HSBC UK Bank plc

Annual Report and Accounts 2023

HSBC

Contents

Presentation of information

This document comprises the *Annual Report and Accounts 2023* for HSBC UK Bank plc ('the bank' or 'the Company') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. It contains the Strategic Report, the Report of the Directors, the Statement of Directors' Responsibilities and Financial Statements, together with the Independent Auditors' Report, as required by the UK Companies Act 2006. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

A full list of abbreviations is provided on page 127.

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

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

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

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

This Annual Report and Accounts 2023 contains certain forward-looking statements with respect to the financial condition, ESG related matters, results of operations and business of the group, including the strategic priorities; financial, investment and capital targets; and HSBC UK's ability to contribute to the HSBC Group's environmental, social and governance ('ESG') targets, commitments and ambitions described herein.

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 no undue reliance should be placed on them. Forward-looking statements apply only as of the date they are made. HSBC UK makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

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

About us

HSBC UK Bank plc is a public limited company with debt securities traded on the London Stock Exchange. The Company is a ring-fenced bank and wholly owned subsidiary of HSBC Holdings plc. We leverage the rest of the HSBC Group network to support our customers and help to grow revenue across key trade corridors around the world.

HSBC UK, headquartered in Birmingham, has over 14.7 million active customers and over 18,500 FTE employees in the UK. We are supported by c.5,200 FTE employees in our service company, HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

HSBC UK provides products and services to our customers through three businesses, supported by a corporate centre.

Wealth and Personal Banking

Wealth and Personal Banking (WPB) offers a comprehensive set of banking products and services to help support our customers to manage their day-to-day finances and help to manage, protect and grow their wealth. We serve over 14 million active customers under our three brands: HSBC UK (including our Private Bank), first direct and M&S Bank.

Commercial Banking

Commercial Banking (CMB) is a full-service international commercial bank, that is highly connected to the HSBC Group. We serve over 700,000 active clients, delivering the Group's comprehensive product suite to meet their international and domestic needs.
On 13 March 2023, HSBC UK acquired Silicon Valley Bank UK Limited (SVB UK), later renamed to HSBC Innovation Bank Limited (HINV). HSBC Innovation Banking was subsequently launched by the HSBC Group as a global proposition, which includes HINV. HINV's results are presented within CMB.

Global Banking and Markets

Within HSBC UK, we offer foreign currency payments, transaction banking and selected products to enable commercial hedging, as permitted under UK ring-fencing legislation. Through close collaboration with HSBC Group, we also make available products required by our clients that are not available within HSBC UK (on an arms-length basis).

Corporate Centre

Corporate Centre supports central operations of the HSBC UK business lines and comprises Markets Treasury, interests in a joint venture and stewardship costs.

The *Annual Report and Accounts* for the year ended 31 December 2023 outlines our business and financial performance aligned to our key strategic pillars.

Our strategy

Our UK strategy comprises the following four pillars:

Focus

We seek to use our strengths as a major UK bank to play a vital role in the future of the UK economy, supporting our customers and the communities in which we operate, both domestically and internationally.

Digitise

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

Energise

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

Transition

HSBC Group has an ambition to align its financed emissions to net zero by 2050, and to become net zero in its operations and supply chain by 2030.

Our strategy, setting out further details of our four strategic pillars, can be found on pages 5 to 6.

Stakeholder engagement

Building strong relationships with our stakeholders helps us to deliver our strategy in line with our long-term values. Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. Many of our employees are customers and shareholders of the Group, while our business customers are often suppliers. We aim to create value for our customers and shareholders by doing business responsibly, and thinking for the long term. Our section 172 statement, detailing our Directors' responsibility to stakeholders, can be found on pages 7 to 8.

Financial performance

We delivered reported profit before tax of £6,679m, £3,041m or 84% higher than 2022, including £1,307m for the provisional gain on the acquisition of SVB UK. Revenue increased by £2,855m, or 36%, to £10,807m, including the provisional gain on the acquisition of SVB UK and £1,584m from higher net interest income. Net interest margin widened, from 1.89% in 2022 to 2.43% in 2023. Our 2023 reported RoTE of 28.4% (22.4% excluding the provisional gain on acquisition of SVB UK) was 12.1% higher than the 2022 reported RoTE of 16.3%. Supported by a CET1 ratio of 14.0% and LCR of 201% as at 31 December 2023, our balance sheet remains resilient, with ample capital and liquidity.

Our loans and advances increased by 4% (1% excluding acquired HINV balances) with a stable market share. Customer deposits decreased by 5% in 2023 (6% excluding HINV), and the mix of deposits shifted towards interest-bearing accounts, primarily due to the impact of cost of living pressures on our customers, corporate deleveraging in the market, and the competitive environment against the backdrop of higher interest rates.

ECL decreased by £61m from £482m in 2022 to £421m in 2023 driven by lower provisions for forward looking economic uncertainty, more than offsetting higher charges in CMB for a limited number of specific exposures.

Operating expenses decreased by £125m, or 3%, in 2023 as we continued to actively manage our cost base. The impacts of ongoing investment in technology, wage inflation and new costs from HINV were more than offset by lower restructuring costs following the completion of our cost-saving transformation programme at the end of 2022 and the increased IAS 19 accounting benefit arising from our defined benefit pension surplus as discount rates rose in line with the prevailing interest rate environment.

Our Financial summary, containing further details of our financial performance, can be found on page 9.

Risk overview

We use an established risk management framework underpinned by a strong culture to enable effective risk governance and an understanding of the risks that apply to HSBC UK. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board. Full details of our top and emerging risks are included on page 17.

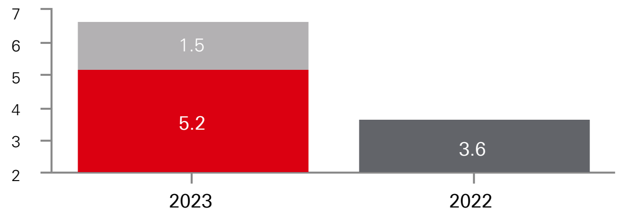
Financial highlights

For the year ended 31 December 2023

Profit before tax

£6.7bn

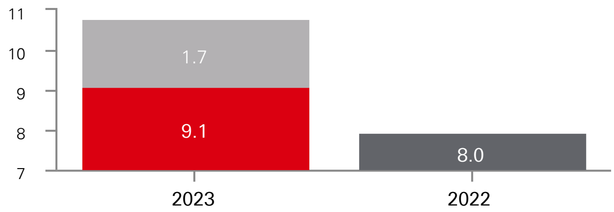
(2022: £3.6bn)



Revenue

£10.8bn

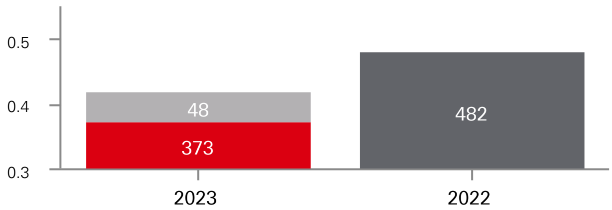
(2022: £8.0bn)



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

£421m

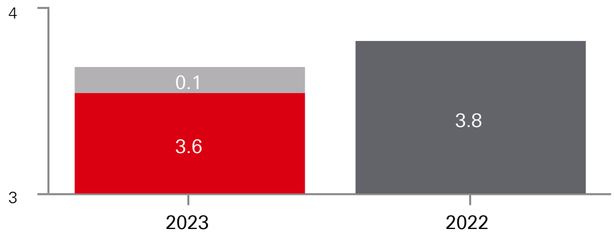
(2022: £482m)



Operating Expenses

£3.7bn

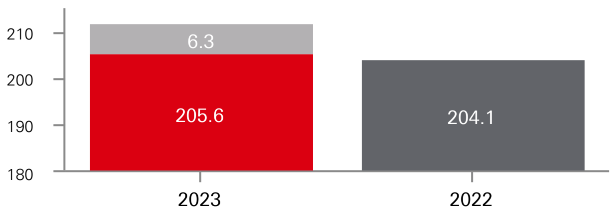
(2022: £3.8bn)



Loans and advances to customers

£211.9bn

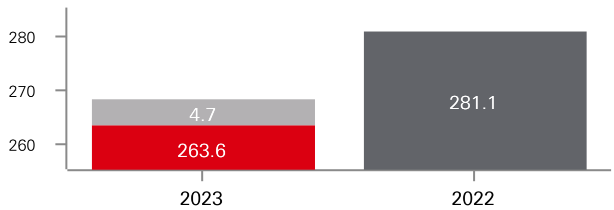
(2022: £204.1bn)



Customer accounts

£268.3bn

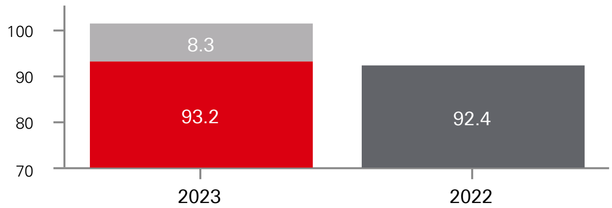
(2022: £281.1bn)



Risk-weighted assets

£101.5bn

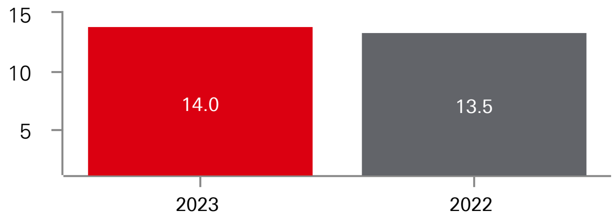
(2022: £92.4bn)



Common equity tier 1 capital ratio

14.0%

(2022: 13.5%)



of which: HSBC Innovation Bank Limited (Profit before tax and Revenue includes the provisional gain on acquisition of SVB UK of £1.3bn)

Key financial metrics

	Year ended	
	31 Dec 2023	31 Dec 2022
Reported results		
Revenue (£m)[1]	**10,807**	7,952
Profit before tax (£m)[2]	**6,679**	3,638
Profit after tax (£m)	**5,254**	2,876
Profit attributable to the shareholders of the parent company (£m)	**5,249**	2,871
Net interest margin (%)	**2.43**	1.89
Cost efficiency ratio (%)[2]	**34.3**	48.2
Alternative performance measures		
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (annualised) (%)	**0.20**	0.24
Return on average ordinary shareholder's equity[6] (%)	**22.8**	13.0
Return on average tangible equity[2,6,7] (%)	**28.4**	16.3

	At	
	31 Dec 2023	31 Dec 2022
Balance sheet		
Total assets (£m)	**332,876**	342,441
Net loans and advances to customers (£m)	**211,887**	204,143
Customer accounts (£m)	**268,345**	281,095
Average interest-earning assets (£m)	**320,354**	327,840
Loans and advances to customers as % of customer accounts (%)	**79.0**	72.6
Total shareholders' equity (£m)	**26,010**	22,166
Tangible ordinary shareholders equity (£m)	**19,463**	15,699
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3]	**14.0**	13.5
Total capital ratio (%)[3]	**19.5**	19.3
Risk-weighted assets[3] (£m)	**101,478**	92,413
Leverage ratio[3] (%)	**6.1**	5.9
High-quality liquid assets (liquidity value) (£m)[4]	**94,765**	110,722
Liquidity coverage ratio (%)[5]	**201**	226

1 *Revenue also refers to net operating income before change in expected credit losses and other credit impairment charges.*
2 *These metrics are tracked as Key Performance Indicators of the group.*
3 *Unless stated otherwise, figures have been prepared on an IFRS 9 transitional basis. Capital figures and ratios are reported on a CRR II transitional basis for capital instruments and the leverage ratio is calculated using the CRR II end point basis for capital.*
4 *Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.*
5 *The LCR is based on the average month-end value over the preceding 12 months.*
6 *Excluding the provisional gain on acquisition of SVB UK the reported RoTE was 22.4%.*
7 *In the event that the current IAS 19 Pension fund surplus was zero, RoTE would be 32.4%(25.5% excluding the provisional gain on acquisition of SVB UK) (2022: 17.7%), we refer to this as Pension Adjusted RoTE. Further details are on page 126.*

Business performance and KPIs

Management track the bank’s progress in implementing its strategy with a range of financial and non-financial measures or KPIs. Progress is assessed by comparison with the group's strategic priorities, operating plan targets and historical performance. KPIs are reviewed regularly and Management may adopt new or refined measures to better align with HSBC UK’s strategic priorities.

A range of non-financial KPIs are also monitored focusing on customers, people, culture and values including customer service satisfaction, employee engagement and diversity and sustainability. For further details on customer service and satisfaction, please refer to page 5; for employee engagement, diversity and inclusion refer to page 6; for sustainability refer to page 6 and for other non-financial KPIs refer to the Corporate Governance section on pages 62 to 66.

Our purpose and values

Our purpose

Opening up a world of opportunity.

Our values

- We value difference: seeking out different perspectives.
- We succeed together: collaborating across boundaries.
- We take responsibility: holding ourselves accountable and taking the long-term view.
- We get it done: moving at pace and making things happen.

Our core strengths

Full banking capability

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

Value of our network

Within the UK we provide products and services digitally, by phone and through face-to-face channels.

Access to HSBC Group's global network and business synergies

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

Our strategy

Our UK strategy comprises the following four pillars:

Focus

Supporting our customers

We have continued to support our customers to improve their financial resilience and capability, delivering Financial Wellbeing events to over 50,000 attendees, including cost-of-living webinars.

HSBC UK is a founding partner of the new Experian Support Hub, a 'tell us once' portal for customers to inform multiple businesses of the support they need to access their services. We continue to support our customers in vulnerable circumstances, through tailored support in our branches and our specialist account opening schemes. These include: (i) NHS Trusts; (ii) those with no fixed address and (iii) survivors of human trafficking and modern slavery. A £15bn SME fund was made available in 2023, with £12bn drawn down as at 31 December 2023, to support our business customers to navigate inflation and supply chain pressures.

We seek to prioritise our customers' needs to help support the delivery of good customer outcomes, reinforcing our commitment to Consumer Duty.

Growing our business

In 2023, we received external recognition, including Best Private Bank in the UK at the Global Private Banking Awards, Best Bank for Corporates in the UK and Best Bank for SMEs in the UK at the Euromoney Awards for Excellence and the Financial Times 'Bank of the Year'.

In WPB, we continued to develop our international proposition, launching international credit decisioning, that allows customers to apply for a bank account using their credit history from 12 countries; and launching Global Money, that enables customers to spend and send money abroad across 65 countries without incurring HSBC fees.

We have opened over 725,000 new HSBC UK current accounts and over 327,000 in first direct. We have increased our mortgage market share to 8.0%[1] (FY22: 7.7%) as at 31 December 2023 and have provided £23bn of gross mortgage lending, seeing our mortgage book surpass £129bn. Our credit card market share increased to 9.3%[2] (FY22: 8.5%) and we advanced over £3bn in new personal loans to customers. We have also grown assets under management to over £47bn in Retail Wealth and our Private Bank (FY22: £45bn).

In CMB, our Large Corporate sector was ranked 1st for Market Penetration in the 2023 Greenwich UK Large Corporate Banking and Middle Market Banking Study and we have grown our inbound and outbound revenue year on year by 67% and 48% respectively. We have also increased our GTRF international export receivables finance market share from 56.2% to 67.4%[3]. We maintained commercial net lending market share in 2023[4] (excluding HINV) and grew the client base of Global Wallet, our multi-currency virtual wallet, by over 67%.

We continue to integrate HINV into our systems and processes. It is a core part of the Global HSBC Innovation Banking proposition, together with newly assembled teams in the US, Israel, Hong Kong and the Nordics. This international proposition aims to deliver globally connected specialised banking services and expertise to innovation businesses and their investors.

1 *Bank of England - Gross Lending, Net Lending & Stock, DEC23.*
2 *UK Finance Data to December 2023, excluding John Lewis Financial Services balances.*
3 *UK Finance Data to the third quarter 2023.*
4 *Bank of England - Total Loans and Advances less GTRF and Covid Lending.*

Digitise

Improving customer service

Customer satisfaction, measured in part through NPS, is a key priority and guides our focus on investment and service improvements.

Our strategic NPS benchmarking survey, which runs twice a year, saw HSBC UK WPB ranked joint 13th, with our ranking decreasing vs. FY22. first direct continues to be ranked among the top retail providers, ranking 2nd vs. joint 1st in FY22. In CMB, our Large Corporate sector was ranked 2nd in the 2023 Greenwich UK Large Corporate Banking Study. As measured by the Savanta MarketVue Business Banking Survey, we have seen an increase in our overall FY23 CMB NPS score to -14 vs. -19 in FY22. Our Mid-Market Enterprises segment is ranked in 4th position, with a score of +9 vs. +12 in FY22, while our Business Banking Portfolio Managed segment has increased to 7th position. These survey results are clearly disappointing, and reinforce that there is more work to be done to meet customer expectations consistently.

While we have proactively chosen to reduce our branch estate, with 108 closures in 2023 and a remaining 6 to complete in 2024, our physical presence in the community remains important. Over 2,000 Community Pop Up events took place across the country and we have made improvements to 97 of our branches. We have made a commitment that we will not announce any new branch closure programmes in 2024. We continue to support Cash Access UK Limited, of which HSBC UK was a founding member, which has set up Banking Hubs across the country.

Improving digital capabilities

We continue to invest to simplify and modernise our technology to improve the availability, reliability and security of our services. While we are making progress, we acknowledge and deeply regret the notable customer service disruption in 2023 to our online banking platform. We are actively addressing and increasing our investment in operational resilience in 2024.

In WPB, we launched an online switcher journey for our buy-to-let mortgage customers and launched investment 'Pots and Goals' into our mobile banking app, enabling customers to identify, invest and track progress of their long-term financial goals.

In CMB, we improved our online and mobile channels, allowing all our clients' trade finance needs to be managed in one location and we automated new client acquisition in HINV.

Energise

Supporting our colleagues

In 1Q23, over 24,000 colleagues attended our Future Fit For Customer events, emphasising our commitment to support the financial health of our customers now and in the future. Our employee engagement, measured annually through our internal Snapshot survey, has been relatively stable at 65% (vs. FY22: 66%) and in September 2023, we provided colleagues with clear expectations on hybrid working.

In 2023, we improved our UK benefits proposition, including providing access to Bupa health checks for all UK employees. In partnership with the Bank Workers Charity, the HSBC Support Fund provides short-term financial support to current and former employees who find themselves in financial hardship.

Speak-up culture

Empowering a speak up culture where our employees feel able to raise issues remains critical. Multiple channels are available to our employees, including our confidential whistleblowing helpline and our Human Resources Direct platform. Our HSBC Confidential whistleblowing helpline enables employees to raise concerns in confidence and anonymously if they wish, without fear of retaliation and reprisal. Concerns are investigated thoroughly and independently and HSBC UK does not condone or tolerate any acts of retaliation against those involved in internal investigations.

Inclusion

We increased representation of female leaders to 39.6% as at 31 December 2023 (vs. FY22: 37.9%) and increased leaders with Black heritage to 3% (FY22: 2.6%). We have also created bespoke roles in our UK and Global Head Offices for colleagues with complex disabilities.

We were named a Leader by the UK Government Disability Confident Scheme and were recognised as a Top 10 Employer by Investing in Ethnicity. We have been Money and Mental Health Accredited and our ranking in the Stonewall Top 100 LGBTQ+ Employers list increased from 32nd to 12th position.

Supporting UK communities

In 2023, HSBC UK donated £7.2m to charities and non-profit organisations running programmes and projects in the UK. Additionally, our employees fundraised over £1m (with an equal amount donated by our HSBC UK Pound for Pound scheme). Our employee-led projects supported over 20,000 vulnerable people across 54 local charities and 3,887 employees took paid volunteering leave to support their local communities.

Additionally, HSBC UK acted as joint active bookrunner on Places for People Group's £500m public bond issuance in support of the Housing Association Sector. We also acted as Joint Dealer Manager on their simultaneous liabilities management exercise.

Societal partnerships

Shelter

In April 2023, HSBC UK and the housing and homelessness charity Shelter announced a new multi-year £6.5m partnership. This will enable Shelter to help over a million people at risk of losing their home and build financial resilience in local communities to help prevent homelessness.

Youth Financial Capability

During 2023, HSBC UK supported over 645,000 children and young people to learn about money through our Education Volunteer Network, which deliver financial capability lessons in schools and community settings, our philanthropic partnerships with the Money Heroes programme from Young Money, and the Money Skills Activity Badge for Cubs and Beavers with the Scouts.

Transition

In January 2024, HSBC Group published its first net zero transition plan, to provide an overview of the actions being taken and planned to embed the Group's net zero ambition across HSBC. It sets out how the Group intends to harness its strengths and capabilities in the areas where it believes it can support large-scale emissions reduction: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains. The plan will help our people, customers, investors, and other stakeholders to understand our long-term vision, the challenges, uncertainties, and dependencies that exist, the progress we are making towards our own transition and what we plan to do in the future.

For further details please refer to the 'ESG Overview' section in the HSBC Holdings plc ARA 2023.

Supporting our customers

HSBC Group continues to track progress against its ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030.

In HSBC UK, we launched our sustainability tracker in CMB, enabling clients to understand how sustainable their business is, get tailored suggestions and track progress. We also launched a Sustainable Finance Ambassadors Influencers network to help our colleagues understand the opportunities and risks faced by our clients. To further improve client understanding, we also published a series of sector focused reports with Economist Impact.

We have also collaborated with external partners to pilot new solutions for our customers, including: (i) energy management software; (ii) installation of energy infrastructure and (iii) a carbon calculator/energy efficiency assessment tool. In 2023, HSBC UK provided and facilitated more than £4.5bn of sustainable finance, including green loans, sustainability-linked loans and sustainable bonds. This is aligned to the HSBC Group Sustainable Finance and Investment Data Dictionary 2023.

In WPB, we have launched new Environment, Social and Governance metrics that our Private Banking clients with insight into their sustainability holdings, alongside guidance on ESG and sustainable investing.

Partnering for systemic change

Since 2021, the National Trust, with support from HSBC UK, have planted over 598,000 trees across England, Wales and Northern Ireland. Working together with the National Trust for Scotland, we supported the restoration of 60.4 hectares of wetland and woodland at the pioneering Threave Landscape Restoration Project.

Our partnerships with Imperial College London and the University of Birmingham enabled us to support over 126 climate innovation ventures since 2021. These ventures are developing services or technologies with potential to make a positive impact on climate change and the environment.

Stakeholder engagement

This section forms our section 172 statement and addresses the requirements of the Companies (Miscellaneous Reporting) Regulations 2018. The first part, 'Engaging with our key stakeholders', sets out information about the stakeholders we view as critical to the bank and its prospects, including how the Board considered them in its discussions and decision-making throughout the year. The second part, 'Board engagement and governance', provides two examples of principal discussions and decisions taken by the Board in 2023 when discharging their responsibility. These show how the Directors and Board respectively discharged their individual and collective responsibility for promoting the long-term success of the bank and took different stakeholder considerations into account in reaching a decision or forming a view. More detailed information on the activities of the Board during 2023 are set out in the Corporate Governance Report on page 62.

Engaging with our key stakeholders

Directors attended a broad range of events during the year to help them understand what really mattered to customers and employees and to validate that the bank's current strategy continued to support them in the particularly challenging environment.

Through our Board Engagement Plan we continue to provide opportunities for Directors to hear directly from employees, customers and clients.

Customers

Customer needs are central to the bank's business and must be understood so that we can appropriately support them. How we have served and supported our customers during 2023 is covered in the 'Our strategy' section on page 5 in the Strategic report. Examples of how the Board has engaged with customers during 2023 include:

- The Directors hosted a dinner for customers and clients from the Private Banking, Business Banking and Innovation Banking businesses. This allowed them to hear customer sentiment and feedback first-hand.
- The Board visited the bank's Global Service Centres in India to better understand how colleagues based overseas support the bank and service our customers. Further details are provided under the heading 'Board activities during 2023' in the Corporate Governance Report on page 64.
- CEO reports provided key customer-related metrics and performance indicators, such as customer survey feedback and net promoter scores. This allowed the Board to monitor the bank's approach to supporting customers and oversee the impact of associated activities. Other reports to the Board covered issues such as complaints, supporting vulnerable customers, and improving customer experience and journeys to meet the FCA's Consumer Duty obligations. This enabled the Board to assess whether more was required to achieve HSBC UK's ambition to be a truly customer-centric organisation.
- Undertaking a deep dive into contact centre service performance given the vital role they play in delivering our service proposition through voice and chat support. The deep dive helped the Board to understand the tactical interventions introduced to improve customer service and strengthen our foundations for growth.

Employees

The Board recognise that our employees help us fulfil our potential, execute our strategy and serve our customers better. The ways in which we engage with employees, as well as our focus on improving diversity and inclusion in HSBC UK, is detailed on page 5. Examples of how the Board has engaged with employees include:

- Some Directors hosted events with colleagues from across the bank to hear their perspectives of what it is like to work for HSBC UK, whether they felt HSBC UK was making a difference for its customers and what more can be done to improve their own experiences in the workplace.
- Some Directors attended the Future Fit For Customers events to which all of our employees were invited. These events were focused on working together to identify what needs to change in our service performance and to adapt to the future expectations and needs of our customers.
- Directors interacted with the bank's top talent to deepen their familiarity with those employees in the talent pool. They hosted events with small groups of employees from the talent pool to help foster a culture of excellence and continuous improvement.
- CEO reports provided updates on employee related activities and events, metrics on employee attrition, gender diversity, personal conduct cases and the results of the internal employee survey. These allowed the Board to understand employee sentiment, health and well-being throughout 2023. In addition, when the Board considered management's update on its People Strategy, it was able to challenge whether the areas of focus and prioritisation remain appropriate in the rapidly changing external environment.

Shareholder and investors

As a wholly owned, ring-fenced subsidiary of HSBC Holdings plc with debt securities listed on the London Stock Exchange, the Board recognises the importance of balancing its responsibilities to the bank's shareholder and investors, with its obligations under the ring-Fencing regime. Examples of how the Board did this include:

- Engaging with HSBC Holdings plc board members in Birmingham in May to showcase the business and its people.
- The Board Chairman and Committee Chairs engaged with their Group counterparts and attended Group forums and Board Committee meetings, together with Executive Directors, to discuss common issues and strategic priorities.
- Evaluating the strength of the bank's balance sheet to ensure that the ability to pay principal or interest on its listed debt securities was not at risk.

Suppliers

Suppliers provide critical support to help the business operate effectively. Examples of Board engagement during 2023 include:

- The Chief Operating Officer's regular reports on third-party supplier matters such as the operating model, relationship management, material outsourcing, performance and operational resilience.
- A visit to HSBC's Global Service Centres in India, with a focus on customer outcomes and colleague experience. This allowed Directors to see how HSBC UK's management team was supporting a key supplier to improve its services for customers by building knowledge, increasing connectivity and communication and addressing points of friction in key processes and procedures.

Further detail on third party risk management is included in the Risk Section in the Report of Directors on page 22.

Communities

HSBC UK plays an important role in supporting the communities in which it operates and is dependent on those communities for the majority of our workforce. We have established a number of community partnerships which are detailed in the 'Supporting our Community' section on page 8. During the year, the Board encouraged management to increase the impact of HSBC UK's societal purpose to improve the financial health of the UK. This included:

- Expanding the partnership with the homelessness charity Shelter. Directors met with Shelter to understand how the bank could help support people and communities during the cost of living crisis.

- Understanding from the business how the bank is evolving from a traditional branch network to over 3,200 innovative fixed and flexible community-centric formats to reach customers across our communities.
- Reviewing the HSBC UK Net Zero Execution Plan.

Regulators and Government

As a UK bank, the government and regulators in the UK are key stakeholders with whom we maintain constructive dialogue and relations. Examples of the Board's engagement with them during 2023 include:

- Meetings between Directors and regulators, both as part of continuous assessment and on specific issues such as the PRA's summary review, the bank's progress to implement the FCA's Consumer Duty and the SVB UK acquisition and subsequent integration.
- Participation by Directors in government and regulatory consultations, industry forums and round table events with particular focus on supporting mortgage customers in the current challenging environment and formalising the bank's commitment to savings customers.
- The FCA attended the Board meeting in October to present the 2023 Firm Evaluation Letter, which allowed the Board to hear first-hand about the FCA's assessment of the bank.

Board engagement and governance

Set out below are two of the principal decisions made by the Board during the year. In taking these decisions, the Directors had regard to their statutory duties under section 172(1) (a)-(f) of the Companies Act 2006:

Embedding Hybrid Working

Since the bank set out its hybrid working strategy in 2022, it has continued to be embedded in the business within agreed parameters and commitments set by senior management. It was anticipated that if activated and embedded successfully, hybrid working would have a positive impact on our key customer service performance indicators. Although there have been improvements in telephony service performance and Net Promoter Score ranking for Commercial Banking, the indicators were not at the level expected and a more direct and proactive approach to hybrid working was required.

When deliberating the options available, the Board was mindful of the different interests of key stakeholder groups, in particular:

- Striking a balance between enhancing customer journeys and outcomes whilst providing employees with the flexibility offered by hybrid working;
- The benefits for our customers in the long term and the potential impact on employee engagement and retention in the short-term;
- The importance of in-person collaboration and proximity between teams to foster success; and
- The bank's role in supporting local businesses and the communities in which it operates.

Based on the information provided and taking into account the interests of relevant stakeholders, the Board decided that to activate hybrid working consistently across the organisation, setting out a strong, clear expectation that the correct approach for customers and employees was for employees to spend 60% of their time in an office or with clients.

Acquisition of Silicon Valley Bank UK Limited

Following the failure of Silicon Valley Bank (SVB US) on 10 March 2023, the Bank of England exercised its stabilisation powers under the Banking Act 2009 in respect of SVB US' UK subsidiary, SVB UK. In arriving at a decision to buy SVB UK (informed by due diligence activity performed by HSBC UK and HSBC Holdings plc), the Board took into account the views of key stakeholders, including UK regulators and the government. SVB UK subsequently changed its name to HSBC Innovation Bank Limited. The Board also considered the following:

- SVB UK's strategic fit with the bank and the Group's ambition to grow and scale its Commercial Banking franchise, particularly in the innovation economy.
- The bank's ability to service the SVB UK client base of innovative and fast-growing firms in the UK and internationally. HSBC's global reach, backed by its strength, safety and security, which would maintain and improve SVB UK clients' access to a range of financial services, international banking and improved online and transaction banking solutions throughout their customer journey.
- SVB UK's operational and technological dependency on its former parent company and the need to ensure continuity of service to customers ahead of any migration of SVB UK clients onto the bank's system.
- Implications on ring-fencing requirements, including how to provide the necessary financial resources and other support to SVB UK, while being cognisant of the bank's obligations to its customers within the ring-fence.
- SVB UK's financial position and loan book credit quality, including the estimated fair value of net assets acquired versus the purchase price for the business, together with the immediate capital and liquidity required to support SVB UK.

The Board concluded that the acquisition was a key driver to strengthen the Commercial Banking franchise and become the leading financial partner in the innovation economy. Although mindful of the potential risks and the management stretch that the acquisition presented, the size, relative simplicity of the entity and risk profile of SVB UK were meaningful mitigants. Accordingly, the Board approved the SVB UK acquisition, a decision which was supported by the Board of HSBC Holdings plc.

Economic background and outlook

UK economic outlook

The UK ended 2023 in recession, with GDP having fallen 0.1% quarter-on-quarter in the third quarter of 2023 and a further 0.3% in the fourth quarter of 2023. This meant that the economy grew by just 0.1% in 2023 – the weakest rate of annual average growth since 2009 (excluding 2020).

However, against the backdrop of lower inflation and interest rate expectations, HSBC Global Research forecasts an improvement from here, with GDP growth of 0.6% in 2024, followed by 0.9% in 2025. This stronger growth picture should be driven principally by recovering real incomes and improving confidence.

The labour market has weakened, although there is some uncertainty over the unemployment rate, pending the Office for National Statistics' review of its Labour Force Survey. Latest estimates suggest unemployment stood at around 3.8% in December. However, in the view of HSBC Global Research, the jobs market will continue to soften, with the unemployment rate rising to 4.8% in 2024 and 5.3% in 2025. With the market still relatively tight, annual pay growth remains somewhat elevated, but has started to slow. Public sector pay settlements and the 9.8% rise in the National Living Wage will add support, but HSBC Global Research expects total pay growth of 4.2% in 2024, down from 7.2% in 2023.

UK CPI inflation fell from its high point of 11.1% year on year in October 2022, to 3.9% year on year in November 2023. Since then it has risen slightly, standing at 4.0% y-o-y in both December 2023 and January 2024. Core CPI inflation stood at 5.1% in January 2024, down from its May 2023 high of 7.1%.

With a further 16% fall in household energy prices expected in April 2024, HSBC Global Research now expects CPI and core CPI to fall below 2% and 3% respectively by spring 2024, before rebounding slightly in the second half of 2024. On an average annual basis, HSBC Global Research expects CPI inflation of 2.2% in 2024 and then 2.3% in 2025, well down on 9.1% in 2022 and 7.3% in 2023.

As a consequence of the rise in inflation, the BoE raised Bank Rate from 0.10% to 5.25%, with the last increase taking place in August 2023. In the four meetings since August 2023, the BoE has kept Bank Rate unchanged and in February 2024, it dropped its warning that further tightening might still be necessary. In October, the BoE announced plans to reduce the balance sheet through quantitative tightening, by a further GBP100bn by September 2024.

HSBC Global Research forecasts that the BoE will cut Bank Rate by 25bps to 5.00% in August 2024, and then by 25bps per quarter, taking it to 3.75% by end-2025. This is broadly in line with market pricing.

Financial summary

Summary consolidated income statement for the year ended

	Year ended	
	Audited	
	31 Dec 2023	31 Dec 2022
	£m	£m
Net interest income	**7,787**	6,203
Net fee income	**1,284**	1,245
Net income from financial instruments held for trading or managed on a fair value basis	**414**	384
Gain on acquisition of subsidiary[1]	**1,307**	—
Other operating income	**15**	120
Net operating income before change in expected credit losses and other credit impairment charges	**10,807**	7,952
Change in expected credit losses and other credit impairment charges	**(421)**	(482)
Net operating income	**10,386**	7,470
Total operating expenses	**(3,707)**	(3,832)
Operating profit	**6,679**	3,638
Profit before tax	**6,679**	3,638
Tax expense	**(1,425)**	(762)
Profit for the year	**5,254**	2,876
Profit attributable to shareholders of the parent company	**5,249**	2,871
Profit attributable to non-controlling interests	**5**	5

1 *Provisional gain recognised in respect of the acquisition of SVB UK.*

Reported performance

The 2023 reported profit before tax of £6,679m was £3,041m, or 84%, higher than 2022, including £1,307m for the provisional gain on the acquisition of SVB UK.

Revenue increased by £2,855m, or 36%, including £1,307m for the provisional gain on acquisition of SVB UK, the addition of new operating revenues from HSBC Innovation Bank Limited, and wider net interest margins due to higher benchmark interest rates.

Net interest income increased by £1,584m, or 26%, due to wider net interest margins following successive interest rate increases. This was partly offset by the impacts of competitive mortgage and deposit pricing, lower total deposit balances and an increase in the mix towards interest-bearing deposit accounts. These were driven by the cost of living pressures on our customers, corporate deleveraging in the market under prevailing conditions, and the competitive environment.

Net fee income increased by £39m, or 3%, driven by the addition of fee income from HSBC Innovation Bank Limited.

Net income from financial instruments held for trading or managed on a fair value basis increased by £30m, or 8%, principally due to foreign exchange income and impact of the changes in short term interest rates.

Other operating income decreased by £105m, mainly due to disposal losses from repositioning and risk management activities in our hold-to-collect-and-sell portfolio.

ECL decreased by £61m from £482m in 2022 to £421m in 2023 driven by lower provisions for forward looking economic uncertainty, more than offsetting higher charges in CMB for a limited number of specific exposures and the addition of new ECL from HSBC Innovation Bank Limited.

Total operating expenses decreased by £125m, or 3%, due to lower restructuring costs following the completion of our cost saving transformation programme at the end of 2022 and the increased IAS 19 accounting benefit arising from our defined benefit pension surplus as discount rates rose in line with the prevailing interest rate environment, partly offset by ongoing investment in technology cost, wage inflation and new costs from HSBC Innovation Bank Limited, including the cost of completing its integration.

Tax expense effective rate is 21.1% (2022: 20.9%). The effective tax rate for 2023 is lower than the statutory tax rate mainly due to the non-taxable provisional gain arising on the acquisition of SVB UK in the period reducing the ETR by 5.4%. The effective tax rate for 2022 of 20.9% was reduced by 4.8% by the remeasurement of deferred tax balances following substantive enactment of legislation to reduce the banking surcharge from 8% to 3%. On 1 April 2023 the main rate of UK corporation tax increased from 19% to 25%, giving a blended rate of 23.5%, and the rate of UK banking surcharge decreased from 8% to 3%, giving a blended rate of 4.25%. The combined blended tax rate for 2023 is 27.75% (2022: 27%).

Net interest income

	Year ended	
	At	
	31 Dec 2023	31 Dec 2022
	£m	£m
Interest income	**12,915**	7,592
Interest expense	**(5,128)**	(1,389)
Net interest income	**7,787**	6,203
Average interest-earning assets (*AIEA*)	**320,354**	327,840
	%	%
Gross interest yield[1]	**4.03**	2.32
Less: Gross interest payable[1]	**(2.06)**	(0.55)
Net interest spread[2]	**1.97**	1.77
Net interest margin[3]	**2.43**	1.89

1 *Gross interest yield is the interest income as a percentage of AIEA. Gross interest payable is the interest expense as a percentage of average interest-bearing liabilities.*
2 *Net interest spread is the difference between the gross interest yield and the gross interest payable.*
3 *Net interest margin is net interest income as a percentage of AIEA.*

Net interest margin increased from 1.89% in 2022 to 2.43% in 2023. This was driven by the interest rate increases in 2023, with increased yields on cash at central banks and customer lending, partly offset by an increase in interest expense on customer accounts.

Return on average tangible equity

RoTE is measured as the profit attributable to ordinary shareholders divided by the reported equity adjusted for goodwill and intangibles. A reconciliation is provided on page 126, which details the adjustments made to the reported results and equity in calculating RoTE. Our 2023 reported RoTE was 28.4% which was 12.1% higher than the 2022 RoTE of 16.3%, driven by higher reported profit before tax.

Alternative performance measures

To measure our performance, we supplement our IFRS Accounting Standards figures with non-IFRS Accounting Standards measures, which constitute alternative performance measures. All alternative performance measures are reconciled to the closest reported performance measure.

Changes to our reporting framework

On 1 January 2023, we updated our financial reporting frame work. We no longer report 'adjusted' results, which exclude the impact of significant items.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

The HSBC Group Chief Executive, supported by the rest of the Group Executive Committee, is considered the CODM for the purposes of identifying the HSBC Group's, and therefore HSBC UK's, reportable segments. HSBC UK's CODM is the HSBC UK Chief Executive, supported by the HSBC UK Executive Committee.

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

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

A description of the global businesses is provided in the Strategic report, page 2.

Reported profit before tax and balance sheet data for the year ended

	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
At 31 Dec 2023	**£m**	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**4,620**	**6,109**	**154**	**(76)**	**10,807**
– external	**3,784**	**6,250**	**396**	**377**	**10,807**
– inter-segment	**836**	**(141)**	**(242)**	**(453)**	**—**
– *of which: net interest income*	***3,996***	***3,883***	***(2)***	***(90)***	***7,787***
– *of which: provisional gain on the acquisition of SVB UK*	**—**	***1,307***	**—**	**—**	**1,307**
Change in expected credit losses and other credit impairment charges	**(18)**	**(403)**	**—**	**—**	**(421)**
Net operating income/(expense)	**4,602**	**5,706**	**154**	**(76)**	**10,386**
Total operating income/(expenses)	**(2,383)**	**(1,434)**	**(38)**	**148**	**(3,707)**
Operating profit	**2,219**	**4,272**	**116**	**72**	**6,679**
Profit before tax	**2,219**	**4,272**	**116**	**72**	**6,679**
	%	**%**	**%**	**%**	**%**
Cost efficiency ratio	**51.6**	**23.5**	**24.7**	**194.7**	**34.3**
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers (net)	**143,588**	**68,651**	**—**	**(352)**	**211,887**
Customer accounts	**170,684**	**98,093**	**—**	**(432)**	**268,345**

Reported profit before tax and balance sheet data for the year ended (continued)

At 31 Dec 2022	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	4,331	3,507	151	(37)	7,952
– external	4,156	3,306	394	96	7,952
– inter-segment	175	201	(243)	(133)	—
– of which: net interest income	*3,664*	*2,531*	*(1)*	*9*	*6,203*
Change in expected credit losses and other credit impairment charges	(287)	(195)	—	—	(482)
Net operating income/(expense)	4,044	3,312	151	(37)	7,470
Total operating expenses	(2,309)	(1,170)	(34)	(319)	(3,832)
Operating profit/(loss)	1,735	2,142	117	(356)	3,638
Profit/(loss) before tax	1,735	2,142	117	(356)	3,638
	%	%	%	%	%
Cost efficiency ratio	53.3	33.4	22.5	(862.2)	48.2
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers (net)	138,927	65,408	—	(192)	204,143
Customer accounts	181,785	99,622	—	(312)	281,095

Wealth and Personal Banking

Profit before tax of £2,219m in 2023 was £484m, or 28%, higher than 2022, driven by higher revenue and lower ECL, partly offset by higher operating expenses.

Revenue increased by £289m, or 7%, primarily due to wider margins following successive interest rate increases. This was partly offset by the impact of loan margin compression particularly in mortgage lending, lower total deposit balances and an increase in the mix towards interest-bearing deposit accounts, resulting from the cost of living pressures on our customers and the competitive environment.

ECL decreased by £269m, or 94%, to £18m charge in 2023, reflecting resilience in our unsecured lending portfolio and a strong employment market, and benefited from lower provisions for forward looking economic uncertainty.

Operating expenses increased by £74m, or 3%, due to increased technology investment, partly offset by actions taken to continuously optimise operational costs.

Commercial Banking

Profit before tax was £4,272m, £2,130m or 99% higher than 2022, due to the provisional gain on the acquisition of SVB UK of £1,307m and higher revenue, partly offset by higher ECL and higher operating expenses.

Revenue increased by £2,602m, or 74%, including £1,307m for the provisional gain on the acquisition of SVB UK. The remaining increase was due to the post-acquisition operating revenues of HSBC Innovation Bank Limited and wider margins following successive interest rate increases. These were partly offset by the impact of lower total deposit balances and an increase in the mix towards interest-bearing deposit accounts resulting from the inflationary pressures, corporate deleveraging in the market under prevailing conditions, and the competitive environment. Excluding HSBC Innovation Bank Limited, revenue increased by £871m or 25%.

ECL increased by £208m from a £195m charge in 2022 to a £403m charge in 2023 reflecting higher charges in CMB for a limited number of specific exposures and the addition of new ECL from HSBC Innovation Bank Limited.

Operating expenses increased by £264m, or 23%, driven by increased technology investment costs and post-acquisition HSBC Innovation Bank Limited costs, including the cost of completing its integration. Excluding HSBC Innovation Bank Limited and associated consolidation and integration, costs increased by £69m, or 6%.

Global Banking and Markets

GBM in HSBC UK reflects the transacting of foreign currency exchange for WPB and CMB customers.

The majority of the foreign exchange revenue is transferred to WPB and CMB, with an element retained in GBM.

Profit before tax of £116m was £1m, or 1%, lower than 2022.

Corporate Centre

Profit before tax of £72m in 2023 was £428m higher than the loss before tax of £356m in 2022. This was driven by lower restructuring costs following the completion of our cost saving transformation programme in 2022 and the increased IAS 19 accounting benefit arising from our defined benefit pension surplus as discount rates rose in line with the prevailing interest rate environment.

Dividends

The consolidated reported profit for the year attributable to the shareholders of the bank was £5,249m.

Total interim dividends of £2,197m, were paid on the ordinary share capital during the year, of which £539m relates to the previous year and £1,658m relates to the current year. £214m of dividends were paid in respect of our additional tier 1 capital instruments.

On 09 February 2024, the Directors resolved to pay an interim dividend of £1,412m to the ordinary shareholder in respect of the financial year ending 31 December 2023.

Further information regarding dividends is given in Note 6.

Summary consolidated balance sheet as at

	31 Dec 2023 £m	31 Dec 2022 £m
Total assets	**332,876**	342,441
– cash and balances at central banks	**65,719**	94,407
– financial assets mandatory measured at fair value through profit and loss	**135**	108
– derivatives	**178**	546
– loans and advances to banks	**7,980**	6,357
– loans and advances to customers	**211,887**	204,143
– reverse repurchase agreements – non-trading	**7,686**	7,406
– financial investments	**26,315**	16,092
– other assets	**12,976**	13,382
Total liabilities	**306,806**	320,215
– deposits by banks	**10,843**	10,721
– customer accounts	**268,345**	281,095
– repurchase agreements – non-trading	**4,652**	9,333
– derivatives	**108**	304
– debt securities in issue	**1,988**	1,299
– other liabilities	**20,870**	17,463
Total equity	**26,070**	22,226
– total shareholders' equity[1]	**26,010**	22,166
– non-controlling interests	**60**	60

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

The group maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts increased to 79% compared to 73% at 31 December 2022.

Impact of Climate Risk

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 2023. We considered the impact on a number of areas of our balance sheet including expected credit losses, classification and measurement of financial instruments, goodwill and other intangible assets, our owned properties, our pension plan, as well as our going concern.

For further detail on how climate risk may impact HSBC UK in the medium to long-term see page 59 and on credit risk see page 25. Additionally, for further disclosure on how management has considered the impact of climate-related risks on its financial position and performance see critical estimates and judgements, detailed in Note 1 'Basis of preparation and significant accounting policies' from page 85.

Assets

Cash and balances at central banks decreased by £28.7bn due to continued growth in customer lending and lower customer deposits.

Loans and advances to customers increased by £7.7bn, mainly driven by growth in mortgage lending by £4.1bn and the addition of new lending of £6.2bn from HSBC Innovation Bank Limited, partly offset by repayments of government supported Covid-19 lending.

Liabilities

Customer accounts decreased by £12.7bn, across both retail (£11.1bn) and commercial (£1.5bn) in line with the overall market liquidity reduction driven by heightened cost of living pressures on our customers, corporate deleveraging, and the competitive environment. The £1.5bn net decrease in commercial deposits included the benefit of an increase in deposits of £4.7bn from the acquisition of HSBC Innovation Bank Limited.

