HSBC UK Bank plc

Pillar 3 Disclosures at 31 December 2023

HSBC

Contents

Presentation of information

This document comprises the 2023 Pillar 3 disclosures for HSBC UK Bank plc ('the bank') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries.

'HSBC Group' or 'the Group' within this document refer to HSBC Holdings plc together with its subsidiaries.

When used in the terms 'shareholders'equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC UK ordinary shares and capital securities issued by HSBC UK classified as equity.

The abbreviations '£m' and '£bn' represent millions and billions (thousands of millions) of GB pounds respectively.

A full list of abbreviations is provided on page 81.

This document contains certain forward-looking statements with respect to the financial condition,environment, social and governance ("ESG") related matters, result of operations and business of the group including the strategic priorities; financial, investment and targets.

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.

This document should be read in conjunction with our *Annual Report and Accounts 2023*, which has been published on the HSBC Group website at www.hsbc.com/investors.

Tables

Introduction

Pillar 3 Governance and disclosures

Regulatory framework for disclosure

Our *Pillar 3 Disclosures at 31 December 2023* comprises both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with part Eight of CRR II, and use the PRA's disclosure templates and instructions. They are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part. We refer to the regulatory requirements of the PRA Rulebook, Capital Requirements Regulation and Directive, and the CRR II regulation (EU 2019/876) as 'CRR II'.

We are supervised on a consolidated basis in the United Kingdom ('UK') by the Prudential Regulation Authority ('PRA').

We have calculated capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee ('Basel') as implemented in the UK. Any references to European Union ('EU') regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.

The Basel III framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by the requirements in Pillar 3 on market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel III framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Information relating to the rationale for withholding certain disclosures is provided in Appendix I.

Frequency and location

We publish our Pillar 3 disclosures quarterly on the Group website www.hsbc.com.

Regulatory reporting processes and controls

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

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

While this programme continues, there may be further impacts on some of our reported regulatory ratios, such as the common equity tier ('CET1'), liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR'), as we implement recommended changes and continue to enhance our controls across the process.

Comparatives and references

To give insight into movements during the year, we provide comparative figures, commentary on variances and flow tables for capital requirements. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk-weighted assets ('RWAs') by article 92(1) of the CRR II. Narratives are included to explain quantitative disclosures where necessary.

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 comparatives.

Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed are not applicable or immaterial to our activities, we omit them and follow the same approach for comparatives.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2023* or other locations.

Board Recruitment and Diversity Policy

Pillar 3 requires information relating to the number of directorships held by the Board, the recruitment policy for the selection of members of the management body and their actual skills knowledge and experience to be disclosed. This can be found in the Corporate Governance section on pages 62 to 65 of the *Annual Report and Accounts 2023*. Information on the Diversity Policy with regard to the management body can be found under the Chairman's Nominations and Remuneration Committee section on page 65 of the *Annual Report and Accounts 2023.*

Acquisition of Silicon Valley Bank UK Limited (now HSBC Innovation Bank Limited)

On 13 March 2023, HSBC UK Bank plc acquired Silicon Valley Bank UK Limited ('SVB UK') for a purchase price of £1. On acquisition, we performed a preliminary assessment of the fair value of the assets and liabilities purchased, and recognised a £1.24bn provisional gain on acquisition representing the difference between the consideration paid and the fair value of the net assets acquired. Further due diligence has been performed post acquisition resulting in the recognition of an additional gain of £0.07bn at 30 September 2023, as required by IFRS 3 'Business Combinations'. The acquisition increased RWAs by £8bn and the impact on our liquidity and Common Equity Tier 1 ('CET1') ratios was minimal.

For further detail, please see page 8 of the Annual Reports and accounts 2023.

Pillar 3 Governance

The HSBC UK Pillar 3 disclosures at 31 December 2023 comply with the PRA Rulebook. They are approved by the HSBC UK Bank plc Board of Directors ('HBUK Board') and are governed by the group's disclosure policy framework as approved by the Audit Committee ('AC').

This Pillar 3 Disclosure Report was approved by the HSBC UK Bank plc Board on 20 February 2024 and signed on its behalf by:

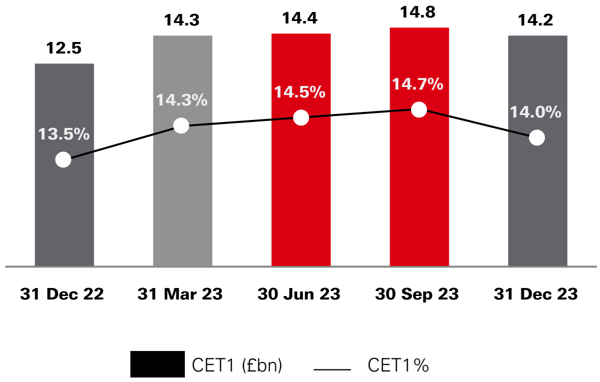
Claire Baird

Chief Financial Officer

Highlights

Common equity tier 1 ('CET1') increased to £14.2bn from £12.5bn at December 2022. During the year, we generated £2bn capital from profits net of dividends including provisional gain of £1.3bn on the acquisition of SVB UK.

Common equity tier 1: £14.2bn and 14.0%[1]

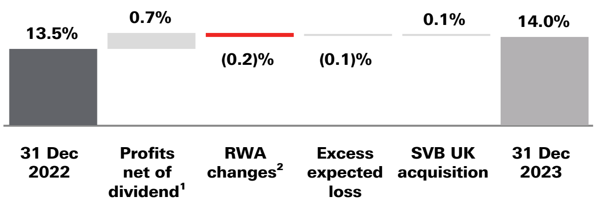


1 *Capital figures and ratios are reported on a CRR II transitional basis for capital instruments.*

CET1 ratio movement %

CET1 capital ratio increased to 14.0% from 13.5% at December 2022. Excluding the impact of 0.1% on account of acquisition of SVB UK, CET1 ratio increased 0.4% driven by capital generation through profits net of dividends partly offset by increase in RWAs and excess expected loss deduction.

Common equity tier 1 ratio movement, %



1 *Profits net of dividend excludes provisional gain of £1.3bn on acquisition of SVB UK.*
2 *RWA changes excludes £8bn of RWA increase on acquisition of SVB UK.*

RWAs

RWAs increased by £9bn. Excluding £0.5bn reduction due to foreign currency translation differences, RWAs increased by £9.5bn, primarily due to £8bn from the acquisition of SVB UK, operational risk RWAs combined with lending growth of £3bn and changes in asset quality by £1.7bn. This was partly offset by reductions due to new synthetic securitisation by £1bn, risk parameter refinements and data quality improvements by £1.5bn and model updates of £0.8bn.

Risk-weighted assets by risk types
£101,478m (31 December 2022: £92,413m)

Risk-weighted Assets 31 Dec 2023	£m	%
Credit risk	**87,503**	**86.2**
Operational risk	**13,607**	**13.4**
Market risk	**132**	**0.1**
Counterparty credit risk	**236**	**0.2**

Liquidity

The average HSBC UK Liquidity Cover Ratio ('LCR') and Net Stable Funding Ratio ('NSFR') were 201% and 158% respectively, which is above the regulatory minimum requirements. Liquidity and funding remains stable as at 31 Dec 2023. Decrease in LCR by 25% is mainly due to decrease in deposits by £10bn (retail: £8bn and corporate: £2bn) from cost of living impact on customers, corporate deleveraging and competitive pressures.

Liquidity

	At 31 Dec 2023	At 31 Dec 2022
LCR (%)	**201**	226
NSFR (%)	**158**	164

Key metrics

The table 1 below sets out the key regulatory metrics covering the group's available capital (including buffer requirements and ratios), RWAs, leverage ratio, LCR and NSFR. 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. The calculation for LCR is the average of the preceding 12 months for each quarter and for the NSFR it is the average of the preceding four quarters.

Table 1: Key metrics (KM1/IFRS9-FL)

		At				
Ref*		**31 Dec 2023**	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
	Available capital (£m)					
1	Common equity tier 1 ('CET1') capital	**14,224**	14,818	14,382	14,317	12,519
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**14,194**	14,794	14,382	14,317	12,484
2	Tier 1 capital	**16,479**	17,072	16,632	16,567	14,771
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**16,449**	17,048	16,632	16,567	14,736
3	Total capital	**19,772**	20,140	19,671	19,625	17,847
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19,742**	20,117	19,671	19,625	17,812
	Risk-weighted assets (£m)					
4	Total RWAs	**101,478**	100,563	99,098	99,930	92,413
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**101,450**	100,542	99,098	99,930	92,384
	Capital ratios (%)					
5	CET1	**14.0**	14.7	14.5	14.3	13.5
	CET1 as if IFRS 9 transitional arrangements had not been applied	**14.0**	14.7	14.5	14.3	13.5
6	Tier 1	**16.2**	17.0	16.8	16.6	16.0
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**16.2**	17.0	16.8	16.6	16.0
7	Total capital	**19.5**	20.0	19.9	19.6	19.3
	Total capital as if IFRS 9 transitional arrangements had not been applied	**19.5**	20.0	19.9	19.6	19.3
	Additional own funds requirements based on Supervisory Review and Evaluation Process ('SREP') as a percentage of RWAs (%)					
UK-7a	Additional CET1 SREP requirements	**2.2**	2.2	2.2	2.2	2.2
UK-7b	Additional additional tier 1 ('AT1') SREP requirements	**0.7**	0.8	0.8	0.8	0.8
UK-7c	Additional tier 2 ('T2') SREP requirements	**1.0**	1.0	1.0	1.0	1.0
UK-7d	Total SREP own funds requirements	**11.9**	12.0	12.0	12.0	12.0
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	**2.5**	2.5	2.5	2.5	2.5
9	Institution-specific countercyclical capital buffer	**1.9**	1.9	1.0	0.9	1.0
UK-10a	Other systemically important institution buffer	**1.0**	1.0	1.0	1.0	1.0
11	Combined buffer requirement	**5.4**	5.4	4.5	4.4	4.5
UK-11a	Overall capital requirements	**17.3**	17.4	16.5	16.4	16.5
12	CET1 available after meeting the total SREP own funds requirements	**7.3**	8.0	7.8	7.6	6.8
	Leverage ratio					
13	Total exposure measure excluding claims on central banks (£m)	**270,907**	266,036	264,561	261,676	251,500
14	Leverage ratio excluding claims on central banks (%)	**6.1**	6.4	6.3	6.3	5.9
	Average exposure measure excluding claims on central banks (£m)	**267,547**	265,422	260,415	250,848	252,024
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**6.1**	6.4	6.3	6.3	5.9
14b	Leverage ratio including claims on central banks (%)	**4.8**	5.0	4.8	4.7	4.2
14c	Average leverage ratio excluding claims on central banks (%)	**6.4**	6.4	6.5	6.2	5.9
14d	Average leverage ratio including claims on central banks (%)	**5.1**	5.0	4.9	4.5	4.2
14e	Countercyclical leverage ratio buffer (%)	**0.6**	0.7	0.3	0.3	0.3
EU-14d	Leverage ratio buffer requirement (%)	**1.0**	1.1	0.7	0.7	0.7
EU-14e	Overall leverage ratio requirements (%)	**4.3**	4.4	3.9	3.9	3.9
	Liquidity coverage ratio ('LCR')					
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£m)	**94,765**	98,181	102,757	107,018	110,722
UK-16a	Cash outflows – total weighted value (£m)	**53,058**	53,363	53,629	53,632	53,740
UK-16b	Cash inflows – total weighted value (£m)	**5,823**	5,702	5,393	5,009	4,793
16	Total net cash outflow (£m)	**47,234**	47,661	48,236	48,623	48,946
17	LCR (%)	**201**	206	213	220	226
	Net stable funding ratio ('NSFR')					
18	Total available stable funding (£m)	**264,729**	266,701	269,524	272,487	273,802
19	Total required stable funding (£m)	**167,523**	166,740	166,895	166,886	166,551
20	NSFR (%)	**158**	160	162	163	164

The group is subject to the basic minimum capital requirements set out in Article 92 (1) of CRR II, namely that it maintains:

- Common equity tier 1 capital at 4.5% of RWAs;
- Tier 1 capital (CET1 capital plus AT1 capital) at 6% of RWAs; and
- Total capital (Tier 1 capital plus Tier 2 capital) at 8% of RWAs.

