HSBC UK Bank plc

Interim Report and Accounts 2024

HSBC

Contents

Presentation of information

This document comprises the Interim Report 2024 for HSBC UK Bank plc ('the bank' or 'the Company') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

A full list of abbreviations is provided on page 45.

It contains the Interim Management Report and Condensed Consolidated Financial Statements of the group, together with the Auditor's Review Report, as required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules.

Our Pillar 3 Disclosures at 30 June 2024 are expected to be published on or around 7 August 2024 at www.hsbc.com.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2024 with the six months to 30 June 2023. Balance sheet commentary compares the position at 30 June 2024 to 31 December 2023.

In accordance with IAS 34 'Interim Financial Reporting', the Interim Report is intended to provide an update on the Annual Report and Accounts 2023 and therefore focuses on events during the first six months of 2024, rather than duplicating information previously reported.

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

Cautionary statement regarding forward-looking statements

The Interim Report 2024 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', 'will', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC UK makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, 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 a wholly-owned subsidiary of HSBC Holdings plc. We leverage the rest of the HSBC Group network to support our customers and help to grow revenue across key trade corridors around the world.

HSBC UK, headquartered in Birmingham, has over 14.9 million active customers, and over 18,500 FTE employees across the country. We are supported by c.5,200 FTE based in our service company, HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

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

Wealth and Personal Banking

Wealth and Personal Banking ('WPB') offers a comprehensive set of banking products and services to support our customers to manage their day-to-day finances and help to manage, protect and grow their wealth. We serve over 14.3 million active customers under our three brands: HSBC UK (including our Private Bank), first direct and M&S Bank.

Commercial Banking

Commercial Banking ('CMB') is a full-service international commercial bank that is highly connected to the HSBC Group. We serve over 650,000 active clients, delivering the Group's comprehensive product suite to meet our clients international and domestic needs.

On 13 March 2023, HSBC UK acquired Silicon Valley Bank UK Limited ('SVB UK'), later renamed HSBC Innovation Bank Limited ('HINV'). HINV's results are presented within CMB.

Global Banking and Markets

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

Corporate Centre

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

Our strategy

Our UK strategy comprises the following four pillars:

Focus

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

Digitise

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

Energise

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

Transition

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

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

Financial performance

We delivered reported profit before tax of £2,952m, £950m lower than 1H23. In 1H23, this included a gain on the acquisition of SVB UK of £1,240m. Excluding this, profit before tax increased by £290m.

Reported revenue decreased by £1,078m or 18%, to £4,926m. Excluding the gain recognised on the acquisition of SVB UK of £1,240m in 1H23, revenue increased by £162m, driven by widening net interest margins from 2.41% in 1H23 to 2.57% in 1H24. This resulted from repricing of the structural hedge as well as an extra quarter of revenue from HINV, offsetting the impact from an increase in the mix towards interest-bearing deposit accounts, and mortgage margin pressures.

Our loans and advances have grown by 1% in 1H24 with a stable market share maintained[1]. Customer deposits have fallen by 1% in 1H24 primarily due to lower commercial banking deposits driven by seasonal outflows and a declining market size despite stable market share[1]. Retail deposits were stable in 1H24, despite seasonal outflows and a competitive environment, against the backdrop of a growing market size and continued migration to interest-bearing accounts, albeit at a slower rate.

Expected Credit Losses decreased by £288m from £337m in 1H23 to £49m in 1H24 driven by provision releases along with low loan loss experienced in WPB, and lower charges for specific exposures in CMB.

Operating expenses increased by £160m or 9% to £1,925m in 1H24. This includes the new BoE levy introduced in 1H24 (which replaced the Cash Ratio Deposit ('CRD') scheme) and lower benefit from our defined benefit pension surplus, offset by a favourable net movement in certain provisions. Excluding this, operating expenses increased due to ongoing investment in technology, wage inflation and an extra quarter of costs from HINV. We continue to actively manage our cost base, whilst remaining committed to invest in our business.

Our 1H24 reported RoTE of 21.5% was 14.9% lower than the 1H23 reported RoTE of 36.4%. The profit for 1H23 includes the annualised impact of a gain recognised on the acquisition of SVB UK, excluding which the RoTE was 22.5%. Supported by a CET1 ratio of 13.9% and LCR of 193% as at 30 June 2024, our balance sheet remains highly resilient with sufficient capital and liquidity.

Our Financial summary, containing further details of our financial performance, can be found on page 7.

1 Bank of England Data to May 2024

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 key developments in the first half of 2024 are included on pages 11 to 12.

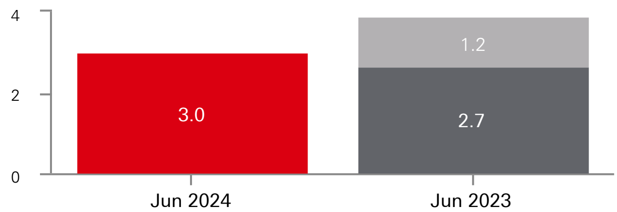
Financial highlights

For the half-year ended 30 June 2024.

Profit before tax

£3.0bn

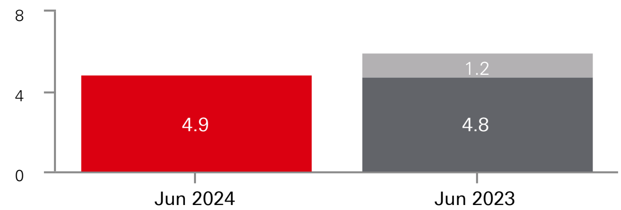
(1H23: £3.9bn)



Revenue

£4.9bn

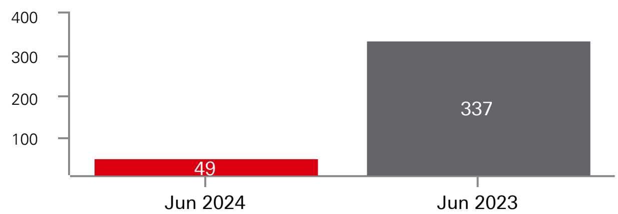
(1H23: £6.0bn)



Expected credit losses and other credit impairment charges

£49m

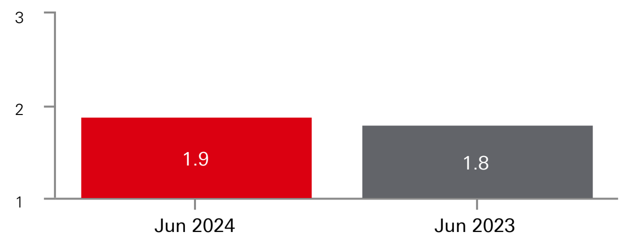
(1H23: £337m)



Operating Expenses

£1.9bn

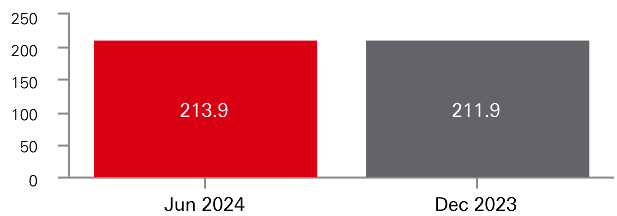
(1H23: £1.8bn)



Loans and advances to customers

£213.9bn

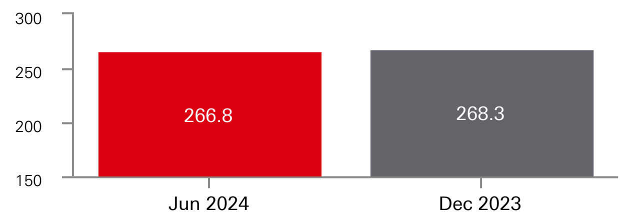
(31 Dec 2023: £211.9bn)



Customer accounts

£266.8bn

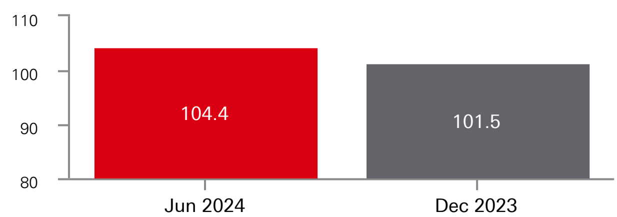
(31 Dec 2023: £268.3bn)



Risk-weighted assets

£104.4bn

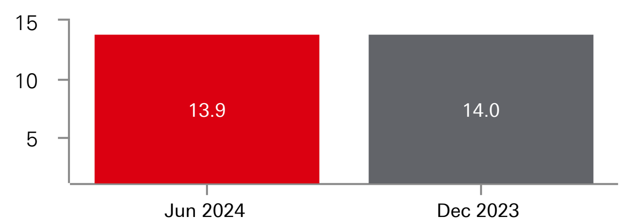
(31 Dec 2023: £101.5 bn)



Common equity tier 1 capital ratio

13.9%

(31 Dec 2023: 14%)



For 1H23, Profit before tax and Revenue includes a gain on the acquisition of SVB UK of £1.2bn.

Key financial metrics

	Half-year to	
	30 Jun	30 Jun
For the period	**2024**	2023
Reported results		
Revenue (£m)[1]	**4,926**	6,004
Profit before tax (£m)[2]	**2,952**	3,902
Profit after tax (£m)	**2,173**	3,203
Profit attributable to the shareholders of the parent company (£m)	**2,170**	3,200
Net interest margin (%)	**2.57**	2.41
Cost efficiency ratio (%)[2]	**39.1**	29.4
Alternative performance measures		
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (annualised) (%)	**0.05**	0.33
Return on average ordinary shareholder's equity (annualised)[2]	**17.5**	29.1
Return on average tangible equity (annualised)[2,6,7]	**21.5**	36.4

	At	
	30 Jun	31 Dec
Balance sheet	**2024**	2023
Total assets (£m)	**330,474**	332,876
Net loans and advances to customers (£m)	**213,900**	211,887
Customer accounts (£m)	**266,841**	268,345
Average interest-earning assets (£m)	**313,658**	320,354
Loans and advances to customers as % of customer accounts (%)	**80.2**	79.0
Total shareholders' equity (£m)	**25,827**	26,010
Tangible ordinary shareholders' equity (£m)	**19,312**	19,463
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3,4]	**13.9**	14.0
Total capital ratio (%)[3,4]	**19.2**	19.5
Risk-weighted assets (£m)[3,4]	**104,352**	101,478
Leverage ratio (%)[3,4]	**5.9**	6.1
High-quality liquid assets (liquidity value) (£m)[4]	**90,445**	94,765
Liquidity coverage ratio (%)[4,5]	**193**	201

1 *Revenue also refers to net operating income before change in expected credit losses and other credit impairment charges.*
2 *These metrics are tracked as Key Performance Indicators of the group.*
3 *Unless stated otherwise, figures have been prepared on an IFRS 9 transitional basis. Capital figures and ratios are reported on a CRR II transitional basis for capital instruments and the leverage ratio is calculated using the CRR II end point basis for capital.*
4 *Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.*
5 *The LCR is based on the average month-end value over the preceding 12 months.*
6 *Excluding a gain recognised on the acquisition of SVB UK in 1H23, the reported RoTE was 22.5% in 1H23.*
7 *In the event that the current IAS 19 Pension fund surplus was zero, RoTE would be 24.4% (1H23: 42.4%, 25.8% excluding the acquisition of SVB UK). We refer to this as Pension Adjusted RoTE. Further details are on page 44.*

Purpose and strategy

Our purpose and values

Our purpose

Opening up a world of opportunity.

Our values

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

Our strategy

In 1H24, we made progress against our strategic pillars and received external recognition, being named the UK's Best Bank at the Euromoney Awards for Excellence 2024.

Our strategy comprises the following four pillars:

Focus

We aim to welcome more **customers**, improve their experience and deliver good customer outcomes. The macroeconomic environment continues to be challenging and we stand ready to support our customers to improve their financial health, including those that are vulnerable. We continue to update our network, with investment in our branches and over 1,900 Community Pop-Up events delivered in 1H24. We introduced our first Cash Pod, which provides improved access to cash for all users and additional services for HSBC UK customers, with further Pods expected to be opened in the second half of the year. We have welcomed the intent and ambition of Consumer Duty and the paradigm shift that it intends to create in UK financial services.

Our strength in **international** connectivity remains one of our key differentiators and we aim to scale our international propositions and global connectivity. HSBC UK has been recognised as the UK's #1 Trade Finance Bank, winning the 'Market Leader' award for the eighth consecutive year in the 2024 Euromoney Trade Survey. International business activity remains robust, with inbound and outbound revenues increasing by 17% and 12% respectively (to May 2024). Global Wallet, a multi-currency account enabling business customers to hold, send and collect currencies, continues to be rolled out to a wider market. We now have over 1 million Global Money customers, our retail equivalent of Global Wallet, and we have expanded our international mortgage proposition, to help facilitate and simplify cross-border financing.

We aim to support individuals and businesses to manage and grow their **wealth**. In March, we introduced our first Fixed Rate Cash ISA, expanding the suite of savings options available to our customers. We also increased our Assets under Management in our Retail Wealth and Private Bank businesses to over £50bn (FY23: £47bn).

We leverage our balance sheet to seek to fulfil our customers' **lending** needs and aim to provide a seamless **payments** experience. On 10 April 2024, we announced a new seven-year relationship with Marks and Spencer plc, focused on enhancing Marks and Spencer Financial Services plc's credit and payments offering through M&S Bank. We have increased our mortgage market share to 8.1% (FY23: 8.0%) and maintained our Credit Card market share at 9.3% (FY23: 9.3%). In CMB, our transaction banking approach remains focused on delivering joined-up solutions to support our customers' international aspirations, combining our full suite of solutions across our Trade, Payments, and FX businesses. HINV is a core part of the global HSBC Innovation Banking proposition, aiming to deliver globally connected specialised banking services and expertise to **innovation** businesses and their investors.

1 *Bank of England Data to May 2024*
2 *UK Finance Data to May 2024, excluding HSBC Legacy Partnership Limited balances (formerly John Lewis Financial Services Limited)*

Digitise

Customer satisfaction, measured in part through NPS, is a key focus area and guides our investment and service improvements. Positively, in HSBC UK WPB, our latest strategic NPS results for 1H24 show a gain of 1 rank against peers to joint 12th (vs. joint 13th at FY23). First direct continues to be ranked among the top retail providers, retaining their 2nd place rank. In CMB, as measured by the Savanta MarketVue Business Banking Survey[1], our Mid-Market Enterprises segment has improved its rank to 2nd position at 2Q24, while our Business Banking Portfolio Managed and Relationship Managed segments have maintained 7th and 4th positions respectively. This shows progress, though we acknowledge there is still a lot more to be done to consistently meet our customers' expectations.