Equity

Total shareholders' equity, including non-controlling interests, increased by £3.8bn or 17% compared with 31 December 2022.

This reflected the effects of profits generated of £5.3bn and increase in Other comprehensive income of £1bn from cashflow hedge reserves as a result of the impact of increasing interest rates, partially offset by dividend payments of £2.4bn.

Risk overview

Our customers and our organisation have continued to be impacted by challenging economic conditions in the UK throughout 2023. Economic growth prospects are fringed with uncertainty, with the UK entering into a recession in the second half of 2023. As energy prices have stabilised, the level of inflation has fallen. However, although mortgage rates have started to reduce, consumers continue to experience pressures as the BoE maintains high interest rates in its efforts to bring inflation down to its target rate. We continue to monitor the effect of this policy on our mortgage customers facing increased monthly repayments from either a refinanced higher fixed rate or from higher variable rates, and on our customers who are facing increased rental costs. Our mortgage portfolio remains resilient but we are seeing some increase in the level of stress, albeit from a low base. Our primary concern is to ensure that we support our customers through offering appropriate solutions, including those adopted through the government's Mortgage Charter, released in June 2023. The economic outlook is detailed in the 'Description of consensus economic scenarios' from page 33.

We have continued the process of integrating HSBC Innovation Bank Limited (previously Silicon Valley Bank UK) into the group since its purchase in March 2023 which has included the roll-out of HSBC UK risk tools, systems and practices. This process will enable HINV to operate effectively, while facilitating the alignment of the management of risks related to both the integration and the ongoing operation of the organisation, in a manner consistent with our risk and compliance frameworks and policies.

Our balance sheet and liquidity has remained strong which helped us to support our customers. Pressure on business operations and customer support has continued to be high as our people, processes and systems have responded to meet the current economic challenges. Our operational resilience remains a strategic priority. We are conscious that in 2023 there have been some significant interruptions to customer service on our online platforms, including on Black Friday, with other notable failures of customer support systems and processes seen across the year. We are taking action through an independent review to determine how we can improve our operational resilience. This review is described in more detail in 'Resilience Risk' on page 60.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business and have maintained our focus on improving the quality and timeliness of the data we use to inform management decisions and for regulatory reporting. We have employed an active but prudent approach in managing our risk appetite, and have ensured regular communication with our Board and key stakeholders.

Risk environment

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

Our material banking risks include credit risk, treasury risk, market risk, climate risk, resilience risk, regulatory compliance risk, financial crime and fraud risk and model risk. See pages 24 to 62.

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. See pages 17 to 22.

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 15 to 67.

Our suite of top and emerging risks is subject to regular review by senior governance forums. During 2023, we removed Ibor transition as a top risk given the cessation of the publication of US dollar Libor in June 2023. We continue to monitor closely the identified risks and ensure management actions are in place, as required.

Risk		Description
Externally driven		
Geopolitical and macroeconomic risk	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict. This could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Geopolitical tensions remain high. The impacts from elevated inflation, high interest rates and geopolitical events, such as the ongoing Russia-Ukraine and Israel-Hamas wars, may affect our customers and our business.
Credit risk	►	We remain focused on assessing and managing the impacts of the cost-of-living crisis and high interest rates on our customers, with our early warning indicators helping us to identify segments that we believe may be at risk due to the macroeconomic situation. This includes our mortgage customers who may be impacted by increased monthly payments and across our lending portfolio, those with reduced affordability due to other cost of living increases. We are ensuring that we have adequate capacity within our Financial Support Team and are contacting customers potentially at risk. We remain focused on managing credit facilities appropriately, and adjusting policy and strategy as needed, including regular refreshes of our affordability models. Industry sector analysis is regularly conducted with particular focus on the Commercial Real Estate (Offices), Construction and Contracting, Hospitality, Hotels, and Retail industry sectors, as well as parts of Agriculture and Manufacturing. We have continued to undertake in-depth monitoring activities with stress tests and other reviews performed to identify portfolios or customers who are likely to experience financial difficulty.
Evolving regulatory environment risk	▲	The regulatory risk environment is increasingly complex. There remains ongoing focus by regulators to improve outcomes for banks' consumers, particularly vulnerable ones, as well as the orderly and transparent operation of financial markets. These, alongside other regulatory priorities, are resulting in change requirements across HSBC UK in the short to medium term. We continue to monitor regulatory and wider industry developments closely, engaging with regulators as appropriate.
Financial crime and fraud risk	►	We are exposed to financial crime risk from our customers, staff and third-parties engaging in criminal activity. The financial crime risk environment continues to evolve, due to increasingly complex geopolitical challenges, the macroeconomy, evolving sanctions regulations, technological developments and national data privacy requirements. Fraud, which is becoming ever-more sophisticated, continues to be an area of focus for HSBC UK. Regulatory scrutiny has increased around scams and the impacts from recent changes to the PSR's reimbursement requirements. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Cyber threat and unauthorised access to systems	►	HSBC UK faces a risk of service disruption or loss of data resulting from technology failures or malicious activities by internal or external threats. We continue to monitor ongoing geopolitical events and changes to the threat landscape. HSBC UK operates a continuous improvement programme to help protect our technology operations and to counter a fast-evolving cyber threat environment.
Environmental, social and governance risk	▲	We are subject to ESG risks including in relation to climate change, nature and human rights. This risk continues to increase owing to the pace and volume of regulatory developments and stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks for HSBC UK, including reputational, legal and regulatory compliance risks.
Digital currencies and disintermediation risk	►	Focus remains on digital currencies from governments, regulatory bodies and central banks. There has been increased debate on CBDC with the BoE and HMT consultation on the subject in the UK and more design studies and pilots taking place in locations such as Hong Kong, India, the eurozone and Japan. The cryptocurrency and stablecoin ecosystem has seen exceedingly volatile prices with some risk of contagion spreading beyond these markets. There is still no suggestion that cryptocurrencies or stablecoins have moved from being a speculative asset to being a replacement for existing fiat currencies. We continue to monitor the evolution of digital assets and decentralised finance across channels including consultations, pilots and issuances to assess the implications for our products and services and our customers.
Internally driven		
People risk	▼	HSBC UK is exposed to risks associated with employee retention, talent availability and compliance with employment laws and regulations. Whilst overall HSBC UK attrition has continued to ease, we remain vigilant in light of external market factors including the cost of living crisis and an active labour market, that might impact our ability to retain and attract talent. HSBC UK is embedding hybrid working, with further opportunities to continuously enhance our employee proposition.

Risk		Description
Internally driven (continued)		
IT systems infrastructure and service resilience	▶	Whilst our IT estate is complex, strengthening operational resilience remains a strategic imperative. Modernising and simplifying our technology architecture is key to strengthening the resiliency of our environment and remains a core focus, with investment planned in 2024 to modernise and uplift resiliency standards. We are committed to delivering better customer outcomes by reducing disruptions for our customers so they can access services when they need them. To achieve this, we are reducing reliance on non-strategic platforms so we reduce complexity for colleagues and customers and support swifter, safer change deployment. We are also increasing usage of cloud infrastructure so we can benefit from resiliency and support scalability when customer demands rise. An increasing usage of iterative releases with reduced lead time to deploy code will help support easier testing and delivery of new products and features to meet customer needs quicker.
Model risk	▶	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications. The model landscape continues to be impacted by regulatory requirements driving material changes to the way model risk is managed across the banking industry in the UK. The PRA's Supervisory Statement (SS 1/23) 'Model Risk Management Principles for Banks' issued in May 2023 requires increased oversight and controls on the management of model risks. The rapidly changing technology environment including generative AI and large language models utilising AI are also impacting the need for enhanced model risk controls.
Conduct and customer detriment	▶	The dedicated programme to embed our updated purpose-led conduct approach (PLCA) has concluded. Closely linked to our conduct agenda, the first phase of the Consumer Duty was delivered in July 2023 and is helping to ensure good outcomes for our customers across all retail products and services. Focus has now moved to the second phase of the Consumer Duty Programme which is due to be implemented by July 2024 and primarily concerns delivering good customer outcomes within our closed book of products.
Data risk	▶	HSBC UK uses data to serve our customers and run our operations, often in real-time within digital experiences and processes. Data risk remains a key area of focus for HSBC UK and is receiving significant management attention as we continue to enhance our control environment. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We seek to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Third-party risk	▲	HSBC UK procures goods and services from a range of third party providers. Due to the current economic and geopolitical climate, the risk of service disruption in our supply chain has heightened. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.
Execution risk	▶	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. Given the increased scale, complexity and pace of change at HSBC UK, we continue to monitor, manage and oversee change execution risk to ensure our change portfolio and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

● New risk introduced in 2023
▲ Risk has heightened during 2023
▶ Risk remains at the same level as 2022
▼ Risk has decreased during 2023

The Strategic report comprising pages 2 to 14 was approved by the Board on 20 February 2024 and is signed on its behalf by:

John David Stuart

Director
HSBC UK Bank plc
Registered number: 9928412

Risk review

How we manage our risks

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 endeavours to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transition, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

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

Financial position

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

Operating model

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

Business practice

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

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits.

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

Our Risk Management Framework

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

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

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

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

Non-financial risk includes some of the most material risks HSBC UK faces, such as cyber-attacks, poor customer outcomes, loss of data and the current geopolitical risks. Actively managing non-financial risks is crucial to serving our customers effectively and having a positive impact on society. During 2023, we continued to strengthen the control environment and our approach to the management of non-financial risks, as broadly set out in our Risk Management Framework. The management of non-financial risk focuses on governance and risk appetite, providing a single view of the non-financial risks that matter most, and associated controls. It incorporates a risk management system designed to enable the active management of non-financial risk. Our ongoing focus is on simplifying our approach to non-financial risk management, while driving more effective oversight and better end-to-end identification and management of risks. This is overseen by our Enterprise Risk Management function, headed by the HSBC UK Head of Enterprise Risk Management.

Three lines of defence

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures.

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

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

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

- The third line of defence is our Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Risk appetite

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

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is fundamental to the development of business line strategies, strategic and business planning and senior management balanced scorecards. Performance against the RAS is reported to the Risk Management Meeting 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.

Stress testing

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

A number of internal macroeconomic and event-driven stress scenarios specific to the UK or the global economy were considered and reported to senior management during the course of the year. These stress scenarios included the impact of high inflation and liquidity shocks. HSBC UK also conducted a Reverse Stress Test. This exercise required HSBC UK to assess scenarios and circumstances that would render its business model non-viable, thereby identifying potential business vulnerabilities.

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

In 2022 HSBC UK participated in the Annual Cyclical Scenario stress test. The exercise subjected the major UK banks to hypothetical deep simultaneous recessions in the UK and global economies, large falls in asset prices and higher global interest rates, and a separate stress of misconduct costs.

The BoE published the results of the 2022 Annual Cyclical Stress in July 2023. Standalone results showed that HSBC UK is sufficiently capitalised. The results indicate that HSBC UK would not fall below its CET1 and Tier 1 leverage ratio hurdles.

There was no BoE Annual Cyclical Stress exercise in 2023. The 2023 internal stress tests confirm that HSBC UK is well positioned to withstand potential shocks.

Risk management

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

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

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

Internal control

We have:

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

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

The key risk management and internal control procedures, that have been in place throughout the year ended 31 December 2023 and up to the date of approval of this report, include:

- Global Principles: The HSBC Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and employees fairly at all times.
- The HSBC Group Risk Management Framework: see 'Our Risk Management Framework' section of the report on page 15.
- Delegations of authority: Subject to certain matters reserved to the Board, the Board has delegated powers and authority to manage the day-to-day running of the Company within certain limits to the CEO and its Executive Committee. The CEO is permitted to sub-delegate such powers and authorities, within those limits, as he sees fit.
- Strategic plans: The annual financial resource plan is informed by detailed analysis of risk appetite, stress-testing exercises, and the types and quantum of risk that the Company is prepared to take, within the parameters set by the HSBC Group, to execute its strategy. It also sets out the key business initiatives and the financial impact of those initiatives in order to determine the most appropriate use of the Company's resources. This is approved by the Company's Board and progress against the Financial Resource Plan is reported regularly to the Executive Committee, Board and the HSBC Group Executive Committee.

The key risk management and internal control procedures over financial reporting include the following:

- Financial reporting: The financial reporting process for preparing the consolidated *Annual Report and Accounts 2023* is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements. These are issued by the HSBC Group to HSBC UK and are cascaded to all reporting entities within the group in advance of each reporting period end. The submission of the Company's financial information is subject to certification by the CFO, and analytical review procedures undertaken at reporting entity and group levels.
- Disclosure Committee: The Disclosure Committee comprises certain executive management and supports the discharge of the Company's obligations in relation to its debt securities traded on the London Stock Exchange. In particular, it considers whether a new event or circumstance constitutes inside information, reviews all material disclosures and considers and advises upon any requests and reports to be made by any subsidiaries or affiliates of its group with regard to inside information.
- Audit Committee: The Board's Audit Committee reviews the internal financial controls and reporting disclosures for any material errors, misstatements or omissions with regard to the integrity of financial statements and disclosures and provides oversight over internal financial controls. It is supported by

structures and processes within the group's Finance and Risk functions that provide analytical review of financial reporting and the maintenance of accounting records, and seek the committee's support regarding material accounting policies and practices before they are agreed with the External Auditors.

- Risk Committee: The Board's Risk Committee provides oversight over internal controls systems and the status of principal risks, and considers whether the mitigating actions put in place are appropriate. In addition, when unexpected losses have arisen or incidents have occurred which indicate gaps in the control framework or in adherence to policies, the committee reviews reports prepared by management that analyse the cause of the issue, any lessons learned and actions proposed to address the issue.

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

What are our principal risks and uncertainties

Key developments in 2023

We actively managed the risks related to macroeconomic and geopolitical uncertainties, as well as other key risks described in this section. In addition, we sought to enhance our risk management in the following areas:

- We implemented two revised risk appetite frameworks to better manage and strengthen our controls with respect to concentration risks. These relate to concentration risks arising from exposures to countries and to single customer groups.
- We enhanced our processes, framework and capabilities to seek to improve the control and oversight of our material third parties, and to help maintain our operational resilience and meet new and evolving regulatory requirements.
- The integrity of our Regulatory Reporting remains a top priority for us and we have a comprehensive regulatory reporting programme in place, that seeks to strengthen our processes, improve consistency and enhance controls across our regulatory reports. Scrutiny from our UK regulators in this area continues to increase. We are dedicating resource, investment and Board focus across the period of the programme to help ensure that we deliver the required improvements.
- Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including continued development of risk metrics to manage our exposure to climate risk, and the completion of an Internal Scenario Analysis exercise to support risk management, business decision making, and to meet ongoing regulatory expectations.
- We continue to strengthen our fraud controls and invest in capabilities to fight financial crime through the application of advanced analytics and artificial intelligence, while monitoring technological developments and engaging with third-parties.
- We are embedding our suite of regulatory management systems following the Group-wide roll-out of regulatory horizon scanning capabilities and enhanced regulation mapping tooling.
- We continued to increase the stabilisation of our NII as interest rate expectations fluctuated, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.

Top and emerging risks

We use a top and emerging risks process to provide a forward-looking view of issues with the potential to threaten the execution of our strategy or operations over the medium to long term.

We proactively assess the internal and external risk environment, as well as review the themes identified across HSBC UK businesses for any risks that may require escalation. We update our top and emerging risks as necessary.

Our current top and emerging risks are as follows.

Externally driven

Geopolitical and macroeconomic risk

Geopolitical and macroeconomic risk continued to be high in 2023 as the UK economy faced a number of challenges. Inflation has fallen across the year but still remains elevated and economic growth remains elusive with the UK officially recorded as being in recession following ONS publication of its 2023 fourth quarter GDP estimate. Although energy prices have reduced, significant cost of living challenges remain with the BoE maintaining interest rates at a high level with many customers facing an increase in their mortgage payments. Consumer confidence has improved across 2023 but remains low.

Higher inflation and interest rates, alongside lower growth in the UK, have had an impact on ECL. The pressure on real disposable income of households and business costs may have impacted the ability of our customers to repay debt.

Macroeconomic, financial and geopolitical risks have all impacted our macroeconomic scenarios. Our Central scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' calculations of ECL, assumes that GDP growth in the UK will remain low in 2024 before moderate recovery in 2025. Our Central scenario also anticipates that inflation is forecast to gradually decline back to the BoE target during 2025. Similarly interest rates in the UK are also expected to decline but remain materially higher than in recent years. We also consider scenarios where commodity prices are materially higher, inflation and interest rates rise and a global recession follows, however we assign a lower probability of these occurring.

However, forecasts remain uncertain, and changing economic conditions and the materialisation of key risks could reduce the accuracy of the Central scenario forecast. In particular, forecasts in recent years have been sensitive to commodity price changes, changing supply chain conditions, monetary policy adjustments and inflation expectations. Uncertainty remains with respect to the relationship between the economic factors and historical loss experience, which has required adjustments to modelled ECL in cases where we determined that the model was unable to capture the material underlying risks.

For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 32.

A Memorandum of Understanding was signed on 27 June 2023, setting out a framework for voluntary regulatory cooperation in financial services between the UK and the EU, including through the establishment of a Joint UK-EU Financial Regulatory Forum. This is expected to provide a platform on which both parties will be able to discuss financial services-related issues, including future equivalence determinations.

Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol concluded in February 2023. In January 2024, an additional agreement titled, "Safeguarding the Union" was signed. Together, these agreements provide a greater degree of certainty over the regulatory arrangements governing the movement of goods between Great Britain, Northern Ireland and the EU. In February 2024, the Northern Ireland Executive was reinstated after a power-sharing agreement was reached by key political parties.

Challenges remain in the UK-EU relationship following the UK's withdrawal from the EU. Over the medium to long term, the UK's withdrawal from the EU may continue to adversely impact the terms of EU market access for our clients. This could increase the country's economic risk, which in turn could impact our profitability. We are monitoring the situation closely, including the potential impacts on our customers.

The Russia-Ukraine war has continued to elevate geopolitical instability which could have continued ramifications for HSBC UK and its customers. We continue to monitor and respond to financial sanctions and trade restrictions that have been adopted in response. These sanctions and trade restrictions are complex, novel and evolving. In particular, the US, the UK and the EU, as well as other countries, have imposed significant sanctions and trade restrictions against Russia. Such sanctions and restrictions target certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions and other major Russian companies and sanctions evasion networks. These countries have also enacted more generally applicable investment, export, and import bans and restrictions. In December 2023, the US established a new secondary sanctions regime, providing itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. This creates challenges associated with the detection or prevention of third-party activities beyond HSBC's control. The imposition of such sanctions against any non-US HSBC entity could result in significant adverse commercial, operational, and reputational consequences for HSBC, including the restriction or termination of the non-US HSBC entity's ability to access the US financial system and the freezing of the entity's assets that are subject to US jurisdiction. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures, including the expropriation of foreign assets.

The Israel-Hamas war is also increasing tensions in the Middle East, leading to recent attacks on shipping in the Red Sea and resulting counter-measures, which have begun to disrupt supply chains.

The escalation or a broadening of either the Russia-Ukraine, or Israel-Hamas wars could aggravate supply chain disruptions and drive inflation higher and may pose challenges for our customers and our business. HSBC UK is monitoring the impacts of these wars.

The relationship between China and several countries, including the UK and the US, remains complex. To date, the UK, the US, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies. Although sanctions and trade restrictions are difficult to predict, increases in diplomatic tensions between China and the US and other countries including the UK, could result in sanctions that could negatively impact HSBC UK and its customers. There is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology, and other issues with China, and this could create a more complex operating environment for HSBC UK and its customers.

Further sanctions, counter-sanctions and trade restrictions may adversely affect HSBC UK and its customers by creating regulatory, reputational and market risks.

Mitigating actions

- We closely monitor geopolitical and economic developments and undertake scenario analysis and stress testing where appropriate. This helps us to take actions to manage our portfolios where necessary, including seeking to ensure enhanced monitoring and amending our risk appetite.
- We continue to monitor the UK's relationship with the EU, and assess the potential impact on our people, operations and portfolios.
- We continue to monitor our risk profile closely in the context of the current geopolitical and macroeconomic situation, and given the significant uncertainties, additional mitigating actions may be required.
- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.

Credit risk

Credit Risk in the UK is stable despite the ongoing cost-of-living and consumer spend pressures. Inflation fell more quickly than expected in the second half of 2023 and economists now forecast BoE base rate cuts in 2024. However, downside risks remain that may elevate Credit Risk, including the possibility of prolonged subdued demand and supply chain issues driven by geopolitical events.

Mitigating actions

- We have reviewed our customer affordability and credit scoring models and made adjustments to reflect the increased rate of inflation and current economic conditions. We have also proactively contacted customers to advise of the support tools that we offer to provide help with the increased cost of living.
- Mortgage stress rates have been refreshed to reflect the latest interest rate expectations, and are regularly reviewed, helping us to recognise rises as well as reductions in base rate expectations to help ensure that our stress rate remains appropriate in light of the latest outlooks.
- Reviews of key credit portfolios are undertaken regularly to help ensure that individual customer or portfolio risks are understood and our ability to manage the level of facilities offered through the economic downturn are appropriate.
- We continue to monitor high risk wholesale industry sectors closely via quarterly industry risk appetite reviews and in 2023 we also undertook specific reviews of portfolios showing vulnerability such as Commodity Traders, Leverage, Construction and Building Materials, Automotives, Retail, 'Consumer Spend' and Commercial Real Estate. Detailed performance monitoring is reviewed on a monthly basis, which includes early warning indicators and a view of concentration risks. Portfolio limits and exposures have been re-assessed and reductions implemented where appropriate.
- We stress test portfolios of particular concern to help identify sensitivity to loss under a range of scenarios, with management actions being taken to help rebalance exposures and manage risk appetite where necessary.

Evolving regulatory environment risk

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

We aim to keep abreast of the emerging regulatory compliance and conduct risk agenda. Current focus areas include, but are not limited to: ESG matters; ensuring good customer outcomes, including addressing customer vulnerabilities due to cost of living pressures; enhancements to regulatory reporting controls; and employee compliance including the use of e-communication channels. 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 UK government intervention.

Mitigating actions

- We continue to engage in the development of new and amended regulations in the UK to help ensure that the implications have been considered by regulators.
- We continue to work with the UK authorities and regulatory bodies to discuss any impacts on customers and markets.
- We monitor regulatory developments to understand the evolving regulatory landscape and seek to respond with changes in a timely manner.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to detect and prevent financial crime. In 2023, these risks were exacerbated by rising geopolitical tensions and ongoing macroeconomic factors. These challenging developments require managing conflicting laws and approaches to legal and regulatory regimes, and implementing increasingly complex and less predictable sanctions and trade restrictions.

Amid high levels of inflation and increasing cost of living pressures, we face increasing regulatory expectations with respect to managing internal and external fraud and protecting vulnerable customers. In addition, the accessibility and increasing sophistication of generative Artificial Intelligence brings financial crime risks. While there is potential for the technology to support financial crime detection, there is also risk that criminals generative AI to perpetrate fraud, particularly scams.

The digitisation of financial services continues to have an impact on the payments ecosystem, with an increasing number of new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as banks. Developments around digital assets and 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, continue to increase.

Mitigating actions

- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.
- We continue to strengthen our fraud controls and invest in capabilities to fight financial crime through the application of advanced analytics and AI, while monitoring technological developments and engaging with third-parties.
- We are looking at the impact of a rapidly changing payments ecosystem, as well as risks associated with direct and indirect exposure to digital assets and currencies, in an effort to maintain appropriate financial crime controls.
- We regularly review our existing policies and control framework so that developments relating to ESG are considered and the risks mitigated.
- We engage with regulators, policymakers and relevant international bodies, seeking to address data privacy challenges through international standards, guidance and legislation.

Cyber threat and unauthorised access to systems

Together with other organisations, we continue to operate in an increasingly hostile cyber threat environment. These threats include potential unauthorised access to customer accounts, attacks on our systems or those of our third-party suppliers and require ongoing investment in business and technical controls to defend against them.

Mitigating actions

- We continue to evaluate threat levels for the most prevalent cyber-attack types and their potential outcomes, to help protect HSBC UK and our customers and ensure the safe expansion of our business. We also continue to strengthen our controls to help reduce the likelihood and impact of advanced malware, data leakage, and exposure through third parties and security vulnerabilities.
- We continue to seek to enhance our cybersecurity capabilities, including threat detection, Cloud security, access control, data analytics and third-party security reviews. An important part of our defence strategy is ensuring that our colleagues are aware of cybersecurity issues and know how to identify and report incidents.
- We report and review cyber risk and control effectiveness at executive and non-executive Board level. We also report this management information across our businesses and functions to help ensure appropriate visibility and governance of the risk and its mitigating actions.
- We actively participate in and support industry body forums and working groups to share knowledge of tactics employed by cyber-crime groups and to collaborate in defending against, detecting and preventing cyber-attacks on financial organisation.

Environmental, social and governance risk

We are subject to financial and non-financial risks associated with ESG related matters. Our current areas of focus include the following: climate risk, nature-related risks and human rights risks. These can impact us both directly and indirectly through our business activities, clients and supplier relationships.

Focus on climate-related risk continued to increase over 2023, owing to the pace and volume of policy and regulatory changes on climate risk management, stress testing and scenario analysis and disclosures. If we fail to meet evolving regulatory expectations or requirements on climate risk management, this could have regulatory compliance and reputational impacts. Climate change can have an impact across HSBC UK's risk taxonomy through both transition risk, arising from the move to a low-carbon economy, such as through policy, regulatory and technological changes, and physical risk impacts due to the increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding, and chronic shifts in weather patterns,which could affect our ability to conduct our day-to-day operations.

Our assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050.

We have used the HSBC Group's materiality-based approach in developing our climate risk capabilities across our businesses by prioritising sectors, portfolios and counterparties with the highest potential impacts.

We continue to make progress in enhancing our climate risk capabilities and recognise it is a long-term iterative process and aim to regularly review our approach to increase coverage, incorporate maturing data, climate analytics capabilities, frameworks and tools and respond to emerging industry best practice and climate risk regulations.

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

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

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

Transition risk efforts have focused on assessing the potential risk to our mortgage portfolio by using current and potential energy efficiency ratings for individual properties,sourced from property EPC data. We are working towards improving our EPC data coverage for properties in our portfolio with a valid EPC certificate (dated within the last 10 years).

In addition to financial risks arising in our corporate and retail banking portfolio, we face increased reputational, legal and regulatory risks as we make progress towards the HSBC Group's net zero ambition, with stakeholders likely to place a greater focus on our actions, investment decisions and disclosures related to this ambition.

We may face the risk of greenwashing if we are perceived to mislead stakeholders regarding our climate strategy, the climate impact of a product or service, or regarding the commitments of our customers, including within our marketing material and campaigns. In response to this risk, we have published internal guidance to stakeholders across our business to increase awareness across the first and second lines of defence and our product governance framework has been expanded to improve the management of greenwashing risk throughout the whole product lifecycle.

Net Zero alignment risk may also arise, impacting HSBC UK, where HSBC Group fails to meet its net zero commitments or to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment.

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

Climate risk may also impact on model risk as the uncertain impacts of climate change and data limitations present challenges to creating reliable and accurate model outputs.

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

There is increasing evidence that nature-related risks beyond climate change, which can be represented more broadly by impact and 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, ecosystem degradation arising from economic activity 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 HSBC UK and our customers.

Regulation and disclosure requirements in relation to human rights, and to modern slavery in particular, are expected to increase.

Mitigating actions

- Our HSBC UK climate risk programme continues to support 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 continue to enhance our approach to managing and mitigating the risk of greenwashing.
- Our product design, management, marketing, and governance processes have been adapted to help ensure that climate risk factors are effectively and consistently considered, including the risk of greenwashing.
- We have supported the HSBC Group in the development and implementation of an enhanced transition engagement questionnaire, which is used by Relationship Managers to collect information through discussions with our clients in high transition risk sectors, and support their transition away from high carbon activities.
- HSBC UK implements HSBC Group's sustainability risk policies as part of its broader reputational risk framework. We focus our policies on sensitive sectors which may have a high adverse impact on people or on the environment and in which we have a significant number of customers. HSBC UK has implemented HSBC Groups' revised Energy Policy, which was published in December 2022, and covers the broader energy system including upstream oil and gas, oil and gas power generation, coal, hydrogen, renewables, hydropower, nuclear, biomass and energy from waste. HSBC Group also updated a thermal coal phase-out policy.
- In 2023, the HSBC Group refreshed its assessment of how climate risk may impact HSBC taxonomy risk types, with the assessment focusing on a 12-month time horizon. It also considers additional short term (up to 2025), medium term (2026 - 2035) and long term (2036 - 2050) time horizons. The assessment is refreshed annually, and results may change as our understanding of climate risk and how it impacts HSBC evolves.
- The Trustee of our employee pension plan, the HSBC UK section of the HSBC Bank (UK) Pension Scheme, manages climate risk in line with its fiduciary duties and local regulatory requirements, with global corporate policy encouraging consideration of ESG risks when selecting investments. Further details of the plan's approach to ESG risk management are available on the HSBC Bank (UK) Pension Scheme website, www.futurefocus.staff.hsbc.co.uk, including information on the Trustee's commitment to net zero and the annual Taskforce on Climate-Related Financial Disclosures statement.
- HSBC UK was a key participants in HSBC Group's pilot exercise to assess nature risk exposures which we are using to shape our approach to enhancing our capabilities.
- In 2023, HSBC UK supported the HSBC Group in delivering guidance and training on human rights covering fundamental human rights concepts and international standards, HSBC Group public commitments and foundational principles for responding to human rights risks, and a case study library of salient risk identification and mitigation processes. In HSBC UK, a Modern Slavery and Human Trafficking Risk Management Framework, including training for customer facing frontline staff, was developed, and implemented.

For further details, please refer to the ESG review in the HSBC Holdings plc Annual Report and Accounts 2023.

Digital currencies and disintermediation risk

Digital currencies have, over the past few years, been a growing part of the financial landscape bringing with them increased competition and financial risk. CBDC and cryptocurrencies are the focus of disintermediation risk as such currencies could result in a more direct linkage between currency providers and payment participants. CBDCs could require end users to hold accounts directly with a central bank on a ledger retained by them eliminating the use for intermediaries, such as HSBC UK. However, the pilots and issued CBDCs are coalescing around leveraging existing banking networks and infrastructure to support any CBDC initiative.

Cryptocurrencies facilitate peer-to-peer transactions across borders as a common means of exchange which could reduce the requirement for foreign exchange services and payment intermediaries. Over the past year the crypto ecosystem has seen significant disruption with volatile prices, individual currencies failing and contagion spreading to industry participants.

Cryptocurrencies to date have not been seen as a replacement to fiat currencies rather they are currently seen as a speculative investment.

Mitigating actions

- We will monitor progress and industry developments in digital assets and other aspects of decentralised finance to assess potential risks and impacts on business models, markets and customers.
- We will continue to take a holistic view of the potential impacts across product and client segments, including important considerations such as vulnerability and financial inclusion.

Internally driven

People risk

Our success in delivering our strategic priorities whilst proactively managing the regulatory and legislative environment depends on the attraction, development, and retention of our leadership and high-performing employees. A highly competitive UK employment market, coupled with heightened inflationary pressures, will continue to test our ability to attract and retain talent. We remain focussed on supporting our employees during the cost of living crisis. As we embed hybrid working in HSBC UK, we continue to concentrate on building and maintaining a high-performance culture and employee engagement in the new environment.

Mitigating actions

- We are supporting our people during this period of slow economic growth with a range of financial well-being activities.
- We seek to promote a diverse and inclusive workforce and provide support across a wide range of health and well-being activities. We continue to build our speak-up culture through active campaigns.
- We monitor hiring activities and levels of employee attrition, to ensure effective hiring and forecasting to meet business demands.
- We monitor people risks that could arise due to organisational restructuring to help ensure that we sensitively manage redundancies and support impacted employees. We encourage our people leaders to focus on talent retention at all levels, with an empathetic mindset and approach, while ensuring the whole proposition of working at HSBC UK is well understood. Our Future Skills curriculum provides skills that will help to enable employees and HSBC UK to be successful in the future.
- We develop succession plans for key management roles, with oversight from the HSBC UK Executive Committee.
- Political, legislative and regulatory challenges are closely monitored to minimise any impact on our employment practices or the attraction and retention of talent and key performers.

IT systems infrastructure and operational resilience

HSBC UK's current architecture has grown over an extended period, making it more complex and at times difficult to change. Work is necessary to improve this position, to help ensure continued support and service for our customers. HSBC UK has been making progress for the last two years in modernising and simplifying system infrastructure, not only improving operational resilience, but also helping to make the bank more efficient to operate. In doing so, delivery of new products and features aimed at meeting customer needs is becoming easier and safer.

Mitigating actions

- We are implementing a multi-year IT strategy in HSBC UK that defines the requirements to establish a simpler, modern, and more resilient architecture and is overseen by the HSBC UK Board. As with any strategic transformation programme we will continually manage the risks associated with this implementation.
- We will through 2024 deliver change that includes uplifting resiliency maturity across some of the HSBC UK's most important business services; improving our monitoring and alerting processes; modernising our core banking capabilities; eliminating non-strategic applications; continuing migration to cloud; simplifying the data landscape, and enhancing our cyber controls.

Model risk

Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as 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 require redevelopment as market conditions change. Significant increases in inflation and interest rates, which impact the cost of living in the UK, may impact the reliability and accuracy of credit risk models. Close monitoring takes place, with recalibration or redevelopment of these models, if required.

We continued to prioritise the redevelopment of IRB models as part of the IRB repair and Basel III programmes with a key focus on enhancing the quality of data used as model inputs. A number of these models have been submitted to the PRA for feedback and approval is in progress.

Mitigating actions

- We have continued to embed the enhanced monitoring, review and challenge of expected loss model performance through our Model Risk Management function as part of a broader quarterly process to determine loss levels. The Model Risk Management team aims to provide effective review and challenge of any future redevelopment of these models.
- Model Risk Management works closely with businesses to ensure that models in development meet the risk management, pricing and capital management needs. Global Internal Audit provides assurance over the risk management framework for models.
- Additional oversight and challenge is performed by Model Risk Management as the second line of defence. The team tests whether controls implemented by model users comply with model risk policy and if model risk standards are adequate.
- We further embedded our Risk Appetite measures focused on forward looking model risk supported by upgrades to the Model Inventory System to provide more granular measurement and management of model risk for multiple applications of a single model.
- We continue to strengthen model risk controls through the Risk Control Assessment process; and the lines of business and functions test these controls to better assess and understand model risk.

Conduct and customer detriment

At HSBC UK our conduct approach guides us to aim to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. Customer experience is at the heart of how we operate, and we aim to act responsibly and with integrity. As part of this we have carried out a number of activities during 2023:

Mitigating actions

- We understood and serviced our customers' ongoing needs and continued to champion a strong conduct and customer-focused culture.
- We delivered the first phase of Consumer Duty in July 2023 which is closely linked to our conduct agenda. This delivery is helping ensure good outcomes for our customers across all retail products and services. Focus has now moved to the second phase of the Consumer Duty Programme which is due to be implemented by July 2024 and primarily concerns confirming and maintaining good customer outcomes within our closed book of products.
- We continued to focus on the conduct management of our vulnerable customer base.
- We continued with the integration of climate risk into HSBC UK's wider risk management approach, recognising the importance of strengthened controls and oversight for our related activities.
- We continued to embed conduct within our business line processes and through our Non-Financial and Financial Risk Steward activities.
- We continue to deliver training to reinforce the importance of conduct for all colleagues and delivered bespoke and focussed conduct training and guidance to all of our risk steward colleagues.

Data risk

We use multiple systems and growing quantities of data to support our customers. Risk arises if data is incorrect, unavailable, misused, or unprotected. Along with other banks and financial institutions, we need to meet the increasing external regulatory obligations and laws that cover data risk, such as the UK General Data Protection Regulation and the Basel Committee for Banking Supervision's 239 guidelines.

Mitigating actions

- Through our global data management framework, we monitor the quality, availability and security of data that supports our customers and internal processes. We work towards resolving any identified data issues in a timely manner.
- We have made improvements to our data policies, and we are implementing an updated control framework to help enhance the end-to-end management of data risk.
- We aim to protect customer data through 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. We delivered regular mandatory training on how to protect and manage data appropriately.

Third-party risk

We use third parties to provide a range of goods and services. Risks arising from the use of third-party providers and their supply chain may be harder to identify. 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 customers and meet regulatory expectations.

Mitigating actions

- We have enhanced our control framework for the use of third-party providers to help ensure that the risks associated with these arrangements are understood and managed effectively by our businesses and functions across HSBC UK.
- We continue to enhance the effective management of our intra-group arrangements using the same control standards as we have for external third-party arrangements.
- We continue to monitor the effectiveness of the controls operated by our third party providers and request third party control reports where required.

Execution risk

Continued investment in strategic change is required to support the delivery of our strategic priorities and regulatory commitments. We are increasing our funding in this area in 2024 as we continue to focus on ensuring that change is executed safely and efficiently across HSBC UK. This focus includes having the organisational capacity to sustainably deliver change, and availability of the resources required to meet HSBC's stated commitments.

Mitigating actions

- Change execution risk is part of our risk taxonomy and control library so that it is defined, assessed, managed, reported and overseen in the same way as our other material risks.
- The HSBC UK Transformation Oversight Committee oversees and monitors the prioritisation and management of execution risk for all material initiatives in HSBC UK.

Our material banking risks

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

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 24)		
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 52)		
The risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historic and current provision of pensions and other post-employment benefits to staff and their dependants.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: – measured through appetites set as target and ratios; – monitored and projected through appetites and using stress and scenario testing; and – managed through control resources in conjunction with risk profiles and cashflows.
Market risk (see page 59)		
The risk that movements in market factors, including but not limited to interest rates, credit spreads and foreign exchange rates, will reduce our income or the value of our portfolios.	Exposure to market risk is separated into two portfolios: – trading portfolios; and – non-trading portfolios.	Market risk is: – measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using VaR sensitivities, stress testing and other measures, including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and – managed using risk limits approved by the Risk Management Meeting.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Climate risk (see page 59)		
Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk can materialise through: – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to stakeholders; and – net zero alignment risk may arise, impacting HSBC UK, where HSBC Group fails to meet its net zero commitments or to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment.	Climate risk is: – measured using risk appetite metrics and scenario testing; – monitored using risk appetite statements; and – managed through adherence to risk appetite thresholds and through specific policies, enhancements to processes and the development of risk management tools.
Resilience risk (see page 60)		
Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates, and counterparties as a result of sustained and significant operational disruption.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events. These may be driven by rapid technological innovation, changing behaviours of our consumers, cyber threats and attacks, cross border dependencies, and third party relationships.	Resilience risk is: – measured through a range of metrics with defined maximum acceptable impact tolerances and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continuous monitoring and thematic review.
Regulatory compliance risk (see page 60)		
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 61)		
Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further potentially illegal activity through HSBC UK, 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 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 62)		
Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent review function, feedback from internal and external audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training employees in their application, and supervising their adoption to ensure operational effectiveness.

Credit risk

Overview

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

Credit risk management

(Audited)

The principal objectives of our credit risk management are:

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

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

Its responsibilities are:

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

Concentration of credit risk exposure

(Audited)

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions.

A number of controls and measures are used to minimise undue concentration of exposure in the portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Credit quality of financial instruments

(Audited)

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

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

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

Wholesale lending

The CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor 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

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

1 Customer risk rating.
2 12-month point-in-time probability-weighted probability of default.

Quality classification definitions

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

Forborne loans and advances

(Audited)

Forbearance measures consist of concessions towards an obligor that is experiencing or about to experience difficulties in meeting its financial commitments.

We continue to classify loans as forborne when we modify the contractual payment terms due to having significant concerns about the borrowers' ability to meet contractual payments when they were due. Our definition of forborne captures non-payment-related concessions, such as covenant waivers.

For details of our policy on forbearance, see Note 1.2(g) on the financial statements.

Credit quality of forborne loans

For wholesale lending, where payment related forbearance measures result in a diminished financial obligation or if there are other indicators of impairment, the loan will be classified as credit impaired if it is not already so classified. All facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a payment related forborne loan. For retail lending, where a material concession has been granted, the loan will be classified as credit impaired if it is not already so classified. In isolation, non-payment forbearance measures may not result in the loan being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forborne loans for both wholesale and retail lending.

Wholesale and retail lending forborne 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. Any forborne loans not considered credit impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies. For wholesale and retail lending, any forbearance measures granted on loan already classed as forborne results in customer being classed as credit impaired.

Forborne loans and recognition of expected credit losses

(Audited)

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne 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 forborne loans.

Refinance risk

Personal lending

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

Wholesale lending

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

Impairment assessment

(Audited)

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

Write-off of loans and advances

(Audited)

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

Personal lending

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

Wholesale lending

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

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

Credit risk in 2023

Detailed analysis of ECL can be found on pages 32 to 52.

A summary of our current policies and practices regarding credit risk is set out on pages 24 to 25.

Climate risk

Our climate scenarios

In 2023, we have considered four bespoke scenarios that were designed to articulate our view of the range of potential outcomes for global climate change. In our climate scenario analysis, we consider, separately: transition risk arising from the process of moving to a net zero economy, including changes in policy, technology, consumer behaviour and stakeholder perception, which will each impact borrowers' operating income, financing requirements and asset values; and physical risk arising from the increased frequency and severity of weather events, such as hurricanes and floods, or chronic shifts in weather patterns, which will each impact property values, repair costs and lead to business interruptions.

Our scenarios were:

- the Net Zero scenario, which is consistent with the Paris Agreement. This assumes that there will be orderly but considerable climate action, limiting global warming to no more than 1.5°C by 2100, when compared with pre-industrial levels;
- the Current Commitments scenario, which assumes that climate action is limited to current governmental committed policies, including already implemented actions, leading to global temperature rises of 2.4°C by 2100. This slow transition scenario helps us to determine the actions we need to take to reach our net zero ambition while operating in a world that is not net zero;
- the Delayed Transition Risk scenario, which assumes that climate action is delayed until 2030 with a late disorderly transition to net zero but stringent and rapid enough to limit global warming to under 2°C by 2100. This scenario allows us to stress test severe but plausible transition risk impacts;
- the Downside Physical Risk scenario, which assumes climate action is limited to currently implemented governmental policies, leading to extreme global warming with global temperatures increasing by greater than 4°C by 2100. This scenario allows us to assess physical risks associated with climate change.

We consider our Current Commitments scenario as the most likely scenario to transpire over the next five years. Under the Current Commitments scenario, we expect immaterial levels of losses relating to transition risks. However, the rise in global warming will lead to increasing levels of physical risk losses in later years. Based on this scenario the potential impact on expected credit losses is not considered material over the next five years, as the impacts of climate risk will emerge later in the following decades.

Summary of credit risk

To help investors and other stakeholders better understand the risks we manage, we have provided at 31 December 23, a number of disclosures recommended by the Taskforce on Disclosures about Expected Credit Losses ('DECL'). The DECL Taskforce, which was jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulation Authority, was created to help guide ECL disclosure practice and to encourage consistency and comparability across financial institutions. HSBC Holdings have adopted the majority of DECL recommendations. This section includes new and redesigned disclosures as follows:

- Stage 2 decomposition for loans and advances to customers and banks, see page 31;
- Alignment of management judgemental adjustments to the DECL definition with additional qualitative and quantitative granularity, see pages 35 to 36;
- Reconciliation of management judgemental adjustments to reported ECL, see pages 35 to 36;
- Reconciliation of changes in gross carrying and allowances for loans and advances to banks and customers see page 38;
- Reconciliation of changes in nominal amount and allowances for loan commitments and financial guarantees, see page 39;
- Wholesale lending – credit risk profile by obligor grade for loans and advances at amortised cost, see page 45;
- Wholesale lending - credit risk profile by obligor grade for loan and other credit-related commitments and financial guarantees see page 46;
- First lien residential mortgages - reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees, see page 50;
- Credit cards - reconciliation of changes in gross carrying / nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees, see page 50;
- Other personal lending - reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees,see page 51;
- Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost, see page 51; and
- Personal lending - credit risk profile by internal PD band for loan and other credit-related commitments and financial guarantees, see page 52.

Comparative information for the prior period has not been presented in the *Annual Report and Accounts 2023* as we recognised and prioritised the importance of increasing the comparability of our external disclosures within the timeline recommended by the DECL Taskforce. While prior period information can be valuable in certain contexts, we believe the prospective expansion of the level of disclosures out-weights the benefits of presenting data from prior years.

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

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

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

(Audited)

	At 31 Dec 2023		At 31 Dec 2022	
	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	213,591	(1,704)	206,055	(1,912)
– personal	143,315	(703)	138,626	(872)
– corporate and commercial	62,927	(949)	64,955	(1,035)
– non-bank financial institutions	7,349	(52)	2,474	(5)
Loans and advances to banks at amortised cost	7,982	(2)	6,359	(2)
Other financial assets measured at amortised cost	87,253	(10)	109,137	(5)
– cash and balances at central banks	65,719	—	94,407	—
– items in the course of collection from other banks	284	—	353	—
– reverse repurchase agreements – non-trading	7,686	—	7,406	—
– financial investments	11,820	(1)	5,160	—
– prepayments, accrued income and other assets[2]	1,744	(9)	1,811	(5)
Total gross carrying amount on-balance sheet	308,826	(1,716)	321,551	(1,919)
Loans and other credit related commitments	70,381	(99)	67,628	(91)
– personal	41,180	(10)	42,059	(9)
– corporate and commercial	25,694	(87)	24,669	(82)
– non-bank financial institutions	3,507	(2)	900	—
Financial guarantees	1,121	(2)	1,148	(6)
– personal	312	—	342	—
– corporate and commercial	526	(2)	518	(6)
– non-bank financial institutions	283	—	288	—
Total nominal amount off-balance sheet[3]	71,502	(101)	68,776	(97)
	380,328	(1,817)	390,327	(2,016)

	Fair value	Memorandum allowance for ECL[4]	Fair value	Memorandum allowance for ECL[4]
	£m	£m	£m	£m
Debt instruments measured at 'FVOCI'	14,495	(1)	10,932	(1)

1 The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

2 Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 79 includes both financial and non-financial assets.

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

4 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.