Rows UK-7a to UK-7c in the table above show how the group's additional capital requirement (set by the PRA at 3.92% of RWAs) is allocated to each of these tiers of capital. Row UK-7d adds the total of these additional requirements to the CRR II minimum requirements to give a total capital SREP requirement of 11.9%. Rows 8 to 11 set out buffer requirements to which the group is also subject (and which must be satisfied by CET1). The group's overall capital requirement in Row UK-11a, 17.3%, is the sum of these buffer requirements and the minimum capital requirements calculated above in Row UK-7d.

IFRS9 transitional arrangements

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9 'Financial Instruments', including paragraph four of article 473a. These arrangements permit banks to add back to their capital bases a proportion of the impact that IFRS 9 has upon their loan loss allowances. Unless otherwise stated, our capital and ratios are presented under these arrangements.

Capital buffers

Our geographical breakdown and institution-specific countercyclical capital buffer ('CCyB') disclosure is provided on page 64 of this document. The HSBC Group global systemically important bank ('G-SIB') Indicators disclosure is published annually on the HSBC website, www.hsbc.com.

Regulatory developments

Basel 3.1

In November 2022, the PRA published a consultation on the implementation of Basel III Reforms ('Basel 3.1') in the UK. While the PRA's proposals were generally consistent with the Basel Committee's ('Basel') final rules, there were some limited adjustments to Basel's final rules, such as the treatment of unrated corporates under the standardised approach to credit risk and the removal of modelled approaches for sovereign exposures. It also proposed to remove certain EU's concessions under the current framework, such as the small and medium sized enterprise ('SME') and infrastructure supporting factors, in addition to amending the scope of the EU's exemptions from the credit valuation adjustment ('CVA') charges.

In the consultation, the PRA set out its intention to implement the package on 1 January 2025; however, in September 2023, the PRA confirmed that it intended to move the final implementation date by six months to 1 July 2025. To ensure full implementation occurs by 1 January 2030, the PRA also confirmed that it will reduce the output floor transitional period from five to four-and-a-half years.

In October 2023, the PRA published a discussion paper on the securitisation framework. This includes policy options on the calibration of the standardised methodology for securitisation RWAs. Any changes will be implemented at the same time as the Basel 3.1 package.

Near-final rules in relation to the market risk, credit valuation adjustments, counterparty risk and operational risk elements of the Basel 3.1 package were published by the PRA in December 2023, together with information on the planned review of the Pillar 2 framework.

Near final rules on the remaining parts of Basel 3.1 package, namely credit risk, the output floor and reporting and disclosure, are expected to be published by the PRA in the second quarter of 2024. A further consultation on the securitisation framework is expected in the second half of 2024.

Future Regulatory Framework

In December 2023, the PRA published a consultation paper on its approach to policymaking. While this broadly follows the proposals in its discussion paper issued in September 2022, a key addition is the PRA's proposal to be "largely compliant" with international standards in its policymaking.

Environmental, Social and Governance ('ESG') risk

Globally, regulators and standard setters continue to publish multiple proposals and discussion papers on ESG topics. In recent years, this included multiple consultations on sustainability-related disclosure across jurisdictions including the UK, EU, US, HK and globally through the IFRS foundation and Basel.

The work by Basel on climate related financial risks across all three pillars of regulation, supervision and disclosure is ongoing. The initial work by Basel concluded that climate risk drivers, including physical and transition risks, can be captured in traditional financial risk categories such as credit, market, operational and liquidity risks. As part of its wider efforts to improve ESG risk coverage, Basel published a consultation paper in November 2023 on a Pillar 3 disclosures framework for climate related financial risks with a proposed effective date of 1 January 2026.

Risk management

Our Risk Management Framework

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, both financial and non-financial.

The framework fosters continuous monitoring of the risk environment, and promotes risk awareness and a sound operational and strategic decision making and escalation process. It also ensures we have a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities, with clear accountabilities. We continue to actively review and develop our Risk Management Framework and enhance our approach to managing risk, through our activities with regard to: people and capabilities; governance; reporting and management information; credit risk management models; and data.

Further information on our Risk Management Framework, and the management and mitigation of our top and emerging risks is set out from page 15 of our Annual Report and Accounts 2023.

Material risks

Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile. In addition to the disclosure in this document, other information on material risks can be found in the *Annual Report and Accounts 2023*. This includes:

- Credit risk (refer to page 24 of the *Annual Report and Accounts 2023*).
- Treasury risk (refer to page 52 of the *Annual Report and Accounts 2023*).
- Market risk (refer to page 59 of the *Annual Report and Accounts 2023*).
- Resilience risk (refer to page 60 of the *Annual Report and Accounts 2023*).
- Regulatory compliance risk (refer to page 60 of the *Annual Report and Accounts 2023*).
- Financial crime risk (refer to page 61 of the *Annual Report and Accounts 2023*).
- Model risk (refer to page 62 of the *Annual Report and Accounts 2023*).
- Climate Risk (refer to page 59 of the *Annual Report and Accounts 2023*).
- Geopolitical and macroeconomic risks (refer to page 17 of the *Annual Report and Accounts 2023*).
- Technology and cybersecurity risk (refer to page 19 of the *Annual Report and Accounts 2023*).
- Digitalisation and technological advances risk (refer to page 20 of the *Annual Report and Accounts 2023*).
- ESG risk management on page 19 of the Annual Report *and Accounts 2023*.

Culture

We understand the importance of a strong culture. Our culture refers to our shared attitudes, values and standards that shape behaviours, HSBC's culture is rooted in our purpose and shaped by our values: We value difference; We succeed together; We take responsibility; We get it done. These guide our actions, underpin our culture and clarify the behaviours we promote, reward and encourage. The behaviours underpinning our values are designed to support a wide range of outcomes – including a risk culture that is effective in managing risk and that leads to good conduct outcomes. We all lead by example and it is fundamental that our leaders and managers set and role model expectations around behaviour and identifying and managing risk.

Remuneration

Our culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are consistent with prudent risk management and encouraging the right behaviours, such as through the use of balanced scorecards.

Information about the HSBC UK Chairman's Nominations and Remuneration Committee membership and activities is available on page 65 of the *Annual Report and Accounts 2023*.

Risk governance

Our Board has ultimate responsibility for the effective management of risk and approves HSBC UK's risk appetite. It is advised on risk-related matters by the Risk Committee.

Executive accountability for the ongoing monitoring, assessment and management of the enterprise-wide risk environment, and the effectiveness of the Risk Management Framework resides with HSBC UK's Chief Risk Officer ('CRO'). The CRO is supported by the Risk Management Meeting ('RMM') of HSBC UK's Executive Committee.

Further information is available on page 15 of the Annual Report and Accounts 2023.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. These senior managers are supported by global functions. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures.

We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates the reporting and escalation to the RMM.

Further information about our three lines of defence model and executive risk governance structures is available on page 15 of our Annual Report and Accounts 2023.

Risk appetite

Risk appetite is a key component of our management of risk. It describes the type and quantum of risk that the group is willing to accept in achieving its strategic goals. At HSBC, risk appetite is managed through a global risk appetite framework and articulated in a risk appetite statement ('RAS'), which is reviewed and approved by the Board twice per year to make sure it remains fit for purpose.

Our risk appetite informs our strategic and financial planning process, defining the desired forward-looking risk profile of the group. It is also integrated within other risk management tools, such as stress testing, to ensure consistency in risk management.

Further information about our risk appetite is set out from page 15 of our Annual Report and Accounts 2023.

Stress testing

HSBC UK operates a wide-ranging stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators and those to meet our own internal requirements. Our stress testing is supported by dedicated teams and infrastructure.

Our testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks. Both the internal and regulatory driven stress tests help us to understand and mitigate risks, and informs our decision about capital and liquidity levels.

Our stress testing programme is overseen by the Risk Committee, and results are reported, where appropriate, to the RMM and Risk Committee.

Further information about stress testing is set out on page 16 of our Annual Report and Accounts 2023.

HSBC UK Risk function

We have a dedicated Risk function, headed by the HSBC UK Chief Risk Officer, which is responsible for our Risk Management Framework. This includes establishing policy, monitoring risk profiles, and providing forward-looking risk identification and management capabilities. HSBC UK Risk is made up of sub-functions covering both Financial and Non-financial risks. It is independent from the global businesses in order to provide challenge, appropriate oversight and balance in risk versus return decisions. Our Risk function operates in line with the three lines of defence model.

Risk management and internal control systems

The Board of Directors is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types it is willing to accept in achieving HSBC UK's business objectives. On behalf of the Board, the Risk Committee has responsibility for the oversight of risk management and internal controls other than for financial reporting, and the Audit Committee has responsibility for oversight of risk management and internal controls over financial reporting.

The Board of Directors, through the Risk Committee and the Audit Committee receive regular updates and confirmation that management has taken, or was taking, the necessary actions to remediate any failings or weaknesses identified through the operation of our framework of controls.

HSBC UK's key risk management and internal control procedures are described on page 16 of the Annual Report and Accounts 2023.

Risk measurement and reporting systems

The risk measurement and reporting systems used within HSBC UK are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed, and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems used within HSBC UK are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and functioning appropriately. Risk information system development is a key responsibility of the Group's Global Risk and Compliance function, while the development and operation of risk rating and management systems and processes are ultimately subject to the oversight of the Group's Board.

The ongoing programme to strengthen our regulatory reporting also considers the efficacy of our systems. Potential enhancements identified through this programme will be assessed and, where appropriate, implemented under the governance framework.

We continue to invest significant resources in IT systems and processes in order to maintain and improve our risk management capabilities.

Risk measurement and reporting structures deployed at Group level are applied throughout global businesses and major operating subsidiaries including HSBC UK through a common operating model for integrated risk management and control. This model sets out the respective responsibilities of Group, global business, region and entity level risk and compliance functions in respect of risk governance and oversight, approval authorities and lending guidelines, global and local scorecards, management information and reporting, and relations with third parties such as regulators, rating agencies and auditors.

Risk analytics and model governance

HSBC UK Risk, in conjunction with HSBC Global Risk, manages a number of analytics disciplines supporting the development and management of models, including those for risk rating, behavioural scoring, economic capital and stress testing; covering different risk types and business segments.

The analytics functions formulate technical responses to industry developments and regulatory policy in the field of risk analytics, and develop HSBC UK's risk models. The HSBC UK Model Risk Committee ('MRC') is the primary committee responsible for the oversight of Model Risk within HSBC UK. It serves an important role in providing strategic direction on the management of models and their associated risks to HSBC UK's businesses and is an essential element of the governance structure for model risk management. MRC is supported by Model Oversight Forums ('MOFs') which are responsible for model risk management within their functional areas, including Wholesale credit risk, Wealth and Personal banking risk, and Finance.

The MRC meets regularly and reports to HSBC UK RMM. It is chaired by the HSBC UK CRO and membership includes senior executives from Risk, Finance, Compliance and the UK Businesses. Through its oversight of the MOFs, it identifies emerging risks for all aspects of the risk rating system, ensuring that model risk is managed within our risk appetite statement, and formally advises the HSBC UK RMM on any material model-related issues.