Service resilience remains a priority and we continue to invest to simplify our business and modernise our technology. This investment aims to improve the availability, reliability and security of our services for our customers. In the first six months of this year, we have simplified our product range, closing a number of 'back book' products.

To improve our **digital** capabilities we introduced new software into our fraud management systems to improve real-time decision-making. We have continued to roll out TradePay, a faster and simpler, digital way for business customers to pay their suppliers.

1 *Data is weighted based on turnover and region*

Energise

Our ambition is to create a high-performance and customer-centric **culture** to enable us to achieve our strategic priorities. We continue to drive our inclusion strategy, focused on Representation, Reputation and Respect. Empowering colleagues to speak up and raise issues remains critical. Multiple channels are available to our employees, including our HSBC Confidential whistleblowing helpline and our HR Direct platform.

We continue to drive **collaboration** across our lines of business, brands, and other parts of the Group, to leverage the scale of our business and we seek to unlock value for our customers by supporting their holistic needs.

Our external **partnerships** aim to open up opportunities for people and communities across the UK. Our partnership with the housing and homelessness charity **Shelter** has helped more than 45,000 people since its launch in April 2023. Additionally, through offering financial education, we have reached over 360,000 children and young people in the first half of 2024.

Transition to net zero

In 2020, HSBC Group set out an ambition to provide and facilitate $750bn to $1tn of sustainable finance and investments by 2030, to support our customers in their transition to net zero and a sustainable future. In January 2024, HSBC Group published their first net zero transition plan, which provides an overview of our approach to net zero and the actions we are taking to help meet our ambition across the HSBC Group. In 1H24, HSBC UK provided and facilitated $4.1bn of sustainable finance.

In CMB, we introduced our **sustainability** improvement loans in 1H24, which links the price of borrowing to a customer's sustainability performance. For our small and medium-sized enterprise ('SME') customers, HSBC UK has partnered with carbon management company Greenly to support clients to measure their carbon footprint by enabling them to identify their main sources of carbon emissions and spot opportunities to reduce them. This is an important step for SMEs when developing a transition plan. For retail customers, we introduced a mortgage cashback incentive for customers who purchase energy efficient homes through our broker channel. We also launched a new Sustainability Hub on our website to help support customers to make sustainable choices.

Economic background and outlook

UK economic outlook

Lower inflation opens prospect of gradual interest rate cuts

UK consumer price inflation stood at 2.0% year-on-year in June 2024, in line with the Bank of England's target. However, it is being influenced, in part, by the negative impact of annual declines in energy prices, which should prove temporary. Moreover, while goods and food price inflation continue to decline, services inflation remains elevated at 5.7% annual rate.

This 'stickiness' in services prices might reflect ongoing labour cost pressures. 'Regular' wage growth, excluding bonuses, stood at 5.7% year-on-year in the three months to May. However, with the employment data starting to soften, and given recent falls in inflation rates, wage pressures might lessen over the coming months.

With inflation well past its peak, the Bank of England has held Bank Rate at 5.25% since August 2023. The Monetary Policy Committee has signalled the prospect of interest rate cuts, but that will depend on a further easing in the inflation data.

Against a backdrop of falling inflation, household real income growth is starting to rise again. After two years of stagnation, GDP rose by 0.7% in the first quarter of 2024.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2024	30 Jun 2023
	£m	£m
Net interest income	**4,003**	3,871
Net fee income	**641**	649
Net income from financial instruments held for trading or managed on a fair value basis	**219**	190
Gain on acquisition of subsidiary[1]	**—**	1,240
Other operating income	**63**	54
Net operating income before change in expected credit losses and other credit impairment charges	**4,926**	6,004
Change in expected credit losses and other credit impairment charges	**(49)**	(337)
Net operating income	**4,877**	5,667
Total operating expenses	**(1,925)**	(1,765)
Operating profit	**2,952**	3,902
Profit before tax	**2,952**	3,902
Tax expense	**(779)**	(699)
Profit for the period	**2,173**	3,203
Profit attributable to shareholders of the parent company	**2,170**	3,200
Profit attributable to non-controlling interests	**3**	3

1 *A gain of £1.2bn recognised in respect of the acquisition of SVB UK.*

Reported performance

In 1H24, reported profit before tax of £2,952m was £950m lower than 1H23. 1H23 included a gain recognised on the acquisition of SVB UK of £1,240m. Excluding this, profit before tax increased by £290m.

Reported revenue decreased by £1,078m or 18%, to £4,926m. Excluding the gain recognised on the acquisition of SVB UK in 1H23, revenue increased by £160m.

Net interest income increased by £132m or 3%, driven by repricing of the structural hedge and an extra quarter of income from HINV, partly offset by the impacts of competitive mortgage and deposit pricing, with lower total deposit balances and an increase in the mix towards interest-bearing deposit accounts.

Net fee income decreased by £8m or 1%, due to lower transactions in foreign exchange fees and higher credit card reward costs.

Net income from financial instruments held for trading or managed on a fair value basis increased by £29m or 15%, driven by higher income from foreign exchange spot deals.

Gain on acquisition is the gain of £1,240m in respect of the acquisition of SVB UK which was recognised in 1H23.

Other operating income increased by £9m or 17%.

Expected credit losses decreased by £288m from £337m in 1H23 to £49m in 1H24 driven by provision releases in WPB and lower charges for specific exposures in CMB.

Total operating expenses increased by £160m or 9% to £1,925m in 1H24. This includes the new BoE levy introduced in 1H24 and lower benefit from our defined benefit pension surplus, offset by a favourable net movement in certain provisions. Excluding this, operating expenses increased due to ongoing investment in technology, wage inflation and an extra quarter of costs from HINV. We continue to actively manage our cost base, whilst remaining committed to invest in our business.

Tax expense The effective tax rate is 26.4% (1H23: 17.9%). The 1H23 effective tax rate included the one-off non-taxable gain arising on the acquisition of SVB UK. Excluding this, the effective tax rate would have been 26.4% in 1H23.

Net interest income

	Half-year to	
	30 Jun 2024	30 Jun 2023
	£m	£m
Interest income	**7,337**	6,012
Interest expense	**(3,334)**	(2,141)
Net interest income	**4,003**	3,871
Average interest-earning assets	**313,658**	324,356
	%	%
Gross interest yield[1]	**4.70**	3.74
Less: Gross interest payable[1]	**(2.72)**	(1.72)
Net interest spread[2]	**1.98**	2.02
Net interest margin[3]	**2.57**	2.41

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

Net interest margin increased from 2.41% in 1H23 to 2.57% in 1H24, against a back drop of higher interest rates, with the benefit from the structural hedge repricing partly offset by narrowing of mortgage margins, fewer customer deposits and higher funding costs as the mix of interest-bearing deposits increased.

Return on average tangible equity

RoTE is measured as reported profit, divided by average reported equity adjusted for goodwill and intangibles impairment for the period. A reconciliation is provided on page 44, which details the adjustments made to the reported results and equity in calculating RoTE.

In 1H24, our annualised RoTE was 21.5%, lower than the 1H23 annualised RoTE of 36.4%. The 1H23 annualised RoTE included the gain on acquisition of SVB UK recognised in 1H23. Excluding this, the annualised RoTE would have been 22.5% in 1H23.

Alternative Performance Measures

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

Segmental reporting

The HSBC UK global businesses are our reportable segments under IFRS 8.

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

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 our global businesses is provided in the Strategic Report, page 2.

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

(Reviewed)

	Half-year to 30 Jun 2024				
	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**2,272**	**2,586**	**79**	**(11)**	**4,926**
– external	**2,034**	**2,500**	**195**	**197**	**4,926**
– inter-segment	**238**	**86**	**(116)**	**(208)**	**—**
– *of which: net interest income/(expense)*	***1,939***	***2,110***	***(2)***	***(44)***	***4,003***
Change in expected credit losses and other credit impairment charges	**58**	**(107)**	**—**	**—**	**(49)**
Net operating income/(expense)	**2,330**	**2,479**	**79**	**(11)**	**4,877**
Total operating (expenses)/ income	**(1,230)**	**(709)**	**(22)**	**36**	**(1,925)**
Operating profit	**1,100**	**1,770**	**57**	**25**	**2,952**
Profit before tax	**1,100**	**1,770**	**57**	**25**	**2,952**
	%	**%**	**%**	**%**	**%**
Cost efficiency ratio	**54.1**	**27.4**	**27.8**	**327.3**	**39.1**
	At 30 Jun 2024				
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**145,671**	**68,405**	**—**	**(176)**	**213,900**
Customer accounts	**170,702**	**96,410**	**—**	**(271)**	**266,841**
	Half-year to 30 Jun 2023				
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	2,429	3,545	78	(48)	6,004
– external	2,449	3,212	198	145	6,004
– inter-segment	(20)	333	(120)	(193)	—
– *of which: net interest income/(expense)*	*2,091*	*1,816*	*(1)*	*(35)*	*3,871*
– *of which: gain on the acquisition of SVB UK*	—	*1,240*	—	—	*1,240*
Change in expected credit losses and other credit impairment charges	(33)	(304)	—	—	(337)
Net operating income/(expense)	2,396	3,241	78	(48)	5,667
Total operating (expenses)/income	(1,162)	(654)	(22)	73	(1,765)
Operating profit	1,234	2,587	56	25	3,902
Profit before tax	1,234	2,587	56	25	3,902
	%	%	%	%	%
Cost efficiency ratio	47.8	18.4	28.2	152.1	29.4
	At 31 Dec 2023				
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers	143,588	68,651	—	(352)	211,887
Customer accounts	170,684	98,093	—	(432)	268,345

Wealth and Personal Banking

Profit before tax of £1,100m in 1H24 was £134m or 11% lower than 1H23, due to lower revenue and higher operating costs, partly offset by lower ECL.

Revenue decreased by £157m or 6%, primarily due to loan margin compression particularly in mortgage lending, and the impact of lower total deposit balances as well as an increase in the mix towards interest-bearing deposit accounts, partly offset by repricing of the structural hedge.

ECL decreased by £91m from £33m charge to £58m release in 1H24, reflecting resilience in our unsecured lending portfolio with low loan loss experienced as well as releases of provisions for forward economic outlooks.

Operating expenses increased by £68m or 6%, driven by the introduction of the BoE levy, increased technology investment and wage inflation, partly offset by actions taken to continuously optimise operational costs and a favourable net movement in provisions.

Commercial Banking

Profit before tax of £1,770m in 1H24 was £817m or 32% lower than 1H23. Excluding the gain of £1,240m recognised on the acquisition of SVB UK in 1H23, profit before tax was £423m or 31% higher due to higher revenue and lower ECL, partly offset by higher operating expenses.

Excluding the gain of £1,240m recognised on the acquisition of SVB UK in 1H23, revenue increased by £281m or 12%, driven by wider deposit margin resulting from structural hedge benefits and an extra quarter of revenue from HINV, partly offset by the impact of lower total deposit balances and an increase in the mix towards interest-bearing deposit accounts.

ECL decreased by £197m from a £304m charge in 1H23 to a £107m charge in 1H24, driven by lower charges for specific exposures.

Operating expenses increased by £55m or 8%, driven by the introduction of the BoE levy, wage inflation, increased technology investment costs, and an extra quarter of HINV 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.

Profit before tax of £57m in 1H24 was £1m or 2% higher than 1H23.

Corporate Centre

Profit before tax of £25m in 1H24 was flat with 1H23, driven by lower funding costs on fixed assets offset by higher operating expenses and lower benefit from our defined benefit pension surplus.

Dividends

The consolidated reported profit for the period attributable to the shareholder of the bank was £2,170m.

Interim dividends of £1,902m were paid on ordinary share capital during 1H24, out of which £1,412m relates to the previous financial year and £490m relates to the current financial year. £115m of dividends were paid in respect of Additional Tier 1 capital instruments.

On 18 July 2024, the Directors resolved to pay an interim dividend of £950m to the ordinary shareholders of the parent company in respect of the financial year ending 31 December 2024.

Further information regarding dividends is given in Note 5.

Summary consolidated balance sheet as at

	30 Jun 2024 £m	31 Dec 2023 £m
Total assets	**330,474**	332,876
– cash and balances at central banks	**53,833**	65,719
– financial assets mandatory measured at fair value through profit and loss	**149**	135
– derivative assets	**171**	178
– loans and advances to banks	**6,039**	7,980
– loans and advances to customers	**213,900**	211,887
– reverse repurchase agreements – non-trading	**7,698**	7,686
– financial investments	**35,712**	26,315
– other assets	**12,972**	12,976
Total liabilities	**304,587**	306,806
– deposits by banks	**10,957**	10,843
– customer accounts	**266,841**	268,345
– repurchase agreements – non-trading	**2,907**	4,652
– derivative liabilities	**47**	108
– debt securities in issue	**2,047**	1,988
– other liabilities	**21,788**	20,870
Total equity	**25,887**	26,070
– total shareholders' equity[1]	**25,827**	26,010
– non-controlling interests	**60**	60

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

HSBC UK maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts marginally increased to 80.2% compared to 79.0% at 31 December 2023.

Assets

Cash and balances at central banks decreased by £11.9bn due to an increase in financial investments of £9.4bn, a decrease in customer accounts of £1.5bn and growth in customer lending of £2.0bn, offset by a £1.9bn decrease in loans and advances to banks.

The £1.9bn decrease in loans and advances to banks was mainly due to a £1.6bn reduction in balances placed at central banks to support net settlement schemes. Loans and advances to customers increased by £2.0bn, primarily from £1.9bn growth in retail mortgage lending. Financial investments increased by £9.4bn mainly due to increased hedging requirements of interest rate risk.

Liabilities

Customer accounts decreased by £1.5bn, due to lower commercial banking deposits of £1.7bn, in line with the overall market reduction that included seasonal outflows in 1Q24 and repurchase agreements have decreased by £1.7bn as part of balance sheet management activities.

Equity

Total shareholders' equity, including non-controlling interests, decreased by £0.2bn or 0.7% compared with 31 December 2023.

This reflected the effects of profits generated of £2.2bn, offset by dividend payments of £2.0bn and a reduction in OCI of £0.3bn from cash flow hedge reserves.

Risk

Risk overview

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

The risks we manage include credit risk, treasury risk, market risk, climate risk, resilience risk, regulatory compliance risk, financial crime and fraud risk, and model risk.

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 15 to 26 of the Annual Report and Accounts 2023.