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

(Audited)

	At 31 Dec 2023		At 31 Dec 2022	
	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	202,507	(1,493)	201,389	(1,723)
– personal	139,675	(593)	135,110	(742)
– corporate and commercial	52,498	(858)	55,681	(976)
– non-bank financial institutions	10,334	(42)	10,598	(5)
Loans and advances to banks at amortised cost	13,644	(2)	9,306	(2)
Other financial assets measured at amortised cost	86,882	(10)	108,967	(5)
– cash and balances at central banks	65,719	—	94,407	—
– items in the course of collection from other banks	96	—	154	—
– reverse repurchase agreements – non-trading	7,686	—	7,406	—
– financial investments	11,609	(1)	5,160	—
– prepayments, accrued income and other assets[2]	1,772	(9)	1,840	(5)
Total gross carrying amount on-balance sheet	303,033	(1,505)	319,662	(1,730)
Loans and other credit related commitments	53,388	(93)	54,324	(88)
– personal	30,563	(9)	31,527	(8)
– corporate and commercial	21,739	(83)	21,916	(80)
– non-bank financial institutions	1,086	(1)	881	—
Financial guarantees	1,121	(2)	1,148	(6)
– personal	312	—	342	—
– corporate and commercial	526	(2)	518	(6)
– non-bank financial institutions	283	—	288	—
Total nominal amount off-balance sheet[3]	54,509	(95)	55,472	(94)
	357,542	(1,600)	375,134	(1,824)

	Fair value	Memorandum allowance for ECL[4]	Fair value	Memorandum allowance for ECL[4]
	£m	£m	£m	£m
Debt instruments measured at 'FVOCI'	14,495	(1)	10,932	(1)

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2023

(Audited)

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	167,396	42,286	3,909	—	213,591	(286)	(755)	(663)	—	(1,704)	0.2	1.8	17.0	—	0.8
– personal	114,765	27,595	955	—	143,315	(119)	(384)	(200)	—	(703)	0.1	1.4	20.9	—	0.5
– corporate and commercial	46,197	13,854	2,876	—	62,927	(156)	(365)	(428)	—	(949)	0.3	2.6	14.9	—	1.5
– non-bank financial institutions	6,434	837	78	—	7,349	(11)	(6)	(35)	—	(52)	0.2	0.7	44.9	—	0.7
Loans and advances to banks at amortised cost	7,980	—	2	—	7,982	—	—	(2)	—	(2)	—	—	100.0	—	—
Other financial assets measured at amortised cost	87,073	154	26	—	87,253	(7)	—	(3)	—	(10)	—	—	11.5	—	—
Loan and other credit-related commitments	65,257	4,794	330	—	70,381	(31)	(25)	(43)	—	(99)	—	0.5	13.0	—	0.1
– personal	40,543	568	69	—	41,180	(8)	—	(2)	—	(10)	—	—	2.9	—	—
– corporate and commercial	21,845	3,608	241	—	25,694	(22)	(24)	(41)	—	(87)	0.1	0.7	17.0	—	0.3
– financial	2,869	618	20	—	3,507	(1)	(1)	—	—	(2)	—	0.2	—	—	0.1
Financial guarantee and similar contracts	810	300	11	—	1,121	—	—	(2)	—	(2)	—	—	18.2	—	0.2
– personal	304	8	—	—	312	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	409	106	11	—	526	—	—	(2)	—	(2)	—	—	18.2	—	0.4
– financial	97	186	—	—	283	—	—	—	—	—	—	—	—	—	—
31 Dec 2023	**328,516**	**47,534**	**4,278**	**—**	**380,328**	**(324)**	**(780)**	**(713)**	**—**	**(1,817)**	**0.1**	**1.6**	**16.7**	**—**	**0.5**

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

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 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 DPD 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 2023

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	£m	*£m*	*£m*	*£m*	£m	*£m*	*£m*	*£m*	%	*%*	*%*	*%*
Loans and advances to customers at amortised cost:	42,286	*41,584*	*465*	*237*	(755)	*(685)*	*(42)*	*(28)*	1.8	*1.6*	*9.0*	*11.8*
– personal	27,595	*27,299*	*190*	*106*	(384)	*(328)*	*(32)*	*(24)*	1.4	*1.2*	*16.8*	*22.6*
– corporate and commercial	13,854	*13,546*	*206*	*102*	(365)	*(351)*	*(10)*	*(4)*	2.6	*2.6*	*4.9*	*3.9*
– non-bank financial institutions	837	*739*	*69*	*29*	(6)	*(6)*	—	—	0.7	*0.8*	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	154	*152*	*1*	*1*	—	—	—	—	—	—	—	—

1 *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 2022 (continued)

(Audited)

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	154,818	46,693	4,521	23	206,055	(248)	(941)	(722)	(1)	(1,912)	0.2	2.0	16.0	4.3	0.9
– personal	106,745	31,041	840	—	138,626	(112)	(571)	(189)	—	(872)	0.1	1.8	22.5	—	0.6
– corporate and commercial	45,739	15,520	3,673	23	64,955	(134)	(368)	(532)	(1)	(1,035)	0.3	2.4	14.5	4.3	1.6
– non-bank financial institutions	2,334	132	8	—	2,474	(2)	(2)	(1)	—	(5)	0.1	1.5	12.5	—	0.2
Loans and advances to banks at amortised cost	6,354	1	4	—	6,359	—	—	(2)	—	(2)	—	—	50.0	—	—
Other financial assets measured at amortised cost	108,987	126	24	—	109,137	—	(1)	(4)	—	(5)	—	0.8	16.7	—	—
Loan and other credit-related commitments	62,581	4,806	241	—	67,628	(29)	(37)	(25)	—	(91)	—	0.8	10.4	—	0.1
– personal	41,614	358	87	—	42,059	(9)	—	—	—	(9)	—	—	—	—	—
– corporate and commercial	20,120	4,395	154	—	24,669	(20)	(37)	(25)	—	(82)	0.1	0.8	16.2	—	0.3
– financial	847	53	—	—	900	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	983	147	18	—	1,148	—	—	(6)	—	(6)	—	—	33.3	—	0.5
– personal	335	7	—	—	342	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	407	93	18	—	518	—	—	(6)	—	(6)	—	—	33.3	—	1.2
– financial	241	47	—	—	288	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2022	333,723	51,773	4,808	23	390,327	(277)	(979)	(759)	(1)	(2,016)	0.1	1.9	15.8	4.3	0.5

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

Stage 2 days past due analysis at 31 December 2022 (continued)

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: Up-to-date*	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	£m	*£m*	*£m*	*£m*	£m	*£m*	*£m*	*£m*	%	*%*	*%*	*%*
Loans and advances to customers at amortised cost:	46,693	*46,050*	*386*	*257*	(941)	*(819)*	*(70)*	*(52)*	2.0	*1.8*	*18.1*	*20.2*
– personal	31,041	*30,689*	*236*	*116*	(571)	*(465)*	*(61)*	*(45)*	1.8	*1.5*	*25.8*	*38.8*
– corporate and commercial	15,520	*15,230*	*150*	*140*	(368)	*(352)*	*(9)*	*(7)*	2.4	*2.3*	*6.0*	*5.0*
– non-bank financial institutions	132	*131*	—	*1*	(2)	*(2)*	—	—	1.5	*1.5*	—	—
Loans and advances to banks at amortised cost	1	*1*	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	126	*126*	—	—	(1)	*(1)*	—	—	0.8	*0.8*	—	—

1 *The days past due amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.*

Stage 2 decomposition

The following disclosure presents the stage 2 decomposition of gross carrying amount and associated allowances for ECL for loans and advances to customers and banks. It also sets out the reasons that caused the exposures to be classified as stage 2 and therefore presented as a significant increase in credit risk at 31 December 2023.

The quantitative classification shows gross carrying amount and allowances for ECL for which the applicable reporting date probability of default ('PD') measure exceeds defined quantitative thresholds for retail and wholesale exposures.

The qualitative classification primarily accounts for CRR deterioration, watch-and-worry and retail management judgemental adjustments.

A summary of our current policies and practices for the significant increase in credit risk is set out in 'Summary of material policies' on page 86.

Loans and advances to customers and banks[1]

	At 31 Dec 2023							
	Loans and advances to customers						Loans and advances to banks at amortised cost	Total stage 2
		of which:						
	Personal	*first lien mortgage*	*credit cards*	*other personal lending*	Corporate and commercial	Non-bank financial institutions		
	£m	*£m*	*£m*	*£m*	£m	£m	£m	£m
Quantitative	**22,512**	***21,422***	***494***	***596***	**10,731**	**795**	**—**	**34,038**
Qualitative	**5,081**	***3,923***	***625***	***533***	**3,024**	**13**	**—**	**8,118**
of which: forbearance	***49***	***7***	***24***	***18***	***381***	***—***	**—**	**430**
30 DPD backstop	**2**	***1***	***—***	***1***	**99**	**29**	**—**	**130**
Total gross carrying amount	**27,595**	***25,346***	***1,119***	***1,130***	**13,854**	**837**	**—**	**42,286**
Quantitative	**(284)**	***(57)***	***(126)***	***(101)***	**(293)**	**(6)**	**—**	**(583)**
Qualitative	**(100)**	***(25)***	***(41)***	***(34)***	**(69)**	**—**	**—**	**(169)**
of which: forbearance	***(1)***	***—***	***(1)***	***—***	***(5)***	***—***	**—**	**(6)**
30 DPD backstop	**—**	***—***	***—***	***—***	**(3)**	**—**	**—**	**(3)**
Total allowance for ECL	**(384)**	**(82)**	**(167)**	**(135)**	**(365)**	**(6)**	**—**	**(755)**
ECL coverage %	**1.4**	**0.3**	**14.9**	**11.9**	**2.6**	**0.7**	**—**	**1.8**

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.*

Credit exposure

Maximum exposure to credit risk

(Audited)

'Maximum exposure to credit risk' table

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk; and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount and is net of the allowance for ECL; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives, the offset column also includes collateral received in cash and other financial assets.

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

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

Other credit risk mitigants

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

Maximum exposure to credit risk

(Audited)

	31 Dec 2023			31 Dec 2022		
	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	**211,887**	**(2,922)**	**208,965**	204,143	(2,786)	201,357
– personal	**142,612**	**—**	**142,612**	137,754	—	137,754
– corporate and commercial	**61,978**	**(2,886)**	**59,092**	63,920	(2,752)	61,168
– non-bank financial institutions	**7,297**	**(36)**	**7,261**	2,469	(34)	2,435
Loans and advances to banks at amortised cost	**7,980**	**—**	**7,980**	6,357	—	6,357
Other financial assets held at amortised cost	**87,369**	**—**	**87,369**	109,256	—	109,256
– cash and balances at central banks	**65,719**	**—**	**65,719**	94,407	—	94,407
– items in the course of collection from other banks	**284**	**—**	**284**	353	—	353
– reverse repurchase agreements – non-trading	**7,686**	**—**	**7,686**	7,406	—	7,406
– financial investments	**11,819**	**—**	**11,819**	5,160	—	5,160
– other assets	**1,861**	**—**	**1,861**	1,930	—	1,930
Derivatives	**178**	**(165)**	**13**	546	(522)	24
Total on-balance sheet exposure to credit risk	**307,414**	**(3,087)**	**304,327**	320,302	(3,308)	316,994
Total off-balance sheet	**76,522**	**—**	**76,522**	74,057	—	74,057
– financial guarantees and similar contracts	**3,429**	**—**	**3,429**	3,665	—	3,665
– loan and other credit-related commitments	**73,093**	**—**	**73,093**	70,392	—	70,392

Concentration of exposures

(Audited)

The diversification of our lending portfolio and our broad range of businesses and products ensured that we did not overly depend on any one business segment to generate growth in 2023.

Loans and advances to customers and banks held at amortised cost

The table on page 29 analyses loans and advances by industry sector to show any concentration of credit risk exposures.

Other financial assets held at amortised cost

Financial investments

Our holdings of government and government agency debt securities, corporate debt securities, asset-backed securities and other securities were spread across a range of issuers in 2023 with 93% (2022: 93%) invested in government or government agency debt securities.

Items in the course of collection from other banks

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

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

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

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

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting the economic scenarios and their weightings.

Scenarios were constructed to reflect the latest geopolitical risks and macroeconomic developments, including the Israel-Hamas war and subsequent disruptions in the Red Sea, and current inflation and monetary policy expectations.

Management judgemental adjustments are used where modelled ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late-breaking events.

At 31 December 2023, for Wholesale portfolio, there was a reduction in management judgemental adjustments compared with 31 December 2022, as modelled outcomes better reflected the key risks at 31 December 2023. For retail, there was an increase in other credit judgements due to the potential delayed impact of economic scenarios on unsecured portfolio defaults.

Methodology

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter.

Three of the scenarios, the Upside, Central and Downside, are drawn from consensus forecasts, market data and distributional estimates of the entire range of economic outcomes.

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. It is created using the average of a panel of external forecasters.

The Consensus Upside and Downside scenarios are created with reference to distributions that capture forecasters' views of the entire range of economic outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. Reversion to trend is done 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.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed to a 5% probability. The Central Scenario is assigned the remaining 75%. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability based scenario weighting approach when the economic outlook is determined to be particularly uncertain and risks are elevated.

In the fourth quarter of 2023, the standard approach to scenario weightings was applied as key uncertainty and risk metrics were aligned to their historical average. Economic forecasts for the Central scenario have remained stable, and the dispersion within consensus forecast panels has remained low, even as the Israel-Hamas war escalated. Risks, including the economic consequences of a broader war in the Middle East, are reflected in Downside scenarios.

Scenarios produced to calculate ECL are aligned to HSBC Group's top and emerging risks.

Description of consensus economic scenarios

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

Forecasts remain subject to uncertainty and variability. Upside and Downside scenarios are constructed so that they capture risks that could alter the trajectory of the economy and are designed to encompass the potential crystallisation of key macro-financial risks.

In our key markets, Central scenario forecasts remained broadly stable in the fourth quarter of 2023, from the prior quarter. The key exception was monetary policy, where expectations for interest rate cuts were brought forward. The outlook for 2024 continues to be for a period of below-trend growth, while inflation remains above central bank targets.

At the end of 2023, risks to the economic outlook included a number of significant geopolitical issues. Within our Downside scenarios, the economic consequences from the crystallisation of those risks are captured by higher commodity and goods prices, the reacceleration of inflation, a further rise in interest rates and recession.

The scenarios used to calculate ECL in the *Annual Report and Accounts 2023* are described below.

The consensus Central scenario

HSBC UK's Central scenario reflects a low growth and higher interest rate environment where GDP growth is expected to be weaker in 2024 relative to 2023.

The period of below-trend GDP growth through 2024 is driven by the lagged effects of higher interest rates and inflation. Household discretionary income remains pressured and business margins deteriorate amid higher refinancing costs. Growth only returns to its long-term expected trend in later years, once inflation reverts back towards central bank targets and interest rates stabilise at lower levels.

UK GDP is expected to increase by 0.3% in 2024 in the Central scenario and the average rate of UK GDP growth is 1.3% over the five-year forecast period.

The key features of our Central scenario are:

- An expected slowdown in GDP growth through 2024, followed by a moderate recovery in 2025. The slowdown is particularly notable, with growth close to zero through much of 2024. The key driver of weaker growth is high interest rates, which act to deter consumption and investment.
- Unemployment rises moderately as economic activity slows, but is set to remain low by historical standards.
- Inflation is expected to continue to fall as commodity prices decline and supply disruptions abate and wage growth moderates. It converges towards central banks' target rates by early 2025.
- Weak conditions in housing markets are expected to persist through 2024 and 2025, as higher interest rates and, in many cases, declining prices, depress activity.
- Challenging conditions are also forecast to continue in the commercial property sector. Structural changes to demand in the office segment in particular have driven lower valuations.
- Policy interest rates in key markets are forecast to have peaked and are projected to decline in 2024. In the longer term, they are expected to remain at a higher level compared with the post-global financial crisis period.
- The Brent crude oil price is forecast to average around $75 per barrel over the projection period.

The Central scenario was first created with forecasts available in November, and reviewed continually until late December.

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

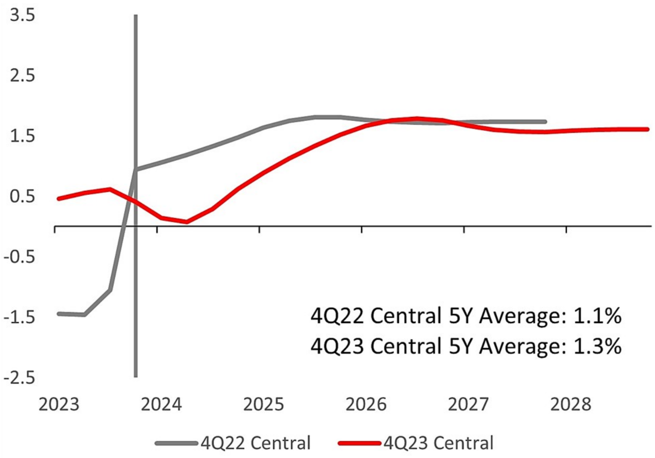
Central scenario

	Average 2024–2028[1]	Average 2023–2027[1]
	UK%	UK%
GDP growth rate (annual average growth rate, %)	**1.3**	1.1
Unemployment rate (%)	**4.4**	4.3
Inflation rate (annual average growth rate, %)	**2.4**	3.1
House price index (annual average growth rate, %)	**0.8**	0.4
Central bank policy rate (annual average, %)	**4.1**	3.8

1 *The five-year average is calculated over a projected period of 20 quarters during the five-year period.*

The graph compares the Central scenario at year end 2022 with economic expectations at the end of 2023.

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features stronger recovery in economic activity in the near term, before converging to long-run trend expectations. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes. These include a faster fall in the rate of inflation that allows Central banks to reduce interest rates more quickly; an easing in financial conditions; and de-escalation in geopolitical tensions, as Israel-Hamas and Russia-Ukraine wars move towards conclusions, and the US-China relation improves.

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

Consensus Upside scenario best outcome

	2024 Q1-2028 Q4	2023 Q1-2027 Q4
GDP growth rate (%, start-to-peak)[1]	**10.8 (4Q28)**	14.6 (4Q27)
Unemployment rate (%, min)[2]	**3.1 (4Q24)**	3.5 (4Q23)
House price index (%, start-to-peak)[1]	**13.0 (4Q28)**	7.8 (4Q27)
Inflation rate (YoY % change, Min)[3]	**1.3 (2Q25)**	0.7 (1Q24)
Central bank policy rate (%, min)[2]	**3.7 (3Q28)**	3.1 (3Q27)

1 *Cumulative change to the highest level of the series during the 20-quarter projection.*
2 *Lowest projected unemployment or policy interest rate in the scenario.*
3 *Lowest projected YoY percentage change in inflation in the scenario.*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks, in which geopolitical tensions flare, causing an inflation shock and deep global recession.

The geopolitical environment also present risks, including:

- a prolonged conflict in the Middle East that undermines confidence, drives an increase in global energy costs and reduces trade and investment
- a prolonged Russia-Ukraine war with escalation beyond Ukraine's borders and further disrupts energy, fertiliser and food supplies
- continued differences between the US and other countries with China, which could affect sentiment and restrict global goods trade and supply chains for critical technologies.

High inflation and higher interest rates also remain key risks. Should geopolitical tensions escalate, energy and food prices could rise and increase pressure on household budgets and firms' costs.

A wage-price spiral triggered by higher inflation and labour supply shortages, could put sustained upward pressure on wages and services prices, aggravating cost pressures and the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from the BoE, a steeper trajectory for interest rates, significantly higher default and ultimately, deep economic recession.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise and asset prices fall. The scenario features an escalation of geopolitical tensions, which causes a surge in inflation as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker demand begin to dominate, leading to a fall in commodity prices and lower inflation.

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

Consensus Downside scenario worst outcome

	2024 Q1-2028 Q4	2023 Q1-2027 Q4
GDP growth rate (%, start-to-trough)[1]	**(1.0) (2Q25)**	(3.0) (1Q25)
Unemployment rate (%, max)[2]	**6.4 (1Q25)**	5.8 (2Q24)
House price index (%, start-to-trough)[1]	**(12.0) (2Q25)**	(15.0) (4Q24)
Inflation rate (YoY % change, max)[3]	**4.1 (1Q24)**	10.8 (1Q23)
Central bank policy rate (%, max)[2]	**5.7 (1Q24)**	5.1 (3Q23)

1 *Cumulative change to the lowest level of the series during the 20-quarter projection.*
2 *The highest projected unemployment or policy interest rate in the scenario.*
3 *The highest projected YoY percentage change in inflation in the scenario.*

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets. As inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is expected to prove short lived as a large downside demand pressure causes commodity prices to correct sharply and global price inflation to fall as a severe and prolonged recession takes hold.

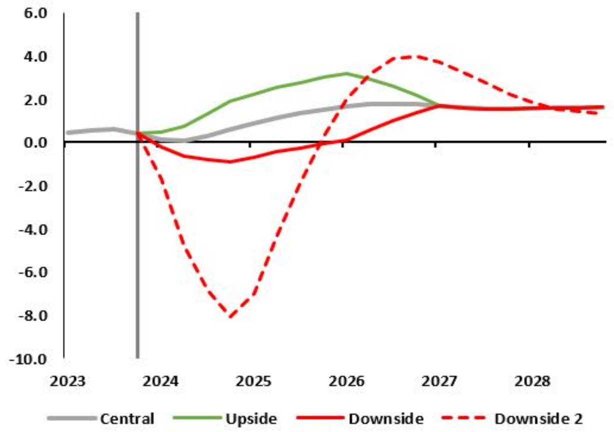
The table below describes key macroeconomic variables in the Downside 2 scenario.

Downside 2 scenario worst outcome

	2024 Q1-2028 Q4	2023 Q1-2027 Q4
GDP growth rate (%, start-to-trough)[1]	**(8.8) (2Q25)**	(7.5) (2Q24)
Unemployment rate (%, max)[2]	**8.4 (2Q25)**	8.7 (2Q24)
House price index (%, start-to-trough)[1]	**(30.2) (4Q25)**	(32.9) (1Q25)
Inflation rate (YoY % change, max)[3]	**10.1 (2Q24)**	13.5 (2Q23)
Central bank policy rate (%, max)[2]	**6.0 (1Q24)**	5.6 (4Q23)

1 *Cumulative change to the lowest level of the series during the 20-quarter projection.*
2 *The highest projected unemployment or policy interest rate in the scenario.*
3 *The highest projected YoY percentage change in inflation in the scenario.*

Following graph shows the historical and forecasted GDP growth rate for the various economic scenarios.



Scenario weighting

In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered UK specific factors.

For fourth quarter of 2023, key consideration around uncertainty attached to the Central scenario projections focused on:

- the risks that the Israel-Hamas war escalates and affects economic expectations;
- the lagged impact of elevated interest rates on household finances and businesses, and the implications of recent changes to monetary policy expectations on growth and employment; and
- the outlook for real estate sector in the UK.

Although these risk factors remain significant, management assessed that they were adequately reflected in scenarios at the standard weighting. The Central scenario reflects a very weak growth environment in which recession risks remain high.

In the fourth quarter of 2022, deviation from the standard weightings reflected uncertainty around the inflation and interest rate outlook amid supply disruption to energy and food commodity markets due to the Ukraine-Russia war. These uncertainties were reflected in the measures of risk and uncertainty used to inform judgements around the Central scenario. In particular, large forecast changes were observed, alongside wide dispersion of forecasts around consensus estimates and heightened financial market volatility.

Scenario weights %

	4Q23	4Q22
Upside	**10.0**	5.0
Central	**75.0**	60.0
Downside	**10.0**	25.0
Downside 2	**5.0**	10.0

Critical estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates at 31 December 2023. These included:

- the selection of weights to apply to the economic scenarios given the rapidly changing economic conditions and the inherent uncertainty of the underlying forecast under each scenario;
- the selection of scenarios to consider given the changing nature of macroeconomic and geopolitical risks that HSBC UK and the wider economy faces; and
- estimating the economic effects of those scenarios on ECL, particularly sector and portfolio specific risks, and the uncertainty of default and recovery experience under all scenarios.

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 2023, and management judgemental adjustments were still required to support modelled outcomes.

HSBC Group 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 2023.

For our wholesale portfolios, a global methodology is used for the estimation of the term structure of PD and 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, ECL estimates are derived based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual company circumstances, see page 42. Probability-weighted outcomes are applied, and depending on materiality and status of the borrower, the number of scenarios considered will change. Where relevant for the case being assessed, forward economic guidance is incorporated as part of these scenarios. LGD-driven proxy and modelled estimates are used for certain less material cases.

For our retail portfolios, the models are predominantly based on historical observations and correlations with default rates and collateral values.

For PD, the impact of economic scenarios is modelled for each portfolio, leveraging historical relationships between default rates and macroeconomic variables. These are included within IFRS 9 ECL estimates using either economic response models or models which contain internal, external and macroeconomic variables. The macroeconomic impact on PD is modelled over the period equal to the remaining maturity of the underlying assets.

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, leveraging national level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values.

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 modelled ECL at either a customer, segment or portfolio level where management believes ECL results do not sufficiently reflect the credit risk/expected credit loses at the reporting date. These can relate to risks or uncertainties which are not reflected in the models and/or to any late-breaking events with significant uncertainty, subject to management review and challenge.

This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and quantitative analysis for impacts that are difficult to model.

The effect of management judgemental adjustments are 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 24). 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.

The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

In addition to management judgemental adjustments there are also 'Other adjustments', which are made to address process limitations and data/model deficiencies.

'Management judgemental adjustments' and 'Other adjustments' constitute the total value of adjustments to modelled ECL. For the wholesale portfolio, defaulted exposures are assessed individually and management judgemental adjustments are made only to the performing portfolio.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2023 are set out in the following table.

Management judgemental adjustments to ECL at 31 December 2023[1]

	Retail	Wholesale[2]	Total
	£m	£m	£m
Modelled ECL (A)[3]	**523**	**488**	**1,011**
Corporate lending adjustments	**—**	**44**	**44**
Inflation related adjustments	**30**	**—**	**30**
Other credit judgements	**200**	**50**	**250**
Total management judgemental adjustments (B)[4]	**230**	**94**	**324**
Other adjustments (C)[5]	**(28)**	**—**	**(28)**
Final ECL (A + B + C)[6]	**725**	**582**	**1,307**

Management judgemental adjustments to ECL at 31 December 2022[1]

	Retail	Wholesale[2]	Total
	£m	£m	£m
Modelled ECL (A)[3]	760	445	1,205
Corporate lending adjustments	—	128	128
Inflation related adjustments	35	—	35
Other credit judgements	45	(14)	31
Total management judgemental adjustments (B)[4]	80	114	194
Other adjustments (C)[5]	50	—	50
Final ECL (A + B + C)[6]	890	559	1,449

1 *Management judgemental adjustments presented in the table reflect increases or (decreases) to allowance for ECL, respectively.*
2 *The wholesale portfolio corresponds to adjustments to the performing portfolio (stage 1 and stage 2).*
3 *(A) refers to probability-weighted allowance for ECL before any adjustments are applied.*
4 *(B) refers to adjustments that are applied where management believes allowance for ECL does not sufficiently reflect the credit risk/expected credit losses of any given portfolio at the reporting date. These can relate to risks or uncertainties that are not reflected in the model and/or to any late-breaking events.*
5 *(C) refers to adjustments to allowance for ECL made to address process limitations and data/model deficiencies.*
6 *As presented within our internal credit risk governance.*

At 31 December 2023, total adjustments to the modelled output were an ECL increase of £94m, comprising £78m relating to Wholesale portfolios and £16m relating to Retail SME portfolios (31 December 2022: £114m increase including £67m from Retail SME).

- The adjustments were primarily driven by the application of management judgement for the high-risk Real Estate sector, together with model-deficiency and data related adjustments.

At 31 December 2023, total adjustments to the modelled output were an ECL increase of £202m (31 December 2022: £130m increase) for the Retail portfolio.

- Management judgemental adjustments relating to inflation increased ECL by £30m (31 December 2022: £35m). These adjustments addressed where increasing inflation and interest rates result in affordability risks that were not fully captured by the modelled output.
- Management judgemental adjustments relating to Other credit judgements increased ECL by £200m (31 December 2022: £45m). These adjustments were primarily to capture the potential delayed impact of economic scenarios on unsecured portfolio defaults in the UK.

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. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, therefore the effect of macroeconomic factors are not necessarily the key consideration when performing individual assessments of ECL for obligors in default. Loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Due to the range and specificity of the credit factors to which the ECL is sensitive, it is not possible to provide a meaningful alternative sensitivity analysis for a consistent set of risks across all defaulted obligors.

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

Wholesale and retail sensitivity analysis

The wholesale and retail sensitivity tables present the 100% weighted results. The results tables exclude small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable to the current period, because they reflect different risks relative to the Consensus scenarios for the period end.

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario.

For both retail and wholesale portfolios, the gross carrying amount of financial instruments are the same under each scenario. For exposures with similar risk profile and product characteristics, the sensitivity impact is therefore largely the result of changes in macroeconomic assumptions.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1,2,3]

	2023	2022
	£m	£m
ECL of financial instruments subject to significant measurement uncertainty at 31 Dec[1]		
Reported ECL	**582**	559
Consensus scenarios		
Central scenario	**542**	458
Upside scenario	**436**	354
Downside scenario	**736**	606
Downside 2 scenario	**1,692**	1,604

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.*
3 *Excludes defaulted obligors. For a detailed breakdown of performing and non-performing wholesale portfolio exposures, see page 43.*

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2023	2022
	£m	£m
ECL of loans and advances to customers at 31 Dec		
Reported ECL	**685**	860
Consensus scenarios		
Central scenario	**669**	799
Upside scenario	**586**	715
Downside scenario	**735**	848
Downside 2 scenario	**1,046**	1,443

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

Mortgages reflected the lowest level of ECL sensitivity given the significant levels of collateral relative to exposure values. Credit cards and other unsecured lending across stage 1 and stage 2 are more sensitive to economic forecasts and therefore reflected the highest level of ECL sensitivity during 2023.

There is limited sensitivity in credit cards and other unsecured lending in stage 3 as levels of loss on defaulted exposures remain consistent through various economic conditions. The alternative downside is from the tail of the economic distribution where ECL is more sensitive based on historical experience.

The following disclosure provides a reconciliation by stage of the HSBC UK's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees, Reconciliation by stage of the HSBC UK's gross carrying amount and allowances for loans and advances to banks and customers and Reconciliation by stage of the HSBC UK's nominal amount and allowances for 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')/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 Net new and further lending/repayments includes 'New financial assets originated or purchased', 'Assets derecognised (including final repayments)' and 'Changes to risk parameters – further lending/repayment' represent the impact from volume movements within the HSBC UK'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
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**223,956**	**(277)**	**51,572**	**(978)**	**4,784**	**(755)**	**23**	**(1)**	**280,335**	**(2,011)**
Transfers of financial instruments:	**(6,383)**	**(364)**	**4,508**	**493**	**1,875**	**(129)**	**—**	**—**	**—**	**—**
– transfers from Stage 1 to Stage 2	**(48,798)**	**158**	**48,798**	**(158)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from Stage 2 to Stage 1	**42,905**	**(521)**	**(42,905)**	**521**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to Stage 3	**(697)**	**8**	**(1,891)**	**174**	**2,588**	**(182)**	**—**	**—**	**—**	**—**
– transfers from Stage 3	**207**	**(9)**	**506**	**(44)**	**(713)**	**53**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**334**	**—**	**(223)**	**—**	**(4)**	**—**	**—**	**—**	**107**
Net new and further lending/ repayments	**22,994**	**(96)**	**(8,718)**	**174**	**(1,745)**	**138**	**(23)**	**—**	**12,508**	**216**
Changes to risk parameters – credit quality	**—**	**88**	**—**	**(254)**	**—**	**(623)**	**—**	**1**	**—**	**(788)**
Changes to model used for ECL calculation	**—**	**(2)**	**—**	**8**	**—**	**1**	**—**	**—**	**—**	**7**
Assets written off	**—**	**—**	**—**	**—**	**(662)**	**662**	**—**	**—**	**(662)**	**662**
Others	**64**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**64**	**—**
At 31 Dec 2023	**240,631**	**(317)**	**47,362**	**(780)**	**4,252**	**(710)**	**—**	**—**	**292,245**	**(1,807)**
ECL income statement change for the period		**324**		**(295)**		**(488)**		**1**		**(458)**
Recoveries										**63**
Others										**(5)**
Total ECL income statement change for the period										**(400)**

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	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	240,386	(348)	22,039	(718)	4,283	(860)	20	(5)	266,728	(1,931)
Transfers of financial instruments:	(34,718)	(175)	32,900	245	1,818	(70)	—	—	—	—
– transfers from Stage 1 to Stage 2	(57,652)	177	57,652	(177)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	23,349	(337)	(23,349)	337	—	—	—	—	—	—
– transfers to Stage 3	(638)	3	(2,125)	153	2,763	(156)	—	—	—	—
– transfers from Stage 3	223	(18)	722	(68)	(945)	86	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	214	—	(264)	—	(3)	—	—	—	(53)
Net new and further lending/ repayments	14,438	(42)	(3,367)	111	(827)	125	3	—	10,247	194
Changes to risk parameters – credit quality	—	70	—	(214)	—	(449)	—	4	—	(589)
Changes to models used for ECL calculation	—	4	—	(138)	—	12	—	—	—	(122)
Assets written off	—	—	—	—	(490)	490	—	—	(490)	490
Others[2]	3,850	—	—	—	—	—	—	—	3,850	—
At 31 Dec 2022	223,956	(277)	51,572	(978)	4,784	(755)	23	(1)	280,335	(2,011)
ECL income statement change for the period		246		(505)		(315)		4		(570)
Recoveries										71
Others										22
Total ECL income statement change for the period										(477)

1 *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2023, these amounted to £0.5bn (2022: £0.5bn) and were classified as Stage 1 with no ECL.*
2 *£3.8bn of gross carrying amounts of stage 1 loans and advances to banks, representing the balance maintained with the BoE to support BACS along with Faster Payments and the cheque-processing Image Clearing System in the UK as at 30 June 2022 when it was reclassified from 'Cash and balances at central banks'.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers

	Non-credit impaired				**Credit impaired**					
	Stage 1		**Stage 2**		**Stage 3**		**POCI**		**Total**	
	Gross carrying/ nominal amount	**Allow-ance for ECL**	**Gross carrying/ nominal amount**	**Allow-ance for ECL**	**Gross carrying/ nominal amount**	**Allow-ance for ECL**	**Gross carrying/ nominal amount**	**Allow-ance for ECL**	**Gross carrying/ nominal amount**	**Allow-ance for ECL**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2023	**160,644**	**(249)**	**46,693**	**(941)**	**4,526**	**(723)**	**23**	**(1)**	**211,886**	**(1,914)**
Transfers of financial instruments:	**(5,936)**	**(340)**	**4,186**	**467**	**1,750**	**(127)**	**–**	**–**	**–**	**–**
– transfers from stage 1 to stage 2	**(40,020)**	**152**	**40,020**	**(152)**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers from stage 2 to stage 1	**34,538**	**(491)**	**(34,538)**	**491**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers to stage 3	**(622)**	**8**	**(1,782)**	**172**	**2,404**	**(180)**	**–**	**–**	**–**	**–**
– transfers from stage 3	**168**	**(9)**	**486**	**(44)**	**(654)**	**53**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**312**	**–**	**(205)**	**–**	**(4)**	**–**	**–**	**–**	**103**
Net new and further lending/repayments	**20,212**	**(98)**	**(8,593)**	**170**	**(1,703)**	**115**	**(23)**	**–**	**9,893**	**187**
Changes to risk parameters – credit quality	**–**	**91**	**–**	**(254)**	**–**	**(589)**	**–**	**1**	**–**	**(751)**
Changes to models used for ECL calculation	**–**	**(2)**	**–**	**8**	**–**	**1**	**–**	**–**	**–**	**7**
Assets written off	**–**	**–**	**–**	**–**	**(662)**	**662**	**–**	**–**	**(662)**	**662**
Others	**64**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**64**	**–**
At 31 Dec 2023	**174,984**	**(286)**	**42,286**	**(755)**	**3,911**	**(665)**	**–**	**–**	**221,181**	**(1,706)**
ECL income statement change for the period		**303**		**(281)**	**–**	**(477)**		**1**		**(454)**
Recoveries										**63**
Others										**(5)**
Total ECL income statement change for the period										**(396)**

Reconciliation of changes in gross carrying/nominal amount and allowances for loan commitments and financial guarantees

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allow- ance for ECL	Gross carrying/ nominal amount	Allow- ance for ECL	Gross carrying/ nominal amount	Allow- ance for ECL	Gross carrying/ nominal amount	Allow- ance for ECL	Gross carrying/ nominal amount	Allow- ance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**63,312**	**(28)**	**4,879**	**(37)**	**258**	**(32)**	**—**	**—**	**68,449**	**(97)**
Transfers of financial instruments:	**(447)**	**(24)**	**322**	**26**	**125**	**(2)**	**—**	**—**	**—**	**—**
– transfers from stage 1 to stage 2	**(8,778)**	**6**	**8,778**	**(6)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**8,367**	**(30)**	**(8,367)**	**30**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to stage 3	**(75)**	**—**	**(109)**	**2**	**184**	**(2)**	**—**	**—**	**—**	**—**
– transfers from stage 3	**39**	**—**	**20**	**—**	**(59)**	**—**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**22**	**—**	**(18)**	**—**	**—**	**—**	**—**	**—**	**4**
Net new and further lending/repayments	**2,782**	**2**	**(125)**	**4**	**(42)**	**23**	**—**	**—**	**2,615**	**29**
Changes to risk parameters – credit quality	**—**	**(3)**	**—**	**—**	**—**	**(34)**	**—**	**—**	**—**	**(37)**
At 31 Dec 2023	**65,647**	**(31)**	**5,076**	**(25)**	**341**	**(45)**	**—**	**—**	**71,064**	**(101)**
ECL income statement change for the period		**21**		**(14)**	**—**	**(11)**		**—**		**(4)**
Recoveries										**—**
Others										**—**
Total ECL income statement change for the period										**(4)**

Credit quality of financial instruments

(Audited)

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

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 24.

Distribution of financial instruments by credit quality

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**123,866**	**43,385**	**35,581**	**6,850**	**3,909**	**213,591**	**(1,704)**	**211,887**
– personal	**115,161**	**19,668**	**7,190**	**341**	**955**	**143,315**	**(703)**	**142,612**
– corporate and commercial	**7,426**	**20,465**	**25,845**	**6,315**	**2,876**	**62,927**	**(949)**	**61,978**
– non-bank financial institutions	**1,279**	**3,252**	**2,546**	**194**	**78**	**7,349**	**(52)**	**7,297**
Loans and advances to banks held at amortised cost	**7,980**	**—**	**—**	**—**	**2**	**7,982**	**(2)**	**7,980**
Cash and balances at central banks	**65,719**	**—**	**—**	**—**	**—**	**65,719**	**—**	**65,719**
Items in the course of collection from other banks	**284**	**—**	**—**	**—**	**—**	**284**	**—**	**284**
Reverse repurchase agreements – non-trading	**7,686**	**—**	**—**	**—**	**—**	**7,686**	**—**	**7,686**
Financial investments	**11,820**	**—**	**—**	**—**	**—**	**11,820**	**(1)**	**11,819**
Other assets	**1,214**	**216**	**282**	**6**	**26**	**1,744**	**(9)**	**1,735**
– endorsements and acceptances	**3**	**25**	**9**	**—**	**2**	**39**	**(6)**	**33**
– accrued income and other	**1,211**	**191**	**273**	**6**	**24**	**1,705**	**(3)**	**1,702**
Debt instruments measured at FVOCI[1]	**15,020**	**—**	**—**	**—**	**—**	**15,020**	**(1)**	**15,019**
Out-of-scope for IFRS 9 ECL								
Derivatives	**157**	**12**	**5**	**1**	**1**	**176**	**—**	**176**
Total gross carrying amount on balance sheet	**233,746**	**43,613**	**35,868**	**6,857**	**3,938**	**324,022**	**(1,717)**	**322,305**
Percentage of total credit quality	**72.1**	**13.5**	**11.1**	**2.1**	**1.2**	**100.0**	**—**	**—**
Loan and other credit related commitments	**43,062**	**14,181**	**11,906**	**902**	**330**	**70,381**	**(99)**	**70,282**
Financial guarantees	**600**	**224**	**215**	**71**	**11**	**1,121**	**(2)**	**1,119**
In-scope: Irrecoverable loan commitments and financial guarantees	**43,662**	**14,405**	**12,121**	**973**	**341**	**71,502**	**(101)**	**71,401**
Loan and other credit related commitments	**490**	**914**	**1,091**	**268**	**48**	**2,811**	**—**	**2,811**
Performance and other guarantees	**367**	**645**	**1,163**	**114**	**41**	**2,330**	**(20)**	**2,310**
Out-of-scope: Revocable loan commitments and Non-financial guarantees	**857**	**1,559**	**2,254**	**382**	**89**	**5,141**	**(20)**	**5,121**
Total nominal amount off balance sheet	**44,519**	**15,964**	**14,375**	**1,355**	**430**	**76,643**	**(121)**	**76,522**
At 31 Dec 2023	**278,265**	**59,577**	**50,243**	**8,212**	**4,368**	**400,665**	**(1,838)**	**398,827**
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	129,503	32,452	34,283	5,273	4,544	206,055	(1,912)	204,143
– personal	120,776	8,640	7,397	973	840	138,626	(872)	137,754
– corporate and commercial	7,696	23,612	25,679	4,272	3,696	64,955	(1,035)	63,920
– non-bank financial institutions	1,031	200	1,207	28	8	2,474	(5)	2,469
Loans and advances to banks held at amortised cost	6,355	—	—	—	4	6,359	(2)	6,357
Cash and balances at central banks	94,407	—	—	—	—	94,407	—	94,407
Items in the course of collection from other banks	353	—	—	—	—	353	—	353
Reverse repurchase agreements – non-trading	7,406	—	—	—	—	7,406	—	7,406
Financial investments	5,160	—	—	—	—	5,160	—	5,160
Other assets	1,457	126	201	3	24	1,811	(5)	1,806
– endorsements and acceptances	—	32	15	3	1	51	(2)	49
– accrued income and other	1,457	94	186	—	23	1,760	(3)	1,757
Debt instruments measured at FVOCI[1]	12,384	—	—	—	—	12,384	(1)	12,383
Out-of-scope for IFRS 9								
Derivatives	508	29	7	1	1	546	—	546
Total gross carrying amount on balance sheet	257,533	32,607	34,491	5,277	4,573	334,481	(1,920)	332,561
Percentage of total credit quality	77.0	9.7	10.3	1.6	1.4	100.0	—	—
Loan and other credit related commitments	42,289	14,141	10,407	550	241	67,628	(91)	67,537
Financial guarantees	642	186	264	38	18	1,148	(6)	1,142
In-scope: Irrecoverable loan commitments and financial guarantees	42,931	14,327	10,671	588	259	68,776	(97)	68,679
Loan and other credit related commitments	740	1,072	923	100	20	2,855	—	2,855
Performance and other guarantees	385	889	1,137	87	32	2,530	(7)	2,523
Out-of-scope: Revocable loan commitments and Non-financial guarantees	1,125	1,961	2,060	187	52	5,385	(7)	5,378
Total nominal amount off balance sheet	44,056	16,288	12,731	775	311	74,161	(104)	74,057
At 31 Dec 2022	301,589	48,895	47,222	6,052	4,884	408,642	(2,024)	406,618

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

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	**123,866**	**43,385**	**35,581**	**6,850**	**3,909**	**213,591**	**(1,704)**	**211,887**
– Stage 1	**112,334**	**28,852**	**24,162**	**2,048**	**—**	**167,396**	**(286)**	**167,110**
– Stage 2	**11,532**	**14,533**	**11,419**	**4,802**	**—**	**42,286**	**(755)**	**41,531**
– Stage 3	**—**	**—**	**—**	**—**	**3,909**	**3,909**	**(663)**	**3,246**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**7,980**	**—**	**—**	**—**	**2**	**7,982**	**(2)**	**7,980**
– Stage 1	**7,980**	**—**	**—**	**—**	**—**	**7,980**	**—**	**7,980**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 3	**—**	**—**	**—**	**—**	**2**	**2**	**(2)**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**86,723**	**216**	**282**	**6**	**26**	**87,253**	**(10)**	**87,243**
– Stage 1	**86,695**	**170**	**203**	**5**	**—**	**87,073**	**(7)**	**87,066**
– Stage 2	**28**	**46**	**79**	**1**	**—**	**154**	**—**	**154**
– Stage 3	**—**	**—**	**—**	**—**	**26**	**26**	**(3)**	**23**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loan and other credit-related commitments	**43,062**	**14,181**	**11,906**	**902**	**330**	**70,381**	**(99)**	**70,282**
– Stage 1	**42,606**	**12,838**	**9,492**	**321**	**—**	**65,257**	**(31)**	**65,226**
– Stage 2	**456**	**1,343**	**2,414**	**581**	**—**	**4,794**	**(25)**	**4,769**
– Stage 3	**—**	**—**	**—**	**—**	**330**	**330**	**(43)**	**287**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial guarantees	**600**	**224**	**215**	**71**	**11**	**1,121**	**(2)**	**1,119**
– Stage 1	**448**	**206**	**153**	**3**	**—**	**810**	**—**	**810**
– Stage 2	**152**	**18**	**62**	**68**	**—**	**300**	**—**	**300**
– Stage 3	**—**	**—**	**—**	**—**	**11**	**11**	**(2)**	**9**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2023	**262,231**	**58,006**	**47,984**	**7,829**	**4,278**	**380,328**	**(1,817)**	**378,511**
Debt instruments at FVOCI[1]	**15,020**	**—**	**—**	**—**	**—**	**15,020**	**(1)**	**15,019**
– Stage 1	**15,020**	**—**	**—**	**—**	**—**	**15,020**	**(1)**	**15,019**
– Stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– POCI	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2023	**15,020**	**—**	**—**	**—**	**—**	**15,020**	**(1)**	**15,019**
Loans and advances to customers at amortised cost	129,503	32,452	34,283	5,273	4,544	206,055	(1,912)	204,143
– stage 1	105,529	24,826	23,794	669	—	154,818	(248)	154,570
– stage 2	23,974	7,626	10,489	4,604	—	46,693	(941)	45,752
– stage 3	—	—	—	—	4,521	4,521	(722)	3,799
– POCI	—	—	—	—	23	23	(1)	22
Loans and advances to banks at amortised cost	6,355	—	—	—	4	6,359	(2)	6,357
– stage 1	6,354	—	—	—	—	6,354	—	6,354
– stage 2	1	—	—	—	—	1	—	1
– stage 3	—	—	—	—	4	4	(2)	2
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	108,783	126	201	3	24	109,137	(5)	109,132
– stage 1	108,737	105	145	—	—	108,987	—	108,987
– stage 2	46	21	56	3	—	126	(1)	125
– stage 3	—	—	—	—	24	24	(4)	20
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	42,289	14,141	10,407	550	241	67,628	(91)	67,537
– stage 1	41,874	12,551	8,030	126	—	62,581	(29)	62,552
– stage 2	415	1,590	2,377	424	—	4,806	(37)	4,769
– stage 3	—	—	—	—	241	241	(25)	216
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	642	186	264	38	18	1,148	(6)	1,142
– stage 1	632	182	166	3	—	983	—	983
– stage 2	10	4	98	35	—	147	—	147
– stage 3	—	—	—	—	18	18	(6)	12
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	287,572	46,905	45,155	5,864	4,831	390,327	(2,016)	388,311
Debt instruments at FVOCI[1]	12,384	—	—	—	—	12,384	(1)	12,383
– stage 1	12,384	—	—	—	—	12,384	(1)	12,383
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	12,384	—	—	—	—	12,384	(1)	12,383

1 *For the purposes of this disclosure, gross carrying amount is defined as the amortised cost of a financial asset before adjusting for any loss allowance. As such, the gross carrying amount 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)

We determine 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. 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.