Material models are also subject to an independent validation process and governance oversight by the Model Risk Management team within Risk. The team provides robust challenge to the modelling approaches used across HSBC UK. It also ensures that the performance of those models is transparent and that any limitations are visible to key stakeholders. The development and use of data and models to meet local requirements are the responsibility of our businesses or functions, as well as regional and/or local entities under the governance of our own management, subject to overall Group policy and oversight.

Regulatory and other expectations continue to evolve with regards to our capability and practice of model risk management. We have significantly enhanced our model risk management practices and continue to invest in developing and embedding these capabilities.

Further information is available on page 62 of the Annual Report and Accounts 2023.

Linkage to the Annual Report and Accounts 2023

This section demonstrates the links between the group's audited financial balance sheet and its regulatory counterpart. In addition to this reconciliation, presented here in Table 2, our Pillar 3 Disclosures at 31 December 2023 also provide:

- an analysis of the regulatory reporting balance sheet by risk type; and
- a reconciliation between accounting valuation and the regulatory measure of exposure.

Structure of the regulatory group

The regulatory consolidation is consistent with the accounting consolidation, with the following exceptions:

The regulatory consolidation excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk weighted as securitisation positions for regulatory purposes.

Participating interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and risk-weighted assets in accordance with the PRA's regulatory requirements.

Table 2 below presents the reconciliation between HSBC UK's audited financial balance sheet and the regulatory scope of consolidation. The Regulatory Balance Sheet value cannot be directly reconciled to other tables within the regulatory scope of consolidation as it is not a measure of RWA; rather, it is derived from an accounting measure.

Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2)

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		65,719	—	64	65,783
Items in the course of collection from other banks		284	—	—	284
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		135	—	—	135
Derivatives		178	—	—	178
Loans and advances to banks	*l*	7,980	—	—	7,980
Loans and advances to customers	*l*	211,887	—	—	211,887
– of which: expected credit losses on IRB portfolios	*h*	*(1,617)*			*(1,617)*
Reverse repurchase agreements – non-trading		7,686	—	—	7,686
Financial investments		26,315	(170)	—	26,145
Prepayments, accrued income and other assets		8,321	9	18	8,348
– of which: retirement benefit assets	*j*	*5,337*	—	—	*5,337*
Interests in associates and joint ventures		8	—	(8)	—
Goodwill and intangible assets	*e*	4,363	—	—	4,363
Total assets at 31 Dec 2023		**332,876**	**(161)**	**74**	**332,789**
Liabilities and equity					
Deposits by banks		10,843	—	65	10,908
Customer accounts		268,345	265	—	268,610
Repurchase agreements – non-trading		4,652	—	—	4,652
Items in course of transmission to other banks		411	—	—	411
Derivatives		108	—	—	108
Debt securities in issue		1,988	(426)	—	1,562
Accruals, deferred income and other liabilities		4,124	—	8	4,132
Current tax liabilities		276	—	—	276
Provisions		350	—	—	350
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*h*	*117*			*117*
Deferred tax liabilities		1,111	—	—	1,111
Subordinated liabilities		14,598	—	—	14,598
– of which: included in tier 2	*o*	*3,293*	—	—	*3,293*
Total liabilities at 31 Dec 2023		**306,806**	**(161)**	**73**	**306,718**
Equity					
Called up share capital	*a*	—	—	—	—
Share premium account	*a*	9,015	—	—	9,015
Other equity instruments	*m*	2,196	—	—	2,196
Other reserves	*c, g*	7,227	—	1	7,228
Retained earnings	*b, c*	7,573	—	—	7,573
Total shareholders' equity		**26,010**	**—**	**1**	**26,011**
Non-controlling interests	*n*	60	—	—	60
Total equity at 31 Dec 2023		**26,070**	**—**	**1**	**26,071**
Total liabilities and equity at 31 Dec 2023		**332,876**	**(161)**	**74**	**332,789**

† *The references (a)–(o) identify balance sheet components that are used in the calculation of regulatory capital in 'Table 6: Composition of regulatory own funds (UK CC1)'. This table shows such items at their accounting values, which may be subject to analysis or adjustment in the calculation of regulatory capital shown in Table 6.*

Table 3 below lists the entities to which different treatments are applied under the regulatory scope of consolidation.

Table 3: Principal entities with a different regulatory and accounting scope of consolidation (LI3)

			At 31 Dec 2023			
			Method of regulatory consolidation			
	Principal activities	Method of accounting consolidation	Fully consolidated	Proportional consolidation	Neither consolidated nor deducted	Deducted from capital subject to thresholds
Associates						
Vaultex UK Limited	Cash management services	Equity		●		
SPEs excluded from the regulatory consolidation[1]						
Neon Portfolio Distribution DAC	Securitisation	Fully consolidated			●	

1 *These SPEs issued no or* de minimis *share capital.*

Measurement of regulatory exposures

This section sets out the main reasons why the measurement of regulatory exposures is not directly comparable with the financial information presented in the *Annual Report and Accounts 2023*.

The Pillar 3 Disclosures at 31 December 2023 are prepared in accordance with regulatory capital and liquidity adequacy concepts and rules, while the *Annual Report and Accounts 2023* are prepared in accordance with International Financial Reporting Standards ('IFRSs').

The regulatory exposure value includes an estimation of risk, and is expressed as the amount expected to be outstanding were the counterparty to default. Moreover, regulatory exposure classes are based on different criteria from accounting asset types and are therefore not comparable on a line by line basis.

Table 4 below provides a breakdown of the assets and liabilities in the balance-sheet under the regulatory scope of consolidation, breaking them down into the risk types that form the basis for regulatory capital requirements and the link to regulatory exposure value.

Table 4: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

			Carrying value of items				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation[1]	Subject to the credit risk framework	Subject to the counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
	£m	£m	£m	£m	£m	£m	£m
Assets							
Cash and balances at central banks	**65,719**	**65,783**	**65,783**	**—**	**—**	**—**	**—**
Items in the course of collection from other banks	**284**	**284**	**284**	**—**	**—**	**—**	**—**
Financial assets designated and otherwise mandatorily measured at fair value	**135**	**135**	**46**	**89**	**—**	**—**	**—**
Derivatives	**178**	**178**	**—**	**178**	**—**	**178**	**—**
Loans and advances to banks	**7,980**	**7,980**	**7,980**	**—**	**—**	**—**	**—**
Loans and advances to customers	**211,887**	**211,887**	**208,788**	**—**	**3,098**	**—**	**—**
Reverse repurchase agreements – non-trading	**7,686**	**7,686**	**—**	**7,686**	**—**	**—**	**—**
Financial investments	**26,315**	**26,144**	**25,996**	**—**	**149**	**—**	**—**
Assets held for sale	**9**	**9**	**9**	**—**	**—**	**—**	**—**
Prepayments, accrued income and other assets	**8,312**	**8,340**	**2,870**	**120**	**—**	**—**	**5,350**
Interests in associates and joint ventures	**8**	**—**	**—**	**—**	**—**	**—**	**—**
Goodwill and intangible assets	**4,363**	**4,363**	**—**	**—**	**—**	**—**	**4,363**
Total assets at 31 Dec 2023	**332,876**	**332,789**	**311,756**	**8,073**	**3,247**	**178**	**9,713**
Liabilities							
Deposits by banks	**10,843**	**10,908**					**10,908**
Customer accounts	**268,345**	**268,611**					**268,611**
Repurchase agreements – non-trading	**4,652**	**4,652**		**4,652**			**—**
Items in course of transmission to other banks	**411**	**411**					**411**
Derivatives	**108**	**108**		**108**		**108**	**—**
Debt securities in issue	**1,988**	**1,562**					**1,562**
Accruals, deferred income, and other liabilities	**4,124**	**4,132**		**263**			**3,869**
Current tax liabilities	**276**	**276**					**276**
Provisions	**350**	**350**	**122**				**228**
Deferred tax liabilities	**1,111**	**1,111**	**(260)**				**1,371**
Subordinated liabilities	**14,598**	**14,598**					**14,598**
Total liabilities at 31 Dec 2023	**306,806**	**306,719**	**(138)**	**5,023**	**—**	**108**	**301,834**

1 *The amounts shown in the column 'Carrying values under scope of regulatory consolidation' do not equal the sum of the amounts shown in the remaining columns of this table for line items 'Derivatives', as some of the assets in this column are subject to regulatory capital charges for counterparty credit risk ('CCR') and market risk.*

Table 5 explains the main differences between regulatory exposure amounts by each risk type and the on and off-balance sheet treatment.

Table 5: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

			of which items subject to:			
		Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework
		£m	£m	£m	£m	£m
1	Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)[1]	323,076	311,756	8,073	3,247	178
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)[1]	4,885	(138)	5,023	—	108
3	**Total net amount under the regulatory scope of consolidation**	318,191	311,895	3,050	3,247	70
4	Off-balance-sheet amounts	76,382	74,974	—	1,408	—
6	Differences due to different netting rules, other than those already included in row 2	1,563	1,910	(347)	—	—
7	Differences due to consideration of provisions	1,732	1,732	—	—	—
8	Differences due to the use of credit risk mitigation techniques ('CRMs')	(402)	0	33	(434)	—
9	Differences due to credit conversion factors	(33,461)	(33,461)	—	—	—
10	Differences due to Securitisation with risk transfer	(211)	—	—	(211)	—
11	Other differences	824	9	814	—	—
12	**Exposure amounts considered for regulatory purposes 31 Dec 2023**	364,618	357,058	3,550	4,010	70

1 *Excludes amounts subject to deduction from capital or not subject to regulatory capital requirements.*

Explanations of differences between accounting and regulatory exposure amounts

Off-balance sheet amounts

Off-balance sheet amounts include undrawn portions of committed facilities, various trade finance commitments and guarantees.

Differences in netting rules

The increase from carrying value due to differences in netting rules is the reversal of amounts deducted from gross loans and advances to customers in the published financial statements in accordance with the offsetting criteria of IAS 32 'Financial instruments: presentation'.

Differences due to consideration of provisions

The carrying value of assets is net of credit risk adjustments. The regulatory exposure value under internal ratings based ('IRB') approaches is before deducting credit risk adjustments.

Differences due to the use of credit risk mitigation techniques (CRM)

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas the accounting value is before such deductions.

Differences due to credit conversion factors

Exposure value of off balance sheet items are calculated after the application of the relevant conversion factors as defined in CRR II.

Differences due to securitisation with risk transfer

Securitisation exposure is based on risk transfer of exposure at default ('EAD') of underlying loans instead of accounting value.

Other differences

Other differences primarily relate to exposure at default ('EAD') modelling impacts and IFRS9 transitional arrangements applicable to standardised credit risk exposures.

Treasury risk management

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.

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

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

Further information regarding our approach to treasury risk management including capital risk, liquidity risk, interest rate in the banking book, non-trading foreign exchange exposure and pension risk, are available on page 53 to 56 of the Annual Report and Accounts 2023.

Capital risk

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

HSBC Holdings plc is the sole primary provider of equity capital to the group and provides non-equity capital where necessary. Capital generated in excess of planned dividends is returned to the shareholder in the form of special dividends. Capital securities are regularly reviewed for compliance with regulatory requirements and guidelines. A list of the main features of our capital instruments in accordance with Annex VIII of CRR is also published on our website at www.hsbc.com with reference to our balance sheet on 31 December 2023. The full terms and conditions of our securities are also available at www.hsbc.com.