Managing risk

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks.

We are monitoring economic and other policy implications from the new government as it determines the upcoming budget and completes its spending review. Our customers and our organisation have continued to be impacted by uncertain economic conditions in the UK in 2024. Economic growth has returned following the recession seen in the second half of 2023. However, interest rates remain at relatively high levels and consumers face the pressure of ongoing high prices, even as the rate of inflation continues to fall. We continue to monitor the impact on our mortgage customers from higher monthly repayments driven by the interest rate environment. Our mortgage portfolio remains resilient but we are seeing some increase in the level of stress, albeit from a low base. Our primary concern is to ensure that we seek to support our customers through offering appropriate solutions, including those adopted through the government’s Mortgage Charter.

We have continued the process of embedding HINV (previously SVB UK) into the group since its purchase in March 2023. This has included the roll-out of HSBC UK's risk tools, systems and practices and aligning the management of HINV risks to be consistent with our risk and compliance frameworks and policies.

Our balance sheet and liquidity has remained strong which helped us to support our customers. Pressure on business operations and customer support has continued to be high as our people, processes and systems have responded to meet the current economic challenges. We remain focussed on our operational resilience to improve the performance of our customer support systems and processes.

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

Climate Risk

Climate risk can impact us either directly or indirectly through our business activities, clients, and supplier relationships.

Climate risks have the potential to cause both financial and non-financial impacts for HSBC UK. Financial impacts could materialise, for example, through greater transactional losses and/or increased capital requirements. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to help achieve the HSBC Group’s climate ambition.

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

Our most material medium to long term risks in regard 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 plan, 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 adopted the HSBC Group's climate ambition to align its financed emissions to net zero by 2050 and to become net zero in its own operations and supply chain by 2030.

Our Risk Appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. Risk appetite supports senior management in allocating capital, funding and liquidity optimally to finance growth, while monitoring exposure to non-financial risks.

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

Stress tests

We regularly conduct stress tests to assess the resilience of our balance sheet and our capital adequacy, as well as to provide actionable insights into how key elements of our portfolios may behave during a crisis. We use the outcomes to calibrate our risk appetite and to review the robustness of our strategic and financial plans, helping to improve the quality of management’s decision making. The results from the stress tests also drive recovery and resolution planning to help enhance our financial stability under various macroeconomic scenarios. The selection of stress scenarios is based upon the identification and assessment of our top risks, emerging risks and our risk appetite.

There was no PRA Annual Cyclical Stress exercise in 2023-2024. The Desk Based Stress Test was carried out in 2024, the results of which are expected from the BoE by the end of 2024. Internal stress test results, concluded in 2023, show that our capital position remains strong with a CET1 low point marginally below Target Operating Level but above Dynamic Risk Appetite. The results were included in the ICAAP exercise submitted in early 2024 and show that HSBC UK is sufficiently capitalised and well positioned to withstand potential shocks.

Top and emerging risks

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

Top risks are those that have the potential to have a material adverse impact on the financial results, reputation or business model of HSBC UK. We actively manage and take actions to mitigate our top risks. Emerging risks are those that, while they could have a material impact on our risk profile were they to occur, are not considered immediate and are not under active management.

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

Our current top risks are summarised below and discussed in more detail on page 17 of our Annual Report and Accounts 2023.

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. We are monitoring closely any economic or other policy implications from the change in the UK government. Outside of the UK, geopolitical tensions remain high. The impacts from muted economic growth, still high interest rates by historical standards and wider geopolitical events such as the ongoing Russia-Ukraine and the current unrest in the Middle East may affect our customers and our business.
Credit risk	We remain focused on assessing and managing the impacts of cost-of-living pressures and high interest rates on our customers, with our early warning indicators helping us to identify segments that we believe may be at risk due to the macroeconomic situation. This includes our mortgage customers who may be impacted by increased monthly payments and across our lending portfolio, those with reduced affordability due to other cost of living increases. We are ensuring that we have adequate capacity within our Financial Support Team and are contacting customers potentially at risk. We remain focused on managing credit facilities appropriately, and adjusting policy and strategy as needed, including regular refreshes of our affordability models. Industry analysis is regularly conducted with particular focus on sectors impacted by consumer spend pressures such as construction, retail and hospitality, as well as rate sensitive asset heavy sectors such as CRE (particularly Office buildings in non prime locations). In addition, vigilance is being maintained for the UK utility sector (indebted water companies) which is impacted by a series of cyclical challenges. We have continued to undertake in-depth monitoring activities with stress tests and other reviews performed to identify portfolios or customers who are likely to experience financial difficulty.
Evolving regulatory environment risk	The regulatory risk environment is increasingly complex. There remains ongoing focus by regulators to improve outcomes for banks' consumers, particularly vulnerable ones, as well as the orderly and transparent operation of financial markets. These, alongside other regulatory priorities including operational resilience (including around cyber risk), model risk and sound risk and financial crime management practices, are resulting in high volumes of often complex change requirements across HSBC UK in the short to medium term. We continue to monitor regulatory and wider industry developments closely, engaging with regulators as appropriate.
Financial crime and fraud risk	We are exposed to financial crime risk from our customers, staff and third-parties engaging in criminal activity. The financial crime risk environment continues to evolve, due to increasingly complex geopolitical challenges, the macroeconomy, evolving sanctions regulations (with an increased focus from authorities on sanctions circumvention, export controls and enforcement), technological developments, and national data privacy requirements. Fraud, which is becoming ever-more sophisticated, continues to be an area of focus for HSBC UK. Regulatory scrutiny has increased around scams and the impacts from changes to the PSR's (Payment Service Regulator) reimbursement requirements. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Cyber threat and unauthorised access to systems	HSBC UK faces a risk of service disruption or loss of data resulting from technology failures or malicious activities by internal or external threats. We continue to monitor ongoing geopolitical events and changes to the threat landscape. HSBC UK operates a continuous improvement programme to help protect our technology operations and to counter a fast-evolving and heightened cyber threat environment.
Environmental, social and governance risk	We are subject to ESG risks including in relation to climate change, nature and human rights. This risk continues to increase owing to the pace and volume of regulatory developments and stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks for HSBC UK, including reputational, legal and regulatory compliance risks.
Digital currencies and disintermediation risk	Focus remains on digital currencies from governments, regulatory bodies and central banks. There has been increased debate on CBDC with the BoE and HMT consultation on the subject in the UK and more design studies and pilots taking place in locations such as Hong Kong, India, the eurozone and Japan. The cryptocurrency and stablecoin ecosystem has seen exceedingly volatile prices with some risk of contagion spreading beyond these markets. There is still no suggestion that cryptocurrencies or stablecoins have moved from being a speculative asset to being a replacement for existing fiat currencies. We continue to monitor the evolution of digital assets and decentralised finance across channels including consultations, pilots and issuances to assess the implications for our products and services and our customers.
Internally driven	
People risk	HSBC UK is exposed to risks associated with employee retention, talent availability and compliance with employment laws and regulations. Whilst overall HSBC UK attrition has remained stable, we remain vigilant in light of external market factors, including ongoing cost-of-living pressures, an active labour market that might impact our ability to retain and attract talent, and potential changes in employment legislation. Failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims.

Risk		Description
Internally driven (continued)		
IT systems infrastructure and service resilience	▲	Strengthening operational resilience of our complex IT estate remains a strategic imperative. Modernising and simplifying our technology architecture is key to strengthening the resiliency of our environment and remains a core focus, with significant funding being allocated in 2024 that is supporting a multi-year improvement plan to update and uplift resiliency standards but further significant work is required. We are committed to delivering better customer outcomes by reducing disruptions for our customers so they can access services when they need them. To help achieve this, we are reducing reliance on non-strategic platforms so we reduce complexity for colleagues and customers and support swifter, safer change deployment. We are also increasing usage of cloud infrastructure so we can benefit from resiliency and support scalability when customer demands rise. An increasing usage of iterative releases will help support easier testing and delivery of new products and features to meet customer needs more quickly.
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. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry in the UK. The PRA's Supervisory Statement (SS 1/23) 'Model Risk Management Principles for Banks' which became effective in May 2024, requires increased oversight and controls on the management of model risks. New technologies, including AI and generative AI, are driving a need for enhanced model risk controls.
Conduct and customer detriment	▶	The first phase of the Consumer Duty was delivered in July 2023 and is helping ensure we act to deliver good outcomes for our customers across all impacted products and services. Phase two was implemented in July 2024 where the focus was on delivering good customer outcomes within our closed book of products. Work is continuing to complete the embedding of the Duty's requirements across all of our retail businesses.
Data risk	▶	HSBC UK uses data to serve our customers and run our operations, often in real-time within digital experiences and processes. Data risk remains a key area of focus for HSBC UK and is receiving significant management attention as we continue to enhance our control environment. If our data is not accurate, timely and processed correctly, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We seek to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Third-party risk	▶	HSBC UK procures goods and services from a range of third party providers. Due to the current economic and geopolitical climate, the risk of service disruption in our supply chain remains heightened. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.
Execution risk	▶	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. Given the increased scale, complexity and pace of change at HSBC UK, we continue to monitor, manage and oversee change execution risk to ensure our change portfolio and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

▲ Risk has heightened during 2024

▶ Risk remains at the same level as 2023

Key developments in the first half of 2024

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

- We continue to enhance our model risk framework in response to changes in regulation and external factors. AI and machine learning models remain a key focus. Progress has been made in enhancing governance activity in this area with particular focus on generative AI due to the pace of technological change, the higher inherent risks, and regulatory and wider interest in adoption and usage.
- We enhanced our processes, framework and capabilities to seek to improve the control and oversight of our material third parties to manage our operational resilience and meet new and evolving regulatory requirements.
- We have a comprehensive programme of work for our prudential regulatory reporting in place, that seeks to strengthen our processes, improve consistency and enhance controls across our regulatory reports. Scrutiny from our UK regulators in this area continues to increase. We continue to dedicate resource, investment and Board focus across the period of the programme to help ensure that we deliver the required improvements.
- Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including enhancing our approach to assessing the impact of climate on capital, and continued development of risk metrics to manage our exposure to climate risk.
- We continued to strengthen our fraud controls and invest in capabilities to fight financial crime through the application of advanced analytics and artificial intelligence, while monitoring technological developments and engaging third parties.
- We continued to stabilise our net interest income, despite the fluctuations in interest rate expectations, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.
- We continued to focus on our technology and cybersecurity controls to improve the resilience and security of our technology services in response to the heightened external threat environment.

Credit risk

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 24 of the Annual Report and Accounts 2023.

Credit risk in the first half of 2024

Summary of credit risk

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

On 31 December 2023, the IFRS 9 allowance for ECL was £1,817m. This allowance has decreased by £136m to £1,681m at 30 June 2024.

The IFRS 9 allowance for ECL at 30 June 2024 comprises £1,586m in respect of assets held at amortised cost and £95m in respect of loan commitments and financial guarantees. There is a £2m allowance for ECL in respect of debt instruments measured at FVOCI.

The following table provides an overview of the group's credit risk exposure.

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

	At 30 Jun 2024		At 31 Dec 2023	
	Gross carrying/ nominal amount	Allowance for ECL[1]	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	£m	£m	£m
Loans and advances to customers at amortised cost	215,470	(1,570)	213,591	(1,704)
Loans and advances to banks at amortised cost	6,041	(2)	7,982	(2)
Other financial assets measured at amortised cost	77,861	(14)	87,253	(10)
– cash and balances at central banks	53,833	—	65,719	—
– items in the course of collection from other banks	328	—	284	—
– reverse repurchase agreements – non-trading	7,698	—	7,686	—
– financial investments	14,257	(1)	11,820	(1)
– prepayments, accrued income and other assets[2]	1,745	(13)	1,744	(9)
Total gross carrying amount on-balance sheet	299,372	(1,586)	308,826	(1,716)
Loans and other credit-related commitments	73,809	(93)	70,381	(99)
Financial guarantees	1,067	(2)	1,121	(2)
Total nominal amount off-balance sheet[3]	74,876	(95)	71,502	(101)
	374,248	(1,681)	380,328	(1,817)

	Fair value	Memorandum allowance for ECL[4]	Fair value	Memorandum allowance for ECL[4]
	£m	£m	£m	£m
Debt instruments measured at fair value through other comprehensive income	21,455	(2)	14,495	(1)

1 *Total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*
2 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 34, 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 for 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 for 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 for which a lifetime ECL is recognised.

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

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	170,996	40,608	3,866	—	215,470	(305)	(565)	(700)	—	(1,570)	0.2	1.4	18.1	—	0.7
– personal	115,633	28,754	961	—	145,348	(129)	(217)	(195)	—	(541)	0.1	0.8	20.3	—	0.4
– corporate and commercial	48,571	11,526	2,836	—	62,933	(167)	(342)	(469)	—	(978)	0.3	3.0	16.5	—	1.6
– non-bank financial institutions	6,792	328	69	—	7,189	(9)	(6)	(36)	—	(51)	0.1	1.8	52.2	—	0.7
Loans and advances to banks at amortised cost	6,039	—	2	—	6,041	—	—	(2)	—	(2)	—	—	100.0	—	—
Other financial assets measured at amortised cost	77,691	140	30	—	77,861	(12)	—	(2)	—	(14)	—	—	6.7	—	—
Loan and other credit-related commitments	69,396	4,171	242	—	73,809	(28)	(30)	(35)	—	(93)	—	0.7	14.5	—	0.1
– personal	42,405	407	65	—	42,877	(5)	—	(1)	—	(6)	—	—	1.5	—	—
– corporate and commercial	23,177	3,439	171	—	26,787	(22)	(29)	(33)	—	(84)	0.1	0.8	19.3	—	0.3
– financial	3,814	325	6	—	4,145	(1)	(1)	(1)	—	(3)	—	0.3	16.7	—	0.1
Financial guarantee and similar contracts	941	119	7	—	1,067	—	—	(2)	—	(2)	—	—	28.6	—	0.2
– personal	305	7	—	—	312	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	395	82	7	—	484	—	—	(2)	—	(2)	—	—	28.6	—	0.4
– financial	241	30	—	—	271	—	—	—	—	—	—	—	—	—	—
At 30 Jun 2024	**325,063**	**45,038**	**4,147**	**—**	**374,248**	**(345)**	**(595)**	**(741)**	**—**	**(1,681)**	**0.1**	**1.3**	**17.9**	**—**	**0.4**

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

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

Stage 2 days past due analysis at 30 June 2024

	Gross carrying amount				Allowance for ECL				ECL coverage %			
		of which:	*of which:*	*of which:*		*of which:*	*of which:*	*of which:*		*of which:*	*of which:*	*of which:*
	Stage 2	*Up-to-date*	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*Up-to-date*	*1 to 29 DPD[1]*	*30 and > DPD[1]*	Stage 2	*Up-to-date*	*1 to 29 DPD[1]*	*30 and > DPD[1]*
	£m	*£m*	*£m*	*£m*	£m	*£m*	*£m*	*£m*	%	*%*	*%*	*%*
Loans and advances to customers at amortised cost	40,608	*40,018*	*385*	*205*	(565)	*(515)*	*(27)*	*(23)*	1.4	*1.3*	*7.0*	*11.2*
– personal	28,754	*28,413*	*219*	*122*	(217)	*(176)*	*(21)*	*(20)*	0.8	*0.6*	*9.6*	*16.4*
– corporate and commercial	11,526	*11,277*	*166*	*83*	(342)	*(333)*	*(6)*	*(3)*	3.0	*3.0*	*3.6*	*3.6*
– non-bank financial institutions	328	*328*	*—*	*—*	(6)	*(6)*	*—*	*—*	1.8	*1.8*	*—*	*—*
Loans and advances to banks at amortised cost	—	*—*	*—*	*—*	—	*—*	*—*	*—*	—	*—*	*—*	*—*
Other financial assets measured at amortised cost	140	*140*	*—*	*—*	—	*—*	*—*	*—*	—	*—*	*—*	*—*

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

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

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

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

Stage 2 days past due analysis at 31 December 2023

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

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

Measurement uncertainty and sensitivity analysis of ECL estimates

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

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

The Central scenario is constructed to reflect the latest macroeconomic expectations. Outer scenarios incorporate the crystallisation of economic and geopolitical risks, including those relating to the outcome of recent and future elections, the Israel-Hamas war and disruptions in the Red Sea.

