Assets	Liabilities	Assets	Liabilities				
Hedged risk	**£m**	**£m**	**£m**	**£m**	**Balance sheet presentation**	**£m**	**£m**	**Profit and loss presentation**
Interest rate[3]	**9,232**	**—**	**159**	**—**	**Financial assets at fair value through other comprehensive income**	**(163)**	**(8)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	6	**—**	**—**	**—**	**Loans and advances to customers**	**—**		
	—	**2,844**	**—**	**71**	**Debt securities in issue**	**24**		
	—	**5,810**	**—**	**(77)**	**Subordinated liabilities and deposits by banks[4]**	**104**		
At 31 Dec 2021	**9,238**	**8,654**	**159**	**(6)**		**(35)**	**(8)**	

Hedged item by hedged risk (continued)

The bank	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]			Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation			
Hedged risk	£m	£m	£m	£m		£m	£m	
Interest rate[3]	13,711	—	438	—	Financial assets at fair value through other comprehensive income	344	(17)	Net income from financial instruments held for trading or managed on a fair value basis
	37	—	—	—	Loans and advances to customers	—		
	—	576	—	108	Debt securities in issue	4		
	—	6,449	—	248	Subordinated liabilities and deposits by banks[4]	(85)		
At 31 Dec 2020	13,748	7,025	438	356		263	(17)	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amounts 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 £21m (2020: £(29)m) for 'Financial assets at fair value through other comprehensive income', £nil (2020: £Nil) for 'Deposits by banks' and £19m (2020: £24m) for 'Debt securities in issue'.*
3 *The hedged risk 'interest rate' includes inflation risk.*
4 *The notional amount of non-dynamic fair value hedges was £5,886m (2020: £6,178m), of which the weighted-average maturity is March 2026 and the weighted average swap rate is (0.06)% (2020: 0.82%) .Those hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.*

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[4]

	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m		£m	£m	£m	
Foreign exchange	**4,042**	**266**	**(67)**	**Derivatives**	**127**	**127**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**15,067**	**5**	**(2)**		**(178)**	**(167)**	**(11)**	
At 31 Dec 2021	**19,109**	**271**	**(69)**		**(51)**	**(40)**	**(11)**	
Foreign exchange	5,286	191	(41)	Derivatives	(30)	(30)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	10,521	2	—		117	115	2	
At 31 Dec 2020	15,807	193	(41)		87	85	2	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
4 *The amounts in the above table predominantly represent the bank's exposure.*

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.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign exchange
	£m	£m
Cash flow hedging reserve at 1 Jan 2021	**147**	**11**
Fair value (losses)/gains	**(167)**	**127**
Fair value (gains) reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	**(25)**	**(177)**
Income taxes	**77**	**—**
Cash flow hedging reserve at 31 Dec 2021	**32**	**(39)**
Cash flow hedging reserve at 1 Jan 2020	76	(36)
Fair value gains/(losses)	115	(29)
Fair value (gains)/losses reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	(4)	76
Income taxes	(40)	—
Cash flow hedging reserve at 31 Dec 2020	147	11

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

HSBC has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibors reform, including those designated in hedge accounting relationships, is disclosed on page 25 in the section 'Financial instruments impacted by the Ibor reform'. For further details of Ibor transition, see 'Top and emerging risks' on page 22.

During 2021 the group transitioned all of its hedging instruments referencing sterling Libor, European Overnight Index Average rate ('Eonia') and Japanese yen Libor. The group also transitioned some of the hedging instruments referencing US dollar Libor. There is no significant judgment applied for these benchmarks to determine whether and when the transition uncertainty has been resolved.

The most significant Ibor benchmark in which the group continues to have hedging instruments is US dollar Libor. It is expected that the transition out of US dollar Libor hedging derivatives will be largely completed by the end of 2022. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

For some of the Ibors included under the 'Other' header, in the table below, judgment has been needed to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instrument impacted by Ibor Reform

	Hedging instrument						
	Impacted by Ibor Reform					NOT Impacted by Ibor Reform	Notional Amount[1]
	EUR[2]	GBP	USD	Other[3]	Total		
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Fair Value Hedges	**6,407**	**—**	**336**	**124**	**6,867**	**17,619**	**24,486**
Cash Flow Hedges	**5,877**	**—**	**—**	**—**	**5,877**	**9,190**	**15,067**
At 31 Dec 2021	**12,284**	**—**	**336**	**124**	**12,744**	**26,809**	**39,553**
The bank							
Fair Value Hedges	**4,920**	**—**	**6**	**124**	**5,050**	**12,966**	**18,016**
Cash Flow Hedges	**—**	**—**	**—**	**—**	**—**	**9,190**	**9,190**
At 31 Dec 2021	**4,920**	**—**	**6**	**124**	**5,050**	**22,156**	**27,206**
The group	£m	£m	£m	£m	£m	£m	£m
Fair Value Hedges	12,822	1,855	1,908	60	16,645	13,092	29,737
Cash Flow Hedges	6,111	1,552	183	—	7,846	2,675	10,521
At 31 Dec 2020	18,933	3,407	2,091	60	24,491	15,767	40,258
The bank							
Fair Value Hedges	6,275	1,833	1,556	61	9,725	11,000	20,725
Cash Flow Hedges	—	1,552	183	—	1,735	2,675	4,410
At 31 Dec 2020	6,275	3,385	1,739	61	11,460	13,675	25,135

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 *The notional contract amounts of euro interest rate derivatives impacted by Ibor reform mainly comprise hedges with a Euribor benchmark, which are Fair value hedges of £6,407m (31 December 2020: £7,606m) and Cash flow hedges £5,877m (31 December 2020: £6,111m).*
3 *Other benchmarks impacted by Ibor reform comprise derivatives that are expected to transition, but do not have a published cessation date.*

15 Financial investments

Carrying amount of financial investments

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Financial investments measured at fair value through other comprehensive income	**41,290**	51,811	**23,205**	28,755
– treasury and other eligible bills	**2,229**	3,286	**1,441**	2,194
– debt securities	**38,924**	48,363	**21,711**	26,505
– equity securities	**103**	98	**53**	56
– other instruments[1]	**34**	64	**—**	—
Debt instruments measured at amortised cost	**10**	15	**3,337**	2,214
– treasury and other eligible bills	**2**	5	**—**	—
– debt securities[2]	**8**	10	**3,337**	2,214
At 31 Dec	**41,300**	51,826	**26,542**	30,969

1 *'Other instruments' are comprised of loans and advances.*
2 *The £3.3bn (2020: £2.2bn) of debt securities in the bank relates to Senior Non-Preferred debt issued by HSBC Continental Europe to comply with Single Resolution Board requirements on Minimum Required Eligible Liabilities.*

Equity instruments measured at fair value through other comprehensive income

	Instruments held at year end	
	Fair value	**Dividends recognised**
Type of equity instruments	**£m**	**£m**
Business facilitation	**76**	**—**
Investments required by central institutions	**26**	**—**
Others	**1**	**—**
At 31 Dec 2021	**103**	**—**
Business facilitation	79	1
Investments required by central institutions	18	—
Others	1	—
At 31 Dec 2020	98	1

16 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Treasury bills and other eligible securities	**990**	2,382	**990**	1,543
Loans and advances to customers	**18,403**	20,597	**—**	—
Debt securities	**20,247**	24,069	**11,415**	14,432
Equity securities	**23,612**	21,304	**25,452**	21,604
Other	**30,261**	39,319	**23,259**	28,142
Assets pledged at 31 Dec	**93,513**	107,671	**61,116**	65,721

Financial assets pledged as collateral which the counterparty has the right to sell or repledge

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Trading assets	**39,594**	40,000	**35,311**	32,409
Financial investments	**1,436**	3,009	**542**	2,684
At 31 Dec	**41,030**	43,009	**35,853**	35,093

Assets pledged as collateral includes all assets categorised as encumbered in the disclosure on page 76.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case 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.

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 £202,794m (2020: £213,690m) (the bank: 2021: £167,737m; 2020: £169,797m). The fair value of any such collateral sold or repledged was £151,378m (2020: £154,486m) (the bank: 2021: £120,436m; 2020: £117,505m).

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.

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 equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. 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

	Carrying amount of:	
	Transferred assets	**Associated liabilities**
The group	**£m**	**£m**
At 31 Dec 2021		
Repurchase agreements	**11,710**	**11,732**
Securities lending agreements	**29,321**	**2,129**
At 31 Dec 2020		
Repurchase agreements	14,232	14,264
Securities lending agreements	28,777	87

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	**Associated liabilities**
The bank	**£m**	**£m**
At 31 Dec 2021		
Repurchase agreements	**4,489**	**4,488**
Securities lending agreements	**31,365**	**2,132**
At 31 Dec 2020		
Repurchase agreements	5,315	5,315
Securities lending agreements	29,778	82

17 Interests in associates and joint ventures

Principal associates of the group and the bank

Business Growth Fund Group plc ('BGF') is a principal associate of the group. BGF is an independent company, established in 2011 to provide investment to growing small to medium-sized British businesses. BGF is backed by five of the UK's main banking groups: Barclays, HSBC, Lloyds, RBS and Standard Chartered. At 31 December 2021, the group had a 24.62% interest in the equity capital of BGF. Share of profit in BGF is £192m (2020: £5m) and carrying amount of interest in BGF is £702m (2020: £471m).

Interests in joint ventures

A list of all associates is set out on page 177.

18 Investments in subsidiaries

Main subsidiaries of HSBC Bank plc

	At 31 Dec 2021		
	Country of incorporation or registration	**HSBC Bank plc's interest in equity capital**	**Share class**
		%	
HSBC Investment Bank Holdings Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Asset Finance (UK) Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Life (UK) Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Trinkaus & Burkhardt AG	**Germany**	**100.00**	**Stückaktien no par value**
HSBC Continental Europe	**France**	**99.99**	**€5 Actions**
HSBC Bank Malta p.l.c	**Malta**	**70.03**	**€0.30 Ordinary**

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 36. The principal countries of operation are the same as the countries of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC 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 flows represent the Free Cash Flows ('FCF') based on the subsidiary's binding capital requirements.