Liquidity risk

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

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') 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 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 Global Treasury uses a number of measures to monitor and control interest rate risk in the banking book, including:

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

Further information regarding IRRBB can be found under market risk section of this document.

Non-trading book foreign exchange exposures

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

HSBC UK has no such foreign operations.

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

Capital and RWAs

Own funds

Table 6 below provides a detailed breakdown of the key components of our CET1, tier 1 and tier 2 capital and the regulatory adjustments impacting our capital base on a transitional basis.

Table 6: Composition of Regulatory own funds (UK CC1)

			At	
			31 Dec 2023	31 Dec 2022
		Ref †	**£m**	£m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**9,015**	9,015
	– ordinary shares	*a*	**9,015**	9,015
2,3	Retained earnings, accumulated other comprehensive income (and other reserves)	*b,c*	**11,425**	9,522
UK-5a	Independently reviewed net profits net of any foreseeable charge or dividend	*b*	**1,963**	896
6	**Common equity tier 1 capital before regulatory adjustments**		**22,403**	19,433
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments(negative amount)		**(17)**	(18)
8	Intangible assets (net of related deferred tax liability)(negative amount)	*e*	**(4,363)**	(4,257)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	*g*	**294**	1,324
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	**(280)**	(144)
13	Any increase in equity that results from securitised assets (negative amount)			0
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing[2]	*i*		0
15	Defined-benefit pension fund assets(negative amount)	*j*	**(3,843)**	(3,785)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	*l*	**30**	(33)
28	**Total regulatory adjustments to common equity tier**		**(8,179)**	(6,914)
29	**Common equity tier 1 ('CET1') capital**		**14,224**	12,519
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**2,196**	2,196
31	*– classified as equity under IFRSs*	*m*	**2,196**	2,196
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	*n*	**59**	56
36	**Additional tier 1 capital before regulatory adjustments**		**2,255**	2,252
44	**Additional tier 1 capital**		**2,255**	2,252
45	**Tier 1 capital (T1 = CET1 + AT1)**		**16,479**	14,771

Table 6: Composition of Regulatory own funds (UK CC1) (continued)

			At	
			31 Dec 2023	31 Dec 2022
		Ref †	**£m**	£m
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	o	**3,293**	3,076
51	**Tier 2 capital before regulatory adjustments**		**3,293**	3,076
58	**Tier 2 capital**		**3,293**	3,076
59	**Total capital (TC = T1 + T2)**		**19,772**	17,847
60	**Total Risk exposure amount**		**101,478**	92,413
	Capital ratios and buffers (%)			
61	Common equity tier 1 (as a percentage of total risk exposure amount)		**14.0**	13.5
62	Tier 1 (as a percentage of total risk exposure amount)		**16.2**	16.0
63	Total capital(as a percentage of total risk exposure amount)		**19.5**	19.3
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)		**12.1**	11.2
65	– capital conservation buffer requirement		**2.5**	2.5
66	– countercyclical buffer requirement		**1.9**	1.0
67	– systemic risk buffer requirement		**1.0**	1.0
68	**Common equity tier 1 available to meet buffers**		**7.3**	6.8
	Amounts below the threshold for deduction (before risk weighting)			
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		**268**	290
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**137**	51
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**450**	451

† *The references (a)–(o) identify balance sheet components in 'Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2)', which is used in the calculation of regulatory capital. This table shows how they contribute to the regulatory capital calculation. Their contribution may differ from their accounting value in Table 2 as a result of adjustment or analysis to apply regulatory definitions of capital.*

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

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

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

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

Leverage ratio

The risk of excessive leverage is managed as part of the UK risk appetite framework and monitored using a leverage ratio metric within our risk appetite statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC UK is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric.

This is to help ensure that any excessive risk is highlighted, assessed and mitigated appropriately.

The risk appetite profile report is presented monthly to the Risk Management Meeting.

Our approach to risk appetite is described on page 15 of the *Annual Report and Accounts 2023.*

The table 7 provides a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure.

Table 7: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1-LRSum)

		At	
		31 Dec 2023 £m	31 Dec 2022 £m
1	Total assets as per published financial statements	**332,876**	342,441
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(87)**	87
4	(Adjustment for exemption of exposures to central banks)	**(72,388)**	(99,171)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(2)**	(9)
7	Adjustment for eligible cash pooling transactions	**1,910**	2,175
8	Adjustment for derivative financial instruments	**259**	(117)
9	Adjustment for securities financing transactions ('SFTs')	**1,359**	1,289
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**19,152**	18,123
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**(8,455)**	(8,219)
12	Other adjustments	**(3,717)**	(5,099)
13	**Total leverage ratio exposure**	**270,907**	251,500

Table 8 below provides a detailed breakdown of the components of our leverage exposure, including the split of the on and off-balance sheet exposures, leverage ratios, minimum requirements and buffers on an IFRS 9 transitional basis. The components of the leverage ratio on an average basis are included below in accordance with the UK leverage ratio framework.

Table 8: Leverage ratio common disclosure (UK LR2-LRCom)

		At	
		31 Dec 2023 £m	31 Dec 2022 £m
	On-balance sheet exposures (excluding derivatives and securities financing transactions ('SFTs'))		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**323,117**	331,644
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	**353**	1,123
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(353)**	(1,123)
6	(Asset amounts deducted in determining tier 1 capital (leverage))	**(8,455)**	(8,219)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**314,662**	323,425
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**71**	62
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**366**	366
13	**Total derivative exposures**	**437**	428
	SFT exposures		
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**10,936**	11,039
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(3,157)**	(3,458)
16	Counterparty credit risk exposure for SFT assets	**1,265**	1,115
18	**Total securities financing transaction exposures**	**9,044**	8,696
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**76,643**	74,059
20	(Adjustments for conversion to credit equivalent amounts)	**(57,491)**	(55,936)
22	**Off-balance sheet exposures**	**19,152**	18,123
	Capital and total exposures measure		
23	**Tier 1 capital (leverage)**	**16,479**	14,771
24	Total exposure measure including claims on central banks	**343,295**	350,671
UK-24a	(-) Claims on central banks excluded	**(72,388)**	(99,171)
UK-24b	**Total exposure measure excluding claims on central banks**	**270,907**	251,500

Table 8: Leverage ratio common disclosure (UK LR2-LRCom) (continued)

		At	
		31 Dec 2023	31 Dec 2022
		£m	£m
	Leverage ratios		
25	**Leverage ratio excluding claims on central banks (%)**	**6.08**	5.90
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**6.07**	5.90
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**6.08**	5.90
UK-25c	Leverage ratio including claims on central banks (%)	**4.80**	4.20
26	Regulatory minimum leverage ratio requirement (%)	**3.25**	3.25
	Additional leverage ratio disclosure requirements – leverage ratio buffers		
27	Leverage ratio buffer (%)	**1.00**	0.69
UK-27a	– *of which:* *G-SII or O-SII additional leverage ratio buffer (%)*	***0.35***	*0.35*
UK-27b	*countercyclical leverage ratio buffer (%)*	***0.65***	*0.34*
	Additional leverage ratio disclosure requirements – disclosure of mean values		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**5,381**	9,176
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**7,779**	7,580
UK-31	Average total exposure measure including claims on central banks	**336,943**	351,117
UK-32	Average total exposure measure excluding claims on central banks	**267,547**	252,024
UK-33	Average leverage ratio including claims on central banks	**5.06**	4.20
UK-34	Average leverage ratio excluding claims on central banks	**6.38**	5.90

Table 9 below provides a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures by asset class.

Table 9: Leverage ratio – split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3-LRSpl)

		At	
		31 Dec 2023	31 Dec 2022
		£m	£m
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**250,375**	231,350
UK-3	Banking book exposures, of which:	**250,375**	231,350
UK-5	Exposures treated as sovereigns	**24,631**	16,063
UK-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	**25**	—
UK-7	Institutions	**2,920**	2,765
UK-8	Secured by mortgages of immovable properties	**129,105**	125,226
UK-9	Retail exposures	**14,968**	14,159
UK-10	Corporates	**62,126**	57,066
UK-11	Exposures in default	**2,357**	3,202
UK-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**14,243**	12,869

Our leverage ratio increased to 6.1% from 5.9% at December 2022, mainly from £2bn of capital generation through profit net of dividends partly offset by an increase in exposures of £19.4bn (including the provisional gain of £1.3bn and increase in exposures by £9.6bn on acquisition of SVB UK).

At 31 December 2023, UK minimum leverage ratio requirement of 3.25% was supplemented by a leverage ratio buffer of 1%,which consists of an additional leverage ratio buffer of 0.4% and a countercyclical leverage ratio buffer of 0.6%. These buffers translated into capital value of £1bn and £1.6bn respectively. We exceeded these leverage requirements.

The average leverage ratio was 6.4% at 31 December 2023, up from 5.9% at 31 December 2022, primarily due to an increase of £2.2bn in average tier 1 capital. This was partly offset by increase in the average leverage exposure by £15.5bn which was mainly due to growth in the average balance sheet.

Pillar 1 minimum capital requirements and RWA flow

Pillar 1 covers the minimum capital resource requirements for credit risk, market risk and operational risk. Credit risk includes Counterparty credit risk ('CCR') and securitisation requirements. These requirements are expressed in terms of RWAs.

This table provides information on the scope of permissible approaches and our adopted approach by risk type.

Risk category	Scope of permissible approaches	Our approach
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories, and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	HSBC UK has adopted the IRB approach for the majority of its business.For Retail, advanced IRB is primarily used, with Foundation used for most of the Wholesale portfolio Some portfolios remain on the standardised approach: – following supervisory prescription of a non-advanced approach; or – under exemptions from IRB treatment.
Counterparty credit risk	CCR covers the risk of counterparty default and potential mark-to-market losses in derivatives and SFTs. The potential for mark-to-market losses is known as CVA risk. The exposure value, for a given netting set, is determined either by the credit risk mitigation ('CRM') approach, Standardised Approach For Counterparty Risk ('SA-CCR'), or by internal model method ('IMM'). For CVA, permissible approaches are the Standardised Approach ('SA') and Advanced Approach.	HSBC UK uses mark to market approach under which derivatives exposures are calculated per the Standardised Approach for Counterparty Credit Risk ('SA-CCR')
Equity	Capital requirements for non-trading book holdings of equity can be assessed under the standardised or IRB approaches.	For HSBC UK, all equity exposures are assessed under the standardised approach.
Securitisation	The framework prescribes the following approaches: – internal ratings-based approach ('SEC-IRBA'); – standardised approach ('SEC-SA'); – external ratings-based approach ('SEC-ERBA'); and – internal assessment approach ('IAA').	Under the framework: – Our originated positions are reported under SEC-IRBA. – Where broader approach categorisation is required, 'SEC-IRBA' is mapped to the IRB approach and the remaining three approaches are mapped to the standardised category. – Our investments in third party follows the standardised approach ('SEC-SA') and the external ratings-based approach ('SEC-ERBA').
Market risk	Market risk capital requirements can be determined under either the standard rules or the internal models approach ('IMA'). The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include stressed VaR, incremental risk charge ('IRC') and comprehensive risk measure.	For HSBC UK, the market risk capital requirement is measured using the standardised rules.
Operational risk	The Basel Committee allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	HSBC UK uses the standardised approach in determining operational risk capital requirements.

Table 10 below shows total RWAs and the corresponding total own funds requirement split by risk type, and represents the minimum capital charge set at 8% of RWAs by Article 92(1) of CRR II. Other counterparty credit risk includes RWAs on securities financing transactions.