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

At 30 June 2024, there was an overall reduction in management judgemental adjustments compared with 31 December 2023, as modelled outcomes better reflected the key risks at 30 June 2024.

Methodology

At 30 June 2024, four economic scenarios have been used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and distributional estimates each quarter.

Three of the scenarios, the Upside, Central and Downside scenarios are drawn from the external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. It is created using consensus forecasts, which is the average of a panel of external forecasts.

The outer scenarios represent the tails of the distribution and are less likely to occur. The consensus Upside and the Downside scenarios are created with reference to forecast probability distributions for the UK market that capture economists' views of the entire range of economic outcomes. In the later years of those scenarios, projections revert to long-term consensus trend expectations. Reversion to trend is done with reference to historically observed quarterly changes in the values of macroeconomic variables.

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

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

In the second quarter of 2024, the weights were consistent with the calibrated scenario probabilities, the same as in the fourth quarter of 2023. Economic forecasts for the Central scenario improved modestly, and the dispersion within consensus forecast panels remained low, even as geopolitical risks remained elevated. Risks, including the economic consequences of a broader war in the Middle East and election outcomes across various key markets, were reflected in the Downside scenarios.

Economic scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

Description of consensus economic scenarios

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

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

Central scenario GDP forecasts have improved in the second quarter of 2024 compared with the fourth quarter of 2023. In the second quarter of 2024, risks to the economic outlook included a number of significant geopolitical issues. Within our Downside scenarios, the economic consequences from the crystallisation of those risks were captured by higher commodity and goods prices, the re-acceleration of inflation, a further rise in interest rates and a global recession.

The four global scenarios used for the purpose of calculating ECL at 30 June 2024 are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario, and the Downside 2 scenario.

The scenarios used to calculate ECL in the Interim Report 2024 are described below.

The consensus Central scenario

GDP growth is expected to slow in 2024 relative to the previous year, driven by elevated interest rates and price levels that continue to squeeze household finance and corporate margins. Inflation is expected to continue to decline, as wage growth and services inflation moderates. Lower inflation and looser labour market conditions are expected to enable major central banks to embark on a gradual reduction in policy rates. Growth only returns to its long-term expected trend in later years, once central banks have lowered rates from current levels.

GDP is expected to be 0.5% in 2024 in the Central scenario. The average rate of UK GDP growth is expected to be 1.4% over the forecast period.

The key features of our Central scenario are:

- GDP growth rate is expected to slow down in 2024, followed by a moderate recovery in 2025. Weaker growth is caused by continued high interest rates, which act to deter consumption and investment.
- Unemployment is expected to rise moderately as economic activity slows, although it remains low by historical standards.
- Inflation is expected to continue to fall as services inflation and wage growth moderates. It is anticipated that inflation converges towards central banks' target rates in 2025.
- Weak conditions in housing markets are expected to persist through 2024 and 2025 as higher interest rates and, declining prices, depress activity.
- Challenging conditions are also forecast to continue in the commercial property sector. Structural changes to demand in the office segment in particular have driven lower valuations.
- Policy interest rates are forecast to have peaked and are projected to decline in 2024. In the longer term, they are expected to remain at a higher level than in recent years.
- The Brent crude oil price is forecast to average around $81 per barrel over the projection period.

The Central scenario was created from consensus forecasts available in May, and reviewed continually until the end of June 2024. In accordance with HSBC's scenario framework, a probability weight of 75% was assigned to the Central scenario.

The following table describes key macroeconomic variables in the consensus Central scenario at 30 June 2024.

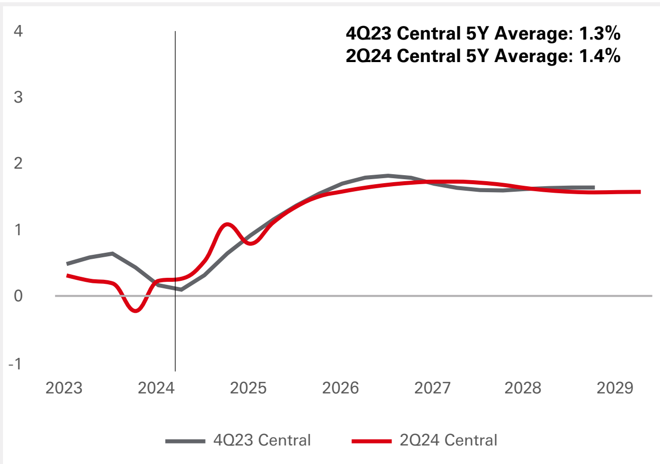
Central scenario

	2024 Q3-2029 Q2	Average 2024–2028[1]
GDP growth rate (annual average growth rate, %)[1]	1.4	1.3
Unemployment rate (%)[1]	4.6	4.4
Inflation rate (annual average growth rate, %)[1]	2.2	2.4
House price index (annual average growth rate, %)[1]	2.3	0.8
Central bank policy rate (annual average, %)[1]	4.0	4.1

1 *The five year average is calculated over a projected period of 20 quarters from 3Q24 to 2Q29.*

The graph compares the respective Central scenario at year end 2023 with current economic expectations in the second quarter of 2024.

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenario

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

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

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

Consensus Upside scenario best outcome

	2024 Q3-2029 Q2	2024 Q1-2028 Q4
GDP growth rate (%, start-to-peak)[1]	11.5 (2Q29)	10.8 (4Q28)
Unemployment rate (%, min)[2]	2.9 (2Q26)	3.1 (4Q24)
House price index (%, start-to-peak)[1]	19.1 (2Q29)	13.0 (4Q28)
Inflation rate (YoY % change, min)[3]	0.8 (2Q25)	1.3 (2Q25)
Central bank policy rate (%, min)[2]	3.6 (4Q28)	3.7 (3Q28)

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

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks. These include an escalation of geopolitical tensions which disrupt key commodity and goods markets, causing inflation and interest rates to rise, and creating a global recession.

As the geopolitical environment remains volatile and complex, risks include:

– a broader and more prolonged conflict in the Middle East that undermines confidence, drives an increase in global energy costs and reduces trade and investment;

– continued differences between the US and China, which lead to increased trade frictions and higher inflation, due to an escalation in tariff actions and rising costs; and

– a potential escalation in the Russia-Ukraine war, which expands beyond Ukraine's borders, and further disrupts energy, fertiliser and food supplies.

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

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

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario, driven by an intensification of geopolitical risks that aggravate supply chain disruptions and causes energy and other commodity prices to rise. In this scenario, economies experience moderate recession, unemployment rates increase, and asset prices fall. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate, and commodity prices and inflation fall again.

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

Consensus Downside scenario worst outcome

	2024 Q3-2029 Q2	2024 Q1-2028 Q4
GDP growth rate (%, start-to-trough)[1]	(0.7) (3Q26)	(1.0) (2Q25)
Unemployment rate (%, max)[2]	6.3 (3Q25)	6.4 (1Q25)
House price index (%, start-to-trough)[1]	(5.9) (4Q25)	(12.0) (2Q25)
Inflation rate (YoY % change, max)[3]	3.4 (2Q25)	4.1 (1Q24)
Central bank policy rate (%, max)[2]	5.6 (3Q24)	5.7 (1Q24)

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

Downside 2 scenario

The Downside 2 scenario features a deep recession and reflects management's view of the tail of the economic risk distribution. It incorporates the crystallisation of a number of risks simultaneously. The narrative features an escalation in geopolitical tensions, which leads to further disruptions to supply chains. This creates additional upward pressure on inflation, prompting central banks to keep interest rates higher than in the Central scenario. However, demand subsequently falls sharply and unemployment rises before inflation pressures subside.

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

Downside 2 scenario worst outcome

	2024 Q3-2029 Q2	2024 Q1-2028 Q4
GDP growth rate (%, start-to-trough)[1]	**(8.8) (4Q25)**	(8.8) (2Q25)
Unemployment rate (%, max)[2]	**8.4 (4Q25)**	8.4 (2Q25)
House price index (%, start-to-trough)[1]	**(29.7) (2Q26)**	(30.2) (4Q25)
Inflation rate (YoY % change, max)[3]	**10.2 (4Q24)**	10.1 (2Q24)
Central bank policy rate (%, max)[2]	**5.9 (3Q24)**	6.0 (1Q24)

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

Scenario weightings

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

In 2Q24, the key considerations around uncertainty around the Central scenario projections focussed on:

- the announcements of elections in the UK and the potential policy uncertainty arising from the elections was a significant discussion point;
- the lagged impact of elevated interest rates on household finances and businesses, and the implications of volatility in monetary policy expectations on growth and employment;
- estimation and forecast uncertainty for UK unemployment given ongoing methodology updates at the UK Office for National Statistics.
- the outlook for real estate in UK and
- geopolitical risks, including the ongoing Russia-Ukraine and Israel-Hamas wars.

Although these risk factors remain significant, management assessed that these were adequately reflected in the scenarios at their calibrated probability.

It was noted that economic forecasts had improved modestly and dispersion of forecasts around the consensus have either remained stable, or have moved lower. Similarly, financial market measures of volatility also remained very low through the second quarter of 2024.

This has led management to assign scenario probabilities that are aligned to the standard scenario probability calibration framework. This entailed assigning a 75% probability weighting to the Central scenario. The consensus Upside scenario was awarded a 10% weighting, and the consensus Downside scenario was given a 10%. The Downside 2 was assigned a 5% weighting.

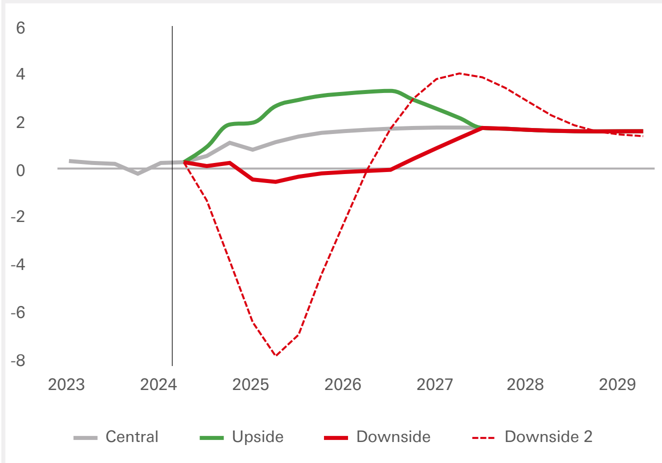
The results of the UK election could shape the economic outlook. Management concluded that the Central scenario already incorporated information around the likely future government and its policies. Outer scenarios were assessed to adequately reflect the current downside risks.

Scenario weights %

	2Q24	4Q23
Upside	**10.0**	10.0
Central	**75.0**	75.0
Downside	**10.0**	10.0
Downside 2	**5.0**	5.0

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

UK GDP growth



Critical estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates as at 30 June 2024. These included:

- the selection and configuration of economic scenarios, given the constant change in economic conditions and distribution of economic risks; and
- estimating the economic effects of those scenarios on ECL, where similar observable historical conditions cannot be captured by the credit risk models.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios are set out on page 35 of the Annual Report and Accounts 2023. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

Economic forecasts and ECL model responses to these forecasts are subject to a degree of uncertainty. The models continue to be supplemented by management judgemental adjustments where required.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are typically increases or decreases to the ECL at either a customer, segment or portfolio level where management believes allowances do not sufficiently reflect the credit risk/expected credit losses at the reporting date. These can relate to risks or uncertainties that are not reflected in the models and/or to any late-breaking events, model and data limitations and deficiencies and expert credit judgement applied during 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 effects of management judgmental adjustments are considered for both balances and ECL, when determining whether any increase in significant increase has occured and is allocated to a stage where appropriate. This is in accordance with the internal adjustments framework.

Management judgemental adjustments are reviewed under the governance process for IFRS 9 as detailed in the section 'Credit risk management' on page 24 of the Annual Report and Accounts 2023.

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 the management judgemental adjustments continue to evolve with the economic environment as new risks emerge.

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

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

Management judgemental adjustments made in estimating the reported ECL at 30 June 2024 are set out in the following table:

Management judgemental adjustments to ECL at 30 June 2024[1]

	Retail	Wholesale[2]	Total
	£m	£m	£m
Modelled ECL (A)[3]	**531**	**502**	**1,033**
Corporate lending adjustments	**—**	**29**	**29**
Inflation related adjustments	**6**	**—**	**6**
Other credit judgements	**48**	**—**	**48**
Total management judgemental adjustments (B)[4]	**54**	**29**	**83**
Other adjustments (C)[5]	**(23)**	**45**	**22**
Final ECL (A + B + C)[6]	**562**	**576**	**1,138**

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

	Retail	Wholesale[2]	Total
	£m	£m	£m
Modelled ECL (A)[3]	523	488	1,011
Corporate lending adjustments	—	44	44
Inflation related adjustments	30	—	30
Other credit judgements	200	—	200
Total management judgemental adjustments (B)[4]	230	44	274
Other adjustments (C)[5]	(28)	50	22
Final ECL (A + B + C)[6]	725	582	1,307

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

At 30 June 2024, total adjustments to the modelled output were an ECL increase of £74m for the Wholesale portfolio, comprising £62m relating to Corporate, Banks and Sovereign portfolios and £12m relating to Retail SME portfolios (31 December 2023: £94m increase including £16m from Retail SME).