- The cash flow projections for each investment are based on the latest approved plans, which includes forecast capital available for distribution based on the capital requirements of the subsidiary taking into account minimum and core capital requirements. A long term growth rate is used to extrapolate the free cash flows in perpetuity.
- The growth rate reflects inflation for the country within which the investment operates and is based on the long-term average growth rates.
- 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 rates of inflation for the countries within which the investment operates. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets.

Similar to 2020, an impairment test was performed in 2021 and it is concluded that no impairment is required to our investment in HSBC Continental Europe.

Impairment test results

Investments	Carrying amount	Value in use	Discount rate	Long-term growth rate	Headroom
HSBC Continental Europe	**£m**	**£m**	**%**	**%**	**£m**
At 31 Dec 2021	**4,331**	**4,429**	**8.34**	**1.53**	**98**
At 31 Dec 2020	4,331	4,649	9.65	1.51	318

Sensitivities of key assumptions in calculating VIU

At 31 December 2021, the investment in HSBC Continental Europe was 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.

The following table presents a summary of the key assumptions underlying the most sensitive inputs to the model for HSBC Continental Europe, the key risks attaching to each, and details of a reasonably possible change to assumptions where, in the opinion of management, these could result in an impairment.

Reasonably possible changes in key assumptions

Investment	Input	Key assumptions	Associated risks	Reasonably possible change
HSBC Continental Europe	Free Cash Flows projections	• Level of interest rates and yield curves. • Competitors' positions within the market. • Level and change in unemployment rates.	• Customer remediation and regulatory actions. • Achievement of strategic actions relating to revenue and costs.	• FCF projections decrease by 10%. • Achievement of revenue and cost targets
	Discount rate	• Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	• External evidence arises to suggest that the rate used is not appropriate to the business.	• Discount rate increases by 1%.
	Long-term growth rates	• Business growth will reflect inflation rates of the country the subsidiary conducts business in the long term.	• Growth does not match inflation or there is a fall in inflation forecasts.	• Real inflation does not occur or is not reflected in performance.

Sensitivity of VIU to reasonably possible changes in key assumptions and changes to current assumptions to reduce headroom to nil

			Increase/(decrease)		
Investments	**Carrying amount**	**Value in use**	**Discount rate**	**Free Cash flows**	**Long-term growth rate**
At 31 Dec 2021	**£m**	**£m**	**bps**	**%**	**bps**
HSBC Continental Europe	**4,331**	**4,429**	**16**	**(2.3)**	**(22)**

19 Structured entities

The group is mainly involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits 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

	Conduits	Securitisations	HSBC managed funds[1]	Other[1]	Total
	£m	£m	£m	£m	£m
At 31 Dec 2021	**3,233**	**287**	**4,653**	**568**	**8,741**
At 31 Dec 2020	5,023	423	3,885	1,079	10,410

1 Balances from 2020 have been re-presented to disclose a consistent application of the 'HSBC and third-party managed funds categories.

Conduits

The group has established and manages two types of conduits: securities investment conduits ('SICs') and multi-seller conduits.

Securities investment conduits

The SICs purchase highly rated ABSs to facilitate tailored investment opportunities.

At 31 December 2021, Solitaire, the group's principal SIC held £1.2bn of ABSs (2020: £1.4bn). It is currently funded entirely by commercial paper ('CP') issued to the group. At 31 December 2021, the group held £1.3bn of CP (2020: £1.6bn).

Multi-seller conduits

The group's multi-seller conduit was established to provide access to flexible market-based sources of finance for its clients. Currently, the group bears risk equal to transaction-specific facility offered to the multi-seller conduits, amounting to £4.6bn at 31 December 2021 (2020: £6.5bn). First loss protection is provided by the originator of the assets, and not by the group, through transaction-specific credit enhancements. A layer of secondary loss protection is provided by the group in the form of programme-wide enhancement facilities.

Securitisations

The group uses structured entities to securitise customer loans and advances it originates in order to diversify the sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entities for cash or synthetically through credit default swaps, and the structured entities issue debt securities to investors.

HSBC managed funds

The group together with other HSBC entities has established a number of money market and non-money market funds. Where it is deemed to be acting as principal rather than agent in its role as investment manager, the group controls these funds.

Other

The group has entered into a number of transactions in the normal course of business, which include asset and structured finance transactions where it has control of the structured entity. In addition, the group is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

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.

Nature and risks associated with the group's interests in unconsolidated structured entities

	Securitisa-tions	HSBC managed funds[1]	Non-HSBC managed funds[1]	Other	Total
Total asset values of the entities (£m)					
0 – 400	**2**	**157**	**1,194**	**14**	**1,367**
400 – 1,500	**—**	**81**	**774**	**—**	**855**
1,500 – 4,000	**—**	**16**	**354**	**—**	**370**
4,000 – 20,000	**—**	**12**	**149**	**—**	**161**
20,000+	**—**	**2**	**9**	**—**	**11**
Number of entities at 31 Dec 2021	**2**	**268**	**2,480**	**14**	**2,764**
	£m	**£m**	**£m**	**£m**	**£m**
Total assets in relation to the group's interests in the unconsolidated structured entities	**193**	**4,414**	**5,225**	**631**	**10,463**
– trading assets	**—**	**1**	**1,807**	**—**	**1,808**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**4,409**	**3,273**	**—**	**7,682**
– loans and advances to customers	**193**	**—**	**49**	**631**	**873**
– financial investments	**—**	**4**	**96**	**—**	**100**
Total liabilities in relation to the group's interests in the unconsolidated structured entities	**—**	**—**	**2**	**—**	**2**
Other off-balance sheet commitments	**20**	**4**	**916**	**38**	**978**
The group's maximum exposure at 31 Dec 2021	**213**	**4,418**	**6,139**	**669**	**11,439**
Total asset values of the entities (£m)					
0 – 400	5	176	1,228	16	1,425
400 – 1,500	—	60	645	—	705
1,500 – 4,000	—	28	351	—	379
4,000 – 20,000	—	22	271	—	293
20,000+	—	4	39	—	43
Number of entities at 31 Dec 2020	5	290	2,534	16	2,845
	£m	£m	£m	£m	£m
Total assets in relation to the group's interests in the unconsolidated structured entities	686	3,884	5,985	346	10,901
– trading assets	—	3	2,365	—	2,368
– financial assets designated at fair value	—	3,849	3,247	—	7,096
– loans and advances to customers	686	—	—	346	1,032
– financial investments	—	32	373	—	405
Total liabilities in relation to group's interests in the unconsolidated structured entities	—	—	1	—	1
Other off-balance sheet commitments	40	1	1,450	—	1,491
The group's maximum exposure at 31 Dec 2020	726	3,885	7,434	346	12,391

1 *Balances from 2020 have been re-presented to disclose a consistent application of the HSBC and third-party managed funds categories.*

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

Securitisations

The group has interests in unconsolidated securitisation vehicles through holding notes issued by these entities. In addition, the group has investments in ABSs issued by third-party structured entities.

HSBC managed funds

The group together with other HSBC entities establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities. The group, as fund manager, may be entitled to receive management and performance fees based on the assets under management. The group may also retain units in these funds.

Non-HSBC managed funds

The group purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs.

Other

The group has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions.

In addition to the interests disclosed above, the group enters into derivative contracts, reverse repos and stock borrowing transactions with structured entities. These interests arise in the normal course of business for the facilitation of third-party transactions and risk management solutions.

Group sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2021 and 2020 was not significant.

20 Goodwill and intangible assets

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Goodwill	**—**	—	**19**	19
Present value of in-force long-term insurance business	**811**	647	**—**	—
Other intangible assets[1]	**83**	119	**15**	12
At 31 Dec	**894**	766	**34**	31

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £77m (2020: £115m). During 2021, capitalisation of internally generated software was £46m (2020: £150m), impairment was £(45)m (2020: £(790)m) and amortisation was £15m (2020: £94m).*

Present value of in-force long-term insurance business

When calculating the present value of in-force long-term ('PVIF') insurance business, expected cash flows are projected after adjusting for a variety of assumptions made by each insurance operation to reflect local market conditions and management's judgement of future trends and uncertainty in the underlying assumptions is reflected by applying margins (as opposed to a cost of capital methodology) including valuing the cost of policyholder options and guarantees using stochastic techniques.

Actuarial Control Committees of each key insurance entity meet on a quarterly basis to review and approve PVIF assumptions. All changes to non-economic assumptions, economic assumptions that are not observable and model methodology must be approved by the Actuarial Control Committee.

Movements in PVIF

	2021	2020
	£m	£m
PVIF at 1 Jan	**647**	715
Change in PVIF of long-term insurance business	**200**	(95)
– value of new business written during the year	**67**	43
– expected return[1]	**(70)**	(74)
– assumption changes and experience variances[2] (see below)	**202**	(73)
– other adjustments	**1**	9
Exchange differences	**(36)**	27
PVIF at 31 Dec	**811**	647

1 *'Expected return' represents the unwinding of the discount rate and reversal of expected cash flows for the period.*
2 *Represents the effect of changes in assumptions on expected future profits and the difference between assumptions used in the previous PVIF calculation and actual experience observed during the year to the extent that this affects future profits. The gain of £202m (2020: loss of £73m) was driven mainly by an increase in yields and improved equity market performances during 2021.*

Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

	2021		2020	
	UK	**France[1]**	UK	France[1]
	%	**%**	%	%
Weighted average risk-free rate	**0.95**	**0.69**	0.29	0.34
Weighted average risk discount rate	**0.95**	**1.55**	0.29	1.34
Expense inflation	**3.80**	**1.80**	2.80	1.60

1 *For 2021, the calculation of France's PVIF assumes a risk discount rate of 1.55% (2020: 1.34%) plus a risk margin of £156m (2020: £159m).*

Sensitivity to changes in economic assumptions

The group sets the risk discount rate applied to the PVIF calculation by starting from a risk-free rate curve and adding explicit allowances for risks not reflected in the best estimate cash flow modelling. Where the insurance operations provide options and guarantees to policyholders, the cost of these options and guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already allowed for as an explicit addition to liabilities under insurance contracts. See page 86 for further details of these guarantees and the impact of changes in economic assumptions on our insurance manufacturing subsidiaries.