Table 10: Overview of risk-weighted exposure amounts (OV1)

		At			
		31 Dec 2023	30 Sep 2023	**31 Dec 2023**	30 Sep 2023
		RWAs	RWAs	**Total own funds requirement**	Total own funds requirement
		£m	£m	**£m**	£m
1	**Credit risk (excluding counterparty credit risk)**	**86,778**	88,219	**6,942**	7,059
2	– standardised approach	**10,918**	10,682	**873**	855
3	– foundation IRB approach	**40,034**	41,296	**3,203**	3,304
4	– slotting approach	**5,146**	5,633	**412**	451
5	– advanced IRB approach	**30,680**	30,608	**2,454**	2,449
6	**Counterparty credit risk**	**236**	167	**19**	13
7	– standardised approach	**94**	61	**8**	5
UK-8a	– risk exposure amount for contributions to the default fund of a central counterparty	**105**	83	**8**	7
UK-8b	– credit valuation adjustment	**21**	17	**2**	1
9	– Other counterparty credit risk	**16**	6	**1**	—
16	**Securitisation exposures in the non-trading book(after the cap)**	**725**	354	**58**	28
17	– internal ratings-based approach ('SEC-IRBA')	**588**	221	**47**	18
18	– external ratings-based approach ('SEC-ERBA') including internal assessment approach ('IAA')	**4**	4	**—**	—
19	– standardised approach ('SEC-SA')	**133**	129	**11**	10
20	**Position, foreign exchange and commodities risks (Market risk)**	**132**	82	**11**	7
21	– standardised approach	**132**	82	**11**	7
23	**Operational risk**	**13,607**	11,741	**1,089**	939
UK-23b	– standardised approach	**13,607**	11,741	**1,089**	939
29	**Total**	**101,478**	100,563	**8,119**	8,046
24	*– of which: Amounts below the thresholds for deduction (subject to 250% risk weight)*[1]	***652***	*564*	***52***	*45*

1 *These balances are included in row 2 of the table and include thresholds for the recognition of significant investments and deferred tax assets.*

Credit risk, including amounts below the thresholds for deduction

Excluding £0.3bn decrease due to foreign currency translation differences, Credit risk RWAs decreased by £1.1bn during the quarter.

Standardised approach RWAs increased by £0.2bn mainly due to increase in corporate lending.

Foundation approach RWAs decreased by £1.2bn mainly due to implementation of a new synthetic securitisation structure.

Slotting approach RWAs decreased by £0.5bn mainly due to credit migrations.

Securitisation

RWAs increased by £0.3bn due to implementation of a new synthetic securitisation structure.

Operational risk

RWAs increased by £1.9bn due to higher average revenue in the annual calculation of operational risk.

Table 11 below presents the drivers of the quarterly movements of credit risk RWAs (excluding counterparty credit risk) under the IRB approach. Securitisation positions and Non-credit obligation assets ('NCOAs') are not included in this table.

Table 11: RWA flow statements of credit risk exposures under the IRB approach (CR8)

		Quarter ended			
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
		£m	£m	£m	£m
1	**RWAs at the opening period**	**76,465**	74,917	75,087	75,151
2	Asset size	**(69)**	240	1,494	(34)
3	Asset quality	**29**	1,330	16	442
4	Model updates	**(94)**	(102)	(616)	—
5	Methodology and policy	**(1,209)**	(162)	(867)	(316)
7	Foreign exchange movements	**(222)**	242	(197)	(156)
9	**RWAs at the closing period**	**74,900**	76,465	74,917	75,087

Excluding £0.2bn decrease due to foreign translation differences, RWAs under the IRB approach decreased by £1.3bn during the quarter.

- Asset size movements decreased RWAs by £0.1bn mainly due to reduction in corporate lending.
- The £0.1bn decrease in RWAs for model updates was due to movement of a run-off card portfolio to the standardised approach following the approval from the PRA.
- Changes in methodology and policy caused £1.2bn decrease in RWAs mainly due to implementation of a new synthetic securitisation structure.

Pillar 2 and ICAAP

Pillar 2

We conduct an Internal Capital Adequacy Assessment Process ('ICAAP') annually to determine a point-in-time and forward-looking assessment of our capital requirements and adequacy given our business strategy, risk profile, risk appetite and capital plan. The ICAAP supports the identification, measurement and monitoring of HSBC UK's risks and helps to ensure that capital resources are held against those risks. It forms an integral part of HSBC UK's capital management and is embedded within the planning process and governance framework. Our base capital plan undergoes stress testing, coupled with our economic capital framework and other risk management practices, is used to assess our internal capital adequacy requirements and inform our view of our internal capital planning buffer. The ICAAP is formally approved by the HSBC UK Board of Directors each year, which has the ultimate responsibility for the effective management of risk and approval of UK's risk appetite. The ICAAP is reviewed by the PRA as part of the joint risk assessment and decision process, during the Supervisory Review and Evaluation Process. This process occurs periodically to enable the regulator to define the Total Capital Requirement ('TCR') or minimum capital requirements for HSBC UK (comprising Pillar 1 and Pillar 2A) and to define the PRA buffer, where required. The PRA buffer is not intended to duplicate the Capital Requirements Regulation and Directive (CRD IV) buffers and, where necessary, will be set according to vulnerability in a stress scenario, as identified and assessed through the annual PRA stress testing exercise.

Pillar 2 comprises Pillar 2A and Pillar 2B. Pillar 2A considers, in addition to the minimum capital requirements for Pillar 1 risks described above, any supplementary requirements for those risks and any further risks not captured by Pillar 1. The risk categories covered under Pillar 2A depend on the specific circumstances of a firm and the nature and scale of its business.

Pillar 2B consists of guidance from the PRA on the capital buffer a firm would require in order to remain above its TCR in adverse circumstances that may be largely outside the firm's normal and direct control; for example, during a period of severe but plausible downturn stress, when asset values and the firm's capital surplus may become strained. This is quantified via a PRA buffer requirement the PRA may consider necessary. The assessment of this is informed by stress tests and a rounded judgement of a firm's business model, also taking into account the PRA's view of a firm's options and capacity to protect its capital position under stress, such as, through capital generation. Where the PRA assesses that a firm's risk management and governance are significantly weak, it may also increase the PRA buffer to cover the risks posed by those weaknesses until they are addressed. The PRA buffer is intended to be drawn upon in times of stress, and its use is not of itself a breach of capital requirements that would trigger automatic restrictions on distributions. In specific circumstances, the PRA should agree a plan with a firm for its restoration over an agreed timescale.

Internal capital adequacy assessment

The HSBC UK Board manages the HSBC UK ICAAP and, together with the HSBC UK RMM and Risk Committee, it examines the bank's risk profile from a regulatory and economic capital viewpoint. They aim to ensure that capital resources:

- remain sufficient to support our risk profile and outstanding commitments;
- meet current regulatory requirements, and that HSBC UK is well placed to meet those expected in the future;
- allow the group to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with our strategic and operational goals, and our shareholder and investor expectations.

The minimum regulatory capital that we are required to hold is determined by the rules and guidance established by the PRA. These capital requirements are a primary factor in influencing and shaping the business planning process, in which RWA targets are established for our global businesses in accordance with the Group's strategic direction and risk appetite.

Economic capital is the internally calculated capital requirement that we deem necessary to support the risks to which we are exposed. The economic capital assessment is a more risk-sensitive measure than the regulatory minimum and takes account of the substantial diversification of risk accruing from our different operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into our risk management processes. Our economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon to a 99.95% level of confidence for our banking and trading activities, to a 99.5% level of confidence for our pension risk, and to a 99.9% level of confidence for our operational risks.

Preserving our strong capital position remains a priority, and the level of integration of our risk and capital management helps to optimise our response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk (including CCR), market risk, operational risk, interest rate risk in the banking book ('IRRBB'), pension risk and structural foreign exchange risk. Other risks are also qualitatively assessed, including climate risk, model risk, group risk and strategic risk.

Credit risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products. such as guarantees and commitments, and from the group's holdings of debt and other securities.

Further explanation of the group's approach to managing credit risk (including details of past due and impaired exposures, and its approach to credit risk impairments) can be found from page 24 of the Annual Report and Accounts 2023.

Credit quality

Our credit risk profile is diversified across a number of asset classes with a credit quality profile concentrated in the higher quality bands.

The IFRS 9 stages have the following characteristics:

- Stage 1: These financial assets are unimpaired and without a significant increase in credit risk. 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. 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. A lifetime ECL is recognised; and
- Purchased or originated credit-impaired ('POCI'): Financial assets purchased or originated at a deep discount are seen to reflect incurred credit losses. A lifetime ECL is recognised. These exposures are included in stage 3 in the table below.

Credit-impaired (stage 3) exposures are disclosed on page 42 to 52 of the Annual Report and Accounts 2023.

Table 12 below breaks down the gross carrying amount of the performing and non-performing exposures and related impairments, and details of the collateral and guarantees received within each of the FINREP categories and definitions.

Table 12: Performing and non-performing exposures and related provisions (CR1)

		Gross carrying amount/ nominal amount[1,2]						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures			Accumulated partial write-off	On performing exposures	On non-performing exposures
			of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*			
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
005	Cash balances at central banks and other demand deposits	73,041	73,041	—	2	—	2	—	—	—	(2)	—	(2)	—	—	—
010	**Loans and advances**	217,992	175,615	42,289	3,911	—	3,911	(1,046)	(291)	(755)	(663)	—	(663)	(501)	167,066	2,279
030	General governments	89	89	—	—	—	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	1,390	1,387	—	—	—	—	—	—	—	—	—	—	—	1,103	—
050	Other financial corporations	14,069	13,147	837	78	—	78	(16)	(10)	(6)	(35)	—	(35)	—	7,446	32
060	Non-financial corporations	60,084	46,227	13,857	2,878	—	2,878	(527)	(162)	(365)	(428)	—	(428)	(501)	29,173	1,699
070	*– of which: SMEs*	10,446	8,621	1,825	1,202	—	1,202	(119)	(35)	(84)	(95)	—	(95)	(22)	7,420	992
080	Households	142,360	114,765	27,595	955	—	955	(503)	(119)	(384)	(200)	—	(200)	—	129,344	548
090	**Debt securities**	26,145	26,145	—	—	—	—	(1)	(1)	—	—	—	—	—	911	—
100	Central banks	316	316	—	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	22,085	22,085	—	—	—	—	(1)	(1)	—	—	—	—	—	619	—
120	Credit institutions	3,550	3,550	—	—	—	—	—	—	—	—	—	—	—	292	—
130	Other financial corporations	194	194	—	—	—	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	76,237	66,069	5,093	406	—	341	(57)	(31)	(26)	(64)	—	(45)	—	14,226	48
170	General governments	6	1	—	—	—	—	—	—	—	—	—	—	—	—	—
180	Credit institutions	125	85	1	—	—	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	4,012	2,882	802	20	—	20	(2)	(1)	(1)	—	—	—	—	177	—
200	Non-financial corporations	30,669	22,252	3,714	317	—	252	(47)	(22)	(25)	(62)	—	(43)	—	4,401	37
210	Households	41,425	40,849	576	69	—	69	(8)	(8)	—	(2)	—	(2)	—	9,648	11
220	**Total at 31 Dec 2023**	393,415	340,870	47,382	4,319	—	4,254	(1,104)	(323)	(781)	(729)	—	(710)	(501)	182,203	2,327

Table 12: Performing and non-performing exposures and related provisions (CR1) (continued)

		Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures			Non-performing exposures			Accu-mulated partial write-off	On perfor-ming expo-sures	On non-perfo-rming expo-sures
			of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*			
		£m	*£m*	*£m*	£m	*£m*	*£m*	£m	*£m*	*£m*	£m	*£m*	*£m*	£m	£m	£m
005	Cash balances at central banks and other demand deposits	99,963	*99,962*	*1*	4	—	*4*	—	—	—	(2)	—	*(2)*	—	—	—
010	Loans and advances	209,583	*162,811*	*46,700*	4,544	—	*4,544*	(1,190)	*(249)*	*(941)*	(723)	—	*(723)*	(385)	164,411	2,659
030	General governments	3	*3*	—	—	—	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	1,634	*1,632*	—	—	—	—	—	—	—	—	—	—	—	1,242	—
050	Other financial corporations	8,846	*8,641*	*135*	8	—	*8*	(4)	*(2)*	*(2)*	(1)	—	*(1)*	—	6,961	7
060	Non-financial corporations	61,314	*45,790*	*15,524*	3,696	—	*3,696*	(503)	*(135)*	*(368)*	(533)	—	*(533)*	(385)	30,447	2,166
070	*– of which: SMEs*	*16,257*	*13,130*	*3,127*	*1,574*	—	*1,574*	*(190)*	*(59)*	*(131)*	*(128)*	—	*(128)*	—	*11,268*	*774*
080	Households	137,786	*106,745*	*31,041*	840	—	*840*	(683)	*(112)*	*(571)*	(189)	—	*(189)*	—	125,761	486
090	Debt securities	16,093	*16,093*	—	—	—	—	(1)	*(1)*	—	—	—	—	—	304	—
100	Central banks	277	*277*	—	—	—	—	—	—	—	—	—	—	—	—	—
110	General governments	13,432	*13,432*	—	—	—	—	(1)	*(1)*	—	—	—	—	—	304	—
120	Credit institutions	2,379	*2,379*	—	—	—	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	5	*5*	—	—	—	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	73,849	*63,564*	*4,953*	312	—	*259*	(66)	*(29)*	*(37)*	(37)	—	*(31)*	—	16,977	39
170	General governments	7	*2*	—	—	—	—	—	—	—	—	—	—	—	—	—
180	Credit institutions	71	*56*	*12*	—	—	—	—	—	—	—	—	—	—	—	—
190	Other financial corporations	1,392	*1,032*	*88*	—	—	—	—	—	—	—	—	—	—	140	—
200	Non-financial corporations	30,063	*20,524*	*4,488*	225	—	*172*	(57)	*(20)*	*(37)*	(37)	—	*(31)*	—	5,260	30
210	Households	42,316	*41,950*	*365*	87	—	*87*	(9)	*(9)*	—	—	—	—	—	11,577	9
220	Total at 31 Dec 2022	399,488	*342,430*	*51,654*	4,860	—	*4,807*	(1,257)	*(279)*	*(978)*	(762)	—	*(756)*	(385)	181,692	2,698

1 Includes reverse repos and settlement accounts.
2 The staging analysis is non-additive as totals contain instruments not eligible for staging, such as those held at fair value through profit and loss.

Table 13 below presents the residual maturity breakdown of on- and off-balance sheet loans and debt securities

Table 13: Maturity of exposures (CR1-A)

		Net exposure value[1]					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**
1	Loans and advances	**49,708**	**42,418**	**60,146**	**143,275**	**—**	**295,547**
2	Debt securities	**—**	**5,495**	**7,891**	**12,736**	**—**	**26,122**
3	**Total as at 31 Dec 2023**	**49,708**	**47,913**	**68,037**	**156,011**	**—**	**321,669**
1	Loans and advances	47,604	42,018	56,917	140,436	—	286,975
2	Debt securities	—	1,841	4,449	9,888	—	16,178
3	Total at 31 Dec 2022	47,604	43,859	61,366	150,324	—	303,153

1 Includes on-balance sheet reverse repos and excludes assets held for sale, cash balances with central banks and other demand deposits, securitisation positions and settlement accounts.

Table 14 shows changes in gross carrying amount of on-balance sheet non-performing loans and advances during the period.

Table 14: Changes in the stock of non-performing loans and advances (CR2)

		Twelve months to 31 Dec	
		2023	2022
		Gross carrying value	Gross carrying value
		£m	£m
10	**Initial stock of non-performing loans and advances**	**4,544**	4,028
20	Inflows to non-performing portfolios	**2,521**	2,580
30	Outflows from non-performing portfolios	**(654)**	(880)
40	Outflows due to write-offs	**(662)**	(490)
50	Outflow due to other situations[1]	**(1,838)**	(694)
60	**Final stock of non-performing loans and advances**	**3,911**	4,544

1 *Other situations include foreign exchange movements, repayments and assets held for sale in default.*

Non-performing and forborne exposures

The European Banking Authority ('EBA') defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. For our retail portfolios a past due credit obligation is recognised where any amount of principal, interest or fees has not been paid at the date it was due (or cycle date). Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Annual Report and Accounts 2023* definition of stage 3 credit-impaired is aligned to the EBA's definition of non-performing exposures. The IFRS 9 accounting standard Expected credit losses are classified as regulatory specific credit risk adjustments.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions to a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. Our definition of forborne captures non-payment related concessions.

Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ('financial difficulties').

Under the EBA definition, exposures cease to be reported as forborne if they pass three tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

In the *Annual Report and Accounts 2023*, forborne exposures are reported within the table 'Forborne loans and advances to customers at amortised cost by stage allocation'.

The PRA acknowledged that, whilst they are not applicable to or in the UK, the prudential aspects of these guidelines broadly represent good credit risk management standards.

Table 15 breaks down performing and non-performing forborne exposures by FINREP product and counterparty sector and showing the gross carrying amount, accumulated impairments and collateral and financial guarantees received against these exposures.

Table 15: Credit quality of forborne exposures (CQ1)

		Gross carrying amount/ nominal amount				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
			Non-performing forborne						
		Performing forborne	**Total**	***of which: defaulted***	***of which: impaired***	**On performing forborne exposures**	**On non performing forborne exposures**	**Total**	***of which: forborne non-performing exposures***
		£m	**£m**	***£m***	***£m***	**£m**	**£m**	**£m**	***£m***
010	**Loans and advances**	**1,159**	**1,518**	***1,518***	***1,518***	**(59)**	**(227)**	**1,370**	***723***
050	Other financial corporations	**—**	**11**	***11***	***11***	**—**	**—**	**1**	***1***
060	Non-financial corporations	**1,010**	**1,099**	***1,099***	***1,099***	**(40)**	**(125)**	**1,121**	***498***
070	Households	**149**	**408**	***408***	***408***	**(19)**	**(102)**	**248**	***224***
090	**Loan commitments given**	**47**	**169**	***169***	***169***	**—**	**—**	**49**	***35***
100	**Total at 31 Dec 2023**	**1,206**	**1,687**	***1,687***	***1,687***	**(59)**	**(227)**	**1,419**	***758***
010	Loans and advances	746	1,430	*1,430*	*1,430*	(53)	(213)	1,147	*675*
050	Other financial corporations	—	1	*1*	*1*	—	—	1	*1*
060	Non-financial corporations	587	1,053	*1,053*	*1,053*	(21)	(117)	919	*469*
070	Households	159	376	*376*	*376*	(32)	(96)	227	*205*
090	Loan commitments given	31	94	*94*	*94*	—	—	50	*28*
100	Total at 31 Dec 2022	777	1,524	*1,524*	*1,524*	(53)	(213)	1,197	*703*

Table 16 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 31 December 2023 was 1.8% calculated in line with the EBA guidelines.

Table 16: Credit quality of performing and non-performing exposures by past due days (CQ3)

		Gross carrying amount/nominal amount[1]											
		Performing exposures			Non-performing exposures								
		Total £m	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
005	**Cash balances at central banks and other demand deposits**	73,041	73,041	—	2	2	—	—	—	—	—	—	*2*
010	**Loans and advances**	217,992	217,757	235	3,911	2,425	321	941	64	151	9	—	*3,911*
030	General governments	89	89	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	1,390	1,390	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	14,069	14,041	28	78	78	—	—	—	—	—	—	*78*
060	Non-financial corporations	60,084	59,983	101	2,878	1,832	185	766	64	22	9	—	*2,878*
070	*– of which: SMEs*	*10,446*	*10,364*	*82*	*1,202*	*367*	*110*	*709*	*14*	*2*	—	—	*1,202*
080	Households	142,360	142,254	106	955	515	136	175	—	129	—	—	*955*
090	**Debt securities**	26,145	26,145	—	—	—	—	—	—	—	—	—	—
100	Central banks	316	316	—	—	—	—	—	—	—	—	—	—
110	General governments	22,085	22,085	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	3,550	3,550	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	194	194	—	—	—	—	—	—	—	—	—	—
150	**Off-balance-sheet exposures**	76,237	N/A	N/A	406	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*406*
160	Central banks	—	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—
170	General governments	6	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—
180	Credit institutions	125	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	—
190	Other financial corporations	4,012	N/A	N/A	20	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*20*
200	Non-financial corporations	30,669	N/A	N/A	317	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*317*
210	Households	41,425	N/A	N/A	69	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*69*
220	**Total at 31 Dec 2023**	**393,415**	**316,943**	**235**	**4,319**	**2,427**	**321**	**941**	**64**	**151**	**9**	**—**	***4,319***
005	Cash balances at central banks and other demand deposits	99,963	99,963	—	4	4	—	—	—	—	—	—	*4*
010	Loans and advances	209,583	209,326	257	4,544	2,878	286	1,199	17	162	1	*1*	*4,544*
030	General governments	3	3	—	—	—	—	—	—	—	—	—	—
040	Credit institutions	1,634	1,634	—	—	—	—	—	—	—	—	—	—
050	Other financial corporations	8,846	8,846	—	8	8	—	—	—	—	—	—	*8*
060	Non-financial corporations	61,314	61,173	141	3,696	2,427	173	1,049	17	28	1	*1*	*3,696*
070	*– of which: SMEs*	*16,257*	*16,137*	*120*	*1,574*	*401*	*163*	*1,007*	*3*	—	—	—	*1,574*
080	Households	137,786	137,670	116	840	443	113	150	—	134	—	—	*840*
090	Debt securities	16,093	16,093	—	—	—	—	—	—	—	—	—	—
100	Central banks	277	277	—	—	—	—	—	—	—	—	—	—
110	General governments	13,432	13,432	—	—	—	—	—	—	—	—	—	—
120	Credit institutions	2,379	2,379	—	—	—	—	—	—	—	—	—	—
130	Other financial corporations	5	5	—	—	—	—	—	—	—	—	—	—
150	Off-balance-sheet exposures	73,849	N/A	N/A	312	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	*312*
160	Central banks	—	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	—
170	General governments	7	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	—
180	Credit institutions	71	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	—
190	Other financial corporations	1,392	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	—
200	Non-financial corporations	30,063	N/A	N/A	225	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	*225*
210	Households	42,316	N/A	N/A	87	N/A	N/A	N/A	N/A	N/A	N/A	*N/A*	*87*
220	Total at 31 Dec 2022[2]	399,488	325,382	257	4,860	2,882	286	1,199	17	162	1	*1*	*4,860*

1 *Reporting process improvements resulted in the re-classification of some exposures from Corporate SME to Corporate Other in Dec 23.*
2 *Prior period balances have been restated for consistency with current period.*

The table 17 below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet, whilst the accumulated negative changes is the accumulated impairment or negative change in the value of the collateral since initial recognition, including amortisation in the case of property, plant and equipment and investment properties.

Table 17: Collateral obtained by taking possession and execution processes (CQ7)

		At 31 Dec 2023		At 31 Dec 2022	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
		£m	£m	£m	£m
2	Other than property, plant and equipment	2	—	1	—
3	Residential immovable property	2	—	1	—
8	**Total**	2	—	1	—

Concentration risk

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

We have a number of global businesses with a broad range of products. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing. The following tables present information on the concentration of exposures by geography and industry.