- The adjustments were primarily driven by the application of management judgement for the Real Estate sector and Power and Utilities Sector (UK Regulated Water and Sewerage sector), together with model-deficiency and data related adjustments.

At 30 June 2024, total adjustments to the modelled output were an ECL increase of £31m for the Retail portfolio (31 December 2023: £202m increase).

- Management judgemental adjustments relating to Other credit judgements increased ECL by £48m (31 December 2023: £200m). The decrease was primarily driven by a reduction in the adjustment capturing the potential delayed impact of economic scenarios on unsecured portfolio defaults in light of continued portfolio resilience.
- Management judgemental adjustments relating to inflation increased ECL by £6m (31 December 2023: £30m). These adjustments addressed where increasing inflation and interest rates result in affordability risks that were not fully captured by the modelled output.

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 tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL for financial instruments related to defaulted (stage 3) obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and therefore the effects of macroeconomic factors are not necessarily the key consideration when performing individual assessments of ECL for obligors in default. Loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the ECL. Due to the range and specificity of the credit factors to which 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 mortgage exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios, including loans in all stages, is sensitive to macroeconomic variables.

Wholesale and retail sensitivity

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

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

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

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2024 £m	31 Dec 2023 £m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2024		
Reported ECL	**576**	582
Consensus scenarios		
Central scenario	**533**	542
Upside scenario	**433**	436
Downside scenario	**704**	736
Downside 2 scenario	**1,619**	1,692

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

At 30 June 2024, a significant level of ECL sensitivity was observed. This higher ECL impact was largely driven by significant exposure in downside risks of specific sectors.

Compared with 31 December 2023, the Downside 2 ECL impact was lower, primarily driven by lower macroeconomic forecast uncertainty which led to reduction of ECL impact.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2024 £m	31 Dec 2023 £m
ECL of loans and advances to customers at 30 June 2024		
Reported ECL	**514**	685
Consensus scenarios		
Central scenario	**501**	669
Upside scenario	**439**	586
Downside scenario	**550**	735
Downside 2 scenario	**822**	1,046

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

At 30 June 2024, Mortgages reflected the lowest level of ECL sensitivity as collateral values remain resilient. Credit cards and other unsecured lending across stage 1 and 2 are more sensitive to economic forecasts and therefore reflected the higher level of ECL sensitivity during 2024.

There was a reduction in the total sensitivity for ECL in all scenarios compared to 31 December 2023 due to model updates and scenario evolution.

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

The reported gross carrying amount by stage is representative of the weighted scenario ECL. The ECL sensitivity to the other scenarios includes changes in ECL due to the levels of loss and the migration of additional lending balances in or out of stage 2.

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

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

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

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

Changes in ‘Net new and further lending/repayments’ represents the impact from volume movements within the Group’s lending portfolio and includes ‘New financial assets originated or purchased’, ‘assets derecognised (including final repayments)’ and ‘changes to risk parameters – further lending/repayment’.

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]

(Reviewed)

	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 2024	**240,631**	**(317)**	**47,362**	**(780)**	**4,252**	**(710)**	**—**	**—**	**292,245**	**(1,807)**
Transfers of financial instruments:	**(3,762)**	**(162)**	**2,913**	**191**	**849**	**(29)**	**—**	**—**	**—**	**—**
– transfers from stage 1 to stage 2	**(21,297)**	**79**	**21,297**	**(79)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**17,670**	**(234)**	**(17,670)**	**234**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to stage 3	**(271)**	**2**	**(983)**	**71**	**1,254**	**(73)**	**—**	**—**	**—**	**—**
– transfers from stage 3	**136**	**(9)**	**269**	**(35)**	**(405)**	**44**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**129**	**—**	**(73)**	**—**	**(3)**	**—**	**—**	**—**	**53**
Net new and further lending / (repayments)	**9,228**	**(38)**	**(5,377)**	**124**	**(755)**	**76**	**—**	**—**	**3,096**	**162**
Changes to risk parameters – credit quality	**—**	**40**	**—**	**(42)**	**—**	**(320)**	**—**	**—**	**—**	**(322)**
Changes to model used for ECL calculation	**—**	**15**	**—**	**(15)**	**—**	**18**	**—**	**—**	**—**	**18**
Assets written off	**—**	**—**	**—**	**—**	**(229)**	**229**	**—**	**—**	**(229)**	**229**
Others	**40**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**40**	**—**
At 30 Jun 2024	**246,137**	**(333)**	**44,898**	**(595)**	**4,117**	**(739)**	**—**	**—**	**295,152**	**(1,667)**
ECL release/(charge) for the period		**146**		**(6)**		**(229)**		**—**		**(89)**
Recoveries										**35**
Others										**3**
Total change in ECL for the period										**(51)**
At 1 Jan 2023	223,956	(277)	51,572	(978)	4,784	(755)	23	(1)	280,335	(2,011)
Transfers of financial instruments:	(6,383)	(364)	4,508	493	1,875	(129)	—	—	—	—
– transfers from stage 1 to stage 2	(48,798)	158	48,798	(158)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	42,905	(521)	(42,905)	521	—	—	—	—	—	—
– transfers to stage 3	(697)	8	(1,891)	174	2,588	(182)	—	—	—	—
– transfers from stage 3	207	(9)	506	(44)	(713)	53	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	334	—	(223)	—	(4)	—	—	—	107
Net new and further lending/ repayments	22,994	(96)	(8,718)	174	(1,745)	138	(23)	—	12,508	216
Changes to risk parameters – credit quality	—	88	—	(254)	—	(623)	—	1	—	(788)
Changes to model used for ECL calculation	—	(2)	—	8	—	1	—	—	—	7
Assets written off	—	—	—	—	(662)	662	—	—	(662)	662
Others	64	—	—	—	—	—	—	—	64	—
At 31 Dec 2023	240,631	(317)	47,362	(780)	4,252	(710)	—	—	292,245	(1,807)
ECL release/(charge) for the period		324		(295)		(488)		1		(458)
Recoveries										63
Others										(5)
Total change in ECL for the period										(400)

1 *The Reconciliation excludes loans and advances and commitments to other HSBC Group companies. As at 30 June 2024, these amounted to £1.0bn (2023: £0.5bn) and were classified as stage 1 with no ECL.*

Credit quality of financial instruments

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

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

Credit quality classification

	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	CRR 1 to CRR 2	0 – 0.169	Band 1 and 2	0.000 – 0.500
Good	BBB+ to BBB-	CRR 3	0.170 – 0.740	Band 3	0.501 – 1.500
Satisfactory	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	Band 4 and 5	1.501 – 20.000
Sub-standard	B- to C	CRR 6 to CRR 8	4.915 – 99.999	Band 6	20.001 – 99.999
Credit impaired	Default	CRR 9 to CRR 10	100.000	Band 7	100.000

1 *Customer risk rating.*
2 *12-month point-in-time probability-weighted PD.*

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

(Reviewed)

	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	126,519	43,171	37,719	4,195	3,866	215,470	(1,570)	213,900
– stage 1	111,629	29,969	28,593	805	—	170,996	(305)	170,691
– stage 2	14,890	13,202	9,126	3,390	—	40,608	(565)	40,043
– stage 3	—	—	—	—	3,866	3,866	(700)	3,166
Loans and advances to banks at amortised cost	6,039	—	—	—	2	6,041	(2)	6,039
– stage 1	6,039	—	—	—	—	6,039	—	6,039
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	2	2	(2)	—
Other financial assets measured at amortised cost	77,324	221	277	9	30	77,861	(14)	77,847
– stage 1	77,287	183	213	8	—	77,691	(12)	77,679
– stage 2	37	38	64	1	—	140	—	140
– stage 3	—	—	—	—	30	30	(2)	28
Loan and other credit-related commitments	45,055	14,546	13,297	669	242	73,809	(93)	73,716
– stage 1	44,734	13,399	11,071	192	—	69,396	(28)	69,368
– stage 2	321	1,147	2,226	477	—	4,171	(30)	4,141
– stage 3	—	—	—	—	242	242	(35)	207
Financial guarantees	556	208	234	62	7	1,067	(2)	1,065
– stage 1	556	203	179	3	—	941	—	941
– stage 2	—	5	55	59	—	119	—	119
– stage 3	—	—	—	—	7	7	(2)	5
At 30 Jun 2024	255,493	58,146	51,527	4,935	4,147	374,248	(1,681)	372,567
Debt instruments at FVOCI[1]	22,189	—	—	—	—	22,189	(2)	22,187
– stage 1	22,189	—	—	—	—	22,189	(2)	22,187
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
At 30 Jun 2024	22,189	—	—	—	—	22,189	(2)	22,187

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 (continued)

(Reviewed)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	123,866	43,385	35,581	6,850	3,909	213,591	(1,704)	211,887
– stage 1	112,334	28,852	24,162	2,048	—	167,396	(286)	167,110
– stage 2	11,532	14,533	11,419	4,802	—	42,286	(755)	41,531
– stage 3	—	—	—	—	3,909	3,909	(663)	3,246
Loans and advances to banks at amortised cost	7,980	—	—	—	2	7,982	(2)	7,980
– stage 1	7,980	—	—	—	—	7,980	—	7,980
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	2	2	(2)	—
Other financial assets measured at amortised cost	86,723	216	282	6	26	87,253	(10)	87,243
– stage 1	86,695	170	203	5	—	87,073	(7)	87,066
– stage 2	28	46	79	1	—	154	—	154
– stage 3	—	—	—	—	26	26	(3)	23
Loan and other credit-related commitments	43,062	14,181	11,906	902	330	70,381	(99)	70,282
– stage 1	42,606	12,838	9,492	321	—	65,257	(31)	65,226
– stage 2	456	1,343	2,414	581	—	4,794	(25)	4,769
– stage 3	—	—	—	—	330	330	(43)	287
Financial guarantees	600	224	215	71	11	1,121	(2)	1,119
– stage 1	448	206	153	3	—	810	—	810
– stage 2	152	18	62	68	—	300	—	300
– stage 3	—	—	—	—	11	11	(2)	9
At 31 Dec 2023	262,231	58,006	47,984	7,829	4,278	380,328	(1,817)	378,511
Debt instruments at FVOCI[1]	15,020	—	—	—	—	15,020	(1)	15,019
– stage 1	15,020	—	—	—	—	15,020	(1)	15,019
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
At 31 Dec 2023	15,020	—	—	—	—	15,020	(1)	15,019

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

Wholesale lending

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

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	**48,571**	**11,526**	**2,836**	**—**	**62,933**	**(167)**	**(342)**	**(469)**	**—**	**(978)**
– agriculture, forestry and fishing	**2,930**	**1,176**	**197**	**—**	**4,303**	**(8)**	**(33)**	**(27)**	**—**	**(68)**
– mining and quarrying	**517**	**26**	**2**	**—**	**545**	**(1)**	**(1)**	**(1)**	**—**	**(3)**
– manufacture	**5,799**	**1,520**	**313**	**—**	**7,632**	**(17)**	**(44)**	**(100)**	**—**	**(161)**
– electricity, gas, steam and air-conditioning supply	**990**	**110**	**4**	**—**	**1,104**	**(2)**	**(1)**	**(1)**	**—**	**(4)**
– water supply, sewerage, waste management and remediation	**775**	**314**	**5**	**—**	**1,094**	**(2)**	**(14)**	**(2)**	**—**	**(18)**
– real estate and construction	**10,308**	**2,751**	**647**	**—**	**13,706**	**(24)**	**(56)**	**(97)**	**—**	**(177)**
of which CRE	**7,756**	**2,738**	**395**	**—**	**10,889**	**(20)**	**(46)**	**(58)**	**—**	**(124)**
– wholesale and retail trade, repair of motor vehicles and motorcycles	**7,793**	**1,619**	**541**	**—**	**9,953**	**(17)**	**(42)**	**(89)**	**—**	**(148)**
– transportation and storage	**1,692**	**365**	**81**	**—**	**2,138**	**(4)**	**(10)**	**(13)**	**—**	**(27)**
– accommodation and food	**4,095**	**1,201**	**360**	**—**	**5,656**	**(20)**	**(33)**	**(22)**	**—**	**(75)**
– publishing, audiovisual and broadcasting	**2,448**	**528**	**123**	**—**	**3,099**	**(25)**	**(34)**	**(27)**	**—**	**(86)**
– professional, scientific and technical activities	**3,524**	**479**	**164**	**—**	**4,167**	**(15)**	**(27)**	**(28)**	**—**	**(70)**
– administrative and support services	**4,541**	**447**	**84**	**—**	**5,072**	**(13)**	**(18)**	**(15)**	**—**	**(46)**
– education	**533**	**121**	**42**	**—**	**696**	**(2)**	**(6)**	**(8)**	**—**	**(16)**
– health and care	**1,358**	**390**	**96**	**—**	**1,844**	**(5)**	**(13)**	**(12)**	**—**	**(30)**
– arts, entertainment and recreation	**465**	**333**	**52**	**—**	**850**	**(2)**	**(3)**	**(20)**	**—**	**(25)**
– other services	**799**	**146**	**125**	**—**	**1,070**	**(10)**	**(7)**	**(7)**	**—**	**(24)**
– activities of households	**1**	**—**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**—**
– government	**3**	**—**	**—**	**—**	**3**	**—**	**—**	**—**	**—**	**—**
Non-bank financial institutions	**6,792**	**328**	**69**	**—**	**7,189**	**(9)**	**(6)**	**(36)**	**—**	**(51)**
Loans and advances to banks	**6,039**	**—**	**2**	**—**	**6,041**	**—**	**—**	**(2)**	**—**	**(2)**
At 30 Jun 2024	**61,402**	**11,854**	**2,907**	**—**	**76,163**	**(176)**	**(348)**	**(507)**	**—**	**(1,031)**

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	**23,572**	**3,521**	**178**	**—**	**27,271**	**(22)**	**(29)**	**(35)**	**—**	**(86)**
Financial	**4,055**	**355**	**6**	**—**	**4,416**	**(1)**	**(1)**	**(1)**	**—**	**(3)**
At 30 Jun 2024	**27,627**	**3,876**	**184**	**—**	**31,687**	**(23)**	**(30)**	**(36)**	**—**	**(89)**

