HSBC UK Bank plc

Annual Report and Accounts 2022

HSBC

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Presentation of information

This document comprises the *Annual Report and Accounts 2022* for HSBC UK Bank plc (‘the bank’ or 'the Company') and its subsidiaries (together ‘HSBC UK’ or ‘the group’). ‘We’, ‘us’ and ‘our’ refer to HSBC UK Bank plc together with its subsidiaries. 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 2022* contains certain forward-looking statements with respect to the financial condition, ESG related matters, results of operations and business of the group.

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

HSBC UK, headquartered in Birmingham, has over 14 million active customers, with over 18,500 FTE employees across the country, supported by a further 5,000 FTE based in our service company HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

HSBC UK is intrinsically linked to the rest of the HSBC Group and leverages this network to support customers and grow revenue across key trade corridors around the world. HSBC UK provides products and services to customers through three businesses, supported by a corporate centre.

Wealth and Personal Banking

Customers

WPB helps our customers manage their day-to-day finances and manage, protect and grow their wealth. We serve over 13.5 million active customers under three brands: HSBC UK, including our Private Bank, first direct and M&S Bank. In 2022, we exited our partnership with John Lewis.

Products and services

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

Commercial Banking

Customers

CMB serves over 700,000 active customers across the UK, ranging from start-ups to multi-national corporates: Business Banking (which incorporates Small Business Banking); Mid-Market Enterprises; and Large Corporates.

Products and services

We support customers with tailored financial products and services to allow them to operate efficiently and grow. These include credit and lending, global payments solutions, and global trade and receivables finance.

Global Banking and Markets

A restricted Global Banking and Markets business offering restricted FX products and cash management services to our customer base and also making available other products from HSBC Bank plc.

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 2022 outline our business and financial performance aligned to our key strategic pillars.

Our strategy

Our UK strategy comprises the following four pillars:

Focus on our strengths

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, including through the cost of living crisis; and focusing on those areas where we have opportunities to grow.

Digitise at scale

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

Energise for growth

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

Transition to net zero

HSBC Group is targeting a transition to net zero for financed emissions from the portfolio of customers by 2050, and 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, and operate the business in a sustainable way. 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. These human connections are complex and overlap. Many of our employees are customers and shareholders of our Group, while our business customers are often suppliers. We aim to serve, creating value for our customers and shareholders. Our size and global reach mean our actions can have significant impact. We aim to do business responsibly, and thinking for the long term. This is key to delivering our strategy.

Our section 172 statement, detailing our Directors’ responsibility to stakeholders, can be found on pages 8 to 9.

Financial performance

We delivered reported profit before tax of £3,638m, £158m higher than 2021, driven by higher revenue, offset by higher ECL and operating expenses. Adjusted profit before tax increased 7% compared with 2021, to £4,036m.

Reported revenue increased 27% to £7,952m due to higher base interest rates increasing net interest margin by 36bps from 2021 to 1.89%, balance sheet growth and increased activity.

ECL increased by £1,471m from a £989m release in 2021 driven by post Covid-19 releases of allowances built up in 2020 to a charge of £482m in 2022 due to the deterioration in the economic outlook.

Reported operating expenses increased by £73m, including restructuring programme costs. On an adjusted basis, operating expenses were 1% lower than 2021 as we continue to actively manage our cost base, despite continued investment in technology, inflationary pressures and one-off cost of living payments made to staff.

Our 2022 reported RoTE of 16.3% was 2.8% higher than the 2021 reported RoTE of 13.5%, driven by higher profit before tax.

Our Financial summary, containing further details of our financial performance, can be found on page 10.

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 and areas of key interest are included on page 19.

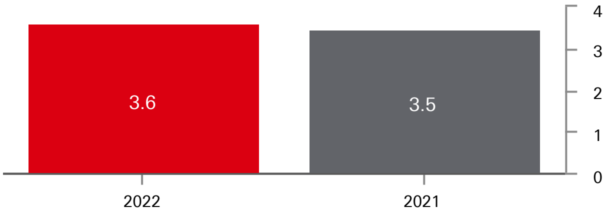
Financial highlights

For the year ended 31 December 2022

Reported profit before tax

£3.6bn

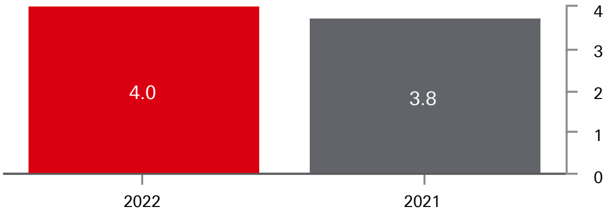
(2021: £3.5bn)



Adjusted profit before tax

£4.0bn

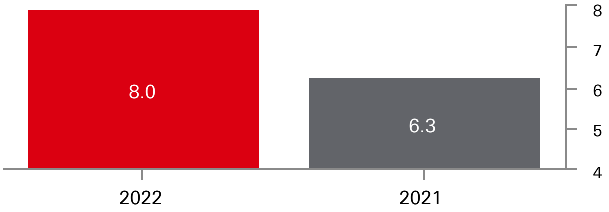
(2021: £3.8bn)



Reported revenue

£8.0bn

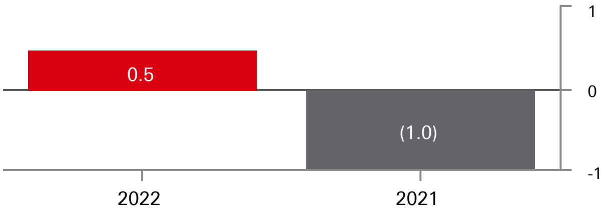
(2021: £6.3bn)



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

£0.5bn

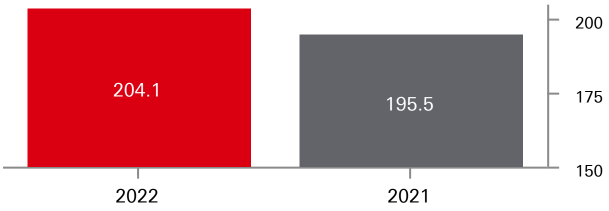
(2021: £(1.0)bn)



Loans and advances to customers

£204.1bn

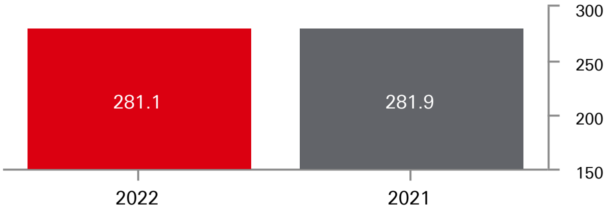
(2021: £195.5bn)



Customer accounts

£281.1bn

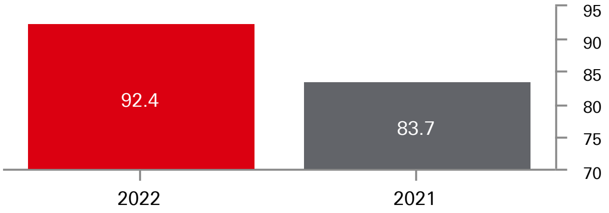
(2021: £281.9bn)



Risk-weighted assets

£92.4bn

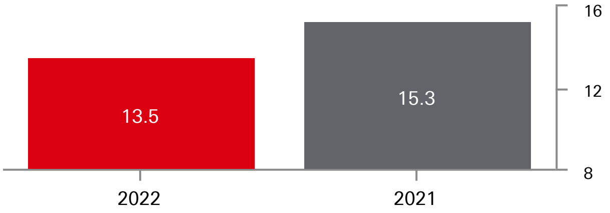
(2021: £83.7bn)



Common equity tier 1 capital ratio

13.5%

(2021: 15.3%)



Key financial metrics

	Year ended	
	31 Dec 2022	31 Dec 2021
Reported results		
Reported revenue (£m)	**7,952**	6,250
Reported profit before tax (£m)[2]	**3,638**	3,480
Reported profit after tax (£m)	**2,876**	2,368
Profit attributable to the shareholders of the parent company (£m)	**2,871**	2,363
Return on average tangible equity (%)[2]	**16.3**	13.5
Net interest margin (%)	**1.89**	1.53
Expected credit losses/(releases) as % of average gross loans and advances to customers (%)	**0.24**	(0.51)
Adjusted results		
Adjusted revenue (£m)	**7,944**	6,239
Adjusted profit before tax (£m)[2]	**4,036**	3,764
Cost efficiency ratio (%)[2]	**43.1**	55.5
Adjusted return on average tangible equity (%)[1,2]	**17.9**	14.7
Balance sheet		
Total assets (£m)	**342,441**	346,063
Net loans and advances to customers (£m)	**204,143**	195,526
Customer accounts (£m)	**281,095**	281,870
Average interest-earning assets (£m)	**327,840**	303,151
Loans and advances to customers as % of customer accounts (%)	**72.6**	69.4
Total shareholders' equity (£m)	**22,166**	23,745
Tangible ordinary shareholders equity (£m)	**15,699**	17,332
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3]	**13.5**	15.3
Total capital ratio (%)[3]	**19.3**	21.6
Risk-weighted assets[3] (£m)	**92,413**	83,723
Leverage ratio[3] (%)	**5.9**	4.2
High-quality liquid assets (liquidity value) (£m)[4]	**110,722**	103,943
Liquidity coverage ratio (%)[4]	**226**	222

[1] *In the event that the current IAS 19 pension fund surplus was zero adjusted RoTE would be 19.7%. Further detail is on page 126.*

[2] *These metrics are tracked as KPIs of the group.*

[3] *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments' which are explained further on page 59. Leverage ratios are reported based on the disclosure rules in force at that time, and include claims on central banks. Current period leverage metrics exclude central bank claims in accordance with the UK leverage rules that were implemented on 1 January 2022. References to EU regulations and directives (including technical standards) should, as applicable, be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.*

[4] *The LCR and HQLA are based on the average value of the preceding 12 months. Prior period numbers have been restated for consistency.*

Presentation of alternative performance measures (non-GAAP financial measures)

In measuring our performance, the financial measures that we use include those derived from our reported results to eliminate factors that distort period-on-period comparisons. Such measures are referred to as adjusted performance. A reconciliation of reported to adjusted performance is provided on pages 12 to 13.

RoTE is computed by adjusting the reported equity 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 purpose and values

Our purpose

Opening up a world of opportunity.

Our values

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

Our 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 meet our customers' diverse financial needs, reduce our risk profile and volatility, and generate returns for shareholders.

Value of our network

Within the UK we provide products and services digitally, by phone and face-to-face through our branches, bureaux and offices, and commercial centres. We are also supported by our Global Service Centres.

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 seize international growth opportunities. This helps us build deeper and more enduring relationships with businesses and individuals. HSBC Group's geographic reach and network of customers also allows greater insight into the trade and capital flows across supply chains. We share resources and product capabilities across our businesses and leverage these synergies when serving our customers.

Our strategy

Our UK strategy comprises the following four pillars:

Focus on our strengths

Supporting our customers

Throughout the year in WPB, we have taken a number of measures to support our customers through the current cost of living challenges. We have reached out to over 5.5m customers via email and phone to make them aware of the information and tools available to support with the cost of living. We launched the 'Rising Cost of Living Hub' on our website which offers guidance on where to go for additional support and provide money saving tips. We also gave customers with an existing overdraft the opportunity to request an increased interest-free buffer of £500 for a 12-month period.

We have enhanced support for our vulnerable customers as we focused on financial accessibility and inclusion. We turned all of our UK branches into Safe Spaces, to be used by anyone trying to escape domestic violence. As at 31 December 2022, we have opened 9,219 accounts for Ukrainian settlers and 371 for Afghan settlers. Additionally, the success of our past work continues as we have supported 4,209 individuals through our No Fixed Address service since 2018 and 2,125 through our Survivor Bank service, supporting survivors of human trafficking and modern slavery.

During the extreme market volatility in September 2022, we worked hard to support our mortgage customers. We simplified our online mortgage rate switching journey, with customers able to complete in less than 10 minutes. We also extended our rate switching window from 90 to 120 days, enabling customers to lock in their go-forward rate with more certainty.

In CMB, we have proactively engaged and supported our business customers to navigate rising inflation and supply chain pressures. We supported Small and Medium-sized Enterprises with Financial Health Checks and focused cost of living webinars combining economic updates with showcasing of the support available to businesses. We support global multi-banked corporates with requirements across all HSBC Group's product range including capital financing structures, financial sponsor shareholding and acquisition debt. In UK Global Trade & Receivables Finance, we launched a new iteration of the government's Recovery Loan Scheme Invoice Finance Facility which aims to improve the terms on offer to borrowers, extending the funding up to 100% of the value of invoices notified to HSBC UK.

Despite the uncertain environment, we continued to provide support to help British businesses grow. This year we launched a £250m 'Growth Lending' fund to help high-growth tech firms scale up and achieve their global ambitions and we have received business introductions to various sub sectors including FemTech, Climatech, Edtech and Insurtech looking to use the fund. In addition, we increased our total support for UK SMEs to £90bn since it was first launched in 2018. The fund is split into regional pots and funds for key sectors such as International, Technology, Agriculture and Franchise.

Improving customer service

Our strategic NPS benchmarking survey, that runs twice a year, saw first direct ranked joint 1st across all retail providers. For HSBC UK WPB, our score increased to +11, ranking us joint 10th vs. our peers.

In CMB, we have seen a decline in our overall score to -19 vs. -15 FY21 as measured by Savanta. Our MME segment overall ranking reduced to 3rd; BB improved to 4th and SBB remains at 8th but with improved customer digital satisfaction. Our LC segment remains #1 in the market for overall penetration and strategic advice in the Coalition Greenwich Survey.

We recognise that there is more work to be done to consistently meet and exceed customer needs. We have invested in additional contact centre training and resources to improve customer service which fell below our expected standards in 2022.

In 2022, we closed 70 branches and have 114 planned closures for 2023. We are cognisant of the impact our branch closures will have on some customers, and are digitising customer journeys at scale, while investing in our go-forward branch network. In 2022, we provided 918 community tablets to support our customers where digital servicing will support them to access banking services. HSBC UK is a member of Cash Access UK Limited, a company whose members are a group of banks and building societies. The company aims to preserve access to cash for consumers and businesses over the long-term.

Growing our business

Through focusing on the areas where we have distinctive capabilities, we continued to attract new customers. In 2022, we saw 190,000 personal customers switch to one of our brands from another provider, the highest ever; with first direct being the top bank for most switched to bank in the UK and winning MoneyFacts Consumer Awards Current Account Switching Provider of the year. Meanwhile HSBC Kinetic, our digital SME bank, had onboarded c.53,000 customers since launching in 2021 and has been recognised with several industry awards including Best Digital Customer Experience for account opening and onboarding by The Digital Banker 2022.

In 2022, we have helped first time buyers purchase c.12,000 properties, doing so by expanding our intermediary coverage to 870 brokers. As a result, we provided £27.9bn of gross new mortgage lending (FY21: £27.6bn) and increased our mortgage stock market share to 7.7% (FY21: 7.5%)[1].

Across the Private Bank we have increased our bespoke investment opportunities for clients – broadening our discretionary proposition with new equity strategies launched. In 2022, we acquired £3.0bn in net new money (FY21: £2.2bn).

In CMB, we were recognised in the market as Lender of the Year for 2022 at the Unquote British Private Equity Awards and our UK Global Payments Solutions team was named as Best in Service and Market Leader in the 2022 Euromoney Cash Management Survey. Our enhanced Global Payments Solutions proposition and optimisation activities drove a strong performance in 2022 achieving +62% revenue year on year. In GTRF, we were rated #1 Trade Finance Bank in the UK for the 6th year running at the Euromoney Awards for Excellence and assets are at record levels, near £7bn on a period end basis reflecting +25% growth on prior year. Furthermore, commercial lending (loans and overdrafts)[2] has increased 7% vs. FY21 despite the roll-off of government loan scheme balances. Through supporting our customers expand internationally we achieved double digit international revenue growth rates.

[1] Bank of England – Gross Lending, Net Lending & Stock, DEC 22.
[2] Total Loans & Advances less GTRF and Covid lending.

Digitise at scale

As part of our ambition to make banking simpler for our customers, we have opened 377,000 current accounts digitally and more than 780,000 unsecured lending products. This means that more than 95% of our unsecured lending originates through a digital channel.

In WPB, we launched Global Money, offering UK customers fee-free spending overseas; or for sending money abroad across 65 currencies covering at least 200 countries. As at 31 December 2022 we have onboarded 124,000 customers. This year we overhauled account applications on the first direct mobile app, reducing the time it takes to apply to 8 minutes. In M&S we launched Sparks Pay, the first product built on HSBC Group's new Global Lending platform using a cloud-based decision engine to support a faster journey.

Leveraging the foundations built in 2021, we continue to optimise our mobile wealth services, including the ability to make regular payments and invest in new low-cost sustainable funds. In 2022, 69% of all new non-advised fund acquisitions on Global Investment Centre has come through mobile channel.

We aim to use technology to deliver secure banking and that is why this year we introduced our first ever machine learning model to help detect payment fraud and scams. Since deployment, this model has increased detection cases by 21%.

In CMB, we have enhanced functionalities in our digital channels such as the Digital Business Banking payment tracker giving customers transparency over the end-to-end journey of cross-border payments. Following customer feedback, customers in HSBCnet can now download a payment message online to use as proof that funds have been sent to allow the release of goods and services. In Global Wallet, our award winning multi-currency virtual wallet, we increased our customer base by five times compared to 2021 with transaction values also rising tenfold. Digital adoption in CMB continues on a forward trajectory with 76% of customers now digitally active.

We launched new technologies to further support customers with our HSBC Trade Solutions platform helping to process transactions for clients that trade internationally with Guarantees and Standby Documentary Credits. Our new Dynamic Risk Assessment transaction monitoring system uses artificial intelligence and machine learning models to help detect financial crime risk and protect customers.

Energise for growth

Supporting our employees

Our ambition is to transform our culture to one that is truly customer-centric and high performing, becoming an organisation that is widely recognised by our customers and employees for providing world-class service and propositions. By bringing the voice of the customer into the running of our business, we will enable employees to better understand customers' situations, perceptions and expectations.

Employee engagement

Our employees' health, well-being and engagement continues to be a priority. We have provided extensive support through the launch of a new Digital GP Service giving employees, their partners and dependants quick and easy access to primary care at the time of need.

We gave a one-off payment of £1,500 to almost 17,000 employees, to support them with rising cost of living pressures. In partnership with the Bank Workers Charity, we have continued the HSBC Support Fund to provide short-term financial support to current and former employees who find themselves in financial hardship. Since launch in May 2021, 130 grants have been awarded for an aggregate amount of £190k.

We have seen employee engagement improve in 2022, with 75% of employees taking part in our internal Snapshot survey vs. 60% in 2021. 63% of employees would recommend HSBC UK as a great place to work, an +8 increase from last year; and the overall engagement index that shows how employees feel about the organisation is at 65%, +6 higher than in 2021.

We have provided guidance and structure to our people, to enable us to embed hybrid working in a sustainable way, while supporting our customers. We also launched Talent Marketplace, enabling people to undertake short-term assignments to help gain relevant hands-on experience within a specific discipline.

Speak-up culture

Empowering a speak up culture where our employees feel able to raise issues is 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 concern raisers.

Diversity and Inclusion

In 2022, we continued the delivery of our '3 Rs' inclusion strategy:

- Representation: We entered into a three-year partnership with MOBOLISE, a Black Talent programme; and, recruited five people with complex disabilities into bespoke Head Office roles. By year end our senior leadership was 37.9% female, 2.6% black heritage, and our new recruits included 10.9% with a disability. For further details, please visit HSBC Group's gender and ethnicity disclosures available online.
- Respect: We continued to integrate inclusion messaging within standard communications and training and our employee survey scores show that we are making a difference, with overall inclusion scores increasing by 4 points this year.
- Reputation: HSBC UK was named a top 10 employer by the Ethnicity Awards, ranked 32nd in the Stonewall LGBTQ+ Index, and was recognised as a Gold Standard employer following an assessment by the Business Disability Forum, with a score of 95.8%, the highest score awarded.

Supporting our community

Community partnerships

Employability: The Prince's Trust

This year we celebrated a decade of impact across our partnership. Since 2012, we have reached more than 55,000 young people not in education or employment. In 2022, over 2,180 young people benefited from the Prince's Trust Employability programmes with HSBC UK's support.

Youth Financial Capability

In 2022, HSBC UK have supported over 445,000 children and young people to learn about money through our programmes and partnerships with Young Money, The Scouts Association, our Education team and volunteer network.

Charity Finance Group

In partnership with the Charity Finance Group we created a Modern Banking Customer Guide to help charities, voluntary organisations, faith and community groups meet their banking needs in an evolving world and raise awareness of digital banking options.

Community support

In 2022, HSBC UK donated £8.3m to charities and non-profit organisations running programmes and projects in the UK. Additionally, our employees fundraised over £1m, supported with an additional £1.1m contribution from HSBC UK through our employee Pound for Pound scheme. Our employee led projects supported over 15,000 vulnerable people across 58 local charities and 3,315 employees took paid volunteering leave to support their local communities.

Transition to net zero

HSBC Group continues to take steps to implement its climate ambition to become net zero in its operations and supply chain by 2030, and align financed emissions to net zero by 2050. HSBC Group expanded the coverage of sectors for on-balance sheet financed emissions targets, recognising the challenge of evolving methodologies and data limitations.

The transition to net zero is one of the biggest challenges for our generation. Success will require governments, customers and finance providers to work together. HSBC Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that HSBC Group's transition will be challenging but is an opportunity to make an impact.

HSBC Group recognises that to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on HSBC Group's ambition, it requires enhanced processes and controls, and new sources of data. HSBC Group continues to invest in climate resources and skills, and develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are fully developed, certain aspects of HSBC Group's reporting will rely on manual sourcing and categorisation of data. In 2023, HSBC Group will continue to expand its disclosures, with our reporting needing to evolve to keep pace with market developments.

In December 2022, HSBC Group published its updated energy policy and an update on the Group's thermal coal phase-out policy. These policies were drafted in consultation with leading independent scientific and international bodies and investors. For further details, please refer to the ESG review in the *HSBC Holdings plc Annual Report and Accounts 2022.*

HSBC Group is committed to a science-aligned phase-down of fossil fuel finance in line with the Paris Agreement and have committed to publish its own Group-wide Climate Transition Plan in 2023.

More information about HSBC Group's assessment of climate risk can be found in the *HSBC Holdings plc Annual Report and Accounts 2022*.

Supporting our customers

Sustainable finance and investment ambition

HSBC Group is supporting customers through the transition to net zero and a sustainable future with an ambition to provide and facilitate $750bn to $1tn of sustainable finance and investment by 2030[2]. HSBC Group currently finances a number of industries that make a significant contribution to greenhouse gas emissions, where many customers operate in the high-emitting sectors and regions that face the greatest challenge in reducing emissions. HSBC Group's approach is rooted in engaging with customers to help them diversify and decarbonise.

In 2022, HSBC UK provided more than £4.7bn of sustainable finance, which includes green loans, sustainability linked loans and sustainable bonds[2]. Examples include:

HSBC UK Green SME Fund

Launched in January 2022, our Green SME Fund provides structured lending to support businesses' green initiatives. We supported 146 customers with £40m of financing, with loans starting from £7,000.

Hornsea 2

HSBC UK supported a consortium on the acquisition of a 50% stake in the world’s largest operating offshore windfarm, Hornsea 2.

JDR Cables

HSBC UK in collaboration with HSBC Group supported a £1bn Green Loan under the UK Export Finance Export Development Guarantee Scheme for JDR Cables. The proceeds will support a new sub-sea cable manufacturing facility for the renewable energy sector. HSBC UK acted as a sole sustainability coordinator plus other roles on this transaction.

[2] *Detailed definitions can be found in HSBC Group's Sustainable Finance Data Dictionary. See https://www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.*

We also continue to grow our Sustainable Finance Ambassador network, which now has over 1,000 members, with the aim of deepening our employees' understanding of the opportunities and risks faced by our clients as a result of the transition to net-zero.

Thought leadership

We partnered with the Climate Action For Associations collective to publish a series of practical guides on our Business Banking Sustainability Hub, for small businesses navigating the transition to net-zero. We have published climate thought-leadership research on our Centre for Sustainable Finance, including our SME Emissions Framework Scoping Exercise and Retrofit Conundrum Reports.

Unlocking climate solutions

Through our philanthropic partners we are unlocking barriers to finance companies and projects to tackle climate change. Since the start of our partnership with the National Trust in 2021, 579,000 native trees have been planted across England, Wales and Northern Ireland, creating 674 hectares of woodland and wood pasture. In addition, HSBC UK has funded ‘Access to Nature’ education sessions at National Trust properties, providing transport and nature-connection activities to over 6,500 children with the least access.

Working together with the National Trust for Scotland, we have supported a pioneering landscape restoration project in Dumfries and Galloway. Since the start of the partnership in 2021, restoration work has been carried out across 45 hectares of wetland and woodland, and a no fence technology has been introduced to trial how sustainable livestock management can be balanced with nature recovery.

Our partnerships with the University of Birmingham and Imperial College London have enabled us to support over 86 climate innovation ventures since 2021 that are developing services, products or technologies with potential to positively 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 had regard for 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 2022 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 2022 are set out in the Corporate Governance Report on page 65.

Engaging with our key stakeholders

With the easing of Covid restrictions, a broad range of events, offering direct engagement with customers and employees, were attended by members of the Board during 2022 to help them understand what really mattered to these stakeholders and validate that the bank's current strategy continued to support them in the particularly challenging current environment.

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 2022 is covered in the 'Our strategy' section on page 5 in the Strategic report. Examples of how the Board has engaged with customers during 2022 include:

- CEO Reports to the Board provided key customer-related metrics and performance indicators, such as customer survey feedback and net promoter scores, which allowed the Board to monitor the bank's approach to supporting customers and the performance and impact of associated activities.
- Reports to the Board on complaints, the impact of cost of living pressures, supporting vulnerable customers and our branch strategy, enabled the Board to assess whether the improvement of customer service and outcomes were prioritised appropriately to deliver the bank's determination to be a truly customer-centric organisation.
- Direct customer interactions reinforced the Board's views about what is required to improve customer experience. Representatives of Large Corporate customers met with the Board to share their views on areas of focus and concern and the service they expect from the bank. The Board was immersed in the Retail customer experience during a day spent with colleagues at first direct when Directors listened to customer phone calls and heard about digital journey developments.

Employees

Employees are critical to the successful operation of the bank and its long-term future. Understanding how our employees feel helps us to give them the right support to thrive and serve our customers. How we engage with employees in different ways, as well as our focus on improving diversity and inclusion in HSBC UK, is detailed on page 6.

Examples of how the Board has engaged with employees include:

- CEO Reports to the Board provided updates on employee related activities and events, metrics on employee attrition, gender diversity and personal conduct cases and the internal employee survey ('Snapshot'). This allowed the Board to understand employee sentiment, health and well-being throughout 2022. When the Board considered management's update on its People Strategy it was able to assess whether the areas of focus and prioritisation remain appropriate in the rapidly changing external environment.
- The Board used the Culture Dashboard developed in 2021 to assess whether actions being taken are effective in energising colleagues to put the customer first, own their careers and build skills for the future.
- Individual Directors met with colleagues from across the bank to understand and hear their perspectives of what it is like to work for HSBC UK, whether they trust their leaders, feel HSBC UK is making a difference for its customers and are proud of its role in society, and what more can be done to improve their own experiences in the workplace.

Shareholder and investors

The bank is a wholly owned subsidiary of HSBC Holdings plc and therefore the Board and its executive management consider the impact and implications of their decisions in relation to its shareholder and debt security investors during these engagements. Examples of how the Board did this include:

- The Board Chairman and Committee Chairs engaged with their Group counterparts and attended Group forums and Board Committee meetings, together with Executive Directors, to engage on common issues and strategic priorities.
- Reviewing and approving HSBC UK specific components of Group programmes.
- 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.
- Supporting a successful investor day led by the bank's executive team to provide investors in the Group with a better understanding of the bank and its growth prospects in the UK.

Suppliers

Suppliers provide critical support to help us operate our business effectively. We work with our suppliers to ensure mutually beneficial relationships, which includes our commitment to the Prompt Payment Code. Examples of Board engagement during 2022 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.
- Management reporting on how the bank oversees the quality of the services provided by our critical third-party suppliers and how we work together with our suppliers to mitigate impacts to customers.

This allowed the Board to assess whether the bank had met the Operational Resiliency regulatory requirements for outsourcing and third party risk management and the effectiveness of our relationships with third party suppliers and the bank's processes in providing adequate oversight and control of supplier risk. It also enabled the Board to remain alert to pressure points and oversee how the bank managed risk relating to its third, fourth and fifth party suppliers. Further detail on third party risk management is included in the Risk section in the Report of Directors on page 24.

Communities

HSBC UK has 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 7. In 2021, the Board had assessed HSBC UK’s existing social impact, profile and narrative, and supported the intention to focus the bank’s social and community projects on financial inclusion, resilience, capability and opportunity. This work on HSBC UK's societal purpose has continued in 2022 with the Board:

- Agreeing the appropriate governance model and funding;
- Understanding how our societal purpose would be embedded within the business to deliver: long-term sustainable success and meaningful change, particularly in the current challenging economic environment; and engagement with the brand by improving customer perception of HSBC UK; and
- Examining the approach being taken to align partnerships across HSBC UK to the societal purpose, including the exit plans for any incompatible partnerships.

The Board also received an update on the bank's progress against its Climate Strategy and Plan, acknowledging that there remained work to be done in developing product propositions. The Board encouraged management to consider how risk appetite metrics could be enhanced to measure clients' transition from brown to green activities.

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 Board engagement with them during 2022 include:

- Meetings between Directors and regulators, both as part of continuous assessment and on specific issues such as the FCA's annual Firm Evaluation and the PRA's periodic summary review.
- Participation by Directors in government and regulatory consultations, industry forums and round table events.