Table 18 shows the credit quality of on- and off- balance sheet exposures by geography. The geographical breakdown is based on the country of the immediate counterparty.

Table 18: Quality of non-performing exposures by geography (CQ4)

		Gross carrying/Nominal amount						
		Total	*of which: non-performing*	*of which: defaulted*	*of which: subject to impairment*	Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		£m	£m	£m	£m	£m	£m	£m
010	**On balance sheet exposures[1]**	248,048	*3,911*	*3,911*	*247,960*	(1,710)	—	—
020	United Kingdom	222,280	*3,810*	*3,810*	*222,194*	(1,655)	—	—
030	United States	9,449	*4*	*4*	*9,449*	(8)	—	—
040	Luxembourg	2,223	—	—	*2,223*	(5)	—	—
050	HongKong	1,364	*5*	*5*	*1,364*	(1)	—	—
060	Sweden	933	*5*	*5*	*933*	(1)	—	—
070	Other countries	11,799	*87*	*87*	*11,797*	(40)	—	—
080	**Off balance sheet exposures**	76,643	*406*	*406*	—	—	122	—
090	United Kingdom	72,540	*383*	*383*	—	—	117	—
100	United States	571	—	—	—	—	1	—
110	Luxembourg	1,064	—	—	—	—	1	—
120	HongKong	102	—	—	—	—	—	—
130	Sweden	137	—	—	—	—	—	—
140	Other countries	2,229	*23*	*23*	—	—	3	—
150	**Total at 31 Dec 2023**	324,691	*4,317*	*4,317*	*247,960*	(1,710)	122	—
010	On balance sheet exposures	230,220	*4,544*	*4,544*	*230,220*	(1,914)	—	—
020	United Kingdom	214,430	*4,483*	*4,483*	*214,430*	(1,871)	—	—
030	United States	5,946	*2*	*2*	*5,946*	(5)	—	—
040	HongKong	1,434	*2*	*2*	*1,434*	(4)	—	—
070	Other countries	8,410	*57*	*57*	*8,410*	(34)	—	—
080	Off balance sheet exposures	74,161	*312*	*312*	—	—	105	—
90	United Kingdom	71,620	*310*	*310*	—	—	102	—
100	United States	582	*1*	*1*	—	—	1	—
110	HongKong	122	—	—	—	—	—	—
140	Other countries	1,837	*1*	*1*	—	—	2	—
150	Total at 31 Dec 2022	304,381	*4,856*	*4,856*	*230,220*	(1,914)	105	—

1 *Excludes cash and balances at central banks.*

Table 19 below shows the gross carrying amount of loans and advances to non-financial corporations, the related accumulated impairment, and the accumulated changes in fair value to credit risk by industry types.

Table 19: Credit quality of loans and advances to non-financial corporations by industry (CQ5)

		Gross carrying amount					Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	*of which: non-performing*	*of which: defaulted*	*of which: subject to impairment*	Accumulated impairment	
		£m	£m	£m	£m	£m	£m
010	Agriculture, forestry and fishing	**4,244**	***186***	***186***	***4,244***	**(68)**	**—**
020	Mining and quarrying	**663**	***2***	***2***	***663***	**(6)**	**—**
030	Manufacturing	**7,646**	***426***	***426***	***7,646***	**(170)**	**—**
040	Electricity, gas, steam and air conditioning supply	**746**	***2***	***2***	***746***	**(4)**	**—**
050	Water supply	**990**	***9***	***9***	***990***	**(10)**	**—**
060	Construction	**3,305**	***199***	***199***	***3,305***	**(67)**	**—**
070	Wholesale and retail trade	**10,094**	***553***	***553***	***10,094***	**(146)**	**—**
080	Transport and storage	**2,107**	***61***	***61***	***2,107***	**(18)**	**—**
090	Accommodation and food service activities	**6,048**	***343***	***343***	***6,048***	**(86)**	**—**
100	Information and communication	**3,064**	***110***	***110***	***3,064***	**(73)**	**—**
120	Real estate activities	**10,047**	***360***	***360***	***10,047***	**(99)**	**—**
130	Professional, scientific and technical activities	**4,171**	***169***	***169***	***4,171***	**(75)**	**—**
140	Administrative and support service activities	**5,223**	***132***	***132***	***5,223***	**(48)**	**—**
160	Education	**687**	***33***	***33***	***687***	**(9)**	**—**
170	Human health services and social work activities	**1,860**	***106***	***106***	***1,860***	**(30)**	**—**
180	Arts, entertainment and recreation	**990**	***53***	***53***	***990***	**(21)**	**—**
190	Other services	**1,077**	***134***	***134***	***1,077***	**(25)**	**—**
200	**Total at 31 Dec 2023**	**62,962**	***2,878***	***2,878***	***62,962***	**(955)**	**—**
010	Agriculture, forestry and fishing	4,059	*152*	*152*	*4,059*	(57)	—
020	Mining and quarrying	681	*33*	*33*	*681*	(10)	—
030	Manufacturing	7,954	*420*	*420*	*7,954*	(123)	—
040	Electricity, gas, steam and air conditioning supply	998	*1*	*1*	*998*	(2)	—
050	Water supply	833	*8*	*8*	*833*	(5)	—
060	Construction	3,391	*234*	*234*	*3,391*	(71)	—
070	Wholesale and retail trade	11,914	*839*	*839*	*11,914*	(257)	—
080	Transport and storage	1,960	*80*	*80*	*1,960*	(17)	—
090	Accommodation and food service activities	6,540	*341*	*341*	*6,540*	(93)	—
100	Information and communication	2,453	*148*	*148*	*2,453*	(38)	—
120	Real estate activities	10,825	*551*	*551*	*10,825*	(160)	—
130	Professional, scientific and technical activities	3,860	*132*	*132*	*3,860*	(49)	—
140	Administrative and support service activities	4,793	*260*	*260*	*4,793*	(59)	—
160	Education	837	*69*	*69*	*837*	(23)	—
170	Human health services and social work activities	1,670	*121*	*121*	*1,670*	(19)	—
180	Arts, entertainment and recreation	901	*92*	*92*	*901*	(34)	—
190	Other services	1,341	*215*	*215*	*1,341*	(19)	—
200	Total at 31 Dec 2022	65,010	*3,696*	*3,696*	*65,010*	(1,036)	—

Risk mitigation

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms with regard to the availability of credit risk mitigation such as in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Collateral

The most common method of mitigating credit risk is to take a charge over collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to private banking clients may be made against a pledge of eligible marketable securities, cash or real estate. Facilities to small- and medium-sized enterprises ('SMEs') are commonly granted against guarantees given by their owners and/or directors.

Further information regarding collateral held over CRE and residential property is provided on pages 46 and 52, respectively, of the Annual Report and Accounts 2023.

Financial collateral

HSBC UK provides customers with working capital management products. In some cases, these products combine loans and advances to customers with customer accounts over which we have right of offset which comply with the regulatory requirements for on-balance sheet netting. Where this applies, the customer accounts are treated as cash collateral and are reflected in our LGD estimates.

For risk management purposes, the net amounts of such exposures are subject to limits and the relevant customer agreements are subject to review to ensure the legal right of offset remains appropriate.

Other forms of credit risk mitigation

Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors. Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank.

In our corporate lending, we also take guarantees from corporates, banks and export credit agencies. Corporates normally provide guarantees as part of a parent/subsidiary or common parent relationship and span a number of credit grades. Export credit agencies will normally be investment grade.

Policy and procedures

Policies and procedures govern the protection of our position from the outset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. The frequency of valuation increases with the volatility of the collateral. In the residential mortgage business HSBC UK policy prescribes revaluation at intervals of up to three years, or more frequently as the need arises; for example, where market conditions are subject to significant change. Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

For commercial real estate, where the facility exceeds regulatory threshold requirements, HSBC UK policy requires an independent review of the valuation at least every three years, or more frequently as the need arises. Revaluations are sought where, for example, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation.

Recognition of risk mitigation under the IRB approach

Within an IRB approach, risk mitigants are considered in two broad categories:

- those which reduce the intrinsic PD of an obligor and therefore operate as determinants of PD; and
- those which affect the estimated recoverability of obligations and require adjustment of LGD or, in certain limited circumstances, EAD.

The first category typically includes full parental guarantees where one obligor within a group guarantees another. In these circumstances, the PD of the parent guarantor is used to adjust or substitute the PD of the guaranteed obligor. PD estimates may be subject to a 'sovereign ceiling', constraining the risk ratings assigned to obligors in countries of higher risk, and where only partial parental support exists. In certain jurisdictions, certain types of third-party guarantee are recognised by substituting the obligor's PD with that of the guarantor.

In the second category, LGD estimates are affected by a wider range of collateral, including cash, charges over real estate property, fixed assets, trade goods, receivables and floating charges such as mortgage debentures. Unfunded mitigants, such as third-party guarantees, are also considered in LGD estimates where there is evidence that they reduce loss expectation.

The main types of provider of guarantees are banks, other financial institutions and corporates. The creditworthiness of providers of unfunded credit risk mitigation is taken into consideration as part of the guarantor's risk profile. Internal limits for such contingent exposure are approved in the same way as direct exposures.

EAD and LGD values, in the case of individually assessed exposures, are determined by reference to internal risk parameters based on the nature of the exposure. For retail portfolios, credit risk mitigation data is incorporated into the internal risk parameters for exposures and feeds into the calculation of the expected loss ('EL') band value summarising both customer delinquency and product or facility risk. Credit and credit risk mitigation data form inputs submitted by all HSBC UK offices to centralised databases. A range of collateral recognition approaches are applied to IRB capital treatments:

- Unfunded protection, which includes credit derivatives and guarantees under the Advanced IRB (AIRB) approach, recognition may be through PD or LGD.
- Eligible financial collateral under the AIRB approach is recognised in LGD models. Under the Foundation IRB (FIRB) approach, regulatory LGD values are adjusted. The adjustment to LGD is based on the degree to which the exposure value would be adjusted notionally if the financial collateral comprehensive method were applied.
- For all other types of collateral, including real estate, the LGD for exposures under the AIRB approach is calculated by models. For FIRB, base regulatory LGDs are adjusted depending on the value and type of the asset taken as collateral relative to the exposure. The types of eligible mitigants recognised under the FIRB approach are more limited.

Table 20 sets out the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigants.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or a credit derivative, the exposure is divided into covered and uncovered portions. The covered portion is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses in credit derivatives, where appropriate) to the amount of the protection provided and attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor.

The value of exposure fully or partially covered by eligible financial collateral is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments (including those for currency mismatch) which are determined by the specific type of collateral (and its credit quality, in the case of eligible debt securities) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 20 provides a breakdown of loans and advances and debt securities by different credit risk mitigation techniques.

Table 20: Credit risk mitigation techniques – overview (CR3)

		Total Exposure: secured and unsecured	Exposures unsecured: carrying amount	Exposures secured: carrying amount	*of which: Exposures secured by collateral*	*of which: Exposures secured by financial guarant-ees*	*of which: Exposures secured by credit deriva-tives*[1]
		£m	£m	£m	*£m*	*£m*	*£m*
1	Loans and advances	**293,235**	**123,890**	**169,345**	***164,202***	***5,143***	**—**
2	Debt securities	**26,144**	**25,233**	**911**	**—**	***911***	
3	**Total at 31 Dec 2023**	**319,379**	**149,123**	**170,256**	***164,202***	***6,054***	**—**
4	– *of which: non-performing exposures*	***3,248***	***969***	***2,279***	***1,374***	***905***	**—**
5	– *of which: defaulted*	***3,248***	***969***	***2,279***	***1,374***	***905***	**—**
1	Loans and advances	312,179	145,109	167,070	*159,855*	*7,215*	—
2	Debt securities	16,092	15,788	304	—	*304*	
3	Total at 31 Dec 2022	328,271	160,897	167,374	*159,855*	*7,519*	—
4	– *of which: non-performing exposures*	*3,823*	*1,164*	*2,659*	*1,398*	*1,261*	—
5	– *of which: defaulted*	*3,823*	*1,164*	*2,659*	*1,398*	*1,261*	—

1 HSBC UK does not have any exposures secured by credit derivatives.

Table 21 presents the split of credit risk exposures under the standardised approach, reflecting the EAD before and after the impact of credit risk mitigation ('CRM') techniques and credit conversion factors ('CCF'). Securitisation positions are not included in this table.