Forbearance

The following table shows the gross carrying amounts of HSBC UK's holdings of forborne 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 forborne loans.

A summary of our current policies and practices for forbearance is set out in 'Credit risk management' on page 24.

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

	Performing – Forborne	Non-Performing – Forborne		Total Forborne
	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m
Gross carrying amount				
Personal	**149**	**408**	**—**	**557**
– first lien residential mortgages	**24**	**258**	**—**	**282**
– credit cards	**64**	**41**	**—**	**105**
– other personal lending which is unsecured	**61**	**109**	**—**	**170**
Wholesale	**1,010**	**1,110**	**—**	**2,120**
– corporate and commercial	**1,010**	**1,099**	**—**	**2,109**
– non-bank financial institutions	**—**	**11**	**—**	**11**
At 31 Dec 2023	**1,159**	**1,518**	**—**	**2,677**
Allowance for ECL				
Personal	**(19)**	**(101)**	**—**	**(120)**
– first lien residential mortgages	**—**	**(34)**	**—**	**(34)**
– credit cards	**(9)**	**(22)**	**—**	**(31)**
– other personal lending which is unsecured	**(10)**	**(45)**	**—**	**(55)**
Wholesale	**(40)**	**(125)**	**—**	**(165)**
– corporate and commercial	**(40)**	**(125)**	**—**	**(165)**
At 31 Dec 2023	**(59)**	**(226)**	**—**	**(285)**
Gross carrying amount				
Personal	159	376	—	535
– first lien residential mortgages	23	235	—	258
– credit cards	63	45	—	108
– other personal lending which is unsecured	73	96	—	169
Wholesale	587	1,032	23	1,642
– corporate and commercial	587	1,031	23	1,641
– non-bank financial institutions	—	1	—	1
At 31 Dec 2022	746	1,408	23	2,177
Allowance for ECL				
Personal	(31)	(97)	—	(128)
– first lien residential mortgages	(1)	(30)	—	(31)
– credit cards	(13)	(28)	—	(41)
– other personal lending which is unsecured	(17)	(39)	—	(56)
Wholesale	(21)	(115)	(1)	(137)
– corporate and commercial	(21)	(115)	(1)	(137)
At 31 Dec 2022	(52)	(212)	(1)	(265)

Wholesale lending

This section provides further detail on the products in wholesale loans and advances to customers and banks. Product granularity is also provided by stage. Additionally, this section provides a reconciliation of the opening 1 January 2023 to 31 December 2023 closing gross carrying/nominal amounts and the associated allowance for ECL.

There was a decrease in the Wholesale and retail trade portfolio in the UK largely from repayments and favourable economic conditions that led to upgrades to stage 1. The underlying growth in loans and advances to non-bank financial institutions was mainly driven by the the acquisition of SVB UK.

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	46,197	13,854	2,876	—	62,927	(156)	(365)	(428)	—	(949)
– agriculture, forestry and fishing	2,895	1,159	190	—	4,244	(7)	(37)	(24)	—	(68)
– mining and quarrying	508	153	2	—	663	(1)	(4)	—	—	(5)
– manufacturing	4,732	2,472	426	—	7,630	(13)	(62)	(95)	—	(170)
– electricity, gas, steam and air-conditioning supply	727	17	2	—	746	(2)	(1)	(1)	—	(4)
– water supply, sewerage, waste management and remediation	836	145	9	—	990	(2)	(4)	(4)	—	(10)
– real estate and construction	10,055	2,759	564	—	13,378	(27)	(52)	(87)	—	(166)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,444	2,057	546	—	10,047	(21)	(42)	(84)	—	(147)
– transportation and storage	1,682	364	61	—	2,107	(4)	(9)	(4)	—	(17)
– accommodation and food	3,763	1,943	342	—	6,048	(15)	(37)	(33)	—	(85)
– publishing, audiovisual and broadcasting	2,313	641	110	—	3,064	(25)	(37)	(11)	—	(73)
– professional, scientific and technical activities	3,461	542	169	—	4,172	(13)	(28)	(34)	—	(75)
– administrative and support services	4,339	751	132	—	5,222	(12)	(24)	(13)	—	(49)
– education	522	131	33	—	686	(2)	(5)	(3)	—	(10)
– health and care	1,262	492	106	—	1,860	(5)	(14)	(10)	—	(29)
– arts, entertainment and recreation	874	63	53	—	990	(3)	(3)	(16)	—	(22)
– other services	773	165	131	—	1,069	(4)	(6)	(9)	—	(19)
– activities of households	1	—	—	—	1	—	—	—	—	—
– government	10	—	—	—	10	—	—	—	—	—
Non-bank financial institutions	6,434	837	78	—	7,349	(11)	(6)	(35)	—	(52)
Loans and advances to banks	7,980	—	2	—	7,982	—	—	(2)	—	(2)
At 31 Dec 2023	**60,611**	**14,691**	**2,956**	**—**	**78,258**	**(167)**	**(371)**	**(465)**	**—**	**(1,003)**

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	22,254	3,714	252	—	26,220	(22)	(24)	(43)	—	(89)
Financial	2,966	804	20	—	3,790	(1)	(1)	—	—	(2)
At 31 Dec 2023	**25,220**	**4,518**	**272**	**—**	**30,010**	**(23)**	**(25)**	**(43)**	**—**	**(91)**

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	45,739	15,520	3,673	23	64,955	(134)	(368)	(532)	(1)	(1,035)
– agriculture, forestry and fishing	3,018	889	152	—	4,059	(5)	(26)	(26)	—	(57)
– mining and quarrying	507	140	34	—	681	(1)	(1)	(7)	—	(9)
– manufacturing	6,070	1,444	420	—	7,934	(11)	(24)	(88)	—	(123)
– electricity, gas, steam and air-conditioning supply	942	56	1	—	999	(1)	(1)	—	—	(2)
– water supply, sewerage, waste management and remediation	737	88	8	—	833	(1)	(1)	(2)	—	(4)
– real estate and construction	10,521	2,907	785	—	14,213	(32)	(53)	(146)	—	(231)
– wholesale and retail trade, repair of motor vehicles and motorcycles	5,915	5,137	837	—	11,889	(22)	(121)	(113)	—	(256)
– transportation and storage	1,522	358	80	—	1,960	(4)	(7)	(6)	—	(17)
– accommodation and food	3,840	2,359	341	—	6,540	(12)	(56)	(25)	—	(93)
– publishing, audiovisual and broadcasting	1,870	435	125	23	2,453	(10)	(18)	(9)	(1)	(38)
– professional, scientific and technical activities	3,349	378	132	—	3,859	(11)	(21)	(18)	—	(50)
– administrative and support services	3,880	651	260	—	4,791	(8)	(17)	(34)	—	(59)
– education	670	98	69	—	837	(3)	(3)	(17)	—	(23)
– health and care	1,275	273	122	—	1,670	(4)	(10)	(6)	—	(20)
– arts, entertainment and recreation	700	108	92	—	900	(3)	(4)	(27)	—	(34)
– other services	919	199	215	—	1,333	(6)	(5)	(8)	—	(19)
– activities of households	1	—	—	—	1	—	—	—	—	—
– government	3	—	—	—	3	—	—	—	—	—
Non-bank financial institutions	2,334	132	8	—	2,474	(2)	(2)	(1)	—	(5)
Loans and advances to banks	6,354	1	4	—	6,359	—	—	(2)	—	(2)
At 31 Dec 2022	54,427	15,653	3,685	23	73,788	(136)	(370)	(535)	(1)	(1,042)

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	20,527	4,488	172	—	25,187	(20)	(37)	(31)	—	(88)
Financial	1,088	100	—	—	1,188	—	—	—	—	—
At 31 Dec 2022	21,615	4,588	172	—	26,375	(20)	(37)	(31)	—	(88)

Wholesale lending – 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	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**75,262**	**(156)**	**20,166**	**(407)**	**3,857**	**(566)**	**23**	**(1)**	**99,308**	**(1,130)**
Transfers of financial instruments	**(5,492)**	**(187)**	**4,042**	**233**	**1,450**	**(46)**	**–**	**–**	**–**	**–**
– transfers from stage 1 to stage 2	**(19,937)**	**71**	**19,937**	**(71)**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers from stage 2 to stage 1	**14,881**	**(260)**	**(14,881)**	**260**	**–**	**–**	**–**	**–**	**–**	**–**
– transfers to stage 3	**(598)**	**7**	**(1,434)**	**65**	**2,032**	**(72)**	**–**	**–**	**–**	**–**
– transfers from stage 3	**162**	**(5)**	**420**	**(21)**	**(582)**	**26**	**–**	**–**	**–**	**–**
Net remeasurement of ECL arising from transfer of stage	**–**	**146**	**–**	**(135)**	**–**	**(2)**	**–**	**–**	**–**	**9**
Net new and further lending/repayments	**15,185**	**(62)**	**(5,017)**	**72**	**(1,657)**	**128**	**(23)**	**–**	**8,488**	**138**
Change to risk parameters – credit quality	**–**	**69**	**–**	**(159)**	**–**	**(444)**	**–**	**1**	**–**	**(533)**
Changes to models used for ECL calculation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Assets written off	**–**	**–**	**–**	**–**	**(422)**	**422**	**–**	**–**	**(422)**	**422**
Other	**64**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**64**	**–**
At 31 Dec 2023	**85,019**	**(190)**	**19,191**	**(396)**	**3,228**	**(508)**	**–**	**–**	**107,438**	**(1,094)**
ECL income statement change for the period		**153**		**(222)**		**(318)**		**1**		**(386)**
Recoveries										**4**
Others										**(5)**
Total ECL income statement change for the period										**(387)**
At 1 Jan 2022	73,650	(218)	18,378	(364)	3,156	(568)	20	(5)	95,204	(1,155)
Transfers of financial instruments	(6,143)	(113)	4,472	155	1,671	(42)	—	—	—	—
– transfers from stage 1 to stage 2	(20,060)	58	20,060	(58)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	14,289	(160)	(14,289)	160	—	—	—	—	—	—
– transfers to stage 3	(562)	3	(1,711)	66	2,273	(69)	—	—	—	—
– transfers from stage 3	190	(14)	412	(13)	(602)	27	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	72	—	(127)	—	(2)	—	—	—	(57)
Net new and further lending/repayments	3,905	(7)	(2,684)	32	(724)	112	3	—	500	137
Change to risk parameters – credit quality	—	105	—	(50)	—	(312)	—	4	—	(253)
Changes to models used for ECL calculation	—	5	—	(53)	—	—	—	—	—	(48)
Assets written off	—	—	—	—	(246)	246	—	—	(246)	246
Other[2]	3,850	—	—	—	—	—	—	—	3,850	—
At 31 Dec 2022	75,262	(156)	20,166	(407)	3,857	(566)	23	(1)	99,308	(1,130)
ECL income statement change for the period		175		(198)		(202)		4		(221)
Recoveries										7
Others										22
Total ECL income statement change for the period										(192)

1 *The reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2023, these amounted to £0.5bn (2022: £0.5bn) and were classified as Stage 1 with no ECL.*

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

Wholesale lending – credit risk profile by obligor grade for loans and advances at amortised cost

		Gross carrying amount					Allowance for ECL						
	Basel one-year PD range	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	ECL coverage	Mapped external rating
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	
Corporate and commercial [1]		46,197	13,854	2,876	—	62,927	(156)	(365)	(428)	—	(949)	1.5	
– CRR 1	0.000 to 0.053	392	1	—	—	393	—	(1)	—	—	(1)	0.3	AA- and above
– CRR 2	0.054 to 0.169	6,871	162	—	—	7,033	(5)	(2)	—	—	(7)	0.1	A+ to A-
– CRR 3	0.170 to 0.740	17,704	2,761	—	—	20,465	(26)	(40)	—	—	(66)	0.3	BBB+ to BBB-
– CRR 4	0.741 to 1.927	12,402	3,056	—	—	15,458	(44)	(42)	—	—	(86)	0.6	BB+ to BB-
– CRR 5	1.928 to 4.914	6,984	3,403	—	—	10,387	(59)	(93)	—	—	(152)	1.5	BB- to B
– CRR 6	4.915 to 8.860	844	1,644	—	—	2,488	(14)	(60)	—	—	(74)	3.0	B-
– CRR 7	8.861 to 15.000	343	1,903	—	—	2,246	(4)	(75)	—	—	(79)	3.5	CCC+
– CRR 8	15.001 to 99.999	657	924	—	—	1,581	(4)	(52)	—	—	(56)	3.5	CCC to C
– CRR 9/10	100.000	—	—	2,876	—	2,876	—	—	(428)	—	(428)	14.9	D
Non-bank financial institutions		6,434	837	78	—	7,349	(11)	(6)	(35)	—	(52)	0.7	
– CRR 1	0.000 to 0.053	346	—	—	—	346	—	—	—	—	—	—	AA- and above
– CRR 2	0.054 to 0.169	887	46	—	—	933	(1)	—	—	—	(1)	0.1	A+ to A-
– CRR 3	0.170 to 0.740	3,056	196	—	—	3,252	(1)	(1)	—	—	(2)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	1,874	449	—	—	2,323	(3)	(1)	—	—	(4)	0.2	BB+ to BB-
– CRR 5	1.928 to 4.914	128	95	—	—	223	(1)	(4)	—	—	(5)	2.2	BB- to B
– CRR 6	4.915 to 8.860	130	46	—	—	176	(5)	—	—	—	(5)	2.8	B-
– CRR 7	8.861 to 15.000	8	2	—	—	10	—	—	—	—	—	—	CCC+
– CRR 8	15.001 to 99.999	5	3	—	—	8	—	—	—	—	—	—	CCC to C
– CRR 9/10	100.000	—	—	78	—	78	—	—	(35)	—	(35)	44.9	D
Banks		7,980	—	2	—	7,982	—	—	(2)	—	(2)	—	
– CRR 1	0.000 to 0.053	7,913	—	—	—	7,913	—	—	—	—	—	—	AA- and above
– CRR 2	0.054 to 0.169	67	—	—	—	67	—	—	—	—	—	—	A+ to A-
– CRR 3	0.170 to 0.740	—	—	—	—	—	—	—	—	—	—	—	BBB+ to BBB-
– CRR 4	0.741 to 1.927	—	—	—	—	—	—	—	—	—	—	—	BB+ to BB-
– CRR 5	1.928 to 4.914	—	—	—	—	—	—	—	—	—	—	—	BB- to B
– CRR 6	4.915 to 8.860	—	—	—	—	—	—	—	—	—	—	—	B-
– CRR 7	8.861 to 15.000	—	—	—	—	—	—	—	—	—	—	—	CCC+
– CRR 8	15.001 to 99.999	—	—	—	—	—	—	—	—	—	—	—	CCC to C
– CRR 9/10	100.000	—	—	2	—	2	—	—	(2)	—	(2)	100.0	D
At 31 Dec 2023		60,611	14,691	2,956	—	78,258	(167)	(371)	(465)	—	(1,003)	1.3	

1 *Corporate and commercial lending reported in CRR8 for stage 1 includes £613m related to the UK Bounce Back Loans Scheme with immaterial allowance for ECL.*

Wholesale lending – credit risk profile by obligor grade for loan and other credit-related commitments and financial guarantees

		Gross carrying amount					Allowance for ECL						
	Basel one-year PD range	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	ECL coverage	Mapped external rating
	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	
Loan and other credit-related commitment		**24,714**	**4,226**	**261**	**—**	**29,201**	**(23)**	**(25)**	**(41)**	**—**	**(89)**	**0.3**	
– CRR 1	**0.000 to 0.053**	**840**	**103**	**—**	**—**	**943**	**—**	**—**	**—**	**—**	**—**	**—**	**AA- and above**
– CRR 2	**0.054 to 0.169**	**5,920**	**304**	**—**	**—**	**6,224**	**(1)**	**(1)**	**—**	**—**	**(2)**	**—**	**A+ to A-**
– CRR 3	**0.170 to 0.740**	**10,210**	**1,320**	**—**	**—**	**11,530**	**(4)**	**(5)**	**—**	**—**	**(9)**	**0.1**	**BBB+ to BBB-**
– CRR 4	**0.741 to 1.927**	**5,359**	**893**	**—**	**—**	**6,252**	**(5)**	**(3)**	**—**	**—**	**(8)**	**0.1**	**BB+ to BB-**
– CRR 5	**1.928 to 4.914**	**2,102**	**1,062**	**—**	**—**	**3,164**	**(11)**	**(9)**	**—**	**—**	**(20)**	**0.6**	**BB- to B**
– CRR 6	**4.915 to 8.860**	**254**	**204**	**—**	**—**	**458**	**(2)**	**(3)**	**—**	**—**	**(5)**	**1.1**	**B-**
– CRR 7	**8.861 to 15.000**	**20**	**205**	**—**	**—**	**225**	**—**	**(3)**	**—**	**—**	**(3)**	**1.3**	**CCC+**
– CRR 8	**15.001 to 99.999**	**9**	**135**	**—**	**—**	**144**	**—**	**(1)**	**—**	**—**	**(1)**	**0.7**	**CCC to C**
– CRR 9/10	**100.000**	**—**	**—**	**261**	**—**	**261**	**—**	**—**	**(41)**	**—**	**(41)**	**15.7**	**D**
Financial guarantees		**506**	**292**	**11**	**—**	**809**	**—**	**—**	**(2)**	**—**	**(2)**		
– CRR 1	**0.000 to 0.053**	**55**	**—**	**—**	**—**	**55**	**—**	**—**	**—**	**—**	**—**	**—**	**AA- and above**
– CRR 2	**0.054 to 0.169**	**103**	**152**	**—**	**—**	**255**	**—**	**—**	**—**	**—**	**—**	**—**	**A+ to A-**
– CRR 3	**0.170 to 0.740**	**193**	**18**	**—**	**—**	**211**	**—**	**—**	**—**	**—**	**—**	**—**	**BBB+ to BBB-**
– CRR 4	**0.741 to 1.927**	**89**	**15**	**—**	**—**	**104**	**—**	**—**	**—**	**—**	**—**	**—**	**BB+ to BB-**
– CRR 5	**1.928 to 4.914**	**62**	**39**	**—**	**—**	**101**	**—**	**—**	**—**	**—**	**—**	**—**	**BB- to B**
– CRR 6	**4.915 to 8.860**	**3**	**56**	**—**	**—**	**59**	**—**	**—**	**—**	**—**	**—**	**—**	**B-**
– CRR 7	**8.861 to 15.000**	**1**	**10**	**—**	**—**	**11**	**—**	**—**	**—**	**—**	**—**	**—**	**CCC+**
– CRR 8	**15.001 to 99.999**	**—**	**2**	**—**	**—**	**2**	**—**	**—**	**—**	**—**	**—**	**—**	**CCC to C**
– CRR 9/10	**100.000**	**—**	**—**	**11**	**—**	**11**	**—**	**—**	**(2)**	**—**	**(2)**	**18.2**	**D**
At 31 Dec 2023		**25,220**	**4,518**	**272**	**—**	**30,010**	**(23)**	**(25)**	**(43)**	**—**	**(91)**	**0.3**	

Commercial real estate

Commercial real estate lending includes the financing of corporate, institutional and high net worth customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development. Our exposure mainly comprises the financing of investment assets, the redevelopment of existing stock and the augmentation of both commercial and residential markets to support economic growth.

Commercial real estate lending

	2023	2022
	£m	£m
Gross loans and advances		
Stage 1	**8,080**	9,471
Stage 2	**2,558**	2,293
Stage 3	**348**	583
POCI	**—**	—
At 31 Dec	**10,986**	12,347
– *of which: forborne loans*[1]	***361***	*178*
Allowance for ECL	**(116)**	(179)

Refinance risk in commercial real estate

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

Commercial real estate gross loans and advances maturity analysis

	2023	2022
	£m	£m
< 1 year	**2,784**	6,903
1-2 years	**3,540**	2,920
2-5 years	**4,244**	1,979
> 5 years	**418**	545
At 31 Dec	**10,986**	12,347

Collateral and other credit enhancement held

(Audited)

Although collateral can be an important mitigants of credit risk, it is HSBC UK's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than placing primarily reliance on the collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided unsecured.

For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, HSBC UK may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. 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. Risk may also be managed by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees.

Collateral on loans and advances

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

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

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

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies 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 88.

Commercial real estate loans and advances

The value of commercial real estate collateral is determined by using a combination of external and internal valuations and physical inspections.

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

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

(Audited)

	Gross carrying/nominal amount					ECL coverage				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	%	%	%	%	%
Non Collateralised	**3,511**	**970**	**77**	**—**	**4,558**	**0.4**	**2.0**	**12.3**	**—**	**0.9**
Fully collateralised by LTV ratio	**6,981**	**1,970**	**210**	**—**	**9,161**	**0.1**	**1.3**	**9.4**	**—**	**0.6**
– less than 50%	**2,287**	**397**	**40**	**—**	**2,724**	**0.2**	**1.9**	**21.6**	**—**	**0.7**
– 51% to 75%	**3,715**	**1,113**	**59**	**—**	**4,887**	**0.1**	**1.1**	**1.5**	**—**	**0.3**
– 76% to 90%	**496**	**229**	**63**	**—**	**788**	**0.1**	**1.3**	**14.8**	**—**	**1.6**
– 91% to 100%	**483**	**231**	**48**	**—**	**762**	**0.1**	**1.6**	**1.9**	**—**	**0.7**
Partially collateralised (A): LTV > 100%	**1,239**	**187**	**64**	**—**	**1,490**	**0.1**	**1.1**	**34.4**	**—**	**1.7**
– *collateral value on A*	**411**	**134**	**49**	**—**	**594**					
Total at 31 Dec 2023	**11,731**	**3,127**	**351**	**—**	**15,209**	**0.2**	**1.5**	**14.6**	**—**	**0.8**
Non Collateralised	4,151	1,855	245	—	6,251	0.4	1.5	35.2	—	2.1
Fully collateralised by LTV ratio	7,769	1,624	287	—	9,680	0.1	1.0	5.6	—	0.4
– less than 50%	2,305	515	44	—	2,864	0.2	1.0	4.5	—	0.4
– 51% to 75%	4,753	981	220	—	5,954	0.1	0.9	0.5	—	0.3
– 76% to 90%	375	115	9	—	499	0.2	1.5	20.7	—	0.8
– 91% to 100%	336	13	14	—	363	0.2	0.4	78.2	—	3.3
Partially collateralised (A): LTV > 100%	1,588	139	64	—	1,791	0.1	1.0	29.6	—	1.3
– *collateral value on A*	*920*	*112*	*34*	—	*1,066*				—	
Total at 31 Dec 2022	13,508	3,618	596	—	17,722	0.2	1.2	20.3	—	1.1

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

(Audited)

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

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

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

	Gross carrying/nominal amount					ECL coverage				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	%	%	%	%	%
Non Collateralised	**50,581**	**10,097**	**2,062**	**—**	**62,740**	**0.3**	**2.5**	**18.5**	**—**	**1.2**
Fully collateralised by LTV ratio	**12,571**	**4,468**	**898**	**—**	**17,937**	**0.2**	**1.7**	**3.4**	**—**	**0.7**
– less than 50%	**4,858**	**1,716**	**465**	**—**	**7,039**	**0.2**	**1.3**	**1.1**	**—**	**0.5**
– 51% to 75%	**4,324**	**1,750**	**335**	**—**	**6,409**	**0.2**	**1.8**	**3.6**	**—**	**0.8**
– 76% to 90%	**1,736**	**635**	**81**	**—**	**2,452**	**0.2**	**2.5**	**13.9**	**—**	**1.2**
– 91% to 100%	**1,653**	**367**	**17**	**—**	**2,037**	**0.2**	**2.1**	**14.5**	**—**	**0.6**
Partially collateralised (A): LTV > 100%	**4,739**	**1,338**	**227**	**—**	**6,304**	**0.2**	**1.8**	**17.9**	**—**	**1.2**
– *collateral value on A*	**2,602**	**847**	**135**	**—**	**3,584**					
Total at 31 Dec 2023	**67,891**	**15,903**	**3,187**	**—**	**86,981**	**0.2**	**2.2**	**14.2**	**—**	**1.1**

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

	Gross carrying/nominal amount					ECL coverage				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %
Non Collateralised	41,567	9,798	2,466	23	53,854	0.3	2.8	14.1	2.8	1.4
Fully collateralised by LTV ratio	11,291	5,079	571	—	16,941	0.1	1.3	4.3	—	0.6
– less than 50%	4,108	2,160	143	—	6,411	0.1	1.1	3.5	—	0.5
– 51% to 75%	4,157	2,121	276	—	6,554	0.1	1.4	6.0	—	0.8
– 76% to 90%	1,334	478	83	—	1,895	0.1	1.9	0.9	—	0.6
– 91% to 100%	1,692	320	69	—	2,081	0.1	1.3	3.7	—	0.4
Partially collateralised (A): LTV > 100%	5,210	1,876	245	—	7,331	0.1	1.2	25.7	—	1.2
– *collateral value on A*	*2,803*	*981*	*128*	—	3,912				—	
Total at 31 Dec 2022	58,068	16,753	3,282	23	78,126	0.2	2.2	13.3	2.8	1.2

Other credit risk exposures

(Audited)

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

- Some securities issued by governments, banks and other financial institutions benefit from additional credit enhancement provided by government guarantees that cover the assets;
- Debt securities issued by banks and financial institutions include asset-backed securities and similar instruments which are supported by underlying pools of financial assets; and
- HSBC UK'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.

Personal lending

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

The following table shows the levels of personal lending products in the various portfolios.

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

	Gross carrying amount				Allowance for ECL			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
By portfolio								
First lien residential mortgages	**103,352**	**25,346**	**594**	**129,292**	**(19)**	**(82)**	**(60)**	**(161)**
– *of which: interest only (including offset)*	***16,181***	***1,989***	***69***	***18,239***	***(3)***	***(20)***	***(9)***	***(32)***
Other personal lending	**11,413**	**2,249**	**361**	**14,023**	**(100)**	**(302)**	**(140)**	**(542)**
– other	**6,417**	**1,130**	**223**	**7,770**	**(57)**	**(135)**	**(86)**	**(278)**
– credit cards	**4,996**	**1,119**	**138**	**6,253**	**(43)**	**(167)**	**(54)**	**(264)**
At 31 Dec 2023	**114,765**	**27,595**	**955**	**143,315**	**(119)**	**(384)**	**(200)**	**(703)**

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

	Nominal amount				Allowance for ECL			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
At 31 Dec 2023	**40,847**	**576**	**69**	**41,492**	**(8)**	**—**	**(2)**	**(10)**

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

	Gross carrying amount				Allowance for ECL			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
By portfolio								
First lien residential mortgages	96,757	28,200	546	125,503	(10)	(113)	(62)	(185)
– *of which: interest only (including offset)*	*14,979*	*3,637*	*90*	*18,706*	*(2)*	*(37)*	*(10)*	*(49)*
Other personal lending	9,988	2,841	294	13,123	(102)	(458)	(127)	(687)
– other	5,892	1,591	198	7,681	(56)	(187)	(73)	(316)
– credit cards	4,096	1,250	96	5,442	(46)	(271)	(54)	(371)
At 31 Dec 2022	106,745	31,041	840	138,626	(112)	(571)	(189)	(872)

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

	Nominal amount				Allowance for ECL			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
At 31 Dec 2022	41,949	365	87	42,401	(9)	—	—	(9)

Mortgage lending

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

We have continued to see net growth in our Mortgage business of £3.8bn in 2023. We have maintained strong presence in the market through 2023 while, where appropriate, strengthening our affordability controls and credit policy to reflect the more uncertain economic outlook.

The quality of our mortgage book remained strong, with low levels of impairment allowances. The average LTV ratio on new lending was 65%, compared with an estimated 53% for the overall mortgage portfolio.

Exposure to interest-only mortgage loans

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

At the end of 2023, the average LTV ratio of the interest-only mortgage loans was 44%, and 97% had a LTV ratio of 75% or less.

Of the interest-only mortgage loans that expired in 2021, 82% were repaid within 12 months of expiry with a total of 96% being repaid within 24 months of expiry. For those expiring during 2022, 92% were repaid within 12 months of expiry.

The exposure of interest-only mortgage loans at the end of 2023 is £12bn and the maturity profile is as follows:

HSBC interest-only mortgage loans

	£m
Expired interest-only mortgage loans[1]	**110**
Interest-only mortgage loans by maturity	
– 2024	**110**
– 2025	**190**
– 2026	**247**
– 2027–2031	**2,631**
– post 2031	**8,634**
At 31 Dec 2023	**11,922**

1 *Includes interest-only mortgages which have reached their contractual maturity date, but were unsettled at the end of 2023.*

Exposure to offset mortgage in first direct

The offset mortgage in first direct is a flexible way for our customers to take control of their finances. It works by grouping together the customer's mortgage, savings and current accounts to off-set their credit and debit balances against their mortgage exposure which at the end of 2023 was £3.9bn with an average LTV ratio of 29%.

Personal lending – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees

(Audited)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**148,694**	**(121)**	**31,406**	**(571)**	**927**	**(189)**	**181,027**	**(881)**
Transfers of financial instruments	**(891)**	**(177)**	**466**	**260**	**425**	**(83)**	**—**	**—**
– transfers from stage 1 to stage 2	**(28,861)**	**87**	**28,861**	**(87)**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**28,024**	**(261)**	**(28,024)**	**261**	**—**	**—**	**—**	**—**
– transfers to stage 3	**(99)**	**1**	**(457)**	**109**	**556**	**(110)**	**—**	**—**
– transfers from stage 3	**45**	**(4)**	**86**	**(23)**	**(131)**	**27**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**188**	**—**	**(88)**	**—**	**(2)**	**—**	**98**
Net new and further lending/repayments	**7,809**	**(34)**	**(3,701)**	**102**	**(88)**	**10**	**4,020**	**78**
Change to risk parameters – credit quality	**—**	**19**	**—**	**(95)**	**—**	**(179)**	**—**	**(255)**
Changes to models used for ECL calculation	**—**	**(2)**	**—**	**8**	**—**	**1**	**—**	**7**
Assets written off	**—**	**—**	**—**	**—**	**(240)**	**240**	**(240)**	**240**
At 31 Dec 2023	**155,612**	**(127)**	**28,171**	**(384)**	**1,024**	**(202)**	**184,807**	**(713)**
ECL income statement change for the period		**171**		**(73)**		**(170)**		**(72)**
Recoveries								**59**
Others								**—**
Total ECL income statement change for the period								**(13)**
At 1 Jan 2022	166,739	(130)	3,657	(354)	1,128	(292)	171,524	(776)
Transfers of financial instruments	(28,575)	(62)	28,428	90	147	(28)	—	—
– transfers from stage 1 to stage 2	(37,592)	119	37,592	(119)	—	—	—	—
– transfers from stage 2 to stage 1	9,060	(177)	(9,060)	177	—	—	—	—
– transfers to stage 3	(76)	—	(414)	87	490	(87)	—	—
– transfers from stage 3	33	(4)	310	(55)	(343)	59	—	—
Net remeasurement of ECL arising from transfer of stage	—	142	—	(137)	—	(1)	—	4
Net new and further lending/repayments	10,530	(35)	(679)	79	(104)	13	9,747	57
Change to risk parameters – credit quality	—	(35)	—	(164)	—	(137)	—	(336)
Changes to models used for ECL calculation	—	(1)	—	(85)	—	12	—	(74)
Assets written off	—	—	—	—	(244)	244	(244)	244
At 31 Dec 2022	148,694	(121)	31,406	(571)	927	(189)	181,027	(881)
ECL income statement change for the period		71		(307)		(113)		(349)
Recoveries								64
Others								—
Total ECL income statement change for the period								(285)

First lien residential mortgages – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		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
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	109,157	(10)	28,285	(113)	561	(62)	138,003	(185)
Transfers of financial instruments	(435)	(44)	246	58	189	(14)	—	—
– transfers from stage 1 to stage 2	(25,875)	7	25,875	(7)	—	—	—	—
– transfers from stage 2 to stage 1	25,462	(50)	(25,462)	50	—	—	—	—
– transfers to stage 3	(42)	—	(203)	17	245	(17)	—	—
– transfers from stage 3	20	(1)	36	(2)	(56)	3	—	—
Net remeasurement of ECL arising from transfer of stage	—	19	—	(10)	—	—	—	9
Net new and further lending/repayments	4,581	(1)	(3,021)	12	(144)	3	1,416	14
Change to risk parameters – credit quality	—	19	—	(52)	—	12	—	(21)
Changes to models used for ECL calculation	—	(2)	—	23	—	—	—	21
Assets written off	—	—	—	—	(1)	1	(1)	1
At 31 Dec 2023	113,303	(19)	25,510	(82)	605	(60)	139,418	(161)
ECL income statement change for the period		35		(27)		15		23
Recoveries								—
Others								—
Total ECL income statement change for the period								23

Credit cards – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		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
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	27,303	(53)	1,387	(271)	138	(54)	28,828	(378)
Transfers of financial instruments	(246)	(80)	121	110	125	(30)	—	—
– transfers from stage 1 to stage 2	(1,449)	33	1,449	(33)	—	—	—	—
– transfers from stage 2 to stage 1	1,231	(111)	(1,231)	111	—	—	—	—
– transfers to stage 3	(33)	—	(109)	39	142	(39)	—	—
– transfers from stage 3	5	(2)	12	(7)	(17)	9	—	—
Net remeasurement of ECL arising from transfer of stage	—	69	—	(53)	—	(2)	—	14
Net new and further lending/repayments	1,988	(13)	(60)	60	13	2	1,941	49
Change to risk parameters – credit quality	—	28	—	(12)	—	(78)	—	(62)
Changes to models used for ECL calculation	—	—	—	—	—	1	—	1
Assets written off	—	—	—	—	(106)	106	(106)	106
At 31 Dec 2023	29,045	(49)	1,448	(166)	170	(55)	30,663	(270)
ECL income statement change for the period		84		(5)		(77)		2
Recoveries								30
Others								(1)
Total ECL income statement change for the period								31

Other personal lending – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL	Gross carrying/ nominal amount	Allow-ance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	12,234	(58)	1,734	(187)	228	(73)	14,196	(318)
Transfers of financial instruments	(210)	(53)	99	92	111	(39)	—	—
– transfers from stage 1 to stage 2	(1,537)	47	1,537	(47)	—	—	—	—
– transfers from stage 2 to stage 1	1,331	(100)	(1,331)	100	—	—	—	—
– transfers to stage 3	(24)	1	(145)	53	169	(54)	—	—
– transfers from stage 3	20	(1)	38	(14)	(58)	15	—	—
Net remeasurement of ECL arising from transfer of stage	—	100	—	(25)	—	—	—	75
Net new and further lending/repayments	1,240	(20)	(620)	30	43	5	663	15
Change to risk parameters – credit quality	—	(28)	—	(31)	—	(113)	—	(172)
Changes to models used for ECL calculation	—	—	—	(15)	—	—	—	(15)
Assets written off	—	—	—	—	(133)	133	(133)	133
At 31 Dec 2023	13,264	(59)	1,213	(136)	249	(87)	14,726	(282)
ECL income statement change for the period		52		(41)		(108)		(97)
Recoveries								29
Others								1
Total ECL income statement change for the period								(67)

Personal lending – credit risk profile by internal PD band for loans and advances to customers at amortised cost

		Gross carrying amount				Allowance for ECL				
	PD range[1]	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	%
First lien residential mortgages[2]		103,352	25,346	594	129,292	(19)	(82)	(60)	(161)	0.1
– Band 1	0.000 to 0.250	67,862	1,923	—	69,785	(9)	(6)	—	(15)	—
– Band 2	0.251 to 0.500	31,004	9,400	—	40,404	(7)	(13)	—	(20)	—
– Band 3	0.501 to 1.500	4,051	11,546	—	15,597	(2)	(35)	—	(37)	0.2
– Band 4	1.501 to 5.000	310	1,920	—	2,230	—	(17)	—	(17)	0.8
– Band 5	5.001 to 20.000	70	390	—	460	—	(5)	—	(5)	1.1
– Band 6	20.001 to 99.999	55	167	—	222	(1)	(6)	—	(7)	3.2
– Band 7	100.00	—	—	594	594	—	—	(60)	(60)	10.1
Credit cards		4,996	1,119	138	6,253	(43)	(167)	(54)	(264)	4.2
– Band 1	0.000 to 0.250	2,198	—	—	2,198	(3)	—	—	(3)	0.1
– Band 2	0.251 to 0.500	604	—	—	604	(3)	—	—	(3)	0.5
– Band 3	0.501 to 1.500	1,312	12	—	1,324	(16)	—	—	(16)	1.2
– Band 4	1.501 to 5.000	882	536	—	1,418	(21)	(35)	—	(56)	3.9
– Band 5	5.001 to 20.000	—	533	—	533	—	(112)	—	(112)	21.0
– Band 6	20.001 to 99.999	—	38	—	38	—	(20)	—	(20)	52.6
– Band 7	100.00	—	—	138	138	—	—	(54)	(54)	39.1
Other personal lending (excluding credit cards)		6,417	1,130	223	7,770	(57)	(135)	(86)	(278)	3.6
– Band 1	0.000 to 0.250	1,308	—	—	1,308	(4)	—	—	(4)	0.3
– Band 2	0.251 to 0.500	863	—	—	863	(2)	—	—	(2)	0.2
– Band 3	0.501 to 1.500	2,729	17	—	2,746	(22)	—	—	(22)	0.8
– Band 4	1.501 to 5.000	1,431	429	—	1,860	(26)	(19)	—	(45)	2.4
– Band 5	5.001 to 20.000	81	608	—	689	(3)	(79)	—	(82)	11.9
– Band 6	20.001 to 99.999	5	76	—	81	—	(37)	—	(37)	45.7
– Band 7	100.00	—	—	223	223	—	—	(86)	(86)	38.6
At 31 Dec 2023		114,765	27,595	955	143,315	(119)	(384)	(200)	(703)	0.5

1 *12-month point in time adjusted for multiple economic scenarios.*
2 *PD bands do not consider the impact of any management judgemental adjustments on stage or allowances for ECL including the impact of new models not yet formally implemented. For a list of management judgemental adjustments see pages 35 to 36.*

Personal lending – credit risk profile by internal PD band for loan and other credit-related commitments and financial guarantees

		Nominal amount				Allowance for ECL				
	PD range[1]	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	£m	£m	£m	£m	£m	£m	£m	£m	%
Loan and other credit-related commitments		**40,543**	**568**	**69**	**41,180**	**(8)**	**—**	**(2)**	**(10)**	**—**
– Band 1	**0.000 to 0.250**	**33,636**	**48**	**—**	**33,684**	**(8)**	**—**	**—**	**(8)**	**—**
– Band 2	**0.251 to 0.500**	**2,209**	**1**	**—**	**2,210**	**—**	**—**	**—**	**—**	**—**
– Band 3	**0.501 to 1.500**	**2,628**	**24**	**—**	**2,652**	**—**	**—**	**—**	**—**	**—**
– Band 4	**1.501 to 5.000**	**1,902**	**251**	**—**	**2,153**	**—**	**—**	**—**	**—**	**—**
– Band 5	**5.001 to 20.000**	**130**	**208**	**—**	**338**	**—**	**—**	**—**	**—**	**—**
– Band 6	**20.001 to 99.999**	**38**	**36**	**—**	**74**	**—**	**—**	**—**	**—**	**—**
– Band 7	**100.000**	**—**	**—**	**69**	**69**	**—**	**—**	**(2)**	**(2)**	**2.9**
Financial guarantees		**304**	**8**	**—**	**312**	**—**	**—**	**—**	**—**	**—**
– Band 1	**0.000 to 0.250**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Band 2	**0.251 to 0.500**	**289**	**—**	**—**	**289**	**—**	**—**	**—**	**—**	**—**
– Band 3	**0.501 to 1.500**	**14**	**—**	**—**	**14**	**—**	**—**	**—**	**—**	**—**
– Band 4	**1.501 to 5.000**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Band 5	**5.001 to 20.000**	**1**	**8**	**—**	**9**	**—**	**—**	**—**	**—**	**—**
– Band 6	**20.001 to 99.999**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– Band 7	**100.000**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2023		**40,847**	**576**	**69**	**41,492**	**(8)**	**—**	**(2)**	**(10)**	**—**

1 *12-month point in time adjusted for multiple economic scenarios.*

Collateral on loans and advances

(Audited)

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

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

(Audited)

	Gross carrying/nominal amount				ECL coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	%	%	%	%
Fully collateralised by LTV ratio	**113,064**	**25,495**	**585**	**139,144**	**—**	**0.3**	**9.6**	**0.1**
– less than 50%	**46,502**	**13,470**	**350**	**60,322**	**—**	**0.2**	**8.0**	**0.1**
– 51% to 70%	**38,356**	**8,489**	**161**	**47,006**	**—**	**0.4**	**9.3**	**0.1**
– 71% to 80%	**15,734**	**2,472**	**48**	**18,254**	**—**	**0.6**	**12.5**	**0.1**
– 81% to 90%	**10,050**	**862**	**14**	**10,926**	**—**	**0.8**	**14.3**	**0.1**
– 91% to 100%	**2,422**	**202**	**12**	**2,636**	**—**	**1.0**	**41.7**	**0.3**
Partially collateralised (A): LTV > 100%	**239**	**15**	**20**	**274**	**—**	**—**	**15.0**	**1.5**
– collateral value on A	**188**	**11**	**17**	**216**				
Total at 31 Dec 2023	**113,303**	**25,510**	**605**	**139,418**	**—**	**0.3**	**10.1**	**0.1**
Fully collateralised by LTV ratio	108,895	28,245	551	137,691	—	0.4	11.0	0.1
– less than 50%	57,630	8,471	362	66,463	—	0.6	9.2	0.1
– 51% to 70%	35,358	12,232	131	47,721	—	0.4	11.5	0.1
– 71% to 80%	10,468	4,856	27	15,351	—	0.3	19.7	0.1
– 81% to 90%	4,853	2,384	9	7,246	—	0.2	24.5	0.1
– 91% to 100%	586	302	22	910	—	0.2	22.5	0.1
Partially collateralised (A): LTV > 100%	263	40	10	313	—	0.3	6.2	1.6
– collateral value on A	*191*	*31*	*3*	*225*	—			
Total at 31 Dec 2022	109,158	28,285	561	138,004	—	0.4	10.9	0.1

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures, as well as changes in market interest rates, together with pension and insurance risk.

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

For further details, refer to our Pillar 3 Disclosures at 31 December 2023.

Treasury Risk Management

Key developments in 2023

- Following high-profile banking failures in the first quarter of 2023, we reviewed our liquidity monitoring and metric assumptions as part of our internal liquidity adequacy assessment process cycle to ensure they continued to cover observed and emerging risks.
- Effective July 2023, the Bank of England's Financial Policy Committee doubled the UK countercyclical capital buffer rate from 1% to 2%, in line with the usual 12-month implementation lag. The change increased our CET1 ratio requirement by approximately 0.9 percentage points.
- In the Bank of England's 2022/2023 annual cyclical scenario stress test, we made our first separate submission as a Ring-Fenced Bank. The results were published in July, and showed we were able to withstand the severe macroeconomic scenario and had the capacity to support households and businesses during the stress.
- We further stabilised our net interest income against a backdrop of fluctuating interest rate expectations as the trajectory of inflation for major economies was reassessed.
- Following the acquisition of SVB UK in the first quarter of 2023, the HSBC Group launched HSBC Innovation Banking in June, which combined the expertise of SVB UK with the reach of our international network. We are in the process of integrating HSBC Innovation Bank Limited into the group. The acquisition was funded from existing resources, and the impact on our LCR and CET1 ratio was minimal. HSBC Innovation Bank Limited has been included in our Domestic Liquidity Sub-Group.

For quantitative disclosures on capital ratios, own funds and RWAs, see pages 56 to 57. For quantitative disclosures on liquidity and funding metrics, see page 58.

Governance and structure

The Chief Risk Officer is the accountable risk steward, and the Chief Financial Officer is the risk owner, for all treasury risks.

Capital risk, liquidity risk, interest rate risk in the banking book, structural foreign exchange risk and transactional foreign exchange risk are the responsibility of the Executive Committee and the Risk Committee ('RC'). Treasury actively manages these risks on an ongoing basis, supported by the HSBC UK Asset and Liability Management Committee ('ALCO'), overseen by Treasury Risk Management.

Pension risk is overseen by a Pensions Risk Management Meeting chaired by the accountable risk steward.

Capital, liquidity and funding risk management

Assessment and risk appetite

Our capital management policy is supported by a global capital management framework. The framework sets out our approach to determining key capital risk appetites including CET1, total capital, minimum requirements for own funds and eligible liabilities ('MREL'), and the leverage ratio. Our internal capital adequacy assessment process ('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, interest rate risk in the banking book and Group risk. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach. The ICAAP supports the determination of the consolidated capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators.

HSBC Holdings provides our MREL, including equity and non-equity capital. These investments are funded by HSBC Holdings' own equity capital and MREL-eligible debt. MREL includes own funds and liabilities that can be written down or converted into capital resources in order to absorb losses or recapitalise a bank in the event of its failure. In line with our existing structure and business model, HSBC has three resolution groups – the European resolution group (of which HSBC UK forms part), the Asian resolution group and the US resolution group.

We aim to ensure that management has oversight of our liquidity and funding risks at Group and entity level through robust governance, in line with our risk management framework. We manage liquidity and funding risk in accordance with globally consistent policies, procedures and reporting standards.