Board engagement and governance

Below are two examples of principal decisions and discussions during the year where the Directors had regard to their statutory duties under section 172(1) (a)-(f) of the Companies Act 2006:

Managing the Cost of Living Challenges

The Board has considered the bank's response to cost of living challenges on customers, particularly lower-income households, smaller businesses, and our employees. Supporting our customers remains a priority, with the bank continually evaluating initiatives and relief measures that could be taken. During the second half of the year the Board considered the actions being taken by our WPB and CMB businesses. These included:

- enhanced forbearance tools, including tailored forbearance strategies for CMB customers;
- the ability to modify terms and conditions applying to an existing facility, or the restructuring of an existing contract, that would not ordinarily be granted were a customer not experiencing financial difficulty;
- online resources for both WPB and CMB customers, including dedicated self-help tools and webinars, with more targeted intervention towards customers identified as more likely to be financially stretched;
- increased capacity in the WPB Financial Support Team, as well as the establishment of the CMB Financial Support Team dedicated to supporting our commercial clients experiencing financial difficulty; and
- an increase to charge-free buffers for retail customers on an opt-in basis for 12 months.

The pressures on employees caused by rising inflation and energy prices have been closely tracked and regularly discussed by the Board. As these inflationary pressures rose, the Board agreed to make a one-off payment of £1,500 to our more junior employees to underpin their financial security. In reaching its decision, the Board was mindful of the need to avoid embedding inflationary pressure into the economy but was keen to provide immediate relief to those employees experiencing cash flow pressures. Proactive steps have also been taken to increase fixed pay for over 90% of HSBC UK colleagues. The Board was also updated about the additional steps taken to support employees, including:

- Face-to-face financial health checks offered to all employees and financial wellbeing support tools;
- HSBC UK's Support Fund for those colleagues who are in financial distress; and
- Ongoing education about HSBC UK's benefit options.

Branch Network Transformation

Planning the future shape and size of the Branch Network is crucial, given the pace of change in customer behaviours. During 2022, the Board reviewed and evaluated options for the Branch Network Transformation (the 'transformation plans') to achieve an optimal end-state Branch Network over the medium term. In particular, the Board considered an opportunity (arising from the timing of lease-breaks) to accelerate the transformation plans in 2023. During its discussions, the Board considered whether the impacts to, and outcomes for, our stakeholders were appropriate. The Board examined, in particular, whether the transformation plans:

- safeguarded the provision of critical services for customers (such as access to cash, vulnerable customer support, advice, and the broader customer digital /financial education agenda) whilst creating a more efficient operating model;
- were sufficiently customer centric, given branches remain valuable to customers – even in a digital age – by providing the human touch in the moments that matter and whether this was consistent with the bank's wider holistic strategy to improve customer outcomes;
- would, in parallel, deliver new and simplified customer journeys from enhanced technology;
- adhered to all aspects of regulatory guidance and reflected feedback from engagement with our regulators;
- had taken appropriate account of the direct and indirect impacts to colleagues. The Board was keen to ensure that communications were open and transparent on proposed closures and the funding to invest in other areas of the Branch Network was secured; and
- conflicted with HSBC UK's strategic ambition to be at the heart of local communities, if there was no longer a direct physical presence.

The Board concluded that the data supported an optimum end state Branch Network, based on the shift in customer demand and behaviours. The Board acknowledged that the transformation plans would enable a greater proportion of the bank's investment spend and running costs to be focused on enhancing the service that the bank was able to offer to its wider customer base. The proposal to accelerate the branch closures was supported, conditional upon ensuring the outcome for vulnerable and impacted customers was acceptable.

Business performance and KPIs

The Board tracks 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 strategic priorities, operating plan targets and historical performance.

Management and the Board review its KPIs regularly in light of its strategic objectives and may adopt new or refined measures to better align the KPIs to HSBC Group's strategy and strategic priorities. We monitor a range of non-financial KPIs focusing on customers, people, culture and values including customer service satisfaction, employee engagement and diversity and sustainability.

For details on customer service and satisfaction please refer to page 5; for supporting our employees and diversity and inclusion refer to page 6; for sustainability refer to page 7 and for other non-financial KPIs refer to the Corporate Governance section on pages 65 to 69.

Economic background and outlook

UK economic outlook

HSBC Global Research forecasts UK GDP to fall 0.4% in 2023, followed by a rise of 1.5% in 2024. While GDP was flat in Q4 2022, meaning a recession at that point was avoided, UK household real incomes are still set to fall by 1.1% in 2023, and the impact of higher interest rates poses an additional headwind. Fiscal support and lower oil and gas prices mean this squeeze is less intense than it might have been, but companies face the end of government energy support, higher labour and borrowing costs and – for larger businesses – a rise in corporation tax in April.

The UK labour market has continued to outperform. The unemployment rate stood at 3.7% in December 2022 (close to the multi-decade low of 3.5% in August), with private sector pay growth rising to 7.3% 3m/yr – the fastest rate on record, excluding pandemic-related erratics. Widespread strikes across the public and private sectors are adding to pressures on pay. That said, there are signs that the imbalances have begun to unwind: vacancies have fallen, redundancies are up, and surveys point to improving supply and waning demand for labour. HSBC Global Research forecasts unemployment averaging 4.2% in 2023 and then 4.9% in 2024, but with total pay growth staying relatively high, at 5.4% in 2023 and 4.7% in 2023.

UK CPI inflation rose to 11.1% Y-o-Y in October 2022, but fell back to 10.1% in January 2023. HSBC Global Research believes that the October rate was the peak, and that the annual rate will continue to decline, largely thanks to lower energy and durable goods price pressures. However, food and core inflation remain elevated, and high labour costs are expected to keep CPI inflation above the BoE’s 2% target through 2023 and 2024.

HSBC Global Research expects CPI inflation to average 7.1% in 2023 and then 3.5% in 2024. However, inflation expectations have started to fall, reducing the risk of a wage-price spiral.

As a consequence of the rise in inflation, the BoE has now raised Bank Rate ten times, taking it to 4.00%, and launched a programme of quantitative tightening – including active gilt sales. HSBC Global Research forecasts just one further rate rise, of 25bps, taking Bank Rate to 4.25%. This is in line with market expectations. However, the market then expects rates to start to fall back in 2024, whereas HSBC Global Research expects inflation still to be too high to allow this.

Financial summary

Summary consolidated income statement for the year ended

	Year ended	
	Audited	
	31 Dec 2022	31 Dec 2021
	£m	£m
Net interest income	**6,203**	4,650
Net fee income	**1,245**	1,080
Net income from financial instruments held for trading or managed on a fair value basis	**384**	318
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**36**	15
Gains less losses from financial investments	**37**	101
Other operating income	**47**	86
Net operating income before change in expected credit losses and other credit impairment charges	**7,952**	6,250
Change in expected credit losses and other credit impairment charges	**(482)**	989
Net operating income	**7,470**	7,239
Total operating expenses	**(3,832)**	(3,759)
Operating profit	**3,638**	3,480
Profit before tax	**3,638**	3,480
Tax expense	**(762)**	(1,112)
Profit for the year	**2,876**	2,368
Profit attributable to shareholders of the parent company	**2,871**	2,363
Profit attributable to non-controlling interests	**5**	5

Reported performance

2022 reported profit before tax of £3,638m is £158m, or 5%, higher than 2021 reported profit before tax of £3,480m, driven by higher revenue, offset by higher ECL and operating expenses.

Net interest income increased by £1,553m or 33%, mainly due to the impact of higher base interest rates on customer deposit spreads offset by mortgage margin compression due to competitive market conditions in 2022.

Net fee income increased by £165m or 15%, due to growth across both CMB and WPB products as the market recovers following the Covid-19 pandemic.

Net income from financial instruments held for trading or managed on a fair value basis increased by £66m or 21%, principally due to foreign exchange income as market conditions impacting commercial customer foreign exchange payment volumes and demand for foreign currency from retail customers improved following the lifting of Covid-19 travel restrictions.

Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss increased by £21m, primarily due to higher fair value gains in 2022 following the revaluation of equity investments.

Gains less losses from financial investments decreased by £64m due to lower disposal gains realised by the Markets Treasury desk due to the volatile market conditions in 2022.

Other operating income decreased by £39m, driven by gains on derecognition in CMB in 2021, notably in the context of the Libor transition.

ECL increased by £1,471m from a £989m release in 2021 to a charge of £482m in 2022. The 2022 charge included additional stage 1 and stage 2 allowances in respect of the impacts of the Russia-Ukraine war and heightened economic uncertainty and inflationary pressures. This compared with a net release in 2021 primarily relating to Covid-19-related allowances previously built up in 2020.

Total operating expenses increased by £73m. Restructuring programmes and technology investment costs were partially offset by front and back office cost reductions across the business as we continue to actively manage our cost base.

Tax expense The effective tax rate is 20.9% (2021: 32.0%). The effective tax rate is reduced by 4.7% in 2022 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. 2021 effective tax rate was higher than the UK rate of corporation tax for banking entities of 27% due to the main rate of UK corporation tax increasing from 19% to 25% impacting deferred tax balances.

Net interest income

	Year ended	
	At	
	31 Dec 2022	31 Dec 2021
	£m	£m
Interest income	**7,592**	5,072
Interest expense	**(1,389)**	(422)
Net interest income	**6,203**	4,650
Average interest-earning assets	**327,840**	303,151
	%	%
Gross interest yield[1]	**2.32**	1.67
Less: Gross interest payable[1]	**(0.55)**	(0.18)
Net interest spread[2]	**1.77**	1.49
Net interest margin[3]	**1.89**	1.53

[1] *Gross interest yield is the average annualised interest rate earned on AIEA. Gross interest payable is the average annualised interest cost as a percentage of average interest-bearing liabilities.*

[2] *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*

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

Net interest margin increased from 1.53% in 2021 to 1.89% in 2022. This was driven by the UK interest rate increases in 2022, with increased yields on cash at central banks and customer lending, partly offset by an increase in interest expense on customer accounts.

Return on average tangible equity

RoTE is measured as the profit attributable to ordinary shareholders divided by the reported equity adjusted for goodwill and intangibles. The 2022 RoTE of 16.3% was 2.8% higher than the 2021 RoTE of 13.5%, driven by higher reported profit before tax. Average tangible equity has remained in line with 2021.

Alternative performance measures

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

Within the Strategic report we present performance on an adjusted basis, which is our segment measure for our reportable segments under IFRS 8 but constitutes alternative performance measures when otherwise presented.

Adjusted performance

Adjusted performance is computed by adjusting reported results for the effects of significant items that distort YoY comparisons. We use significant items to describe collectively the group of individual adjustments excluded from the results when arriving at adjusted performance. An item might be deemed significant if the item is not incurred as part of the normal operational activities of the individual segment, separate identification and explanation of the item is necessary for users to gain a proper understanding of the performance of the business, and it is quantitatively and qualitatively material to the group’s consolidated financial statements.

Customer remediation and redress programmes, are considered and assessed separately against the above criteria prior to recognition as a significant item. Significant items, which are detailed on page 12 , are ones that management and investors would ordinarily identify and consider separately when assessing performance to understand better the underlying trends in the business.

We consider adjusted performance to provide useful information for investors by aligning internal and external reporting, identifying and quantifying items management believes to be significant and providing insight into how management assesses YoY performance.

Segmental reporting

Global businesses are our reportable segments under IFRS 8.

The HSBC Group Chief Executive, supported by the rest of the Group 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. The global business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from results. We therefore present HSBC UK global business results on an adjusted basis as required by IFRS.

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

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

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

Changes to presentation from 1 January 2023

Notable items

From 1 January 2023, ‘adjusted performance’ will no longer exclude the impact of significant items. We will separately disclose 'notable items', which are components of our income statement which management would consider as outside the normal course of business and generally non-recurring in nature.

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

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	**4,321**	**3,509**	**151**	**(37)**	**7,944**
– external	**4,146**	**3,308**	**394**	**96**	**7,944**
– inter-segment	**175**	**201**	**(243)**	**(133)**	**—**
– of which: net interest income	***3,655***	***2,533***	***(1)***	***10***	***6,197***
Change in expected credit losses and other credit impairment charges	**(287)**	**(195)**	**—**	**—**	**(482)**
Net operating income/(expense)	**4,034**	**3,314**	**151**	**(37)**	**7,462**
Total operating income/(expenses)	**(2,267)**	**(1,132)**	**(34)**	**7**	**(3,426)**
Operating profit/(loss)	**1,767**	**2,182**	**117**	**(30)**	**4,036**
Adjusted profit/(loss) before tax	**1,767**	**2,182**	**117**	**(30)**	**4,036**
	%	**%**	**%**	**%**	**%**
Adjusted cost efficiency ratio	**52.5**	**32.3**	**22.5**	**18.9**	**43.1**
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**
At 31 Dec 2021					
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	3,369	2,748	124	(2)	6,239
– external	3,271	2,642	327	(1)	6,239
– inter-segment	98	106	(203)	(1)	—
– of which: net interest income/(expense)	*2,774*	*1,858*	*—*	*10*	*4,642*
Change in expected credit losses and other credit impairment charges	439	550	—	—	989
Net operating income/(expense)	3,808	3,298	124	(2)	7,228
Total operating expenses	(2,219)	(1,174)	(32)	(39)	(3,464)
Operating profit/(loss)	1,589	2,124	92	(41)	3,764
Adjusted profit/(loss) before tax	1,589	2,124	92	(41)	3,764
	%	%	%	%	%
Adjusted cost efficiency ratio (%)	65.9	42.7	25.8	(1,950.0)	55.5
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers (net)	131,700	63,784	—	42	195,526
Customer accounts	178,685	103,375	—	(190)	281,870

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

At 31 Dec 2022	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Revenue	**4,331**	**3,507**	**151**	**(37)**	**7,952**
Significant revenue items	**(10)**	**2**	**—**	**—**	**(8)**
– customer remediation and related matters	**(9)**	**2**	**—**	**—**	**(7)**
– restructuring and other related revenue	**(1)**	**—**	**—**	**—**	**(1)**
Adjusted revenue/(expense)	**4,321**	**3,509**	**151**	**(37)**	**7,944**
At 31 Dec 2021					
Revenue	3,364	2,759	124	3	6,250
Significant revenue items	5	(11)	—	(5)	(11)
– customer remediation and related matters	5	(13)	—	—	(8)
– restructuring and other related revenue	—	2	—	(5)	(3)
Adjusted revenue/(expense)	3,369	2,748	124	(2)	6,239

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

At 31 Dec 2022	WPB £m	CMB £m	GBM £m	Corporate Centre £m	Total £m
Operating expenses	**(2,309)**	**(1,170)**	**(35)**	**(318)**	**(3,832)**
Significant cost items	**42**	**38**	**1**	**325**	**406**
– restructuring and other related costs[1]	**70**	**39**	**1**	**319**	**429**
– customer remediation and related matters	**(28)**	**(1)**	**—**	**6**	**(23)**
Adjusted operating expenses	**(2,267)**	**(1,132)**	**(34)**	**7**	**(3,426)**
At 31 Dec 2021					
Operating expenses	(2,311)	(1,181)	(32)	(235)	(3,759)
Significant cost items	92	7	—	196	295
– restructuring and other related costs[1]	63	6	—	190	259
– customer remediation and related matters	29	1	—	6	36
Adjusted operating (expenses)/income	(2,219)	(1,174)	(32)	(39)	(3,464)

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

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

	WPB	CMB	GBM	Corporate Centre	Total
At 31 Dec 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Profit/(loss) before tax	**1,735**	**2,142**	**116**	**(355)**	**3,638**
Net impact on reported profit and loss	**32**	**40**	**1**	**325**	**398**
– significant revenue items	**(10)**	**2**	**—**	**—**	**(8)**
– significant cost items	**42**	**38**	**1**	**325**	**406**
Adjusted profit/(loss) before tax	**1,767**	**2,182**	**117**	**(30)**	**4,036**
At 31 Dec 2021	£m	£m	£m	£m	£m
Profit/(loss) before tax	1,492	2,128	92	(232)	3,480
Net impact on reported profit and loss	97	(4)	—	191	284
– significant revenue items	5	(11)	—	(5)	(11)
– significant cost items	92	7	—	196	295
Adjusted profit before tax	1,589	2,124	92	(41)	3,764

Adjusted performance

Our adjusted profit before tax in 2022 increased by £272m, or 7%, compared with 2021, to a profit of £4,036m. This reflected higher revenue across all businesses and lower operating expenses, offset by higher ECL.

Adjusted revenue increased by £1,705m or 27%, with increases in WPB and CMB due to the impact of higher base interest rates on net interest margins, increased customer deposit balances in WPB and increased activity as the market recovers from the Covid-19 pandemic.

ECL increased by £1,471m, as described on page 10 'Reported Performance'.

Adjusted operating expenses decreased by £38m or 1%, due to ongoing cost management discipline, partially offset by increased technology investment costs and one-off cost of living payments made to staff.

The 2022 adjusted RoTE of 17.9% was 3.2% higher than the 2021 adjusted RoTE of 14.7% driven by higher adjusted profit before tax, with average tangible equity in line with 2021.

Adjusted cost efficiency ratio is measured as total adjusted operating expenses divided by adjusted net operating income before ECL. The adjusted cost efficiency ratio in 2022 improved by 12.4% vs. 2021, from 55.5% to 43.1%.

Wealth and Personal Banking

Adjusted profit before tax was £1,767m, 11% (£178m) higher than 2021 driven by higher revenue, offset by higher ECL and higher operating costs.

Revenue increased by £952m or 28%. Higher customer deposit margins were partially offset by mortgage margin compression. There has been continued balance sheet growth and increased customer spending levels post-Covid-19 pandemic.

ECL increased by £726m from a release of £439m in 2021 to a charge of £287m in 2022, as described on page 10 'Reported performance'.

Operating expenses increased by £48m or 2%, due to increased technology investment costs and one-off cost of living payments made to staff, partially offset by ongoing cost management actions.

Commercial Banking

Adjusted profit before tax was £2,182m, 3% (£58m) higher than 2021 due to higher revenue and lower operating expenses, offset by higher ECL.

Revenue increased by £761m or 28% due to higher net interest margin from customer loans and deposits, growth in fee-based revenue, higher lending balances, and higher fair value gains in 2022 following the revaluation of equity investments.

ECL have increased by £745m from a release of £550m in 2021 to a charge of £195m in 2022, as described on page 10 'Reported Performance'.

Operating expenses decreased by £42m or 4% driven by lower back-office operations costs and fraud losses, partially offset by increased technology investment costs.

Global Banking and Markets

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

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

Adjusted profit before tax was £25m, or 27%, higher than 2021, driven by stronger underlying foreign exchange payment revenues.

Corporate Centre

Adjusted loss before tax of £30m in 2022 was £11m lower than the loss before tax of £41m in 2021, driven by lower operating expenses due to the increased benefit arising from our material pension surplus as discount rates improved.

Dividends

The consolidated reported profit for the year attributable to the shareholders of the bank was £2,871m.

Total interim dividends of £1,787m, were paid on the ordinary share capital during the year, of which £491m relates to the previous year and £1,296m relates to the current year. £142m of dividends were paid in respect of our additional tier 1 capital instruments.

On 14 February 2023, the Directors resolved to pay an interim dividend of £539m to the ordinary shareholder in respect of the financial year ending 31 December 2022.

Further information regarding dividends is given in Note 6.

Summary consolidated balance sheet as at

	31 Dec 2022 £m	31 Dec 2021 £m
Total assets	**342,441**	346,063
– cash and balances at central banks	**94,407**	112,478
– financial assets mandatory measured at fair value through profit and loss	**108**	79
– derivative assets	**546**	64
– loans and advances to banks	**6,357**	1,914
– loans and advances to customers	**204,143**	195,526
– reverse repurchase agreements – non-trading	**7,406**	7,988
– financial investments	**16,092**	14,377
– other assets	**13,382**	13,637
Total liabilities	**320,215**	322,258
– deposits by banks	**10,721**	11,180
– customer accounts	**281,095**	281,870
– repurchase agreements – non-trading	**9,333**	10,438
– derivative liabilities	**304**	292
– debt securities in issue	**1,299**	900
– other liabilities	**17,463**	17,578
Total equity	**22,226**	23,805
– total shareholders' equity[1]	**22,166**	23,745
– 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 72.6% compared to 69.4% at 31 December 2021 driven by a 4.4% increase in loans and advances to customers.

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 2022. 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 can impact HSBC UK in the medium to long-term see page 62 and on credit risk see page 26. Additionally, for further disclosure on how management has considered the impact of climate-related risks on its financial position and performance see critical accounting estimates and judgements, detailed in Note 1 'Basis of preparation and significant accounting policies' from page 87.

Assets

Cash and balances at central banks decreased by £18bn due to continued growth in customer lending and reclassification of cash encumbrance for net settlement schemes to loans and advances to banks.

Loans and advances to customers increased by £8.6bn, mainly driven by growth in retail mortgage lending by £7.4bn due to HSBC's competitive pricing and growth strategy and increase in trade import loans by £0.7bn.

Liabilities

Customer accounts have marginally decreased by £0.8bn due to higher customer expenditure (decrease in CMB deposits by £4bn partially offset by increase in WPB deposits by £3bn).

Repurchase agreements – non-trading have decreased by £1bn as part of activities to manage liquidity and margin and subordinated liabilities broadly remained flat, in line with capital management requirements.

Equity

Total shareholders' equity, including non-controlling interests, decreased by £1.6bn or 7% compared with 31 December 2021. This reflected the effects of profits generated of £2.9bn, offset by dividend payments of £1.9bn and reduction in OCI of £2.6bn.

The reduction in OCI included adverse movement of £1.3bn on cash flow hedges driven by the impact of increasing interest rates on fixed swap hedges, remeasurement of the defined benefit pension assets and obligations of £1bn, adverse movement of £0.3bn on financial instruments designated as hold-to-collect and sell, which are held as hedges to our exposure to interest rate movements, as a result of the increase in term market yield curves in 2022.

Risk overview

Difficult economic conditions in the UK, including significant increases in the cost of living have impacted our customers and our organisation in 2022. The macroeconomic, trade and regulatory environment has become increasingly fragmented, which alongside geopolitical factors continue to disrupt supply chains in several industries globally, including commercial real estate. The mismatch between supply and demand, worsened by repercussions from the Russia-Ukraine war, has pushed up commodity and other prices in the UK, particularly energy, creating further challenges for the BoE and our customers. Against a recessionary backdrop and increasing inflationary pressures, interest rates have continued to rise. The economic outlook is described in more detail in the 'Description of consensus economic scenarios' section of the Report. See page 34.

Our balance sheet and liquidity remained strong which helped us to support our customers as the economic slowdown has developed. Increased pressure has been seen on our business operations and customer support centres as our people, processes and systems have responded to meet the current challenges of the UK economy.

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

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 26 to 64.

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 19 to 24.

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 17 to 70.

During 2022, we have reviewed our list of top and emerging risks and made changes to reflect the revised assessment of their effect on HSBC UK. We have removed Covid-19 as it is considered to have been absorbed into business as usual risk management practices. Credit risk has been added to reflect the current economic environment.

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, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Heightened geopolitical tensions, alongside other factors, have also disrupted supply chains globally. Inflation and rising interest rates in the UK have contributed to the current economic slowdown that will affect our customers and our business.
Credit risk	●	We regularly undertake detailed reviews of our portfolios and proactively manage credit facilities to customers and sectors likely to come under stress as a result of current macroeconomic and geopolitical events, including UK recessionary pressures and second order impacts from the Russia-Ukraine war. We remain focused on assessing and managing the impacts of the cost of living crisis and higher interest rates on our customers, including those that will need to refinance their mortgage onto increased rate loans. Sector deep dives and stress tests are regularly conducted with particular focus on the Automotive, Construction and Contracting, Commercial Real Estate, Hospitality, Hotels, Oil and Gas and Retail industry sectors. We have increased the frequency and depth of our monitoring activities with stress tests and other sectoral reviews performed to identify portfolios or customers who are likely to experience financial difficulty.
Evolving regulatory environment risk	▲	The regulatory risk environment continues to be complex. There has been increased regulatory focus on the protection of consumers, particularly those that are vulnerable; sanctions; operational resilience; cyber threats; crypto-asset related risks; wider anti-money laundering controls; and diversity and inclusion. These, alongside other regulatory priorities, may result in change requirements across HSBC UK in the short to medium term. We continue to monitor regulatory and wider industry developments closely and engage with regulators, as appropriate.
Cyber threat and unauthorised access to systems	▶	HSBC UK faces a risk of service disruption from external and internal malicious activity. In response to the recent geopolitical events, including the Russia-Ukraine war, we have further strengthened our monitoring approach. HSBC UK operates a continuous improvement programme to protect our technology operations and to counter a hostile and fast evolving cyber threat environment.
Ibor transition	▼	We remain exposed to regulatory compliance, legal and resilience risks as contracts transition away from demising Ibor benchmarks to new reference rates. As a result, we continue to consider the fairness of client outcomes, our compliance with regulatory expectations and the operation of our systems and processes. We have transitioned all but a small number of contracts in demised Ibors and are well progressed in transitioning contracts in remaining demising Ibors, specifically US dollar Libor. HSBC UK has significantly fewer US dollar Libor facilities to transition, versus the number transitioned for GBP Libor and the nature of our good progress means we consider the risk to have decreased versus 2021.
Environmental, social and governance risk	▲	We are subject to ESG risks relating to climate change; greenwashing; nature; and human rights. This risk has increased owing to the pace and volume of regulatory developments globally 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 adverse reputational consequences.
Digital currencies and disintermediation risk	▶	With the increasing attention of the public, governments, regulatory bodies and central banks on digital assets, including cryptocurrencies, the banking landscape has the potential to move significantly to a more direct linkage between currency providers and payment participants, to the possible detriment of intermediaries, such as HSBC UK. We continue to monitor digital asset consultations, pilots and issuances, the state of the market and the impact on participants and evolution in use of digital assets to understand how changes may impact our customers and business. We also closely observe and assess the potential for consequential financial crime and the resulting impact on payment transparency and architecture.

Risk	Description
Internally driven	
People risk ▲	HSBC UK is exposed to risks associated with employee retention, talent availability and compliance with employment laws and regulations. Heightened demand for talent in the UK labour market, coupled with the cost of living crisis have led to increased attrition and employee attraction challenges, and continuing pressure on our people. There is additional focus on actively embedding hybrid working to maintain employee engagement.
IT systems infrastructure and operational resilience ▲	We continue to monitor and improve IT systems and network resilience to minimise service disruption and improve HSBC UK customer experience, through for example, our Operational Resilience programme. The significant volume of change and the complexity of our IT environment increases the risk of service interruption which we work to mitigate through change management controls. We are seeing increased demand on customer support centres and our business operations as a result of the current economic environment and there is additional focus on operational resilience. To support the business strategy, we have continued to strengthen our end-to-end management, build and deployment controls and system monitoring capabilities.
Model risk ▲	Model risk has heightened with increased regulatory requirements driving material changes to models across the banking industry in the UK. Currently there is a particular focus on capital models, however this focus is expected to be extended to all models based on the Consultation Paper (CP 6/22) published by the PRA in June 2022.The macroeconomic environment and new technologies such as machine learning continue to drive changes to the model risk landscape. A key area of focus is ensuring our standards, processes and controls are adequate to identify, measure and manage the resulting model risks.
Financial crime and fraud risk ▶	We continue to support our customers against a backdrop of complex geopolitical, socioeconomic, and technological challenges, including the Russia-Ukraine war. We are monitoring the impacts of the Russia-Ukraine war on HSBC UK, and using our sanctions compliance capabilities to respond to evolving sanctions regulations, noting the challenges that arise in implementing the unprecedented volume and diverse set of sanctions and trade restrictions. Fraud, particularly first-party payment fraud, continues to be a key area of focus for HSBC UK. We are investing in new fraud detection technologies, in order to limit losses and protect customers to within agreed tolerance levels.
Conduct and customer detriment ▶	HSBC UK has fully integrated the Global Purpose-Led Conduct Approach into our Risk Management Framework; our business activities; and our governance, ensuring we consider and act on the impact our actions and decisions have on our customers and society. This integration to a higher standard of identification and reporting has enabled further simplification to processes, ensuring our approach to conduct is more meaningful to colleagues. Throughout 2022, HSBC UK has been working towards meeting new Consumer Duty regulation requirements, and a new Code of Conduct rule, ensuring we deliver good customer outcomes and act consistently to support customers. With the expected rise in vulnerable customers and those in financial difficulty due to the cost of living crisis, the standards that we have sustained and enhanced throughout 2022 have contributed to HSBC UK being well positioned to support these customers in 2023 and mitigate foreseeable new potential conduct risks.
Data risk ▲	We use data to serve our customers and run our internal operations, often in real-time within digital experiences and processes. If this data is not accurate and timely, our ability to serve customers, operate with resilience, or meet regulatory requirements could be impacted. We need to further invest in controls to ensure data is kept confidential, and that we comply with the growing number of laws and increasing expectations from regulators concerning data privacy controls and the cross-border movement of data.
Third-party risk ▶	We procure services and goods from a range of third parties. It is critical that we have appropriate risk management policies and processes over the selection and governance of third parties. This includes third parties' supply networks, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.
Execution risk ▲	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. Given the increased scale, complexity and pace of strategic change at HSBC UK, we must monitor, manage and oversee change execution risk to ensure our change portfolios and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

●	New risk introduced in 2022
▲	Risk has heightened during 2022
▶	Risk remains at the same level as 2021
▼	Risk has decreased during 2022

The Strategic report comprising pages 2 to 16 was approved by the Board on 20 February 2023 and is signed on its behalf by:

John David Stuart

Director
HSBC UK Bank plc
Registered number: 9928412

Risk review

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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 Head of Compliance, together with other business functions on risks within their respective areas of responsibility.