Sensitivity to changes in non-economic assumptions

Policyholder liabilities and PVIF are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. See page 87 for further details on the impact of changes in non-economic assumptions on our insurance manufacturing operations.

21 Prepayments, accrued income and other assets

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Cash collateral and margin receivables	**29,947**	39,702	**22,961**	28,142
Settlement accounts	**4,960**	7,138	**4,604**	5,153
Bullion	**2,253**	3,597	**2,253**	3,593
Prepayments and accrued income	**1,365**	1,308	**531**	537
Property, plant and equipment	**846**	899	**10**	12
Right-of-use assets	**251**	390	**37**	59
Reinsurers' share of liabilities under insurance contracts (Note 4)	**146**	165	**—**	—
Employee benefit assets (Note 5)	**54**	30	**43**	29
Endorsements and acceptances	**196**	97	**172**	69
Assets held for sale	**9**	90	**—**	—
Other accounts	**3,100**	2,149	**879**	1,181
At 31 Dec	**43,127**	55,565	**31,490**	38,775

Prepayments, accrued income and other assets include £39,064m (2020: £50,027m) of financial assets, the majority of which are measured at amortised cost.

Impairment testing

Impairment of other intangible assets is assessed in accordance with our policy explained in Note 1.2(n) by comparing the net carrying amount of CGUs containing intangible assets with their recoverable amounts. No significant impairment was recognised during the year.

In 2020, having considered the pervasive macroeconomic deterioration caused by the outbreak of Covid-19, along with the impact of forecast profitability, £193m of tangible asset were impaired, primarily Right of Use ('ROU') assets for leased office, commercial and retail branches and fixtures and fittings. This impairment reflected underperformance and deterioration in the future forecasts, substantially relating to prior periods.

Assets held for sale

	The group	
	2021	2020
	£m	£m
Property, plant and equipment[1]	**6**	86
Assets of disposal groups held for sale	**3**	4
Assets classified as held for sale at 31 Dec	**9**	90

1 2020 includes HSBC Trinkaus & Burkhardt AG's one property as held for sale.

22 Trading liabilities

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Deposits by banks[1]	**3,122**	4,324	**3,141**	4,303
Customer accounts[1]	**6,386**	7,744	**6,216**	7,528
Other debt securities in issue	**1,324**	1,156	**30**	21
Other liabilities – net short positions in securities	**35,601**	31,005	**21,774**	14,821
At 31 Dec	**46,433**	44,229	**31,161**	26,673

1 'Deposits by banks' and 'Customer accounts' include repos, stock lending and other amounts.

23 Financial liabilities designated at fair value

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Deposits by banks and customer accounts	**4,302**	3,273	**4,245**	3,204
Liabilities to customers under investment contracts	**1,032**	944	**—**	—
Debt securities in issue	**26,049**	34,228	**14,399**	19,136
Subordinated liabilities (Note 26)	**2,225**	2,347	**2,225**	2,347
At 31 Dec	**33,608**	40,792	**20,869**	24,687

The group

The carrying amount of financial liabilities designated at fair value was £(1,568)m lower than the contractual amount at maturity (2020: £3,351m higher). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £165m (2020: loss of £189m).

The bank

The carrying amount of financial liabilities designated at fair value was £(2,146)m lower than the contractual amount at maturity (2020: £2,525m higher). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £72m (2020: loss of £76m).

24 Accruals, deferred income and other liabilities

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Cash collateral and margin payables	**32,309**	42,273	**24,204**	31,810
Settlement accounts	**4,767**	4,900	**3,996**	4,451
Accruals and deferred income	**1,507**	1,566	**859**	826
Amount due to investors in funds consolidated by the group	**1,315**	1,051	**—**	—
Lease liabilities	**386**	558	**55**	82
Employee benefit liabilities (Note 5)	**196**	288	**74**	75
Share-based payment liability to HSBC Holdings	**129**	104	**102**	76
Endorsements and acceptances	**189**	89	**172**	70
Other liabilities	**2,658**	2,566	**708**	1,181
At 31 Dec	**43,456**	53,395	**30,170**	38,571

For the group, accruals, deferred income and other liabilities include £42,887m (2020: £52,754m), and for the bank £29,913m (2020: £38,291m) of financial liabilities, the majority of which are measured at amortised cost.

25 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
The group	**£m**	**£m**	**£m**	**£m**	**£m**
Provisions (excluding contractual commitments)					
At 1 Jan 2021	**309**	**237**	**25**	**103**	**674**
Additions	**91**	**32**	**11**	**86**	**220**
Amounts utilised	**(170)**	**(63)**	**(10)**	**(32)**	**(275)**
Unused amounts reversed	**(63)**	**(25)**	**(6)**	**(58)**	**(152)**
Exchange and other movements	**(3)**	**(6)**	**1**	**—**	**(8)**
At 31 Dec 2021	**164**	**175**	**21**	**99**	**459**
Contractual commitments[1]					
At 1 Jan 2021					**187**
Net change in expected credit loss provision and other movements					**(84)**
At 31 Dec 2021					**103**
Total Provisions					
At 31 Dec 2020					**861**
At 31 Dec 2021					**562**
Provisions (excluding contractual commitments)					
At 1 Jan 2020	94	211	29	104	438
Additions	315	68	5	66	454
Amounts utilised	(80)	(51)	(4)	(39)	(174)
Unused amounts reversed	(18)	(2)	(4)	(28)	(52)
Exchange and other movements	(2)	11	(1)	—	8
At 31 Dec 2020	309	237	25	103	674
Contractual commitments[1]					
At 1 Jan 2020					102
Net change in expected credit loss provision and other movements					85
At 31 Dec 2020					187
Total Provisions					
At 31 Dec 2019					540
At 31 Dec 2020					861

1 *The contractual commitments include provision for off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 46.*

The bank	Restructuring costs £m	Legal proceedings and regulatory matters £m	Customer remediation £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2021	**39**	**198**	**17**	**52**	**306**
Additions	**54**	**23**	**7**	**30**	**114**
Amounts utilised	**(54)**	**(32)**	**(8)**	**(15)**	**(109)**
Unused amounts reversed	**(26)**	**(24)**	**(4)**	**(40)**	**(94)**
Unwinding of discounts	**—**	**—**	**—**	**—**	**—**
Exchange and other movements	**(1)**	**(10)**	**1**	**—**	**(10)**
At 31 Dec 2021	**12**	**155**	**13**	**27**	**207**
Contractual commitments[1]					
At 1 Jan 2021					**107**
Net change in expected credit loss provision and other movements					**(64)**
At 31 Dec 2021					**43**
Total Provisions					
At 31 Dec 2020					**413**
At 31 Dec 2021					**250**
Provisions (excluding contractual commitments)					
At 1 Jan 2020	41	173	20	36	270
Additions	56	63	2	39	160
Amounts utilised	(45)	(47)	(3)	(8)	(103)
Unused amounts reversed	(6)	—	(1)	(15)	(22)
Exchange and other movements	(7)	9	(1)	—	1
At 31 Dec 2020	39	198	17	52	306
Contractual commitments[1]					
At 1 Jan 2020					38
Net change in expected credit loss provision and other movements					69
At 31 Dec 2020					107
Total Provisions					
At 31 Dec 2019					308
At 31 Dec 2020					413

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 46.*

Restructuring costs

These provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. Additions made during the year relate to formal restructuring plans made within the group. The majority of the restructuring costs recognised for 2021 relate to the transformation programme initiated by HSBC Continental Europe.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 32. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

26 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
At amortised cost	**12,488**	13,764	**12,218**	13,360
– subordinated liabilities	**11,788**	13,064	**12,218**	13,360
– preferred securities	**700**	700	**—**	—
Designated at fair value (Note 23)	**2,225**	2,347	**2,225**	2,347
– subordinated liabilities	**2,225**	2,347	**2,225**	2,347
At 31 Dec	**14,713**	16,111	**14,443**	15,707

Subordinated liabilities rank behind senior obligations and consist of capital instruments and other instruments. Capital instruments generally count towards the capital base of the group and may be called and redeemed by the group subject to prior notification to the PRA and, where relevant, the consent of the local banking regulator. If not redeemed at the first call date, coupons payable may step up or become floating rate based on interbank rates. On capital instruments other than floating rate notes, interest is payable at fixed rates of up to 7.65%.

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 due to the inclusion of issuance costs, regulatory amortisation and regulatory eligibility limits prescribed in the grandfathering provisions under CRD IV.