We are required to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through our internal liquidity adequacy assessment process ('ILAAP'), which helps to ensure that we have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses our capability to manage liquidity and funding effectively. These metrics are set and managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and controls.

Planning and performance

Capital and RWA plans form part of the annual financial resource plan that is approved by the Board. Capital and RWA forecasts are submitted to the ALCO on a monthly basis, and capital and RWAs are monitored and managed against the plan. The responsibility for global capital allocation principles rests with the Group Chief Financial Officer, supported by the Group Capital Management Meeting. This is a specialist forum addressing capital management, reporting into Holdings ALCO.

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 and a related economic profit measure.

Funding and liquidity plans also form part of the financial resource plan. The Board-level appetite measures are the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'), together with an internal liquidity metric. 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. Downside and Upside scenarios are assessed against our management objectives, and mitigating actions are assigned as necessary. We closely monitor future regulatory developments and continue to evaluate the impact of these upon our capital and liquidity requirements, particularly those related to the UK's implementation of the outstanding measures to be implemented from the Basel III reforms ('Basel 3.1').

Regulatory developments

In November 2022, the PRA consulted on the implementation of Basel III Reforms ('Basel 3.1') in the UK. In September 2023, it announced that the implementation date of Basel 3.1 would be delayed by 6 months to 1 July 2025. In December 2023, the PRA published near-final rules in relation to the market risk, credit valuation adjustment, counterparty credit risk and operational risk elements of the package, together with information on the planned review of the Pillar 2 framework. The PRA intends to publish the near-final rules on the remaining parts, namely credit risk, the output floor and reporting and disclosure, in the second quarter of 2024. We continue to assess the impact of the proposed rules.

Further details can be found in the 'Regulatory developments' section of the HSBC UK's Pillar 3 Disclosures at 31 December 2023.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a comprehensive programme to strengthen our global processes, improve consistency and enhance controls across regulatory reports.

The ongoing programme of work focuses on our material regulatory reports and is being phased over a number of years. This programme includes data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process.

While this programme continues, there may be further impacts on some of our reported regulatory ratios, such as the CET1, LCR and NSFR, as we implement recommended changes and continue to enhance our controls across the process.

Stress testing and recovery planning

We use stress testing to inform management of the capital and liquidity needed to withstand internal and external shocks, including a global economic downturn or a systems failure. Stress testing results are also used to inform risk mitigation actions, input into global business performance measures, and recovery and resolution planning, as well as to re-evaluate business plans where analysis shows capital, liquidity and/or returns do not meet their target.

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

We maintain a recovery plan 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. It sets out the framework and governance arrangements to support restoring HSBC UK to a stable and viable position, and so lowering the probability of failure from either idiosyncratic company-specific stress or systemic market-wide issues. Our recovery plan also provides detailed actions that management would consider taking in a stress scenario should our position deteriorate and threaten to breach risk appetite and regulatory minimum levels. This is to help ensure that we can stabilise our financial position and recover from financial losses in a stress environment.

The Group and the BoE publicly disclosed the status of HSBC's progress against the BoE's Resolvability Assessment Framework in June 2022, following the submission of HSBC's inaugural resolvability self-assessment in October 2021. HSBC has continued to enhance its resolvability capabilities since this time and submitted its second self-assessment in October 2023. A subsequent update was provided to the BoE in January 2024. Further public disclosure by the Group and the BoE as to HSBC's progress against the Resolvability Assessment Framework will be made in June 2024.

Overall, HSBC's recovery and resolution planning helps safeguard the Group's financial and operational stability. The Group is committed to further developing its recovery and resolution capabilities, including in relation to the Bank of England's Resolvability Assessment Framework.

Measurement of interest rate risk in the banking book processes

Assessment and risk appetite

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

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

- Net Interest Income sensitivity and Banking net interest income sensitivity;
- Economic Value of Equity sensitivity; and
- Non-Trading Value at Risk.

Net interest income and banking net interest income sensitivity

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

NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive, for example, early prepayment of mortgages. These sensitivity calculations do not incorporate actions that would be taken by Markets Treasury or in the business that originates the risk to mitigate the effect of interest rate movements.

The NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the 'down-shock' scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable.

As at 31 December 2023, the 12 month NII sensitivity for the bank to an immediate 100bps parallel shock to interest rates is £438m for an upwards shock (31 December 2022: £829m), and £(524)m for a downwards shock (31 December 2022: £(955)m). This assessment is based on a static balance sheet with no management actions from Treasury, a 50% pass-on assumption on certain interest bearing deposits and excludes pensions.

During 2023 we introduced an additional metric to measure and manage the sensitivity of our income to interest rate shocks. In addition to net interest income sensitivity, we now also monitor banking net interest income sensitivity. the NII sensitivity measure does not include the sensitivity of the internal transfer income from this funding. Banking net interest income sensitivity includes an adjustment on top of NII sensitivity to reflect this. HSBC UK, has an insignificant quantity of Trading Book assets that are funded by Banking Book liabilities therefore the difference between the two measures is de minimis.

Economic value of equity sensitivity

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

Further details of HSBC UK's risk management of interest rate risk in the banking book can be found in the HSBC UK's Pillar 3 Disclosures as at December 2023.

Non-trading Value at Risk

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, debt instruments measured at amortised cost, and exposures arising from our insurance operations.

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

Risk types	Non-Trading risk – Interest rates – Credit spreads
Risk measure	Value at risk | Sensitivity | Stress testing

Value at Risk of the non-trading portfolios

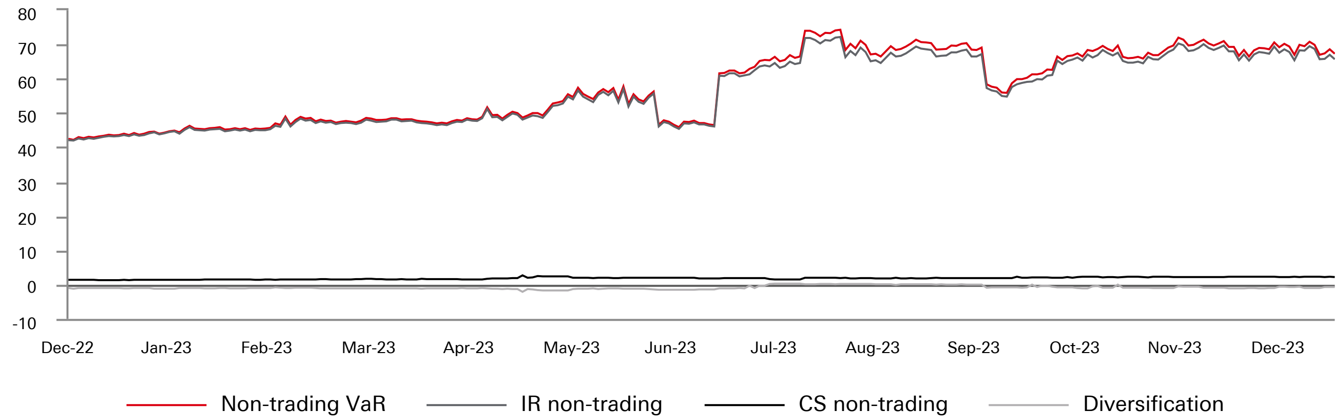
(Audited)

The non-trading VaR as at 31 December 2023 was £67.3m, predominately driven by interest rate risk in the banking book arising from Markets Treasury and ALCM book positions. The non-trading VaR increased during the year, fluctuating between £42.2m and £74.3m with a 2023 average of £57.6m. Markets remain volatile driven by continued geopolitical events and the shifting of the path of central bank interest rate expectations driven by changes to economic growth and inflation outlooks.

Interest rate risk steadily increased in H1 and peaked in Q3 as the Markets Treasury business took advantage of higher yield environment driven by inflationary concerns and increased the outright bond holding with an expectation of end to the rate hike cycle. Markets Treasury business managed their risk actively throughout 2023. VaR dipped twice in this upward trend, once towards the end of Q2 and again towards the end of Q3 as Markets Treasury managed their risk actively within their limits.

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 HSBC UK's non-trading VaR for the year is shown in the table below.

Non-trading VaR, 99% 1 day

(Audited)

	Credit spread £m	Interest Rates £m	Portfolio Diversification[1] £m	Total[2] £m
Balance at 31 Dec 2023	**2.2**	**65.7**	**(0.7)**	**67.3**
Average	**1.9**	**56.5**	**(0.8)**	**57.6**
Maximum	**2.7**	**72.2**		**74.3**
Minimum	**1.3**	**42.0**		**42.2**
Balance at 31 Dec 2022	1.4	42.1	(1.0)	42.5
Average	1.4	38.2	(0.9)	38.7
Maximum	2.1	83.4		84.3
Minimum	0.9	24.5		24.3

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

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

Other risks

Non-trading book foreign exchange exposures

Structural foreign exchange exposures

Structural foreign exchange exposures arise from net assets or capital investments in foreign operations, together with any associated hedging. A foreign operation is defined as a subsidiary, associate, joint arrangement or branch where the activities are conducted in a currency other than that of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

HSBC UK has no such foreign operations.

Transactional foreign exchange exposures

Transactional foreign exchange risk arises primarily from day-to-day transactions in the banking book generating profit and loss or fair value through other comprehensive income ('FVOCI') reserves in a currency other than the reporting currency of the operating entity. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Markets and Securities Services and managed within limits, with the exception of limited residual foreign exchange exposure arising from timing differences or for other reasons. Transactional foreign exchange exposure generated through OCI reserves is managed by Global Treasury within the agreed appetite.

Pension risk management process

In the UK, all future pension benefits are provided on a defined contribution basis. A defined benefit pension plan remains in respect of past service. The defined benefit pension plan is sectionalised to ensure no entities outside the ring-fence participate in the same section as HSBC UK. In the defined contribution pension plan, the contributions that HSBC UK is required to make are known, while the ultimate pension benefit will vary, typically with investment returns achieved by investment choices made by the employee. While the market risk to HSBC UK of the defined contribution plan is low, the bank is still exposed to operational and reputational risk.

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

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

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

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

The defined benefit plan invests contributions in a range of investments designed to limit the risk of assets failing to meet the plan's liabilities. 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 is established for asset classes of the defined benefit plan. Bonds and derivatives are allocated to match expected benefit outflows so as to reduce interest, inflation and currency risk. Each permitted asset class has its own benchmarks, such as property valuation indices or liability characteristics. The benchmarks are reviewed on a manager by manager basis at least once every three to five years and more frequently if required by circumstances. The process takes account of changes in the plan's liabilities. The most significant benchmark is the interest rate and inflation hedging programme and this was last reviewed during 2023. The assets are invested in a diverse range of asset classes to reduce any concentration of risk.

In addition, the defined benefit plan holds longevity swap contracts. These arrangements provide long term protection to the defined benefit plan against costs resulting from pensioners or their dependants living longer than initially expected and as at 31 December 2023 cover approximately 50% of the pensioner liabilities.

Capital Risk in 2023

Capital overview

Capital adequacy metrics[1]

	At 31 Dec	
	2023	2022
Available capital (£m)		
Common equity tier 1 capital	**14,224**	12,519
Tier 1 capital	**16,479**	14,771
Total regulatory capital	**19,772**	17,847
Risk-weighted assets (£m)		
Credit risk	**87,503**	80,740
Counterparty credit risk	**236**	204
Market risk	**132**	101
Operational risk	**13,607**	11,368
Total risk-weighted assets	**101,478**	92,413
Capital ratios (%)		
Common equity tier 1	**14.0**	13.5
Total tier 1	**16.2**	16.0
Total capital	**19.5**	19.3
Leverage ratio		
Total leverage ratio exposure measure (£m)	**270,907**	251,500
Leverage ratio (%)	**6.1**	5.9

1 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation (CRR II) as implemented in the UK. Leverage ratios are reported in accordance with the UK leverage rules.*

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

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, including in the end point figures. Without their application, our CET1 ratio would be 14.0%.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 ECL in the non-credit-impaired book thereafter.

Any add-back must be tax affected and accompanied by a recalculation of capital deduction thresholds, exposure and RWAs.

The impact is calculated separately for portfolios using the STD and 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 £30m under the STD approach. At 31 December 2022, the add-back to the capital base was £35m under the STD approach.

Own funds

At 31 December 2023, our CET1 capital ratio increased to 14.0% from 13.5% at 31 December 2022.

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

- an increase of 0.4% from £0.7bn of capital generation through profit net of dividends partly offset by an increase of £1bn in RWAs and £0.1bn in excess expected loss deduction (excluding the SVB UK acquisition impact).
- an increase of 0.1% from the provisional gain of £1.3bn partly offset by an increase of £8bn in RWAs and of £0.1bn in intangibles on the acquisition of SVB UK.

At 31 December 2023, our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.92% of RWAs, of which 2.2% was met by CET1 capital. Throughout 2023, we complied with the PRA's regulatory capital adequacy requirements.

Own funds disclosure

(Audited)

Ref		At 31 Dec 2023 £m	At 31 Dec 2022 £m
	CET1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**9,015**	9,015
	– ordinary shares	**9,015**	9,015
2,3	Retained earnings, accumulated other comprehensive income (and other reserves)	**11,425**	9,522
5a	Independently reviewed net profits net of any foreseeable charge or dividend	**1,963**	896
6	**CET1 capital before regulatory adjustments**	**22,403**	19,433
28	Total regulatory adjustments to common equity tier 1	**(8,179)**	(6,914)
29	**CET1 capital**	**14,224**	12,519
36	Additional tier 1 capital before regulatory adjustments	**2,255**	2,252
44	**Additional tier 1 capital**	**2,255**	2,252
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**16,479**	14,771
51	Tier 2 capital before regulatory adjustments	**3,293**	3,076
58	**Tier 2 capital**	**3,293**	3,076
59	**Total capital**	**19,772**	17,847

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

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk					
	WPB £m	**CMB £m**	**GBM £m**	**Corporate Centre £m**	**Market risk £m**	**Total RWAs £m**
RWAs at 1 Jan 2023	**32,953**	**57,067**	**508**	**1,784**	**101**	**92,413**
Acquisitions and disposals	**—**	**7,979**			**58**	**8,037**
Asset size	**1,485**	**2,468**	**28**	**(570)**	**(56)**	**3,355**
Asset quality	**1,262**	**367**	**6**	**25**	**—**	**1,660**
Model updates	**(699)**	**(55)**	**—**	**—**	**—**	**(754)**
– new/updated models	**(699)**	**(55)**	**—**	**—**	**—**	**(754)**
Methodology and policy	**18**	**(2,758)**	**—**	**(51)**	**33**	**(2,758)**
– internal updates	**18**	**(2,758)**		**(51)**	**33**	**(2,758)**
Foreign exchange movement	**(28)**	**(373)**	**(9)**	**(61)**	**(4)**	**(475)**
Total RWA movement	**2,038**	**7,628**	**25**	**(657)**	**31**	**9,065**
RWAs at 31 Dec 2023	**34,991**	**64,695**	**533**	**1,127**	**132**	**101,478**

Excluding a decrease in RWAs of £0.5bn due to foreign currency translation differences, RWAs increased by £9.5bn during the period, primarily due to the acquisition of SVB UK, operational risk RWAs combined with lending growth and changes in asset quality. This was offset by reductions due to changes in methodology and policy and model updates.

Acquisitions:

Increase in RWAs of £8bn on account of acquisition of SVB UK.

Asset size:

Increase in RWAs by £3.3bn mainly in CMB and WPB driven by operational risk RWAs due to higher average revenue combined with growth in corporate lending and retail mortgages.

Asset Quality:

Increase in RWAs of £1.7bn mainly due to credit migrations and changes in underlying portfolio mix.

Model Updates:

Decrease in RWAs in WPB by £0.8bn is mainly driven by the new retail mortgage model and movement of multilateral development banks to the standardized approach following the approval from the PRA.

Methodology and policy:

Decrease in RWAs in CMB by £2.8bn is mainly due to £1bn decrease from the implementation of a new synthetic securitisation structure. Further decreases of £1.5bn due to risk parameter refinements and data quality improvements..

Leverage ratio

Our leverage ratio, calculated in accordance with the PRA's UK leverage framework implemented on 1 January 2022 was 6.1% at 31 December 2023.

The leverage ratio increased to 6.1% from 5.9% mainly from £2bn of capital generation through profit net of dividends partly offset by an increase in exposures of £19.4bn (including the provisional gain of £1.3bn and increase in exposures by £9.6bn on acquisition of SVB UK).

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 2023* is published on HSBC Group's website, www.hsbc.com, under 'Investors'.

Liquidity and funding risk in 2023

Liquidity metrics

During 2023, we were above regulatory minimum levels. We maintain sufficient unencumbered liquid assets to comply with regulatory requirements. The average liquidity value of these liquid assets is shown in the table below along with the LCR level on a EC basis.

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

Our liquidity and funding position for 2023 is analysed in the following sections. The LCR and NSFR ratios presented in the below table are based on average values. The LCR is the average of the preceding 12 months and NSFR is the average of preceding four quarters.

HSBC UK liquidity group[1]

	Average for	
	2023	2022
LCR (%)	**201**	226
HQLA (£m)	**94,765**	110,722
Net outflows (£m)	**47,234**	48,946
NSFR (%)	**158**	164

1 *HSBC UK liquidity group comprises: HSBC UK Bank plc, Marks and Spencer Financial Services plc, HSBC Trust Company (UK) Limited, HSBC Private Bank (UK) Limited and HSBC Innovation Bank Limited (HSBC Innovation Bank Limited is included from 31 March 2023 reporting). It is managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the PRA.*

At 31 December 2023, HSBC UK's LCR was above the regulatory minimum. The 2023 average LCR of 201% continues to reflect a strong liquidity position. The decrease from 2022 is mainly due to a £10bn reduction in deposits (retail: £8bn and corporate: £2bn) from the cost of living impact on customers, corporate deleveraging and competitive pressures.

Liquid assets

We had an average total of £94,765m of highly liquid unencumbered LCR eligible liquid assets (2022 Average: £110,722m) held in a range of asset classes and currencies. Of these, 98% were eligible as level 1 (Average 2022: 99%).

The below tables reflects the composition of the average liquidity pool by asset type and currency for 2023 and 2022:

	Liquidity pool	**Cash**	**Level 1**	**Level 2**
	£m	**£m**	**£m**	**£m**
Cash and balance at central bank	**76,238**	**76,238**	**—**	**—**
Central and local government bonds	**15,438**	**—**	**14,639**	**799**
Regional government PSE	**232**	**—**	**232**	**—**
International organisation and MDBs	**1,403**	**—**	**1,403**	**—**
Covered bonds	**1,382**	**—**	**482**	**900**
Other	**72**	**—**	**—**	**72**
Average Total for 2023	**94,765**	**76,238**	**16,756**	**1,771**
Average Total for 2022	110,722	97,199	12,286	1,237

	£	**$**	**€**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Average Liquidity Pool for 2023	**85,857**	**6,445**	**1,297**	**1,166**	**94,765**
Average Liquidity Pool for 2022	103,757	4,453	1,341	1,171	110,722

Sources of funding

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

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. In 2023, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

(Audited)	**2023**	2022
	£m	£m
Sources		
Customer accounts	**268,345**	281,095
Deposits by banks	**10,843**	10,721
Repurchase agreements – non-trading	**4,652**	9,333
Debt securities in issue	**1,988**	1,299
Cash collateral, margin and settlement accounts	**267**	315
Subordinated liabilities	**14,598**	12,349
Total equity	**26,070**	22,226
Other balance sheet liabilities	**6,113**	5,103
At 31 Dec	**332,876**	342,441

Funding Uses

(Audited)	**2023**	2022
	£m	£m
Uses		
Loans and advances to customers	**211,887**	204,143
Loans and advances to banks	**7,980**	6,357
Reverse repurchase agreements – non-trading	**7,686**	7,406
Cash collateral, margin and settlement accounts	**112**	231
Financial investments	**26,315**	16,092
Cash and balances with Central banks	**65,719**	94,407
Other balance sheet assets	**13,177**	13,805
At 31 Dec	**332,876**	342,441

Market risk

Overview

Market risk is the risk of adverse financial impact on trading activities arising from changes in market parameters such as interest rates and foreign exchange rates.

Market risk management

Key developments in 2023

There were no material changes to our policies and practices for the management of market risk in 2023.

Market risk governance

(Audited)

The following table summarises the market risk measures used to monitor and limit exposures within HSBC UK. Trading portfolio market risk exposures within the entity are not material, primarily because customer facing trades within Markets business are hedged on a one for one basis and trading book within Markets Treasury business is limited to short dated cash management.

Risk types	Trading risk – Foreign exchange – Interest rates
Risk measure	VaR | Sensitivity | Stress testing

Market risk is managed and controlled through limits approved by the Group Chief Risk Officer for HSBC Holdings plc. These limits are allocated across business lines and to the Group's legal entities, including HSBC UK. The level of limits set is based on the overall risk appetite for HSBC UK being cascaded down to the individual entities and the limits required for the individual desks to be able to execute their stated business strategy under the HSBC UK ring-fencing Exceptions Policy. The market risk limits are endorsed by HSBC UK Risk Management Meeting. HSBC UK has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. The Traded Risk function enforces the controls around trading in permissible instruments approved for HSBC UK as well as following completion of the new product approval process.

Key Risk Management processes

Monitoring and limiting market risk exposures

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

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

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

Defined benefit pension scheme

Market risk also arises within HSBC UK's defined benefit pension plan to the extent that the obligations of the plan are not fully matched by assets with determinable cash flows. Refer to Pension risk section on page 56 for additional information.

Climate risk

Overview

Climate risks have the potential to cause both financial and non-financial impacts for HSBC UK. Financial impacts could materialise, for example, through greater transactional losses and/or increased capital requirements. Non-financial impacts could materialise 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 help achieve the HSBC Group's climate ambition.

Our approach to managing climate risk in HSBC UK is aligned to the HSBC Group's risk management framework, climate risk approach, and three lines of defence model, which sets out how we identify, assess, and manage our risks, and we continue to integrate climate risk within the risk management framework through policies and controls for traditional risks where appropriate.

We have adopted the HSBC Group's climate ambition to align its financed emissions to net zero by 2050 and to become net zero in its own operations and supply chain by 2030.

Key Developments.

- HSBC UK's risk appetite statement was approved by the HSBC UK Board and includes the measures we intend to take to meet HSBC Group's ambitions, targets and commitments. In HSBC UK, our measures are focused on the oversight and management of climate risks in the WPB and CMB portfolios.
- We completed our 2023 Internal Scenario Analysis exercise and applied an enhanced internal climate stress testing methodology which focussed on generating more granular insights which we are using to improve our understanding of our risk exposures for use in risk management, business decision making, and to meet ongoing regulatory expectations.

Governance and structure

The HSBC UK Board takes overall responsibility for our climate strategy, overseeing executive management in developing the approach, execution and associated reporting.

Our Chief Risk Officer is responsible for climate financial risks under the UK Senior Managers Regime. The Chief Risk Officer attends HSBC UK Board meetings and is a member of the Executive Committee and, where appropriate, provides verbal or written updates on climate risk.

The HSBC UK Risk Management Meeting and the HSBC UK Risk Committee receive updates on our climate risk profile and progress of our HSBC UK climate risk programme.

Key risk management processes

We continue to integrate climate risk into the policies, processes and controls across many areas of our organisation, and will update these as our climate risk management capabilities mature over time.

Challenges

Whilst we have continued to develop our climate risk framework, our remaining challenges include:

- The diverse range of data sources and data structures needed for climate-related reporting creates data accuracy and reliability risks.
- Physical risk assessments are limited by the availability of high-quality data on customer assets and supply chains, and there are also methodology gaps.
- Transition risk assessments are limited by data gaps on customer emissions and transition plan and methodology gaps.
- Our management of net zero alignment risk is limited by known and unknown factors, including the accuracy and reliability of data, merging methodologies, and the need to develop new tools to better inform decision making.

We have taken initial steps to develop our capabilities to monitor our exposure and set risk appetites. Operationalising the HSBC Group's ambition is dependent on data and methodologies maturing over time and requires us to continue developing our internal processes and tools.

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 2023

The Operational and Resilience Risk function seeks to provide robust Risk Steward oversight of the management of risk by our businesses, functions and legal entities. This includes effective and timely independent challenge and the provision of expert advice. During 2023 we carried out a number of initiatives to keep pace with geopolitical, regulatory and technology changes and strengthen the management of resilience risk:

- We updated our risk taxonomy and control libraries, and refreshed risk and control assessments.
- We implemented enhanced controls and key processes where required and heightened monitoring and reporting of cyber, third party, business continuity and payment/sanctions risks resulting from global geopolitical tensions including the Russia-Ukraine war.
- We provided analysis and easy to access risk and control information and metrics that enabled management to focus on non-financial risks in their decision making and appetite setting.
- We supported a further strengthening of our non-financial risk governance and improved our coverage and risk steward oversight of data privacy and change execution.
- Following a number of operational resilience incidents, we commissioned an independent review of HSBC UK's operational and technology resilience. The review will focus upon operationally disruptive incidents, root cause analysis, comprehensiveness of our Operational and Technology Resilience management frameworks, and a deep dive into the important business services underpinning our technology resilience and third-party management. The program will deliver a resilience review report that will outline findings and recommendations and will be presented to the HSBC UK Board in 1Q24.

Governance and structure

The Enterprise Risk Management target operating model provides a globally 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 sub-risk types related to: third party risk; technology and cyber security risk; transaction processing risk; business interruption and incident risk; data risk; change execution risk; and facilities availability, safety and security risk.

Performance against risk appetite and key escalations for resilience risk are reported to the HSBC UK Risk Management Meeting (chaired by the HSBC UK Chief Risk Officer) and further escalated to the Non-Financial Risk Management Board (chaired by the Group Chief Risk and Compliance Officer) as required, with a further escalation path to the Group Risk Management Meeting and the Group Risk Committee.

Key risk management process

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from operational disruption while minimising customer and market impact. Resilience is determined by assessing whether we are able to continue to provide our most important business services, within an agreed level of impact tolerance. This is achieved via day-to-day oversight, periodic and ongoing assurance, such as deep dive review and controls testing, which may result in challenges being raised to the business by Risk Stewards. Further challenge is also raised in the form of quarterly Risk Steward opinion papers to formal governance. We accept we will not be able to prevent all disruption but we prioritise investment to continually improve the response and recovery strategies for our most important business services.

Business operations continuity

We continue to monitor the global geopolitical situations in Ukraine and the Middle East and remain ready to take measures to help ensure business continuity, should the need require. There has been no impact to our services in HSBC UK. We will continually review plans and responses to minimise any potential future impact.

Regulatory compliance risk

Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards. Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.

Regulatory compliance risk management

Key developments in 2023

The structure of HSBC UK's Compliance function is largely unchanged over the prior year and in 2023.

The dedicated programme to embed our updated purpose-led conduct approach (PLCA) has concluded. We have however started to overlay Consumer Duty MI (Management Information) to satisfy our Board reporting obligations, with a view to eventually having one data solution for both PLCA and Consumer Duty outcomes. Work to map applicable regulations to our risks and controls continued in 2023 alongside the adoption of new tooling to support enterprise-wide horizon scanning for new regulatory obligations and manage our regulatory reporting inventories. Climate risk has been integrated into regulatory compliance policies and processes, with enhancements made to the product governance framework and controls in order to ensure the effective consideration of climate, and in particular greenwashing, risks.

Regulatory developments

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

Within this intense and complex regulatory agenda, there continues to be ongoing focus by regulators to improve outcomes for banks' consumers, particularly vulnerable customers, as well as the orderly and transparent operation of financial markets. The following are areas of particular focus:

- Higher levels of consumer protection in retail financial markets, following implementation of the Consumer Duty.
- Ensuring fair treatment of vulnerable customers, including supporting those in financial difficulties.
- Continuing focus on improving the ring-fencing regime in order to better serve customers and address future risks.
- Reforms contained in the Financial Services and Markets Act 2023, which provides for a number of changes to the regulatory architecture in the UK and also contains provisions that would allow for specified 'on-shored' EU legislation to be revoked and replaced by legislation or rules made by HM Treasury or the regulators.
- A number of significant initiatives being carried out by government and regulators intended to open up competition, innovation and access to cash deposit and withdrawal services and reform of the regulations that underpin payment services.
- A number of measures which are being taken to reduce the levels of fraud and tackle fraudulent marketing.
- Increasing focus on climate change and other environmental, social and governance concerns, including proposals relating to diversity and inclusion in financial services and implementation of rules relating to disclosures and anti-greenwashing guidance.

The competitive landscape in which HSBC UK operates may be impacted by future regulatory changes and government intervention. We continue to engage in the development of new and amended regulations in the UK to ensure that the implications have been fully considered by regulators and the wider industry. We also continue to work with the UK authorities and regulatory bodies to discuss any impacts on customers and markets.

Conduct of business

At HSBC UK our conduct management approach focuses on the impact we have on our customers and the financial markets in which we operate. Customer experience is at the heart of how we operate, and we aim to act responsibly and with integrity. As part of this we have carried out a number of activities during 2023:

- We understood and serviced our customer's ongoing needs and continued to champion a strong conduct and customer-focused culture.
- Our customer-focused agenda is demonstrated through the delivery of the Consumer Duty Programme, which is closely linked to our conduct agenda. The first phase of the Duty was delivered in July 2023 and is helping ensure good outcomes for our customers across all retail products and services. Focus has now moved to the second phase of the Programme which is due to be implemented by July 2024 and primarily concerns confirming and maintaining good customer outcomes within our closed book of products.
- We are continuing to improve our digital capabilities by helping to develop and promote early adoption of the Global Conduct MI tool, which, when fully operational and embedded will help enable us to demonstrate the effective management of our non-financial and conduct risks.
- Conduct management of our vulnerable customer base is high on the regulatory agenda and has been a continued area of focus for HSBC UK.
- We continued with the integration of climate risk into HSBC UK's wider risk management approach, recognising the importance of strengthened controls and oversight for our related activities.
- We continued to embed conduct within our business line processes and through our Non- Financial and Financial Risk Steward activities.
- We focussed on the effectiveness of HSBC UK Conduct Governance, to promote visibility and read across of Conduct issues in all business lines and the efficient, consistent escalation of issues.
- We delivered our latest annual global mandatory training course on conduct to reinforce the importance of conduct for all colleagues and delivered bespoke and focussed conduct training and guidance to all of our risk steward colleagues.

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

Financial crime risk

Overview

Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Financial Crime Risk Management

Key developments in 2023

We regularly review the effectiveness of our financial crime risk management framework, which includes continued consideration of the complex and dynamic nature of sanctions compliance and export control risk. We continued to respond to the financial sanctions and trade restrictions that have been imposed on Russia, including methods used to limit sanctions evasion.

We also continued to make progress with several key financial crime risk management initiatives, including:

- Implementation of our intelligence-led, Dynamic Risk Assessment (DRA) tool in HSBC UK continues to successfully identify more financial crime, faster, and with less customer friction, compared to our previous transaction monitoring system. The DRA has also helped to reduce unnecessary distraction by reducing overall volume of cases and enabling our Investigations teams to provide more useful information to law enforcement and other relevant authorities.
- We successfully introduced the required changes to our transaction screening capability to accommodate the global change to payment systems formatting under ISO20022 requirements.
- We continued to strengthen the first party lending fraud framework, while also continuing to invest in new fraud detection technologies. This includes the replacement of our core analytics and rules platform for payments which is expected to go live in 1Q24. The Fraud policies and associated control library were also refreshed, which included several amendments to strengthen our internal fraud controls.
- Enhancing our screening and non-screening controls to aid in the identification of potential sanctions risk related to Russia, as well as risk arising from export control restrictions
- Deploying a control to help identify likely money mule activity and intercept suspected payments in near "real-time" across both WPB and CMB.

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. We require everybody in HSBC UK to play their role in maintaining effective systems and controls to prevent and detect financial crime. Where we believe we have identified suspected criminal activity or vulnerabilities in our control framework, we will take appropriate mitigating action.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We operate in a highly regulated industry in which the same policy goals are codified in law and regulation.

We are committed to complying with the laws and regulations of all the markets in which we operate and applying a consistently high financial crime standard globally.

We continue to assess the effectiveness of our end-to-end financial crime risk management framework, and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework and consolidated previously separate, financial crime policies into a single financial crime policy to drive consistency and provide a more holistic assessment of financial crime risk. We further strengthened our financial crime risk taxonomy and control libraries and our monitoring capabilities through technology deployments. We developed more targeted metrics, and continued to enhance our governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk and we participate in numerous public-private partnerships and information sharing initiatives. In 2023, our focus remained on measures to improve the overall effectiveness of the global financial crime framework, notably by providing input into legislative and regulatory reform activities in the UK. We did this by contributing to the development of responses to consultation papers focused on how financial crime risk management frameworks deliver more effective outcomes in detecting and deterring criminal activity.

The HSBC UK Risk Committee provides oversight of financial crime risk matters on behalf of the HSBC UK Board, including matters relating to anti-money laundering, sanctions, terrorist financing and proliferation financing.

Model risk

Overview

Model risk is the risk of inappropriate or incorrect business decisions arising from the use of models that have been inadequately designed, implemented or used, or from models that do not perform in line with expectations and predictions.

Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2023

In 2023, we continued to make improvements in our model risk management processes amid regulatory changes in model requirements.

Initiatives during the year included:

- In response to regulatory capital changes, we were pleased to receive PRA approval of the Hybrid Mortgage model, which has now been fully implemented.
- We welcomed the PRA 'Model Risk Management principles for banks' SS1/23 published in May 2023 and a programme of work has been initiated to seek to meet the enhanced model risk management requirements and provide our plan for compliance to the PRA by the due date of 17 May 2024.
- We introduced a new procedure to ensure any new tool developed using Generative AI would require validation by Model Risk Management before its use.
- We enhanced our frameworks and controls as climate risk and AI and machine learning models become more embedded in business processes.
- Our businesses and functions continued to be more involved in the development and management of models. They continued with an enhanced focus on key model risk drivers such as data quality and model methodology.
- Working with the businesses and functions, Model Risk Control Assessments were refreshed to ensure they continue to be a true reflection of the Model Risk landscape.
- We further embedded the model risk appetite measures, which will help our businesses and functions manage model risk more effectively.
- We continued the transformation of the Model Risk Management team, with further updates to the model validation processes, including systems and process enhancements. We also made further changes to the model inventory system to provide businesses and functions with improved functionality and more detailed information related to model risk.

Governance and structure

The HSBC UK Model Risk Committee is chaired by the Chief Risk Officer and provides oversight of model risk. The committee includes senior leaders and risk owners across the lines of business, functions 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 judgmental scorecards for a range of business applications. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Responsibility for managing model risk is delegated from the RMM to the HSBC UK Model Risk Committee, which is chaired by the Chief Risk Officer. This committee regularly reviews our model risk management policies and procedures, and requires the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management. Model Risk Management also reports on model risk to senior management on a regular basis through the use of risk management information, risk appetite metrics and top and emerging risks.

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

Corporate Governance Report

Corporate governance statement

The Company is committed to high standards of corporate governance. As a subsidiary of HSBC Holdings plc which complies with the provisions of the UK Corporate Governance Code, the Company adopts the HSBC Group's Subsidiary Accountability Framework ('SAF'). The SAF principles set out HSBC Holdings plc's high level expectations for corporate governance arrangements in its subsidiaries. The Board considers the SAF to be sufficiently comprehensive and robust and has, therefore, chosen not to adopt another corporate governance code.

During the year ended 31 December 2023 and up to the date of this report, the Company complied with the SAF and HSBC Group policies, frameworks and procedures in addition to its relevant legal and regulatory governance requirements, including the PRA Rulebook for Ring-Fenced Bodies.

Role of the Board

The role of the Board of Directors is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risks to be assessed and managed. The Board is collectively responsible for: the long-term success of the Company and delivery of sustainable value to its shareholders; setting and approving the Company's strategy, risk appetite statement and management's capital and operating plans to achieve the strategic objectives.

The Board comprises a majority of independent non-executive directors. The roles of the Chairman and Chief Executive Officer are separate. The Chairman leads the Board and is responsible for its effectiveness and the Chief Executive Officer leads the day-to-day management of the Company and execution of strategy.

During the year, the Board completed its annual effectiveness review. The Board considered the outcome of this review and endorsed actions to further optimise and enhance governance. All enhancements suggested in the 2022 review were considered to have been completed.

In 2023, the Board held six routine meetings and an additional five ad-hoc meetings to consider matters of a time sensitive nature. The Board received information from management between meetings and Directors have full access to all relevant information on a timely basis, access to the advice of the company secretary and are entitled to obtain independent external advice at the Company's expense.

Details of the Board's engagement may be found in 'Stakeholder engagement' on page 7.

Culture and values

Through its work, the Board supports the Company's purpose and values outlined on page 5 of the Strategic report by ensuring that the Company conducts its business by treating customers fairly and openly, doing business with the right customers and in the right way, ensuring customers receive good outcomes as required by the Consumer Duty, is a responsible employer, acts responsibly towards the communities in which it operates and considers its other stakeholders.

Board of Directors

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

The Directors who served during the year ended 31 December 2023 and up to the date of this report are shown below:

Dame Clara Furse

Chairman and Independent non-executive Director

Chairman of the Chairman's Nominations and Remuneration Committee

Appointed to the Board: April 2017

Clara is a non-executive director of Assicurazioni Generali S.p.A. She is a member of the Panel of Senior Advisors to Chatham House and a member of the European Financial Services Round Table. She is Chair of the UK Voluntary Carbon Markets Forum, a group that aims to operationalise a global, high integrity market for carbon credits; an essential component of an accelerated and economically productive transition to net zero. Former appointments include: non-executive Director of Vodafone Group plc and Amadeus IT Group S.A.; External Member of the Bank of England's Financial Policy Committee; lead independent Director of the UK's Department for Work and Pensions; Chief Executive of the London Stock Exchange; Group Chief Executive of Credit Lyonnais Rouse; member of the Shanghai International Financial Advisory Council and non-executive Director of Euroclear plc, LCH Clearnet Group Ltd, Fortis SA, Nomura Holdings and the Legal & General Group.

John David Stuart (known as Ian Stuart)

Executive Director and Chief Executive Officer

Chairman of the Executive Committee

Appointed to the Board: May 2017

Ian has been Chief Executive Officer and director of HSBC UK Bank plc since May 2017 and is a member of HSBC Holdings plc's Group Executive Committee. He joined the HSBC Group as a Group General Manager and Head of Commercial Banking Europe in 2014, having previously led the corporate and business banking businesses at Barclays and worked at NatWest and Royal Bank of Scotland for over 20 years. He started his career at the Bank of Scotland and has worked in financial services for over four decades. Ian was awarded the Freedom of the City of London for his services to finance. He is also a non-executive director of UK Finance Limited and a business ambassador for Meningitis Now.

Marie Claire Baird (known as Claire Baird)

Executive Director and Chief Financial Officer

Member of the Executive Committee

Appointed to the Board: 6 January 2022

Claire was appointed Chief Financial Officer of HSBC UK Bank plc in January 2022 and is a member of the HSBC UK and Global Finance executive committees. Prior to her current role, Claire was Chief Financial Officer of Global Wealth and Personal Banking. Before joining HSBC, Claire spent 18 years with RBS/NatWest Group, most recently as Finance Director for Personal Banking, Deputy Chief Financial Officer for Royal Bank of Scotland (RBS' Scottish banking subsidiary) and as a non-executive director of Coutts & Co (RBS' private bank). Previous roles include Finance Director for Services & Functions, Head of Global Finance Services, and for Ulster Bank (RBS' Irish/Northern Irish subsidiaries), she was Group Financial Controller and Head of Finance, Retail Banking. Claire is a fellow of Chartered Accountants Ireland.

Simon Calver

Independent non-executive Director

Member of the Audit Committee

Appointed to the Board: April 2023

Simon is an independent non-executive director of Marks and Spencer Financial Services plc and is also chairman of Fenwick 1882 Limited and Vinterior Group Limited. He was previously a Fellow of the Institute of Directors (UK) and a former Entrepreneur of the Year regional winner in the UK. Throughout his career he has lead innovation and disruption in major markets, such as the education sector with Riverdeep and entertainment sector as Chief Executive Officer of LoveFilm up to the sale to Amazon in 2011. His former appointments include Chief Executive Officer of Mothercare plc and LoveFilm International, chairman of Moo Print Ltd, Chemist Direct Ltd, Gousto Ltd, Firefly Learning Ltd, UK Business Angels Association and also a non-executive director of Datalex plc.

Oliver Corbett

Independent non-executive Director

Member of the Audit Committee

Appointed to the Board: 1 January 2024

Oliver joined the Board at the start of 2024 and has been a non-executive director of Allianz (UK) Limited since November 2023. Oliver was previously Founding Chief Financial Officer of McGill and Partners and before that held Chief Financial Officer roles at Howden, LCH Clearnet plc and Novae. He has also served as a Non-Executive Director and Audit Chair for Close Brothers Group plc and prior to that Rathbone Brothers Group plc.

James Coyle

Independent non-executive Director

Chairman of the Audit Committee, Member of the Risk Committee and Chairman's Nominations and Remuneration Committee

Appointed to the Board: May 2018

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

Jenny Goldie-Scot

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: 19 July 2022

Jenny is an independent non-executive director of Marks and Spencer Unit Trust Management Limited. She has spent the bulk of her career in investment banking operations and finance in senior leadership roles at Morgan Stanley, both in the UK and the US. She has had a specific focus on system and process transformation and her last role was leading a large digital transformation for Google LLC in California. Jenny has previously served on the board of LCH Clearnet plc where she was chair of the Nomination Committee.

Mridul Hegde CB

Independent non-executive Director

Chair of the Risk Committee, Member of the Audit Committee and the Chairman's Nominations and Remuneration Committee

Appointed to the Board: February 2018

Mridul is an independent non-executive director of HSBC Innovation Bank Limited. Mridul's former appointments include: Member of Ernst & Young LLP Public Interest and UK Audit Board: non-executive director of the UK Municipal Bonds Agency and member of its Risk and Audit Committee; and senior roles at the Financial Reporting

Council and HM Treasury, where she was Director of Financial Stability during the 2008 financial crisis and prior to that, Director of Public Spending.

Janet Henry

Non-executive Director

Appointed to the Board: 1 November 2022

Janet was appointed as HSBC's Global Chief Economist in August 2015 and is responsible for all HSBC's economic forecasts and thematic economic research output globally. She is a Governor of the UK's National Institute of Economic and Social Research and a member of the World Economic Forum's Chief Economists Community. Janet joined HSBC in 1996 in Hong Kong where she worked as an Asian economist. She was previously HSBC's Chief European Economist. She is also a director of 3 College Fields Management Company Limited.

Zoe Knight

Non-executive Director

Appointed to the Board: 1 January 2024

Zoë was appointed Head of Climate Change for HSBC Bank Middle East Limited in May 2022. She joined the HSBC Global Markets business in London in 2010, having previously worked in equities in European and US investment banks. An economist by academic background, she has participated in a variety of advisory boards and councils on climate across the financial services industry, including the UK All Parliamentary Group on Climate Change, the Task Force on Climate related Financial Disclosures and the Glasgow Financial Alliance for Net Zero. She is currently a Commissioner on the Energy Transition Commission.

David Lister

Independent non-executive Director

Member of the Risk Committee and the Audit Committee

Appointed to the Board: May 2018

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

Other Directors that served during the year

Ekaterina Platonova – Non-executive Director. Resigned from the Board on 17 April 2023.

Philippe Leslie Van De Walle – Independent Non-executive Director. Resigned from the Board on 26 April 2023.

Company Secretary

Nicola Black

Appointed: May 2017

Board activities during 2023

The Board's key areas of focus during 2023 were aligned to the four pillars of the refreshed strategic plan. In overseeing management's execution against these four pillars, the Board considers whether the actions being taken will deliver improvements in customer experience and support the ambition to transform the bank into one that is truly customer-centric:

- Focus – the Board considered the areas for strategic growth in the bank's business. This included the acquisition of SVB UK, further details of which may be found on page 8. It also received regular updates on the bank's implementation of the FCA's Consumer Duty.
- Digitise – the Board reviewed the changes that had been made to enhance IT and Cloud governance, as well as longer-term proposals to adopt the Cloud. Consideration was also given to the bank's IT system resiliency.
- Energise – the Board reviewed management's progress in embedding hybrid working and how this would enhance the bank's culture through the lenses of customer, employees and conduct. It also considered the bank's existing outsourcing strategy and operational performance.
- Transition – the Board received an update on progress being made against the bank's Net-Zero Execution Programme.

The Board routinely invites senior management from Risk, Compliance and Legal to meetings to support the discharge of its responsibilities. The non-executive Directors meet privately with the Chief Executive Officer ahead of every Board meeting and hold an in-camera session at the end of every meeting to consider the effectiveness of the meeting, the papers and presentations.

The Board met eleven times during 2023.

Board committees

The Board has established committees to assist it in discharging its responsibilities. Each Board committee operates within Terms of Reference approved by the Board that set out the scope of the delegation and responsibilities, the membership and operation of the committee and its reporting requirements to the Board. The Chairs of the Board committees report to each Board meeting on their activities.

During the year and up to the date of this report, the Board's committees were as follows:

Audit Committee

Role

The Audit Committee has been delegated responsibility for oversight of financial reporting related matters, internal financial controls and oversight of HSBC UK's Internal Audit function. All the members of the committee are independent non-executive directors.

Committee activities during 2023

During the year, the committee reviewed and provided oversight on: the HSBC UK group's financial reporting; the integrity of financial statements and disclosures and management's application of key accounting policies and significant accounting judgements; the financial and regulatory impact of the SVB UK acquisition; the transformation plans and cost management; the financial and regulatory reporting control environment; financial performance; liquidity, funding and capital adequacy monitoring; the Company's Financial Resource Plan; the nature and scope of Internal Audit reviews; the effectiveness of the internal financial reporting control systems; the effectiveness of the Internal Audit function; and the external audit process.

To support the discharge of its responsibilities, the committee routinely invites senior management from Finance, Internal Audit and the External Auditor to its meetings. The committee also meets separately with the External Audit Partner and Internal Audit at least twice each year without any management present.

The committee met six times in 2023.

Risk Committee

The Risk Committee has been delegated responsibility for oversight and monitoring of risk related matters impacting the Company; risk governance; and internal control systems (other than internal financial control systems). All the members of the committee are independent non-executive directors.