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

Non-financial risk includes some of the most material risks HSBC UK faces, such as cyber-attacks, poor customer outcomes, loss of data and the current geopolitical risks. Actively managing non-financial risks is crucial to serving our customers effectively and having a positive impact on society. During 2022, 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 the Operational and Resilience Risk function, headed by the HSBC UK Head of Operational and Resilience Risk.

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, 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.

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

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 the Russia-Ukraine war and the impact of increasing inflation in the UK.

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

During 2022, HSBC UK prepared its first standalone BoE Annual Concurrent Stress Test exercise. The exercise subjects 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 will publish the results of the 2022 Annual Cyclical Stress in summer 2023.

The 2022 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 2022 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 17.
- 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: Strategic plans are prepared annually for each of the lines of business that make up the group, within the framework of the HSBC Group's overall strategy. The relevant lines of business strategic plans are incorporated into the five year HSBC UK Country Strategic Plan, which is refreshed every three years, and approved by the Company's Board. Progress against the Country Strategic Plan is reported regularly to the Executive Committee, Board and the HSBC Group Executive Committee.

We also approve an annual Financial Resource Plan, which is informed by detailed analysis of risk appetite, stress-testing exercises, and the types and quantum of risk that the Company is prepared to take, within the parameters set by the HSBC Group, to execute its strategy, and also sets out the key business initiatives and the financial impact of those initiatives in order to determine the most appropriate use of the Company's resources. The key risk management and internal control procedures over financial reporting include the following:

- Financial reporting: The financial reporting process for preparing the consolidated *Annual Report and Accounts 2022* 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 that are cascaded to all reporting entities within the group in advance of each reporting period end. The submission of the Company's financial information is subject to certification by the CFO, and analytical review procedures undertaken at reporting entity and group levels.
- Disclosure Committee: The Disclosure Committee comprises certain executive management and supports the discharge of the Company's obligations in relation to its debt securities 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 67.

What are our principal risks and uncertainties

Key developments in 2022

We actively managed the risks related to the cost of living crisis in the UK and broader macroeconomic and geopolitical uncertainties, including the Russia-Ukraine war, and other key risks described in this section. In addition, we enhanced our risk management in the following areas:

- We have continued to improve our risk governance decision making, particularly with regard to the governance of treasury risk to ensure senior executives have appropriate oversight and visibility of macroeconomic trends around inflation and interest rates.
- We enhanced our enterprise risk reporting processes to place a greater focus on our emerging risks, including by capturing the materiality, oversight and individual monitoring of these risks.
- We have commenced activity to review and strengthen both our Risk Culture and our financial risk control environment as part of ongoing work to enhance our Risk Management Framework.
- We have further strengthened our third-party risk policy and processes to improve control and oversight of our material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements.
- We have continued to embed, the governance and oversight around model adjustments and related processes for IFRS 9 models and financial reporting processes.
- Through our dedicated climate risk programme we have continued to embed climate considerations throughout the firm, including updating the scope of our programme to cover all risk types, expanding the scope of climate related training and developing new climate risk metrics to monitor and manage exposures.
- We continued to improve the effectiveness of our financial crime controls, using advanced analytics capabilities. We are refreshing our financial crime policies, seeking to ensure they remain up-to-date and address changing and emerging risks. We continue to monitor regulatory changes.

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

This risk has heightened in 2022 as the UK economy faced a number of challenges, including rising inflation, increased interest rates and a period of significant market volatility that followed changes to the policies announced by the UK Government. Against this backdrop, the recovery has stalled, with GDP still below its pre-Covid-19 pandemic level. Consumer confidence has fallen as the cost of living crisis has deepened, partly driven by the sharp rise in energy prices, and with real incomes falling, the economy is expected to go into recession in 2023.

Global commodity markets have been significantly impacted by the Russia-Ukraine war and localised Covid-19 outbreaks, leading to continued supply chain disruptions. These disruptions have resulted in UK product shortages and increased prices for both energy and non-energy commodities, such as food. The increased rate of inflation in the UK has been exacerbated by these pressures albeit some easing of disruptions has been seen in the second half of 2022. The BoE may be close to the end of its monetary tightening cycle. However, should interest rates need to rise beyond what is currently expected, a realignment of market expectations could cause turbulence in financial asset prices.

Higher inflationary and interest rate expectations in the UK, and the resulting economic environment, have had an impact on ECL and could increase the uncertainty of our modelled ECL estimates. The combined pressure of higher inflation and interest rates may impact the ability of our customers to repay debt. In line with existing practice we have continued to carry out enhanced monitoring of model outputs and the use of model overlays, including management adjustments. These adjustments are based on the expert judgement of senior credit risk managers to reflect current market inflation and interest rate conditions where they have not been incorporated in the underlying macroeconomic scenarios. Inflation and rising interest rates have been considered both directly in certain models, and assessed via adjustments where not directly considered. Whilst UK government programmes implemented during the Covid-19 pandemic to support businesses and individuals have ceased, these have impacted the level of credit losses, which in turn may have impacted the longer-term reliability of loss and capital models.

Second order impacts from the Russia-Ukraine war remain uncertain. These impacts may lead to significant credit losses on specific exposures, which may not be fully captured in our ECL estimates and may result in the use of an ECL overlay adjustment.

HSBC UK is monitoring the impacts of the Russia-Ukraine war and continues to respond to the further economic sanctions and trade restrictions that have been imposed on Russia in response. In particular, significant sanctions and trade restrictions against Russia have been put in place by the UK, the US and the EU, as well as other countries. Such sanctions and restrictions have specifically targeted certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions and other major Russian companies, as well as more generally applicable investment, export, and import bans and restrictions. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures. Further sanctions, trade restrictions and Russian counter sanctions may adversely affect HSBC UK and its customers by creating regulatory, reputational and market risks.

Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol are continuing. While there are signs that differences may be diminishing, failure to reach agreement could have implications for the future operation of the EU-UK Trade and Cooperation Agreement. In June 2022, the UK government published proposed legislation that seeks to amend the Protocol in a number of respects. In response, the EU launched infringement procedures against the UK, and is evaluating the UK response, received in September 2022. If the proposed legislation were to pass, and infringement procedures progressed, it could further complicate the terms of trade between the UK and the EU and potentially prevent progress in other areas such as financial services. We are monitoring the situation closely, including the potential impacts on our customers.

The US-China relationship remains complex. The US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on China. Although sanctions and trade restrictions are impossible to predict, increases in diplomatic tensions between China and the US and other countries could result in new and/or enhanced sanctions that could negatively impact HSBC UK, its customers and the markets in which it operates. China has in turn announced a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals and companies. China has also promulgated laws that provide a legal framework for imposing further sanctions and export restrictions. These and any future measures and countermeasures that may be taken by the US, China and other countries may affect HSBC UK and its customers.

High Covid-19 vaccination rates and acquired population immunity in 2022 across the UK have minimised the public health risks and the need for restrictions. New Covid-19 variants and sub-variants pose a continuing risk and could result in the UK Government reintroducing restrictions, potentially impacting our personal and business customers.

Our Central macroeconomic scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' calculations of ECL, assumes low growth and a higher inflation environment. However, due to the rapidly changing economic conditions, the potential for forecast dispersion and volatility remain high, impacting the degree of accuracy and certainty of our Central scenario forecast. The level of volatility depends on various factors, including commodity price increases, supply chain constraints and the monetary policy response to inflation. There is also uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which has required adjustments to modelled ECLs 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 33.

Mitigating actions

- We closely monitor geopolitical and economic developments including the impacts of the Russia-Ukraine war and undertake scenario analysis and stress testing where appropriate. This helps us to take portfolio actions 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.

Credit risk

Credit risk in the UK has increased driven chiefly by the current cost of living crisis and the macroeconomic environment. The longer term outlook for credit risk is difficult to predict. This uncertainty is driven by a number of factors, including the impacts of the UK's withdrawal from the EU and the economic slowdown in the UK, exacerbated by geopolitical events, including the Russia-Ukraine war.

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.
- We are hiring additional colleagues in our Financial Support Team in anticipation of an increase in demand.
- 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 and in 2022 we undertook specific reviews of portfolios showing vulnerability such as Automotive, Leveraged Finance, Power and Utilities, Commercial Real Estate, Metals and Mining, Chemicals, Retail and Aviation. 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 agenda, including those which relate to: ESG matters; how we are ensuring good customer outcomes, including addressing customer vulnerabilities as a result of the cost of living crisis; regulatory compliance; regulatory reporting; employee compliance including use of e-communication channels; and the proposed reforms to the UK financial services sector, known as the Edinburgh Reforms. 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 HSBC UK operates may be impacted by future regulatory changes and government intervention.

Mitigating actions

- 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 continue to work with the UK authorities and regulatory bodies to discuss any impacts on customers and markets.

- We monitor regulatory developments to ensure that we fully understand the evolving regulatory landscape and implement any applicable change in a timely way.

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 seek to evaluate threat levels for the most prevalent cyber-attack types and their potential outcomes. To further protect HSBC UK and our customers and help ensure the safe expansion of our business lines, we aim to strengthen our controls to reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We seek to enhance our cybersecurity capabilities, including threat detection, 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 it across our businesses and functions to help ensure appropriate visibility and governance of the risk and its mitigating actions.
- We participate globally in industry bodies and working groups to collaborate on tactics employed by cyber-crime groups and to collaborate in defending against, detecting and preventing cyber-attacks on financial organisations.

Ibor transition

The publication of sterling, Swiss franc, euro and Japanese yen Libor interest rate benchmarks, as well as Eonia, ceased from the end of 2021. Our Ibor transition programme, which is tasked with the development of new near RFR products and the transition of legacy Ibor products, has continued to support the transition of a limited number of sterling Libor contracts, which used the published 'synthetic' sterling interest rate methodology during 2022.

The remaining 'tough legacy' sterling contracts have required protracted client discussions where contracts are complex or restructuring of facilities is required. Following the announcements by the FCA in September and November 2022 that 'synthetic' sterling Libor rates will cease to be published on 31 March 2023 for one and six-month sterling Libor, or 31 March 2024 for three-month sterling Libor, we have or are prepared to transition or remediate the remaining few contracts outstanding as at 31 December 2022 in advance of those cessation dates.

For US dollar Libor and other demising Ibors, HSBC UK has a significantly lower volume of contracts to transition compared to sterling Libor. Through the second half of 2022, we have contacted all of our affected clients, discussed their transition options, and have converted over half of the legacy contracts to alternative rates. As a result, the level of residual risk has and continues to diminish. Following the FCA's consultation in November 2022 proposing that US dollar Libor is to be published using a 'synthetic' methodology for a defined period, we will continue to work with our clients to support them through the transition of their products if transition is not completed by 30 June 2023.

Until all legacy contracts in demising Ibors are transitioned we are exposed to, and actively monitor, risks including:

- Regulatory compliance and conduct risks, as the transition of legacy contracts to RFRs or alternative rates, or sales of products referencing RFRs, may not deliver fair client outcomes;
- Resilience and operational risks, as changes to manual and automated processes, made in support of new RFR methodologies, and the transition of Ibor contracts may lead to operational issues;
- Legal risk, as issues arising from the use of legislative solutions and from legacy contracts that the group is unable to transition may result in unintended or unfavourable outcomes for clients and market participants, which could potentially increase the risk of disputes; and
- Market risk, because as a result of differences in Libor and RFR interest rates, we are exposed to basis risk resulting from the asymmetric adoption of rates across assets, liabilities and products.

Mitigating actions

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

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 customers and our own activities.

Focus on climate-related risk continued to increase over 2022, 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 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 also delivered 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 the proportion of properties on our book with an EPC rating of C or above, and on improving the EPC data coverage. We have approximately 54% of properties in our portfolio with a valid EPC certificate (dated within the last 10 years) as at September 2022.

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

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 a number of nature-related risks beyond climate change, which include risks that 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. We continue to engage with investors, regulators and customers on nature-related risks to evolve our approach and understand best practice risk mitigation.

Regulation and disclosure requirements in relation to human rights, and to modern slavery in particular, are increasing. Businesses are expected to be transparent about their efforts to identify and respond to the risk of negative human rights impacts arising from their business activities and relationships.

Mitigating actions

- Our product design, management 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 enhanced and expanded the use of a Transition Risk Questionnaire to better understand our exposure to the highest transition risk sectors and we continue to engage with our customers to understand 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. In December 2022, the HSBC Group announced a revised Energy Policy and we intend to use our deep relationships to partner with our customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.
- The Trustee of our employee pension plan, 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 is available on the HSBC Bank (UK) Pension Scheme website, www.futurefocus.staff.hsbc.co.uk, including information on the Trustees commitment to net zero and the annual Taskforce on Climate-Related Financial Disclosures statement.
- In 2021, the HSBC Group joined several industry working groups dedicated to helping us assess, and manage, nature-related risks, such as the Taskforce on Nature-related Financial Disclosure. We will use these outputs to assess the availability of internal nature related data and identify opportunities to enhance our capabilities further.
- In 2022, the HSBC Group conducted a review to refresh our salient human rights issues, which are the human rights at risk of the most severe negative impact through our business activities and relationships. This review built on an earlier review that had identified modern slavery and discrimination as priority human rights issues. The HSBC Group incorporated additional human rights elements into existing procurement processes and supplier code of conduct, and we are applying the approach being developed by the HSBC Group to inform our own management of this risk.
- We continue to engage with our customers, investors and regulators proactively on the management of ESG risks.

Digital currencies and disintermediation risk

Digital assets 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 are involved in various initiatives and working groups addressing any related changes within the market, including those which the BoE has initiated.
- We are monitoring pilots, progress and industry developments in digital assets and other aspects of decentralised finance as they become better established and a sense of their evolution emerges.

- HSBC UK, as part of the wider HSBC Group, is involved in various consultations, industry initiatives and working groups addressing any changes within the market, including those which the BoE has initiated. The bank is taking a holistic view of the risk across product and client segments, including important considerations such as vulnerability and financial inclusion.
- We will continue to monitor progress and industry developments in digital assets and other aspects of decentralised finance to assess the risk and impact on business models, markets and customers.

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 the economic downturn 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 develop succession plans for key management roles, with oversight from the HSBC UK Executive Committee.
- 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 provide skills that will help to enable employees and HSBC UK to be successful in the future.
- 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

We operate an extensive and complex technology landscape, which must remain resilient in order to support customers. Risks arise where technology is not understood, maintained, or developed appropriately. We remain committed to investing in the reliability and resilience of our IT systems and critical services. We do so in order to protect our customers and colleagues to help prevent disruption to services that could result in reputational, legal and regulatory consequences. Increased pressure has been seen on our business operations and customer support centres as our people, processes and systems have responded to meet the current economic environment.

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

Mitigating actions

- We continue to invest in transforming how software solutions are developed, delivered and maintained, with a particular focus on providing high-quality, stable and secure services. We continue to concentrate on our system resilience and service continuity by aiming to enhance the security features of our software development life cycle and improve our testing processes and tools.
- We continue to upgrade many of our IT systems, simplify our service provisions and replace older IT infrastructure and applications. With increased pressure on our business operations, additional management attention is being focused on ensuring that high service standards are consistently being maintained.

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 need 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 which need close monitoring, 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.

Financial crime and fraud risk

Financial institutions remain under considerable regulatory scrutiny regarding their ability to detect and prevent financial crime which continues to evolve. Challenges include implementing the unprecedented volume and diverse set of sanctions, notably as a result of the Russia-Ukraine war.

Amid rising inflation and increasing cost of living pressures, we face increasing regulatory expectations with respect to the management of internal and external fraud and the abuse of vulnerable customers for financial crime.

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 and requirements as banks. This presents ongoing challenges in terms of maintaining required levels of payment transparency, notably where banks serve as intermediaries. 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.

We also continue to face increasing challenges presented by national data privacy requirements, which may affect our ability to manage financial crime risks holistically and effectively.

Mitigating actions

- We seek to manage sanctions and trade restrictions through the use of, and enhancements to, our existing controls.
- We continue to strengthen the first party lending fraud framework, updated our fraud policy and associated control library, and continued to invest in new fraud detection technologies.
- We look 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 ensure our financial crime controls remain appropriate.
- We engage with regulators, policymakers and relevant international bodies to address data privacy challenges through international standards, guidance, and legislation.

Conduct and customer detriment

We seek to regularly enhance our management of conduct, learning from the past, including supporting our people in their management of potentially vulnerable customers, product governance arrangements, and encouraging our 'Speak Up' culture. At the forefront of current conduct risk considerations is delivering good outcomes for customers, particularly those who are vulnerable. We seek to achieve good customer outcomes in all circumstances.

Mitigating actions

- We aim to service our customers' ongoing needs and continue to champion a strong conduct and customer-focused culture, by providing support to our customers facing financial difficulties, particularly in light of the current cost of living crisis in the UK.
- We continue to deliver our dedicated programme that is focused on the implementation of Consumer Duty requirements.
- We have implemented a new purpose-led conduct approach, making conduct easier to understand, setting outcomes to be achieved for our customers and recognising cultural and behavioural drivers of good conduct outcomes.
- We focus on the effectiveness of HSBC UK's conduct governance, to help promote visibility and read across of conduct issues in all business lines and the efficient, and consistent escalation of issues.
- We have delivered our annual mandatory training course on conduct to reinforce the importance of conduct for all colleagues.
- We continue to provide bespoke training to our Compliance colleagues to help promote an environment in which employees are encouraged, feel safe to speak up and know of all the channels that are available to them to do so.
- We have continued the integration of Climate Risk into the Risk Management framework to recognise the importance of strengthened controls and oversight for our related activities.

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, 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 proactively 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. We are implementing an updated control framework to 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 as we have for external third-party arrangements using the same control standards.
- We are implementing the changes required by new regulations as set by our regulators.

Execution risk

We have continued investment in strategic change to support the delivery of our strategic priorities and regulatory commitments. This requires robust management of significant resource-intensive and time-sensitive programmes that are due to be executed in 2023. Risks arising from the magnitude and complexity of change planned in 2023 may include regulatory censure, reputational damage and/or financial losses.

Mitigating actions

- Change execution risk was added to our risk taxonomy and control library in 2022, so that the risk can be defined, managed, reported and overseen in the same way as HSBC UK's other material risks.
- The Transformation Oversight Executive Committee oversees the prioritisation, strategic alignment and management of execution risk for all change portfolios and 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 26)		
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 55)		
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 61)		
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.
Climate risk (see page 62)		
Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a greener 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; and • greenwashing risk, which arises from the act of knowingly or unknowingly misleading stakeholders regarding our strategy relating to climate, the climate impact/benefit of a product or service, or the climate commitments or performance of our customers.	Climate risk is: • measured using a variety of risk appetite metrics and Key Management Indicators, which assess the impact of climate risk across the risk taxonomy; • monitored using stress testing; and • managed through adherence to risk appetite thresholds and via specific policies.
Resilience risk (see page 62)		
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.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Regulatory compliance risk (see page 63)		
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 64)		
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 64)		
Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: • measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; • monitored against model risk appetite statements, insight from the independent review function, feedback from internal and external audits, and regulatory reviews; • managed by creating and communicating appropriate policies, procedures and guidance, training employees in their application, and supervising their adoption to ensure operational effectiveness.

Credit risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet 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;
- 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.

In 2022, we expanded our definition of forborne to capture non-payment-related concessions, such as covenant waivers. For our wholesale portfolio, we began identifying non-payment-related concessions in 2021 when our internal policies were changed. For our retail portfolios, we began identifying them during 2022.

The comparative disclosures have been presented under the prior definition of forborne for the wholesale and retail portfolios.

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 lending, any forbearance measures granted on any 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 2022

At 31 December 2022 we introduced enhancements in the SICR approach in relation to capturing relative movements in PD. The enhanced approach captured relative movements in PD since origination, which resulted in a significant migration to stage 2 from loans to customers gross carrying amounts in stage 1.

The volume of stage 1 customer accounts with lower absolute levels of credit risk who have exhibited some amount of relative increase in PD since origination have migrated into stage 2, and accounts originated with higher absolute levels of credit risk with no or insignificant increases in PD since origination have been transferred to stage 1, with no material overall change in risk.

The impact on ECL is immaterial due to the offsetting ECL impacts of stage migrations and to the low LTV profiles applicable to these customers.

The enhancement of the SICR approach constitutes an improvement towards more responsive models that better reflect the SICR since origination. This includes consideration of the current cost of living pressures, as markets adjust to the higher interest-rate environment.

For our retail portfolios, we adopted the EBA 'Guidelines on the application of definition of default' during 2022 and, for our wholesale portfolios, these guidelines were adopted during 2021. Adoption of these guidelines did not have a material impact on our portfolios and comparative disclosures have not been restated.

More detailed analysis of ECL can be found on pages 33 to 54.

A summary of our current policies and practices regarding credit risk is set out on pages 26 to 27.

Climate risk

Our climate scenarios

In 2022, 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.

These scenarios, which reflect different levels of physical and transition risk and are varied by severity and probability, were: the Net Zero scenario, which aligns to the HSBC Group ambition to transition to net zero and is consistent with the Paris Agreement; the Current Commitments scenario, which assumes that climate action is limited to the current governmental commitments and pledges; the Downside Transition Risk scenario, which assumes that climate action is delayed until 2030; and the Downside Physical Risk scenario, which assumes climate action is limited to current governmental policies.

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

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 2022		At 31 Dec 2021	
	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	**206,055**	**(1,912)**	197,381	(1,855)
– personal	**138,626**	**(872)**	131,318	(767)
– corporate and commercial	**64,955**	**(1,035)**	63,927	(1,085)
– non-bank financial institutions	**2,474**	**(5)**	2,136	(3)
Loans and advances to banks at amortised cost	**6,359**	**(2)**	1,914	—
Other financial assets measured at amortised cost	**109,137**	**(5)**	122,133	(1)
– cash and balances at central banks	**94,407**	**—**	112,478	—
– items in the course of collection from other banks	**353**	**—**	299	—
– reverse repurchase agreements – non-trading	**7,406**	**—**	7,988	—
– financial investments	**5,160**	**—**	—	—
– prepayments, accrued income and other assets[2]	**1,811**	**(5)**	1,368	(1)
Total gross carrying amount on-balance sheet	**321,551**	**(1,919)**	321,428	(1,856)
Loans and other credit related commitments	**67,628**	**(91)**	67,394	(73)
– personal	**42,059**	**(9)**	39,889	(9)
– corporate and commercial	**24,669**	**(82)**	26,843	(64)
– non-bank financial institutions	**900**	**—**	662	—
Financial guarantees	**1,148**	**(6)**	1,102	(3)
– personal	**342**	**—**	317	—
– corporate and commercial	**518**	**(6)**	490	(2)
– non-bank financial institutions	**288**	**—**	295	(1)
Total nominal amount off-balance sheet[3]	**68,776**	**(97)**	68,496	(76)
	390,327	**(2,016)**	389,924	(1,932)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at 'FVOCI'	**10,932**	**(1)**	14,377	(2)

[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 81 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 2022		At 31 Dec 2021	
	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	**201,389**	**(1,723)**	192,880	(1,672)
– personal	**135,110**	**(742)**	128,069	(667)
– corporate and commercial	**55,681**	**(976)**	55,892	(1,002)
– non-bank financial institutions	**10,598**	**(5)**	8,919	(3)
Loans and advances to banks at amortised cost	**9,306**	**(2)**	4,405	—
Other financial assets measured at amortised cost	**108,967**	**(5)**	121,966	(1)
– cash and balances at central banks	**94,407**	**—**	112,477	—
– items in the course of collection from other banks	**154**	**—**	132	—
– reverse repurchase agreements – non-trading	**7,406**	**—**	7,988	—
– financial investments	**5,160**	**—**	—	—
– prepayments, accrued income and other assets[2]	**1,840**	**(5)**	1,369	(1)
Total gross carrying amount on-balance sheet	**319,662**	**(1,730)**	319,251	(1,673)
Loans and other credit related commitments	**54,324**	**(88)**	53,687	(71)
– personal	**31,527**	**(8)**	29,223	(7)
– corporate and commercial	**21,916**	**(80)**	23,887	(64)
– non-bank financial institutions	**881**	**—**	577	—
Financial guarantees	**1,148**	**(6)**	1,102	(3)
– personal	**342**	**—**	317	—
– corporate and commercial	**518**	**(6)**	490	(2)
– non-bank financial institutions	**288**	**—**	295	(1)
Total nominal amount off-balance sheet[3]	**55,472**	**(94)**	54,789	(74)
	375,134	**(1,824)**	374,040	(1,747)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at 'FVOCI'	**10,932**	**(1)**	14,377	(2)

[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 84 includes both financial and non-financial assets.*

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

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

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

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2022

(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.*

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

Stage 2 days past due analysis at 31 December 2022

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*of which:*	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*	*of which:*
		Up-to-date[1]	*1 to 29 DPD[2]*	*30 and > DPD[2]*		*Up-to-date[1]*	*1 to 29 DPD[2]*	*30 and > DPD[2]*		*Up-to-date[1]*	*1 to 29 DPD[2]*	*30 and > DPD[2]*
	£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	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] *Wholesale portfolios are included under Up-to-date.*

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

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2021 (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	174,917	18,436	4,008	20	197,381	(315)	(692)	(843)	(5)	(1,855)	0.2	3.8	21.0	25.0	0.9
– personal	126,904	3,361	1,053	—	131,318	(122)	(353)	(292)	—	(767)	0.1	10.5	27.7	—	0.6
– corporate and commercial	45,957	15,000	2,950	20	63,927	(191)	(338)	(551)	(5)	(1,085)	0.4	2.3	18.7	25.0	1.7
– non-bank financial institutions	2,056	75	5	—	2,136	(2)	(1)	—	—	(3)	0.1	1.3	—	—	0.1
Loans and advances to banks at amortised cost	1,914	—	—	—	1,914	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	122,085	32	16	—	122,133	(1)	—	—	—	(1)	—	—	—	—	—
Loan and other credit-related commitments	63,642	3,492	260	—	67,394	(32)	(26)	(15)	—	(73)	0.1	0.7	5.8	—	0.1
– personal	39,527	287	75	—	39,889	(8)	(1)	—	—	(9)	—	0.3	—	—	—
– corporate and commercial	23,524	3,134	185	—	26,843	(24)	(25)	(15)	—	(64)	0.1	0.8	8.1	—	0.2
– financial	591	71	—	—	662	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	963	123	16	—	1,102	(1)	—	(2)	—	(3)	0.1	—	12.5	—	0.3
– personal	308	9	—	—	317	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	393	81	16	—	490	—	—	(2)	—	(2)	—	—	12.5	—	0.4
– financial	262	33	—	—	295	(1)	—	—	—	(1)	0.4	—	—	—	0.3
At 31 Dec 2021	363,521	22,083	4,300	20	389,924	(349)	(718)	(860)	(5)	(1,932)	0.1	3.3	20.0	25.0	0.5

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

Stage 2 days past due analysis at 31 December 2021 (continued)

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	*of which:*	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*	*of which:*	Stage 2	*of which:*	*of which:*	*of which:*
		Up-to-date[1]	*1 to 29 DPD[2]*	*30 and > DPD[2]*		*Up-to-date[1]*	*1 to 29 DPD[2]*	*30 and > DPD[2]*		*Up-to-date[1]*	*1 to 29 DPD[2]*	*30 and > DPD[2]*
	£m	*£m*	*£m*	*£m*	£m	£m	*£m*	*£m*	%	%	%	%
Loans and advances to customers at amortised cost:	18,436	*17,815*	*394*	*227*	(692)	*(616)*	*(42)*	*(34)*	3.8	*3.5*	*10.7*	*15.0*
– personal	3,361	*3,045*	*210*	*106*	(353)	*(286)*	*(36)*	*(31)*	10.5	*9.4*	*17.1*	*29.2*
– corporate and commercial	15,000	*14,695*	*184*	*121*	(338)	*(329)*	*(6)*	*(3)*	2.3	*2.2*	*3.3*	*2.5*
– non-bank financial institutions	75	*75*	—	—	(1)	*(1)*	—	—	1.3	*1.3*	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	32	*32*	—	—	—	—	—	—	—	—	—	—

[1] Wholesale portfolios are included under Up-to-date.
[2] The days past due amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.

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)

	At 31 Dec 2022			At 31 Dec 2021		
	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	**204,143**	**(2,786)**	**201,357**	195,526	(2,457)	193,069
– personal	**137,754**	**—**	**137,754**	130,551	—	130,551
– corporate and commercial	**63,920**	**(2,752)**	**61,168**	62,842	(2,395)	60,447
– non-bank financial institutions	**2,469**	**(34)**	**2,435**	2,133	(62)	2,071
Loans and advances to banks at amortised cost	**6,357**	**—**	**6,357**	1,914	—	1,914
Other financial assets held at amortised cost	**109,256**	**—**	**109,256**	122,258	—	122,258
– cash and balances at central banks	**94,407**	**—**	**94,407**	112,478	—	112,478
– items in the course of collection from other banks	**353**	**—**	**353**	299	—	299
– reverse repurchase agreements – non-trading	**7,406**	**—**	**7,406**	7,988	—	7,988
– financial investments	**5,160**	**—**	**5,160**	—	—	—
– other assets	**1,930**	**—**	**1,930**	1,493	—	1,493
Derivatives	**546**	**(522)**	**24**	64	(49)	15
Total on-balance sheet exposure to credit risk	**320,302**	**(3,308)**	**316,994**	319,762	(2,506)	317,256
Total off-balance sheet	**74,057**	**—**	**74,057**	73,654	—	73,654
– financial guarantees and similar contracts	**3,665**	**—**	**3,665**	3,286	—	3,286
– loan and other credit-related commitments	**70,392**	**—**	**70,392**	70,368	—	70,368

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 2022.

Loans and advances to customers and banks held at amortised cost

The table on page 31 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 2022 with 93% (2021: 95%) 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)

Amid a deterioration in the economic and geopolitical environment, management judgements and estimates continued to be subject to a high degree of uncertainty in relation to assessing economic scenarios for impairment allowances in 2022.

Inflation, economic contraction and high interest rates combined with an unstable geopolitical environment and the effects of a global supply chain disruption have contributed to elevated degrees of uncertainty during the year.