Subordinated liabilities of the group

		Carrying amount	
		2021	2020
		£m	£m
Capital instruments			
Additional tier 1 instruments guaranteed by the bank			
£700m	5.844% Non-cumulative Step-up Perpetual Preferred Securities[1]	700	700
Tier 2 instruments			
$450m	Subordinated Floating Rate Notes 2021[2]	—	330
$750m	3.43% Subordinated Loan 2022	558	569
$2,000m	3.5404% Subordinated Loan 2023[3]	—	1,534
£300m	6.5% Subordinated Notes 2023	300	300
€1,500m	Floating Rate Subordinated Loan 2023	1,260	1,347
€2,000m	1.125% Subordinated Loan 2024[3]	—	1,856
€1,500m	Floating Rate Subordinated Loan 2024	1,260	1,347
€2,000m	1.728% Subordinated Loan 2024[3]	—	1,836
$300m	7.65% Subordinated Notes 2025	222	220
$750m	HSBC Bank plc 4.186% Subordinated Loan 2027	604	633
€1,250m	1.4648% Subordinated Loan 2027[3]	—	1,200
€300m	Floating Rate Subordinated Loan 2027	252	269
£200m	Floating Rate Subordinated Loan 2028	200	200
€300m	Floating Rate Subordinated Loan 2028	252	269
€260m	Floating Rate Subordinated Loan 2029	218	233
£350m	5.375% Callable Subordinated Step-up Notes 2030[4]	398	427
$2,000m	HSBC Bank plc 1.625% Subordinated Loan 2031[3]	1,457	—
€2,000m	HSBC Bank plc 0.375% Subordinated Loan 2031[3]	1,658	—
€2,000m	HSBC Bank plc 0.375% Subordinated Loan 2031[3]	1,658	—
€1,250m	HSBC Bank plc 0.25% Subordinated Loan 2031[3]	1,036	—
£500m	5.375% Subordinated Notes 2033	665	719
£225m	6.25% Subordinated Notes 2041	224	224
£600m	4.75% Subordinated Notes 2046	595	594
$750m	Undated Floating Rate Primary Capital Notes	554	549
$500m	Undated Floating Rate Primary Capital Notes	369	366
$300m	Undated Floating Rate Primary Capital Notes (Series 3)	222	220
Other Tier 2 instruments each less than £100m		51	169
At 31 Dec		14,713	16,111

1 *The interest rate payable after November 2031 is the sum of the compounded daily Sonia rate plus 2.0366%.*
2 *In February 2021, HSBC Bank Plc redeemed the USD450m Subordinated Floating Rate note 2021.*
3 *In March 2021, HSBC Bank plc redeemed its fixed rate subordinated loan and simultaneously drew in full a new fixed rate subordinated loan from HSBC Holdings plc.*
4 *The interest rate payable after November 2025 is the sum of the compounded daily Sonia rate plus 1.6193%.*

Footnotes 1 and 4 both relate to instruments that are redeemable at the option of the issuer on the date of the change in the distribution or interest rate, and on subsequent rate reset and payment dates in some cases, subject to prior notification to the PRA.

27 Maturity analysis of assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in our consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and 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, and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due between 3 and 12 months £m	Due between 1 and 5 years £m	Due after 5 years £m	Total £m
Deposits by banks	**16,783**	**1,555**	**1,106**	**12,277**	**401**	**32,122**
Customer accounts	**196,609**	**5,599**	**2,770**	**199**	**101**	**205,278**
Repurchase agreements – non-trading	**24,273**	**1,924**	**1,061**	**7**	**—**	**27,265**
Trading liabilities	**46,433**	**—**	**—**	**—**	**—**	**46,433**
Financial liabilities designated at fair value	**9,358**	**2,790**	**4,310**	**8,269**	**11,873**	**36,600**
Derivatives	**139,040**	**46**	**104**	**406**	**581**	**140,177**
Debt securities in issue	**2,755**	**2,952**	**2,145**	**1,328**	**335**	**9,515**
Subordinated liabilities	**14**	**62**	**123**	**3,969**	**10,734**	**14,902**
Other financial liabilities	**40,292**	**423**	**442**	**234**	**1,417**	**42,808**
	475,557	**15,351**	**12,061**	**26,689**	**25,442**	**555,100**
Loan and other credit-related commitments	**119,476**	**—**	**—**	**—**	**—**	**119,476**
Financial guarantees[1]	**11,054**	**—**	**—**	**—**	**—**	**11,054**
At 31 Dec 2021	**606,087**	**15,351**	**12,061**	**26,689**	**25,442**	**685,630**
Deposits by banks	20,627	732	299	12,101	463	34,222
Customer accounts	186,178	5,769	2,936	231	109	195,223
Repurchase agreements – non-trading	31,635	1,772	1,504	12	—	34,923
Trading liabilities	44,229	—	—	—	—	44,229
Financial liabilities designated at fair value	9,602	1,051	4,989	12,914	11,740	40,296
Derivatives	198,758	54	125	483	408	199,828
Debt securities in issue	1,862	3,244	10,554	1,280	588	17,528
Subordinated liabilities	94	397	231	9,357	5,503	15,582
Other financial liabilities	50,107	349	444	384	1,178	52,462
	543,092	13,368	21,082	36,762	19,989	634,293
Loan and other credit-related commitments	147,303	—	—	—	—	147,303
Financial guarantees[1]	3,969	—	—	—	—	3,969
At 31 Dec 2020	694,364	13,368	21,082	36,762	19,989	785,565
The bank						
Deposits by banks	**18,053**	**4,781**	**1,516**	**1,453**	**—**	**25,803**
Customer accounts	**119,749**	**3,504**	**1,453**	**2**	**—**	**124,708**
Repurchase agreements – non-trading	**19,707**	**1,575**	**1,061**	**7**	**—**	**22,350**
Trading liabilities	**31,161**	**—**	**—**	**—**	**—**	**31,161**
Financial liabilities designated at fair value	**9,241**	**1,597**	**3,723**	**2,360**	**7,055**	**23,976**
Derivatives	**127,352**	**46**	**104**	**379**	**574**	**128,455**
Debt securities in issue	**1,480**	**1,915**	**845**	**1,118**	**327**	**5,685**
Subordinated liabilities	**14**	**62**	**111**	**3,700**	**11,202**	**15,089**
Other financial liabilities	**29,248**	**320**	**148**	**28**	**22**	**29,766**
	356,005	**13,800**	**8,961**	**9,047**	**19,180**	**406,993**
Loan and other credit-related commitments	**32,471**	**—**	**—**	**—**	**—**	**32,471**
Financial guarantees[1]	**1,270**	**—**	**—**	**—**	**—**	**1,270**
At 31 Dec 2021	**389,746**	**13,800**	**8,961**	**9,047**	**19,180**	**440,734**
Deposits by banks	16,376	707	205	204	—	17,492
Customer accounts	115,204	3,485	1,287	3	—	119,979
Repurchase agreements – non-trading	24,398	1,105	1,500	12	—	27,015
Trading liabilities	26,673	—	—	—	—	26,673
Financial liabilities designated at fair value	9,414	1,007	2,962	4,497	5,515	23,395
Derivatives	180,608	52	125	444	391	181,620
Debt securities in issue	1,060	3,238	9,629	1,046	417	15,390
Subordinated liabilities	14	397	191	9,086	5,478	15,166
Other financial liabilities	37,510	248	146	53	14	37,971
	411,257	10,239	16,045	15,345	11,815	464,701
Loan and other credit-related commitments	46,340	—	—	—	—	46,340
Financial guarantees[1]	1,510	—	—	—	—	1,510
At 31 Dec 2020	459,107	10,239	16,045	15,345	11,815	512,551

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

Maturity analysis of financial assets and financial liabilities

The following table provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after more than 1 year' 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 after more than 1 year' time bucket.

- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction.
- Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Due after more than 1 year' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

Maturity analysis of financial assets and financial liabilities

	2021			2020		
	Due within 1 year	**Due after more than 1 year**	**Total**	Due within 1 year	Due after more than 1 year	Total
The group	**£m**	**£m**	**£m**	£m	£m	£m
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	**3,225**	**15,424**	**18,649**	1,631	14,589	16,220
Loans and advances to banks	**8,841**	**1,943**	**10,784**	10,186	2,460	12,646
Loans and advances to customers	**40,837**	**50,340**	**91,177**	47,863	53,628	101,491
Reverse repurchase agreement – non-trading	**53,079**	**1,369**	**54,448**	65,157	2,420	67,577
Financial investments	**6,748**	**34,552**	**41,300**	8,984	42,842	51,826
Other financial assets	**38,851**	**203**	**39,054**	49,744	274	50,018
At 31 Dec	**151,581**	**103,831**	**255,412**	183,565	116,213	299,778
Liabilities						
Deposits by banks	**19,439**	**12,749**	**32,188**	21,627	12,678	34,305
Customer accounts	**204,973**	**268**	**205,241**	194,872	312	195,184
Repurchase agreements – non-trading	**27,252**	**7**	**27,259**	34,891	12	34,903
Financial liabilities designated at fair value	**16,329**	**17,279**	**33,608**	17,109	23,683	40,792
Debt securities in issue	**7,840**	**1,588**	**9,428**	15,620	1,751	17,371
Other financial liabilities	**41,131**	**1,754**	**42,885**	50,955	1,704	52,659
Subordinated liabilities	**8**	**12,480**	**12,488**	445	13,319	13,764
At 31 Dec	**316,972**	**46,125**	**363,097**	335,519	53,459	388,978
The bank						
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	**2,796**	**419**	**3,215**	1,455	410	1,865
Loans and advances to banks	**5,267**	**1,511**	**6,778**	6,081	1,982	8,063
Loans and advances to customers	**23,609**	**10,327**	**33,936**	31,051	12,190	43,241
Reverse repurchase agreement – non-trading	**38,759**	**949**	**39,708**	48,175	1,962	50,137
Financial investments	**4,580**	**21,962**	**26,542**	5,617	25,352	30,969
Other financial assets	**28,812**	**—**	**28,812**	34,753	1	34,754
At 31 Dec	**103,823**	**35,168**	**138,991**	127,132	41,897	169,029
Liabilities						
Deposits by banks	**14,655**	**—**	**14,655**	17,284	200	17,484
Customer accounts	**124,704**	**2**	**124,706**	119,971	3	119,974
Repurchase agreements – non-trading	**22,337**	**7**	**22,344**	26,984	12	26,996
Financial liabilities designated at fair value	**14,425**	**6,444**	**20,869**	14,859	9,828	24,687
Debt securities in issue	**4,240**	**1,418**	**5,658**	13,912	1,444	15,356
Other financial liabilities	**29,868**	**44**	**29,912**	38,167	56	38,223
Subordinated liabilities	**—**	**12,218**	**12,218**	330	13,030	13,360
At 31 Dec	**210,229**	**20,133**	**230,362**	231,507	24,573	256,080