Committee activities during 2023

During the year, the committee has, amongst other matters: provided oversight of risk-related matters including financial and non-financial risk; assessed the Company's risk profile and how risks are mitigated and controlled; considered current and forward-looking risk exposures; the Company's risk appetite and tolerance to inform the Company's strategy and business plans and made recommendations to the Board; reviewed the Company's Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process and stress testing, including the Annual Cyclical Scenario standalone submission and made recommendations, as appropriate, to the Board; considered the risk management framework and effectiveness of the non-financial internal control systems; assessed data risk; reviewed reports from Compliance and Legal; received updates on the FCA's Consumer Duty; and considered the effectiveness of the CRO and risk management function.

The committee routinely invites senior management from Risk, Compliance, Finance, Legal, Internal Audit and the External Auditor to support the discharge of its delegated responsibilities. It also meets twice a year in a private session with each of the CRO, Internal Auditor and External Audit Partner without any management present.

The committee met seven times in 2023.

Chairman's Nominations and Remuneration Committee

Role

The Chairman's Nominations and Remuneration Committee has been delegated responsibilities from the Board in relation to nominations and remuneration for the Company and its subsidiaries. The committee keeps the composition of the Board and its committees under constant review and strives to ensure that the membership, both individually and collectively, has the skills, knowledge and experience necessary to oversee, challenge and support management in the achievement of the bank's strategic and business objectives. The committee also ensures that HSBC UK's Board Diversity and Inclusion Policy ("Policy") is taken into consideration in the succession planning, nomination, selection, operation and evaluation of the Board. The Policy sets out an ambition of 33% of the Board to be female and to have a minimum of one Board Director from an ethnic minority background. The current composition of the Board meets these targets. All the members of the committee are independent non-executive directors.

Committee activities during 2023

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

The committee regularly invites the Chief Executive Officer and senior management in HR to attend meetings to support the discharge of its delegated responsibilities.

The committee met seven times during 2023.

Executive Committee

Role

The Board delegates the management and day-to-day running of the Company to the Executive Committee which exercises all the powers, authorities and discretions of the Board in accordance with such policies and directions as the Board or HSBC Group may from time to time determine. The Executive Committee operates as a general management committee with the Chair being the Chief Executive Officer. Membership comprises the Executive Directors and the Chief Executive Officer's senior management team.

Committee activities during 2023

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

The committee met eight times in 2023.

Conflicts of interest and indemnification of Directors

The Company's Articles of Association grants the Board the authority to approve Directors' conflicts and potential conflicts of interest.The Board has adopted a Conflicts of Interest policy and procedures for considering and authorising conflicts. A review of authorised situational conflicts, including the terms of authorisation, is undertaken by the Board annually.

In accordance with the Companies Act 2006 and the Company's Articles of Association, all directors are entitled to be indemnified out of the assets of the Company in respect of claims from third parties that may arise in connection with the performance of their functions. Such qualifying third party indemnity provisions have been in place during the financial year under review, and remain in place, but have not been utilised by the Directors. All Directors have the benefit of directors' and officers' liability insurance.

Internal control

The Board is responsible for establishing a framework of controls to enable the assessment and management of risk and sets the Company's Risk Appetite Statement. This is discharged through reviewing the effectiveness of risk management and internal control systems and by determining the appetite and tolerance levels for the types of risks the Company is willing to take to achieve its strategic objectives for its long-term success and the benefit of its stakeholders. For more information, please refer to 'Internal Control' in 'How we manage our risks' section on page 16.

Employment of people with a disability

HSBC UK strongly believes 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 employment with us, efforts are made to continue their employment. Where necessary, we will provide appropriate training, facilities and reasonable equipment 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. Further information on Diversity and Inclusion is included on page 5.

Auditor

PricewaterhouseCoopers LLP ("PwC") is the external auditor to the Company. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's auditor. A resolution proposing the reappointment of PwC as the Company's auditor and giving authority to the Audit Committee to determine its remuneration will be submitted to the forthcoming AGM.

Statement on Going Concern

The Board, having made appropriate enquiries, is satisfied that the group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it, therefore, continues to adopt the going concern basis in preparing the financial statements.

In making their going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions including: profitability; cash flows; capital requirements; and capital resources. These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following rising inflation and the Russia-Ukraine and Israel-Hamas wars, disrupted supply chains globally, other top and emerging risks, including climate change, as well as from the related impacts on profitability, capital and liquidity.

Further information relevant to the assessment is provided in the Strategic Report and the Report of the Directors, in particular:

- A description of the group’s strategic direction;
- A summary of the group’s financial performance and a review of performance by business;
- Reports and updates regarding regulatory and internal stress testing;
- 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.

The objectives, policies and processes for managing credit, liquidity and market risk are set out in the 'Risk section' of the ‘Report of the Directors' on pages 15 to 67.

Directors' Report Disclosures table

The following table sets out the disclosures required by the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as updated by Companies (Miscellaneous Reporting) Regulations 2018) and other applicable regulations, which are incorporated by reference in this Directors' Report:

	Page
Stakeholder Engagement	Stakeholder engagement and Section 172 on page 7
Employee Engagement	Stakeholder engagement and Section 172 on page 7
Employee Health and Safety	Strategic report 'Supporting our colleagues' on page 6
Diversity & Inclusion	Strategic report 'Supporting our colleagues' on page 6 and Corporate Governance Report on page 62
Results and Dividends	Financial summary on pages 9 to 12 and Note 6 of the Financial statements on page 100
Segmental Analysis	Strategic report on pages 10 to 11 and Note 1.1(f) of the Financial statements on page 85
Future Developments	Strategic report 'Our strategy' on pages 5 to 6
Share Capital	Note 23 of the Financial statements on page 118
Risk Factors	Report of the Directors on pages 15 to 68
Directors' Emoluments	Note 3 of the Financial statements on page 93
Opportunities and Threats	Strategic report on pages 5 to 6 and Risk report on pages 15 to 62
Directors	Corporate Governance Report on page 62
Subsidiaries and Joint Ventures	Note 30 of the Financial statements on pages 124 to 125
Director Indemnities	Corporate Governance Report on page 62
Post Balance Sheet Events	Note 29 of the Financial statements page 124

The Report of the Directors comprising pages 15 to 68 was approved by the Board on 20 February 2024 and is signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic report, the Report of the Directors 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 international accounting standards. In preparing the group and company financial statements, the directors have also elected to comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 applicable UK-adopted international accounting standards and International Financial Reporting Standards as issued by the International Accounting Standards Board 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.

Each of the directors, whose names and functions are listed in 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 international accounting standards and International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 and the Report of the Directors include 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.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

Approved by the Board on 20 February 2024 and signed on its behalf by:

Nicola Black

Company Secretary

HSBC UK Bank plc

Registered number 9928412

Independent auditors' report to the members of HSBC UK Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, HSBC UK Bank plc's group financial statements and parent company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Accounts 2023* (the "Annual Report"), which comprise: the consolidated income statement for the year ended 31 December 2023; the consolidated statement of comprehensive income for the year ended 31 December 2023; the consolidated balance sheet as at 31 December 2023; the consolidated statement of changes in equity for the year ended 31 December 2023; the consolidated statement of cash flows for the year ended 31 December 2023; the parent company balance sheet as at 31 December 2023; the parent company statement of changes in equity for the year ended 31 December 2023; the parent company statement of cash flows for the year ended 31 December 2023; and the notes to the financial statements, which include a description of the material accounting policies. Certain notes to the financial statements have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as ('Audited'). The relevant disclosures are included in the Risk review section on pages 15 to 62.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to International Financial Reporting Standards as issued by the International Accounting Standards Board

As explained in note 1.1(a) to the financial statements, the group and parent company, in addition to applying UK-adopted international accounting standards, have also applied International Financial Reporting Standards as issued by the International Accounting Standards Board.

In our opinion, the group and parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 4, we have provided no non-audit services to the parent company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- HSBC UK Bank plc is a member of the HSBC Group, the ultimate parent company of which is HSBC Holdings plc. HSBC UK Bank plc operates in the United Kingdom;
- We performed an audit of the complete financial information of one reporting unit namely HSBC UK Bank plc (parent company);
- For HSBC Innovation Bank Limited ('HINV') and HSBC Invoice Finance Limited ('HIF'), specific audit procedures were performed over selected account balances; and
- For out of scope entities, we performed risk assessment procedures to confirm no additional procedures were required in line with our conclusions drawn from our scoping assessment.

Key audit matters

- Expected credit loss ('ECL') provision for loans and advances (group and parent);
- Valuation of the defined benefit pension surplus (group and parent); and
- Acquisition of HINV (formerly Silicon Valley Bank UK Limited) (group).

Materiality

- Overall group materiality: £268m (2022: £202m) based on 5% of adjusted profit before tax (2022: adjusted profit before tax).
- Overall parent company materiality: £249m (2022: £200m) based on 5% of profit before tax (2022: adjusted profit before tax).
- Performance materiality: £201m group (2022: £151m) and £187m parent company (2022: £150m).

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.

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.

Acquisition of HINV (formerly Silicon Valley Bank UK Limited) is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Expected credit loss ('ECL') provision for loans and advances

Key audit matter	Matters discussed with the Audit Committee
Determining expected credit loss ('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 focused 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 forward looking economic scenarios and their probability weightings (specifically the central and downside scenarios given these have the most material impact on ECL); – estimating expected cash flows and collateral valuations to assess the ECL of credit impaired wholesale exposures; and – assumptions made in relation to the other credit management judgemental adjustment for retail unsecured portfolios in particular, the methodology for incorporating the impact of delayed defaults. The level of estimation uncertainty and judgement has remained high as a result of the continued high levels of inflation and increases in interest rates. This leads to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models, and in the estimation of expected cash flows and collateral valuations on credit impaired stage 3 exposures. There is a risk that models are not appropriately responding to changes in the economic environment and that management judgemental adjustments are required.	We held discussions with the Audit Committee covering governance and controls over ECL with a significant focus on the uncertain prevailing macroeconomic conditions. We discussed a number of areas including: – the severity of forward looking economic scenarios, and their related probability weightings; – the valuation of credit impaired exposures, with focus on assumptions made in the recoverability of significant wholesale exposures; – the appropriateness of adjustments due to low level of defaults and a high interest rate environment, with a focus on assumptions made in the quantification of adjustments and associated exit criteria; and – the disclosures made in relation to ECL.

How our audit addressed the key audit matter

We assessed the design and effectiveness of controls and governance over the estimation of ECL with a significant focus on the uncertain prevailing macroeconomic conditions. We observed and tested management's review and challenge governance forums for:

1. the determination of forward looking economic scenarios and their probability weightings; and
2. the assessment of ECL for Retail and Wholesale portfolios, including the assessment of ECL calculated on high value credit-impaired stage 3 exposures.

We observed management's review and challenge in governance forums for (1) the determination of economic scenarios and their probability weightings and (2) the assessment of ECL for Retail and Wholesale portfolios, including the assessment of management judgemental adjustments.

We also tested controls over:

- the input of critical data elements into source systems and the flow and transformation of critical data elements from source systems to impairment models and management judgemental adjustments;
- credit reviews that determine credit risk ratings (CRRs) for wholesale customers;
- model validation and monitoring;
- the calculation and approval of management judgemental adjustments to modelled outcomes;
- the identification of credit-impairment triggers; and
- the approval of significant individual impairments relating to high value wholesale credit-impaired exposures.

We involved our economic experts in assessing the significant assumptions made in determining the severity and probability weighting of forward looking economic scenarios. These assessments considered the sensitivity of ECLs to variations in the severity and probability weighting of macroeconomic variables for different economic scenarios. We involved our modelling specialists in assessing the appropriateness of the significant assumptions and methodologies used for models and certain management judgemental assumptions, including independently replicating the model logic for a sample of models and recalculating the Other credit management judgemental adjustment for retail unsecured portfolios. 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;
- a sample of critical data used in ECL models and to estimate management judgemental adjustments; and
- assumptions and critical data for a sample of credit impaired wholesale exposures.

We evaluated and tested the credit risk disclosures made in the financial statements.

Relevant references in the Annual Report and Accounts 2023

Note 1.2(g): Impairment of amortised cost and FVOCI financial assets, page 88.

Summary of credit risk, page 26.

Measurement uncertainty and sensitivity analysis of ECL estimates, page 32.

Valuation of the defined benefit pension surplus

Key audit matter	Matters discussed with the Audit Committee
The defined benefit pension scheme is in a net surplus position as at 31 December 2023 consistent with the prior year. **Defined benefit obligation** The valuation of the defined benefit obligation is dependent on a number of actuarial assumptions. We consider the discount rate, inflation rate and mortality rates to be the most significant assumptions used in determining the defined benefit obligation. Management uses an actuarial expert to determine the valuation of the defined benefit obligation. The valuation methodology uses a number of market-based inputs and other financial and demographic assumptions. Changes in these assumptions can have a material impact on the valuation due to the long duration of the pension liabilities and as such the valuation is considered to be highly judgemental. **Pension Assets** The pension scheme assets consist of various classes of pension assets, some of which are more complex to value and therefore higher risk. These include directly held property and some more complex pooled investment vehicles ('PIVs'). Management utilise valuation experts to determine the value of certain classes of more complex pension assets such as the valuation of certain PIVs and directly held property. The estimation of fair value for these assets is highly judgemental as it relies on subjective valuation approaches as well as unobservable inputs.	We discussed the methodologies and significant assumptions used by management to determine the value of the defined benefit obligation including the results of the work performed by our actuarial experts. For the complex scheme assets, our discussions included: – our assessment of the valuation methodology adopted by management's experts when valuing complex assets such as property; and – the results of the additional audit procedures which we performed to corroborate the reasonableness of the valuations independently obtained from the PIV investment managers.

How our audit addressed the key audit matter

We tested governance and controls in place over the methodologies and the significant assumptions, including those in relation to the use of management's experts. We also evaluated the objectivity and competence of management's expert involved in the valuation of the defined benefit obligation.

Our substantive testing over the defined benefit obligation included the following:

- we engaged our actuarial experts to assess the reasonableness of the judgements made by management and management's actuarial expert in determining the key financial and demographic assumptions used in the calculation of the defined benefit obligation;
- we assessed the reasonableness of the assumptions using independently compiled expected ranges based on market observable indices and our market experience; and
- we evaluated the appropriateness of the pension disclosures within the financial statements, including the disclosure regarding the sensitivity of assumptions.

Our substantive testing over pension assets included the following:

- we obtained independent confirmations to support the investment valuations from the fund manager for material investment balances;
- we engaged our valuation experts to independently review a sample of property assets, including assessing the appropriateness of assumptions and valuation methodologies adopted; and
- in respect of more complex pooled investment vehicles, we obtained statements from the underlying investment managers to confirm the fair value at the year end and performed one or more of the following additional procedures:
  - agreed valuation statements from fund managers to audited fund financial statements;
  - reviewed the investment managers' controls reports in respect of valuation controls;
  - reviewed transaction prices close to the year end for the fund where they were available.

We evaluated and tested the pension disclosures made in the financial statements.

Relevant references in the Annual Report and Accounts 2023

Note 1.2(h): Employee compensation and benefit, page 91.

Acquisition of HINV (formerly Silicon Valley Bank UK Limited)

Key audit matter	Matters discussed with the Audit Committee
On 13 March, HSBC UK Bank plc acquired Silicon Valley Bank UK Limited (now known as HSBC Innovation Bank Limited) for £1. The business combination is accounted for in the consolidated financial statements in accordance with IFRS 3 'Business Combinations'. The assets and liabilities acquired were stated at their fair values which were determined in the course of the purchase price allocation and fair value determination. This resulted in a fair value of identifiable net assets acquired of £1,307m. Management made judgements, estimates and assumptions in allocating the purchase price and determining fair value. Changes in these assumptions could have a significant effect on the purchase price allocation and fair values. This process included complex valuation considerations and required the use of a management expert. This is a material acquisition for the Group and given the level of estimation and judgement required, we considered it to be a key audit matter.	We held discussions with the Audit Committee covering the methodologies and significant assumptions used by management to determine the fair value of the assets and liabilities acquired. Our discussions centred around the most significant judgements related to the identification and valuation of intangible assets acquired, namely the core deposit intangible, and calculating the fair value discount on the loan portfolio.

How our audit addressed the key audit matter

Our substantive testing procedures included:

- we obtained an understanding of management's process related to acquisition accounting. We assessed whether the accounting treatment associated with the assets and liabilities acquired was in accordance with IFRS 3 'Business Combinations';
- we evaluated the objectivity and competence of management's expert involved in the valuation of the acquired assets and liabilities; and
- we engaged our internal valuation experts to assist us in reviewing the valuation report prepared by management's expert, and to assess the appropriateness of the methodology and assumptions used to determine fair values, with particular focus on the core deposit intangible and the fair value discount on the loan portfolio.

We evaluated and tested the disclosures made in the Annual Report in relation to the acquisition.

Relevant references in the Annual Report and Accounts 2023

Note 1.2a: Consolidation and related policies, page 86.
Note 28: Business acquisitions, page 123.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the parent company, the accounting processes and controls, and the industry in which they operate.

We performed a risk assessment, giving consideration to relevant internal and external factors, including climate change, economic risks, relevant accounting and regulatory developments, HSBC's strategy and any changes taking place within the group. We also considered our knowledge and experience obtained in prior year audits.

Using our risk assessment, we continually assessed risks and changed the scope of our audit where necessary.

HSBC UK Bank plc is structured into three divisions which are Wealth and Personal Banking ('WPB'), Commercial Banking ('CMB') and Global Banking and Markets ('GBM'). The divisions operate across a number of subsidiary entities in the United Kingdom. The consolidated financial statements are an aggregation of the subsidiary entities ('reporting units'). Each reporting unit submits their financial information to the group which is aggregated within the group's main consolidation and financial reporting system.

In establishing the overall approach to the group audit, we scoped our work using the balances included in the consolidation pack and determined the type of work that needed to be performed over the reporting units.

As a result of our group scoping, we determined that an audit of the complete financial information of HSBC UK Bank plc (parent company) was necessary, owing to its financial significance.

We then considered the significance of other reporting units in relation to primary statements account balances. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For two reporting units, specific audit procedures were performed over significant account balances as follows; for HSBC Innovation Bank Limited these were 'Loans and advances to customers' and 'Customer accounts'; for HSBC Invoice Finance (UK) Limited this was 'Items in the course of collection from other banks'. For the remainder of the reporting units, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and subsidiary level analytical review procedures.

Additionally audit procedures were performed on certain group-level account balances including goodwill.

Certain balances were audited by the PwC HSBC Holdings plc Group engagement team where they related to Group level accounts. HSBC has entity level controls that have a relevance across the Group, as well as other global and regional governance and controls over aspects of financial reporting, such as those operated by the Global Risk function for expected credit losses. A significant amount of IT and operational processes and controls relevant to financial reporting are undertaken in operation centres run by Digital Business Services ('DBS'). Whilst these operation centres are not separate components, the IT and operational processes and controls are relevant to the financial information of HSBC UK Bank plc. Financial reporting processes and controls are also performed centrally in HSBC UK Bank plc's finance team, including the impairment assessment of investment in subsidiaries and intangible assets, the consolidation of the HSBC UK Bank plc's results, the preparation of financial statements, and certain management oversight controls relevant to financial reporting.

HSBC Holdings plc group-wide processes or processes in DBS and Finance Operations are subject to specified audit procedures or an audit over specific FSLIs. These procedures primarily relate to testing of IT general controls, forward looking economic scenarios for ECL, operating expenses, intangible assets, valuation of financial instruments, intercompany eliminations, reconciliations and consolidation as well as payroll. For these areas, we directed and provided oversight of the audit work performed by PwC teams in the UK or overseas, supplemented by our own testing. This audit work, together with analytical review procedures and assessing the outcome of local external audits, also mitigated the risk of material misstatement for balances in entities that were not financially significant components.

For all in-scope reporting units, the group audit engagement partner was also the partner overseeing the audit work performed.

For the parent company, we determined our scope of work using our risk assessment and parent company materiality level. Based on these, we assessed the level of testing required on each financial statement line item in order to be able to give an opinion on the parent company financial statements. We utilised work performed over the HSBC UK Bank plc reporting unit as part of the group audit, performing further work where necessary, and tested parent company balances such as investments in subsidiaries.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's financial statements. We evaluated and challenged management's assessment of the impact of climate change risk, which is set out on page 59, including their conclusion that there is no material impact on the financial statements. In making this evaluation we considered management's use of stress testing and scenario analysis to arrive at the conclusion that there is no material impact on the financial statements. We considered management's assessment on the areas in the financial statements most likely to be impacted by climate risk, including:

- the impact on ECL on loans and advances to customers, for both physical and transition risk;
- the forecast cash flows from management's five year business plan and long term growth rates used in estimating recoverable amounts as part of impairment assessments of investments in subsidiaries, goodwill and intangible assets; and
- the impact of climate related terms on the solely payments of principal and interest test for classification and measurement of loans and advances to customers.

We remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and parent company's financial statements.

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 - parent company
Overall materiality	£268m (2022: £202m)	£249m (2022: £200m)
How we determined it	5% of adjusted profit before tax (2022: adjusted profit before tax)	5% of profit before tax (2022: adjusted profit before tax)
Rationale for benchmark applied	Adjusted profit before tax (group) and profit before tax (parent company) are the primary measures used by shareholders in assessing the performance of the group and the parent company. In determining our benchmark for overall materiality, we considered the gain on bargain purchase related to the acquisition of HINV as a one-off transaction and this has been adjusted in the profit before tax as we consider this item to be unrelated to the underlying performance of the group. No such one off transactions were identified at the parent company level and we therefore consider profit before tax to be an appropriate benchmark for the parent company materiality. The benchmark used in 2022 was adjusted profit before tax. The adjusted profit before tax considered the impact of certain customer redress and restructuring programmes which were concluded to be unrelated to the underlying performance of the group and parent company and which were considered to not be significant in 2023.	

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 £14m - £249m. 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% (2022: 75%) of overall materiality, amounting to £201m (2022: £151m) for the group financial statements and £187m (2022: £150m) for the parent company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £13m (group audit) (2022: £10m) and £12m (parent company audit) (2022: £10m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- performing a risk assessment to identify factors that could impact the going concern basis of accounting, including risks to the financial and operating performance of the group;
- understanding and evaluating the group's financial forecasts, including the severity of the stress scenarios that were used;
- understanding and evaluating the group's capital resources and available liquidity and regulatory capital requirements; and
- reading and evaluating the adequacy and appropriateness of the disclosures made in the financial statements in relation to going concern.

Based on the work performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the parent company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and 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 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and 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 parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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 Consumer Credit Act 1974, the Financial Conduct Authority's ('FCA') regulations and the Prudential Regulation Authority's ('PRA') regulations, 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 and UK tax legislation. 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 risk related to posting inappropriate journal entries in relation to cost targets, and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- discussing with management and those charged with governance any known or suspected instances of non-compliance with laws and regulation and fraud;
- reviewing and assessing the group's whistleblowing findings which may be indicative of heightened potential fraud risk and reviewing management's investigation of such matters;
- reviewing minutes of meetings of those charged with governance;
- identifying and testing manual journal entries, in particular any journals posted by senior management and those meeting defined fraud risk criteria and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- challenging estimates and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss provisions of loans and advances to customers (see related key audit matter);
- agreeing financial statement disclosures to underlying supporting documentation, reviewing correspondence with regulators including the FCA and PRA, reviewing correspondence with the group's external legal advisors, enquiring with management and legal counsel about ongoing litigation and claims against the group and reviewing internal audit reports in so far as they related to the financial statements; and
- incorporating unpredictability into the nature, timing and/or extent of our testing.

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 parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 7 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2017 to 31 December 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements 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 has been prepared using the single electronic format specified in the ESEF RTS.

Hamish Anderson *(Senior Statutory Auditor)*

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham

20 February 2024

Financial statements

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Consolidated income statement

for the year ended 31 December

	Notes	2023 £m	2022 £m
Net interest income		**7,787**	6,203
– interest income[1,2,3]		**12,915**	7,592
– interest expense		**(5,128)**	(1,389)
Net fee income	2	**1,284**	1,245
– fee income		**1,554**	1,493
– fee expense		**(270)**	(248)
Net income from financial instruments held for trading or managed on a fair value basis		**414**	384
Gain on acquisition of subsidiary[4]		**1,307**	—
Other operating income		**15**	120
Net operating income before change in expected credit losses and other credit impairment charges		**10,807**	7,952
Change in expected credit losses and other credit impairment charges		**(421)**	(482)
Net operating income		**10,386**	7,470
Employee compensation and benefits	3	**(1,007)**	(1,079)
General and administrative expenses		**(2,265)**	(2,271)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(116)**	(164)
Amortisation and impairment of intangible assets		**(319)**	(318)
Total operating expenses		**(3,707)**	(3,832)
Operating profit		**6,679**	3,638
Profit before tax		**6,679**	3,638
Tax expense	5	**(1,425)**	(762)
Profit for the year		**5,254**	2,876
Attributable to:			
– shareholders of the parent company		**5,249**	2,871
– non-controlling interests		**5**	5
Profit for the year		**5,254**	2,876

1 *Interest income recognised on financial assets measured at amortised cost is £12,478m (2022: £7,415m).*
2 *Interest income recognised on financial assets measured at FVOCI is £435m (2022: £166m).*
3 *Interest income calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*
4 *Provisional gain of £1,307m recognised in respect of the acquisition of SVB UK.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2023 £m	2022 £m
Profit for the year	**5,254**	2,876
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**66**	(300)
– fair value gains/(losses)	**16**	(385)
– fair value (gains)/losses transferred to the income statement on disposal	**66**	(37)
– expected credit recoveries recognised in the income statement	**—**	(1)
– income taxes	**(16)**	123
Cash flow hedges	**1,031**	(1,234)
– fair value gains/(losses)	**548**	(1,884)
– fair value losses reclassified to the income statement	**884**	180
– income taxes	**(401)**	470
Exchange differences	**8**	(2)
– other exchange differences	**8**	(2)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(128)**	(1,023)
– before income taxes	**(176)**	(1,603)
– income taxes[1]	**48**	580
Other comprehensive income/(expense) for the year, net of tax	**977**	(2,559)
Total comprehensive income for the year	**6,231**	317
Attributable to:		
– shareholders of the parent company	**6,226**	312
– non-controlling interests	**5**	5
Total comprehensive income for the year	**6,231**	317

1 *There is an income tax credit of £48m (2022: credit £580m). 2022 includes an income tax credit of £134m arising upon the remeasurement of deferred tax following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3% with effect from 1 April 2023.*

Consolidated balance sheet

at 31 December

	Notes	2023 £m	2022 £m
Assets			
Cash and balances at central banks		**65,719**	94,407
Items in the course of collection from other banks		**284**	353
Financial assets mandatorily measured at fair value through profit or loss	7	**135**	108
Derivatives	9	**178**	546
Loans and advances to banks		**7,980**	6,357
Loans and advances to customers		**211,887**	204,143
Reverse repurchase agreements – non-trading		**7,686**	7,406
Financial investments	10	**26,315**	16,092
Prepayments, accrued income and other assets	16	**8,321**	8,762
Interests in joint ventures	12	**8**	9
Goodwill and intangible assets	15	**4,363**	4,258
Total assets		**332,876**	342,441
Liabilities and equity			
Liabilities			
Deposits by banks		**10,843**	10,721
Customer accounts		**268,345**	281,095
Repurchase agreements – non-trading		**4,652**	9,333
Items in the course of transmission to other banks		**411**	308
Derivatives	9	**108**	304
Debt securities in issue	17	**1,988**	1,299
Accruals, deferred income and other liabilities	18	**4,124**	3,543
Current tax liabilities		**276**	173
Provisions	19	**350**	424
Deferred tax liabilities	5	**1,111**	666
Subordinated liabilities	20	**14,598**	12,349
Total liabilities		**306,806**	320,215
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**7,226**	6,121
Retained earnings		**7,573**	4,834
Total shareholders' equity		**26,010**	22,166
Non-controlling interests		**60**	60
Total equity		**26,070**	22,226
Total liabilities and equity		**332,876**	342,441

The accompanying notes on pages 85 to 125 and the audited sections in: the 'Financial summary' on pages 9 to 12 and the 'Report of the Directors' on pages 15 to 68 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 February 2024 and signed on its behalf by:

John David Stuart

Director

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Group re-organisa-tion reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**9,015**	**2,196**	**4,834**	**(246)**	**(1,324)**	**7,691**	**22,166**	**60**	**22,226**
Profit for the year	**—**	**—**	**5,249**	**—**	**—**	**—**	**5,249**	**5**	**5,254**
Other comprehensive income (net of tax)	**—**	**—**	**(128)**	**74**	**1,031**	**—**	**977**	**—**	**977**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**66**	**—**	**—**	**66**	**—**	**66**
– cash flow hedges	**—**	**—**	**—**	**—**	**1,031**	**—**	**1,031**	**—**	**1,031**
– remeasurement of defined benefit asset/ liability	**—**	**—**	**(128)**	**—**	**—**	**—**	**(128)**	**—**	**(128)**
– exchange differences	**—**	**—**	**—**	**8**	**—**	**—**	**8**	**—**	**8**
Total comprehensive income for the year	**—**	**—**	**5,121**	**74**	**1,031**	**—**	**6,226**	**5**	**6,231**
Dividends to shareholders	**—**	**—**	**(2,411)**	**—**	**—**	**—**	**(2,411)**	**(5)**	**(2,416)**
Other movements[1]	**—**	**—**	**29**	**—**	**—**	**—**	**29**	**—**	**29**
At 31 Dec 2023	**9,015**	**2,196**	**7,573**	**(172)**	**(293)**	**7,691**	**26,010**	**60**	**26,070**
At 1 Jan 2022	9,015	2,196	4,877	56	(90)	7,691	23,745	60	23,805
Profit for the year	—	—	2,871	—	—	—	2,871	5	2,876
Other comprehensive income (net of tax)	—	—	(1,023)	(302)	(1,234)	—	(2,559)	—	(2,559)
– debt instruments at fair value through other comprehensive income	—	—	—	(300)	—	—	(300)	—	(300)
– cash flow hedges	—	—	—	—	(1,234)	—	(1,234)	—	(1,234)
– remeasurement of defined benefit asset/ liability	—	—	(1,023)	—	—	—	(1,023)	—	(1,023)
– exchange differences	—	—	—	(2)	—	—	(2)	—	(2)
Total comprehensive income for the year	—	—	1,848	(302)	(1,234)	—	312	5	317
Dividends to shareholders	—	—	(1,929)	—	—	—	(1,929)	(5)	(1,934)
Other movements[1]	—	—	38	—	—	—	38	—	38
At 31 Dec 2022	9,015	2,196	4,834	(246)	(1,324)	7,691	22,166	60	22,226

1 *Relates to £5m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2022: £9m) and share based payments cost of £24m in 2023 (2022: £29m).*

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

Consolidated statement of cash flows

for the year ended 31 December

	2023	2022
	£m	£m
Profit before tax	**6,679**	3,638
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**435**	482
Net gain from investing activities	**79**	(37)
Provisional gain on acquisition of SVB UK	**(1,307)**	—
Change in expected credit losses gross of recoveries and other credit impairment charges	**472**	575
Provisions including pensions	**(233)**	(78)
Share-based payment expense	**19**	17
Other non-cash items included in profit before tax	**(149)**	(204)
Elimination of exchange differences[1]	**332**	1,032
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**1,615**	(2,174)
Change in loans and advances to banks and customers	**(2,773)**	(9,182)
Change in reverse repurchase agreements – non-trading	**(264)**	894
Change in financial assets mandatorily measured at fair value	**(27)**	(29)
Change in other assets	**114**	(2,219)
Change in deposits by banks and customer accounts	**(20,028)**	(1,234)
Change in repurchase agreements – non-trading	**(5,086)**	(1,104)
Change in debt securities in issue	**689**	399
Change in other liabilities	**605**	1,052
Contributions paid to defined benefit plans	**(17)**	(21)
Tax paid	**(1,182)**	(1,499)
Net cash from operating activities	**(20,027)**	(9,692)
Purchase of financial investments	**(17,640)**	(10,386)
Proceeds from the sale and maturity of financial investments	**10,222**	8,571
Proceeds from sale of property, plant and equipment	**67**	39
Purchase of property, plant and equipment	**(45)**	(80)
Purchase of intangible assets	**(325)**	(382)
Net cash flow from acquisition of SVB UK	**1,023**	—
Net cash from investing activities	**(6,698)**	(2,238)
Subordinated loan capital issued[2]	**2,250**	—
Dividends paid to shareholders of the parent company and non-controlling interests	**(2,416)**	(1,934)
Net cash from financing activities	**(166)**	(1,934)
Net decrease in cash and cash equivalents	**(26,891)**	(13,864)
Cash and cash equivalents at 1 Jan	**100,319**	114,134
Exchange differences in respect of cash and cash equivalents	**(47)**	49
Cash and cash equivalents at 31 Dec[3]	**73,381**	100,319
Cash and cash equivalents comprise:		
– cash and balances at central banks	**65,719**	94,407
– items in the course of collection from other banks	**284**	353
– loans and advances to banks of one month or less	**6,948**	5,285
– reverse repurchase agreements with banks of one month or less	**328**	312
– treasury bills, other bills and certificates of deposit less than three months	**503**	268
– cash collateral and net settlement accounts	**10**	2
– less: items in the course of transmission to other banks	**(411)**	(308)
Cash and cash equivalents at 31 Dec[3]	**73,381**	100,319

Interest received was £12,389m (2022: £7,054m) and interest paid was £4,607m (2022: £1,172m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £2,250m (2022: £nil) and repayments of £nil (2022: £nil). Non-cash changes during the year included foreign exchange gain/losses of £277m (2022: £556m).*
3 *At 31 December 2023 6,770m (2022: £4,700m) was not available for use by the group, £6,600m (2022: £4,700) related to mandatory deposits at central banks.*

HSBC UK Bank plc balance sheet

at 31 December

	Notes	2023 £m	2022 £m
Assets			
Cash and balances at central banks		**65,719**	94,407
Items in the course of collection from other banks		**96**	154
Financial assets mandatorily measured at fair value through profit or loss	7	**135**	108
Derivatives	9	**175**	546
Loans and advances to banks		**13,642**	9,304
Loans and advances to customers		**201,014**	199,666
Reverse repurchase agreements – non-trading		**7,686**	7,406
Financial investments	10	**26,104**	16,092
Investments in subsidiaries	13	**918**	1,010
Prepayments, accrued income and other assets	16	**8,117**	8,527
Interests in joint ventures	12	**5**	5
Goodwill and intangible assets	15	**1,201**	1,185
Total assets		**324,812**	338,410
Liabilities and equity			
Liabilities			
Deposits by banks		**14,120**	11,619
Customer accounts		**262,342**	279,575
Repurchase agreements – non-trading		**4,652**	9,333
Items in the course of transmission to other banks		**408**	304
Derivatives	9	**108**	304
Debt securities in issue	17	**1,564**	1,091
Accruals, deferred income and other liabilities	18	**3,802**	3,330
Current tax liabilities		**175**	135
Provisions	19	**327**	386
Deferred tax liabilities	5	**1,151**	690
Subordinated liabilities	20	**14,598**	12,349
Total liabilities		**303,247**	319,116
Equity			
Called up share capital	23	**—**	—
Share premium account	23	**9,015**	9,015
Other equity instruments	23	**2,196**	2,196
Other reserves		**4,777**	3,678
Retained earnings		**5,577**	4,405
Total equity		**21,565**	19,294
Total liabilities and equity		**324,812**	338,410

Profit after tax for the year was £3,683m (2022: £2,882m).

The accompanying notes on pages 85 to 125, and the audited sections of the 'Report of the Directors' on pages 15 to 68 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 February 2024 and signed on its behalf by:

John David Stuart

Director

HSBC UK Bank plc statement of changes in equity

for the year ended 31 December

	Called up share capital and share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Group re-organisation[2] reserve	Total share-holders' equity
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**9,015**	**2,196**	**4,405**	**(246)**	**(1,324)**	**5,248**	**19,294**
Profit for the year	—	—	3,683	—	—	—	3,683
Other comprehensive expense (net of tax)	—	—	(128)	68	1,031	—	971
– debt instruments at fair value through other comprehensive income	—	—	—	60	—	—	60
– cash flow hedges	—	—	—	—	1,031	—	1,031
– remeasurement of defined benefit asset/ liability	—	—	(128)	—	—	—	(128)
– exchange differences	—	—	—	8	—	—	8
Total comprehensive income for the year	—	—	3,555	68	1,031	—	4,654
Dividends to shareholders	—	—	(2,411)	—	—	—	(2,411)
Other movements[1]	—	—	29	—	—	—	29
At 31 Dec 2023	**9,015**	**2,196**	**5,578**	**(178)**	**(293)**	**5,248**	**21,566**
At 1 Jan 2022	9,015	2,196	4,438	56	(90)	5,248	20,863
Profit for the year	—	—	2,882	—	—	—	2,882
Other comprehensive income (net of tax)	—	—	(1,023)	(302)	(1,234)	—	(2,559)
– debt instruments at fair value through other comprehensive income	—	—	—	(300)	—	—	(300)
– cash flow hedges	—	—	—	—	(1,234)	—	(1,234)
– remeasurement of defined benefit asset/ liability	—	—	(1,023)	—	—	—	(1,023)
– exchange differences	—	—	—	(2)	—	—	(2)
Total comprehensive income for the year	—	—	1,859	(302)	(1,234)	—	323
Dividends to shareholders	—	—	(1,929)	—	—	—	(1,929)
Other movements[1]	—	—	37	—	—	—	37
At 31 Dec 2022	9,015	2,196	4,405	(246)	(1,324)	5,248	19,294

1 *Relates to £5m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2022: £9m) and share based payments cost of £24m in 2023 (2022: £28m).*

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

HSBC UK Bank plc statement of cash flows

for the year ended 31 December

	2023	2022
	£m	£m
Profit before tax	**4,978**	3,599
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**411**	473
Net gain from investing activities	**165**	(37)
Change in expected credit losses gross of recoveries and other credit impairment charges	**380**	457
Provisions including pensions	**(224)**	(93)
Share-based payment expense	**19**	16
Other non-cash items included in profit before tax	**(149)**	(204)
Elimination of exchange differences[1]	**332**	1,032
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**1,606**	(2,174)
Change in loans and advances to banks and customers	**(1,900)**	(9,130)
Change in reverse repurchase agreements – non-trading	**(264)**	894
Change in financial assets mandatorily measured at fair value	**(27)**	(29)
Change in other assets	**(146)**	(2,188)
Change in deposits by banks and customer accounts	**(14,733)**	(924)
Change in repurchase agreements – non-trading	**(4,683)**	(1,104)
Change in debt securities in issue	**473**	416
Change in other liabilities	**656**	1,013
Contributions paid to defined benefit plans	**(17)**	(21)
Tax paid	**(1,145)**	(1,460)
Net cash from operating activities	**(14,268)**	(9,464)
Purchase of financial investments	**(20,071)**	(10,386)
Proceeds from the sale and maturity of financial investments	**10,294**	8,571
Proceeds from sale of property, plant and equipment	**8**	2
Purchase of property, plant and equipment	**(42)**	(66)
Purchase of intangible assets	**(319)**	(375)
Net cash from investing activities	**(10,130)**	(2,254)
Subordinated loan capital issued[2]	**2,250**	—
Dividends paid to shareholders of the parent company	**(2,411)**	(1,929)
Net cash from financing activities	**(161)**	(1,929)
Net decrease in cash and cash equivalents	**(24,559)**	(13,647)
Cash and cash equivalents at 1 Jan	**100,516**	114,114
Exchange differences in respect of cash and cash equivalents	**(47)**	49
Cash and cash equivalents at 31 Dec[3]	**75,910**	100,516
Cash and cash equivalents comprise:		
– cash and balances at central banks	**65,719**	94,407
– items in the course of collection from other banks	**96**	154
– loans and advances to banks of one month or less	**9,832**	5,677
– reverse repurchase agreements with banks of one month or less	**328**	312
– treasury bills, other bills and certificates of deposit less than three months	**333**	268
– cash collateral and net settlement accounts	**10**	2
– less: items in the course of transmission to other banks	**(408)**	(304)
Cash and cash equivalents at 31 Dec[3]	**75,910**	100,516

Interest received was £11,673m (2022: £6,671m), interest paid was £4,554m (2022: £1,154m) and dividends received were £140m (2022: £161m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on line-by-line basis, as details cannot be determined without unreasonable expense.*

2 *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £2,250m (2022: £nil). Non-cash changes during the year included foreign exchange gain/losses of £277m (2022: £556m).*

3 *At 31 December 2023, £6,600m (2022: £4,700m) was not available for use by the bank, £6,600m (2022: £4,700m) related to mandatory deposits at central banks.*

Notes on the financial statements

1 Basis of preparation and material accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC UK and the separate financial statements of the bank comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, ('IFRS Accounting Standards'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRS Accounting standards for the periods presented. There were no unendorsed standards effective for the year ended 31 December 2023 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2023

Amendments to IAS 12 'International Tax Reform - Pillar Two Model Rules'

On 23 May 2023, the International Accounting Standards Board ('IASB') issued amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately and were approved for adoption by all members of the UK Endorsement Board on 19 July 2023 and by the European Financial Reporting Advisory Group on 8 November 2023. On 20 June 2023, legislation was substantively enacted in the UK to introduce the OECD's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The group has applied the IAS 12 exemption from recognising and disclosing information on associated deferred tax assets and liabilities.

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

(b) Future accounting developments

Minor amendments to IFRS Accounting standards

The IASB has published a number of minor amendments to IFRS Accounting standards that are effective from 1 January 2024. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of the bank.

(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 at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

Certain disclosures required by IFRS Accounting Standards have been included in the audited sections of this *Annual Report and Accounts 2023* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments are included in the 'Report of the Directors | Risk' on pages 15 to 62; and
- capital disclosures are included in the 'Report of the Directors | Risk' on pages 56 to 58.

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 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 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.

Management has considered the impact of climate-related risks on HSBC UK's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impacts of climate-related risks of associated judgements and estimates in our value in use calculations.

(f) Segmental analysis

HSBC UK's chief operating decision-maker is the group Chief Executive, supported by the group Executive Committee, and operating segments are reported in a manner consistent with the internal reporting provided to the group Chief Executive and the group Executive Committee.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic report | Our global businesses'.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and bank have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following rising inflation and the Russia-Ukraine and Israel-Hamas wars. They also considered other top and emerging risks, including climate change, as well as from the related impacts on profitability, capital and liquidity.

1.2 Summary of material 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.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair value at the date of acquisition.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of HSBC UK's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed. Any gain resulting from a bargain purchase is recognised in the income statement.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The election is made for each business combination.

Goodwill

Goodwill is allocated to CGUs for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group's CGUs are based on the business lines described in the Strategic Report. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical estimates and judgements

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
– The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	– The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. – The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to individual CGUs. 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 and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. – Key assumptions used in estimating goodwill impairment are described in Note 15.

The group does not consider there to be a significant risk of a material adjustment to the carrying amount of the goodwill balance in the next financial year but does consider this to be an area that is inherently judgemental.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates is 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 are recognised in 'interest income' and 'interest expense' in the income statement using the effective interest method.

Interest on credit-impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for ECL).

Non-interest income and expense

The group generates fee income from services provided over time, such as account service and card fees, or when it delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

The group buys and sells currencies to customers, as principal and presents the results of this activity, including the related gains and losses from changes in foreign exchange rates, as trading.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the SPPI test, see (d).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 7, 'Fair values of financial instruments carried at fair value'.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Finance lease receivables

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets are classified as finance leases. They are recorded at an amount equal to the net investment in the lease, less any impairment allowance. The net investment in finance leases represents the sum of the minimum payments receivable (gross investment in the lease) discounted at the rate of interest implicit in the lease. Initial direct costs incurred in arranging the lease, less any fee income related to the lease, are included in the initial measurement of the net investment.

(e) Financial assets measured at fair value through other comprehensive income

Financial assets managed within 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 FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(g) Impairment of amortised cost and FVOCI financial assets

ECL are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is recognised for ECL resulting from possible default events 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, an allowance (or provision) is recognised 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, and so are considered to be in default or otherwise credit impaired are in 'stage 3'. 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 that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or 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. 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 allowance for ECL.

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.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when HSBC UK modifies the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

The group applies the EBA Guidelines on the application of definition of default for our retail portfolios, which affects credit risk policies and our reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided under 'Forborne loans and advances' on page 25.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined 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).

A forborne loan 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 forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC UK rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Changes to current market rates are not treated as modifications when they were contemplated at initial recognition, but rather a repricing. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes generally do not result 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. 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 PD which encompasses a wide range of information including the obligor’s CRR, macro-economic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD that increases by
0.1-1.2	15 bps
2.1-3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle 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 24 – Risk rating scales.

For Retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internally developed statistical models, which incorporate 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 homogenous 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 therefore identifies loans with a

PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

We continue to refine the retail transfer criteria approach for certain portfolios as additional data becomes available, in order to utilise a more relative approach, noting this approach is currently applied to the mortgage portfolio. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

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 new financial instruments recognised in most cases following the derecognition of forborne loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan 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. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information which 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 and considers other factors such as climate-related risks.

In general, the group calculates ECL using three main components: a PD, a LGD and the EAD.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The group makes use of the 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.	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 primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on estimates of 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 up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the group and judgement in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the bank may use a LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

The group 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 credit 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 32.

Critical estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
– Defining what is considered to be a significant increase in credit risk. – Determining the lifetime and point of initial recognition of overdrafts and credit cards. – Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. – Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected credit loss. – Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements. – Selecting applicable recovery strategies for certain wholesale credit-impaired loans.	– The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited on pages 32 to 36, 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.

(h) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a pension plan which provides defined benefit and defined contribution pensions.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets (see policy (c)), after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The costs of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

Critical estimates and judgements

The most significant critical accounting estimates relate to the determination of key assumptions applied in calculating the defined benefit pension obligation.

Judgements	Estimates
	– A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in OCI or profit or loss. – The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. – Key assumptions used in calculating the defined benefit pension obligation and the sensitivity of the calculation to different assumptions are described in Note 3.

(i) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(j) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical 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.

(k) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying values of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 15).

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

2 Net fee income

	Year ended	
	31 Dec	31 Dec
	2023	2022
Net fee income by product	**£m**	£m
Account services	**272**	257
Funds under management	**120**	114
Cards	**582**	580
Credit facilities	**147**	130
Imports/exports	**28**	30
Insurance agency commission	**11**	25
Receivables finance	**86**	96
Other	**308**	261
Fee income	**1,554**	1,493
Less: fee expense	**(270)**	(248)
Net fee income	**1,284**	1,245
Net fee income by global business		
Wealth and Personal Banking	**588**	590
Commercial Banking	**922**	879
Global Banking and Markets	**(224)**	(222)
Corporate Centre	**(2)**	(2)

Net fee income includes £1,204m 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) (2022: £1,129m), £199m 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) (2022: £174m), £124m of fees earned on trust and other fiduciary activities (2022: £118m).