At 31 December 2022, as a result of this uncertainty, additional stage 1 and 2 allowances have been recognised while management judgements and estimates continue to reflect a degree of caution both in the selection of economic scenarios and their weightings, and in the use of management judgemental adjustments, described in more detail below.

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

At 31 December 2022, there was a reduction in management judgemental adjustments compared with 31 December 2021. Adjustments related to Covid-19 and for sector-specific risks were reduced as scenarios and modelled outcomes better reflected the key risks at 31 December 2022.

Methodology

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

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

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

The consensus Upside scenario is constructed to be consistent with a 5% probability. The two Downside scenarios were given a combined probability weighting of 35%. The Central Scenario is assigned the remaining 60%. 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.

Description of consensus economic scenarios

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

Global economic growth is slowing and economic forecasts in the fourth quarter deteriorated in most markets. In North America and Europe, high inflation and rising interest rates have reduced real household incomes, dampening consumption and investment and lowering growth expectations. The effect of higher interest rate expectations and lower growth are evident in asset price expectations, with house price forecasts, in particular, significantly lower.

Economic forecasts are subject to a high degree of uncertainty. At the end of 2022, risks to the economic outlook included the persistence of inflation and the consequences that has for monetary policy. Rapid changes to public policy also increased forecast uncertainty. In Europe, risks relating to energy pricing and supply security remain significant. Geopolitical risks also remain significant and include prolonged and escalating Russia-Ukraine war, continued differences between the US and other countries with China over a range of economic and strategic issues and the evolution of UK's relationship with the EU.

The scenarios used to calculate ECL in the *Annual Report and Accounts 2022* are described below.

The consensus Central scenario

HSBC UK's Central scenario reflects a low growth and higher inflation environment. The scenario features an initial period of below-trend GDP growth in most markets as inflation and tighter monetary policy causes a squeeze on business margins and households' real disposable income. Growth returns to its long term expected trend in later years as the BoE brings inflation back to target.

Our Central scenario assumes that inflation peaked at the end of 2022 but remains high through 2023 before moderating as energy prices and supply chain disruptions abate. The BoE is expected to keep interest rates elevated until inflation returns to target in 2024.

UK GDP is expected to decline by 0.8% in 2023 in the Central scenario and the average rate of UK GDP growth is 1.1% over the five-year forecast period.

The key features of our Central scenario are:

- Economic activity in UK continues to weaken.
- Unemployment rise moderately from historic lows as economic activity slows. Labour markets remain fairly tight across the UK.
- Inflation is expected to remain elevated in the UK driven by energy and food prices. Inflation is subsequently expected to converge back towards the BoE's target over the next two years of the forecast.
- Policy interest rates will continue to rise in the near term but at a slower pace. Interest rates will stay elevated but start to ease as inflation returns to target.

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

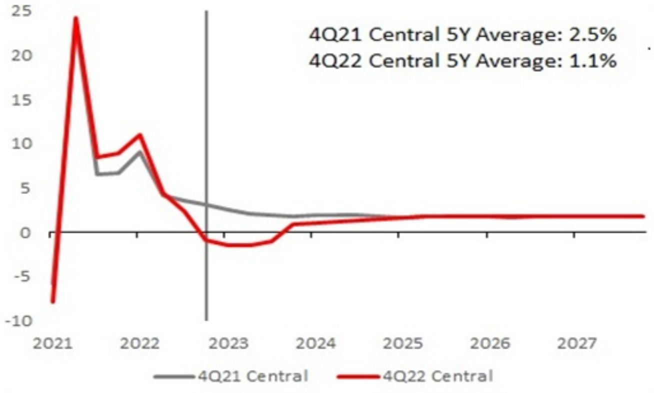
The following table describes key macroeconomic variables and the probability assigned in the consensus Central scenario applied at 31 December 2022 and 31 December 2021.

Central scenario

	Average 2023 Q1–2027 Q4	Average 2022 Q1–2026 Q4
	UK%	UK%
GDP growth rate	1.1	2.5
Unemployment	4.3	4.3
Inflation Rate	3.1	1.2
House price growth	0.4	3.5
Probability	60	60

The graph compares the Central scenario at year end 2021 with economic expectations at the end of 2022.

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenario

Compared with the consensus Central scenario, the consensus Upside scenario features stronger recovery in economic activity in the near term, before converging to long-run trend expectations.

The scenario is consistent with a number of key upside risk themes. These include faster resolution of supply chain issues; a rapid and peaceful conclusion to the Russia-Ukraine war; and improved relations between the UK and the EU.

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

Consensus Upside scenario best outcome

	UK%
GDP growth rate	**4.4 (4Q24)**
Unemployment	**3.5 (4Q23)**
House price growth	**4.2 (1Q23)**
Inflation rate	**0.7 (1Q24)**
Probability	**5**

Note: Extreme point in the consensus Upside is 'best outcome' in the scenario, for example the highest GDP growth and the lowest unemployment rate, in first two years of the scenario. The date on which the extreme is reached is indicated in parenthesis. For inflation, lower inflation is interpreted as the 'best' outcome.

Downside scenarios

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

High inflation and the tighter monetary policy response have become key concerns for global growth. Supply chain disruptions intensify, exacerbated by an escalation in the spread of Covid-19, and rising geopolitical tensions drive inflation higher.

There also remains a risk that energy and food prices rise further due to the Russia-Ukraine war, putting further pressure on household budgets and firms' costs.

The possibility of inflation expectations becoming detached from BoE targets also remains a risk. A wage-price spiral triggered by higher inflation and pandemic-related labour supply shortages across could put sustained upward pressure on wages, 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 and ultimately, deep economic recession.

The risks relating to Covid-19 remain are centred on the emergence of a new variant with greater vaccine resistance that necessitates the imposition of stringent public health policies.

The geopolitical environment also present risks, including:

- a prolonged Russia-Ukraine war with escalation beyond Ukraine's borders;
- the deterioration of the trading relationship between the UK and the EU over the Northern Ireland Protocol; and
- continued differences between the US and other countries with China, which could affect sentiment and restrict global economic activity.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario. In this scenario, GDP growth weakens below the Central scenario, unemployment rates rise and asset prices fall. The scenario features a temporary supply side shock that keeps inflation higher than the baseline, before the effects of weaker demand begin to dominate, leading to a fall in commodity prices and to lower inflation.

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

Consensus Downside scenario worst outcome

	Worst outcome 2021–2025
	UK%
GDP growth rate	**(3.5) (3Q23)**
Unemployment	**5.8 (2Q24)**
House price growth	**(10.1) (2Q24)**
Inflation rate (min)	**(0.4) (4Q24)**
Inflation rate (max)	**10.8 (1Q23)**
Probability	**25**

Note: Extreme point in the consensus Downside is 'worst outcome' in the scenario, for example lowest GDP growth and the highest unemployment rate, in first two years of the scenario. The date on which the extreme is reached is indicated in parenthesis. Due to the nature of the shock to inflation in the downside scenarios, both the lowest and the highest points are shown in the table.

Downside 2 scenarios

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 the Russia-Ukraine war, worsening of supply chain disruptions and the emergence of a vaccine-resistant Covid-19 variant that necessitates a stringent public health policy response.

This scenario features an initial supply-side shock that pushes up inflation and interest rates higher. 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 and the probability in the Downside 2 scenario.

Downside 2 scenario worst outcome

	UK%
GDP growth rate	**(6.9) (3Q23)**
Unemployment	**8.7 (2Q24)**
House price growth	**(22.9) (2Q24)**
Inflation rate (min)	**(2.3) (2Q24)**
Inflation rate (max)	**13.5 (2Q23)**
Probability	**10**

Note: extreme point in Downside 2 is 'worst outcome' in the scenario, for example lowest GDP growth and the highest unemployment rate, in first two years of the scenario. The date on which the extreme is reached is indicated in parenthesis. Due to the nature of the shock to inflation in the downside scenarios, both the lowest and the highest points are shown in the table.

Scenario weighting

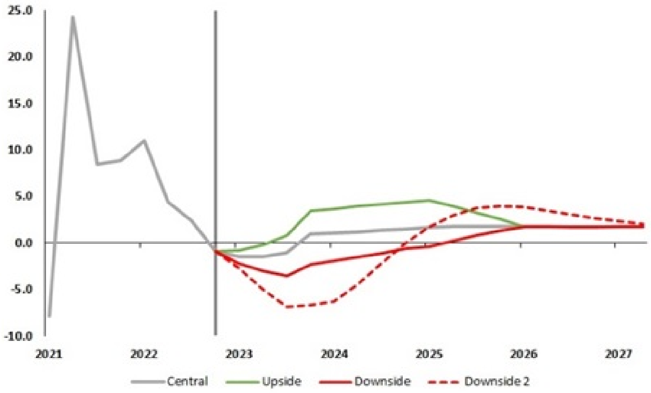
In reviewing the economic conjuncture, the level of uncertainty and risk, management has considered UK specific factors. This has led management to assign scenario probabilities that are tailored to its view of uncertainty.

Key consideration around uncertainty attached to the Central scenario projections focused on:

- the risks to gas supply security in Europe and subsequent impact on inflation and commodity prices and growth;
- further tightening of monetary policy and impact on borrowing costs in interest rate sensitive sectors, such as housing; and
- the ongoing risks to global supply chains.

In the UK, the surge in price inflation and a squeeze on household real incomes have led to strong monetary policy responses from the BoE. Higher interest rates have increased recession risks and the prospects for outright decline in house prices. The UK faces additional challenges from the rise in energy prices and accompanying deterioration in the terms of trade. For the UK, the consensus Upside and Central scenarios had a combined weighting of 65%.

Following graph shows the historical and forecasted GDP growth rate for the various economic scenarios in UK:



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has remained elevated since 31 December 2021, including judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts. There is judgement in making assumptions about the effects of inflation and interest, global growth, supply chain disruption; and
- estimating the economic effects of those scenarios on ECL, particularly as the historical relationship between macroeconomic variables and defaults might not reflect the dynamics of current macroeconomic conditions.

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 2022, 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 2022.

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

For our retail portfolios, the impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models.

The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of the underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future LTV profiles for the remaining maturity of the asset by using national level forecasts of the house price index and applying the corresponding LGD expectation.

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

Management judgemental adjustments

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

This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher-level 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 26). 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. Adjustments related to Covid-19 and for sector-specific risks were reduced as scenarios and modelled outcomes better reflected management expectations at 31 December 2022.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2022 are set out in the following table.

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

	Retail	Wholesale	Total
	£m	£m	£m
Low-risk counterparties (banks, sovereigns and government entities)	–	–	–
Corporate lending adjustments	–	114	114
Retail lending adjustments	130	–	130
Total	**130**	**114**	**244**

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

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

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

At 31 December 2022, wholesale management judgemental adjustments were an ECL increase of £114m, comprising £47m relating to Wholesale portfolios and £67m relating to Retail SME portfolios (31 December 2021: £317m increase including £33m from retail SME).

- These principally reflect the outcome of management judgements for high-risk and vulnerable sectors, supported by credit experts' input, portfolio risk metrics and quantitative analyses.
- The decrease in adjustments impact relative to 31 December 2021 was mostly driven by the impact of the deterioration in macroeconomic scenarios on modelled outcomes that has reduced the dislocation between management expectations and the modelled outcomes, and reduced risks in Corporate Real Estate, particularly in relation to hotel exposures.

At 31 December 2022, retail management judgemental adjustments were an ECL increase of £130m (31 December 2021: £142m increase).

- Macroeconomic adjustments increased ECL by £56m (31 December 2021: £28m), primarily inflation-related adjustments where inflation and interest rates result in affordability risks were not fully captured by the modelled output, with a number of other smaller retail lending adjustments relating to data and models.
- Other retail lending adjustments increased ECL by £74m (31 December 2021: £73m). These were primarily to address areas such as model recalibration and redevelopment, and data limitations.
- Pandemic-related economic recovery adjustments of £41m at 31 December 2021 were removed during 2022 as scenarios stabilised.

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted (stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Therefore, the sensitivity analysis to macroeconomic scenarios does not capture the residual estimation risk arising from wholesale stage 3 exposures. 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 analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude small portfolios, and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. Additionally, in both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable to the current period, because they reflect different risk profiles relative with the Consensus scenarios for the period end.

Wholesale analysis

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

	2022 **£m**	2021 £m
ECL of financial instruments subject to significant measurement uncertainty at 31 Dec[1]		
Reported ECL	**559**	584
Consensus scenarios		
Central scenario	**458**	455
Upside scenario	**354**	371
Downside scenario	**606**	598
Downside 2 scenario	**1,604**	1,295

[1] *ECL sensitivity includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
[2] *Excludes defaulted obligors. For a detailed breakdown of performing and non-performing wholesale portfolio exposures, see page 44.*

Real estate and services sectors account for the majority of ECL sensitivity due to higher exposure to these sectors.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	2022 **£m**	2021 £m
ECL of loans and advances to customers at 31 Dec		
Reported ECL	**860**	738
Consensus scenarios		
Central scenario	**799**	636
Upside scenario	**715**	562
Downside scenario	**848**	769
Downside 2 scenario	**1,443**	1,514

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

Mortgages reflected the lowest level of ECL sensitivity across most markets as collateral values remain resilient. Credit cards and other unsecured lending are more sensitive to economic forecasts, which have improved in 2022.

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

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

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

Changes in '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 group's lending portfolio.

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

(Audited)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£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)
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–	–	–
New financial assets originated or purchased	55,066	(154)	–	–	–	–	–	–	55,066	(154)
Changes to Risk parameters – further lending/repayment	(10,027)	76	333	13	(46)	105	3	–	(9,737)	194
Changes to risk parameters – credit quality	–	70	–	(214)	–	(449)	–	4	–	(589)
Changes to model used for ECL calculation	–	4	–	(138)	–	12	–	–	–	(122)
Asset derecognised (including final repayments)	(30,601)	36	(3,700)	98	(781)	20	–	–	(35,082)	154
Assets written off	–	–	–	–	(490)	490	–	–	(490)	490
Credit related modifications that resulted in derecognition	–	–	–	–	–	–	–	–	–	–
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 release/(charge) for the period		246		(505)		(315)		4		(570)
Recoveries										71
Others										22
Total change in ECL for the period										**(477)**

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

(Audited)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	226,574	(559)	35,528	(1,728)	3,850	(1,091)	38	(23)	265,990	(3,401)
Transfers of financial instruments:	7,393	(717)	(8,936)	855	1,543	(138)	—	—	—	—
– transfers from Stage 1 to Stage 2	(13,961)	92	13,961	(92)	—	—	—	—	—	—
– transfers from Stage 2 to Stage 1	21,731	(787)	(21,731)	787	—	—	—	—	—	—
– transfers to Stage 3	(591)	5	(1,541)	218	2,132	(223)	—	—	—	—
– transfers from Stage 3	214	(27)	375	(58)	(589)	85	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	461	—	(83)	—	(1)	—	—	—	377
Changes due to modifications not derecognised	—	—	—	—	(1)	—	—	—	(1)	—
New financial assets originated or purchased	46,099	(114)	—	—	—	—	—	—	46,099	(114)
Changes to Risk parameters – further lending/ repayment	(12,643)	132	(1,305)	182	(119)	182	(18)	4	(14,085)	500
Changes to risk parameters – credit quality	—	432	—	(66)	—	(406)	—	14	—	(26)
Changes to model used for ECL calculation	—	(13)	—	(40)	—	—	—	—	—	(53)
Asset derecognised (including final repayments)	(27,037)	30	(3,248)	162	(417)	21	—	—	(30,702)	213
Assets written off	—	—	—	—	(573)	573	—	—	(573)	573
Credit related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2021	240,386	(348)	22,039	(718)	4,283	(860)	20	(5)	266,728	(1,931)
ECL release/(charge) for the period		928		155		(204)		18		897
Recoveries										100
Others										(24)
Total change in ECL for the period										973

[1] *The Reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2022, these amounted to £0.5bn (2021: £0.8bn) and were classified as Stage 1 with no ECL.*

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

Credit quality of financial instruments

(Audited)

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

The five credit quality classifications defined above each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 27.

Distribution of financial instruments by credit quality

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satis-factory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	**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**
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	124,378	25,978	36,519	6,478	4,028	197,381	(1,855)	195,526
– personal	117,587	6,460	5,764	454	1,053	131,318	(767)	130,551
– corporate and commercial	5,797	19,367	29,775	6,018	2,970	63,927	(1,085)	62,842
– non-bank financial institutions	994	151	980	6	5	2,136	(3)	2,133
Loans and advances to banks held at amortised cost	1,914	—	—	—	—	1,914	—	1,914
Cash and balances at central banks	112,478	—	—	—	—	112,478	—	112,478
Items in the course of collection from other banks	299	—	—	—	—	299	—	299
Reverse repurchase agreements – non-trading	7,988	—	—	—	—	7,988	—	7,988
Financial investments	—	—	—	—	—	—	—	—
Other assets	1,085	110	156	1	16	1,368	(1)	1,367
– endorsements and acceptances	7	52	18	1	—	78	—	78
– accrued income and other	1,078	58	138	—	16	1,290	(1)	1,289
Debt instruments measured at FVOCI[1]	14,273	—	—	—	—	14,273	(2)	14,271
Out-of-scope for IFRS 9								
Derivatives	53	8	3	—	—	64	—	64
Total gross carrying amount on balance sheet	262,468	26,096	36,678	6,479	4,044	335,765	(1,858)	333,907
Percentage of total credit quality	78.2%	7.8%	10.9%	1.9%	1.2%	100.0%	—	—
Loan and other credit related commitments	42,690	12,513	10,983	948	260	67,394	(73)	67,321
Financial guarantees	623	170	237	56	16	1,102	(3)	1,099
In-scope: Irrecoverable loan commitments and financial guarantees	43,313	12,683	11,220	1,004	276	68,496	(76)	68,420
Loan and other credit related commitments	553	1,198	1,167	105	24	3,047	—	3,047
Performance and other guarantees	383	677	1,029	84	19	2,192	(5)	2,187
Out-of-scope: Revocable loan commitments and Non-financial guarantees	936	1,875	2,196	189	43	5,239	(5)	5,234
Total nominal amount off balance sheet	44,249	14,558	13,416	1,193	319	73,735	(81)	73,654
At 31 Dec 2021	306,717	40,654	50,094	7,672	4,363	409,500	(1,939)	407,561

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

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

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	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

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

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

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

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, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

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 26.

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

	Performing – Forborne			Non-Performing – Forborne		Total Forborne
	Stage 1	Stage 2	POCI	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m
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)
Gross carrying amount						
Personal	—	—	—	510	—	510
– first lien residential mortgages	—	—	—	340	—	340
– credit cards	—	—	—	105	—	105
– other personal lending which is unsecured	—	—	—	65	—	65
Wholesale	196	79	—	1,158	20	1,453
– corporate and commercial	196	79	—	1,158	20	1,453
– non-bank financial institutions	—	—	—	—	—	—
At 31 Dec 2021[1]	196	79	—	1,668	20	1,963
Allowance for ECL						
Personal	—	—	—	(92)	—	(92)
– first lien residential mortgages	—	—	—	(47)	—	(47)
– credit cards	—	—	—	(27)	—	(27)
– other personal lending which is unsecured	—	—	—	(18)	—	(18)
Wholesale	(3)	(2)	—	(122)	(5)	(132)
– corporate and commercial	(3)	(2)	—	(122)	(5)	(132)
At 31 Dec 2021[1]	(3)	(2)	—	(214)	(5)	(224)

[1] *Following the adoption of the EBA 'Guidelines on the application of definition of default' loans are identified as forborne and classified as either performing or non-performing when we modify the contractual terms due to financial difficulty of the borrower both in Retail and Wholesale lending. At 31 December 2022, we reported £746m (31 December 2021: £79m) of performing forborne loans. The increase of £667m is mainly driven by the inclusion of non-payment related concessions in the forbearance assessment since 1 January 2022.*

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 2022 to 31 December 2022 closing gross carrying/nominal amounts and the associated allowance for ECL.

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	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)
– construction	2,256	898	234	–	3,388	(10)	(24)	(37)	–	(71)
– 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)
– real estate	8,265	2,009	551	–	10,825	(22)	(29)	(109)	–	(160)
– 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)
– public administration and defence, compulsory social security	–	–	–	–	–	–	–	–	–	–
– 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

	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)

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

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

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	23,917	3,215	201	—	27,333	(24)	(25)	(17)	—	(66)
Financial	853	104	—	—	957	(1)	—	—	—	(1)
At 31 Dec 2021	24,770	3,319	201	—	28,290	(25)	(25)	(17)	—	(67)

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	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	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)
Changes due to modifications not derecognised	–	–	–	–	–	–	–	–	–	–
New financial assets originated or purchased	14,489	(43)	–	–	–	–	–	–	14,489	(43)
Changes to risk parameters – further lending/repayments	(665)	27	(332)	15	(159)	96	3	–	(1,153)	138
Change in risk parameters – credit quality	–	105	–	(50)	–	(312)	–	4	–	(253)
Changes to models used for ECL calculation	–	5	–	(53)	–	–	–	–	–	(48)
Asset derecognised (including final repayments)	(9,919)	9	(2,352)	17	(565)	16	–	–	(12,836)	42
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 release/(charge) for the period		175		(198)		(202)		4		(221)
Recoveries										7
Others										22
Total change in ECL for the period										(192)

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 (continued)

(Audited)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2021	70,942	(380)	28,352	(834)	2,581	(699)	37	(23)	101,912	(1,936)
Transfers of financial instruments	5,352	(191)	(6,246)	238	894	(47)	—	—	—	—
– transfers from stage 1 to stage 2	(9,402)	52	9,402	(52)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	14,957	(236)	(14,957)	236	—	—	—	—	—	—
– transfers to stage 3	(320)	3	(891)	61	1,211	(64)	—	—	—	—
– transfers from stage 3	117	(10)	200	(7)	(317)	17	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	105	—	(25)	—	(1)	—	—	—	79
Changes due to modifications not derecognised	—	—	—	—	(1)	—	—	—	(1)	—
New financial assets originated or purchased	13,368	(59)	—	—	—	—	—	—	13,368	(59)
Changes to risk parameters – further lending/repayments	(7,196)	58	(2,064)	110	91	166	(17)	4	(9,186)	338
Change in risk parameters – credit quality	—	253	—	181	—	(230)	—	14	—	218
Changes to models used for ECL calculation	—	(13)	—	(40)	—	—	—	—	—	(53)
Asset derecognised (including final repayments)	(8,816)	9	(1,664)	6	(181)	15	—	—	(10,661)	30
Assets written off	—	—	—	—	(228)	228	—	—	(228)	228
Other	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2021	73,650	(218)	18,378	(364)	3,156	(568)	20	(5)	95,204	(1,155)
ECL release/(charge) for the period		355		232		(52)		18		553
Recoveries										12
Others										(23)
Total change in ECL for the period										542

[1] *The reconciliation excludes loans and advances to other HSBC Group companies. As at 31 December 2022, these amounted to £0.5bn (2021: £0.8bn) and were classified as Stage 1 with no ECL.*

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

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

	2022	2021
	£m	£m
Gross loans and advances		
Stage 1	**9,471**	9,551
Stage 2	**2,293**	1,855
Stage 3	**583**	575
POCI	**—**	—
At 31 Dec	**12,347**	11,981
– of which: forborne loans[1]	***178***	*229*
Allowance for ECL	**(179)**	(201)

[1] *Forborne gross loans and advances at 31 December 2021 have not been restated and agree with the policies and disclosures presented in the* Annual Report and Accounts 2021.

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

	2022	2021
	£m	£m
< 1 year	**6,903**	6,831
1-2 years	**2,920**	2,718
2-5 years	**1,979**	1,978
> 5 years	**545**	454
At 31 Dec	**12,347**	11,981

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 rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured.

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

Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. 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 LTV is very low.

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 90.

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)

	2022		2021	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Not collateralised	**4,151**	**0.4**	4,739	0.5
Fully collateralised	**7,769**	**0.1**	8,813	0.2
LTV ratio:				
– less than 50%	**2,305**	**0.2**	2,923	0.2
– 51% to 75%	**4,753**	**0.1**	4,282	0.2
– 76% to 90%	**375**	**0.2**	1,175	0.2
– 91% to 100%	**336**	**0.2**	433	0.1
Partially collateralised (A):	**1,588**	**0.1**	1,412	0.1
– *collateral value on A*	***920***		*644*	
Total	**13,508**	**0.2**	14,964	0.3
Stage 2				
Not collateralised	**1,855**	**1.5**	1,314	0.9
Fully collateralised	**1,624**	**1.0**	714	1.2
LTV ratio:				
– less than 50%	**515**	**1.0**	390	1.0
– 51% to 75%	**981**	**0.9**	283	1.4
– 76% to 90%	**115**	**1.5**	32	0.7
– 91% to 100%	**13**	**0.4**	9	3.9
Partially collateralised (B):	**139**	**1.0**	270	0.4
– *collateral value on B*	***112***		*165*	
Total	**3,618**	**1.2**	2,298	1.0
Stage 3				
Not collateralised	**245**	**35.2**	301	41.9
Fully collateralised	**287**	**5.6**	240	3.6
LTV ratio:				
– less than 50%	**44**	**4.5**	26	2.5
– 51% to 75%	**220**	**0.5**	170	2.6
– 76% to 90%	**9**	**20.7**	8	4.0
– 91% to 100%	**14**	**78.2**	36	9.0
Partially collateralised (C):	**64**	**29.6**	72	32.8
– *collateral value on C*	***34***		*40*	
Total	**596**	**20.3**	613	25.8
POCI				
Not collateralised	**—**	**—**	—	—
Fully collateralised	**—**	**—**	—	—
LTV ratio:				
– less than 50%	**—**	**—**	—	—
– 51% to 75%	**—**	**—**	—	—
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**—**	**—**	—	—
Partially collateralised (D):	**—**	**—**	—	—
– *collateral value on D*	**—**		—	
Total	**—**	**—**	—	—
At 31 Dec	**17,722**	**1.1**	17,875	1.2

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

(Audited)

	2022		2021	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Rated CRR/PD1 to 7				
Not collateralised	**5,995**	**0.7**	6,047	0.5
Fully collateralised	**9,386**	**0.3**	9,509	0.2
Partially collateralised (A):	**1,727**	**0.2**	1,679	0.2
– *collateral value on A*	***1,032***		*805*	
Total	**17,108**	**0.4**	17,235	0.3
Rated CRR/PD 8				
Not collateralised	**11**	**3.8**	5	45.1
Fully collateralised	**7**	**8.3**	18	24.0
LTV ratio:				
– less than 50%	**3**	**6.9**	10	24.5
– 51% to 75%	**2**	**20.2**	6	22.7
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**2**	**3.6**	2	13.0
Partially collateralised (B):	**—**	**—**	4	12.1
– *collateral value on B*	**—**		*3*	
Total	**18**	**6.2**	27	26.3
Rated CRR/PD9 to 10				
Not collateralised	**245**	**35.2**	301	41.9
Fully collateralised	**287**	**5.6**	240	3.6
LTV ratio:				
– less than 50%	**44**	**4.5**	26	2.5
– 51% to 75%	**220**	**0.5**	170	2.6
– 76% to 90%	**9**	**20.7**	8	4.0
– 91% to 100%	**14**	**78.2**	36	9.0
Partially collateralised (C):	**64**	**29.6**	72	32.8
– *collateral value on C*	***34***		*40*	
Total	**596**	**20.3**	613	25.8
At 31 Dec	**17,722**	**1.1**	17,875	1.2

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 we have to assess the likely performance of secondary sources of repayment should it prove necessary to rely on them.

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

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

(Audited)

	2022		2021	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Not collateralised	**41,567**	**0.3**	42,837	0.3
Fully collateralised	**11,291**	**0.1**	10,840	0.2
LTV ratio:				
– less than 50%	**4,108**	**0.1**	3,163	0.2
– 51% to 75%	**4,157**	**0.1**	4,844	0.2
– 76% to 90%	**1,334**	**0.1**	1,442	0.1
– 91% to 100%	**1,692**	**0.1**	1,391	0.1
Partially collateralised (A):	**5,210**	**0.1**	6,317	0.1
– *collateral value on A*	***2,803***		*3,515*	
Total	**58,068**	**0.2**	59,994	0.3
Stage 2				
Not collateralised	**9,798**	**2.8**	9,350	2.6
Fully collateralised	**5,079**	**1.3**	5,473	1.4
LTV ratio:				
– less than 50%	**2,160**	**1.1**	2,109	1.5
– 51% to 75%	**2,121**	**1.4**	2,857	1.2
– 76% to 90%	**478**	**1.9**	343	2.1
– 91% to 100%	**320**	**1.3**	164	1.6
Partially collateralised (B):	**1,876**	**1.2**	1,344	1.8
– *collateral value on B*	***981***		*690*	
Total	**16,753**	**2.2**	16,167	2.1
Stage 3				
Not collateralised	**2,466**	**14.1**	1,533	20.0
Fully collateralised	**571**	**4.3**	819	3.0
LTV ratio:				
– less than 50%	**143**	**3.5**	142	4.2
– 51% to 75%	**276**	**6.0**	562	1.1
– 76% to 90%	**83**	**0.9**	69	11.5
– 91% to 100%	**69**	**3.7**	46	9.2
Partially collateralised (C):	**245**	**25.7**	200	39.0
– *collateral value on C*	***128***		*115*	
Total	**3,282**	**13.3**	2,552	16.0
POCI				
Not collateralised	**23**	**2.8**	20	22.7
Fully collateralised	**—**	**—**	—	—
LTV ratio:				
– less than 50%	**—**	**—**	—	—
– 51% to 75%	**—**	**—**	—	—
– 76% to 90%	**—**	**—**	—	—
– 91% to 100%	**—**	**—**	—	—
Partially Collateralised (D):	**—**	**—**	—	—
– *collateral value on D*	**—**		—	
Total	**23**	**2.8**	20	22.7
At 31 Dec	**78,126**	**1.2**	78,733	1.2

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

(Audited)

	2022		2021	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Rated CRR/PD 8				
Not collateralised	**189**	**6.2**	807	4.4
Fully collateralised	**57**	**7.9**	84	13.2
LTV ratio:				
– less than 50%	**16**	**4.4**	28	12.7
– 51% to 75%	**21**	**6.7**	29	22.5
– 76% to 90%	**18**	**12.4**	17	5.6
– 91% to 100%	**2**	**6.8**	10	2.4
Partially collateralised (A):	**20**	**5.8**	102	8.0
– *collateral value on A*	***3***		*29*	
Total	**266**	**6.5**	993	5.5
Rated CRR/PD 9 to 10				
Not collateralised	**2,489**	**14.0**	1,553	20.0
Fully collateralised	**571**	**4.3**	819	3.0
LTV ratio:				
– less than 50%	**143**	**3.5**	142	4.2
– 51% to 75%	**276**	**6.0**	562	1.1
– 76% to 90%	**83**	**0.9**	69	11.5
– 91% to 100%	**69**	**3.7**	46	9.2
Partially collateralised (B):	**245**	**25.7**	200	39.0
– *collateral value on B*	***128***		*115*	
Total	**3,305**	**13.2**	2,572	16.1
At 31 Dec	**3,571**	**12.7**	3,565	13.1

Other credit risk exposures

(Audited)

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

- Some securities issued by governments, banks and other financial institutions benefit from additional credit enhancement provided by government guarantees that cover the assets;
- Debt securities issued by banks and financial institutions include asset-backed securities and similar instruments which are supported by underlying pools of financial assets;
- The group's maximum exposure to credit risk includes financial guarantees and similar 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.