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	46,197	13,854	2,876	—	62,927	(156)	(365)	(428)	—	(949)
– agriculture, forestry and fishing	2,895	1,159	190	—	4,244	(7)	(37)	(24)	—	(68)
– mining and quarrying	508	153	2	—	663	(1)	(4)	—	—	(5)
– manufacture	4,732	2,472	426	—	7,630	(13)	(62)	(95)	—	(170)
– electricity, gas, steam and air-conditioning supply	727	17	2	—	746	(2)	(1)	(1)	—	(4)
– water supply, sewerage, waste management and remediation	836	145	9	—	990	(2)	(4)	(4)	—	(10)
– real estate and construction	10,055	2,759	564	—	13,378	(27)	(52)	(87)	—	(166)
of which CRE	8,080	2,558	348	—	10,986	(21)	(44)	(51)	—	(116)
– wholesale and retail trade, repair of motor vehicles and motorcycles	7,444	2,057	546	—	10,047	(21)	(42)	(84)	—	(147)
– transportation and storage	1,682	364	61	—	2,107	(4)	(9)	(4)	—	(17)
– accommodation and food	3,763	1,943	342	—	6,048	(15)	(37)	(33)	—	(85)
– publishing, audiovisual and broadcasting	2,313	641	110	—	3,064	(25)	(37)	(11)	—	(73)
– professional, scientific and technical activities	3,461	542	169	—	4,172	(13)	(28)	(34)	—	(75)
– administrative and support services	4,339	751	132	—	5,222	(12)	(24)	(13)	—	(49)
– education	522	131	33	—	686	(2)	(5)	(3)	—	(10)
– health and care	1,262	492	106	—	1,860	(5)	(14)	(10)	—	(29)
– arts, entertainment and recreation	874	63	53	—	990	(3)	(3)	(16)	—	(22)
– other services	773	165	131	—	1,069	(4)	(6)	(9)	—	(19)
– activities of households	1	—	—	—	1	—	—	—	—	—
– government	10	—	—	—	10	—	—	—	—	—
Non-bank financial institutions	6,434	837	78	—	7,349	(11)	(6)	(35)	—	(52)
Loans and advances to banks	7,980	—	2	—	7,982	—	—	(2)	—	(2)
At 31 Dec 2023	60,611	14,691	2,956	—	78,258	(167)	(371)	(465)	—	(1,003)

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

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

Personal lending

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

The following table shows the levels of personal lending products in the various portfolios. At 30 June 2024, Stage 2 personal lending balances increased by £1.2bn compared with 31 December 2023. The transfer to stage 2 balances was largely explained by updates to the economic outlook. The quality of the mortgage book remained high, with low levels of impairment allowances. The average LTV ratio on new lending was 67%, compared with an estimated 53% for the overall mortgage portfolio.

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	**102,932**	**27,670**	**617**	**131,219**	**(17)**	**(64)**	**(58)**	**(139)**
– *of which: interest only (including offset)*	***16,199***	***1,800***	***75***	***18,074***	***(3)***	***(10)***	***(10)***	***(23)***
Other personal lending	**12,701**	**1,084**	**344**	**14,129**	**(112)**	**(153)**	**(137)**	**(402)**
– other	**7,085**	**522**	**212**	**7,819**	**(63)**	**(48)**	**(87)**	**(198)**
– credit cards	**5,616**	**562**	**132**	**6,310**	**(49)**	**(105)**	**(50)**	**(204)**
At 30 Jun 2024	**115,633**	**28,754**	**961**	**145,348**	**(129)**	**(217)**	**(195)**	**(541)**
By portfolio								
First lien residential mortgages	103,352	25,346	594	129,292	(19)	(82)	(60)	(161)
– *of which: interest only (including offset)*	*16,181*	*1,989*	*69*	*18,239*	*(3)*	*(20)*	*(9)*	*(32)*
Other personal lending	11,413	2,249	361	14,023	(100)	(302)	(140)	(542)
– other	6,417	1,130	223	7,770	(57)	(135)	(86)	(278)
– credit cards	4,996	1,119	138	6,253	(43)	(167)	(54)	(264)
At 31 Dec 2023	114,765	27,595	955	143,315	(119)	(384)	(200)	(703)

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

	Nominal amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 30 Jun 2024	**42,710**	**414**	**65**	**43,189**	**(5)**	**—**	**(1)**	**(6)**
At 31 Dec 2023	40,847	576	69	41,492	(8)	—	(2)	(10)

Treasury risk

Overview

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

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

Approach and policy

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

A summary of our current policies and practices regarding the management of Treasury risk is set out on pages 53 to 55 of the Annual Report and Accounts 2023.

Treasury risk management

Key developments in the first half of 2024

- Continued to manage our structural hedge programme, including in preparation for lower interest rates.
- Continued efforts to strengthen our processes, improve consistency and enhance controls across regulatory reports.
- While awaiting publication of final rules, prepared for the Basel 3.1 reforms aiming to achieve an optimal outcome.
- Expanded our range of funding solutions, including the introduction of Fixed Rate ISA Deposit in our retail business, and continue to assess any potential funding vulnerabilities.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is supported by a global capital management framework. The framework sets out our approach to determining key capital risk appetites including CET1, total capital, minimum requirements for own funds and eligible liabilities ('MREL'), and leverage ratio. Our internal capital adequacy assessment process ('ICAAP') is an assessment of the group's capital position, outlining both regulatory and internal capital resources and requirements resulting from HSBC UK's business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange and interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach. The group's ICAAP supports the determination of the consolidated capital risk appetite and target ratios and informs the assessment and determination of capital requirements by the PRA.

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

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

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

Planning and performance

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

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

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

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs, capital and/or liquidity position. We closely monitor future regulatory changes and continue to evaluate the impact of these upon our capital and liquidity requirements, 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

Future changes to our ratios will occur with the implementation of Basel 3.1. The PRA has published its consultation paper on the UK's implementation, with a proposed implementation date of 1 January 2025.

Regulatory reporting processes and controls

We are advancing a comprehensive initiative aimed at strengthening our global processes, enhancing consistency, and improving controls across our regulatory reporting. This remains a top priority for both HSBC management and regulatory authorities. This multifaceted programme includes data enhancement, transformation of the reporting systems, and an uplift to the control environment over the report production process.

While this programme continues, there may be further impacts on some of our 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 and resolution planning

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

In addition to a range of internal stress tests, we are subject to supervisory stress testing by the PRA and Bank of England. The results of regulatory stress testing and our internal stress tests are used when assessing our internal capital and liquidity requirements through the ICAAP and ILAAP. The outcomes of stress testing exercises may inform 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 may result in a breach of risk appetite and regulatory minimum levels. Our recovery plan sets out the framework and governance arrangements to support restoring the HSBC UK Bank plc to a stable and viable position, and so lowering the probability of failure from either idiosyncratic company-specific stress or systemic market-wide issues. This helps to ensure that we can stabilise our financial position and recover from financial losses in a stress environment.

The Group also has capabilities, resources and arrangements in place to address the unlikely event that HSBC might not be recoverable and would therefore need to be resolved by regulators. The Group and the BoE publicly disclosed the status of the HSBC Group's progress against the BoE's Resolvability Assessment Framework in June 2022, following the submission of HSBC's inaugural resolvability self-assessment in October 2021. The Group has continued to enhance its resolvability capabilities since this time and submitted its second self-assessment in October 2023. A subsequent update was provided to the BoE in January 2024. Further public disclosure by the Group and the BoE as to HSBC's progress against the Resolvability Assessment Framework is expected to be made in August 2024.

Overall, our recovery and resolution planning helps to safeguard the group's financial and operational stability. HSBC is committed to continuing to enhance its recovery and resolution capabilities, in line with Group's preferred resolution strategy and regulatory expectations, including the BoE's Resolvability Assessment Framework ('RAF').

Measurement of interest rate risk in the banking book processes

Assessment and risk appetite

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

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

- banking net interest income sensitivity; and
- economic value of equity sensitivity.

Banking net interest income sensitivity

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected banking NII under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. Banking NII Sensitivity measures the sensitivity of NII adjusted for the funding costs of the trading book, and of interest related to AT1 capital. This monitoring is undertaken at an entity level, where a range of interest rate scenarios are monitored on a one-year basis.

Banking NII sensitivity figures represent the effect of pro-forma movements in projected yield curves based on a static balance sheet size and structure, except for certain mortgage products where balances are impacted by interest rate sensitive prepayments. 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 Banking NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the 'down-shock' scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable.

As at 30 June 2024, the 12 month Banking NII Sensitivity for the bank to an immediate 100bps parallel shock to interest rates is £268m for an upwards shock (31 December 2023: £438m), and £(363)m for a downwards shock (31 December 2023: £(524)m). This assessment is based on a static balance sheet with no management actions from Treasury, a 50% pass-on assumption on certain interest bearing deposits, and excludes pensions.

Further details of HSBC UK's risk management of interest rate risk in the banking book can be found in HSBC UK's Pillar 3 Disclosures as at June 2024.

Economic value of equity sensitivity

Economic Value of Equity ('EVE') measures the present value of the Banking Book Assets and Liabilities excluding equity, based on a run-off balance sheet. Economic Value of Equity Sensitivity measures the impact to EVE from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity. It is measured and reported as part of HSBC UK's internal risk metrics, regulatory rules (including the Supervisory Outlier Test) and external Pillar 3 disclosures.

Capital risk

Own funds

Own funds disclosure and capital adequacy metrics[1]

	At	
	30 Jun 2024	31 Dec 2023
	£m	£m
CET1 capital before regulatory adjustments	**22,682**	22,403
Total regulatory adjustments to common equity tier 1	**(8,132)**	(8,179)
CET1 capital	**14,550**	14,224
Additional tier 1 capital before regulatory adjustments	**2,252**	2,255
Additional tier 1 capital	**2,252**	2,255
Tier 1 capital (T1 = CET1 + AT1)	**16,802**	16,479
Tier 2 capital before regulatory adjustments	**3,188**	3,293
Tier 2 capital	**3,188**	3,293
Total regulatory capital	**19,990**	19,772
Risk-weighted assets ('RWAs')		
Credit risk	**90,441**	87,503
Counterparty credit risk	**180**	236
Market risk	**124**	132
Operational risk	**13,607**	13,607
Total risk-weighted assets	**104,352**	101,478
Capital ratios (%)	**%**	%
Common equity tier 1 ratio	**13.9**	14.0
Tier1 ratio	**16.1**	16.2
Total capital ratio	**19.2**	19.5

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

At 30 June 2024, our CET1 capital ratio decreased to 13.9% from 14.0% at 31 December 2023.

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

- a decrease of 0.4% driven by higher RWAs of £2.9bn mainly from asset size and methodology updates.
- an increase of 0.3% from £0.6bn of capital generation mainly through profits net of dividends, partly offset by an increase of £0.3bn in the excess expected loss deduction.

At 30 June 2024, our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.92% of RWAs, of which 2.2% was met by CET1 capital. Throughout the first half of 2024, we complied with the PRA's regulatory capital adequacy requirements.

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk					
	WPB	CMB	GBM	Corporate Centre	Market risk	Total RWAs
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2024	**34,991**	**64,695**	**533**	**1,127**	**132**	**101,478**
Acquisitions and disposals	—	—	—	—	—	—
Asset size	326	914	(2)	377	(9)	1,606
Asset quality	107	148	—		—	255
Model updates	—	95	—	—	—	95
– new/updated models	—	95	—	—	—	95
Methodology and policy	(160)	1,024	(13)	150	—	1,001
– internal updates	(160)	1,024	(13)	150	—	1,001
Foreign exchange movement	(1)	(86)	1	2	1	(83)
Total RWA movement	**272**	**2,095**	**(14)**	**529**	**(8)**	**2,874**
RWAs at 30 Jun 2024	**35,263**	**66,790**	**519**	**1,656**	**124**	**104,352**

Excluding a decrease in RWAs of £0.1bn due to foreign currency translation differences, RWAs increased by £3bn, mainly from lending growth of £1.6bn, methodology and policy changes of £1bn and changes in asset quality by £0.3bn.

Asset size

Increase in RWAs by £1.6bn mainly in CMB and WPB due to growth in corporate lending and retail mortgages.

Asset quality

Increase in RWAs of £0.3bn due to credit migrations and changes in the underlying portfolio mix.

Methodology and policy

Increase in RWAs in CMB of £1.0bn due to data quality improvements and risk parameter refinements.

Leverage ratio

	At	
	30 Jun 2024	31 Dec 2023
Total leverage ratio exposure measure (£m)	**283,626**	270,907
Leverage ratio (%)	**5.9**	6.1

Our leverage ratio, calculated in accordance with the PRA's UK Leverage framework implemented on 1 January 2022, was 5.9% at 30 June 2024.

The leverage ratio decreased from 6.1% to 5.9%, resulting from an increase of £13bn in exposure partly offset by increase of £0.3bn in tier 1 capital. Key drivers for an overall decrease in 0.2% of Leverage ratio were:

– a 0.3% decrease due to increase in exposure of £13bn mainly due to growth in corporate and retail lending and increase in financial investments mainly due to increased hedging requirements of interest rate risk.

– a 0.1% increase from £0.6bn of capital generation mainly through profits net of dividend partly offset by increase of £0.3bn in excess expected loss deduction.

Liquidity and funding risk

Liquidity coverage ratio

At 30 June 2024, we were above regulatory minimum levels. The following table displays the individual LCR levels for the HSBC UK Liquidity Group on PRA rules basis.

HSBC UK Liquidity Group LCR

	As at[2]	
	30 Jun 2024	31 Dec 2023
	%	%
HSBC UK Liquidity Group[1]	**193**	201

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

2 The LCR ratios presented in the above table are based on average of the preceding 12 months.

Net stable funding ratio

At 30 June 2024, we maintained sufficient stable funding relative to the required stable funding assessed using the NSFR.

HSBC UK Liquidity Group NSFR

	As at[1]	
	30 Jun 2024	31 Dec 2023
	%	%
HSBC UK Liquidity Group	**155**	158

1 The NSFR ratios presented in the above table are based on average of the preceding four quarters.

Liquid assets

The table below shows the weighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric. This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets. Growth in Level 1 assets of £9.7bn reflects increased hedging requirements of interest rate risk.