3 Employee compensation and benefits

	2023	2022
	£m	£m
Wages and salaries	**1,025**	971
Social security costs	**113**	106
Post-employment benefits[1]	**(131)**	2
Year ended 31 Dec	**1,007**	1,079

1 *Post-employment benefits increase/decrease is a factor of interest receivable on assets, service cost, interest cost on liabilities and administration expenses.*

Average number of persons employed by the group during the year

	2023[1]	2022[1]
Wealth and Personal Banking	**15,549**	15,923
Commercial Banking	**4,796**	4,491
Global Banking and Markets	**60**	54
Corporate Centre	**10**	33
Year ended 31 Dec	**20,415**	20,501

1 *Average number of headcount staff in corporate centre are allocated to the respective global businesses. The allocation is on the basis of amounts charged to the respective global business.*

Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2023	2022
	£m	£m
Restricted share awards	**10**	8
Savings-related and other share award option plans	**9**	9
Year ended 31 Dec	**19**	17

HSBC Group share awards

Award	Policy
Deferred share awards (including annual incentive awards, LTI awards delivered in shares) and GPSP	An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. – Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. – Deferred share awards generally vest over a period of three, five or seven years. – Vested shares may be subject to a retention requirement post-vesting. – Awards are subject to malus and clawback provisions.
International Employee Share Purchase Plan ('ShareMatch')	The plan was first introduced in Hong Kong in 2013 and now includes employees based in 31 jurisdictions. – Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. – Matching awards are added at a ratio of one free share for every three purchased. – Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC Group share awards

	2023	2022
	Number	Number
	(000s)	(000s)
Restricted share awards outstanding at 1 Jan	**2,981**	2,457
Additions during the year	**1,826**	1,976
Released in the year	**(1,582)**	(1,404)
Forfeited in the year	**(142)**	(48)
Restricted share awards outstanding at 31 Dec	**3,083**	2,981
Weighted average fair value of awards granted (£)	**5.55**	4.03

HSBC Group share option plans

Plans	Policy
Savings-related share option plans ('Sharesave')	– Eligible employees can save up to £500 per month with the option to use the savings to acquire shares. – 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% (2022: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC Group share option plans

	Savings-related share option plans	
	Number	**WAEP[1]**
	(000s)	**£**
Outstanding at 1 Jan 2023	**60,350**	**2.85**
Granted during the year	**11,496**	**4.76**
Exercised during the year	**(26,249)**	**2.71**
Expired during the year	**(658)**	**4.76**
Forfeited during the year	**(2,261)**	**3.32**
Outstanding at 31 Dec 2023	**42,678**	**3.44**
– *of which exercisable*	***3,527***	***2.68***
Weighted average remaining contractual life (years)	**2.44**	
Outstanding at 1 Jan 2022	64,073	2.85
Granted during the year	4,523	4.30
Exercised during the year	(1,517)	3.56
Expired during the year	(1,360)	4.95
Forfeited during the year	(5,369)	2.94
Outstanding at 31 Dec 2022	60,350	2.88
– *of which exercisable*	*1.761*	*4.35*
Weighted average remaining contractual life (years)	2.23	

1 *Weighted average exercise price.*

Post-employment benefit plans

We operate a pension plan for our employees called the HBUK section of the HSBC Bank (UK) Pension Scheme ('the plan'), which has both defined benefit and defined contribution sections, managed by the Trustee of the plan. The HSBC Bank (UK) Pension Scheme was fully sectionalised in 2018 to meet the requirements of the Banking Reform Act.

The Pension risk section on page 56 contains details about the policies and practices associated with the plan. Climate-related risks on page 19 provides details of how the trustee of our employee pension plan, the HSBC Bank (UK) Pension Scheme, manages climate risk.

The defined benefit section was closed to future benefit accrual in 2015, with defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by the HSBC Group. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The investment strategy of the plan is to hold the majority of assets in bonds, with the remainder in a diverse range of investments. It also includes some interest rate swaps to reduce interest rate risk, inflation swaps to reduce inflation risk and longevity swaps to reduce the impact of longer life expectancy. For further details of the measures to manage the market volatility, see Treasury risk on page 52.

The plan is subject to the statutory funding objective requirements of the UK Pensions Act 2004, which requires that it be funded to at least the level of technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where a funding valuation is carried out and identifies a deficit, the employer and trustee are required to agree to a deficit recovery plan.

The latest funding valuation of the plan at 31 December 2019 was carried out by Colin G Singer of Willis Towers Watson Limited, who is a Fellow of the UK Institute and Faculty of Actuaries, using the projected unit credit method. At that date, the market value of the plan's assets was £31.1bn and this exceeded the value placed on its liabilities on an ongoing basis by £2.5bn, giving a funding level of 109%. These figures include defined contribution assets amounting to £2.4bn. The funding valuation is used to judge the amount of cash contributions the group needs to put into the pension scheme. It will always be different to the IAS 19 accounting surplus, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. The main differences between the assumptions used for assessing the liabilities for this funding valuation and those used for IAS19 are that an element of prudence is contained in the funding assumptions for discount rate, inflation rate and life expectancy. The next funding valuation was scheduled to be performed in 2023, with an effective date 31 December 2022, is currently underway and will be concluded no later than the regulatory deadline of 31 March 2024. The plan is estimated to remain in a comfortable surplus relative to funding liabilities as at end 2023, based on assumptions consistent with those used to determine the funding liabilities for the 2019 valuation.

The actuary also assessed the value of the liabilities if the HBUK section of the plan were to have been stopped and an insurance company asked to secure all future pension payments. This is generally larger than the amount needed on the ongoing basis described above because an insurance company would use more prudent assumptions which allow for reserves and include a more prudent allowance for the future administrative expenses of the plan. Under this approach, the amount of assets needed was estimated to be £33bn at 31 December 2019.

The Trust Deed gives the ability for HSBC UK to take a refund of surplus assets after the plan has been run down such that no further beneficiaries remain. In assessing whether a surplus is recoverable HSBC UK has considered its right to obtain a future refund together with the rights of third parties such as trustees. On this basis, any net surplus in the HBUK section of the plan is recognised in HSBC UK's financial statements.

Income statement charge/(credit)

	2023	2022
	£m	£m
Defined benefit pension plans	**(241)**	(95)
Defined contribution pension plans	**110**	97
Pension plans	**(131)**	2
Year ended 31 Dec	**(131)**	2

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	**Present value of defined benefit obligations**	**Net defined benefit assets/(liabilities)**
	£m	**£m**	**£m**
At 1 Jan 2023	**20,853**	**(15,596)**	**5,257**
Service cost	**—**	**(8)**	**(8)**
– current service cost	**—**	**(11)**	**(11)**
– past service cost	**—**	**3**	**3**
Net interest income/(cost) on the net defined benefit asset/(liability)	**1,003**	**(744)**	**259**
Remeasurement effects recognised in other comprehensive income	**(181)**	**6**	**(175)**
– return on plan assets (excluding interest income)	**(181)**	**—**	**(181)**
– actuarial gains/(losses) financial assumptions	**—**	**(98)**	**(98)**
– actuarial gains/(losses) demographic assumptions	**—**	**287**	**287**
– actuarial gains/(losses) experience adjustments	**—**	**(183)**	**(183)**
Transfers to/from the scheme	**30**	**(25)**	**5**
Benefits paid	**(855)**	**855**	**—**
Other movements[1]	**1**	**(2)**	**(1)**
At 31 Dec 2023	**20,851**	**(15,514)**	**5,337**

Net asset/(liability) under defined benefit pension plans (continued)

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit assets/ (liabilities)
	£m	£m	£m
At 1 Jan 2022	30,578	(23,833)	6,745
Service cost	—	(25)	(25)
– current service cost	—	(10)	(10)
– past service cost	—	(15)	(15)
Net interest income/(cost) on the net defined benefit asset/(liability)	571	(443)	128
Remeasurement effects recognised in other comprehensive income	(9,343)	7,740	(1,603)
– return on plan assets (excluding interest income)	(9,343)	—	(9,343)
– actuarial gains/(losses) financial assumptions	—	8,561	8,561
– actuarial gains/(losses) demographic assumptions	—	(100)	(100)
– actuarial gains/(losses) experience adjustments	—	(721)	(721)
Transfers to/from the scheme	36	(27)	9
Benefits paid	(992)	992	—
Other movements[1]	3	—	3
At 31 Dec 2022	20,853	(15,596)	5,257

1 *Other movements of Fair value of plan assets includes contributions by HSBC UK of £17m (2022: £20m), less administrative costs £16m (2022: £17m). Other movements of Present value of defined benefit obligations includes the adjustment on administrative cost paid lower than expected incurred of £2m (2022: Nil).*

Benefits expected to be paid from the plan to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plan

	2024	2025	2026	2027	2028	2029–2033
	£m	£m	£m	£m	£m	£m
The plan[1]	882	910	938	968	998	5,480

1 *The duration of the defined benefit obligation is 12.9 years under the disclosure assumptions adopted (2022: 13.2 years).*

Fair value of plan assets by asset classes

	At 31 Dec 2023			At 31 Dec 2022		
	Value	**Quoted market price in active market**	**No quoted market price in active market**	Value	Quoted market price in active market	No quoted market price in active market
	£m	**£m**	**£m**	£m	£m	£m
The plan						
Fair value of plan assets	**20,851**	**11,768**	**9,083**	20,853	11,550	9,303
– equities[1]	**65**	**—**	**65**	93	—	93
– bonds fixed income[2]	**4,126**	**3,716**	**410**	4,386	4,002	384
– bonds index linked	**8,077**	**8,077**	**—**	7,869	7,869	—
– derivatives	**832**	**—**	**832**	998	—	998
– property	**651**	**—**	**651**	700	—	700
– pooled investment vehicles	**7,125**	**—**	**7,125**	7,128	—	7,128
– other	**(25)**	**(25)**	**—**	(321)	(321)	—

1 *Includes £65m (2022: £93m) in relation to private equities.*
2 *Bonds fixed income, includes £(838)m (2022: £(705)m) in relation to repurchase agreements.*

Post-employment defined benefit plan actuarial financial assumptions

HSBC UK determines the discount rates to be applied to its obligations in consultation with the plan's local actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions for the plan

	Discount rate	**Inflation rate (RPI)**	**Inflation rate (CPI)**	**Rate of increase for pensions**	**Rate of pay increase**
	%	**%**	**%**	**%**	**%**
UK					
At 31 Dec 2023	**4.65**	**3.23**	**2.67**	**3.14**	**3.42**
At 31 Dec 2022	4.93	3.39	2.84	3.27	3.34

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	**Aged 40**	**Aged 60**	**Aged 40**
UK					
At 31 Dec 2023	**SAPS S3[1]**	**26.2**	**27.7**	**28.3**	**29.8**
At 31 Dec 2022	SAPS S3[1]	27.1	28.6	28.4	29.9

1 *Self-administered pension scheme ('SAPS') S3 table, with different tables and multipliers adopted based on gender, pension amount and member status, reflecting the Scheme's actual mortality experience. Improvements are projected in accordance with the Continuous Mortality Investigation's CMI 2022 core projection model with an initial addition to improvement of 0.25% per annum, a long-term rate of improvement of 1.25% per annum and a 0% weighting to 2020 and 2021,* 25% weighting to 2022, *mortality experience reflecting updated long-term view on mortality improvements post-pandemic.*

The effect of changes in key assumptions on the plan

	Impact on HSBC Bank (UK) Pension Scheme Obligation			
	Financial impact of increase		Financial impact of decrease	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(470)**	(483)	**495**	509
Inflation rate (RPI/CPI) – increase/decrease of 0.25%	**392**	387	**(390)**	(371)
Pension payments and deferred pensions – increase/decrease of 0.25%	**488**	457	**(463)**	(431)
Pay – increase/decrease of 0.25%	**6**	8	**(5)**	(8)
Change in mortality – increase/decrease of 1 year	**481**	390	**(481)**	(405)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this in unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Directors' emoluments

The aggregate emoluments of the Directors of the Company, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No. 410, were:

	2023	2022
	£000	£000
Fees paid to non-executive Directors	**1,519**	1,406
Salaries and other emoluments[1]	**2,559**	2,418
Annual incentives[2]	**1,362**	1,160
Long-term incentives[3]	**1,013**	781
Year ended 31 Dec	**6,453**	5,765

1 *Salaries and other emoluments include Fixed Pay Allowances.*
2 *Discretionary annual incentives for the Executive Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Company's ultimate parent company, HSBC Holdings plc. Incentive awards made to Executive Directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £681,040 (2022: £580,071) in cash and £681,040 (2022: £580,071) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2023.*
3 *The amount shown is comprised of £416,869 (2022: £364,848) in deferred cash and £595,927 (2022: £416,541) in deferred Restricted Shares. These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2023. The total deferral period of deferred cash and share awards is no less than five years up to a maximum of seven years. Grants with a five-year deferral vest in five equal tranches on each anniversary of the grant date on a pro-rate basis. Grants with a seven-year deferral vest in five equal tranches on each anniversary from the third anniversary of the grant date on a pro-rata basis. The deferral periods and pro-rata calculations are in line with the requirements set out in the Remuneration rules applicable to Material Risk Takers. The share awards are subject to a retention period of six months to one year upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.*

One Director exercised share options over HSBC Holdings plc ordinary shares during the year (2022: no Directors).

Awards were made to 2 Directors under HSBC Holdings plc long-term incentive plans in respect of qualifying services rendered in 2023 (2022: 2). During 2023, 2 Directors received shares in respect of awards in HSBC Holdings plc long-term incentive plans that vested during the year (2022: 2).

Retirement benefits accrued to 1 Director during the year in respect of their qualifying services (2022: 1 Director). No Directors received cash in lieu of pension contributions during the year in respect of their qualifying services (2022: no Directors). Cash received in lieu of pension is included in the salary and other emoluments disclosure in the table above.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2023	2022
	£000	£000
Salaries and other emoluments	1,787	1,771
Annual incentives[1]	1,042	890
Long-term incentives[2]	876	602
Year ended 31 Dec	**3,705**	3,263

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown is comprised of £521,040 (2022: £445,071) in cash and £521,040 (2022: £445,071) in Restricted Shares.*
2 *The amount shown is comprised of £362,179 (2022: £294,214) in deferred cash and £514,297 (2022: £307,398) in deferred Restricted Shares.*

These amounts represent a portion of the total award that will vest following satisfaction of the vesting condition attached to the 2023 awards. The total period of deferral for these cash and share awards is seven years with pro-rata vesting in five equal tranches between the third and seventh anniversary of the date granted. The vested share awards are then subject to a one-year retention period.

The highest paid Director received shares in respect of qualifying services under an HSBC Holdings plc long term incentive plan.

Pension contributions of £nil were made by the Company in respect of services by the highest paid Director during the year (2022: £nil).

4 Auditors' remuneration

	2023	2022
	£m	£m
Audit fees payable to PwC	6.9	5.4
Assurance fees payable to PwC	2.3	2.8
Year ended 31 Dec	**9.2**	8.2

Fees payable by the group to PwC

	2023	2022
	£m	£m
Audit fees for HSBC UK Bank plc's statutory audit[1]	4.7	4.3
Fees for other services provided to the group	4.5	3.9
– audit of the group's subsidiaries	2.2	1.1
– audit-related assurance services[2]	2.2	1.9
– other assurance services[3]	0.1	0.9
Year ended 31 Dec	**9.2**	8.2

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC UK Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*
2 *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim and quarterly reviews.*
3 *Including comfort and arrangement letters to underwriters or other financial intermediaries and assurance reviews of PRA regulatory reporting returns.*

No fees were payable to PwC as principal auditor for the following types of services: internal audit services and services related to litigation, recruitment and remuneration.

In addition to the above, the estimated fees paid to PwC by third parties associated with HSBC UK amounted to £2.2m (2022: £0.7m). In these cases, HSBC UK was connected with the contracting party and may therefore have been involved in appointing PwC. These fees arose from services such as reviewing the financial position of corporate concerns that borrow from HSBC UK.

Fees payable for non-audit services for HSBC UK Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

5 Tax

Tax expense

	2023	2022
	£m	£m
Current tax	**1,310**	876
– for this year	1,320	880
– adjustments in respect of prior years	(10)	(4)
Deferred tax	**115**	(114)
– origination and reversal of temporary differences	122	52
– effect of changes in tax rates	(1)	(172)
– adjustments in respect of prior years	(6)	6
Year ended 31 Dec[1]	**1,425**	762

1 *In addition to amounts recorded in the income statement, a tax charge of £369m (2022: credit of £1,173m) was recorded directly to equity.*

On 1 April 2023, the main rate of UK corporation tax increased from 19% to 25% and the UK banking surcharge rate decreased from 8% to 3%. The tax rate applying to HSBC UK Bank plc and its banking subsidiaries in 2023 was a blended rate of 27.75%, comprising 23.5% UK corporation tax main rate plus 4.25% UK banking surcharge rate. The tax rate applicable for non-banking entities in 2023 was 23.5% (2022: 19%).

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of the entity's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), as well as a qualified domestic minimum top-up tax, with effect from 1 January 2024. Under these rules, a top-up tax liability arises where the effective tax rate of the HSBC Holdings plc group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Based on the Group's forecasts, no top-up tax liability is expected to arise in respect of the UK and therefore these rules are not expected to affect HSBC UK Bank plc's tax expense in future periods.

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:

	2023		2022	
	£m	**%**	£m	%
Profit before tax	**6,679**		3,638	
Tax expense				
Taxation at UK corporation tax rate of 23.5% (2022: 19.00%)	**1,570**	**23.5**	691	19.0
Items increasing the tax charge in 2023:				
– UK banking surcharge at 4.25% (2022: 8.00%)	**277**	**4.1**	278	7.6
– UK bank levy	**14**	**0.2**	9	0.2
– other permanent disallowables	**5**	**0.1**	4	0.1
Items decreasing tax charge in 2023:				
– non-taxable gain on SVB UK acquisition	**(361)**	**(5.4)**	—	—
– deductions for AT1 coupon payments	**(61)**	**(0.9)**	(39)	(1.1)
– movement in uncertain tax positions	**(15)**	**(0.2)**	—	—
– non-deductible UK customer redress	**(2)**	**(0.1)**	(11)	(0.3)
– change in tax rates	**(1)**	**—**	(172)	(4.7)
– adjustments in respect of prior period liabilities	**(1)**	**—**	2	0.1
Year ended 31 Dec	**1,425**	**21.3**	762	20.9

The effective tax rate for the year was 21.3% (2022: 20.9%). The effective tax rate is reduced by 5.4% due to non-taxable provisional gain arising on the acquisition of SVB UK in the period. The effective tax rate excluding this item is 26.7% and reflects the statutory blended tax rate of 27.75%, tax relief on AT1 coupon payments and a tax credit from the release of provisions for uncertain tax positions. The effective tax rate for 2022 was reduced by 4.7% by a credit arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3%, with effect from 1 April 2023. The effective tax rate excluding this item in 2022 was 25.6%.

Movement of deferred tax assets and liabilities

	Loan impairment provisions	**Cash flow hedges**	**FVOCI reserves**	**Defined benefit pension**	**Fixed and intangible assets**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
The group							
At 1 Jan 2023	**92**	**516**	**92**	**(1,472)**	**84**	**22**	**(666)**
Income statement	**(11)**	**—**	**(16)**	**(70)**	**(1)**	**(17)**	**(115)**
Other comprehensive income	**—**	**(401)**	**(24)**	**48**	**—**	**—**	**(377)**
Acquisition of subsidiary	**(7)**	**—**	**24**	**—**	**(25)**	**55**	**47**
At 31 Dec 2023	**74**	**115**	**76**	**(1,494)**	**58**	**60**	**(1,111)**
Assets	**74**	**115**	**76**	**—**	**58**	**60**	**383**
Liabilities	**—**	**—**	**—**	**(1,494)**	**—**	**—**	**(1,494)**
At 1 Jan 2022	122	45	(26)	(2,226)	102	14	(1,969)
Income statement	(30)	—	—	174	(18)	(12)	114
Other comprehensive income	—	470	118	580	—	20	1,188
Other adjustments	—	1	—	—	—	—	1
At 31 Dec 2022	92	516	92	(1,472)	84	22	(666)
Assets	92	516	92	—	84	22	806
Liabilities	—	—	—	(1,472)	—	—	(1,472)
The bank							
At 1 Jan 2023	**85**	**516**	**89**	**(1,472)**	**68**	**24**	**(690)**
Income statement	**(17)**	**—**	**—**	**(70)**	**(1)**	**4**	**(84)**
Other comprehensive income	**—**	**(401)**	**(24)**	**48**	**—**	**—**	**(377)**
At 31 Dec 2023	**68**	**115**	**65**	**(1,494)**	**67**	**28**	**(1,151)**
Assets	**68**	**115**	**65**	**—**	**67**	**28**	**343**
Liabilities	**—**	**—**	**—**	**(1,494)**	**—**	**—**	**(1,494)**

Movement of deferred tax assets and liabilities (continued)

	Loan impairment provisions	Cash flow hedges	FVOCI reserves	Defined benefit pension	Fixed and intangible assets	Other	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	115	45	(29)	(2,226)	80	14	(2,001)
Income statement	(30)	—	—	174	(12)	(9)	123
Other comprehensive income	—	470	118	580	—	20	1,188
Other adjustments	—	1	—	—	—	(1)	—
At 31 Dec 2022	85	516	89	(1,472)	68	24	(690)
Assets	85	516	89	—	68	24	782
Liabilities	—	—	—	(1,472)	—	—	(1,472)

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the bank and the group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance. Management is satisfied that there is sufficient evidence to support recognition of all deferred tax assets.

6 Dividends

On 9 February 2024, the Directors resolved to pay an interim dividend of £1,412m to the ordinary shareholders of the parent company in respect of the financial year ending 31 December 2023. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholder of the parent company

	2023		2022	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**10,779**	**539**	9,820	491
Interim dividend in respect of the current year	**33,159**	**1,658**	25,919	1,296
Total	**43,938**	**2,197**	35,739	1,787

Total coupons on capital securities classified as equity

		2023	2022
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**106**	70
– £1,100m	Dec 2024	**108**	72
Total		**214**	142

7 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that can be accessed at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2023				2022			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
The group	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Financial assets mandatorily measured at fair value through profit or loss	**89**	**—**	**46**	**135**	72	—	36	108
Derivatives	**2**	**173**	**3**	**178**	14	532	—	546
Financial investments	**14,284**	**212**	**—**	**14,496**	10,757	175	—	10,932
Liabilities								
Derivatives	**—**	**108**	**—**	**108**	—	304	—	304
The bank								
Recurring fair value measurements at 31 Dec								
Assets								
Financial assets mandatorily measured at fair value through profit or loss	**89**	**—**	**46**	**135**	72	—	36	108
Derivatives	**2**	**173**	**—**	**175**	14	532	—	546
Financial investments	**14,284**	**212**	**—**	**14,496**	10,757	175	—	10,932
Liabilities								
Derivatives	**—**	**108**	**—**	**108**	—	304	—	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 primarily attributable to observability of valuation inputs and price transparency. There were no transfers between Level 1 and Level 2 during 2023 and 2022.

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and therefore fair value adjustments may no longer be required.

Fair value valuation bases

Equities

The fair value of equity investment is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors. If necessary, adjustments are made to the net asset value of funds to obtain the best estimate of fair value.

8 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	**Quoted market price Level 1**	**Observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
The group					
At 31 Dec 2023					
Assets					
Loans and advances to banks	**7,980**	**—**	**7,979**	**—**	**7,979**
Loans and advances to customers	**211,887**	**—**	**—**	**209,462**	**209,462**
Reverse repurchase agreements – non-trading	**7,686**	**—**	**7,686**	**—**	**7,686**
Financial investments – at amortised cost	**11,819**	**9,931**	**1,639**	**—**	**11,570**
Liabilities					
Deposits by banks	**10,843**	**—**	**10,843**	**—**	**10,843**
Customer accounts	**268,345**	**—**	**268,345**	**—**	**268,345**
Repurchase agreements – non-trading	**4,652**	**—**	**4,652**	**—**	**4,652**
Debt securities in issue	**1,988**	**—**	**1,568**	**416**	**1,984**
Subordinated liabilities	**14,598**	**—**	**14,678**	**—**	**14,678**
At 31 Dec 2022					
Assets					
Loans and advances to banks	6,357	—	6,357	—	6,357
Loans and advances to customers	204,143	—	—	199,957	199,957
Reverse repurchase agreements – non-trading	7,406	—	7,406	—	7,406
Financial investments – at amortised cost	5,160	4,772	—	—	4,772
Liabilities					
Deposits by banks	10,721	—	10,721	—	10,721
Customer accounts	281,095	—	281,095	—	281,095
Repurchase agreements – non-trading	9,333	—	9,333	—	9,333
Debt securities in issue	1,299	—	1,094	185	1,279
Subordinated liabilities	12,349	—	11,765	—	11,765

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	£m	£m	£m	£m	£m
The bank					
At 31 Dec 2023					
Assets					
Loans and advances to banks	**13,642**	**—**	**13,646**	**—**	**13,646**
Loans and advances to customers	**201,014**	**—**	**—**	**198,552**	**198,552**
Reverse repurchase agreements – non-trading	**7,686**	**—**	**7,686**	**—**	**7,686**
Financial investments held at amortised cost	**11,608**	**9,931**	**1,469**	**—**	**11,400**
Liabilities					
Deposits by banks	**14,120**	**—**	**14,120**	**—**	**14,120**
Customer accounts	**262,342**	**—**	**262,342**	**—**	**262,342**
Repurchase agreements – non-trading	**4,652**	**—**	**4,652**	**—**	**4,652**
Debt securities in issue	**1,564**	**—**	**1,568**	**—**	**1,568**
Subordinated liabilities	**14,598**	**—**	**14,678**	**—**	**14,678**
At 31 Dec 2022					
Assets					
Loans and advances to banks	9,304	—	9,296	—	9,296
Loans and advances to customers	199,666	—	—	195,606	195,606
Reverse repurchase agreements – non-trading	7,406	—	7,406	—	7,406
Financial investments held at amortised cost	5,160	4,772	—	—	4,772
Liabilities					
Deposits by banks	11,619	—	11,619	—	11,619
Customer accounts	279,575	—	279,575	—	279,575
Repurchase agreements – non-trading	9,333	—	9,333	—	9,333
Debt securities in issue	1,091	—	1,094	—	1,094
Subordinated liabilities	12,349	—	11,765	—	11,765

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

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the group expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC UK believes are consistent with those that would be used by market participants in valuing such loans; and new business rates estimates for similar loans.

The fair value of loans reflects expected credit losses at the balance sheet date and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Deposits by banks and customer accounts

The fair values of deposits are approximated by their carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. When quoted market prices are unavailable, these instruments are valued using valuation techniques, the inputs for which are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

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.

9 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The group and bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Foreign exchange	**8,064**	**75**	**61**	**2**	**63**	**76**	**1**	**77**
Interest rate	**61,286**	**74,368**	**2,042**	**1,744**	**3,786**	**2,019**	**1,686**	**3,705**
Equities	**9**	**—**	**3**	**—**	**3**	**—**	**—**	**—**
Gross total fair values	**69,359**	**74,443**	**2,106**	**1,746**	**3,852**	**2,095**	**1,687**	**3,782**
Offset (Note 22)					**(3,674)**			**(3,674)**
At 31 Dec 2023	**69,359**	**74,443**	**2,106**	**1,746**	**178**	**2,095**	**1,687**	**108**
Foreign exchange	21,892	106	145	—	145	83	8	91
Interest rate	37,231	46,121	1,265	1,298	2,563	1,326	1,049	2,375
Equities	—	—	—	—	—	—	—	—
Gross total fair values	59,123	46,227	1,410	1,298	2,708	1,409	1,057	2,466
Offset (Note 22)					(2,162)			(2,162)
At 31 Dec 2022	59,123	46,227	1,410	1,298	546	1,409	1,057	304

The notional contract amounts of derivatives held for trading purposes and derivatives designated in qualifying hedge accounting indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Use of derivatives

We undertake derivative activity for two primary purposes: to create risk management solutions for commercial clients and to manage and hedge our own balance sheet risks.

Hedge accounting derivatives

The group applies hedge accounting to manage the following risks: interest rate risk and foreign exchange risks. Further details on how these risks arise and how they are managed by the group can be found in the 'Risk review'.

Hedge risk components

The group designates a portion of cash flows of a financial instrument or a group of financial instruments for a specific interest rate or foreign currency risk component in a fair value or cash flow hedge. The designated risks and portions are either contractually specified or otherwise separately identifiable components of the financial instrument that are reliably measurable. Risk-free or benchmark interest rates generally are regarded as being both separately identifiable and reliably measurable, except for the IBOR Reform transition where the group designates Alternative Benchmark Rates as the hedged risk which may not have been separately identifiable upon initial designation, provided the group reasonably expects it will meet the requirement within 24 months from the first designation date. The designated risk component accounts for a significant portion of the overall changes in fair value or cash flows of the hedged items.

Fair value hedges

The group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet	Change in fair value[2]
Hedged risk	**£m**	**£m**	**£m**	**Presentation**	**£m**
Interest rate[3]	**22,928**	**1,135**	**1,086**	**Derivatives**	**(270)**
At 31 Dec 2023	**22,928**	**1,135**	**1,086**		**(270)**
Interest rate[3]	18,520	1,297	837	Derivatives	723
At 31 Dec 2022	18,520	1,297	837		723

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]			Change in fair value[1]	Recognised in profit and loss	
	Assets	Liabilities	Assets	Liabilities	Balance sheet			Profit and loss
Hedged risk	**£m**	**£m**	**£m**	**£m**	**presentation**	**£m**	**£m**	**presentation**
Interest rate[4]	**12,141**		**(17)**		**Financial investments measured at fair value through other comprehensive income**	**465**		**Net income from financial instruments held for trading or managed on a fair value basis**
	2,172		**(58)**		**Loans and advances to customers**	**54**		
	403		**25**		**Financial Investments measured at amortised cost**	**26**	**4**	
		6,691		**(285)**	**Subordinated Liabilities[3]**	**(271)**		
At 31 Dec 2023	**14,716**	**6,691**	**(50)**	**(285)**		**274**	**4**	
Interest rate[4]	9,937		(912)		Financial investments measured at fair value through other comprehensive income	(1,300)	2	Net income from financial instruments held for trading or managed on a fair value basis
	1,250		(112)		Loans and advances to customers	(110)		
		5,326		(573)	Subordinated Liabilities[3]	689		
At 31 Dec 2022	11,187	5,326	(1,024)	(573)		(721)	2	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were assets/(liabilities) of £(4)m (2022: £(12)m) for FVOCI and liabilities of £(58)m for Loans and advances to customers (2022: £(111)m) and £(3)m for Financial Investments measured at amortised cost (2022: £Nil).*
3 *The notional amount of non-dynamic fair value hedges is equal to £6,921m (2022: £5,901m), of which the weighted-average maturity date is January 2028 and the weighted average swap rate is 1.89% (2022: 1.28%). These hedges are all internal to HSBC Group and hedges internal funding between HSBC Group and HSBC UK.*
4 *The hedged risk 'interest rate' includes inflation risk.*

The hedged item is either the benchmark interest rate risk portion within the fixed rate of the hedged item or the full fixed rate and it is hedged for changes in fair value due to changes in the benchmark interest rate risk.

HSBC UK applies macro fair value hedging for interest rate risk exposures on portfolios of fixed rate mortgages. These are considered to be dynamic hedges and both the hedged items and the hedging instruments are adjusted on a monthly basis when the existing hedging relationship is terminated and a new one designated. The hedged items and hedging instruments are adjusted to reflect changes in the size and maturity profile of the hedged portfolio.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

The disclosures for the group are the same as the disclosures for the bank.

Cash flow hedges

The group's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The group applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps, these are considered dynamic hedges.

Hedging instrument by hedged risk

Hedged risk	Hedging Instrument Notional amount[1] £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Balance sheet presentation	Change in fair value[2] £m	Hedged Change in fair value[3] £m	Ineffectiveness Recognised in profit and loss £m	Profit and loss presentation
Foreign currency	**75**	**2**	**1**	**Derivatives**	**12**	**12**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**51,440**	**609**	**600**	**Derivatives**	**537**	**536**	**1**	
At 31 Dec 2023	**51,515**	**611**	**601**		**549**	**548**	**1**	
Foreign currency	106	—	8	Derivatives	(8)	(8)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	27,601	1	212	Derivatives	(1,876)	(1,876)	—	
At 31 Dec 2022	27,707	1	220		(1,884)	(1,884)	—	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.

Sources of hedge ineffectiveness may arise from basis risk, including but not limited to timing differences between the hedged items and hedging instruments and hedges using instruments with a non-zero fair value.

The disclosures for the group are the same as the disclosures for the bank.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate £m	Foreign £m
Cash flow hedging reserve at 1 Jan 2023	**(1,325)**	**1**
Fair value gains/(losses)	**536**	**12**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	**896**	**(12)**
Income taxes	**(401)**	**—**
Cash flow hedging reserve at 31 Dec 2023	**(294)**	**1**
Cash flow hedging reserve at 1 Jan 2022	(89)	(1)
Fair value gains/(losses)	(1,876)	(8)
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
– hedged items that have affected profit or loss	170	10
Income taxes	470	—
Cash flow hedging reserve at 31 Dec 2022	(1,325)	1

10 Financial investments

Carrying amount of financial investments

	The group 2023 £m	The group 2022 £m	The bank 2023 £m	The bank 2022 £m
Financial investments measured at fair value through other comprehensive income	**14,496**	10,932	**14,496**	10,932
– treasury and other eligible bills	**884**	512	**884**	512
– debt securities	**13,611**	10,419	**13,611**	10,419
– equity securities	**1**	1	**1**	1
Debt instruments measured at amortised cost	**11,819**	5,160	**11,608**	5,160
– treasury and other eligible bills	**3,188**	448	**3,017**	448
– debt securities	**8,631**	4,712	**8,591**	4,712
At 31 Dec	**26,315**	16,092	**26,104**	16,092

11 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Treasury bills and other eligible securities	**170**	—	**—**	—
Debt securities	**6,717**	8,375	**6,717**	8,375
Loans and advances to banks	**6,600**	4,700	**9,047**	4,700
Loans and advances to customers	**15,016**	14,598	**15,016**	14,598
Other	**116**	294	**116**	294
Assets pledged at 31 Dec	**28,619**	27,967	**30,896**	27,967

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	The group and bank	
	2023	2022
	£m	£m
Financial investments	**5,542**	7,536
At 31 Dec	**5,542**	7,536

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 and the bank is permitted to sell or repledge in the absence of default was £10,689m (2022: £10,084m). The group and the bank is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining. The fair value of financial assets accepted as collateral by the group and the bank that have been sold or repledged is £3,456m (2022: £5,967m).

Assets transferred

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and securities lent under securities lending agreements and mortgages to collateralise the covered bond programme. 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

	2023		2022	
	Carrying amount of:		Carrying amount of:	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
The group	**£m**	**£m**	£m	£m
Repurchase agreements	**4,350**	**2,644**	5,064	4,367
Securities lending agreements	**1,192**	**—**	2,472	—
The bank				
Repurchase agreements	**4,350**	**2,644**	5,064	4,367
Securities lending agreements	**1,192**	**—**	2,472	—
Other sales (recourse for full amount)	**2,829**	**998**	1,245	499

12 Interests in joint ventures

Vaultex UK Limited is a joint venture of the bank and the group. Vaultex UK Limited is incorporated in England and its principal activity is that of cash management services. At 31 December 2023, the group had a 50% interest in the £10m issued equity capital (2022: 50%).

For further detail see Note 30.

13 Investments in subsidiaries

Main subsidiaries of HSBC UK Bank plc

	Country of incorporation or registration	HSBC UK Bank plc's interest in equity capital %	Share class
HSBC Equipment Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Invoice Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
Marks and Spencer Financial Services plc	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Innovation Bank Limited	**England and Wales**	**100.00**	**Ordinary £1**

All the above prepare their financial statements up to 31 December.

On 13 March 2023, HSBC UK acquired Silicon Valley Bank UK Limited (now HSBC Innovation Bank Limited) for £1, acquiring 100% of the equity and thereby obtaining control (see Note 28 for more information on the acquisition).

Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 30. The principal country of operation is the same as the country of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC UK Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment. The recoverable amount is the higher of the investment's fair value less costs of disposal and its VIU, in accordance with the requirements of IAS 36. The VIU is calculated by discounting management's cash flow projections for the investment. The cash flows represent the free cash flows based on the subsidiary's binding capital requirements.

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- 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. For the impairment test at 31 December 2023, cash flow projections until the end of 2028 were considered in line with our internal planning horizon. Our cash flow projections include known and observable climate-related opportunities and costs associated with our operating model.
- A long-term growth rate is used to extrapolate the cash flows in perpetuity. The growth rate reflects inflation and is based on the UK long-term average.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a CAPM model. CAPM depends on a number of inputs reflecting financial and economic variables, including the riskfree 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. The impacts from climate risk are included to the extent that they are observable in discount rates and asset prices.

Impairment test results

During 2023, an impairment of £92m (2022: £Nil) was recognised on the bank's investment in Marks and Spencer Financial Services plc as the VIU calculation performed identified that the recoverable amount was below the carrying amount:

Investment	Carrying amount £m	VIU £m	Impairment £m	Long term growth rate %	Discount rate %
Marks and Spencer Financial Services plc	**746**	**654**	**92**	**2.05**	**10.43**

There are no reasonably possible changes in the assumptions used to perform the VIU calculation in the next 12 months that would materially impact the impairment recognised.

During 2023, an impairment of £0.1m (2022: £4m) was recognised on the bank's investment in HSBC Trust Company (UK) Limited, due to a reduction in the net assets of the entity.

No further impairments were recognised as a result of the impairment testing in subsidiaries performed in 2023.

14 Structured entities

The group is involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets and investment funds, established either by the group or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type:

	Securitisations	Other	Total
	£m	£m	£m
At 31 Dec 2023	**675**	**1,006**	**1,681**
At 31 Dec 2022	315	502	817

Securitisations

The group uses a structured entity to securitise customer loans and advances to diversify its sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entity synthetically, and the structured entity issues debt securities to investors.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The group's interest in unconsolidated structured entities consist of unit holdings in four funds managed by a third party within the wider HSBC Group. The group's unit holdings are held to facilitate customer transactions and are recognised as Other assets with a carrying value and maximum exposure to loss at 31 December 2023 of £0.2m (2022: £0.2m). The total assets of the funds at 31 December 2023 were £1.1bn (2022: £1.1bn). The group has no liabilities or commitments in respect of the funds.

15 Goodwill and intangible assets

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Goodwill	**3,285**	3,285	**223**	223
Other intangible assets[1]	**1,078**	973	**978**	962
At 31 Dec	**4,363**	4,258	**1,201**	1,185

1 *Included within the group's other intangible assets is internally generated software with a net carrying value of £991m (2022: £973m). During the year, capitalisation of internally generated software is £321m (2022: £382m), impairment was £8m (2022: £45m) and amortisation is £295m (2022: £273m). The amortisation and impairment of intangible assets totalled for the group £319m (2022: £318m).*

Impairment testing

The group's annual impairment test in respect of goodwill allocated to each CGU is performed at 1 October each year. A review for indicators of impairment is undertaken at 30 June and 31 December. At 31 December 2023, this review did not identify any indicators of impairment. As a result, no impairment test has been performed at 31 December 2023.

Basis of the recoverable amount

The recoverable amount of all CGUs to which goodwill has been allocated was equal to its VIU at each respective testing date. The VIU is calculated by discounting management's cash flow projections for the CGU. At 1 October 2023, all CGUs supporting goodwill had a VIU larger than their respective carrying amounts. The key assumptions used in the VIU calculation for each CGU are discussed below.

Key assumptions in VIU calculation

Cash-generating unit	**Goodwill at 1 Oct 2023**	**Discount rate**	**Growth rate beyond initial cash flow projections**	Goodwill at 1 Oct 2022	Discount rate	Growth rate beyond initial cash flow projections
	£m	**%**	**%**	£m	%	%
WPB	**2,046**	**10.4**	**2.1**	2,046	9.6	2.1
CMB	**1,239**	**9.0**	**2.1**	1,239	8.6	2.1
Total	**3,285**			3,285		

The group's CGUs do not carry on their balance sheets any significant intangible assets with indefinite useful lives, other than goodwill.

Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on the forecast profitability plans approved by the Board and minimal capital levels required to support the business operations of a CGU. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support HSBC UK's strategy, current market conditions and macroeconomic outlook. For the 1 October 2023 impairment test, cash flow projections until the end of 2028 were considered, in line with internal planning horizon. As required by IFRS Accounting Standards, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. Our cash flow projections include known climate-related opportunities and costs associated with our operating model.

Discount Rate

The rate used to discount the cash flows is based on the cost of equity assigned to each CGU, which is derived using a CAPM and market implied cost of equity. The impacts of climate-risk are included to the extent that they are observable in discount rates and asset prices.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the group of business units making up the CGUs. The long-term growth rate reflects inflation for the UK.

Sensitivities of key assumptions in calculating VIU

At 1 October 2023, there were no CGUs deemed sensitive to reasonably possible adverse changes in key assumptions supporting the recoverable amounts. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input into the VIU calculation, such as the external range of discount rates observable, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections.

16 Prepayments, accrued income and other assets

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Prepayments and accrued income	**1,378**	986	**1,360**	1,011
Settlement accounts	**85**	9	**86**	9
Cash collateral and margin receivables	**27**	222	**27**	222
Endorsements and acceptances	**32**	49	**32**	49
Employee benefit assets (Note 3)	**5,337**	5,257	**5,337**	5,257
Right-of-use assets	**169**	171	**145**	158
Other accounts	**922**	1,610	**776**	1,439
Owned property, plant and equipment	**371**	458	**354**	382
At 31 Dec	**8,321**	8,762	**8,117**	8,527

For the group, prepayments, accrued income and other assets include £1,803m (2022: £1,871m), and for the bank £1,811m (2022: £1,901m) of financial assets, majority of which are measured at amortised cost. Other accounts includes a receivable of £73m (2022: £71m) arising from our profit and loss sharing arrangement with Marks & Spencer plc, which is tested for impairment in line with our accounting policy on the impairment of non-financial assets.

17 Debt securities in issue

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Bonds and medium-term notes[1]	**574**	358	**150**	150
Covered bonds	**998**	499	**998**	499
Other debt securities in issue[2]	**416**	442	**416**	442
At 31 Dec	**1,988**	1,299	**1,564**	1,091

1 *The group's Bonds and medium-term notes includes £426m (2022: £208m) issued by structured entities.*
2 *Other debt securities in issue consists of commercial paper and certificates of deposits.*

18 Accruals, deferred income and other liabilities

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Accruals and deferred income	**1,203**	645	**1,125**	615
Settlement accounts	**4**	81	**4**	81
Cash collateral and margin payable	**263**	234	**263**	234
Endorsements and acceptances	**38**	51	**38**	51
Lease liabilities	**188**	198	**163**	184
Other liabilities	**2,428**	2,334	**2,209**	2,165
At 31 Dec	**4,124**	3,543	**3,802**	3,330

For the group, accruals, deferred income and other liabilities include £3,959m (2022: £3,362m), and for the bank £3,744m (2022: £3,269m) of financial liabilities, the majority of which are measured at amortised cost.

19 Provisions

The group	Restructuring costs £m	Legal proceedings and regulatory matters £m	Customer remediation £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2023	**63**	**32**	**142**	**82**	**319**
Additions	**28**	**4**	**24**	**18**	**74**
Amounts utilised	**(36)**	**(2)**	**(49)**	**(6)**	**(93)**
Unused amounts reversed	**(28)**	**—**	**(29)**	**(18)**	**(75)**
Exchange and other movements	**3**	**—**	**1**	**(2)**	**2**
At 31 Dec 2023	**30**	**34**	**89**	**74**	**227**
Contractual commitments[1]					
At 1 Jan 2023					**105**
Net change in expected credit loss provision and other movements					**18**
At 31 Dec 2023					**123**
Total provisions					
At 31 Dec 2022					424
At 31 Dec 2023					**350**
Provisions (excluding contractual commitments)					
At 1 Jan 2022	22	39	256	96	413
Additions	65	5	38	33	141
Amounts utilised	(20)	(10)	(75)	(6)	(111)
Unused amounts reversed	(27)	(2)	(83)	(25)	(137)
Exchange and other movements	23	—	6	(16)	13
At 31 Dec 2022	63	32	142	82	319
Contractual commitments[1]					
At 1 Jan 2022					82
Net change in expected credit loss provision and other movements					23
At 31 Dec 2022					105
Total provisions					
At 31 Dec 2021					495
At 31 Dec 2022					424

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*

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 2023	**63**	**32**	**107**	**82**	**284**
Additions	**27**	**4**	**32**	**18**	**81**
Amounts utilised	**(35)**	**(2)**	**(39)**	**(6)**	**(82)**
Unused amounts reversed	**(28)**	**—**	**(27)**	**(18)**	**(73)**
Exchange and other movements	**3**	**—**	**1**	**(2)**	**2**
At 31 Dec 2023	**30**	**34**	**74**	**74**	**212**
Contractual commitments[1]					
At 1 Jan 2023					**102**
Net change in expected credit loss provision and other movements					**13**
At 31 Dec 2023					**115**
Total provisions					
At 31 Dec 2022					386
At 31 Dec 2023					**327**
Provisions (excluding contractual commitments)					
At 1 Jan 2022	22	39	205	96	362
Additions	65	5	33	33	136
Amounts utilised	(20)	(10)	(62)	(6)	(98)
Unused amounts reversed	(27)	(2)	(76)	(25)	(130)
Exchange and other movements	23	—	7	(16)	14
At 31 Dec 2022	63	32	107	82	284
Contractual commitments[1]					
At 1 Jan 2022					80
Net change in expected credit loss provision and other movements					22
At 31 Dec 2022					102
Total provisions					
At 31 Dec 2021					442
At 31 Dec 2022					386

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*

Customer remediation

Customer remediation refers to HSBC UK's activities to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by HSBC UK in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

Restructuring costs

The restructuring costs provision is for costs associated with the group's transformation programme.

Legal proceedings and regulatory matters

Further details of 'Legal proceedings and regulatory matters' are set out in Note 26. Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

20 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At amortised cost	**14,598**	12,349	**14,598**	12,349
– subordinated liabilities[1]	**14,598**	12,349	**14,598**	12,349
At 31 Dec	**14,598**	12,349	**14,598**	12,349

1 *Includes £11.3bn (2022: £9.3bn) of eligible debt issued to meet our Minimum requirement for own funds and Eligible Liabilities applicable from 1 January 2020.*

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of the group. Capital securities may be called and redeemed by the group subject to prior notification to and consent of the PRA.