At 31 December 2022, we introduced enhancements in the SICR approach in relation to capturing relative movements in PD. The enhanced approach captured relative movements in PD since origination, which resulted in a significant migration to stage 2 from loans to customers gross carrying amounts in stage 1.

The volume of stage 1 customer accounts with lower absolute levels of credit risk who have exhibited some amount of relative increase in PD since origination have migrated into stage 2, and accounts originated with higher absolute levels of credit risk with no or insignificant increases in PD since origination have been transferred back to stage 1, with no material overall change in risk.

The impact on ECL is immaterial due to the offsetting ECL impacts of stage migrations and the low LTV profiles applicable to these customers.

The enhancement of the SICR approach constitutes an improvement towards more responsive models that better reflect the SICR since origination. This includes consideration of the current cost of living pressures, as markets adjust to the higher interest rate environment.

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

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

	Gross carrying amount				Allowance for ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
By portfolio								
First lien residential mortgages	**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)**

At 31 December 2022, the stage 2 personal lending balances increased by £27.7bn to £31.0bn compared with 31 December 2021. This increase is largely due to enhancement in the SICR approach to capture relative movements in PD since origination and also, to a lesser extent, it takes into consideration cost of living pressures. The modest impact on ECL is driven by a combination of changes in PDs applied and low LTV customer profiles.

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

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

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

	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
By portfolio								
First lien residential mortgages	115,464	1,927	686	118,077	(20)	(42)	(101)	(163)
– *of which: interest only (including offset)*	*17,371*	*1,189*	*71*	*18,631*	*(3)*	*(16)*	*(18)*	*(37)*
Other personal lending	11,440	1,434	367	13,241	(102)	(311)	(191)	(604)
– other	6,199	778	245	7,222	(52)	(118)	(115)	(285)
– credit cards	5,241	656	122	6,019	(50)	(193)	(76)	(319)
At 31 Dec 2021	126,904	3,361	1,053	131,318	(122)	(353)	(292)	(767)

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

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 Dec 2021	39,835	296	75	40,206	(8)	(1)	—	(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 £7.4bn in 2022. We have maintained strong presence in the market through 2022 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 67%, compared with an estimated 50% 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 2022, the average LTV ratio of the interest-only mortgage loans was 41%, and 99% had a LTV ratio of 75% or less.

Of the interest-only mortgage loans that expired in 2020, 83% were repaid within 12 months of expiry with a total of 96% being repaid within 24 months of expiry. For those expiring during 2021, 95% were repaid within 12 months of expiry. The increase of the amount fully repaid within the 12 months is explained by the extensions granted as part of the FCA guidance on helping borrowers with maturing interest-only mortgages during the pandemic, which reduced the repayment rates within 12 months for cases maturing in 2022. Following the end of these extensions in October 2021, repayment levels have now returned to levels similar to 2019.

The exposure of interest-only mortgage loans at the end of 2022 is £12bn and the maturity profile is as follows:

HSBC interest-only mortgage loans

	£m
Expired interest-only mortgage loans[1]	**111**
Interest-only mortgage loans by maturity	
– 2023	**182**
– 2024	**178**
– 2025	**249**
– 2026	**318**
– 2027–2031	**2,450**
– post 2031	**8,507**
At 31 Dec 2022	**11,995**

[1] *Includes interest-only mortgages which have reached their contractual maturity date, but were unsettled at the end of 2022.*

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 2022 was £4.6bn with an average LTV ratio of 32%.

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		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	**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**
New financial assets originated or purchased	**40,577**	**(111)**	**—**	**—**	**—**	**—**	**—**	**—**	**40,577**	**(111)**
Changes to risk parameters – further lending/ repayments	**(9,365)**	**49**	**669**	**(2)**	**112**	**9**	**—**	**—**	**(8,584)**	**56**
Change in risk parameters – credit quality	**—**	**(35)**	**—**	**(164)**	**—**	**(137)**	**—**	**—**	**—**	**(336)**
Changes to models used for ECL calculation	**—**	**(1)**	**—**	**(85)**	**—**	**12**	**—**	**—**	**—**	**(74)**
Asset derecognised (including final repayments)	**(20,682)**	**27**	**(1,348)**	**81**	**(216)**	**4**	**—**	**—**	**(22,246)**	**112**
Assets written off	**—**	**—**	**—**	**—**	**(244)**	**244**	**—**	**—**	**(244)**	**244**
At 31 Dec 2022	**148,694**	**(121)**	**31,406**	**(571)**	**927**	**(189)**	**—**	**—**	**181,027**	**(881)**
ECL release/(charge) for the period		**71**		**(307)**		**(113)**		**—**		**(349)**
Recoveries										**64**
Others										**—**
Total change in ECL for the period										**(285)**
At 1 Jan 2021	155,635	(176)	7,173	(894)	1,270	(395)	—	—	164,078	(1,465)
Transfers of financial instruments	2,041	(527)	(2,690)	617	649	(90)	—	—	—	—
– transfers from stage 1 to stage 2	(4,559)	40	4,559	(40)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	6,774	(551)	(6,774)	551	—	—	—	—	—	—
– transfers to stage 3	(271)	2	(650)	157	921	(159)	—	—	—	—
– transfers from stage 3	97	(18)	175	(51)	(272)	69	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	356	—	(58)	—	—	—	—	—	298
New financial assets originated or purchased	32,731	(55)	—	—	—	—	—	—	32,731	(55)
Changes to risk parameters – further lending/ repayments	(5,447)	72	758	72	(210)	18	—	—	(4,899)	162
Change in risk parameters – credit quality	—	179	—	(247)	—	(176)	—	—	—	(244)
Changes to models used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Asset derecognised (including final repayments)	(18,221)	21	(1,584)	156	(236)	6	—	—	(20,041)	183
Assets written off	—	—	—	—	(345)	345	—	—	(345)	345
At 31 Dec 2021	166,739	(130)	3,657	(354)	1,128	(292)	—	—	171,524	(776)
ECL release/(charge) for the period		573		(77)		(152)		—		344
Recoveries										88
Others										(1)
Total change in ECL for the period										431

Collateral on loans and advances

(Audited)

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

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

(Audited)

	2022		2021	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	£m	**%**	£m	%
Stage 1				
Fully collateralised	**108,895**	**–**	121,888	–
LTV ratio:				
– less than 50%	**57,630**	**–**	58,971	–
– 51% to 60%	**18,852**	**–**	20,559	–
– 61% to 70%	**16,506**	**–**	18,722	–
– 71% to 80%	**10,468**	**–**	17,460	–
– 81% to 90%	**4,853**	**–**	5,723	–
– 91% to 100%	**586**	**–**	453	–
Partially collateralised (A):	**263**	**–**	253	–
LTV ratio:				
– 101% to 110%	**58**	**–**	75	–
– 111% to 120%	**50**	**–**	43	–
– greater than 120%	**155**	**–**	135	–
– *collateral value on A*	***191***		*169*	
Total	**109,158**	**–**	122,141	–
Stage 2				
Fully collateralised	**28,245**	**0.4**	1,978	2.1
LTV ratio:				
– less than 50%	**8,471**	**0.6**	1,346	1.6
– 51% to 60%	**5,224**	**0.4**	288	2.5
– 61% to 70%	**7,008**	**0.3**	192	3.2
– 71% to 80%	**4,856**	**0.3**	125	4.8
– 81% to 90%	**2,384**	**0.2**	23	5.6
– 91% to 100%	**302**	**0.2**	4	1.9
Partially collateralised (B):	**40**	**0.3**	2	9.0
LTV ratio:				
– 101% to 110%	**8**	**1.3**	1	0.4
– 111% to 120%	**8**	**–**	–	–
– greater than 120%	**24**	**0.1**	1	11.1
– *collateral value on B*	***31***		*1*	
Total	**28,285**	**0.4**	1,980	2.1
Stage 3				
Fully collateralised	**551**	**11.0**	695	14.3
LTV ratio:				
– less than 50%	**362**	**9.2**	463	13.0
– 51% to 60%	**91**	**9.7**	92	14.0
– 61% to 70%	**40**	**15.9**	58	16.2
– 71% to 80%	**27**	**19.7**	50	19.1
– 81% to 90%	**9**	**24.5**	15	26.9
– 91% to 100%	**22**	**22.5**	17	18.6
Partially collateralised (C):	**10**	**6.2**	5	26.3
LTV ratio:				
– 101% to 110%	**9**	**3.6**	3	20.7
– 111% to 120%	**–**	**–**	–	–
– greater than 120%	**1**	**11.9**	2	33.4
– *collateral value on C*	***3***		*4*	
Total	**561**	**10.9**	700	14.4
At 31 Dec	**138,004**	**0.1**	124,821	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, as well as the risk to our earnings or capital due to structural and transactional foreign exchange exposures and 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 both consolidated and local 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 2022.

Treasury Risk Management

Key developments in 2022

- Our CET1 ratio decreased from 15.3% at 31 December 2021 to 13.5% at 31 December 2022. This included a 1.7 percentage point decrease due to new regulatory requirements.
- The Group Board approved a new IRRBB strategy in September, with the objective of increasing our stabilisation of NII with consideration given to any capital or other constraints, and then adopting a managed approach based on interest rates and outlook. We intend to adopt a similar approach in HSBC UK.
- We took steps to reduce the duration risk of our Treasury hold-to-collect-and-sell portfolio, which is accounted for at FVOCI primarily to reduce the capital impact from rising interest rates. This risk reduction lowered the hold-to-collect-and-sell stressed value at risk ('SVaR') exposure of this portfolio from £555m at the end of 2021 to £507m at the end of 2022.
- We implemented a new hold-to-collect business model to better reflect our management strategy to stabilise NII. This portfolio of HQLA will continue to form a part of our liquid asset buffer going forward, as well as being a hedge to our structural interest rate risk.
- We enhanced the monitoring and forecasting of our capital positions as a result of the Russia-Ukraine war, although there were no material capital or liquidity direct impacts from the increased uncertainty on the forward economic outlook. There was also limited direct impact on our pension plan, as it had limited direct investments in Russia or Ukraine.
- We contributed towards the Group's inaugural resolvability self-assessment to meet the Bank of England requirements, which came into effect on 1 January 2022. This was incorporated into the Bank of England publication of their findings from the first assessment of the resolvability of the eight major UK firms as part of the Resolvability Assessment Framework.
- During the periods of high market volatility and turbulence in the UK gilt market, we enhanced the monitoring of our pension plan.The trustee funding level remained stable through the market volatility as a result of its proactive pension scheme management, low risk investment strategy and limited leverage in its liability funds.
- Inflationary pressures have also impacted the pension plan in several ways, including investment strategy, actuarial factors, pension indexation and members' behaviours. We have worked with Performance & Reward and the trustee of the pension plan to ensure the impact to the plan and members is understood and monitored. Refinements were made to the inflation hedging strategy to ensure it continues to be effective in the current high inflation environment.

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

Pension risk is overseen by a pension risk management meeting, chaired by the accountable risk steward.

Capital, liquidity and funding risk management

Assessment and risk appetite

Our capital management is supported by a capital management framework. The framework incorporates key capital risk appetites including CET1, total capital, MREL, and leverage ratio.

Our ICAAP is an assessment of our 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, 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 our capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by the PRA.

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

Group policies require us to meet internal minimum requirements and any applicable regulatory requirements at all times. These requirements are assessed through our ILAAP, which ensures that we have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the setting of our risk tolerance and risk appetite. It also assesses the capability to manage liquidity and funding effectively.

The ICAAP and ILAAP are approved by the HSBC UK board and subject to robust review and challenge by the Group 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 produced on a monthly basis, and capital and RWAs are monitored and managed against the plan.

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

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

Risks to capital and liquidity

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

Regulatory developments

Our capital adequacy ratios have been affected by regulatory developments in 2022, including changes to IRB modelling requirements and the UK's implementation of the revisions to the CRR II. The PRA's final rules on NSFR were implemented and have been reflected in disclosures since the first quarter of 2022.

Further details can be found in the 'Regulatory developments' section of the HSBC UK's Pillar 3 Disclosures at 31 December 2022.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a comprehensive programme to strengthen our processes, improve consistency and enhance controls across our prudential regulatory reporting. We commissioned a number of independent external reviews, some at the request of our regulators, including one on our credit risk RWA reporting process, which concluded in December 2022. These reviews have so far resulted in enhancements to our RWAs and the LCR through improvements in reporting accuracy, which have been reflected in our year-end regulatory reported ratios. Our prudential regulatory reporting programme is being phased over a number of years, prioritising RWA, capital and liquidity reporting in the early stages of the programme. While this programme continues, there may be further impacts on some of our 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. Stress testing results are also used to inform risk mitigation actions, allocation of financial resources, 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 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 Bank of England feed into the setting of regulatory minimum ratios and buffers.

We maintain a recovery plan which sets out potential options management could take in a range of stress scenarios that could result in a breach of capital or liquidity buffers. The recovery plan 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 provides detailed actions that management would consider taking in a stress scenario should their positions deteriorate and threaten to breach risk appetite and regulatory minimum levels. This is to help ensure that we can stabilise our financial position and recover from financial losses in a stress environment.

We also have capabilities, resources and arrangements in place to address the unlikely event that we might not be recoverable and would therefore need to be resolved by the Bank of England. We contributed to the Group's inaugural resolvability assessment framework ('RAF') self-assessment during 2021 to meet the Bank of England's requirements, which came into effect on 1 January 2022.

Overall, our recovery and resolution planning helps safeguard our financial and operational stability. The Group is committed to further developing its recovery and resolution capabilities, including in relation to the BoE'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;
- Economic Value of Equity sensitivity; and
- Non-Trading Value at Risk.

Net interest income sensitivity

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

Economic value of equity sensitivity

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 2022.

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

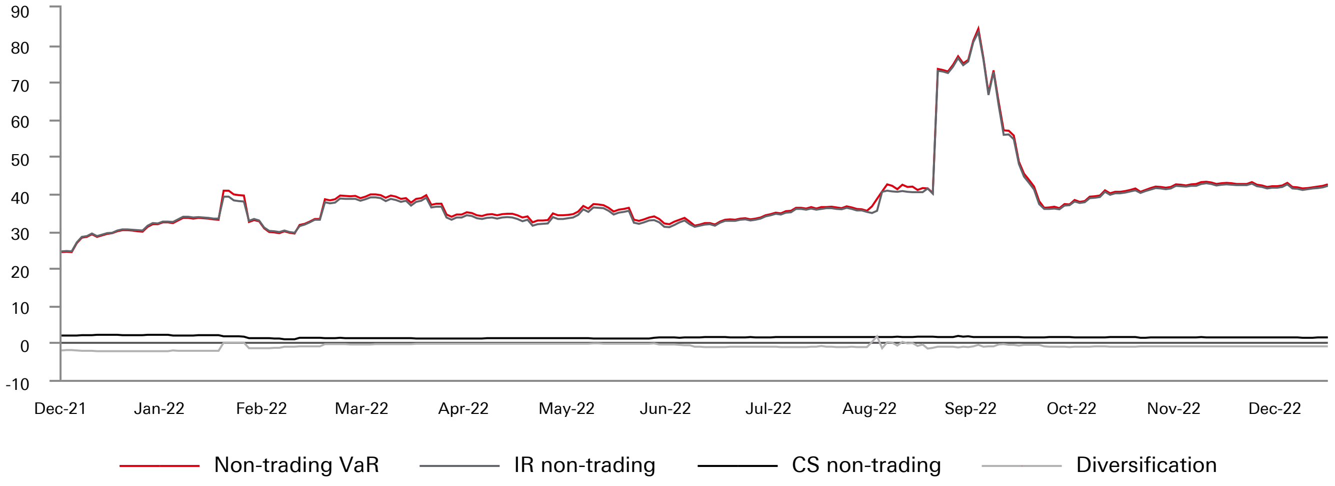
(Audited)

Non-trading VaR includes the interest rate risk in the banking book transferred to and managed by Markets Treasury and the exposures generated by the portfolio of high-quality liquid assets held by Markets Treasury to meet liquidity requirements.

The non-trading VaR increased materially during 2022 from £24.3m to end the year at £42.5m and was predominately driven by interest rate risk. The steady increase in market volatility led to an increase in the VaR, despite reductions in outright positions reaching an average level of ca. £40m in August. September saw a further increase in VaR due to a recalibration of the model with the VaR peaking for the year. The volatile market conditions driven by continued geopolitical events, change in the UK fiscal stance and concerns over high inflation led the Markets Treasury business to materially reduce the outright interest rate risk sensitivity and VaR fell in line back to average levels.

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	Interest Rates	Portfolio Diversification[1]	Total[2]
	£m	£m	£m	£m
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**
Balance at 31 Dec 2021	1.9	24.5	(2.1)	24.3
Average	1.8	26.7	(1.2)	27.3
Maximum	2.6	34.1		35.6
Minimum	1.5	16.6		16.6

[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 does not have any net assets or capital investments in 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 FVOCI reserves in a currency other than our reporting currency. 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 the Markets Treasury business within 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 2022. The assets are invested in a diverse range of assets to reduce any concentrations of risk.

In addition, the defined benefit plan holds longevity swap contracts. 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 2022 cover approximately 60% of the pensioner liabilities.

Capital Risk in 2022

Capital overview

Capital adequacy metrics[1]

	At 31 Dec	
	2022	2021
Available capital (£m)		
Common equity tier 1 capital	**12,519**	12,813
Tier 1 capital	**14,771**	15,067
Total regulatory capital	**17,847**	18,067
Risk-weighted assets (£m)		
Credit risk	**80,740**	72,817
Counterparty credit risk	**204**	129
Market risk	**101**	170
Operational risk	**11,368**	10,607
Total risk-weighted assets	**92,413**	83,723
Capital ratios (%)		
Common equity tier 1	**13.5**	15.3
Total tier 1	**16.0**	18.0
Total capital	**19.3**	21.6
Leverage ratio		
Total leverage ratio exposure measure (£m)	**251,500**	358,221
Leverage ratio (%)	**5.9**	4.2

[1] *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. These include the regulatory transitional arrangements for IFRS 9 'Financial Instruments'.Prior period leverage ratios are reported on the basis of the disclosure rules in force at that time and include claims on central banks. Current period leverage metrics exclude central bank claims in accordance with the UK leverage rules hat were implemented on-1 January 2022.*

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.

Capital figures and ratios in the previous table are calculated in accordance with the CRR II. Where applicable, they also reflect government relief schemes intended to mitigate the impact of the Covid-19 pandemic.

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 13.5%. 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.

The EU's CRR 'Quick Fix' relief package increased the 2022 scalar relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit-impaired book from 25% to 75%.

In the current period, the add-back to the capital base amounted to £35m under the STD approach. At 31 December 2021, the add-back to the capital base was £16m under the STD approach.

Own funds

CET1 ratio decreased to 13.5% from 15.3% at December 2021. We had built up capital in anticipation of regulatory changes which reduced our CET1 ratio by 1.7%, due to an increase in RWAs from revised IRB modelling requirements and a 10% floor on mortgage risk weights (1.2%), and a decrease in CET1 capital due to the reversal of the beneficial treatment of software assets (0.5%). During the year, we generated capital from profits net of dividends which was offset by a decrease in FVOCI reserves and RWA growth.

At 31 December 2022 our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, is 3.97% of RWAs, of which 2.23% was met by CET1 capital. Throughout 2022, we complied with the PRA's regulatory capital adequacy requirements.

Own funds disclosure

(Audited)

		At	
		31 Dec	31 Dec
		2022	2021
Ref*		**£m**	£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	Retained earnings	**12,078**	11,463
3	Accumulated other comprehensive income (and other reserves)	**(2,556)**	(544)
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**896**	1,125
6	**CET1 capital before regulatory adjustments**	**19,433**	21,059
28	Total regulatory adjustments to common equity tier 1	**(6,914)**	(8,246)
29	**CET1 capital**	**12,519**	12,813
36	Additional tier 1 capital before regulatory adjustments	**2,252**	2,254
44	**Additional tier 1 capital**	**2,252**	2,254
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**14,771**	15,067
51	Tier 2 capital before regulatory adjustments	**3,076**	3,000
58	**Tier 2 capital**	**3,076**	3,000
59	**Total capital**	**17,847**	18,067

* *The references identify the lines prescribed in the EBA 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	CMB	GBM	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2022	**24,705**	**56,918**	**367**	**1,563**	**170**	**83,723**
Asset size	609	3,831	140	703	(69)	5,214
Asset quality	(432)	(2,402)	—	90	—	(2,744)
Methodology and policy	8,071	(1,280)	1	(572)	—	6,220
– internal updates	(34)	(920)	1	(82)	—	(1,035)
– external updates – regulatory	8,105	(360)	—	(490)	—	7,255
Total RWA movement	**8,248**	**149**	**141**	**221**	**(69)**	**8,690**
RWAs at 31 Dec 2022	**32,953**	**57,067**	**508**	**1,784**	**101**	**92,413**

RWAs increased by £8.7bn during the year mainly from regulatory changes of £7.3bn and lending growth of £5.2bn, partially offset by reductions due to movements in asset quality £2.7bn.

Methodology and policy

Regulatory changes caused a £8.1bn RWA increase in WPB due to revised IRB modelling requirements, the UK's implementation of CRR II rules and the 10% floor on mortgage risk weights. This increase was partly offset by the reversal of the beneficial changes to the treatment of software assets in Corporate Centre, and a reduction in CMB due to IRB modelling.

CMB RWAs decreased by £0.9bn due to risk parameter refinements and data quality improvements that was partially offset by an increase on account of reporting process and control enhancements as a result of independent external regulatory reviews.

Asset size

CMB corporate loan growth increased RWAs by £3.8bn, increased mortgage lending contributed most of the £0.6bn increase in WPB and an increase in lending to other HSBC Group entities caused Corporate Centre RWAs to increase by £0.7bn.

Asset quality

Asset quality changes led to a £2.7bn fall in RWAs mainly in CMB and WPB due to credit migrations and changes in the underlying portfolio mix.

Leverage ratio

Our leverage ratio, calculated in accordance with the PRA's UK leverage framework implemented on 1 January 2022 (excluding the central bank claims), was 5.9% at 31 December 2022. The equivalent leverage ratio at December 2021 was 6.3%. The decrease is driven by growth in the balance sheet and decline in the FVOCI reserve and reversal of the beneficial treatment of software assets in Tier 1 capital.

The leverage ratio reported at 31 December 2021 was 4.2%, based on the disclosure rules in force at that time. The 1.7% increase was primarily due to the exclusion of central bank claims following the implementation of the UK leverage ratio framework from 1 January 2022.

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 2022* is published on HSBC Group's website, www.hsbc.com, under 'Investors'.

Liquidity and funding risk in 2022

Liquidity metrics

During 2022, 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 2022 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. Prior period numbers have also been restated for consistency.

HSBC UK liquidity group[1]

	Average for	
	2022	2021
LCR (%)	**226**	222
HQLA (£m)	**110,722**	103,943
Net outflows (£m)	**48,946**	46,807
NSFR (%)	**164**	176

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

At 31 December 2022, HSBC UK's LCR was above regulatory minimum. 2022 average LCR has marginally increased by 4% as compared to 2021, retaining a strong liquidity position and reflecting stable commercial surplus during the year.

Liquid assets

We had an average total of £110,722m of highly liquid unencumbered LCR eligible liquid assets (2021 Average: £103,943m) held in a range of asset classes and currencies. Of these, 99% were eligible as level 1 (Average 2021: 99%).

The below tables reflects the composition of the average liquidity pool by asset type and currency for 2022 and 2021:

	Liquidity pool	Cash	Level 1	Level 2
	£m	£m	£m	£m
Cash and balance at central bank	**97,199**	**97,199**	**—**	**—**
Central and local government bonds	**11,417**	**—**	**10,850**	**567**
Regional government PSE	**218**	**—**	**218**	**—**
International organisation and MDBs	**957**	**—**	**957**	**—**
Covered bonds	**930**	**—**	**261**	**669**
Other	**1**	**—**	**—**	**1**
Average Total for 2022	**110,722**	**97,199**	**12,286**	**1,237**
Average Total for 2021	103,943	93,783	9,523	637

	£	$	€	Other	Total
	£m	£m	£m	£m	£m
Average Liquidity Pool for 2022	**103,757**	**4,453**	**1,341**	**1,171**	**110,722**
Average Liquidity Pool for 2021	97,012	4,732	1,341	858	103,943

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 2022, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

(Audited)

	2022	2021
	£m	£m
Sources		
Customer accounts	**281,095**	281,870
Deposits by banks	**10,721**	11,180
Repurchase agreements – non-trading	**9,333**	10,438
Debt securities in issue	**1,299**	900
Cash collateral, margin and settlement accounts	**315**	2
Subordinated liabilities	**12,349**	12,487
Total equity	**22,226**	23,805
Other balance sheet liabilities	**5,103**	5,381
At 31 Dec	**342,441**	346,063

Funding Uses

(Audited)

	2022	2021
	£m	£m
Uses		
Loans and advances to customers	**204,143**	195,526
Loans and advances to banks	**6,357**	1,914
Reverse repurchase agreements – non-trading	**7,406**	7,988
Cash collateral, margin and settlement accounts	**231**	294
Financial investments	**16,092**	14,377
Cash and balances with Central banks	**94,407**	112,478
Other balance sheet assets	**13,805**	13,486
At 31 Dec	**342,441**	346,063

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 2022

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

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 58 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.

We remain aligned to the HSBC Group climate ambition to align HSBC Group’s own operations and supply chain to net zero by 2030. The HSBC Group announced in March 2022 that it intends to publish a climate transition plan in 2023, and committed to a science-aligned phase-down of fossil fuel finance, and a review of its wider financing and investment policies critical to achieving net zero by 2050. This follows the HSBC Group’s thermal coal phase out policy, which was announced in 2021. HSBC UK does not have material coal financing exposures.

Key Developments in 2022

- HSBC UK's risk appetite statement was approved by the HSBC UK Board and includes the measures we intend to take to enable our climate ambition and meet our commitments. In HSBC UK, our measures are focused on the oversight and management of climate risks in the WPB and CMB portfolios.
- We completed the BoE’s CBES assessment as part of our regulatory commitments to the PRA, and have incorporated HSBC specific recommendations into our ongoing approach. We also completed an Internal Scenario Analysis exercise, with the outputs of both exercises being used to further develop and enhance our climate stress testing and scenario capabilities, and improve our understanding of our risk exposures for use in risk management and business decision making.
- The CBES stress testing exercise helped us to understand the impacts of transition risk in our residential mortgage book, as well as energy efficiency of properties by using EPC ratings. We have also embedded physical risk data into our mortgage risk management activities, to be able to help identify ‘at risk’ properties, which is primarily those at risk of flooding.

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 regular updates on our climate risk profile and progress of our climate risk programme.

Key risk management processes

We are integrating climate risk into the policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time. In 2022, we incorporated climate considerations into our mortgage origination processes for our retail business and new money request processes for our wholesale business.

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 2022

The Operational and Resilience Risk sub-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 the year, we carried out a number of initiatives to keep pace with geopolitical, regulatory and technology changes and to strengthen the management of resilience risk:

- We updated our risk taxonomy and control libraries, and refreshed risk and control assessments.
- We implemented heightened monitoring and reporting of cyber, third party, business continuity and payment/sanctions risks resulting from the Russia-Ukraine war and enhanced controls and key processes where needed.
- We provided analysis and reporting of non-financial risks providing 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 aimed to further strengthen our non-financial risk governance and improved our coverage and risk steward oversight of data privacy and change execution.

Governance and structure

The Operational and Resilience Risk 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 nine sub-risk types related to: failure to manage third parties; technology and cybersecurity; transaction processing; failure to protect people and places from physical malevolent acts; business interruption and incident risk; data risk; change execution risk; building unavailability; and workplace safety.

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 services, within an agreed level. 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 situation in Russia and Ukraine, and remain ready to take measures to help ensure business continuity, should the situation require. There has been no significant impact to our services in nearby markets where we operate. Publications from the UK Government, EU Commission and the National Grid, amongst others, advised on potential plans for power cuts and energy restrictions across the UK and Continental Europe during the winter period. In light of potential disruption, businesses and functions in these markets are reviewing existing plans and responses to minimise the impact.

Regulatory compliance risk

Overview

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 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 2022

The structure of HSBC UK's Compliance function is largely unchanged over the prior year and in 2022, we have continued to embed the structural changes from last year integrating regulatory compliance and financial crime risk management under the HSBC UK Chief Compliance Officer.