HSBC UK Liquidity Group liquid assets

	Estimated liquidity value	
	As at[1]	
	30 Jun 2024	31 Dec 2023
	£m	£m
HSBC UK Liquidity Group		
Cash	**61,975**	76,238
Level 1	**26,413**	16,756
Level 2	**2,057**	1,771
Liquidity pool	**90,445**	94,765

1 The liquid assets presented in the above table are based on average of the preceding 12 months.

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 'Funding Uses' disclosures provide a consolidated view of how our balance sheet is funded, and should be read in light of the Liquidity and Funding Risk Management Framework, which requires HSBC UK Liquidity Group to manage liquidity and funding risk on a stand-alone basis.

The disclosures analyse our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds. In the first six months of 2024, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

	At	
	30 Jun 2024	31 Dec 2023
	£m	£m
Sources		
Customer accounts	**266,841**	268,345
Deposits by banks	**10,957**	10,843
Repurchase agreements – non-trading	**2,907**	4,652
Debt securities in issue	**2,047**	1,988
Cash collateral, margin and settlement accounts	**362**	267
Subordinated liabilities	**15,400**	14,598
Total equity	**25,887**	26,070
Other balance sheet liabilities	**6,073**	6,113
	330,474	332,876

Funding Uses

	At	
	30 Jun 2024	31 Dec 2023
	£m	£m
Uses		
Loans and advances to customers	**213,900**	211,887
Loans and advances to banks	**6,039**	7,980
Reverse repurchase agreements – non-trading	**7,698**	7,686
Cash collateral, margin and settlement accounts	**55**	112
Financial investments	**35,712**	26,315
Cash and balances with central banks	**53,833**	65,719
Other balance sheet assets	**13,237**	13,177
	330,474	332,876

Market risk

Overview

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

Market risk is measured using the standardised approach for position risk under CRR. There were no material changes to the policies and practices for the management of market risk in the first half of 2024.

Directors’ responsibility statement

The Directors are required to prepare the condensed consolidated interim financial statements (the ‘interim financial statements’) on a going concern basis unless it is not appropriate. They are satisfied that the group and bank have the resources to continue in business for the foreseeable future and that the interim financial statements continue to be prepared on a going concern basis.

The Directors, the names of whom are set out below, confirm that to the best of their knowledge:

- the interim financial statements have been prepared in accordance with UK adopted IAS 34 ‘Interim Financial Reporting’, IAS 34 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules (‘DTR’) sourcebook of the UK’s Financial Conduct Authority;
- this Interim Report 2024 gives a true, fair, balanced and understandable view of the assets, liabilities, financial position and profit or loss of the group; and
- this Interim Report 2024 includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2024 and their impact on the interim financial statements; and
  - a description of the principal risks and uncertainties for the remaining six months of the financial year.

Dame Clara Furse+ (Chairman), John David Stuart (Chief Executive Officer), James Coyle+, Mridul Hegde+, Oliver Corbett+, Simon Calver+, Janet Henry, Zoe Knight, Marie Claire Baird (Chief Financial Officer), Jenny Goldie-Scot+.

On behalf of the Board

Dame Clara Furse

Chairman

30 July 2024

HSBC UK Bank plc

Registered number 9928412

+ Independent non-executive Director

Independent review report to HSBC UK Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC UK Bank plc's condensed consolidated interim financial statements (the 'interim financial statements') in the Interim Report and Accounts of HSBC UK Bank plc for the six month period ended 30 June 2024 (the 'period').

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting', International Accounting Standard 34 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.
The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2024;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of changes in equity for the period then ended;
- the consolidated statement of cash flows for the period then ended; and
- the explanatory notes to the interim financial statements[1].

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

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ('ISRE (UK) 2410'). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Report and Accounts and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report and Accounts based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

Chartered Accountants
Birmingham
30 July 2024

1 *Certain notes to the interim financial statements have been presented elsewhere in the Interim report, rather than in the notes to the interim financial statements. These are cross-referenced from the financial statements and are identified as '(Reviewed)'. The relevant disclosures are included in the Financial summary on pages 7 to 9 and Risk review sections on pages 10 to 29.*

Interim condensed consolidated financial statements

Contents

Consolidated income statement

		Half-year to	
		30 Jun 2024	30 Jun 2023
	Notes	**£m**	£m
Net interest income		**4,003**	3,871
– interest income		**7,337**	6,012
– interest expense		**(3,334)**	(2,141)
Net fee income	2	**641**	649
– fee income		**788**	782
– fee expense		**(147)**	(133)
Net income from financial instruments held for trading or managed on a fair value basis		**219**	190
Gain on acquisition of subsidiary[1]		**—**	1,240
Other operating income		**63**	54
Net operating income before change in expected credit losses and other credit impairment charges		**4,926**	6,004
Change in expected credit losses and other credit impairment charges		**(49)**	(337)
Net operating income		**4,877**	5,667
Employee compensation and benefits		**(554)**	(487)
General and administrative expenses		**(1,148)**	(1,068)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(50)**	(59)
Amortisation and impairment of intangible assets		**(173)**	(151)
Total operating expenses		**(1,925)**	(1,765)
Operating profit		**2,952**	3,902
Profit before tax		**2,952**	3,902
Tax expense	4	**(779)**	(699)
Profit for the period		**2,173**	3,203
Attributable to:			
– ordinary shareholders of the parent company		**2,170**	3,200
– non-controlling interests		**3**	3
Profit for the period		**2,173**	3,203

1 *Gain of £1,240m recognised in respect of the acquisition of SVB UK in 1H23.*

The accompanying notes on pages 37 to 43 form an integral part of these condensed financial statements.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun 2024	30 Jun 2023
	£m	£m
Profit for the period	**2,173**	3,203
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	**18**	19
– fair value gains	**44**	61
– fair value gains transferred to the income statement on disposal	**(19)**	(37)
– expected credit losses recognised in the income statement	**1**	—
– income taxes	**(8)**	(5)
Cash flow hedges	**(345)**	(567)
– fair value losses	**(987)**	(1,300)
– fair value losses reclassified to the income statement	**508**	513
– income taxes	**134**	220
Exchange differences	**—**	7
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(13)**	(16)
– before income taxes	**(18)**	(20)
– income taxes	**5**	4
Other comprehensive expense for the period, net of tax	**(340)**	(557)
Total comprehensive income for the period	**1,833**	2,646
Attributable to:		
– ordinary shareholders of the parent company	**1,830**	2,643
– non-controlling interests	**3**	3
Total comprehensive income for the period	**1,833**	2,646

Consolidated balance sheet

		At	
		30 Jun 2024	31 Dec 2023
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**53,833**	65,719
Items in the course of collection from other banks		**328**	284
Financial assets mandatorily measured at fair value through profit or loss	6	**149**	135
Derivatives		**171**	178
Loans and advances to banks		**6,039**	7,980
Loans and advances to customers		**213,900**	211,887
Reverse repurchase agreements – non-trading		**7,698**	7,686
Financial investments		**35,712**	26,315
Prepayments, accrued income and other assets		**8,306**	8,321
Interests in joint ventures		**9**	8
Goodwill and intangible assets	8	**4,329**	4,363
Total assets		**330,474**	332,876
Liabilities and equity			
Liabilities			
Deposits by banks		**10,957**	10,843
Customer accounts		**266,841**	268,345
Repurchase agreements – non-trading		**2,907**	4,652
Items in the course of transmission to other banks		**508**	411
Derivatives		**47**	108
Debt securities in issue		**2,047**	1,988
Accruals, deferred income and other liabilities		**4,205**	4,124
Current tax liabilities		**386**	276
Provisions	9	**259**	350
Deferred tax liabilities		**1,030**	1,111
Subordinated liabilities		**15,400**	14,598
Total liabilities		**304,587**	306,806
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**6,899**	7,226
Retained earnings		**7,717**	7,573
Total shareholders' equity		**25,827**	26,010
Non-controlling interests		**60**	60
Total equity		**25,887**	26,070
Total liabilities and equity		**330,474**	332,876

Consolidated statement of changes in equity

	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Group re-organisation reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2024	**9,015**	**2,196**	**7,573**	**(172)**	**(293)**	**7,691**	**26,010**	**60**	**26,070**
Profit for the period	**—**	**—**	**2,170**	**—**	**—**	**—**	**2,170**	**3**	**2,173**
Other comprehensive income (net of tax)	**—**	**—**	**(13)**	**18**	**(345)**	**—**	**(340)**	**—**	**(340)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**18**	**—**	**—**	**18**	**—**	**18**
– cash flow hedges	**—**	**—**	**—**	**—**	**(345)**	**—**	**(345)**	**—**	**(345)**
– remeasurement of defined benefit asset/ liability	**—**	**—**	**(13)**	**—**	**—**	**—**	**(13)**	**—**	**(13)**
– exchange differences	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the period	**—**	**—**	**2,157**	**18**	**(345)**	**—**	**1,830**	**3**	**1,833**
Dividends to shareholders	**—**	**—**	**(2,017)**	**—**	**—**	**—**	**(2,017)**	**(3)**	**(2,020)**
Other movements[1]	**—**	**—**	**4**	**—**	**—**	**—**	**4**	**—**	**4**
At 30 Jun 2024	**9,015**	**2,196**	**7,717**	**(154)**	**(638)**	**7,691**	**25,827**	**60**	**25,887**
At 1 Jan 2023	9,015	2,196	4,834	(246)	(1,324)	7,691	22,166	60	22,226
Profit for the period	—	—	3,200	—	—	—	3,200	3	3,203
Other comprehensive income (net of tax)	—	—	(16)	26	(567)	—	(557)	—	(557)
– debt instruments at fair value through other comprehensive income	—	—	—	19	—	—	19	—	19
– cash flow hedges	—	—	—	—	(567)	—	(567)	—	(567)
– remeasurement of defined benefit asset/ liability	—	—	(16)	—	—	—	(16)	—	(16)
– exchange differences	—	—	—	7	—	—	7	—	7
Total comprehensive income for the period	—	—	3,184	26	(567)	—	2,643	3	2,646
Dividends to shareholders	—	—	(908)	—	—	—	(908)	(3)	(911)
Other movements[1]	—	—	9	—	—	—	9	—	9
At 30 Jun 2023	9,015	2,196	7,119	(220)	(1,891)	7,691	23,910	60	23,970

1 *Relates primarily to £4m of pension assets transferred from HSBC Global Services (UK) Limited and HSBC Bank plc (1H23: £6m).*
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 transferred from HSBC Bank plc.*

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2024	30 Jun 2023
	£m	£m
Profit before tax	**2,952**	3,902
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**223**	210
Net gain from investing activities	**(24)**	(23)
Gain on acquisition of SVB UK	**—**	(1,240)
Change in expected credit losses gross of recoveries and other credit impairment charges	**83**	367
Provisions including pensions	**(127)**	(122)
Share-based payment expense	**11**	9
Other non-cash items included in profit before tax	**(112)**	(42)
Elimination of exchange differences[1]	**97**	438
Changes in operating assets	**(36)**	1,372
Changes in operating liabilities	**(3,115)**	(17,239)
Contributions paid to defined benefit plans	**(1)**	(5)
Tax (paid)	**(614)**	(119)
Net cash from operating activities	**(663)**	(12,492)
Purchase of financial investments	**(17,662)**	(6,825)
Proceeds from the sale and maturity of financial investments	**8,666**	3,521
Purchase of property, plant and equipment	**(12)**	49
Purchase of intangible assets	**(142)**	(158)
Net cash flow from acquisition of SVB UK	**—**	1,023
Net cash from investing activities	**(9,150)**	(2,390)
Subordinated loan capital issued	**2,523**	1,000
Subordinated loan capital repaid	**(1,683)**	—
Dividends paid to shareholders of the parent company and non-controlling interests	**(2,020)**	(911)
Net cash from financing activities	**(1,180)**	89
Net decrease in cash and cash equivalents	**(10,993)**	(14,793)
Cash and cash equivalents at the beginning of the period	**73,381**	100,319
Exchange differences in respect of cash and cash equivalents	**(46)**	(177)
Cash and cash equivalents at the end of the period	**62,342**	85,349

Interest received was £7,169m (1H23: £5,775m) and interest paid was £3,194m (1H23: £1,920m).

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.*

Notes on the interim condensed financial statements

Contents

1 Basis of preparation and material accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC UK have been prepared on the basis of the policies set out in the 2023 financial statements. They have also been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as adopted by the UK. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC UK's financial position and performance since the end of 2023.

These interim condensed consolidated financial statements should be read in conjunction with the Annual Report and Accounts 2023, which was prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. Those financial statements were also prepared in accordance with International Financial Reporting Standards ('IFRS Accounting Standards') as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee.

At 30 June 2024, there were no IFRS Accounting Standards effective for the half-year to 30 June 2024 affecting these financial statements that were not approved for adoption in the UK by the UK Endorsement Board.There was no difference between IFRS Accounting Standards as adopted by the UK and IFRS Accounting Standards issued by the IASB in terms of their application to HSBC UK.

Standards applied during the half-year to 30 June 2024

There were no new standards or amendments to standards that had an effect on these interim condensed consolidated financial statements.

(b) Use of estimates and judgements

Management believes that our critical estimates and judgements are those that relate to impairment of amortised cost and FVOCI debt financial assets, provisions for liabilities, impairment of goodwill and defined benefit pension obligations. There were no material changes in the current period to any of the critical estimates and judgements disclosed in 2023, which are stated on pages 85 to 92 of the Annual Report and Accounts 2023.

(c) Composition of the group

There were no material changes in the composition of the group in the half-year to 30 June 2024.

(d) Future accounting developments

Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG related contingencies, and financial assets with certain non-recourse features. The Group is undertaking an assessment of the potential impact.

IFRS 18 'Presentation and Disclosure in Financial Statements'

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS Accounting Standard unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While IFRS 18 will not change recognition criteria or measurement bases, it might have a significant impact on presenting information in the financial statements, in particular the income statement. HSBC are currently assessing any impacts as well as data readiness before developing a more detailed implementation plan.

(e) Going concern

The financial statements are prepared on a going concern basis as the Directors are satisfied that the group and bank have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

(f) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 85 to 92 of the Annual Report and Accounts 2023, as are the methods of computation.

(g) Presentation of information

Certain disclosures have been presented elsewhere in the Interim Report 2024, rather than in the notes to the financial statements. These are marked as '(Reviewed)' as follows:

- Profit/loss before tax and balance sheet data for the period included in the 'Segmental reporting' section on page 8.
- Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees included in the 'Risk' section on page 20.
- Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation included in the 'Risk' section on pages 22 to 23.