The balance sheet amounts disclosed below are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital principally due to regulatory amortisation and regulatory eligibility limits.

Subordinated liabilities of the group

				Carrying amount	
				2023	2022
		First call date	Maturity date	**£m**	£m
Capital instruments					
Tier 2 instruments					
£550m	HSBC UK Bank plc Subordinated Floating Loan 2033[1]	Jul 2028	Jul 2033	**548**	550
$840m	HSBC UK Bank plc Subordinated Floating Loan 2033[2]	Jul 2028	Jul 2033	**656**	697
£100m	HSBC UK Bank plc 2.8594% Subordinated Loan 2029	Mar 2024	Mar 2029	**100**	100
£1,000m	HSBC UK Bank plc Subordinated Floating Loan 2030[3]	Jul 2025	Jul 2030	**1,000**	1,000
£650m	HSBC UK Bank plc Subordinated Floating Loan 2033[4]	Sep 2028	Sep 2033	**650**	650
£79m	HSBC UK Bank plc 2.1250% Subordinated Loan 2031	Mar 2026	Mar 2031	**79**	79
£250m	HSBC UK Bank plc 6.8960% Subordinated Loan 2033	Dec 2028	Dec 2033	**255**	—
Other instruments					
Subordinated loan instruments not eligible for inclusion in regulatory capital					
$2000m	HSBC UK Bank plc 0.9760% MREL eligible Subordinated Loan 2025	May 2024	May 2025	**1,536**	1,558
£350m	HSBC UK Bank plc 1.8777% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**350**	350
£150m	HSBC UK Bank plc 2.1003% MREL eligible Subordinated Loan 2025	Oct 2024	Oct 2025	**150**	150
€500m	HSBC UK Bank plc MREL eligible Subordinated Floating Loan 2026[5]	Sep 2025	Sep 2026	**437**	449
£1,000m	HSBC UK Bank plc 1.1250% MREL eligible Subordinated Loan 2026	Nov 2025	Nov 2026	**1,000**	1,000
£1,000m	HSBC UK Bank plc 1.7500% MREL eligible Subordinated Loan 2027	Jul 2026	Jul 2027	**999**	998
£1,000m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2028	Jul 2027	Jul 2028	**922**	880
£1,000m	HSBC UK Bank plc 1.7500% MREL eligible Subordinated Loan 2029	Aug 2028	Aug 2029	**1,000**	1,000
$3000m	HSBC UK Bank plc 3.9730% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**2,181**	2,259
£750m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**666**	629
£1,000m	HSBC UK Bank plc MREL eligible Subordinated Floating Loan 2029[6]	Apr 2028	Apr 2029	**998**	—
£1,000m	HSBC UK Bank plc 6.8000% MREL eligible Subordinated Loan 2031	Sep 2030	Sep 2031	**1,071**	—
At 31 Dec				**14,598**	12,349

1 *The floating rate of interest is Sonia plus 3.37%.*
2 *The floating rate of interest is SOFR plus 3.03%.*
3 *The floating rate of interest is Sonia plus 1.89%.*
4 *The floating rate of interest is Sonia plus 2.14%.*
5 *The floating rate of interest is three month Euribor plus 1.00%.*
6 *The floating rate of interest is Sonia plus 2.03%.*

21 Maturity analysis of assets, liabilities and off-balance sheet commitments

The following table provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading derivatives are included in the 'Due not more than 1 month' time bucket, because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due over 5 years' time bucket.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	65,719	—	—	—	—	—	—	—	65,719
Items in the course of collection from other banks	284	—	—	—	—	—	—	—	284
Financial assets mandatorily measured at fair value	89	—	—	—	—	—	—	46	135
Derivatives	73	1	—	—	1	4	25	74	178
Loans and advances to banks	6,947	111	922	—	—	—	—	—	7,980
Loans and advances to customers	16,357	9,502	6,562	5,339	5,877	19,294	40,853	108,103	211,887
– personal	6,280	2,490	1,980	1,907	1,897	7,047	19,955	101,056	142,612
– corporate and commercial	9,536	5,596	3,366	2,015	3,290	11,103	20,413	6,659	61,978
– financial	541	1,416	1,216	1,417	690	1,144	485	388	7,297
Reverse repurchase agreements – non-trading	2,257	3,334	1,195	—	900	—	—	—	7,686
Financial investments	1,273	2,275	1,270	386	412	1,942	5,963	12,794	26,315
Accrued income and other financial assets	1,435	256	90	9	10	1	4	—	1,805
Total financial assets at 31 Dec 2023	94,434	15,479	10,039	5,734	7,200	21,241	46,845	121,017	321,989
Non-financial assets	—	—	—	—	—	—	—	10,887	10,887
Total assets at 31 Dec 2023	94,434	15,479	10,039	5,734	7,200	21,241	46,845	131,904	332,876
Financial liabilities									
Deposits by banks	519	24	—	—	—	500	9,800	—	10,843
Customer accounts[1]	253,400	4,615	2,876	2,378	3,363	1,652	61	—	268,345
– personal	159,488	1,028	1,639	2,048	3,112	1,619	56	—	168,990
– corporate and commercial	89,054	3,311	1,180	320	248	30	5	—	94,148
– financial	4,858	276	57	10	3	3	—	—	5,207
Repurchase agreements – non-trading	4,652	—	—	—	—	—	—	—	4,652
Items in the course of transmission to other banks	411	—	—	—	—	—	—	—	411
Derivatives	91	—	—	—	—	2	6	9	108
Debt securities in issue	47	368	—	150	—	—	1,204	219	1,988
Accruals and other financial liabilities	2,858	484	306	143	26	38	70	32	3,957
Subordinated liabilities	—	100	1,536	—	500	2,438	6,106	3,918	14,598
Total financial liabilities at 31 Dec 2023	261,978	5,591	4,718	2,671	3,889	4,630	17,247	4,178	304,902
Non-financial liabilities	—	—	—	—	—	—	—	1,904	1,904
Total liabilities at 31 Dec 2023	261,978	5,591	4,718	2,671	3,889	4,630	17,247	6,082	306,806
Off-balance sheet commitments given									
Loan and other credit-related commitments	72,921	24	2	—	15	111	48	71	73,192
– personal	41,180	—	—	—	—	—	—	—	41,180
– corporate and commercial	28,399	24	2	—	15	111	48	71	28,670
– financial	3,342	—	—	—	—	—	—	—	3,342

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The group									
Financial assets									
Cash and balances at central banks	94,407	—	—	—	—	—	—	—	94,407
Items in the course of collection from other banks	353	—	—	—	—	—	—	—	353
Financial assets mandatorily measured at fair value	72	—	—	—	—	—	—	36	108
Derivatives	84	1	1	1	—	2	117	340	546
Loans and advances to banks	5,283	—	1,074	—	—	—	—	—	6,357
Loans and advances to customers	16,645	10,575	8,753	6,128	5,462	18,412	34,746	103,422	204,143
– personal	6,195	2,254	1,843	1,888	1,851	7,059	20,301	96,363	137,754
– corporate and commercial	10,178	8,033	6,650	4,071	3,469	10,732	13,978	6,809	63,920
– financial	272	288	260	169	142	621	467	250	2,469
Reverse repurchase agreements – non-trading	573	3,012	1,749	1,322	750	—	—	—	7,406
Financial investments	300	1,200	70	137	131	529	3,874	9,851	16,092
Accrued income and other financial assets	1,614	179	52	19	3	—	—	—	1,867
Total financial assets at 31 Dec 2022	119,331	14,967	11,699	7,607	6,346	18,943	38,737	113,649	331,279
Non-financial assets	—	—	—	—	—	—	—	11,162	11,162
Total assets at 31 Dec 2022	119,331	14,967	11,699	7,607	6,346	18,943	38,737	124,811	342,441
Financial liabilities									
Deposits by banks	393	30	—	—	—	—	10,298	—	10,721
Customer accounts[1]	275,777	2,558	997	381	1,016	360	6	—	281,095
– personal	177,548	767	391	296	828	348	2	—	180,180
– corporate and commercial	94,229	1,606	532	77	174	12	4	—	96,634
– financial	4,000	185	74	8	14	—	—	—	4,281
Repurchase agreements – non-trading	9,333	—	—	—	—	—	—	—	9,333
Items in the course of transmission to other banks	308	—	—	—	—	—	—	—	308
Derivatives	83	2	—	6	17	33	74	89	304
Debt securities in issue	44	398	—	150	—	—	707	—	1,299
Accruals and other financial liabilities	2,061	351	235	94	13	39	535	36	3,364
Subordinated liabilities	—	—	—	1,247	—	2,158	4,406	4,538	12,349
Total financial liabilities at 31 Dec 2022	287,999	3,339	1,232	1,878	1,046	2,590	16,026	4,663	318,773
Non-financial liabilities	—	—	—	—	—	—	—	1,442	1,442
Total liabilities at 31 Dec 2022	287,999	3,339	1,232	1,878	1,046	2,590	16,026	6,105	320,215
Off-balance sheet commitments given									
Loan and other credit-related commitments	70,263	39	—	10	—	24	124	23	70,483
– personal	42,059	—	—	—	—	—	—	—	42,059
– corporate and commercial	27,094	39	—	10	—	24	124	23	27,314
– financial	1,110	—	—	—	—	—	—	—	1,110

1 *'Customer accounts' includes £133,791m (2022: £137,319m) insured by guarantee schemes.*

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The bank									
Financial assets									
Cash and balances at central banks	65,719	—	—	—	—	—	—	—	65,719
Items in the course of collection from other banks	96	—	—	—	—	—	—	—	96
Financial assets mandatorily measured at fair value	89	—	—	—	—	—	—	46	135
Derivatives	73	1	—	—	1	4	25	71	175
Loans and advances to banks	9,831	456	1,395	155	152	505	1,148	—	13,642
Loans and advances to customers	19,065	4,715	4,364	3,961	5,147	18,387	37,953	107,422	201,014
– personal	3,992	2,223	1,885	1,817	1,813	6,758	19,564	101,030	139,082
– corporate and commercial	9,267	2,159	2,130	1,888	3,032	10,012	17,243	5,909	51,640
– financial	5,806	333	349	256	302	1,617	1,146	483	10,292
Reverse repurchase agreements – non-trading	2,257	3,334	1,195	—	900	—	—	—	7,686
Financial investments	1,273	2,105	1,270	386	412	1,942	5,962	12,754	26,104
Accrued income and other financial assets	1,535	175	85	8	9	—	—	—	1,812
Total financial assets at 31 Dec 2023	99,938	10,786	8,309	4,510	6,621	20,838	45,088	120,293	316,383
Non-financial assets	—	—	—	—	—	—	—	8,429	8,429
Total assets at 31 Dec 2023	99,938	10,786	8,309	4,510	6,621	20,838	45,088	128,722	324,812
Financial liabilities									
Deposits by banks	2,144	67	92	77	112	765	10,413	450	14,120
Customer accounts[1]	249,185	3,280	2,658	2,348	3,286	1,580	5	—	262,342
– personal	158,993	987	1,598	2,019	3,048	1,547	—	—	168,192
– corporate and commercial	85,708	2,141	1,019	319	235	30	5	—	89,457
– financial	4,484	152	41	10	3	3	—	—	4,693
Repurchase agreements – non-trading	4,652	—	—	—	—	—	—	—	4,652
Items in the course of transmission to other banks	408	—	—	—	—	—	—	—	408
Derivatives	90	—	—	—	—	2	7	9	108
Debt securities in issue	48	368	—	150	—	—	998	—	1,564
Accruals and other financial liabilities	2,727	429	302	141	25	34	57	28	3,743
Subordinated liabilities	—	100	1,536	—	500	2,438	6,106	3,918	14,598
Total financial liabilities at 31 Dec 2023	259,254	4,244	4,588	2,716	3,923	4,819	17,586	4,405	301,535
Non-financial liabilities	—	—	—	—	—	—	—	1,712	1,712
Total liabilities at 31 Dec 2023	259,254	4,244	4,588	2,716	3,923	4,819	17,586	6,117	303,247
Off-balance sheet commitments given									
Loan and other credit-related commitments	56,063	—	—	—	—	—	—	—	56,063
– personal	30,562	—	—	—	—	—	—	—	30,562
– corporate and commercial	24,617	—	—	—	—	—	—	—	24,617
– financial	884	—	—	—	—	—	—	—	884

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
The bank									
Financial assets									
Cash and balances at central banks	94,407	—	—	—	—	—	—	—	94,407
Items in the course of collection from other banks	154	—	—	—	—	—	—	—	154
Financial assets mandatorily measured at fair value	72	—	—	—	—	—	—	36	108
Derivatives	84	1	1	1	—	2	117	340	546
Loans and advances to banks	5,675	370	1,588	145	145	486	895	—	9,304
Loans and advances to customers	20,286	7,041	7,218	6,157	5,391	18,036	32,667	102,870	199,666
– personal	4,147	1,988	1,740	1,790	1,759	6,741	19,869	96,334	134,368
– corporate and commercial	9,978	4,589	5,099	3,981	3,297	10,078	11,510	6,173	54,705
– financial	6,161	464	379	386	335	1,217	1,288	363	10,593
Reverse repurchase agreements – non-trading	573	3,012	1,749	1,322	750	—	—	—	7,406
Financial investments	300	1,200	70	137	131	530	3,874	9,850	16,092
Accrued income and other financial assets	1,652	164	52	19	3	—	7	—	1,897
Total financial assets at 31 Dec 2022	123,203	11,788	10,678	7,781	6,420	19,054	37,560	113,096	329,580
Non-financial assets	—	—	—	—	—	—	—	8,830	8,830
Total assets at 31 Dec 2022	123,203	11,788	10,678	7,781	6,420	19,054	37,560	121,926	338,410
Financial liabilities									
Deposits by banks	911	50	65	45	55	115	10,378	—	11,619
Customer accounts[1]	274,258	2,558	997	381	1,015	360	6	—	279,575
– personal	176,657	767	391	296	828	348	2	—	179,289
– corporate and commercial	93,220	1,606	532	77	173	12	4	—	95,624
– financial	4,381	185	74	8	14	—	—	—	4,662
Repurchase agreements – non-trading	9,333	—	—	—	—	—	—	—	9,333
Items in the course of transmission to other banks	304	—	—	—	—	—	—	—	304
Derivatives	83	2	—	6	17	33	74	89	304
Debt securities in issue	44	398	—	150	—	—	499	—	1,091
Accruals and other financial liabilities	1,993	341	231	94	12	37	529	32	3,269
Subordinated liabilities	—	—	—	1,247	—	2,158	4,406	4,538	12,349
Total financial liabilities at 31 Dec 2022	286,926	3,349	1,293	1,923	1,099	2,703	15,892	4,659	317,844
Non-financial liabilities	—	—	—	—	—	—	—	1,272	1,272
Total liabilities at 31 Dec 2022	286,926	3,349	1,293	1,923	1,099	2,703	15,892	5,931	319,116
Off-balance sheet commitments given									
Loan and other credit-related commitments	57,179	—	—	—	—	—	—	—	57,179
– personal	31,527	—	—	—	—	—	—	—	31,527
– corporate and commercial	24,560	—	—	—	—	—	—	—	24,560
– financial	1,092	—	—	—	—	—	—	—	1,092

1 *'Customer accounts' includes £132,847m (2022: £136,451m) insured by guarantee schemes.*

Contractual maturity of financial liabilities

The following table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for derivatives not treated as hedging derivatives). For this reason, balances in the table below do not agree directly with those in our consolidated balance sheet and the bank's balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due over 3 months but not more than 1 year £m	Due over 1 year but not more than 5 years £m	Due over 5 years £m	Total £m
Deposits by banks	**560**	**106**	**367**	**12,257**	**—**	**13,290**
Customer accounts	**253,436**	**4,658**	**8,744**	**1,818**	**—**	**268,656**
Repurchase agreements – non-trading	**4,568**	**84**	**—**	**—**	**—**	**4,652**
Derivatives	**91**	**148**	**449**	**874**	**939**	**2,501**
Debt securities in issue	**48**	**382**	**192**	**1,598**	**268**	**2,488**
Subordinated liabilities	**49**	**196**	**2,430**	**9,976**	**4,034**	**16,685**
Other financial liabilities	**2,804**	**390**	**411**	**121**	**36**	**3,762**
	261,556	**5,964**	**12,593**	**26,644**	**5,277**	**312,034**
Loan and other credit-related commitments	**72,921**	**24**	**16**	**160**	**71**	**73,192**
Financial guarantees	**1,122**	**—**	**—**	**—**	**—**	**1,122**
At 31 Dec 2023	**335,599**	**5,988**	**12,609**	**26,804**	**5,348**	**386,348**
Proportion of cash flows payable in period %	**87**	**2**	**3**	**7**	**1**	**100**
Deposits by banks	406	57	121	10,942	—	11,526
Customer accounts	275,781	2,561	2,401	370	—	281,113
Repurchase agreements – non-trading	9,346	—	—	—	—	9,346
Derivatives	84	16	286	308	354	1,048
Debt securities in issue	44	405	173	882	—	1,504
Subordinated liabilities	29	56	1,485	7,369	4,683	13,622
Other financial liabilities	2,174	326	335	584	39	3,458
	287,864	3,421	4,801	20,455	5,076	321,617
Loan and other credit-related commitments	70,263	39	10	148	23	70,483
Financial guarantees	1,148	—	—	—	—	1,148
At 31 Dec 2022	359,275	3,460	4,811	20,603	5,099	393,248
Proportion of cash flows payable in period %	92	1	1	5	1	100
The bank						
Deposits by banks	**2,191**	**157**	**685**	**13,290**	**647**	**16,970**
Customer accounts	**249,216**	**3,316**	**8,416**	**1,691**	**—**	**262,639**
Repurchase agreements – non-trading	**4,568**	**84**	**—**	**—**	**—**	**4,652**
Derivatives	**90**	**148**	**449**	**873**	**939**	**2,499**
Debt securities in issue	**48**	**370**	**156**	**1,240**	**—**	**1,814**
Subordinated liabilities	**49**	**196**	**2,430**	**9,976**	**4,034**	**16,685**
Other financial liabilities	**2,685**	**343**	**404**	**103**	**31**	**3,566**
	258,847	**4,614**	**12,540**	**27,173**	**5,651**	**308,825**
Loan and other credit-related commitments	**56,063**	**—**	**—**	**—**	**—**	**56,063**
Financial guarantees	**1,122**	**—**	**—**	**—**	**—**	**1,122**
At 31 Dec 2023	**316,032**	**4,614**	**12,540**	**27,173**	**5,651**	**366,010**
Proportion of cash flows payable in period %	**86**	**1**	**4**	**7**	**2**	**100**
Deposits by banks	925	78	289	11,145	—	12,437
Customer accounts	274,261	2,561	2,401	370	—	279,593
Repurchase agreements – non-trading	9,346	—	—	—	—	9,346
Derivatives	84	16	286	308	354	1,048
Debt securities in issue	44	399	155	591	—	1,189
Subordinated liabilities	29	56	1,485	7,369	4,683	13,622
Other financial liabilities	2,106	319	330	576	35	3,366
	286,795	3,429	4,946	20,359	5,072	320,601
Loan and other credit-related commitments	57,179	—	—	—	—	57,179
Financial guarantees	1,148	—	—	—	—	1,148
At 31 Dec 2022	345,122	3,429	4,946	20,359	5,072	378,928
Proportion of cash flows payable in period %	91	1	1	5	2	100

22 Offsetting of financial assets and financial liabilities

In the offsetting of financial assets and financial liabilities, the net amount is reported in the balance sheet when the offsetting criteria is met. This is achieved when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In the following table, 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 to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral (debt securities) has been received/pledged for derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements to cover net exposure in the event of a default or other predetermined events.

The effect of over-collateralisation is excluded.

Amounts not subject to enforceable master netting agreements' include contracts executed in jurisdictions where the rights of set off may not be upheld under the local bankruptcy laws.

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 instrumens, including non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[4]	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
Derivatives (Note 9)	**3,849**	**(3,674)**	**175**	**(37)**	**(128)**	**10**	**3**	**178**
Reverse repos, stock borrowing and similar agreements classified as:								
– non-trading assets	**10,936**	**(3,250)**	**7,686**	**(7,686)**	**—**	**—**	**—**	**7,686**
Loans and advances to customers[2]	**5,652**	**(1,910)**	**3,742**	**(2,922)**	**—**	**820**	**—**	**3,742**
At 31 Dec 2023	**20,437**	**(8,834)**	**11,603**	**(10,645)**	**(128)**	**830**	**3**	**11,606**
Derivatives (Note 9)	2,708	(2,162)	546	(288)	(234)	24	—	546
Reverse repos, stock borrowing and similar agreements classified as:								
– non-trading assets	10,937	(3,531)	7,406	(7,406)	—	—	—	7,406
Loans and advances to customers[2]	5,555	(2,175)	3,380	(2,786)	—	594	—	3,380
At 31 Dec 2022	19,200	(7,868)	11,332	(10,480)	(234)	618	—	11,332
Financial liabilities								
Derivatives[1] (Note 9)	**3,782**	**(3,674)**	**108**	**(86)**	**(18)**	**4**	**—**	**108**
Repos, stock lending and similar agreements classified as:								
– non-trading liabilities	**7,902**	**(3,250)**	**4,652**	**(4,652)**	**—**	**—**	**—**	**4,652**
Customer accounts[3]	**8,790**	**(1,910)**	**6,880**	**(2,922)**	**—**	**3,958**	**4**	**6,884**
At 31 Dec 2023	**20,474**	**(8,834)**	**11,640**	**(7,660)**	**(18)**	**3,962**	**4**	**11,644**
Derivatives[1] (Note 9)	2,466	(2,162)	304	(41)	(218)	45	—	304
Repos, stock lending and similar agreements classified as:								
– non-trading liabilities	12,864	(3,531)	9,333	(9,333)	—	—	—	9,333
Customer accounts[3]	9,057	(2,175)	6,882	(2,786)	—	4,096	2	6,884
At 31 Dec 2022	24,387	(7,868)	16,519	(12,160)	(218)	4,141	2	16,521

1 *At 31 December 2023, the amount of cash margin paid that had been offset against the gross derivatives liabilities was £353m (2022: £1,123m).*
2 *At 31 December 2023, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £211,887m (2022: £204,143m) of which £3,742m (2022: £3,380m) was subject to offsetting.*
3 *At 31 December 2023, the total amount of 'Customer accounts' recognised on the balance sheet was £268,345m (2022: £281,095m) of which £6,880m (2022: £6,882m) was subject to offsetting.*
4 *This includes exposures that continue to be secured by financial collateral.*

23 Called up share capital and other equity instruments

Called up share capital and share premium

HSBC UK Bank plc ordinary shares of £1.00 each, issued and fully paid

	2023		2022	
	Number	£m	Number	£m
At 1 Jan and 31 Dec	**50,002**	**—**	50,002	—

HSBC UK Bank plc share premium

	2023	2022
	£m	£m
At 31 Dec	**9,015**	9,015

Total called up share capital and share premium

	2023	2022
	£m	£m
At 31 Dec	**9,015**	9,015

Other equity instruments

HSBC UK Bank plc additional tier 1 instruments

		2023	2022
		£m	£m
£1,096m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2019 onwards)	**1,096**	1,096
£1,100m	Undated Subordinated Additional Tier 1 instrument issued 2014 (Callable December 2024 onwards)	**1,100**	1,100
At 31 Dec		**2,196**	2,196

The bank has issued capital instruments that are included in the group's capital base as fully CRR II compliant additional tier 1 capital.

Interest on these instruments will be due and payable only at the sole discretion of the bank, and the bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the bank has insufficient distributable items or if the bank fails to satisfy the solvency condition as defined in the instruments terms.

The instruments are undated and are repayable, at the option of the bank, in whole at the initial call date, or on any Interest Payment Date after the initial call date. In addition, the instruments are repayable at the option of the bank in whole for certain regulatory or tax reasons. Any repayments require the prior notification to and consent of the PRA. These instruments rank *pari passu* with the bank's most senior class or classes of issued preference shares and therefore ahead of ordinary shares. These instruments will be written down in whole, together with any accrued but unpaid interest if either the group's solo or consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

24 Contingent liabilities, contractual commitments, guarantees and contingent assets

	The group		The bank	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Guarantees and other contingent liabilities:				
– financial guarantees[1]	**1,121**	1,148	**1,121**	1,148
– performance and other guarantees	**2,330**	2,530	**2,295**	2,530
At 31 Dec	**3,451**	3,678	**3,416**	3,678
Commitments[2]:				
– documentary credits and short-term trade-related transactions	**187**	52	**187**	52
– forward asset purchases and forward deposits placed	**297**	327	**—**	102
– standby facilities, credit lines and other commitments to lend	**72,708**	70,104	**55,876**	57,025
At 31 Dec	**73,192**	70,483	**56,063**	57,179

1 *Financial guarantees contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due, in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*
2 *Includes £70bn (2022: £68bn) for the group and £53bn (2022: £54bn) for the bank of commitments to which the impairment requirements in IFRS 9 are applied where the group and bank has become party to an irrevocable commitment.*

The preceding table discloses the nominal principal amounts of off-balance sheet liabilities and commitments for the group, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 19.

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

Contingent liabilities arising from legal proceedings, regulatory and other matters against group companies are excluded from this note but are disclosed in Note 26.

Financial Services Compensation Scheme

The FSCS provides compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. The FSCS may impose a further levy on HSBC UK to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and HSBC filed appeals. In February 2022, the Upper Tribunal issued a judgment addressing several preliminary legal issues, which was partially in favour of HMRC and partially in favour of HSBC. The case has now returned to the First-tier Tax Tribunal for determination. 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 is successful, HSBC will seek a refund of this VAT, of which £244m in estimated to be attributable to HSBC UK Bank plc.

25 Finance lease receivables

The group leases a variety of assets to third parties under finance leases, including transport assets, property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2023			2022		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	£m	**£m**	**£m**	£m	£m	£m
Lease receivables[1]						
– No later than one year	**1,363**	**(117)**	**1,246**	1,256	(87)	1,169
– One to two years	**1,049**	**(82)**	**967**	878	(62)	816
– Two to three years	**728**	**(50)**	**678**	680	(40)	640
– Three to four years	**376**	**(28)**	**348**	387	(24)	363
– Four to five years	**184**	**(17)**	**167**	176	(14)	162
– Later than 5 years	**360**	**(55)**	**305**	330	(57)	273
31 Dec[2]	**4,060**	**(349)**	**3,711**	3,707	(284)	3,423

1 *Finance leases receivables are disclosed within 'Loans and advances to customers' in the balance sheet.*
2 *ECL of £27m (2022: £23m) is held in respect of loans and advances under Finance lease receivables.*

26 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the Annual Report and Accounts 2023. 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 2023. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

PPI

Although the FCA deadline for bringing PPI complaints has passed, new litigation for historic PPI mis-selling is initiated.

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

Film Finance litigation

In June 2020, two separate investor groups issued claims against HSBC UK (as successor to HSBC Private Bank (UK) Limited ('PBGB')) in the High Court of England and Wales seeking damages for unspecified amounts in connection with PBGB's role in the development of Eclipse film finance schemes. These actions are ongoing.

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

UK collections and recoveries investigation

Since 2019, the FCA has been investigating HSBC Bank plc's, HSBC UK's and Marks and Spencer Financial Services plc's compliance with regulatory standards relating to collections and recoveries operations in the UK between 2017 and 2018. HSBC continues to cooperate with this investigation.

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

UK depositor protection arrangements investigation

In January 2022, the UK Prudential Regulation Authority ('PRA') commenced an investigation into HSBC Bank plc's and HSBC UK's compliance with depositor protection arrangements under the Financial Services Compensation Scheme in the UK. In January 2024, the PRA concluded its investigation and imposed a £57m fine on HSBC Bank plc and HSBC UK, which has been paid, and this matter is now closed.

Silicon Valley Bank ('SVB') litigation

In May 2023, First-Citizens Bank & Trust Company ('First Citizens') brought a lawsuit in the US District Court for the Northern District of California against HSBC UK and HINV, certain other HSBC companies and seven US-based HSBC employees who had previously worked for SVB. The lawsuit seeks $1bn in damages and alleges, among other things, that the HSBC companies conspired with the individual defendants to solicit employees from First Citizens and that the individual defendants took confidential information belonging to SVB and/or First Citizens. In January 2024, the court denied the defendants' motion to dismiss in part and granted it in part, and directed the plaintiff to amend its complaint to specify its allegations as to each defendant. In February 2024, First Citizens filed its amended complaint. This action is ongoing.

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

27 Related party transactions

The immediate and ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc
8 Canada Square
London E14 5HQ

The group's related parties include the parent, fellow subsidiaries, joint ventures, post-employment benefit plans for HSBC UK employees, KMP of the Company and its ultimate parent company, HSBC Holdings plc, close family members of KMP and entities which are controlled, jointly controlled or significantly influenced by KMP or their close family members.

Particulars of transactions between the group and its related parties are tabulated below in accordance with IAS 24 'Related party disclosures'. The disclosure of the year-end balance and the highest amounts outstanding during the year are considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

The KMP of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and the group, and include the Directors of the Company, certain senior executives of the Company, directors of HSBC Holdings plc and certain senior executives of HSBC Holdings plc. The emoluments of those KMP who are not directors or senior executives of the Company are paid by other Group companies who make no recharge to the Company. It is therefore not possible to make a reasonable apportionment of their emoluments in respect of services they have provided to the Company during the year. Accordingly, no emoluments in respect of these KMP are included in the following disclosure.

The table below represents the compensation for KMP (Directors and certain senior executives) of the Company in exchange for services rendered to the Company for the period they served during the year.

Compensation of Key Management Personnel

	2023	2022
	£000	£000
Short-term employee benefits	**10,960**	9,306
Post-employment benefits	**19**	12
Other long-term employee benefits	**841**	1,179
Share-based payments	**2,808**	2,046
Year ended 31 Dec	**14,628**	12,543

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel[1]

	2023		2022	
	Balance at 31 Dec	**Highest amounts outstanding during year**	Balance at 31 Dec	Highest amounts outstanding during year
	£m	**£m**	£m	£m
Advances and credits	**9**	**11**	10	11
Deposits	**5**	**17**	8	27

1 *Includes close family members and entities which are controlled or jointly controlled by KMP or their close family members.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

In addition to the requirements of IAS 24, particulars of advances (loans and quasi-loans), credits and guarantees entered into by the bank and its subsidiaries with Directors of the Company are required to be disclosed pursuant to section 413 of the Companies Act 2006. Under the Companies Act, there is no requirement to disclose transactions with other KMP.

Transactions with Directors: advances, credits and guarantees (Companies Act 2006)

	2023	2022
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Loans	**5,118**	6,677

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company[1,2]

	2023		2022	
	Balance at 31 Dec	Highest amounts outstanding during the year	Balance at 31 Dec	Highest amounts outstanding during the year
	£m	£m	£m	£m
Advances and credits	—	1	2	6
Deposits	14	33	12	30

1 *Excludes those who are also KMP of the Company.*
2 *Includes close family members and entities which are controlled or jointly controlled by the KMP or their close family members.*

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Transactions and balances during the year with the joint venture

	2023		2022	
	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec	Highest balance during the year
	£m	£m	£m	£m
Unsubordinated amounts due from the joint venture	74	76	74	115
Amounts due to joint venture	47	70	42	43
Guarantees and commitments	237	252	219	244

The group provides certain banking and financial services to its joint venture, including loans, overdrafts, interest and non-interest- bearing deposits and current accounts. Details of the interest in the joint venture are given in Note 12.

The group's transactions and balances during the year with HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2023				2022			
	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Derivatives	—	—	28	63	—	—	49	161
Loans and advances to banks	—	—	392	1,311	—	—	528	872
Reverse repos	—	—	400	495	—	—	—	3,085
Prepayments and accrued income	—	—	3	9	—	—	9	17
Other assets	—	1	573	935	1	1	935	935
Total related party assets at 31 Dec	—	1	1,396	2,813	1	1	1,521	5,070
Liabilities								
Deposits by banks	—	—	464	713	—	—	378	1,238
Customer accounts	—	—	2,036	2,280	—	—	2,104	2,104
Repos	—	—	330	900	—	—	511	1,610
Other liabilities	54	54	259	800	40	40	278	432
Accruals & Deferred Income	203	203	6	8	89	140	5	40
Derivatives	—	—	22	54	—	—	42	84
Subordinated liabilities	14,598	14,598	—	—	12,349	12,648	—	—
Total related party liabilities at 31 Dec	14,855	14,855	3,117	4,755	12,478	12,828	3,318	5,508

The group routinely enters into related party transactions with other entities in the HSBC Group. These include transactions to facilitate third-party transactions with customers, transactions for internal risk management, and other transactions relevant to HSBC Group processes. These transactions and 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 group's income statement included interest payable to HSBC Holdings plc of £513m (2022: £325m) and general and administrative expenses payable to other subsidiaries of HSBC Holdings plc of £1,724m (2022: £1,823m).

The bank's transactions and balances during the year with HSBC UK Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2023						2022					
	Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc		Due to/from subsidiaries of HSBC UK Bank plc subsidiaries		Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance	31 Dec	Highest balance
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
Derivatives	—	2	—	—	28	63	—	—	—	—	49	161
Loans and advances to banks	5,686	6,203	—	—	391	1,231	2,953	2,966	—	—	527	871
Loans and advances to customers	8,051	8,307	—	—	—	—	8,232	8,313	—	—	—	—
Reverse repos	—	—	—	—	400	495	—	—	—	—	—	3,085
Prepayments and accrued income	80	80	—	—	3	9	37	37	—	—	9	17
Other assets	1,006	1,187	—	1	572	935	1,040	1,068	1	1	935	935
Total related party assets at 31 Dec	14,823	15,779	—	1	1,394	2,733	12,262	12,384	1	1	1,520	5,069
Liabilities												
Deposits by banks	3,276	3,276	—	—	464	673	898	1,053	—	—	378	1,238
Customer accounts	491	678	—	—	2,036	2,280	381	381	—	—	2,104	2,104
Repos	—	—	—	—	330	900	—	—	—	—	511	1,610
Derivatives	—	5	—	—	22	54	—	—	—	—	42	84
Other liabilities	16	152	54	54	253	796	11	23	40	40	274	428
Accruals & Deferred Income	25	26	203	203	6	8	5	10	89	140	5	40
Subordinated liabilities	—	—	14,598	14,598	—	—	—	—	12,349	12,648	—	—
Total related party liabilities at 31 Dec	3,808	4,137	14,855	14,855	3,111	4,711	1,295	1,467	12,478	12,828	3,314	5,504

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 has placed deposits of £87m (2022: £59m) with HSBC UK, earning interest of £0.5m (2022: £0.1m).

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

28 Business acquisitions

Silicon Valley Bank UK Limited (now HSBC Innovation Bank Limited)

On 13 March 2023, HSBC UK acquired SVB UK for £1, acquiring 100% of the equity and thereby obtaining control. The acquisition was funded from existing resources and brought the staff, assets and liabilities of SVB UK into the HSBC UK portfolio.On acquisition, we performed a preliminary assessment of the fair value of the assets and liabilities purchased. We established a provisional opening balance sheet on 13 March 2023 and applied the result of the fair value assessment, which resulted in a reduction in net assets of £134m. The provisional gain on acquisition of £1,307m represents the difference between the consideration paid of £1 and the net assets acquired. This gain could change as further due diligence is performed within 12 months of the acquisition, as allowed by IFRS 3 'Business Combinations'.

HSBC Innovation Bank Limited contributed £362m of revenue and £121m to the consolidated profit of HSBC UK for the period from 13 March 2023 to 31 December 2023. As per the disclosure requirements set out in IFRS 3 (Business Combinations), if HSBC Innovation Bank Limited had been acquired on 1 January 2023, management estimates that for the twelve months to 31 December 2023 consolidated revenue would have been £10,927m and consolidated profit after tax £5,308m. In determining these amounts, management has assumed that the fair value adjustments, determined previously, that arose on acquisition would have been the same if the acquisition had occurred on 1 January 2023.

The details of the business combination as follows:

	£m
Fair value of consideration transferred	**—**
Recognised fair value of identifiable assets acquired and liabilities assumed at the acquisition date	
Assets	
Cash and balances at central banks	**589**
Items in course of collection from other banks	**302**
Loans and advances to banks	**147**
Loans and advances to customers	**5,369**
Financial investments	**2,540**
Other assets	**391**
Total assets	**9,338**
Liabilities	
Customer accounts	**7,400**
Repurchase agreements	**403**
Other liabilities	**228**
Total liabilities	**8,031**
Fair value of identifiable net assets acquired	**1,307**
Provisional gain on acquisition	**1,307**
Consideration transferred settled in cash	**—**
Cash and cash equivalents acquired	**1,023**
Net cash inflow on acquisition	**1,023**
Acquisition costs charged to expenses	**6**

29 Events after the balance sheet date

These accounts were approved by the Board of Directors on 20 February 2024 and authorised for issue.

On 9 February 2024, the Directors resolved to pay an interim dividend to ordinary shareholders of £1,412m in respect of the financial year ending 31 December 2023. No liability is recognised in the financial statements in respect of this dividend.

On 30 January 2024, the PRA concluded its investigation into HSBC Bank plc’s and HSBC UK Bank plc’s compliance with depositor protection arrangements under the Financial Services Compensation Scheme in the UK. The PRA imposed a fine of £57m on these entities, the majority of which was borne by HSBC Bank plc, had previously been fully provided for and has now been paid.

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

30 HSBC UK Bank plc’s subsidiaries and joint ventures

In accordance with section 409 of the Companies Act 2006 a list of HSBC UK Bank plc subsidiaries and joint ventures, the registered office address and the effective percentage of equity owned at 31 December 2023 is disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares which are held by HSBC UK Bank plc subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC UK Bank plc unless otherwise indicated.

HSBC UK Bank plc's registered office address is:

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom

Subsidiaries

The undertakings below are consolidated by HSBC UK Bank plc. Unless otherwise stated the place of incorporation is England and Wales.

Subsidiaries	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	*Footnotes*
Assetfinance December (F) Limited	100.00	*3*
Assetfinance June (D) Limited	100.00	*3*
Assetfinance March (D) Limited	100.00	*3*
Assetfinance September (G) Limited	100.00	*3*
B&Q Financial Services Limited	100.00	*1, 4*
Canada Square Nominees (UK) Limited	100.00	*1, 4*
HSBC Bank Pension Trust (UK) Limited	100.00	*1, 4*
HSBC Branch Nominee (UK) Limited	100.00	*1, 3*
HSBC UK Covered Bonds LLP	N/A	*0, 3*
HSBC Equipment Finance (UK) Limited	100.00	*1, 3*
HSBC Executor & Trustee Company (UK) Limited	100.00	*3*
HSBC Finance Limited	100.00	*1, 4*
HSBC Innovation Bank Limited	100.00	*1,7*
HSBC Invoice Finance (UK) Limited	100.00	*1, 3*
HSBC Private Bank (UK) Limited	100.00	*1, 4*
HSBC Trust Company (UK) Limited	100.00	*1, 4*
HSBC UK Client Nominee Limited	100.00	*1, 3*
HSBC UK Societal Projects Limited	100.00	*1,3*
HSBC Wealth Client Nominee Limited	100.00	*1, 3*
John Lewis Financial Services Limited	100.00	*1, 4*
Marks and Spencer Financial Services plc	100.00	*1, 5*
Marks and Spencer Unit Trust Management Limited	100.00	*1, 5*
Midland Bank (Branch Nominees) Limited	100.00	*1, 3*
Midland Nominees Limited	100.00	*3*
St Cross Trustees Limited	100.00	*3*
Turnsonic (Nominees) Limited	100.00	*3*

Joint venture

The undertaking below is a Joint Venture and equity accounted.

Joint venture	% of share class held by immediate parent company (or by HSBC UK Bank plc where this varies)	*Footnotes*
Vaultex UK Limited	50.00	*2, 6*

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	*Directly held by HSBC UK Bank plc*
2	*Financial year ended 6 October 2023*

Registered Offices

3	*1 Centenary Square, Birmingham, United Kingdom, B1 1HQ*
4	*8 Canada Square, London, United Kingdom, E14 5HQ*
5	*Kings Meadow Chester Business Park, Chester, United Kingdom, CH99 9FB*
6	*All Saints Triangle, Caledonian Road, London, United Kingdom, N1 9UT*
7	*Alphabeta, 14-18 Finsbury Square, London, United Kingdom, EC2A 1BR*

Reconciliation of alternative performance measures

Return on equity and return on tangible equity

RoTE is computed as reported profit, divided by average reported equity adjusted for goodwill and intangibles impairment for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests. We provide RoTE in addition to RoE as a way of assessing our performance, which is closely aligned to our capital position. The measures are calculated in US dollars in line with the standard HSBC Group-wide calculation methodology.

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

Return on Equity and Return on Tangible Equity

	Year ended	
	31 Dec 2023	31 Dec 2022
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**6,226**	3,385
Profit attributable to the ordinary shareholders, excluding goodwill and other intangible assets impairment	**6,226**	3,385
Equity		
Average shareholders' equity	**30,016**	28,757
Effect of average preference shares, additional Tier 1 and other equity instruments	**(2,726)**	(2,722)
Average ordinary shareholders' equity	**27,290**	26,035
Effect of goodwill and other intangibles (net of deferred tax)	**(5,342)**	(5,249)
Average tangible ordinary shareholders' equity	**21,948**	20,786
Ratio	**%**	%
Return on equity	**22.8**	13.0
Return on average tangible equity[1,2]	**28.4**	16.3

1 *Excluding the provisional gain on acquisition of SVB UK the RoTE was 22.4%.*

2 *Under IAS 19 HSBC UK holds a pension fund surplus, and records pension income in the Income Statement. The IAS 19 pension fund surplus increases Tangible Equity but not CET1. In the event that the IAS 19 pension fund surplus was zero, RoTE would be 32.4% (25.5% excluding the provisional gain on acquisition of SVB UK) (2022: 17.7%), we refer to this as Pension Adjusted RoTE.*

Abbreviations

Currencies

£	British pound sterling
€	Euro
$	United States dollar

Abbreviations

4Q24	Fourth quarter of 2024
2Q23	Second quarter of 2023
A	
AGM	Annual General Meeting
AI	Artificial Intellegence
AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1
B	
BACS	Bankers' Automated Clearing System
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
BoE	Bank of England
Bps	Basis points. One basis point is equal to one hundredth of a percentage point
C	
CBDC	Central Bank Digital Currency
CAPM	Capital asset pricing model
CBDC	Central Bank Digital Currencies
CEO	Chief Executive Officer
CET1	Common equity tier 1
CFO	Chief Financial Officer
CGU	Cash-generating Unit
CMB	Commercial Banking
CODM	Chief Operating Decision Maker
CDI	CORE Deposit Intangible
CRR	Customer risk rating
CRR II	Revised Capital Requirements Regulation and Directive, as implemented
CPI	Consumer Price Index
D	
DBS	Digital Business Services
DCF	Discounted cash flows
DPD	Days past due
DBO	Defined Benefit Obligation
DECL	Disclosures about Expected Credit Losses
DRA	Dynamic Risk Assessment
E	
EAD	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECL	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied.
EIR	Effective interest rate
ESG	Environmental, social and governance
EU	European Union
Euribor	Euro interbank offered rate
EVE	Economic value of equity
EPC	Energy Performance Certificate
F	
FCA	Financial Conduct Authority (UK)
FSCS	Financial Services Compensation Scheme
FTE	Full-time equivalent staff
FVOCI	Fair value through other comprehensive income
FY	Full Year
FY22	Full Year 2022
FY23	Full Year 2023
G	
GBM	Global Banking and Markets
GDP	Gross domestic product
GPSP	Group Performance Share Plans
group	HSBC UK Bank plc together with its subsidiary undertakings
Group	HSBC Holdings plc together with its subsidiary undertakings
GTRF	Global Trade and Receivables Finance
H	
HMRC	HM Revenue and Customs
HMT	His Majesty's Treasury
HQLA	High-quality liquid assets
HSBC Group	HSBC Holdings plc together with its subsidiary undertakings
HSBC Holdings plc	HSBC Holdings plc, the parent company of HSBC UK
HSBC UK	HSBC UK Bank plc together with its subsidiary undertakings
HINV	HSBC Innovation Bank Limited, formerly Silicon Valley Bank UK Limited
HR	Human Resources
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
Ibor	Interbank offered rate
ICAAP	Internal capital adequacy assessment process
IFRS® Accounting Standards	International Financial Reporting Standards as issued by the IASB
IFRS® Sustainability Disclosure Standards	Standards issue by the International Sustainability Standards Board ('ISSB')
ISSB	International Sustainability Standards Board
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal ratings-based
IT	Information technology
K	
KMP	Key management personnel
KPI	Key performance indicator
L	
LC	Large Corporates
LCR	Liquidity coverage ratio
LFRF	Liquidity and Funding Risk management Framework
LGD	Loss given default
Libor	London interbank offered rate
LTI	Long-term incentive
LTV	Loan to value
M	
MI	Management Information
MME	Mid-Market Enterprises
MREL	EU minimum requirements for own funds and eligible liabilities
M&S	Marks and Spencer Financial Services plc
N	
NII	Net interest income
NPS	Net Promoter Score
NSFR	Net stable funding ratio
O	
OCI	Other comprehensive income
P	
PD	Probability of default
PLCA	Purpose Led Conduct Approach
POCI	Purchased or originated credit impaired
PPA	Power Purchase Agreement

PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSR	Payment Systems Regulator
PIV	Pooled Investment Vehicles
PwC	PricewaterhouseCoopers LLP and its network of firms
R	
RAS	Risk Appetite Statement
Revenue	Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit provisions, also referred to as revenue
RMM	Risk Management Meeting
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RPI	Retail Price Index
RWA	Risk-weighted asset
S	
SAF	Subsidiary Accountability Framework
SME	Small and medium-sized enterprise
SOFR	Secured Overnight Financing Rate
Sonia	Sterling Overnight Index Average
SPPI	Solely payments of principal and interest
STD	Standardised Approach
SVB UK	Silicon Valley Bank UK Limited
T	
TCFD	Taskforce on Climate-Related Financial Disclosures
U	
UK	United Kingdom
US	United States of America
V	
VaR	Value at risk
VAT	Value-added tax
VIU	Value in use
W	
WPB	Wealth and Personal Banking
Y	
YoY	Year-on-year

HSBC UK Bank plc

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