The implementation of our purpose-led conduct approach concluded and is now considered 'business as usual'. Further work on embedding Conduct principles in tandem with implementation of Consumer Duty requirements will continue in 2023. The mapping of regulations to our risks and controls continued and will continue throughout 2023 alongside new tooling to support enterprise-wide horizon scanning of new regulatory obligations and regulatory reporting inventories. We have sought to integrate climate risk into regulatory compliance policies and processes, with enhancements made to the Product Governance Framework and Controls in order to help 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 regulatory agenda, there continues to be ongoing focus by regulators to improve outcomes for banks' consumers, particularly vulnerable ones, as well as in markets. The following are areas of particular focus:

- Higher levels of consumer protection in retail financial markets, with publication of the final policy on Consumer Duty by the FCA.
- Improving the ring-fencing regime in order to better serve customers and address future risks.
- Measures contained in the Financial Services and Markets Bill intended to address issues arising from the UK's departure from the EU.
- A number of significant initiatives being carried out by government and regulators intended to open up competition, innovation and access to payments and further support customer protections.
- Improving the approach to managing AML risk between member firms of the Banking Framework Agreement and the Post Office.
- Ensuring fair treatment of vulnerable customers, including those in financial difficulties.
- Improving diversity and inclusion across all banks' activities.
- Climate-related financial disclosures.

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 approach guides us to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. It complements our purpose and values and, together with more formal policies and the tools we have to do our jobs, provides a clear path to achieving our purpose and delivering our strategy. As part of this we have carried out a number of activities during 2022:

- We understood and serviced our customer's ongoing needs and continued to champion a strong conduct and customer-focused culture.
- We demonstrated this through our risk steward leadership of the Consumer Duty Programme. Closely linked to our conduct agenda, the first phase of the Duty will be delivered in July 2023 and has been designed to help ensure good outcomes for our customers across all retail products and services.
- We improved our digital capabilities by helping to develop and promote early adoption of the Global Conduct MI tool, which will help enable us to demonstrate the effective management of our non-financial and conduct risks.
- We integrated the PLCA through the completion of business-line and functional applicability assessments, helping to ensure that our HSBC UK implementation plan was robust and of sufficient quality to influence the necessary change.
- In April we launched our 'Conduct Knowledge Centre', a one-stop shop of tools and guidance for both the first and second lines of business on their conduct responsibilities.
- Outside of the requirements of the PLCA, we developed the visibility of conduct risks for DBS, focusing on control management. This will enable DBS to provide a richer picture in terms of their Conduct Risk Profile.
- 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 continued our focus on culture and behaviours as a driver of good conduct Outcomes.
- We focused oversight 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 focused 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 of knowingly or unknowingly helping parties to commit or to further illegal activity through HSBC, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Financial Crime Risk Management

Key developments in 2022

We continuously review the effectiveness of our financial crime risk management framework, which includes consideration of the complex and dynamic nature of sanctions compliance risk. In 2022, we adapted our policies, procedures and controls to respond to the unprecedented volume and diverse set of sanctions and trade restrictions imposed against Russia following its war with Ukraine.

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

- Following the successful delivery of our intelligence-led, dynamic risk assessment for WPB in November 2021, deployment of this tool for CMB followed in February 2022. 4Q22 saw the introduction of credit card data into the DRA which enables it to provide a more holistic view of our customers’ behaviour. Implementation of the DRA in HSBC UK has resulted in more Suspicious Activity Reports filed compared to the previous Transaction Monitoring system.
- We have reconfigured our Transaction Screening capability in readiness for the global change to payment systems formatting under ISO20022 requirements, and enhanced transaction screening capabilities by implementing automated alert discounting.
- We continued to strengthen the first party lending fraud framework, reviewed and published an updated fraud policy and associated control library, while also continuing to invest in new fraud detection technologies.
- 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.
- A project was initiated to 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 illicit 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 illicit 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 these same policy goals are codified in law and regulation. We are committed to complying with the laws and regulations of all of the markets in which we operate, where we apply a global minimum standard that seeks to promote the highest standards. In cases where material differences exist between the laws and regulations of these markets, our policy adopts the highest standard while acknowledging the primacy of local law.

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 by streamlining and de-duplicating policy requirements. We also strengthened our financial crime risk taxonomy and control libraries and our investigative and monitoring capabilities through technology deployments. We developed more targeted metrics, and have also enhanced our governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system and the communities we serve. We participate in numerous public-private partnerships and information-sharing initiatives. In 2022, our focus remained on measures to improve the overall effectiveness of the global financial crime framework, notably by providing input into legislative 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 can be optimised to achieve more effective outcomes in detecting and deterring illicit activity.

Independent Reviews

In August 2022, the Board of Governors of the Federal Reserve System terminated the 2012 cease-and-desist order, with immediate effect. The order was the final regulatory enforcement action that HSBC entered into in 2012. In June 2021, the UK Financial Conduct Authority ('FCA') had already determined that no further Skilled Person work was required under section 166 of the Financial Services and Markets Act.

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 2022

In 2022, 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 redeveloped, validated and submitted to the PRA some of our internal ratings-based (‘IRB’) models. These new models have been built to enhanced standards using improved data as a result of investment in processes and systems.
- We welcomed the PRA Consultation Paper (CP6/22) 'Model Risk Management principles for banks' published in June 2022 and provided input to the HSBC response, sent to the PRA in October 2022, with its final version expected to be published in mid-2023.
- We made further enhancements to our control framework for our models to address the control weaknesses that emerged as a result of significant increases in adjustments and overlays that were applied to compensate for the impact of the macroeconomic volatility on models.

- Our businesses and functions were 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.
- We delivered further training on model risk to front-line teams to improve their awareness of model risk and their adherence to the governance framework.
- 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 adopted the HSBC Group's Subsidiary Accountability Framework ('SAF') in 2021. 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 2022 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 CEO are separate; the Chairman leads the Board and is responsible for its effectiveness: and the CEO leads the day-to-day management of the Company and execution of strategy.

During the year, the Board completed its annual Board Effectiveness Review. The Board considered the outcome of this review and endorsed actions to be undertaken to further optimise and enhance governance. All enhancements suggested in the 2021 review were considered to have been completed.

In 2022 the Board held six routine meetings and an additional three 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 stakeholder engagement and management may be found in 'Stakeholder engagement' on page 8.

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 in a way consistent with its purpose and values, treating customers fairly and openly, doing business with the right customers and in the right way, 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 2022 and up to 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 and Chairman

Appointed to the Board: April 2017

Clara is a non-executive director of Vodafone Group plc and Assicurazioni Generali S.p.A. She is a member of the Panel of Senior Advisors to Chatham House. In March 2021 she became Chair of the UK Voluntary Carbon Markets Forum, establishing a group that aims to operationalise a global, high integrity market for voluntary carbon credits; an essential component of an accelerated and economically productive transition to net zero. Former appointments include: non-executive director of 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.

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 and 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 and Risk Committee 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.

David Lister

Independent non-executive Director

Member of the Risk Committee and from 15 January 2022, 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 and a member of the board of governors at Nuffield Health. His former appointments include: non-executive director of Interxion Holding N.V., non-executive director of CIS General Insurance Limited, Weatherbys Limited and the Department for Work and Pensions; trustee of The Tech Partnership Limited; and Group Chief Information Officer at each of National Grid, Royal Bank of Scotland, Reuters and Boots.

John David Stuart (known as Ian Stuart)

Executive Director and Chief Executive Officer

Chairman of the Board's Executive Committee

Appointed to the Board: May 2017

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

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

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

Independent non-executive Director

Member of the Chairman's Nominations and Remuneration Committee, the Audit Committee and Member of the Risk Committee until 20 July 2022

Appointed to the Board: February 2018

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

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 Baird was appointed Chief Financial Officer for HSBC UK Bank plc in January 2022, in addition to her existing role as CFO for Global Wealth and Personal Banking ('WPB'). Claire is a member of the Global WPB, HSBC UK and Global Finance executive committees. Prior to joining HSBC, Claire spent 18 years with RBS/NatWest Group, most recently as finance director for Personal Banking, Deputy CFO 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.

Ekaterina Platonova (known as Kate Platonova)

Non-executive Director

Appointed to the Board: 19 October 2022

Kate was appointed Group Chief Data and Analytics Officer of HSBC Group Management Services in March 2022. She joined HSBC in 2017 and has held the roles of; Chief Data Architect (2017-2019), Chief Technical Domain Architect (2019-2020) and Chief Data and Architecture Officer (2020-2022). Kate is responsible for the effective use of data and technology to enable the business to understand, anticipate and meet the needs of our customers. Prior to joining HSBC in 2017, she held various technology roles in Morgan Stanley, Barclays Capital and JPMorgan Chase. Kate's areas of interest are cybersecurity, quantum computing and advancements in Machine Learning and Artificial Intelligence.

Jenny Goldie-Scot

Independent non-executive Director

Member of the Risk Committee

Appointed to the Board: 19 July 2022

Jenny 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.

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.

Other Directors that served during the year

Rosemary Leith – Independent Non-executive Director. Resigned from the Board on 16 February 2022

Company Secretary

Nicola Black:

Appointed: May 2017

Board activities during 2022

The Board's key areas of focus during 2022 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 on our Strengths – the Board considered the transformation plans for Wealth Management, first direct and the Branch Network. It also received regular updates on the bank's implementation of the FCA's Consumer Duty.
- Energise for growth – the Board reviewed management's progress in activating hybrid working and how this would enhance the bank's culture through the lenses of customer, colleagues and conduct. It also considered plans to develop HSBC UK's Societal Purpose.
- Digitise at scale – 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 Fraud strategy and capabilities. The Board was kept informed about the UK's plans for the financial services industry's transformation of Wholesale Cash and Payments arrangements.
- Transition to net zero – the Board received an update on progress being made against the bank's Climate Strategy and Plan.

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 CEO 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 nine times during 2022.

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 and internal financial controls. All the members of the committee are independent non-executive directors.

Committee activities during 2022

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 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 2022.

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 2022

During the year, the committee has, amongst other matters: provided oversight over 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 Chief Risk Officer 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 Chief Risk Officer, Internal Auditor and External Audit Partner without any management present.

The committee met seven times in 2022.

Chairman's Nominations and Remuneration Committee

Role

The Chairman's Nominations and Remuneration Committee ('CNRC') has been delegated responsibilities from the Board in relation to nomination 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, selection, nomination, operation and evaluation of the Board. The Policy sets out an ambition of 33% of the Board to be female and a minimum of one Board Director from an ethnic minority background. The current composition of the Board exceeds both of these targets. All the members of the committee are independent non-executive directors.

Committee activities during 2022

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 CEO and senior management in HR to attend meetings to support the discharge of its delegated responsibilities.

The committee met six times during 2022.

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 CEO. Membership comprises the Executive Directors and the CEO's senior management team.

Committee activities during 2022

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 CEO in discharging his financial crime risk responsibilities.

The committee met eight times in 2022.

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 in order 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 18.

Employment of people with a disability

We strongly believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment. The recruitment, training, development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during their employments with us, efforts are made to continue their employment. Where necessary, we will provide appropriate training, facilities and reasonable equipment 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 6.

Auditor

PricewaterhouseCoopers LLP is the external auditor to the Company. Following a tender process for the audit of HSBC Holdings plc and its subsidiaries that took place in 2022, it was recommended that PricewaterhouseCoopers LLP be reappointed as auditors for HSBC Group entities effective for periods ending on or after 1 January 2025. A resolution proposing the reappointment of PricewaterhouseCoopers LLP as auditor of the bank 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 structural changes from the Covid-19 pandemic, the Russia-Ukraine war, disrupted supply chains globally, climate change and other top and emerging risks, 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 70.

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 8
Employee Engagement	Stakeholder engagement and Section 172 on page 8
Employee Health and Safety	Strategic report 'Supporting our employees' on page 6
Diversity & Inclusion	Strategic report 'Supporting our employees' on page 6 and Corporate Governance Report on page 65
Results and Dividends	Financial summary on pages 10 to 14 and Note 6 of the Financial statements on page 102
Segmental Analysis	Strategic report on pages 11 to 13 and Note 1.1(f) of the Financial statements on page 87
Future Developments	Strategic report 'Our strategy' on pages 5 to 7
Share Capital	Note 23 of the Financial statements on page 119
Risk Factors	Report of the Directors on pages 17 to 71
Directors' Emoluments	Note 3 of the Financial statements on page 99
Opportunities and Threats	Strategic report on pages 5 to 7 and Risk report on pages 17 to 64
Directors	Corporate Governance Report on page 65
Subsidiaries and Joint Ventures	Note 29 of the Financial statements on pages 124 to 125
Director Indemnities	Corporate Governance Report on page 65
Post Balance Sheet Events	Note 28 of the Financial statements page 124

The Report of the Directors comprising pages 17 to 71 was approved by the Board on 20 February 2023 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 issued by the International Accounting Standards Board (IFRSs issued by IASB).

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 IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, whose names and functions are listed in the Corporate Governance Report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards and IFRSs issued by IASB, 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 Report of the Directors includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

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 2023 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 2022 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 2022* (the "Annual Report"), which comprise:

- the consolidated income statement for the year ended 31 December 2022;
- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated balance sheet as at 31 December 2022;
- the consolidated statement of cash flows for the year ended 31 December 2022;
- the consolidated statement of changes in equity for the year ended 31 December 2022;
- the parent company balance sheet as at 31 December 2022;
- the parent company statement of cash flows for the year ended 31 December 2022;
- the parent company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

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

Separate opinion in relation to IFRSs as issued by the IASB

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 ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

In our opinion, the group and parent company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 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 UK;
- We performed an audit of the complete financial information of one reporting unit namely HSBC UK Bank plc;
- For four further reporting units, namely Marks and Spencer Financial Services plc ('M&S'), HSBC Invoice Finance (UK) Limited ('HIF'), HSBC Equipment Finance (UK) Limited ('HEF') and Neon Portfolio Distribution DAC ('Neon'), specific audit procedures were performed over selected account balances; and
- As part of the audit, we performed additional risk assessment, giving consideration to relevant internal and external factors including climate change.

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).

Materiality

- Overall group materiality: £202m (2021: £106m) based on 5% of adjusted profit before tax.
- Overall parent company materiality: £200m (2021: £97m) based on 5% of adjusted profit before tax.
- Performance materiality: £151m (2021: £79m) (group) and £150m (2021: £73m) (parent company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

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.

Recognition of income under Effective Interest Rate ('EIR') accounting, which was a key audit matter last year, is no longer included because of the increase in our overall materiality and a reduction in the size of the associated asset therefore reducing the risk of material misstatement over the course of 2022. Otherwise, the key audit matters below are consistent with last year.

Expected credit losses ('ECL') provision for loans and advances (group and parent)

Key audit matter	Matters discussed with the Audit Committee
Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating ECL. The significant assumptions that we 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); and • Estimating expected cash flows and collateral valuations to assess the ECL of credit impaired wholesale exposures. Models are also important to the determination of ECL and during the year the retail probability of default ('PD') models were redeveloped. The level of estimation uncertainty and judgement has remained high during 2022 as a result of the uncertain macroeconomic and geopolitical environment, high levels of inflation and a rising interest rate environment. 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.	We held discussions with the Audit Committee covering governance and controls over ECL. We discussed a number of areas including: • The severity of macroeconomic 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 redevelopment of retail probability of default models; 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 ECLs. We observed management's review and challenge governance forums for (1) the determination of macroeconomic scenarios and their probability weightings, and (2) the assessment of ECL for Retail and Wholesale portfolios, including the assessment of ECL calculated on the largest credit-impaired stage 3 exposures.

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;
- Independent model validation and monitoring;
- The calculation and approval of management judgemental adjustments to modelled outcomes;
- The identification of credit-impairment triggers; and
- The calculation and approval of significant individual impairments relating to the largest wholesale credit-impaired exposures.

We involved our economic experts in assessing the significant assumptions made in determining the severity and probability weighting of macroeconomic forecasts, with particular focus on the downside and consensus central 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. We independently reperformed the calculations for a sample of those models and management judgemental adjustments. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias.

We involved our valuation specialists to assist in testing the valuation of collateral for a sample of wholesale credit-impaired exposures.

In addition, we performed substantive testing over:

- The compliance of ECL methodologies and assumptions with the requirements of IFRS 9;
- The assumptions and methodology underpinning the redeveloped retail PD models and independently replicated these models;
- The appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk;
- A sample of critical data elements used in the year end ECL calculation;
- A sample of CRRs applied to wholesale exposures; and
- A sample of calculations made in estimating expected cash flows for certain 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 2022*

Note 1: Basis of preparation and significant accounting policies 1.2(g) Impairment of amortised cost and FVOCI financial assets, page 90.

Summary of credit risk, page 29.

Measurement uncertainty and sensitivity analysis of ECL estimates, page 33.

Valuation of defined benefit pension surplus

Key audit matter

The defined benefit pension scheme is in a net surplus position as at 31 December 2022 consistent with the prior year.

Defined benefit obligation (‘DBO’)

The valuation of the DBO 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 DBO.

Management uses an actuarial expert to determine the valuation of the DBO using 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 asset consists of various classes of pension assets, some of which are more complex to value and therefore higher risk. These include, infrastructure loan notes, directly held property and some more complex pooled investment vehicles (‘PIVs’).

Valuation experts are used to determine the value of certain classes of complex pension assets including the valuation of infrastructure loan notes and directly held property. The valuation of complex pooled investment vehicles is obtained from the investment managers.

The estimation of fair value for more complex pension assets is subjective and relies on valuation models as well as unobservable inputs. Therefore, significant judgement is required to estimate fair values.

Matters discussed with the Audit Committee

We discussed the results of the work performed by our team (including actuarial experts). This included how the key assumptions compared to our independently compiled expected ranges and the assessment of the modelling methodology adopted by management's actuarial expert.

We discussed with the Audit Committee the changes in methodology including the rounding convention for financial assumptions and updates to the mortality assumptions to factor in the impact of Covid-19.

For the complex scheme assets, our discussions included:

- The results of audit work which included our assessment of the valuation methodology adopted by management's experts when valuing, infrastructure loan notes and the property portfolios; 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 controls over:

- The determination of the actuarial assumptions used in calculating the valuation of the DBO and the approval of those assumptions by management; and
- The valuation of plan assets.

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

- Evaluated the objectivity and competence of management’s actuarial expert involved in the valuation of the DBO;
- 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 DBO;
- Assessed the reasonableness of the assumptions using independently compiled expected ranges based on market observable indices and our market experience; and
- Evaluated the appropriateness of the pension disclosures within the financial statements, including the disclosure regarding the sensitivity of assumptions by comparing them to the output of our audit work.

Our substantive testing over pension assets included the following:

- Obtained independent confirmations to support the investment valuations from the investment managers for material investment balances;
- Engaged our valuation experts to independently review a sample of more complex investments including directly held property and infrastructure loan notes; and
- In respect of more complex pooled investment vehicles, we performed one or more of the following additional procedures:
  - For fair values based on net asset valuation statements from fund managers, we inspected these statements;
  - Agreed valuation statements from fund managers to audited fund financial statements where they were available;
  - 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.

Relevant references in the *Annual Report and Accounts 2022*

Note 1: Basis of preparation and significant accounting policies 1.2(h) Employee compensation and benefits, page 93.

Note 3: Employee compensation and benefit, page 95.

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.

We evaluated and challenged management's assessment of the impact of climate change risk, which is set out on page 62, 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 cashflows 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.

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 being 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 in the form of a consolidation pack, which gets 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 was necessary, owing to its financial significance.

We then considered the significance of other reporting units in relation to primary statement account balances. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For four reporting units, specific audit procedures were performed over selected significant account balances as follows; for HIF these were 'Loans and advances to customers', 'Customer accounts', and 'Items in the course of collection from other Banks'; for HEF this was 'Loans and advances to customers'; for M&S these were 'Loans and advances to customers', 'Customer accounts', 'Prepayments, accrued income and other assets', 'Change in expected credit losses and other credit impairment charges'; and for Neon this was 'Debt securities in issue'. For the remainder of the reporting units, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and subsidiary level analytical review procedures.

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

We utilised centralised teams and a shared service centre to assist with certain aspects of our audit where it was more efficient to do so. This included the coordination of data requests and the testing of a number of controls, IT and operational processes, and central items such as payroll. We oversaw the nature, timing and extent of the work performed by this team and received results through a memorandum of work performed.

For all in-scope reporting units apart from M&S, the group audit engagement partner was also the partner overseeing the audit work performed. For the M&S reporting unit, a separate component team performed the audit of the in-scope balances, as instructed by the group engagement team. We held regular meetings with the component team auditing the M&S reporting unit as part of our oversight of their work. In these meetings, we discussed the significant risks identified and how these risks were addressed by the component team through the procedures performed. We also performed a review of the documentation of the testing performed over a number of areas, including significant risks to ensure these were aligned with our expectations.

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 testing parent company balances such as investments in subsidiaries.

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	£202m (2021: £106m)	£200m (2021: £97m)
How we determined it	5% of adjusted profit before tax	5% of adjusted profit before tax
Rationale for benchmark applied	Adjusted profit before tax is the primary measure used by shareholders in assessing the performance of the group and the parent company and removes the impact of significant items that distort year-on-year comparisons. In determining overall materiality, we have made adjustments, including for the impact of certain customer redress and restructuring programmes as they are large items unrelated to the underlying performance of the group and parent company. The benchmark used in 2021 was a 4-year average of adjusted profit reflecting the significant impact that Covid-19 had on profitability.	

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 £5m-£192m. 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% (2021: 75%) of overall materiality, amounting to £151m (2021: £79m) for the group financial statements and £150m (2021: £73m) 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 £10m (group audit) (2021: £5m) and £10m (parent company audit) (2021: £5m) 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 and the group's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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

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

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

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

Reporting on other information

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

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

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and the Report of the Directors for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and the Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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 Consumer Credit Act 1974, the Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgements. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- 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).
- Identifying and testing journal entries, including those posted with certain descriptions, posted and approved by the same individual, backdated journals, posted by infrequent and unexpected users, posted to reverse revenue after year end and posted with unusual account combinations.
- Agreeing financial statement disclosures to underlying supporting documentation, review of correspondence with regulators including the FCA and PRA, review of correspondence with the group's external legal advisors, enquiries of management, enquiries of legal counsel and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above. 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 6 years, covering the years ended 31 December 2017 to 31 December 2022.

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 2023

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Consolidated income statement

for the year ended 31 December

	Notes	2022 £m	2021 £m
Net interest income		**6,203**	4,650
– interest income[1,2,3]		**7,592**	5,072
– interest expense		**(1,389)**	(422)
Net fee income	2	**1,245**	1,080
– fee income		**1,493**	1,329
– fee expense		**(248)**	(249)
Net income from financial instruments held for trading or managed on a fair value basis		**384**	318
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**36**	15
Gains less losses from financial investments		**37**	101
Other operating income		**47**	86
Net operating income before change in expected credit losses and other credit impairment charges		**7,952**	6,250
Change in expected credit losses and other credit impairment charges		**(482)**	989
Net operating income		**7,470**	7,239
Employee compensation and benefits[4]	3	**(1,079)**	(1,022)
General and administrative expenses[4]		**(2,271)**	(2,316)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(164)**	(174)
Amortisation and impairment of intangible assets		**(318)**	(247)
Total operating expenses		**(3,832)**	(3,759)
Operating profit		**3,638**	3,480
Profit before tax		**3,638**	3,480
Tax expense	5	**(762)**	(1,112)
Profit for the year		**2,876**	2,368
Attributable to:			
– ordinary shareholders of the parent company		**2,871**	2,363
– non-controlling interests		**5**	5
Profit for the year		**2,876**	2,368

[1] *Interest income recognised on financial assets measured at amortised cost is £7,415m (2021: £4,926m).*

[2] *Interest income recognised on financial assets measured at FVOCI is £166m (2021: £130m).*

[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] *During 2021, 3,607 full-time equivalent employees that were fully dedicated to HSBC UK Bank plc transferred from HSBC Global Services (UK) Limited to HSBC UK Bank plc. As a result of the employee transfer, associated costs for the three months to 31 March 2021 were reported under 'General and administrative expenses' and subsequently reported under 'Employee compensation and benefits'.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2022	2021
	£m	£m
Profit for the year	**2,876**	2,368
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	**(300)**	(89)
– fair value losses	**(385)**	(9)
– fair value gains transferred to the income statement on disposal	**(37)**	(101)
– expected credit recoveries recognised in the income statement	**(1)**	(4)
– income taxes	**123**	25
Cash flow hedges	**(1,234)**	(91)
– fair value losses	**(1,884)**	(115)
– fair value (gains)/losses reclassified to the income statement	**180**	(20)
– income taxes	**470**	44
Exchange differences	**(2)**	(1)
– other exchange differences	**(2)**	(1)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(1,023)**	(510)
– before income taxes	**(1,603)**	(471)
– income taxes[1]	**580**	(39)
Other comprehensive income/(expense) for the year, net of tax	**(2,559)**	(691)
Total comprehensive income for the year	**317**	1,677
Attributable to:		
– ordinary shareholders of the parent company	**312**	1,672
– non-controlling interests	**5**	5
Total comprehensive income for the year	**317**	1,677

[1] *The income tax credit of £580m (2021: charge (£39m)) arising on Remeasurement of defined benefit asset/liability, includes an income tax credit of £134m in 2022 arising upon the remeasurement of deferred tax following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3% with effect from 1 April 2023 and includes an income tax charge of £179m in 2021 arising upon the remeasurement of deferred tax following the substantive enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023.*

Consolidated balance sheet

at 31 December

	Notes	2022 £m	2021 £m
Assets			
Cash and balances at central banks		**94,407**	112,478
Items in the course of collection from other banks		**353**	299
Financial assets mandatorily measured at fair value through profit or loss	*7*	**108**	79
Derivatives	*9*	**546**	64
Loans and advances to banks		**6,357**	1,914
Loans and advances to customers		**204,143**	195,526
Reverse repurchase agreements – non-trading		**7,406**	7,988
Financial investments	*10*	**16,092**	14,377
Prepayments, accrued income and other assets	*16*	**8,762**	9,136
Interests in joint ventures	*12*	**9**	9
Goodwill and intangible assets	*15*	**4,258**	4,193
Total assets		**342,441**	346,063
Liabilities and equity			
Liabilities			
Deposits by banks		**10,721**	11,180
Customer accounts		**281,095**	281,870
Repurchase agreements – non-trading		**9,333**	10,438
Items in the course of transmission to other banks		**308**	151
Derivatives	*9*	**304**	292
Debt securities in issue	*17*	**1,299**	900
Accruals, deferred income and other liabilities	*18*	**3,543**	1,674
Current tax liabilities		**173**	802
Provisions	*19*	**424**	495
Deferred tax liabilities	*5*	**666**	1,969
Subordinated liabilities	*20*	**12,349**	12,487
Total liabilities		**320,215**	322,258
Equity			
Called up share capital	*23*	**—**	—
Share premium account	*23*	**9,015**	9,015
Other equity instruments	*23*	**2,196**	2,196
Other reserves		**6,121**	7,657
Retained earnings		**4,834**	4,877
Total shareholders' equity		**22,166**	23,745
Non-controlling interests		**60**	60
Total equity		**22,226**	23,805
Total liabilities and equity		**342,441**	346,063

The accompanying notes on pages 87 to 125, and the audited sections in: the 'Financial summary' on pages 10 to 14 and the 'Report of the Directors' on pages 17 to 71 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

John David Stuart

Director

Consolidated statement of cash flows

for the year ended 31 December

	2022	2021
	£m	£m
Profit before tax	**3,638**	3,480
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**482**	421
Net gain from investing activities	**(37)**	(101)
Change in expected credit losses gross of recoveries and other credit impairment charges	**575**	(911)
Provisions including pensions	**(78)**	123
Share-based payment expense	**17**	16
Other non-cash items included in profit before tax	**(204)**	(30)
Elimination of exchange differences[1]	**1,032**	(33)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**(2,174)**	(97)
Change in loans and advances to banks and customers	**(9,182)**	(3,717)
Change in reverse repurchase agreements – non-trading	**894**	(5,503)
Change in financial assets mandatorily measured at fair value	**(29)**	(53)
Change in other assets	**(2,219)**	728
Change in deposits by banks and customer accounts	**(1,234)**	33,169
Change in repurchase agreements – non-trading	**(1,104)**	4,288
Change in debt securities in issue	**399**	34
Change in other liabilities	**1,052**	(1,233)
Contributions paid to defined benefit plans	**(21)**	(195)
Tax paid	**(1,499)**	53
Net cash from operating activities	**(9,692)**	30,439
Purchase of financial investments	**(10,386)**	(12,468)
Proceeds from the sale and maturity of financial investments	**8,571**	17,000
Net cash flows from the purchase and sale of property, plant and equipment	**(41)**	(53)
Net investment in intangible assets	**(382)**	(347)
Net cash from investing activities	**(2,238)**	4,132
Subordinated loan capital issued[2]	**—**	4,978
Subordinated loan capital repaid[2]	**—**	(2,079)
Dividends paid to shareholders of the parent company and non-controlling interests	**(1,934)**	(752)
Net cash from financing activities	**(1,934)**	2,147
Net increase in cash and cash equivalents	**(13,864)**	36,718
Cash and cash equivalents at 1 Jan	**114,134**	77,422
Exchange differences in respect of cash and cash equivalents	**49**	(6)
Cash and cash equivalents at 31 Dec[3]	**100,319**	114,134
Cash and cash equivalents comprise:		
– cash and balances at central banks	**94,407**	112,478
– items in the course of collection from other banks	**353**	299
– loans and advances to banks of one month or less	**5,285**	857
– reverse repurchase agreements with banks of one month or less	**312**	—
– treasury bills, other bills and certificates of deposit less than three months	**268**	475
– cash collateral and net settlement accounts	**2**	176
– less: items in the course of transmission to other banks	**(308)**	(151)
Cash and cash equivalents at 31 Dec[3]	**100,319**	114,134

Interest received was £7,054m (2021: £5,135m) and interest paid was £1,172m (2021: £444m).