2 Net fee income

	Half-year to	
	30 Jun 2024	30 Jun 2023
Net fee income by product	**£m**	£m
Account services	**140**	137
Funds under management	**63**	59
Cards	**287**	290
Credit facilities	**79**	69
Imports/exports	**16**	15
Insurance agency commission	**5**	5
Receivables finance	**40**	44
Other	**158**	163
Fee income	**788**	782
Less: fee expense	**(147)**	(133)
Net fee income	**641**	649
Net fee income by global business		
Wealth and Personal Banking	**287**	293
Commercial Banking	**464**	464
Global Banking and Markets	**(109)**	(108)
Corporate Centre	**(1)**	—

3 Post-employment benefit plans

We operate a pension plan for our employees called the HSBC Bank (UK) Pension Scheme ('the plan'). Details of the plan are explained on pages 95 to 97 of the Annual Report and Accounts 2023, and details of the policies and practices associated with the plan are explained on page 56 of the Annual Report and Accounts 2023.

Net assets/(liabilities) 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 30 Jun 2024	**19,746**	**(14,329)**	**5,417**
At 31 Dec 2023	20,851	(15,514)	5,337

Post-employment defined benefit plan actuarial financial assumptions

Key actuarial assumptions for the plan

	Discount rate	Inflation rate (RPI)	Inflation rate (CPI)	Rate of increase for pensions	Rate of pay increase
	%	%	%	%	%
At 30 Jun 2024	**5.23**	**3.35**	**2.90**	**3.24**	**3.65**
At 31 Dec 2023	4.65	3.23	2.67	3.14	3.42

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
At 30 Jun 2024	**SAPS S3[1]**	**26.1**	**27.6**	**28.3**	**29.8**
At 31 Dec 2023	SAPS S31[2]	26.2	27.7	28.3	29.8

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 2023 core projection model with an initial addition to improvement of 0.25% per annum and a long-term rate of improvement of 1.25% per annum, with a 0% weighting applied to 2020 and 2021 mortality experience and a 15% weighting to 2022 and 2023, reflecting updated long-term view on mortality improvements post-pandemic.*

2 *Self-administered pension scheme ('SAPS') S3 table, with different tables and multipliers adopted based on gender, pension amount and member status, reflecting the Scheme's actual mortality experience. Improvements are projected in accordance with the Continuous Mortality Investigation's CMI 2022 core projection model with an initial addition to improvement of 0.25% per annum and a long-term rate of improvement of 1.25% per annum, with a 0% weighting applied to 2020 and 2021 mortality experience and a 25% weighting applied to 2022, reflecting updated long-term view on mortality improvements post-pandemic.*

4 Tax

Tax charge

The effective tax rate is 26.4%, materially aligned to the statutory tax rate of 28%, and reflects tax relief on AT1 coupon payments and a tax credit from release of provisions. The effective tax rate for 1H23 was 17.9% and included a 8.5% reduction from a non-taxable gain arising on the acquisition of SVB UK in the period. Excluding this item, the effective tax rate was 26.4% and reflected the statutory blended tax rate of 27.75% for 1H23 (post the main rate of UK corporation tax increasing from 19% to 25% and the surcharge rate decreasing from 8% to 3% as of 1 April 2023), tax relief on AT1 coupon payments and a tax credit from the release of provisions for uncertain tax positions.

5 Dividends

On 18 July 2024, the Directors resolved to pay an interim dividend of £950m to the ordinary shareholders of the parent company in respect of the financial year ending 31 December 2024. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholders of the parent company

	Half-year to			
	30 Jun 2024		30 Jun 2023	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**28,239**	**1,412**	10,780	539
Interim dividend in respect of the current year	**9,800**	**490**	5,360	268
Total	**38,039**	**1,902**	16,140	807

Total coupons on capital securities classified as equity

		Half-year to	
		30 Jun 2024	30 Jun 2023
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**57**	50
– £1,100m	Dec 2024	**58**	51
Total		**115**	101

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values are consistent with those applied for the Annual Report and Accounts 2023.

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2024				At 31 Dec 2023			
	Valuation techniques				Valuation techniques			
	Quoted market price	Using observable inputs	With significant unobservable input		Quoted market price	Using observable inputs	With significant unobservable input	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Financial assets mandatorily measured at fair value through profit or loss	100	—	49	149	89	—	46	135
Derivatives	1	169	1	171	2	173	3	178
Financial investments	20,837	616	3	21,456	14,284	212	—	14,496
Liabilities								
Derivatives	—	47	—	47	—	108	—	108

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 2024 and 2023.

7 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements and financial investments are explained on pages 101 to 102 of the Annual Report and Accounts 2023.

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

	At 30 Jun 2024		At 31 Dec 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
	£m	£m	£m	£m
Assets				
Loans and advances to banks	6,039	6,039	7,980	7,979
Loans and advances to customers	213,900	212,164	211,887	209,462
Reverse repurchase agreements – non-trading	7,698	7,698	7,686	7,686
Financial investments – at amortised cost	14,256	13,824	11,819	11,570
Liabilities				
Deposits by banks	10,957	10,957	10,843	10,843
Customer accounts	266,841	266,841	268,345	268,345
Repurchase agreements – non-trading	2,907	2,907	4,652	4,652
Debt securities in issue	2,047	2,058	1,988	1,984
Subordinated liabilities	15,400	15,553	14,598	14,678

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

8 Goodwill

Impairment testing

As described on page 108 to 109 of the Annual Report and Accounts 2023, we test goodwill for impairment at 1 October each year and whenever there is an indication that goodwill may be impaired. At 30 June 2024, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

9 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
Provisions (excluding contractual commitments)					
At 1 Jan 2024	**30**	**34**	**89**	**74**	**227**
Additions	**4**	**9**	**5**	**6**	**24**
Amounts utilised	**(5)**	**(18)**	**(17)**	**(5)**	**(45)**
Unused amounts reversed	**(8)**	**(23)**	**(17)**	**(7)**	**(55)**
Exchange and other movements	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2024	**21**	**2**	**60**	**68**	**151**
Contractual commitments[1]					
At 1 Jan 2024					**123**
Net change in expected credit loss provision					**(15)**
At 30 Jun 2024					**108**
Total provisions					
At 1 Jan 2024					**350**
At 30 Jun 2024					**259**

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

Customer remediation

Customer remediation refers to HSBC UK's activities to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is often initiated by HSBC UK in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

Restructuring costs

The restructuring costs provision is for costs associated with the group's transformation programmes.

Legal proceedings and regulatory matters

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

10 Contingent liabilities, contractual commitments, guarantees and contingent assets

	At	
	30 Jun 2024	31 Dec 2023
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees:[1]	**1,067**	1,121
– performance and other guarantees	**2,214**	2,330
At the end of the period	**3,281**	3,451
Commitments:[2]		
– documentary credits and short-term trade-related transactions	**278**	187
– forward asset purchases and forward deposits placed	**265**	297
– standby facilities, credit lines and other commitments to lend	**76,057**	72,708
At the end of the period	**76,600**	73,192

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 £74bn of commitments at 30 June 2024 (31 December 2023: £70bn), to which the impairment requirements in IFRS 9 are applied where HSBC UK 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 9. 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 11.

Financial Services Compensation Scheme

The FSCS provides compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. The FSCS may impose a further levy on HSBC UK to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time.

UK branches of HSBC overseas entities

In December 2017, HM Revenue & Customs ('HMRC') challenged the VAT status of certain UK branches of HSBC overseas entities. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and HSBC filed appeals. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. As at July 2024, an in principle resolution to these appeals has been agreed with HMRC, which is not expected to have a material financial impact on HSBC UK.

11 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the Annual Report and Accounts 2023. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 30 June 2024. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

PPI

Although the FCA deadline for bringing PPI complaints has passed, court cases are being brought alleging historic PPI mis-selling.

Silicon Valley Bank ('SVB') litigation

In May 2023, First-Citizens Bank & Trust Company ('First Citizens') brought a lawsuit in the US District Court for the Northern District of California against HSBC UK and HINV, certain other HSBC companies and seven US-based HSBC employees who had previously worked for SVB. The lawsuit seeks $1bn in damages and alleges, among other things, that the HSBC companies conspired with the individual defendants to solicit employees from First Citizens and that the individual defendants took confidential information belonging to SVB and/or First Citizens. In July 2024, the court dismissed several of First Citizens' claims and also dismissed HSBC UK and other defendants for lack of jurisdiction, but allowed limited discovery into whether some of these defendants, including HSBC UK, may be subject to jurisdiction. The remaining claims are proceeding against certain defendants, including HINV.

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

Film Finance litigation

In June 2020, two separate investor groups issued claims against HSBC UK (as successor to HSBC Private Bank (UK) Limited ('PBGB')) in the High Court of England and Wales seeking damages for unspecified amounts in connection with PBGB's role in the development of Eclipse film finance schemes. In March 2024, HSBC UK reached a settlement with the first investor group, which has been paid. In April 2024, the High Court dismissed the second investor group's claims, and this matter is now closed.

UK collections and recoveries investigation

In 2019, the FCA began investigating HSBC Bank plc's, HSBC UK's and Marks and Spencer Financial Services plc's compliance with regulatory standards relating to collections and recoveries operations in the UK between 2017 and 2018. In May 2024, the FCA concluded its investigation and imposed a £6m fine on HSBC Bank plc, HSBC UK and Marks and Spencer Financial Services plc, which has been paid, and this matter is now closed.

Other regulatory reviews and litigation

HSBC UK and/or certain of its affiliates are also subject to enquiries, requests for information, reviews by various regulators, competition and law enforcement authorities, as well as litigation, in connection with various matters arising out of their businesses and operations. At the present time, HSBC UK does not expect the ultimate resolution of any of these matters to be material to the group's financial position; however, given the uncertainties involved in legal proceedings and regulatory matters, there can be no assurance regarding the eventual outcome of a particular matter or matters.

12 Transactions with related parties

There were no changes to the related party transactions described in the Annual Report and Accounts 2023 that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2024. All other related party transactions that took place in the half-year to 30 June 2024 were similar in nature to those disclosed in the Annual Report and Accounts 2023.

13 Events after the balance sheet date

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

On 18 July 2024, the Directors resolved to pay an interim dividend to the ordinary shareholders of the parent company of £950m in respect of the financial year ending 31 December 2024. No liability is recognised in the financial statements in respect of this dividend as described in Note 5.

14 Interim Report 2024 and statutory accounts

The information in this Interim Report 2024 is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Interim Report 2024 was approved by the Board of Directors on 30 July 2024. The statutory accounts of HSBC UK Bank plc for the year ended 31 December 2023 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP, has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Reconciliation of alternative performance measures

Return on equity and return on tangible equity

RoTE is measured as reported profit, divided by average reported equity adjusted for goodwill and intangibles impairment for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests. We provide RoTE in addition to RoE as a way of assessing our performance, which is closely aligned to our capital position. The measures are calculated in US dollars in line with the standard HSBC Group-wide calculation methodology.

The following table details the adjustments made to the reported results and equity:

Return on Equity and Return on Tangible Equity

	Half-year to	
	30 Jun 2024	30 Jun 2023
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**2,599**	3,801
Profit attributable to the ordinary shareholders, excluding goodwill and other intangible assets impairment	**2,599**	3,801
Equity		
Average total shareholders' equity	**32,605**	29,064
Effect of average preference shares, additional Tier 1 and other equity instruments	**(2,783)**	(2,719)
Average ordinary shareholders' equity	**29,822**	26,345
Effect of goodwill and other intangibles (net of deferred tax)	**(5,489)**	(5,291)
Average tangible ordinary shareholders' equity	**24,333**	21,054
Ratio	**%**	%
Return on equity (annualised)	**17.5**	29.1
Return on average tangible equity (annualised)[1,2]	**21.5**	36.4

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, RoTE would be 24.4% (1H23: 42.4%, 25.8% excluding the acquisition of SVB UK). We refer to this as Pension Adjusted RoTE.*

2 *Excluding the gain recognised on acquisition of SVB UK in 1H23, the 1H23 RoTE was 22.5%.*

Abbreviations

Currencies

£	British pound sterling
$	United States dollar

Abbreviations

1H24	First half of 2024
1H23	First half of 2023
4Q25	Fourth quarter of 2025
2Q24	Second quarter of 2024
A	
AI	Artificial Intelligence
AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1
B	
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
BoE	Bank of England
C	
CBDC	Central Bank Digital Currency
CET1	Common equity tier 1
CMB	Commercial Banking
CODM	Chief Operating Decision Maker
CPI	Consumer Price Index
CRR	Customer risk rating
CRR II	The regulatory requirements of the Capital Requirements Regulation and Directive, the CRR II regulation and the PRA Rulebook
D	
Dec	December
DPD	Days Past Due
DTR	Disclosure Guidance and Transparency Rules
E	
ECL	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied
ESG	Environmental, social and governance
EU	European Union
EVE	Economic value of equity
F	
FCA	Financial Conduct Authority (UK)
FSCS	Financial Services Compensation Scheme
FTE	Full-time equivalent staff
FVOCI	Fair value through other comprehensive income
FY	Full Year
FY23	Full Year 2023
G	
GBM	Global Banking and Markets
GDP	Gross domestic product
group	HSBC UK Bank plc together with its subsidiary undertakings
Group	HSBC Holdings together with its subsidiary undertakings
H	
HINV	HSBC Innovation Bank Limited
HMRC	HM Revenue & Customs
HMT	His Majesty's Treasury
HR	Human Resources
HSBC Group	HSBC Holdings together with its subsidiary undertakings
HSBC Holdings	HSBC Holdings plc
HSBC UK	HSBC UK Bank plc together with its subsidiary undertakings
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal capital adequacy assessment process
IFRS Accounting Standards	International Financial Reporting Standards as issued by the IASB
ILAAP	Internal liquidity adequacy assessment process
IT	Information technology
J	
Jan	January
Jun	June
L	
LCR	Liquidity coverage ratio
LFRF	Liquidity and Funding Risk Management Framework
LTV	Loan to value
M	
MREL	Minimum requirements for own funds and eligible liabilities
N	
NII	Net interest income
NPS	Net Promoter Score
NSFR	Net stable funding ratio
O	
OCI	Other comprehensive income
P	
PD	Probability of default
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSR	Payment Systems Regulator
PwC	PricewaterhouseCoopers LLP and its network of firms
R	
Revenue	Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit provisions, also referred to as revenue
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RWA	Risk-weighted asset
S	
SME	Small and medium-sized enterprise
SVB UK	Silicon Valley Bank UK Limited
U	
UK	United Kingdom
US	United States of America
V	
VAT	Value-added tax
W	
WPB	Wealth and Personal Banking

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