28 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.
- 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[5]	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Derivatives (Note 14)[1]	**160,801**	**(20,689)**	**140,112**	**(107,879)**	**(7,106)**	**(24,277)**	**850**	**1,109**	**141,221**
Reverse repos, stock borrowing and similar agreements classified as[2]:									
– trading assets	**11,960**	**(156)**	**11,804**	**(265)**	**(11,539)**	**–**	**–**	**40**	**11,844**
– non-trading assets	**125,935**	**(72,788)**	**53,147**	**(10,235)**	**(42,809)**	**(103)**	**–**	**1,301**	**54,448**
Loans and advances to customers[3]	**14,741**	**(6,091)**	**8,650**	**(7,053)**	**–**	**–**	**1,597**	**5**	**8,655**
At 31 Dec 2021	**313,437**	**(99,724)**	**213,713**	**(125,432)**	**(61,454)**	**(24,380)**	**2,447**	**2,455**	**216,168**
Derivatives (Note 14)[1]	229,891	(29,996)	199,895	(160,907)	(8,837)	(29,834)	317	1,315	201,210
Reverse repos, stock borrowing and similar agreements classified as[2]:									
– trading assets	12,430	(531)	11,899	(519)	(11,380)	–	–	419	12,318
– non-trading assets	128,246	(64,386)	63,860	(10,604)	(53,218)	(38)	–	3,735	67,595
Loans and advances to customers[3]	17,312	(6,990)	10,322	(8,713)	–	–	1,609	1	10,323
At 31 Dec 2020	387,879	(101,903)	285,976	(180,743)	(73,435)	(29,872)	1,926	5,470	291,446
Financial liabilities									
Derivatives (Note 14)[1]	**159,169**	**(20,689)**	**138,480**	**(107,879)**	**(16,866)**	**(13,273)**	**462**	**888**	**139,368**
Repos, stock lending and similar agreements classified as[2]:									
– trading liabilities	**9,444**	**(156)**	**9,288**	**(265)**	**(9,023)**	**–**	**–**	**13**	**9,301**
– non-trading liabilities	**100,031**	**(72,788)**	**27,243**	**(10,235)**	**(16,855)**	**(153)**	**–**	**16**	**27,259**
Customer accounts[4]	**21,846**	**(6,091)**	**15,755**	**(7,053)**	**–**	**–**	**8,702**	**11**	**15,766**
At 31 Dec 2021	**290,490**	**(99,724)**	**190,766**	**(125,432)**	**(42,744)**	**(13,426)**	**9,164**	**928**	**191,694**
Derivatives (Note 14)[1]	228,372	(29,996)	198,376	(160,907)	(14,652)	(22,521)	296	856	199,232
Repos, stock lending and similar agreements classified as[2]:									
– trading liabilities	12,323	(531)	11,792	(519)	(11,273)	–	–	5	11,797
– non-trading liabilities	99,289	(64,386)	34,903	(10,604)	(24,143)	(156)	–	–	34,903
Customer accounts[4]	21,847	(6,990)	14,857	(8,713)	–	–	6,144	8	14,865
At 31 Dec 2020	361,831	(101,903)	259,928	(180,743)	(50,068)	(22,677)	6,440	869	260,797

1 *At 31 December 2021, the amount of cash margin received that had been offset against the gross derivatives assets was £2,590m (2020: £4,866m). The amount of cash margin paid that had been offset against the gross derivatives liabilities was £6,180m (2020: £10,622 m).*
2 *For the amount of repos, reverse repos, stock lending, stock borrowing and similar agreements recognised on the balance sheet within 'Trading assets' and 'Trading liabilities', see the 'Funding sources and uses' table on page 76.*
3 *At 31 December 2021, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £91,177m (2020: £101,491m) of which £8,650m (2020: £10,322m) was subject to offsetting.*
4 *At 31 December 2021, the total amount of 'Customer accounts' recognised on the balance sheet was £205,241m (2020: £195,184m) of which £15,755m (2020: £14,857m) was subject to offsetting.*
5 *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.*

29 Called up share capital and other equity instruments

Issued and fully paid

HSBC Bank plc £1.00 ordinary shares

	2021		2020	
	Number	£m	Number	£m
At 1 Jan	**796,969,111**	**797**	796,969,111	797
At 31 Dec	**796,969,111**	**797**	796,969,111	797

HSBC Bank plc $0.01 non-cumulative third dollar preference shares

	2021		2020	
	Number	£000	Number	£000
At 1 Jan and 31 Dec	**35,000,000**	**172**	35,000,000	172

The bank has no obligation to redeem the preference shares but may redeem them in part or in whole at any time, subject to prior notification to the Prudential Regulation Authority ('PRA'). Dividends on the preference shares in issue are paid annually at the sole and absolute discretion of the Board of Directors. The Board of Directors will not declare a dividend on the preference shares in issue if (i) payment of the dividend would cause a breach of the capital adequacy requirements of the bank (or its subsidiary undertakings) under applicable laws or regulations or (ii) the distributable profits of the bank are insufficient to enable the payment in full or in part (as applicable) of the dividends on the preference shares in issue. If either the solo or consolidated Common Equity Tier 1 Capital Ratio of the bank as of any date falls below 7.00% (a so-called 'right conversion event'), the rights attaching to the preference shares shall be altered irrevocably and permanently such that they have the same rights attaching to them as ordinary shares. Holders of the preference shares in issue will be able to attend any general meetings of shareholders of the bank and to vote on any resolution proposed to vary or abrogate any of the rights attaching to the preference shares or any resolution proposed to reduce the paid up capital of the preference shares. If the dividend payable on the preference shares in issue has not been paid in full for the most recent dividend period, if a rights conversion event has occurred or if any resolution is proposed for the winding-up of the bank or the sale of its entire business then, in such circumstances, holders of preference shares will be entitled to vote on all matters put to general meetings. In the case of unpaid dividends the holders of preference shares in issue will be entitled to attend and vote at any general meetings until such time as dividends on the preference shares for the most recent dividend period have been paid in full, or a sum set aside for such payment in full, in respect of one dividend period. All shares in issue are fully paid.

Other equity instruments

HSBC Bank plc additional tier 1 instruments

		2021	2020
		£m	£m
€1,900m	Undated Subordinated Resettable Additional Tier 1 instrument issued 2015 (Callable December 2020 onwards)	**1,388**	1,388
€235m	Undated Subordinated Resettable Additional Tier 1 instrument issued 2016 (Callable January 2022 onwards)	**197**	197
€300m	Undated Subordinated Resettable Additional Tier 1 instrument 2018 (Callable March 2023 onwards)	**263**	263
£555m	Undated Subordinated Resettable Additional Tier 1 instrument 2018 (Callable March 2023 onwards)	**555**	555
£500m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable November 2024 onwards)	**500**	500
€250m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable November 2024 onwards)	**213**	213
£431m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable December 2024 onwards)	**431**	431
€200m	Undated Subordinated Resettable Additional Tier 1 instrument 2019 (Callable January 2025 onwards)	**175**	175
At 31 Dec		**3,722**	3,722

These instruments are held by HSBC Holdings plc. The bank has issued capital instruments that are included in the group's capital base as fully CRD IV 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 reserves 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 consent of the Prudential Regulation Authority. 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%.

30 Contingent liabilities, contractual commitments, guarantees and contingent assets

	The group		The bank	
	2021	2020	2021	2020
	£m	£m	£m	£m
Guarantees and other contingent liabilities:				
– financial guarantees	**11,054**	3,969	**1,270**	1,510
– performance and other guarantees	**15,833**	14,282	**7,334**	7,156
– other contingent liabilities	**367**	458	**364**	376
At 31 Dec	**27,254**	18,709	**8,968**	9,042
Commitments:[1]				
– documentary credits and short-term trade-related transactions	**1,928**	1,366	**778**	534
– forward asset purchases and forward deposits placed	**30,005**	42,793	**1,138**	4,747
– standby facilities, credit lines and other commitments to lend	**87,543**	103,144	**30,555**	41,059
At 31 Dec	**119,476**	147,303	**32,471**	46,340

1 *Includes £115,695m of commitments (2020: £143,036m), to which the impairment requirements in IFRS 9 are applied where the group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts, which represent 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.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. HMRC has also issued notices of assessment covering the period from 1 October 2013 to 31 December 2017 totalling £262m, with interest to be determined. No provision has been recognised in respect of these notices. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and, consequently, HSBC paid HMRC the sum of £262m and filed appeals. In February 2022, the Upper Tribunal issued a judgement addressing several preliminary legal issues, which was partially in favour of HMRC and partially in favour of HSBC. Further proceedings remain pending. The payment of £262m is recorded as an asset on HSBC's balance sheet at 31 December 2021. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC's appeals are successful, HSBC will seek a refund of this VAT, of which £135m is estimated to be attributable to HSBC Bank plc.

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are disclosed in Note 32.

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 the group 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 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.

Guarantees

	The group				The bank			
	2021		2020		**2021**		2020	
	In favour of third parties	**By the group in favour of other HSBC Group entities**	In favour of third parties	By the group in favour of other HSBC Group entities	**In favour of third parties**	**By the bank in favour of other HSBC Group entities**	In favour of third parties	By the bank in favour of other HSBC Group entities
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Financial guarantees[1]	**10,635**	**419**	3,541	428	**824**	**446**	895	615
Performance and other guarantees	**14,433**	**1,400**	13,091	1,191	**6,119**	**1,215**	6,088	1,068
Total	**25,068**	**1,819**	16,632	1,619	**6,943**	**1,661**	6,983	1,683

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. 'Financial guarantees' to which the impairment requirements in IFRS 9 are applied have been presented separately from other guarantees to align with credit risk disclosures.*

The group provides guarantees and similar undertakings on behalf of both third-party customers and other entities within HSBC Group. These guarantees are generally provided in the normal course of the group's banking businesses. Guarantees with terms of more than one year are subject to the group's annual credit review process.

31 Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2021			2020		
	Total future minimum payments	**Unearned finance income**	**Present value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables:						
No later than one year	**409**	**(20)**	**389**	270	(16)	254
One to two years	**251**	**(19)**	**232**	253	(17)	236
Two to three years	**187**	**(17)**	**170**	424	(15)	409
Three to four years	**177**	**(13)**	**164**	305	(15)	290
Four to five years	**90**	**(9)**	**81**	152	(9)	143
Later than one year and no later than five years	**705**	**(58)**	**647**	1,134	(56)	1,078
Later than five years	**556**	**(33)**	**523**	770	(31)	739
At 31 Dec	**1,670**	**(111)**	**1,559**	2,174	(103)	2,071

32 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 as at 31 December 2021 (see Note 25). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Bernard L. Madoff Investment Securities LLC

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Bernard L. Madoff Investment Securities LLC ('Madoff Securities'). Based on information provided by Madoff Securities as at 30 November 2008, the purported aggregate value of these funds was $8.4bn, including fictitious profits reported by Madoff. Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately $4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US litigation: The Madoff Securities Trustee has brought lawsuits against various HSBC companies and others in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court'), seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. Following an initial dismissal of certain claims, which was later reversed on appeal, the cases were remanded to the US Bankruptcy Court, where they are now pending.