[1] *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

[2] *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £nil (2021: £4,978m) and repayments of £nil (2021: £(2,079)m). Non-cash changes during the year included foreign exchange losses of £556m (2021: £25m).*

[3] *At 31 December 2022 £4,700m (2021: £nil) was not available for use by the group, £4,700m (2021: £nil) related to mandatory deposits at central banks.*

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves					
	Called up share capital and share premium	Other equity instru- ments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	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 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**
At 1 Jan 2021	9,015	2,196	3,749	146	1	7,691	22,798	60	22,858
Profit for the year	—	—	2,363	—	—	—	2,363	5	2,368
Other comprehensive income (net of tax)	—	—	(510)	(90)	(91)	—	(691)	—	(691)
– debt instruments at fair value through other comprehensive income	—	—	—	(89)	—	—	(89)	—	(89)
– cash flow hedges	—	—	—	—	(91)	—	(91)	—	(91)
– remeasurement of defined benefit asset/ liability	—	—	(510)	—	—	—	(510)	—	(510)
– exchange differences	—	—	—	(1)	—	—	(1)	—	(1)
Total comprehensive income for the year	—	—	1,853	(90)	(91)	—	1,672	5	1,677
Dividends to shareholders	—	—	(747)	—	—	—	(747)	(5)	(752)
Other movements[1]	—	—	22	—	—	—	22	—	22
At 31 Dec 2021	9,015	2,196	4,877	56	(90)	7,691	23,745	60	23,805

[1] Relates to £9m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2021: £20m) and share based payments cost of £29m in 2022 (2021: £2m).

[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 balance sheet

at 31 December

	Notes	2022 £m	2021 £m
Assets			
Cash and balances at central banks		**94,407**	112,477
Items in the course of collection from other banks		**154**	132
Financial assets mandatorily measured at fair value through profit or loss	*7*	**108**	79
Derivatives	*9*	**546**	64
Loans and advances to banks		**9,304**	4,405
Loans and advances to customers		**199,666**	191,208
Reverse repurchase agreements – non-trading		**7,406**	7,988
Financial investments	*10*	**16,092**	14,377
Investments in subsidiaries	*13*	**1,010**	1,014
Prepayments, accrued income and other assets	*16*	**8,527**	8,861
Interests in joint ventures	*12*	**5**	5
Goodwill and intangible assets	*15*	**1,185**	1,128
Total assets		**338,410**	341,738
Liabilities and equity			
Liabilities			
Deposits by banks		**11,619**	12,095
Customer accounts		**279,575**	280,023
Repurchase agreements – non-trading		**9,333**	10,438
Items in the course of transmission to other banks		**304**	148
Derivatives	*9*	**304**	292
Debt securities in issue	*17*	**1,091**	675
Accruals, deferred income and other liabilities	*18*	**3,330**	1,514
Current tax liabilities		**135**	760
Provisions	*19*	**386**	442
Deferred tax liabilities	*5*	**690**	2,001
Subordinated liabilities	*20*	**12,349**	12,487
Total liabilities		**319,116**	320,875
Equity			
Called up share capital	*23*	**—**	—
Share premium account	*23*	**9,015**	9,015
Other equity instruments	*23*	**2,196**	2,196
Other reserves		**3,678**	5,214
Retained earnings		**4,405**	4,438
Total equity		**19,294**	20,863
Total liabilities and equity		**338,410**	341,738

Profit after tax for the year was £2,882m (2021: £2,201m).

The accompanying notes on pages 87 to 125, and the audited sections of the 'Report of the Directors' on pages 17 to 71 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

John David Stuart

Director

HSBC UK Bank plc statement of cash flows

for the year ended 31 December

	2022	2021
	£m	£m
Profit before tax	**3,599**	3,265
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**473**	397
Net gain from investing activities	**(37)**	(101)
Change in expected credit losses gross of recoveries and other credit impairment charges	**457**	(801)
Provisions including pensions	**(93)**	114
Share-based payment expense	**16**	15
Other non-cash items included in profit before tax	**(204)**	(30)
Elimination of exchange differences[1]	**1,032**	(33)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**(2,174)**	(97)
Change in loans and advances to banks and customers	**(9,130)**	(4,163)
Change in reverse repurchase agreements – non-trading	**894**	(5,503)
Change in financial assets mandatorily measured at fair value	**(29)**	(53)
Change in other assets	**(2,188)**	693
Change in deposits by banks and customer accounts	**(924)**	33,604
Change in repurchase agreements – non-trading	**(1,104)**	4,288
Change in debt securities in issue	**416**	34
Change in other liabilities	**1,013**	(1,202)
Contributions paid to defined benefit plans	**(21)**	(195)
Tax paid	**(1,460)**	58
Net cash from operating activities	**(9,464)**	30,290
Purchase of financial investments	**(10,386)**	(12,468)
Proceeds from the sale and maturity of financial investments	**8,571**	17,000
Net cash flows from the purchase and sale of property, plant and equipment	**(64)**	(44)
Net investment in intangible assets	**(375)**	(343)
Net cash from investing activities	**(2,254)**	4,145
Subordinated loan capital issued[2]	**—**	4,978
Subordinated loan capital repaid[2]	**—**	(2,000)
Dividends paid to shareholders of the parent company and non-controlling interests	**(1,929)**	(747)
Net cash from financing activities	**(1,929)**	2,231
Net increase in cash and cash equivalents	**(13,647)**	36,666
Cash and cash equivalents at 1 Jan	**114,114**	77,454
Exchange differences in respect of cash and cash equivalents	**49**	(6)
Cash and cash equivalents at 31 Dec[3]	**100,516**	114,114
Cash and cash equivalents comprise:		
– cash and balances at central banks	**94,407**	112,477
– items in the course of collection from other banks	**154**	132
– loans and advances to banks of one month or less	**5,677**	1,002
– reverse repurchase agreements with banks of one month or less	**312**	—
– treasury bills, other bills and certificates of deposit less than three months	**268**	475
– cash collateral and net settlement accounts	**2**	176
– less: items in the course of transmission to other banks	**(304)**	(148)
Cash and cash equivalents at 31 Dec[3]	**100,516**	114,114

Interest received was £6,671m (2021: £4,827m), interest paid was £1,154m (2021: £417m) and dividends received were £161m (2021: £57m).

[1] *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on line-by-line basis, as details cannot be determined without unreasonable expense.*

[2] *Subordinated liabilities changes during the year are attributable to cash flows from issuance of securities of £nil (2021: £4,978m) and repayments of £nil (2021: £(2,000)m). Non-cash changes during the year included foreign exchange losses of £556m (2021: £25m).*

[3] *At 31 December 2022, £4,700m (2021: £nil) was not available for use by the bank, £4,700m (2021: £nil) related to mandatory deposits at central banks.*

HSBC UK Bank plc statement of changes in equity

for the year ended 31 December

				Other reserves			
	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Group re-organisation[2] reserve	Total share-holders' equity
	£m	£m	£m	£m	£m	£m	£m
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 expense (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**
At 1 Jan 2021	9,015	2,196	3,473	146	1	5,248	20,079
Profit for the year	—	—	2,201	—	—	—	2,201
Other comprehensive income (net of tax)	—	—	(510)	(90)	(91)	—	(691)
– debt instruments at fair value through other comprehensive income	—	—	—	(89)	—	—	(89)
– cash flow hedges	—	—	—	—	(91)	—	(91)
– remeasurement of defined benefit asset/liability	—	—	(510)	—	—	—	(510)
– exchange differences	—	—	—	(1)	—	—	(1)
Total comprehensive income for the year	—	—	1,691	(90)	(91)	—	1,510
Dividends to shareholders	—	—	(747)	—	—	—	(747)
Other movements[1]	—	—	21	—	—	—	21
At 31 Dec 2021	9,015	2,196	4,438	56	(90)	5,248	20,863

[1] *Relates to £9m pension assets transfer from HSBC Global Services (UK) Limited and HSBC Bank plc (2021: £20m) and share based payments cost of £28m in 2022 (2021: £1m).*

[2] *The Group reorganisation reserve is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring fenced businesses that were notionally transferred from HSBC Bank plc.*

Notes on the financial statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC UK and the separate financial statements of the bank comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006. These financial statements are also prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. There were no unendorsed standards effective for the year ended 31 December 2022 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on HSBC UK in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments to IFRSs which are effective from 1 January 2022 that are applicable to HSBC UK. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 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.

New IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020 and December 2021. Following the amendments, IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and has been adopted in its entirety for use in the UK. However, it is not expected to have a material impact on the consolidated financial statements of the group and the separate financial statements of the bank.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2022* 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 17 to 65; and
- capital disclosures are included in the 'Report of the Directors | Risk' on pages 59 to 61.

In publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in Section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on HSBC's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2022 management do 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 impact 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 structural changes from the Covid-19 pandemic, the Russia-Ukraine war, disrupted supply chains globally, climate change and other top and emerging risks, as well as from the related impacts on profitability, capital and liquidity.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. The election is made for each business combination.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Goodwill

Goodwill is allocated to CGUs for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. The group‘s CGUs are based on the business lines described in the Strategic Report. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU. The amount of goodwill included in a disposal group is measured on the basis of the relative values of the operation disposed of and the portion of the CGU retained.

Critical accounting estimates and judgements

The review of goodwill for impairment reflects management’s best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management’s best estimate of future business prospects.	• The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management’s view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of 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 using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

The group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when 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 held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within ‘Net income from financial instruments held for trading or managed on a fair value basis’. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

(g) Impairment of amortised cost and FVOCI financial assets

ECL are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income ('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 required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months (’12-month ECL’). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (‘lifetime ECL’). Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets which are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in ‘stage 3’. 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, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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.

In 2022, HSBC UK adopted 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 27.

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. 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 27 – Risk rating scales.

For Retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, 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.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. 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. These enhancements resulted in significant migrations of loans to customers gross carrying amounts from stage 1 to stage 2, but did not have a significant impact on the overall ECL for these portfolios in 2022 due to low loan-to-value ratios.

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 Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	Through the cycle (represents long-run average PD throughout a full economic cycle). The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages.	Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). Default backstop of 90+ days past due for all portfolios.
EAD	Cannot be lower than current balance.	Amortisation captured for term products.
LGD	Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn). Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. Discounted using cost of capital. All collection costs included.	Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral). No floors. Discounted using the original effective interest rate of the loan. Only costs associated with obtaining/selling collateral included.
Other		Discounted back from point of default to balance sheet date.

While 12-month PDs are recalibrated from Basel II models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a DCF methodology. The expected future cash flows are based on the credit risk officer's estimates at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. 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 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 33.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk. • Determining the lifetime and point of initial recognition of overdrafts and credit cards. • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss. • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.	• The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited on pages 33 to 37, 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 accounting estimates and judgements

The most significant critical accounting estimates relate to the determination of key assumptions applied in calculating the defined benefit pension obligation.

Judgements	Estimates
	• A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. • The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. • Key assumptions used in calculating the defined benefit pension obligation and the sensitivity of the calculation to different assumptions are described in Note 3.

(i) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(j) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations. • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

(k) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying values of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 15).

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(l) Cash and cash equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

2 Net fee income

	Year ended	
	31 Dec	31 Dec
	2022	2021
Net fee income by product	**£m**	£m
Account services	**257**	276
Funds under management	**114**	126
Cards	**580**	410
Credit facilities	**130**	140
Imports/exports	**30**	33
Insurance agency commission	**25**	59
Receivables finance	**96**	90
Other	**261**	195
Fee income	**1,493**	1,329
Less: fee expense	**(248)**	(249)
Net fee income	**1,245**	1,080
Net fee income by global business		
Wealth and Personal Banking	**590**	514
Commercial Banking	**879**	755
Global Banking and Markets	**(222)**	(188)
Corporate Centre	**(2)**	(1)

Net fee income includes £1,129m 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) (2021: £1,094m), £174m 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) (2021: £126m), £118m of fees earned on trust and other fiduciary activities (2021: £11m).

3 Employee compensation and benefits

	2022	2021[1]
	£m	£m
Wages and salaries	**971**	903
Social security costs	**106**	97
Post-employment benefits	**2**	22
Year ended 31 Dec	**1,079**	1,022

Average number of persons employed by the group during the year

	2022[2]	2021[1,2]
Wealth and Personal Banking	**15,923**	16,458
Commercial Banking	**4,491**	4,932
Global Banking and Markets	**54**	51
Corporate Centre	**33**	6
Year ended 31 Dec	**20,501**	21,447

[1] During 2021, 3,607 full-time equivalent employees that were fully dedicated to HSBC UK Bank plc transferred from HSBC Global Services (UK) Limited to HSBC UK Bank plc. As a result of the employee transfer, associated costs for the three months to 31 March 2021 were reported under 'General and administrative expenses' and subsequently reported under 'Employee compensation and benefits'.

[2] Average number of headcount staff in corporate centre are allocated to the respective the 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:

	2022	2021
	£m	£m
Restricted share awards	**8**	7
Savings-related and other share award option plans	**9**	10
Year ended 31 Dec	**17**	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

	2022	2021
	Number	Number
	(000s)	(000s)
Restricted share awards outstanding at 1 Jan	**2,457**	1,525
Additions during the year	**1,976**	2,101
Released in the year	**(1,404)**	(1,137)
Forfeited in the year	**(48)**	(32)
Restricted share awards outstanding at 31 Dec	**2,981**	2,457
Weighted average fair value of awards granted (£)	**4.03**	4.11

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% (2021: 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 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**	
Outstanding at 1 Jan 2021	59,815	2.96
Granted during the year	16,434	5.28
Exercised during the year	(1,693)	3.69
Expired during the year	(488)	4.13
Forfeited during the year	(9,995)	3.60
Outstanding at 31 Dec 2021	64,073	2.85
– of which exercisable	*2,702*	*3.98*
Weighted average remaining contractual life (years)	2.97	

[1] *Weighted average exercise price.*

Post-employment benefit plans

We operate a pension plan for our employees called the HBUK section of the HSBC Bank (UK) Pension Scheme ('the plan'), which has both defined benefit and defined contribution sections. The HSBC Bank (UK) Pension Scheme was fully sectionalised in 2018 to meet the requirements of the Banking Reform Act.

The Pension risk section on page 58 contains details about the policies and practices associated with the plan. Climate-related risks on page 21 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 experienced during the second half of 2022, see Treasury risk on page 55.

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 will be performed in 2023, with an effective date 31 December 2022. The plan is estimated to remain in a comfortable surplus relative to funding liabilities as at end 2022, 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.

Guaranteed Minimum Pension Equalisation

Following a judgment issued by the High Court of Justice of England and Wales in 2018, we estimated the financial effect of equalising benefits in respect of guaranteed minimum pensions ('GMP') equalisation, and any potential conversion of GMPs into non-GMP benefits, to be an approximate 0.9% increase in the plan's liabilities for members of the plan, or £187m. This was recognised in the Income Statement in 2018. A further judgment by the High Court on 20 November 2020 ruled that GMPs should be also equalised for those who had previously transferred benefits from the plan to another arrangement, with £13m consequently being recognised in 2020. In 2022 the trustee and Company agreed to adopt a simplified approach for all members to implement GMP equalisation. This resulted in an increase to the liabilities of £5m and has been recognised as a past service cost through P&L.

Income statement charge

	2022	2021
	£m	£m
Defined benefit pension plans	(95)	(44)
Defined contribution pension plans	97	66
Pension plans	**2**	22
Year ended 31 Dec	**2**	22

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 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 losses financial assumptions	—	8,561	8,561
– actuarial gain demographic assumptions	—	(100)	(100)
– actuarial gain 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**

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 2021	31,130	(24,173)	6,957
Service cost	—	(40)	(40)
– current service cost	—	(10)	(10)
– past service cost	—	(30)	(30)
Net interest income/(cost) on the net defined benefit asset/(liability)	446	(344)	102
Remeasurement effects recognised in other comprehensive income	(274)	(197)	(471)
– return on plan assets (excluding interest income)	(274)	—	(274)
– actuarial losses financial assumptions	—	444	444
– actuarial gain demographic assumptions	—	(325)	(325)
– actuarial gain experience adjustments	—	(316)	(316)
Transfers to/from the scheme	113	(93)	20
Benefits paid	(1,014)	1,014	—
Other movements[1]	177	—	177
At 31 Dec 2021	30,578	(23,833)	6,745

[1] Other movements of Fair value of plan assets includes contributions by HSBC UK of £20m (2021: £195m), less administrative costs £17m (2021: £18m).

HSBC UK expects to make total contributions of £11m to the pension scheme during 2023, which reflects the costs of providing defined benefit risk benefits to defined contribution members of the section. 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

	2023	2024	2025	2026	2027	2028–2032
	£m	£m	£m	£m	£m	£m
The plan[1]	1,024	1,058	1,093	1,128	1,165	6,423

[1] The duration of the defined benefit obligation is 13.2 years under the disclosure assumptions adopted (2021: 17.3 years).

Fair value of plan assets by asset classes

	At 31 Dec 2022			At 31 Dec 2021		
	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	**20,853**	**11,550**	**9,303**	30,578	26,799	3,779
– equities[1]	**93**	**—**	**93**	146	4	142
– bonds fixed income[2]	**4,386**	**4,002**	**384**	13,399	12,894	505
– bonds index linked	**7,869**	**7,869**	**—**	13,418	13,418	—
– derivatives	**998**	**—**	**998**	1,377	—	1,377
– property	**700**	**—**	**700**	808	—	808
– other[3]	**6,807**	**(321)**	**7,128**	1,430	483	947

[1] Includes £93m (2021: £142m) in relation to private equities.
[2] Bonds fixed income, includes £(705)m (2021: £(360)m) in relation to repurchase agreements.
[3] Other includes £7,128m (2021: £947m) of unquoted pooled investment vehicles, the majority of the underlying assets are invested in bonds.

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 2022	**4.93**	**3.39**	**2.84**	**3.27**	**3.34**
At 31 Dec 2021	1.90	3.45	3.20	3.30	3.45

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
UK					
At 31 Dec 2022	**SAPS S3[1]**	**27.1**	**28.6**	**28.4**	**29.9**
At 31 Dec 2021	SAPS S3[1]	27.3	28.8	28.5	30.1

[1] *Self-administered pension scheme ('SAPS') S3 table, with different tables and multipliers adopted based on gender, pension amount and member status, reflecting the Scheme's actual mortality experience. Improvements are projected in accordance with the Continuous Mortality Investigation's CMI 2021 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 5% weighting to 2020 and 2021 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[1]			
	Financial impact of increase		Financial impact of decrease	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Discount rate – increase/decrease of 0.25%	**(483)**	(988)	**509**	1,053
Inflation rate (RPI/CPI) – increase/decrease of 0.25%	**387**	895	**(371)**	(724)
Pension payments and deferred pensions – increase/decrease of 0.25%	**457**	936	**(431)**	(870)
Pay – increase/decrease of 0.25%	**8**	15	**(8)**	(15)
Change in mortality – increase of 1 year	**390**	1,025	**(405)**	N/A

[1] *Sensitivities allow for HSBC UK's convention of rounding pension assumptions during 2022 to the nearest 0.01% (2021: 0.05%). The degree of rounding has been increased to align with market practice.*

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:

	2022	2021
	£000	£000
Fees paid to non-executive Directors	**1,406**	1,568
Salaries and other emoluments[1]	**2,418**	2,735
Annual incentives[2]	**1,160**	716
Long-term incentives[3]	**781**	477
Year ended 31 Dec	**5,765**	5,496

[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 £580,071 (2021: £357,846) in cash and £580,071 (2021: £357,846) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2022.*

[3] *The amount shown is comprised of £364,848 (2021: £256,463) in deferred cash and £416,541 (2021: £220,507) 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 2022. The total deferral period of deferred cash and share awards is no less than five years up to a maximum of seven years. Grants with a five-year deferral vest in five equal tranches on each anniversary of the grant date on a pro-rate basis. Grants with a seven-year deferral vest in five equal tranches on each anniversary from the third anniversary of the grant date on a pro-rata basis. The deferral periods and pro-rata calculations are in line with the requirements set out in the Remuneration rules applicable to Material Risk Takers. The share awards are subject to a retention period of six months to one year upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.*

No Directors exercised share options over HSBC Holdings plc ordinary shares during the year (2021: no Directors).

Awards were made to two Directors under HSBC Holdings plc long-term incentive plans in respect of qualifying services rendered in 2022 (2021: 2). During 2022, 2 Directors received shares in respect of awards in HSBC Holdings plc long-term incentive plans that vested during the year (2021: 2).

Retirement benefits accrued to 1 Director during the year in respect of their qualifying services (2021: no Directors). No Directors received cash in lieu of pension contributions during the year in respect of their qualifying services (2021: 3). Cash received in lieu of pension is included in the salary and other emoluments disclosure in the table above.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2022	2021
	£000	£000
Salaries and other emoluments	1,771	1,753
Annual incentives[1]	890	596
Long-term incentives[2]	602	407
Year ended 31 Dec	**3,263**	2,756

[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 £445,071 (2021: £297,846) in cash and £445,071 (2021: £297,846) in Restricted Shares.*

[2] *The amount shown is comprised of £294,214 (2021: £218,698) in deferred cash and £307,398 (2021: £188,070) 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 2022 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 (2021: £nil).

4 Auditors' remuneration

	2022	2021
	£m	£m
Audit fees payable to PwC	5.4	5.4
Other audit fees payable	2.8	2.7
Year ended 31 Dec	**8.2**	8.1

Fees payable by the group to PwC

	2022	2021
	£m	£m
Audit fees for HSBC UK Bank plc's statutory audit[1]	4.3	4.4
Fees for other services provided to the group	3.9	3.7
– audit of the group's subsidiaries[2]	1.1	1.0
– audit-related assurance services[3]	1.9	2.0
– other assurance services[4]	0.9	0.7
Year ended 31 Dec	**8.2**	8.1

[1] *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC UK Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*

[2] *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*

[3] *Including services for assurance and other services that relate to statutory and regulatory filings, including comfort letters and interim and quarter reviews.*

[4] *Including 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 £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

	2022	2021
	£m	£m
Current tax	**876**	836
– for this year	880	852
– adjustments in respect of prior years	(4)	(16)
Deferred tax	**(114)**	276
– origination and reversal of temporary differences	52	54
– effect of changes in tax rates	(172)	203
– adjustments in respect of prior years	6	19
Year ended 31 Dec[1]	**762**	1,112

[1] *In addition to amounts recorded in the income statement, a tax credit of £1,173m (2021: credit of £23m) was recorded directly to equity.*

The tax rate applying to HSBC UK Bank plc and its banking subsidiaries was 27%, comprising 19% UK corporation tax rate plus 8% surcharge tax rate on UK banking profits. The tax rate applicable for non-banking entities is 19% (2021: 19%).

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2022		2021	
	£m	**%**	£m	%
Profit before tax	**3,638**		3,480	
Tax expense				
Taxation at UK corporation tax rate of 19.00% (2021: 19.00%)	**691**	**19.0**	661	19.0
Items increasing the tax charge in 2022:				
– UK banking surcharge	**278**	**7.6**	266	7.6
– UK bank levy	**9**	**0.2**	9	0.3
– non-deductible costs in respect of regulatory and legal matters	**—**	**—**	4	0.1
– adjustments in respect of prior period liabilities	**2**	**0.1**	3	0.1
– other permanent disallowables	**4**	**0.1**	1	0.1
Items reducing tax charge in 2022:				
– change in tax rates	**(172)**	**(4.7)**	203	5.8
– deductions for AT1 coupon payments	**(39)**	**(1.1)**	(32)	(0.9)
– non-deductible UK customer redress	**(11)**	**(0.3)**	(3)	(0.1)
Year ended 31 Dec	**762**	**20.9**	1,112	32.0

The effective tax rate for the year was 20.9% (2021: 32%). The effective tax rate is 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 prior year effective tax rate of 32% was higher than the UK rate of corporation tax for banking entities of 27% following enactment of legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023. This had increased the prior year effective tax rate by 5.8%.

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 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**
Foreign exchange and 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)**
At 1 Jan 2021	123	1	(52)	(1,879)	118	12	(1,677)
Income statement	1	—	—	(272)	(16)	11	(276)
Other comprehensive income	—	44	23	(76)		(7)	(16)
Foreign exchange and other adjustments	(2)	—	3	1	—	(2)	—
At 31 Dec 2021	122	45	(26)	(2,226)	102	14	(1,969)
Assets	122	45	—	—	102	14	283
Liabilities	—	—	(26)	(2,226)	—	—	(2,252)

	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 bank							
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**
Foreign exchange and 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)**
At 1 Jan 2021	114	1	(52)	(1,879)	95	11	(1,710)
Income statement	1	—	—	(272)	(15)	10	(276)
Other comprehensive income	—	44	23	(76)	—	(7)	(16)
Foreign exchange and other adjustments	—	—	—	1	—	—	1
At 31 Dec 2021	115	45	(29)	(2,226)	80	14	(2,001)
Assets	115	45	—	—	80	14	254
Liabilities	—	—	(29)	(2,226)	—	—	(2,255)

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 14 February 2023, the Directors resolved to pay an interim dividend of £539m to the ordinary shareholders of the parent company in respect of the financial year ending 31 December 2022. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholder of the parent company

	2022		2021	
	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	9,820	491	—	—
Interim dividend in respect of the current year	25,919	1,296	12,659	633
Total	35,739	1,787	12,659	633

Total coupons on capital securities classified as equity

		2022	2021
	First call date	£m	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	70	57
– £1,100m	Dec 2024	72	57
Total		142	114

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

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
The group and bank	£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	72	—	36	108	65	14	—	79
Derivatives	14	532	—	546	1	63	—	64
Financial investments	10,757	175	—	10,932	13,979	398	—	14,377
Liabilities								
Derivatives	—	304	—	304	1	291	—	292

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency. There were no transfers between Level 1 and Level 2 during 2022 and 2021.

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 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**
At 31 Dec 2021					
Assets					
Loans and advances to banks	1,914	–	1,914	–	1,914
Loans and advances to customers	195,526	–	224	195,922	196,146
Reverse repurchase agreements – non-trading	7,988	–	7,988	–	7,988
Financial investments – at amortised cost	–	–	–	–	–
Liabilities					
Deposits by banks	11,180	–	11,180	–	11,180
Customer accounts	281,870	–	281,870	–	281,870
Repurchase agreements – non-trading	10,438	–	10,438	–	10,438
Debt securities in issue	900	–	675	217	892
Subordinated liabilities	12,487	–	12,686	–	12,686
The bank					
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**
At 31 Dec 2021					
Assets					
Loans and advances to banks	4,405	–	4,406	–	4,406
Loans and advances to customers	191,208	–	224	191,617	191,841
Reverse repurchase agreements – non-trading	7,988	–	7,988	–	7,988
Financial investments held at amortised cost	–	–	–	–	–
Liabilities					
Deposits by banks	12,095	–	12,095	–	12,095
Customer accounts	280,023	–	280,022	–	280,022
Repurchase agreements – non-trading	10,438	–	10,438	–	10,438
Debt securities in issue	675	–	675	–	675
Subordinated liabilities	12,487	–	12,686	–	12,686

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	**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**
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**
Foreign exchange	19,845	106	58	—	58	171	10	181
Interest rate	10,998	37,179	478	265	743	479	369	848
Gross total fair values	30,843	37,285	536	265	801	650	379	1,029
Offset (Note 22)					(737)			(737)
At 31 Dec 2021	30,843	37,285	536	265	64	650	379	292

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 Presentation	Change in fair value[2]
Hedged risk	£m	£m	£m		£m
Interest rate[3]	**18,520**	**1,297**	**837**	**Derivatives**	**723**
At 31 Dec 2022	**18,520**	**1,297**	**837**		**723**
Interest rate[3]	14,628	256	251	Derivatives	(90)
At 31 Dec 2021	14,628	256	251		(90)

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

[2] Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.

[3] The hedged risk 'interest rate' includes inflation risk.

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m	£m		£m	£m	
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**	
Interest rate[4]	9,075		14		Financial investments measured at fair value through other comprehensive income	(226)	1	Net income from financial instruments held for trading or managed on a fair value basis
	397		—		Loans and advances to customers	(3)		
		—		122	Subordinated Liabilities[3]	320		
At 31 Dec 2021	9,472	—	14	122		91	1	

[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 £(12)m (2021: £19m) for FVOCI and liabilities of £(111)m for Loans and advances to customers (2021: £nil).

[3] The notional amount of non-dynamic fair value hedges is equal to £5,901m (2021: £5,444m), of which the weighted-average maturity date is August 2027 and the weighted average swap rate is 1.28% (2021: 1.39%). These hedges are all internal to HSBC Group and hedges internal funding between Group and HSBC UK.

[4] The hedged risk 'interest rate' includes inflation risk.

The hedged item is either the benchmark interest rate risk portion within the fixed rate of the hedged item or the full fixed rate and it is hedged for changes in fair value due to changes in the benchmark interest rate risk.

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

	Hedging Instrument					Hedged Item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	**£m**	**£m**	**£m**		**£m**	**£m**	**£m**	
Foreign 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)**	**—**	
Foreign currency	106	—	10	Derivatives	(7)	(7)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	22,551	9	118	Derivatives	(108)	(108)	—	
At 31 Dec 2021	22,657	9	128		(115)	(115)	—	

[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	Foreign Currency
	£m	**£m**
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**
Cash flow hedging reserve at 1 Jan 2021	1	—
Fair value gains/(losses)	(108)	(7)
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	(26)	6
Income taxes	44	—
Cash flow hedging reserve at 31 Dec 2021	(89)	(1)

10 Financial investments

Carrying amount of financial investments

	The group and bank	
	2022	2021
	£m	£m
Financial investments measured at fair value through other comprehensive income	**10,932**	14,377
– treasury and other eligible bills	**512**	1,252
– debt securities	**10,419**	13,125
– equity securities	**1**	—
Debt instruments measured at amortised cost	**5,160**	—
– treasury and other eligible bills	**448**	—
– debt securities	**4,712**	—
At 31 Dec	**16,092**	14,377

11 Assets pledged, collateral received and assets transferred

Assets pledged

Financial assets pledged as collateral

	The group and bank	
	2022	2021
	£m	£m
Debt securities	**8,375**	4,804
Loans and advances to banks	**4,700**	—
Loans and advances to customers	**14,598**	13,440
Other	**294**	349
Assets pledged at 31 Dec	**27,967**	18,593

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	
	2022	2021
	£m	£m
Financial investments	**7,536**	4,478
At 31 Dec	**7,536**	4,478

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 £10,084m (2021: £9,402m). 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 £5,967m (2021: £7,953m).