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

In January 2020, the Fairfield liquidators filed amended complaints on the claims remaining in the US Bankruptcy Court. In December 2020, the US Bankruptcy Court dismissed the majority of those claims. In March 2021, the liquidators and defendants appealed the US Bankruptcy Court's decision to the New York District Court, and these appeals are currently pending. Meanwhile, proceedings before the US Bankruptcy Court with respect to the remaining claims that were not dismissed are ongoing.

UK litigation: The Madoff Securities Trustee has filed a claim against various HSBC companies in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. The deadline for service of the claim has been extended to September 2022 for UK-based defendants and November 2022 for all other defendants.

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

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

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

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

There are many factors that may affect the range of possible outcomes, and any resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought. Based upon the information currently available, management's estimate of the possible aggregate damages that might arise as a result of all claims in the various Madoff-related proceedings is around $600m, excluding costs and interest. Due to uncertainties and limitations of this estimate, any possible damages that might ultimately arise could differ significantly from this amount.

Anti-money laundering and sanctions-related matters

In December 2012, HSBC Holdings plc ('HSBC Holdings') entered into a number of agreements, including an undertaking with the UK Financial Services Authority (replaced with a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013 and again in 2020) as well as a cease-and-desist order with the US Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. Over the past several years, HSBC has retained a Skilled Person under section 166 of the Financial Services and Markets Act and an Independent Consultant under the FRB cease-and-desist order to produce periodic assessments of the Group's AML and sanctions compliance programme. The Skilled Person completed its engagement in the second quarter of 2021, and the FCA has determined that no further Skilled Person work is required. Separately, the Independent Consultant continues to work pursuant to the FRB cease-and-desist order. The roles of each of the FCA Skilled Person and the FRB Independent Consultant are discussed on page *83*.

In December 2021, the FCA concluded its investigation into HSBC's compliance with UK money laundering regulations and financial crime systems and control requirements. The FCA imposed a fine on HSBC Bank plc, which has been paid.

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

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

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

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

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

Intercontinental Exchange ('ICE') Libor: Between January and March 2019, HSBC and other panel banks were named as defendants in three putative class actions filed in the New York District Court on behalf of persons and entities who purchased instruments paying interest indexed to US dollar ICE Libor from a panel bank. The complaints allege, among other things, misconduct related to the suppression of this benchmark rate in violation of US antitrust and state law. In July 2019, the three putative class actions were consolidated, and the plaintiffs filed a consolidated amended complaint. In March 2020, the court granted the defendants' motion to dismiss in its entirety and, in February 2022, the US Court of Appeals for the Second Circuit dismissed the plaintiffs' appeal.

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

Foreign exchange-related investigations and litigation

In December 2021, the EC issued a settlement decision finding that a number of banks, including HSBC, had engaged in anti-competitive practices in an online chatroom between 2011 and 2012 in the foreign exchange spot market. The EC imposed a €174.3m fine on HSBC in connection with this matter, which is fully provisioned.

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

In June 2020, the Competition Commission of South Africa, having initially referred a complaint for proceedings before the South African Competition Tribunal in February 2017, filed a revised complaint against 28 financial institutions, including HSBC Bank plc, for alleged anti-competitive behaviour in the South African foreign exchange market. In December 2021, a hearing on HSBC Bank plc's application to dismiss the revised complaint took place before the South African Competition Tribunal, where a decision remains pending.

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

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

In February 2019, various HSBC companies were named as defendants in a claim issued in the High Court of England and Wales that alleged foreign exchange-related misconduct. In November 2021, the court dismissed all claims against HSBC and this matter is now concluded.

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

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

Precious metals fix-related litigation

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

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

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

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

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

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

Other regulatory investigations, reviews and litigation

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

- an investigation by the PRA in connection with depositor protection arrangements in the UK;
- an investigation by the FCA in connection with collections and recoveries operations in the UK;
- an investigation by the UK Competition and Markets Authority concerning the financial services sector; and
- two group actions pending in the US courts and a claim issued in the High Court of England and Wales in connection with HSBC Bank plc's role as a correspondent bank to Stanford International Bank Ltd from 2003 to 2009.

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

33 Related party transactions

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

Copies of the Group financial statements may be obtained from the below address.

HSBC Holdings plc

8 Canada Square

London E14 5HQ

IAS 24 'Related party disclosures' defines related parties as including the parent, fellow subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel ('KMP') of the group and its ultimate parent company, close family members of the KMP and entities which are controlled, jointly controlled or significantly influenced by the KMP or their close family members.

Particulars of transactions between the group and the related parties are tabulated below. 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 bank are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the bank. They include the Directors and certain senior executives of the bank, directors and certain members of the Group Executive Committee of HSBC Holdings plc, to the extent they have a role in directing the affairs of the bank.

The emoluments of those KMP who are not Directors or senior executives of the bank are paid by other Group companies who make no recharge to the bank. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The tables below represent the compensation for KMP (directors and certain senior executives) of the bank in exchange for services rendered to the bank for the period they served during the year.

Compensation of Key Management Personnel

	2021	2020[1]
	£000	£000
Short-term employee benefits[2,3]	13,678	3,865
Post-employment benefits	46	19
Other long-term employee benefits	1,378	429
Share-based payments	4,331	586
Year ended 31 Dec	**19,433**	4,899

1 *In 2021 the scope of KMP was extended to include certain senior executives of the bank that were not included in 2020. The 2020 comparatives have not been updated to include certain senior executives of the bank.*
2 *Includes fees paid to non-executive Directors.*
3 *Includes two payments totalling £2,091,617 relating to compensation for loss of employment.*

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel

	2021		2020[3]	
	Balance at 31 Dec	Highest amounts outstanding during year[2]	Balance at 31 Dec	Highest amounts outstanding during year
	£m	£m	£m	£m
Key Management Personnel[1]				
Advances and credits	0.03	0.08	0.03	1.5
Deposits	11	18	13	39

1 *Includes close family members and entities which are controlled or jointly controlled by KMP of the bank or their close family members.*
2 *Exchange rate applied for non-GBP amounts is the average for the year.*
3 *In 2021 the scope of KMP was extended to include certain senior executives of the bank that were not included in 2020. The 2020 comparatives have not been updated to include certain senior executives of the bank.*

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 group with Directors of HSBC Bank plc 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 KMP of the bank's ultimate parent company, HSBC Holdings plc. During the course of 2021, there were no advances, credits and guarantees entered into by the group with Directors of HSBC Bank plc.

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company

During the course of 2021, there were no transactions and balances between KMP of the bank's ultimate parent company, who were not considered KMP of the bank, in respect of advances and credits, guarantees and deposits.

Transactions and balances during the year with associates and joint ventures

During the course of 2021, there were no transactions and balances with associates and joint ventures, in respect of loans, deposits, guarantees and commitments.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2021				2020			
	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Trading assets	108	19	4,702	1,360	170	108	1,664	1,154
Derivatives	2,002	787	25,566	21,862	2,261	2,002	33,785	20,980
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	7	6	29	27	7	7	29	28
Loans and advances to banks	—	—	4,890	3,173	—	—	6,222	4,048
Loans and advances to customers	—	—	490	329	—	—	505	435
Financial investments	172	154	—	—	172	172	—	—
Reverse repurchase agreements – non-trading	—	—	2,332	1,690	—	—	4,638	1,137
Prepayments,accrued income and other assets	1,540	1,262	9,853	4,784	2,228	1,431	10,821	4,250
Total related party assets at 31 Dec	3,829	2,228	47,862	33,225	4,838	3,720	57,664	32,032
Liabilities								
Trading liabilities	158	23	116	82	406	151	742	51
Financial liabilities designated at fair value	1,181	1,162	1,201	—	—	—	1,307	1,201
Deposits by banks	—	—	6,659	2,261	—	—	4,961	2,534
Customer accounts	2,364	1,875	3,428	3,149	4,200	2,080	2,565	2,234
Derivatives	3,443	2,074	26,152	22,133	4,649	3,443	30,283	20,878
Subordinated liabilities	9,485	9,251	10,421	—	—	—	10,756	10,421
Repurchase agreements – non-trading	—	—	6,162	1,841	—	—	8,738	1,028
Provisions, accruals, deferred income and other liabilities	189	179	8,057	3,826	103	74	10,719	3,097
Total related party liabilities at 31 Dec	16,820	14,564	62,196	33,292	9,358	5,748	70,071	41,444
Guarantees and commitments	—	—	2,622	2,061	—	—	2,438	1,762

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2021	2020	2021	2020
	£m	£m	£m	£m
Income statement				
Interest income	4	5	32	55
Interest expense[1]	50	(55)	58	256
Fee income	8	13	61	55
Fee expense	—	—	357	389
Trading income	—	—	2	2
Trading expense	—	—	—	2
Other operating income	7	30	236	365
General and administrative expenses	143	126	2,110	2,077

1 *2020 negative balance relates to net impact of fixed-for-floating-interest-rate swaps which the group has entered into to manage the movements in market interest rates on certain fixed rate financial liabilities.*

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 Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2021						2020					
	Due to/from subsidiaries of HSBC Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from subsidiaries of HSBC Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
Trading assets	603	264	108	19	4,695	1,360	907	234	169	108	1,664	1,154
Derivatives	15,309	9,025	2,002	787	22,953	19,755	19,139	15,309	2,261	2,002	31,986	19,829
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances to banks	3,172	2,259	—	—	3,561	2,100	5,263	2,123	—	—	4,794	3,083
Loans and advances to customers	6,446	3,850	—	—	416	242	8,198	6,446	—	—	395	322
Financial investments	3,337	3,337	—	—	—	—	2,214	2,214	—	—	—	—
Reverse repurchase agreements – non-trading	2,313	2,313	—	—	2,058	1,428	3,070	965	—	—	1,942	775
Prepayments, accrued income and other assets	5,921	1,685	1,537	1,261	9,327	4,557	4,769	2,986	2,228	1,430	10,063	4,136
Investments in subsidiary undertakings	6,479	6,479	—	—	—	—	6,458	6,458	—	—	—	—
Total related party assets at 31 Dec	43,580	29,212	3,647	2,067	43,010	29,442	50,018	36,735	4,658	3,540	50,844	29,299
Liabilities												
Trading liabilities	112	49	158	21	116	82	10	1	406	151	742	51
Financial liabilities designated at fair value	—	—	1,181	1,162	1,201	—	318	—	—	—	1,307	1,201
Deposits by banks	1,808	1,229	—	—	3,245	965	1,956	1,096	—	—	3,089	1,471
Customer accounts	1,287	696	2,364	1,875	3,321	3,013	1,287	1,287	4,200	2,080	2,509	2,178
Derivatives	17,378	10,190	3,443	2,074	23,787	20,182	18,174	17,378	4,649	3,443	29,159	20,161
Subordinated liabilities	700	700	9,262	9,033	10,187	—	700	700	—	—	10,519	10,187
Repurchase agreements – non-trading	988	431	—	—	5,670	1,645	2,349	988	—	—	8,468	1,028
Provisions, accruals, deferred income and other liabilities	6,166	1,127	174	166	6,423	3,302	7,716	1,563	63	45	9,578	2,510
Total related party liabilities at 31 Dec	28,439	14,422	16,582	14,331	53,950	29,189	32,510	23,013	9,318	5,719	65,371	38,787
Guarantees and commitments	5,338	2,676	—	—	1,686	1,130	11,011	4,974	—	—	1,427	893

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

The HSBC Bank (UK) Pension Scheme (the 'Scheme') entered into swap transactions with the bank to manage the inflation and interest rate sensitivity of the liabilities. At 31 December 2021, the gross notional value of the swaps was £5,490m (2020: £5,645m), the swaps had a positive fair value of £766m to the bank (2020: positive fair value of £713m) and the bank had delivered collateral of £775m (2020: £711m) to the Scheme in respect of these swaps. All swaps were executed at prevailing market rates and within standard market bid/offer spreads.

34 Business disposals

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

Planned sale of the retail banking business in France

Further to the strategic review, HSBC Continental Europe signed on 25 November 2021 a Framework Agreement with Promontoria MMB SAS ('My Money Group') and its subsidiary Banque des Caraïbes SA, regarding the planned sale of HSBC Continental Europe's retail banking business in France. This followed the signing of a Memorandum of Understanding on 18 June 2021 and the conclusion of the information and consultation processes of the parties with their respective works councils.

In parallel, several other agreements have been entered into aiming to ensure continuity of service for HSBC Continental Europe's retail banking customers who hold asset management products with HSBC Global Asset Management (France) and HSBC REIM (France), and protection and/or life-wrapped insurance products with HSBC Assurances Vie (France).

The sale, which is subject to regulatory approvals and the satisfaction of other relevant conditions, includes: HSBC Continental Europe's French retail banking business; the Crédit Commercial de France ('CCF') brand; and HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3% ownership interest in Crédit Logement. The sale would generate an estimated pre-tax loss including related transaction costs for HSBC Continental Europe of €2 billion. The signing of the framework agreement for the planned sale of the French retail banking business resulted in a tax deduction (tax value of €382m) for a provision for loss on disposal which was recorded in the French tax return. A deferred tax liability of the same amount arises as a consequence of the temporary difference between the French tax return and IFRS in respect of this provision. The vast majority of the estimated loss for the write down of the disposal group to fair value less costs to sell will be recognised when it is classified as held for sale in accordance with IFRS 5, which is currently anticipated to be in 2022. Subsequently, the disposal group classified as held for sale will be re-measured at the lower of carrying amount and fair value less costs to sell at each reporting period. Any remaining gain or loss not previously recognised shall be recognised at the date of derecognition which is currently anticipated to be in 2023.

At 31 December 2021, the value of the total assets of the business to be sold was €24.1bn, including €21.9bn of loans and advances to customers, and the value of customer accounts was €19.9bn. For further information on tax, see page 135 'Note 7 - Tax'.

35 Events after the balance sheet date

In its assessment of events after the balance sheet date, the group has considered and concluded that there are no events requiring adjustment or disclosures in the financial statements.

36 HSBC Bank plc's subsidiaries, joint ventures and associates

In accordance with section 409 of the Companies Act 2006 a list of HSBC Bank plc subsidiaries, joint ventures and associates, the registered office address and the effective percentage of equity owned at 31 December 2021 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares which are held by HSBC Bank plc subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC Bank plc unless otherwise indicated.

HSBC Bank plc's registered office address is:

HSBC Bank plc

8 Canada Square

London E14 5HQ

Subsidiaries

The undertakings below are consolidated by the group.

Subsidiaries	% of share class held by immediate parent company (or by HSBC Bank plc where this varies)		Footnotes
Assetfinance December (H) Limited	100.00		15
Assetfinance December (P) Limited	100.00		2,15
Assetfinance December (R) Limited	100.00		15
Assetfinance June (A) Limited	100.00		15
Assetfinance Limited	100.00		15
Assetfinance March (B) Limited	100.00		16
Assetfinance March (F) Limited	100.00		15
Assetfinance September (F) Limited	100.00		15
Banco Nominees (Guernsey) Limited	100.00		17
Banco Nominees 2 (Guernsey) Limited	100.00		17
Beau Soleil Limited Partnership	n/a		0,18
BentallGreenOak China Real Estate	n/a		0,19
Billingsgate Nominees Limited (In Liquidation)	100.00		2,20
Canada Crescent Nominees (UK) Limited	100.00		2,15
CCF & Partners Asset Management Limited	100.00	(99.99)	15
CCF Holding (LIBAN) S.A.L. (In Liquidation)	74.99		21
Charterhouse Administrators (D.T.) Limited	100.00	(99.99)	15
Charterhouse Management Services Limited	100.00	(99.99)	15
Charterhouse Pensions Limited	100.00		2,15
COIF Nominees Limited	n/a		0,2,15
Corsair IV Financial Services Capital Partners - B L.P	n/a		0,22
Dem 9	100.00	(99.99)	4,23
Dempar 1	100.00	(99.99)	4,23
Eton Corporate Services Limited	100.00		17
Flandres Contentieux S.A.	100.00	(99.99)	23
Foncière Elysées	100.00	(99.99)	23
Griffin International Limited	100.00		15
Grundstuecksgesellschaft Trinkausstrasse Kommanditgesellschaft	n/a		0,24
HSBC (BGF) Investments Limited	100.00		2,15
HSBC Asset Finance (UK) Limited	100.00		2,15
HSBC Asset Finance M.O.G. Holdings (UK) Limited	100.00		2,15
HSBC Assurances Vie (France)	100.00	(99.99)	25
HSBC Bank (General Partner) Limited	100.00		2,26
HSBC Bank (RR) (Limited Liability Company)	n/a		0,7,27
HSBC Bank Armenia cjsc	100.00		28
HSBC Bank Capital Funding (Sterling 1) LP	n/a		0,26
HSBC Bank Capital Funding (Sterling 2) LP	n/a		0,26
HSBC Bank Malta p.l.c.	70.03		29
HSBC City Funding Holdings	100.00		15
HSBC Client Holdings Nominee (UK) Limited	100.00		2,15
HSBC Client Nominee (Jersey) Limited	100.00		2,30
HSBC Continental Europe	99.99		23
HSBC Corporate Trustee Company (UK) Limited	100.00		2,15
HSBC Custody Services (Guernsey) Limited	100.00		17
HSBC Epargne Entreprise (France)	100.00	(99.99)	25
HSBC Equity (UK) Limited	100.00		2,15
HSBC Europe B.V.	100.00		15
HSBC Factoring (France)	100.00	(99.99)	23
HSBC Germany Holdings GmbH	100.00		2,24
HSBC Global Asset Management (Deutschland) GmbH	100.00		24
HSBC Global Asset Management (France)	100.00	(99.99)	25
HSBC Global Asset Management (International) Limited (In Liquidation)	100.00		2,31
HSBC Global Asset Management (Malta) Limited	100.00	(70.03)	32
HSBC Global Asset Management (Oesterreich) GmbH (In Liquidation)	100.00		6,33
HSBC Global Asset Management (Switzerland) AG	100.00	(99.99)	4,34
HSBC Global Custody Nominee (UK) Limited	100.00		2,15
HSBC Global Custody Proprietary Nominee (UK) Limited	100.00		1,2,15
HSBC Global Shared Services (India) Private Limited (In Liquidation)	99.99		1,35
HSBC Infrastructure Limited	100.00		15
HSBC INKA Investment-AG TGV	100.00		8,24
HSBC Insurance Services Holdings Limited	100.00		2,15
HSBC Investment Bank Holdings Limited	100.00		2,15
HSBC Issuer Services Common Depositary	100.00		2,15
HSBC Issuer Services Depositary Nominee (UK) Limited	100.00		2,15
HSBC Leasing (France)	100.00	(99.99)	23
HSBC Life (UK) Limited	100.00		2,15
HSBC Life Assurance (Malta) Limited	100.00	(70.03)	32
HSBC LU Nominees Limited	100.00		2,15
HSBC Marking Name Nominee (UK) Limited	100.00		2,15
HSBC Middle East Leasing Partnership	n/a		0,36
HSBC Operational Services GmbH	80.00		24
HSBC Overseas Nominee (UK) Limited	100.00		2,15
HSBC PB Corporate Services 1 Limited	100.00		37
HSBC Pension Trust (Ireland) DAC	100.00		2,38
HSBC PI Holdings (Mauritius) Limited	100.00		39
HSBC Preferential LP (UK)	100.00		2,15
HSBC Private Banking Nominee 3 (Jersey)	100.00		40
HSBC Private Equity Investments (UK) Limited	100.00		15
HSBC Private Markets Management SARL	100.00		41
HSBC Property Funds (Holding) Limited	100.00		15
HSBC Real Estate Leasing (France)	100.00	(99.99)	23
HSBC REIM (France)	100.00	(99.99)	25
HSBC Securities (Egypt) S.A.E. (In Liquidation)	100.00	(0.8)	42
HSBC Securities (South Africa) (Pty) Limited	100.00		2,43
HSBC Securities Services (Guernsey) Limited	100.00	(99.99)	17
HSBC Securities Services (Ireland) DAC	100.00		38
HSBC Securities Services (Luxembourg) S.A.	100.00		2,44
HSBC Securities Services Holdings (Ireland) DAC	100.00		38
HSBC Service Company Germany GmbH	100.00		24
HSBC Services (France)	100.00	(99.99)	23
HSBC SFH (France)	100.00	(99.99)	4,25
HSBC SFT (C.I.) Limited	100.00		2,17
HSBC Specialist Investments Limited	100.00		15
HSBC Transaction Services GmbH	100.00		6,24
HSBC Trinkaus & Burkhardt (International)	100.00		44
HSBC Trinkaus & Burkhardt AG	100.00		24
HSBC Trinkaus & Burkhardt Gesellschaft fur Bankbeteiligungen mbH	100.00		24
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH	100.00		24
HSBC Trinkaus Family Office GmbH	100.00		6,24
HSBC Trinkaus Real Estate GmbH	100.00		6,24
HSBC Trustee (C.I.) Limited	100.00		2,40
HSBC Trustee (Guernsey) Limited	100.00		2,17
HSIL Investments Limited	100.00		15
INKA Internationale Kapitalanlagegesellschaft mbH	100.00		24
James Capel & Co. Limited (In Liquidation)	100.00		2,45
James Capel (Nominees) Limited	100.00		2,15
James Capel (Taiwan) Nominees Limited	100.00		2,15
Keyser Ullmann Limited	100.00	(99.99)	15
Midcorp Limited	100.00		2,15
Prudential Client HSBC GIS Nominee (UK) Limited	100.00		2,15
Republic Nominees Limited	100.00		2,17
RLUKREF Nominees (UK) One Limited	100.00		1,2,15
RLUKREF Nominees (UK) Two Limited	100.00		1,2,15