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

	2022		2021	
	Carrying amount of:		Carrying amount of:	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
The group	**£m**	**£m**	£m	£m
Repurchase agreements	**5,064**	**4,367**	2,630	2,608
Securities lending agreements	**2,472**	**—**	1,848	—
The bank				
Repurchase agreements	**5,064**	**4,367**	2,630	2,608
Securities lending agreements	**2,472**	**—**	1,848	—
Other sales (recourse for full amount)	**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 2022, the group had a 50% interest in the £10m issued equity capital (2021: 50%).

For further detail see Note 29.

13 Investments in subsidiaries

Main subsidiaries of HSBC UK Bank plc

	Country of incorporation or registration	HSBC UK Bank plc's interest in equity capital	Share class
		%	
HSBC Equipment Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
HSBC Invoice Finance (UK) Limited	**England and Wales**	**100.00**	**Ordinary £1**
Marks and Spencer Financial Services plc	**England and Wales**	**100.00**	**Ordinary £1**

All the above prepare their financial statements up to 31 December.

Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 29. The principal country of operation is the same as the country of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC UK Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved forecast profitability plans and minimal capital levels required to support the business operations of each entity and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- A long-term growth rate is used to extrapolate the free cash flows in perpetuity.
- The growth rate reflects inflation and is based on the long-term average for the UK.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a CAPM and market implied cost of equity. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement.

During 2022, an impairment of £4m (2021: £Nil) 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 in subsidiaries test performed in 2022.

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 2022	**315**	**502**	**817**
At 31 Dec 2021	348	—	348

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.

Other

HSBC UK Covered Bonds LLP was established to participate in a covered bond programme (regulated by the RCB regulations) and provides a direct, unsubordinated and unconditional guarantee for the payment of interest and principal due from the bank to covered bondholders under the programme. The entity is consolidated as the Bank has the decision-making power over its activities.

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 2022 of £0.2m (2021: £0.2m). The total assets of the funds at 31 December 2022 were £1.1bn (2021: £1.2bn). The group has no liabilities or commitments in respect of the funds.

15 Goodwill and intangible assets

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Goodwill	**3,285**	3,285	**223**	223
Other intangible assets[1]	**973**	908	**962**	905
At 31 Dec	**4,258**	4,193	**1,185**	1,128

[1] *Included within the group's other intangible assets is internally generated software with a net carrying value of £973m (2021: £908m). During the year, capitalisation of internally generated software is £382m (2021: £347m), impairment was £45m (2021: £18m) and amortisation is £273m (2021: £229m). The amortisation and impairment of intangible assets totalled for the group £318m (2021: £247m).*

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 2022, this review did not identify any indicators of impairment. As a result, no impairment test has been performed at 31 December 2022.

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 2022, 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

	Goodwill at 1 Oct 2022	**Discount rate**	**Growth rate beyond initial cash flow projections**	Goodwill at 1 Oct 2021	Discount rate	Growth rate beyond initial cash flow projections
Cash-generating unit	**£m**	**%**	**%**	£m	%	%
WPB	**2,046**	**9.6**	**2.1**	2,046	9.8	2.0
CMB	**1,239**	**8.6**	**2.1**	1,239	7.9	2.0
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 management and minimal capital levels required to support the business operations of a CGU. Management 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 including climate risk. For the 1 October 2022 impairment test, cash flow projections until the end of 2027 were considered, in line with internal planning horizon. As required by IFRSs, 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.

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 2022, 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	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Prepayments and accrued income	**986**	660	**1,011**	661
Settlement accounts	**9**	10	**9**	10
Cash collateral and margin receivables	**222**	284	**222**	284
Endorsements and acceptances	**49**	78	**49**	78
Employee benefit assets (Note 3)	**5,257**	6,745	**5,257**	6,745
Right-of-use assets	**171**	222	**158**	210
Other accounts	**1,610**	625	**1,439**	467
Owned property, plant and equipment	**458**	512	**382**	406
At 31 Dec	**8,762**	9,136	**8,527**	8,861

For the group, prepayments, accrued income and other assets include £1,871m (2021: £1,405m), and for the bank £1,901m (2021: £1,405m) of financial assets, of which are measured at amortised cost. Other accounts includes a receivable of £71m (2021: £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	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Bonds and medium-term notes[1]	**358**	376	**150**	151
Covered bonds	**499**	—	**499**	—
Other debt securities in issue[2]	**442**	524	**442**	524
At 31 Dec	**1,299**	900	**1,091**	675

[1] *The group's Bonds and medium-term notes includes £208m (2021: £225m) issued by structured entities.*

[2] *Other debt securities in issue consists of commercial paper and certificates of deposits.*

18 Accruals, deferred income and other liabilities

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Accruals and deferred income	**645**	418	**615**	379
Settlement accounts	**81**	2	**81**	2
Cash collateral and margin payable	**234**	—	**234**	—
Endorsements and acceptances	**51**	78	**51**	78
Lease liabilities	**198**	243	**184**	231
Other liabilities	**2,334**	933	**2,165**	824
At 31 Dec	**3,543**	1,674	**3,330**	1,514

For the group, accruals, deferred income and other liabilities include £3,362m (2021: £1,533m), and for the bank £3,269m (2021: £1,464m) of financial liabilities, the majority of which are measured at amortised cost.

19 Provisions

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3,4]	Other provisions	Total
The group	£m	£m	£m	£m	£m
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
Provisions (excluding contractual commitments)					
At 1 Jan 2021	93	64	588	11	756
Additions	49	27	120	40	236
Amounts utilised	(82)	(48)	(375)	(2)	(507)
Unused amounts reversed	(38)	(4)	(74)	(8)	(124)
Exchange and other movements	—	—	(3)	55	52
At 31 Dec 2021	22	39	256	96	413
Contractual commitments[1]					
At 1 Jan 2021					223
Net change in expected credit loss provision and other movements					(141)
At 31 Dec 2021					82
Total provisions					
At 31 Dec 2020					979
At 31 Dec 2021					495

[1] *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*

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

[3] *Additional provisions of £38m (2021: £120m) were recorded in the consolidated income statement under net interest income £20m (2021: £27m), net fee income £2m (2021: £10m) and operating expenses £16m (2021: £83m).*

[4] *Release of £83m (2021: £74m) were recorded in the consolidated income statement under net interest income £36m (2021: £34m), operating expense £43m (2021: £35m) and net fee income £4m (2021: £5m).*

	Restructuring costs[2]	Legal proceedings and regulatory matters	Customer remediation[3,4]	Other provisions	Total
The bank	£m	£m	£m	£m	£m
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

The bank	Restructuring costs[2] £m	Legal proceedings and regulatory matters £m	Customer remediation[3,4] £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2021	93	64	486	11	654
Additions	49	27	101	40	217
Amounts utilised	(82)	(48)	(315)	(2)	(447)
Unused amounts reversed	(38)	(4)	(64)	(8)	(114)
Exchange and other movements	—	—	(3)	55	52
At 31 Dec 2021	22	39	205	96	362
Contractual commitments[1]					
At 1 Jan 2021					216
Net change in expected credit loss provision and other movements					(136)
At 31 Dec 2021					80
Total provisions					
At 31 Dec 2020					870
At 31 Dec 2021					442

[1] *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*

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

[3] *Additional provisions of £33m (2021: £101m) were recorded in the HSBC UK income statement under net interest income £15m (2021: £23m), net fee income £2m (2021: £10m) and operating expenses £16m (2021: £68m).*

[4] *Release of £76m (2021: £64m) under customer remediation was recorded in HSBC UK income statement under net interest income £29m (2021: £35m), operating expense £43m (2021: £24m) and net fee income £4m (2021: £5m).*

Customer remediation

Payment protection insurance

At 31 December 2022, £74m (31 December 2021: £128m) of the customer remediation provision relates to the estimated liability for redress in respect of the possible mis-selling of PPI policies in previous years. Payments totalling £27m were made during 2022, and additional provision reductions were made of £27m.

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

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	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
At amortised cost	**12,349**	12,487	**12,349**	12,487
– subordinated liabilities[1]	**12,349**	12,487	**12,349**	12,487
At 31 Dec	**12,349**	12,487	**12,349**	12,487

[1] *Includes £9.3bn (2021: £9.5bn) 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	
				2022	2021
		First call date	Maturity date	**£m**	£m
Capital instruments					
Tier 2 instruments					
£550m	HSBC UK Bank plc Subordinated Floating Loan 2028[1]	Jul 2023	Jul 2028	**550**	550
$840m	HSBC UK Bank plc Subordinated Floating Loan 2028[2]	Jul 2023	Jul 2028	**697**	620
£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
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	**1,558**	1,455
£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	**449**	427
£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	**998**	998
£1,000m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2028	Jul 2027	Jul 2028	**880**	1,009
£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	**2,259**	2,346
£750m	HSBC UK Bank plc 3.0000% MREL eligible Subordinated Loan 2030	May 2029	May 2030	**629**	753
At 31 Dec				**12,349**	12,487

[1] *The distribution rate is Sonia plus 1.60%.*
[2] *The distribution rate is SOFR plus 1.83%.*
[3] *The distribution rate is Sonia plus 1.89%.*
[4] *The distribution rate is Sonia plus 2.14%.*
[5] *The distribution rate is three month Euribor plus 1.00%*

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	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

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	112,478	—	—	—	—	—	—	—	112,478
Items in the course of collection from other banks	299	—	—	—	—	—	—	—	299
Financial assets mandatorily measured at fair value	65	—	—	—	—	—	—	14	79
Derivatives	58	—	—	—	—	—	—	6	64
Loans and advances to banks	857	—	1,057	—	—	—	—	—	1,914
Loans and advances to customers	16,717	9,830	7,932	5,965	5,551	17,836	34,353	97,342	195,526
– personal	6,880	2,117	1,846	1,868	1,819	7,060	19,208	89,753	130,551
– corporate and commercial	9,497	7,449	5,885	3,955	3,610	10,508	14,627	7,311	62,842
– financial	340	264	201	142	122	268	518	278	2,133
Reverse repurchase agreements – non-trading	318	555	2,379	3,494	1,242	—	—	—	7,988
Financial investments	854	622	290	475	102	1,233	2,298	8,503	14,377
Accrued income and other financial assets	1,276	102	19	3	3	—	—	—	1,403
Total financial assets at 31 Dec 2021	132,922	11,109	11,677	9,937	6,898	19,069	36,651	105,865	334,128
Non-financial assets	—	—	—	—	—	—	—	11,935	11,935
Total assets at 31 Dec 2021	132,922	11,109	11,677	9,937	6,898	19,069	36,651	117,800	346,063
Financial liabilities									
Deposits by banks	862	18	—	—	—	—	10,300	—	11,180
Customer accounts[1]	279,674	861	422	286	362	260	5	—	281,870
– personal	175,815	558	267	209	274	258	4	—	177,385
– corporate and commercial	99,838	287	102	46	88	2	1	—	100,364
– financial	4,021	16	53	31	—	—	—	—	4,121
Repurchase agreements – non-trading	9,938	500	—	—	—	—	—	—	10,438
Items in the course of transmission to other banks	151	—	—	—	—	—	—	—	151
Derivatives	172	—	—	—	—	19	22	79	292
Debt securities in issue	250	275	—	150	—	—	225	—	900
Accruals and other financial liabilities	1,110	176	23	14	13	47	93	49	1,525
Subordinated liabilities	—	—	—	—	—	1,170	5,558	5,759	12,487
Total financial liabilities at 31 Dec 2021	292,157	1,830	445	450	375	1,496	16,203	5,887	318,843
Non-financial liabilities	—	—	—	—	—	—	—	3,415	3,415
Total liabilities at 31 Dec 2021	292,157	1,830	445	450	375	1,496	16,203	9,302	322,258
Off-balance sheet commitments given									
Loan and other credit-related commitments	70,205	1	2	50	—	18	164	—	70,440
– personal	39,889	—	—	—	—	—	—	—	39,889
– corporate and commercial	29,464	1	2	50	—	18	164	—	29,699
– financial	852	—	—	—	—	—	—	—	852

[1] *'Customer accounts' includes £137,319m (2021: £137,853m) 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	**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**

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	112,477	—	—	—	—	—	—	—	112,477
Items in the course of collection from other banks	132	—	—	—	—	—	—	—	132
Financial assets mandatorily measured at fair value	65	—	—	—	—	—	—	14	79
Derivatives	58	—	—	—	—	—	—	6	64
Loans and advances to banks	1,002	295	1,483	125	135	475	890	—	4,405
Loans and advances to customers	18,992	6,767	7,170	5,948	5,519	17,491	32,353	96,968	191,208
– personal	5,028	1,862	1,744	1,772	1,727	6,747	18,797	89,725	127,402
– corporate and commercial	9,359	4,227	4,885	3,851	3,505	9,818	12,373	6,872	54,890
– financial	4,605	678	541	325	287	926	1,183	371	8,916
Reverse repurchase agreements – non-trading	318	555	2,379	3,494	1,242	—	—	—	7,988
Financial investments	854	622	290	475	102	1,232	2,298	8,504	14,377
Accrued income and other financial assets	1,287	92	19	3	3	—	—	—	1,404
Total financial assets at 31 Dec 2021	135,185	8,331	11,341	10,045	7,001	19,198	35,541	105,492	332,134
Non-financial assets	—	—	—	—	—	—	—	9,604	9,604
Total assets at 31 Dec 2021	135,185	8,331	11,341	10,045	7,001	19,198	35,541	115,096	341,738
Financial liabilities									
Deposits by banks	1,468	73	55	25	30	55	10,389	—	12,095
Customer accounts[1]	277,826	861	422	286	362	260	6	—	280,023
– personal	174,723	558	267	209	274	258	4	—	176,293
– corporate and commercial	98,743	287	102	46	87	2	2	—	99,269
– financial	4,360	16	53	31	1	—	—	—	4,461
Repurchase agreements – non-trading	9,938	500	—	—	—	—	—	—	10,438
Items in the course of transmission to other banks	148	—	—	—	—	—	—	—	148
Derivatives	172	—	—	1	—	18	22	79	292
Debt securities in issue	250	275	—	150	—	—	—	—	675
Accruals and other financial liabilities	1,066	167	20	13	12	44	88	45	1,455
Subordinated liabilities	—	—	—	—	—	1,171	5,558	5,758	12,487
Total financial liabilities at 31 Dec 2021	290,868	1,876	497	475	404	1,548	16,063	5,882	317,613
Non-financial liabilities	—	—	—	—	—	—	—	3,262	3,262
Total liabilities at 31 Dec 2021	290,868	1,876	497	475	404	1,548	16,063	9,144	320,875
Off-balance sheet commitments given									
Loan and other credit-related commitments	56,733	—	—	—	—	—	—	—	56,733
– personal	29,223	—	—	—	—	—	—	—	29,223
– corporate and commercial	26,743	—	—	—	—	—	—	—	26,743
– financial	767	—	—	—	—	—	—	—	767

[1] *'Customer accounts' includes £136,451m (2021: £136,791m) 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

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 1 year	Due over 1 year but not more than 5 years	Due over 5 years	Total
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
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**
Deposits by banks	862	18	2	10,310	—	11,192
Customer accounts	279,674	861	1,071	265	—	281,871
Repurchase agreements – non-trading	9,938	500	—	—	—	10,438
Derivatives	171	19	—	135	354	679
Debt securities in issue	250	282	169	324	—	1,025
Subordinated liabilities	24	48	216	7,588	5,856	13,732
Other financial liabilities	1,262	170	50	154	54	1,690
	292,181	1,898	1,508	18,776	6,264	320,627
Loan and other credit-related commitments	70,205	1	52	182	—	70,440
Financial guarantees	1,102	—	—	—	—	1,102
At 31 Dec 2021	363,488	1,899	1,560	18,958	6,264	392,169
Proportion of cash flows payable in period %	93	—	—	5	2	100
The bank						
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**
Deposits by banks	1,468	73	112	10,455	—	12,108
Customer accounts	277,827	861	1,071	265	—	280,024
Repurchase agreements – non-trading	9,938	500	—	—	—	10,438
Derivatives	171	19	—	135	354	679
Debt securities in issue	250	275	151	—	—	676
Subordinated liabilities	24	48	216	7,588	5,856	13,732
Other financial liabilities	1,216	164	46	147	50	1,623
	290,894	1,940	1,596	18,590	6,260	319,280
Loan and other credit-related commitments	56,733	—	—	—	—	56,733
Financial guarantees	1,102	—	—	—	—	1,102
At 31 Dec 2021	348,729	1,940	1,596	18,590	6,260	377,115
Proportion of cash flows payable in period %	92	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, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements							
				Amounts not set off in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments, including non-cash collateral[5]	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)	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
Derivatives (Note 9)	801	(737)	64	(49)	–	15	–	64
Reverse repos, stock borrowing and similar agreements classified as:								
– non-trading assets	8,311	(323)	7,988	(7,988)	–	–	–	7,988
Loans and advances to customers[2]	5,018	(1,977)	3,041	(2,457)	–	584	–	3,041
At 31 Dec 2021	14,130	(3,037)	11,093	(10,494)	–	599	–	11,093
Financial liabilities								
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
Derivatives[1] (Note 9)	1,029	(737)	292	(33)	(261)	(2)	–	292
Repos, stock lending and similar agreements classified as:								
– non-trading liabilities	10,761	(323)	10,438	(10,438)	–	–	–	10,438
Customer accounts[3]	7,673	(1,977)	5,696	(2,457)	–	3,239	1	5,697
At 31 Dec 2021	19,463	(3,037)	16,426	(12,928)	(261)	3,237	1	16,427

[1] *At 31 December 2022, the amount of cash margin paid that had been offset against the gross derivatives liabilities was £1,123m (2021: £219m).*

[2] *At 31 December 2022, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £204,143m (2021: £195,526m) of which £3,380m (2021: £3,041m) was subject to offsetting.*

[3] *At 31 December 2022, the total amount of 'Customer accounts' recognised on the balance sheet was £281,095m (2021: £281,870m) of which £6,882m (2021: £5,696m) was subject to offsetting.*

[4] *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

[5] *The disclosure has been enhanced in 2022 to support consistency across HSBC Group entities. All financial instruments (whether recognised on our balance sheet or as non-cash collateral received or pledged) are presented within 'financial instruments, including non-cash collateral', as balance sheet classification has no effect on the rights of set-off associated with financial instruments. Comparative data have been re-presented accordingly.*

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

	2022		2021	
	Number	£m	Number	£m
At 1 Jan and 31 Dec	50,002	–	50,002	–

HSBC UK Bank plc share premium

	2022	2021
	£m	£m
At 31 Dec	9,015	9,015

Total called up share capital and share premium

	2022	2021
	£m	£m
At 31 Dec	9,015	9,015

Other equity instruments

HSBC UK Bank plc additional tier 1 instruments

		2022	2021
		£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	
	2022	2021	2022	2021
	£m	£m	£m	£m
Guarantees and other contingent liabilities:				
– financial guarantees[1]	**1,148**	1,102	**1,148**	1,102
– performance and other guarantees	**2,530**	2,192	**2,530**	2,192
At 31 Dec	**3,678**	3,294	**3,678**	3,294
Commitments[2]:				
– documentary credits and short-term trade-related transactions	**52**	134	**52**	134
– forward asset purchases and forward deposits placed	**327**	236	**102**	—
– standby facilities, credit lines and other commitments to lend	**70,104**	70,071	**57,025**	56,599
At 31 Dec	**70,483**	70,441	**57,179**	56,733

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

[2] *Includes £68bn (2021: £67bn) for the group and £54bn (2021: £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. In December 2022, the FCA announced that it expects to review various elements of the scheme to ensure consumers are appropriately and proportionately protected, with costs distributed across industry levy payers in a fair and sustainable way, with a view to deliver the majority of changes by the end of the 2023/24 financial year.

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 will now return to the First-tier Tax Tribunal for full trial and we await confirmation of the trial window. 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 £170m 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.

	2022			2021		
	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	**1,256**	**(87)**	**1,169**	1,232	(61)	1,171
– One to two years	**878**	**(62)**	**816**	818	(41)	777
– Two to three years	**680**	**(40)**	**640**	553	(27)	526
– Three to four years	**387**	**(24)**	**363**	353	(16)	337
– Four to five years	**176**	**(14)**	**162**	177	(10)	167
– Later than 5 years	**330**	**(57)**	**273**	314	(52)	262
31 Dec[2]	**3,707**	**(284)**	**3,423**	3,447	(207)	3,240

[1] *Finance leases receivables are disclosed within 'Loans and advances to customers' in the balance sheet.*

[2] *ECL of £23m (2021: £52m) 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. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters at 31 December 2022. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Film finance litigation

In 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 in connection with PBGB's role in the development of Eclipse film finance schemes. These actions are ongoing.

In April 2021, HSBC UK (as successor to PBGB) was served with a claim issued in the High Court of England and Wales in connection with PBGB's role in the development of the Zeus film finance schemes. In October 2022, this claim was discontinued.

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

PPI

Although the FCA deadline for bringing PPI complaints has passed, customers can still commence litigation for PPI mis-selling. Further details are contained in Note19.

Other regulatory investigations, reviews and litigation

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

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

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

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

	2022	2021
	£000	£000
Short-term employee benefits	**9,306**	8,009
Post-employment benefits	**12**	10
Other long-term employee benefits	**1,179**	520
Share-based payments	**2,046**	1,231
Year ended 31 Dec	**12,543**	9,770

Advances and credits, guarantees and deposit balances during the year with Key Management Personnel[1]

	2022		2021	
	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	**10**	**11**	12	13
Deposits	**8**	**27**	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)

	2022	2021
	Balance at 31 Dec	Balance at 31 Dec
	£000	£000
Loans	**6,677**	6,785

Other related parties

Transactions and balances during the year with KMP of the bank's ultimate parent company[1,2]

	2022		2021	
	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	**2**	**6**	6	8
Deposits	**12**	**30**	13	18

[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

	2022		2021	
	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**	**115**	70	114
Amounts due to joint venture	**42**	**43**	33	75
Guarantees and commitments	**219**	**244**	107	294

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

	2022				2021			
	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	**—**	**—**	**49**	**161**	—	—	31	87
Loans and advances to banks	**—**	**—**	**528**	**872**	—	—	827	932
Reverse repos	**—**	**—**	**—**	**3,085**	—	—	—	213
Prepayments and accrued income	**—**	**—**	**9**	**17**	—	—	2	27
Other assets	**1**	**1**	**935**	**935**	—	2	180	284
Total related party assets at 31 Dec	**1**	**1**	**1,521**	**5,070**	—	2	1,040	1,543
Liabilities								
Deposits by banks	**—**	**—**	**378**	**1,238**	—	—	795	1,250
Customer accounts	**—**	**—**	**2,104**	**2,104**	—	—	1	4
Repos	**—**	**—**	**511**	**1,610**	—	—	126	126
Other liabilities	**40**	**40**	**278**	**432**	32	95	138	190
Accruals & Deferred Income	**89**	**140**	**5**	**40**	71	98	4	97
Derivatives	**—**	**—**	**42**	**84**	—	—	66	145
Subordinated liabilities	**12,349**	**12,648**	**—**	**—**	12,487	12,590	—	10,015
Total related party liabilities at 31 Dec	**12,478**	**12,828**	**3,318**	**5,508**	12,590	12,783	1,130	11,827

	Due to/from HSBC Holdings plc		Due to/from subsidiaries of HSBC Holdings plc	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Income statement				
Interest income	**—**	—	**5**	(3)
Interest expense	**325**	181	**4**	83
Fee income	**—**	—	**80**	66
Fee expense	**—**	—	**48**	45
Other operating income	**—**	—	**11**	11
General and administrative expenses	**48**	40	**1,823**	1,783

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The bank's transactions and balances during the year with HSBC UK Bank plc subsidiaries, HSBC Holdings plc and subsidiaries of HSBC Holdings plc

	2022						2021					
	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	**—**	**—**	**—**	**—**	**49**	**161**	—	—	—	—	31	87
Loans and advances to banks	**2,953**	**2,966**	**—**	**—**	**527**	**871**	2,495	2,500	—	—	827	932
Loans and advances to customers	**8,232**	**8,313**	**—**	**—**	**—**	**—**	6,822	6,822	—	—	—	—
Reverse repos	**—**	**—**	**—**	**—**	**—**	**3,085**	—	—	—	—	—	213
Prepayments and accrued income	**37**	**37**	**—**	**—**	**9**	**17**	12	15	—	—	2	27
Other assets	**1,040**	**1,068**	**1**	**1**	**935**	**935**	1,029	1,042	—	2	179	284
Total related party assets at 31 Dec	**12,262**	**12,384**	**1**	**1**	**1,520**	**5,069**	10,358	10,379	—	2	1,039	1,543
Liabilities												
Deposits by banks	**898**	**1,053**	**—**	**—**	**378**	**1,238**	915	1,927	—	—	795	1,250
Customer accounts	**381**	**381**	**—**	**—**	**2,104**	**2,104**	339	379	—	—	1	1
Repos	**—**	**—**	**—**	**—**	**511**	**1,610**	—	—	—	—	126	126
Derivatives	**—**	**—**	**—**	**—**	**42**	**84**	—	—	—	—	66	145
Other liabilities	**11**	**23**	**40**	**40**	**274**	**428**	17	39	32	95	134	182
Accruals & Deferred Income	**5**	**10**	**89**	**140**	**5**	**40**	3	7	71	98	4	97
Subordinated liabilities	**—**	**—**	**12,349**	**12,648**	**—**	**—**	—	—	12,487	12,590	—	9,936
Total related party liabilities at 31 Dec	**1,295**	**1,467**	**12,478**	**12,828**	**3,314**	**5,504**	1,274	2,352	12,590	12,783	1,126	11,737

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 £59m (2021: £58m) with HSBC UK, earning interest of £0.1m (2021: £nil).

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

28 Events after the balance sheet date

These accounts were approved by the Board of Directors on 20 February 2023 and authorised for issue.

On 14 February 2023, the Directors resolved to pay an interim dividend to ordinary shareholders of £539m in respect of the financial year ending 31 December 2022. No liability is recognised in the financial statements in respect of this dividend.

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

29 HSBC UK Bank plc’s subsidiaries and joint ventures

In accordance with section 409 of the Companies Act 2006 a list of HSBC UK Bank plc subsidiaries and joint ventures, the registered office address and the effective percentage of equity owned at 31 December 2022 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 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 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, 6
Marks and Spencer Unit Trust Management Limited	100.00	1, 6
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, 7

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 30 September 2022*

Registered Offices

3 *1 Centenary Square, Birmingham, United Kingdom, B1 1HQ*

4 *8 Canada Square, London, United Kingdom, E14 5HQ*

5 *21 Farncombe Road, Worthing, United Kingdom, BN11 2BW*

6 *Kings Meadow Chester Business Park, Chester, United Kingdom, CH99 9FB*

7 *All Saints Triangle, Caledonian Road, London, United Kingdom, N1 9UT*

Reconciliation of alternative performance measures

Return on equity and return on tangible equity

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

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

Return on Equity and Return on Tangible Equity

	Year ended	
	31 Dec	31 Dec
	2022	2021
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**3,385**	3,090
Significant items (net of tax)	**341**	280
Adjusted profit attributable to the ordinary shareholders of the parent company	**3,726**	3,370
Equity		
Average shareholders' equity	**28,757**	31,541
Additional Tier 1	**(2,722)**	(2,999)
Average ordinary shareholders' equity	**26,035**	28,542
Effect of goodwill and other intangibles (net of deferred tax)	**(5,249)**	(5,680)
Average tangible ordinary shareholders' equity	**20,786**	22,862
Ratio	**%**	%
Return on equity	**13.0**	10.8
Return on average tangible equity	**16.3**	13.5
Adjusted return on average tangible equity[1]	**17.9**	14.7

[1] *Under IAS 19 HSBC UK holds a pension fund surplus, and records pension income in the Income Statement. The IAS 19 pension fund surplus increases Tangible Equity but not CET1. In the event that the IAS 19 pension fund surplus was zero, Tangible equity and profit would reduce, and Adjusted RoTE would be 19.7% (2021: 17.4%); we refer to this as Pension Adjusted RoTE.*

Abbreviations

Currencies

£	British pound sterling
€	Euro
$	United States dollar

Abbreviations

A

AGM	Annual General Meeting
AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AML	Anti-money laundering
AT1	Additional tier 1

B

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

C

CAPM	Capital asset pricing model
CBDC	Central Bank Digital Currencies
CBES	Climate Biennial Exploratory Scenario
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
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
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
Eonia	Euro Overnight Index Average
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
FX	Foreign exchange
FY	Full Year

G

GAAP	Generally accepted accounting principles
GBM	Global Banking and Markets
GDP	Gross domestic product
GMP	Guaranteed Minimum Pension
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

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
HIF	HSBC Invoice Finance (UK) Limited
HEF	HSBC Equipment Finance (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
IFRSs	International Financial Reporting Standards
ILAAP	Internal liquidity adequacy assessment process
IRRBB	Interest rate risk in the banking book
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

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
Neon	Neon Portfolio Distribution DAC

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
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
RFR	Risk-free rate
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	
SBB	Small Business Banking
SICR	Significant increase in credit risk
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
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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