S.A.P.C. - Ufipro Recouvrement	99.99		23
Saf Baiyun	100.00	(99.99)	4,23
Saf Guangzhou	100.00	(99.99)	4,23
SCI HSBC Assurances Immo	100.00	(99.99)	25
SFM	100.00	(99.99)	23
SFSS Nominees (Pty) Limited	100.00		43
SNC Dorique	99.99		1,5,46
SNC Les Oliviers D'Antibes	60.00	(59.99)	25
SNCB/M6 - 2008 A	100.00	(99.99)	23
SNCB/M6-2007 A	100.00	(99.99)	4,23
SNCB/M6-2007 B	100.00	(99.99)	4,23
Société Française et Suisse	100.00	(99.99)	23
Somers Dublin DAC	100.00	(99.99)	38
Sopingest	100.00	(99.99)	23
South Yorkshire Light Rail Limited	100.00		15
Swan National Limited	100.00		15
The Venture Catalysts Limited	100.00		2,15
Trinkaus Australien Immobilien Fonds Nr. 1 Brisbane GmbH & Co. KG	100.00		24
Trinkaus Australien Immobilien-Fonds Nr. 1 Treuhand-GmbH	100.00		6,24
Trinkaus Europa Immobilien-Fonds Nr.3 Objekt Utrecht Verwaltungs-GmbH	100.00		24
Trinkaus Immobilien-Fonds Geschaeftsfuehrungs-GmbH	100.00		6,24
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	100.00		6,24
Trinkaus Private Equity Management GmbH	100.00		24
Trinkaus Private Equity Verwaltungs GmbH	100.00		6,24
Valeurs Mobilières Elysées	100.00	(99.99)	23

Joint ventures

The undertakings below are joint ventures and equity accounted.

Joint Ventures	% of share class held by immediate parent company (or by HSBC Bank plc where this varies)	Footnotes
HCM Holdings Limited (In Liquidation)	50.99	20
The London Silver Market Fixing Limited	n/a	0,1,2,47

Associates

The undertakings below are associates and equity accounted.

Associates	% of share class held by immediate parent company (or by HSBC Bank plc where this varies)	Footnotes
BGF Group PLC	24.62	48
Bud Financial Limited	10.89	1,3,49
CFAC Payment Scheme Limited (In Liquidation)	33.33	2,3,50
Contour Pte Ltd	11.76	51
Divido Financial Services Limited	5.60	52
Episode Six Limited	8.09	53
Euro Secured Notes Issuer	16.66	54
LiquidityMatch LLC	n/a	0,55
London Precious Metals Clearing Limited	25.00	2,56
Quantexa Ltd	10.10	57
Services Epargne Enterprise	14.18	58
Simon Group LLC	n/a	0,12
sino AG	24.94	11
Threadneedle Software Holdings Limited	6.60	13
Trade Information Network Limited	16.66	10
Trinkaus Europa Immobilien-Fonds Nr. 7	n/a	0,24
Vizolution Limited	17.95	1,9
We Trade Innovation Designated Activity	9.88	1,14

Footnotes

0	*Where an entity is governed by voting rights, HSBC 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 an agent or principal. HSBC's consolidation policy is described in Note 1.2(a).*
1	*Management has determined that these undertakings are excluded from consolidation in the Group accounts as these entities do not meet the definition of subsidiaries in accordance with IFRSs. HSBC's consolidation policy is described in Note 1.2(a).*
2	*Directly held by HSBC Bank plc*

Description of shares

3	*Preference Shares*
4	*Actions*
5	*Parts*
6	*GmbH Anteil*
7	*Russian Limited Liability Company Shares*
8	*Stückaktien*

Registered offices

9	*Office Block A, Bay Studios Business Park, Fabian Way, Swansea, Wales, United Kingdom, SA1 8QB*
10	*3 More London Riverside, London, United Kingdom, SE1 2AQ*
11	*Ernst-Schneider-Platz 1, Duesseldorf, Germany, 40212*
12	*125 W 25th St. New York, New York, United States of America, 10001*
13	*34 Copse Wood Way, Northwood, Middlesex, United Kingdom, HA6 2UA*
14	*10 Earlsfort Terrace, Dublin, Ireland, D02 T380*
15	*8 Canada Square , London, United Kingdom, E14 5HQ*
16	*5 Donegal Square South, Northern Ireland, Belfast, United Kingdom, BT1 5JP*
17	*Arnold House, St Julians Avenue, St Peter Port, Guernsey, GY1 3NF*
18	*HSBC Main Building, 1 Queen's Road Central, Hong Kong*
19	*Oak House, Hirzel Street, St Peter Port, Guernsey, GY1 2NP*
20	*156 Great Charles Street, Queensway, Birmingham, West Midlands, United Kingdom, B3 3HN*
21	*Solidere - Rue Saad Zaghloul Immeuble - 170 Marfaa, P.O. Box 17 5476 Mar Michael, Beyrouth, Lebanon, 11042040*
22	*c/o Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman, Cayman Islands, KY1-9005*
23	*38 avenue Kléber, Paris, France, 75116*
24	*Hansaallee 3, Düsseldorf, Germany, 40549*
25	*Immeuble Cœur Défense, 110 esplanade du Général de Gaulle, Courbevoie, France, 92400*
26	*HSBC House Esplanade, St. Helier, Jersey, JE4 8UB*
27	*2 Paveletskaya Square Building 2, Moscow, Russian Federation, 115054*
28	*66 Teryan Street, Yerevan, Armenia, 0009*
29	*116 Archbishop Street, Valletta, Malta*
30	*HSBC House Esplanade, St. Helier, Jersey, JE1 1HS*
31	*HSBC House Esplanade, St. Helier, Jersey, JE4 8WP*
32	*80 Mill Street, Qormi, Malta, QRM 3101*
33	*Herrengasse 1-3, Wien, Austria, 1010*
34	*26 Gartenstrasse, Zurich, Switzerland, 8002*
35	*52/60 M G Road Fort, Mumbai, India, 400 001*
36	*Unit 101 Level 1, Gate Village Building No. 8 Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates, P.O. Box 506553*
37	*HSBC House Esplanade, St. Helier, Jersey, JE1 1GT*
38	*1 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland, D02 P820*

39	6th floor HSBC Centre 18, Cybercity, Ebene, Mauritius, 72201
40	HSBC House Esplanade, St Helier, Jersey, JE1 1GT
41	5 rue Heienhaff, Senningerberg, Luxembourg, 1736
42	306 Corniche El Nil, Maadi, Egypt, 11728
43	1 Mutual Place, 107 Rivonia Road, Sandton, Gauteng, South Africa, 2196
44	16 Boulevard d'Avranches, Luxembourg, L-1160
45	Teneo Restructuring Limited, 156 Great Charles Street, Queensway, West Midlands, Birmingham, United Kingdom, B3 3HN
46	43 rue de Paris, Saint Denis, France, 97400
47	c/o Hackwood Secretaries Limited One Silk Street, London, United Kingdom, EC2Y 8HQ
48	13-15 York Buildings, London, United Kingdom, WC2N 6JU
49	Ground Floor, 25b Vyner Street, London, United Kingdom, E2 9DG
50	65 Gresham Street 6th Floor, London, United Kingdom, EC2V 7NQ
51	50 Raffles Place, #32-01 Singapore Land Tower, Singapore, 048623
52	Office 7, 35-37 Ludgate Hill, London, United Kingdom, EC4M 7JN
53	9/F Amtel Bldg, 148 des Voeux Rd Central, Central, Hong Kong
54	3 avenue de l'Opera, Paris, France, 75001
55	100 Town Square Place, Suite 201 | Jersey City, NJ, United States of America, 07310
56	1-2 Royal Exchange Buildings Royal Exchange, London, United Kingdom, EC3V 3LF
57	75 Park Lane, Croydon, Surrey, United Kingdom, CR9 1XS
58	32 rue du Champ de Tir, Nantes, France, 44300

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