Table 21: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
		£m	£m	£m	£m	£m	%
	Asset classes						
1	Central governments or central banks	**86,302**	**1**	**91,711**	**25**	**652**	**1**
2	Regional governments or local authorities	**56**	**—**	**594**	**—**	**—**	**—**
3	Public sector entities	**726**	**—**	**—**	**—**	**—**	**—**
4	Multilateral development banks	**1,341**	**—**	**1,341**	**—**	**—**	**—**
5	International organisations	**366**	**—**	**366**	**—**	**—**	**—**
6	Institutions	**495**	**35**	**495**	**35**	**179**	**34**
7	Corporates	**7,072**	**3,428**	**7,021**	**1,341**	**8,310**	**99**
8	Retail	**2,047**	**438**	**1,963**	**13**	**1,398**	**71**
9	Secured by mortgages on immovable property	**182**	**—**	**182**	**—**	**64**	**35**
10	Exposures in default	**107**	**24**	**98**	**7**	**150**	**144**
15	Equity	**47**	**—**	**47**	**—**	**47**	**100**
16	Other items	**345**	**—**	**345**	**—**	**118**	**34**
17	**Total at 31 Dec 2023**	**99,086**	**3,926**	**104,163**	**1,421**	**10,918**	**10**
1	Central governments or central banks	108,124	1	115,470	25	724	1
2	Regional governments or local authorities	15	—	210	—	—	—
3	Public sector entities	514	—	—	—	—	—
5	International organisations	132	—	132	—	—	—
6	Institutions	843	—	843	—	366	44
7	Corporates	968	179	910	86	894	90
8	Retail	2,678	533	2,466	20	1,705	69
9	Secured by mortgages on immovable property	197	—	197	—	76	38
10	Exposures in default	84	3	67	—	96	141
15	Equity	36	—	36	—	36	100
16	Other items	374	—	374	—	92	25
17	Total at 31 Dec 2022	113,966	716	120,707	132	3,990	3

Table 22 discloses percentage of exposures secured by various CRM techniques, separately for each exposure class in AIRB and FIRB approaches.

Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)

			Funded credit Protection ('FCP')								
				Part of exposures covered by Other eligible collateral (%)				Part of exposures covered by Other funded credit protection (%)			
		Total exposures	Part of exposures covered by financial collateral	Total	Part of exposures covered by Immovable property collateral	Part of exposures covered by receivables	Part of exposures covered by other physical collateral	Total	Part of exposures covered by cash on deposit	Part of exposures covered by life insurance policies	Part of exposures covered by instruments held by a third party
AIRB		**£m**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
1	Central governments and central banks	**8,230**	—	—	—	—	—	—	—	—	—
2	Institutions	**2,568**	—	—	—	—	—	—	—	—	—
3	Corporates	**2,087**	**2.10**	**3.60**	**3.60**	—	**0.10**	—	—	—	—
3.1	– *of which: Corporates – SMEs*[1]	***2***	—	***13.80***	***13.80***	—	—	—	—	—	—
3.2	*Corporates – specialised lending*	***948***	—	—	—	—	—	—	—	—	—
3.3	*Corporates – other*[1]	***1,137***	***18.70***	***32.90***	***32.20***	—	***0.70***	—	—	—	—
4	Retail	**173,269**	**0.40**	**78.40**	**78.40**	—	—	—	—	—	—
4.1	– *of which: Retail – immovable property SMEs*	***1***	—	***94.90***	***94.90***	—	—	—	—	—	—
4.2	*Retail – immovable property non-SMEs*	***136,293***	—	***99.60***	***99.60***	—	—	—	—	—	—
4.3	*Retail – qualifying revolving*	***25,202***	—	—	—	—	—	—	—	—	—
4.4	*Retail – other SMEs*	***5,530***	—	—	—	—	—	—	—	—	—
4.5	*Retail – other non-SMEs*	***6,243***	***11.10***	—	—	—	—	—	—	—	—
5	**Total at 31 Dec 2023**	**186,154**	**0.50**	**70.00**	**70.00**	—	—	—	—	—	—
FIRB											
3	Corporates	**60,713**	**9.00**	**35.40**	**24.30**	**6.40**	**4.70**	—	—	—	—
3.1	– *of which: Corporates – SMEs*[1]	***6,468***	***0.10***	***66.40***	***51.90***	***9.30***	***5.20***	—	—	—	—
3.3	*Corporates – other*[1]	***54,245***	***10.00***	***31.70***	***21.00***	***6.00***	***4.70***	—	—	—	—
4	**Total at 31 Dec 2023**	**60,713**	**9.00**	**35.40**	**24.30**	**6.40**	**4.70**	—	—	—	—
IRB											
	Specialised lending under the slotting approach at 31 Dec 2023[2]	**8,222**	—	—	—	—	—	—	—	—	—

Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) (continued)

			Funded credit Protection ('FCP')								
				Part of exposures covered by Other eligible collateral (%)				Part of exposures covered by Other funded credit protection (%)			
		Total exposures	Part of exposures covered by financial collateral	Total	Part of exposures covered by Immovable property collateral	Part of exposures covered by receivables	Part of exposures covered by other physical collateral	Total	Part of exposures covered by cash on deposit	Part of exposures covered by life insurance policies	Part of exposures covered by instruments held by a third party
AIRB		£m	%	%	%	%	%	%	%	%	%
1	Central governments and central banks	5,803	—	—	—	—	—	—	—	—	—
2	Institutions	2,006	2.00	—	—	—	—	—	—	—	—
3	Corporates	1,761	—	—	—	—	—	—	—	—	—
3.1	Of which Corporates – SMEs	*2*	—	*17.80*	*17.80*	—	—	—	—	—	—
3.2	– Of which Corporates – Specialised lending	*780*	—	—	—	—	—	—	—	—	—
3.3	– Of which Corporates – Other	*979*	*25.70*	*35.30*	*34.10*	—	*1.20*	—	—	—	—
4	Retail	178,476	0.50	79.00	79.00	—	—	—	—	—	—
4.1	– Of which Retail – Immovable property SMEs	*2*	—	*84.10*	*84.10*	—	—	—	—	—	—
4.2	– Of which Retail – Immovable property non-SMEs	*141,157*	—	*99.80*	*99.80*	—	—	—	—	—	—
4.3	– Of which Retail – Qualifying revolving	*24,468*	—	—	—	—	—	—	—	—	—
4.4	– Of which Retail – Other SMEs	*6,962*	—	—	—	—	—	—	—	—	—
4.5	– Of which Retail – Other non-SMEs	*5,887*	*13.10*	—	—	—	—	—	—	—	—
5	Total at 31 December 2022	188,045	—	—	—	—	—	—	—	—	—
FIRB											
3	Corporates	62,623	8.40	33.10	23.20	7.10	2.90	—	—	—	—
3.1	– *of which: Corporates – SMEs*	*11,084*	*0.30*	*62.60*	*45.90*	*12.10*	*4.60*	—	—	—	—
3.3	*Corporates – other*	*51,539*	*10.10*	*26.80*	*18.30*	*6.00*	*2.50*	—	—	—	—
4	Total at 31 Dec 2022	62,623	8.40	33.10	23.20	7.10	2.90	—	—	—	—
IRB											
	Specialised lending under the slotting approach at 31 Dec 2022	9,233	—	—	—	—	—	—	—	—	—

Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) (continued)

		Unfunded credit Protection		Credit risk mitigation methods in the calculation of RWAs	
		Part of exposures covered by guarantees	Part of exposures covered by credit derivatives	RWA post-All CRM assigned to the obligor exposure class	RWA with substitution effects
AIRB		**%**	**%**	**£m**	**£m**
1	Central governments and central banks	**—**	**—**	**782**	**782**
2	Institutions	**—**	**—**	**306**	**306**
3	Corporates	**3.20**	**—**	**1,026**	**1,026**
3.1	– *of which:* *Corporates – SMEs*[1]	***1.40***	**—**	***1***	***1***
3.2	*Corporates – specialised lending*	***2.30***	**—**	***518***	***518***
3.3	*Corporates – other*[1]	***27.00***	**—**	***507***	***507***
4	Retail	**—**	**—**	**27,606**	**27,606**
4.1	– *of which:* *Retail – immovable property SMEs*	**—**	**—**	***2***	***2***
4.2	*Retail – immovable property non-SMEs*	**—**	**—**	***14,889***	***14,889***
4.3	*Retail – qualifying revolving*	**—**	**—**	***6,249***	***6,249***
4.4	*Retail – other SMEs*	**—**	**—**	***1,842***	***1,842***
4.5	*Retail – other non-SMEs*	**—**	**—**	***4,624***	***4,624***
5	**Total at 31 Dec 2023**	**0.20**	**—**	**29,720**	**29,720**
FIRB					
3	Corporates	**—**	**—**	**40,034**	**40,034**
3.1	– *of which:* *Corporates – SMEs*[1]	**—**	**—**	***3,454***	***3,454***
3.3	*Corporates – other*[1]	**—**	**—**	***36,580***	***36,580***
4	**Total at 31 Dec 2023**	**—**	**—**	**40,034**	**40,034**
IRB					
	Specialised lending under the slotting approach at 31 Dec 2023[2]	**—**	**—**	**5,146**	**5,146**
AIRB					
1	Central governments and central banks	—	—	700	700
2	Institutions	—	—	323	323
3	Corporates	—	—	914	914
3.1	– *of which:* *Corporates – SMEs*	—	—	*1*	*1*
3.2	*Corporates – specialised lending*	—	—	*494*	*494*
3.3	*Corporates – other*	*27.40*	—	*419*	*419*
4	Retail	—	—	26,476	26,476
4.1	– *of which:* *Retail – immovable property SMEs*	*1.10*	—	*4*	*4*
4.2	*Retail – immovable property non-SMEs*	—	—	*14,778*	*14,778*
4.3	*Retail – qualifying revolving*	—	—	*5,727*	*5,727*
4.4	*Retail – other SMEs*	—	—	*1,949*	*1,949*
4.5	*Retail – other non-SMEs*	—	—	*4,018*	*4,018*
5	Total at 31 Dec 2022	—	—	28,413	28,413
FIRB					
3	Corporates	—	—	41,269	41,269
3.1	– *of which:* *Corporates – SMEs*	—	—	*6,337*	*6,337*
3.3	*Corporates – other*	—	—	*34,932*	*34,933*
4	Total at 31 Dec 2022	—	—	41,269	41,269
IRB					
	Specialised lending under the slotting approach at 31 Dec 2022	—	—	5,469	5,469

1 Reporting process improvements resulted in the re-classification of some exposures from Corporate SME to Corporate Other in December 23.
2 Specialised lending exposure under the slotting approach does not include Credit Risk Mitigation techniques.

Standardised approach

Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

The standardised approach is applied where exposures do not qualify for use of an IRB approach and/or where an exemption from IRB has been granted. The standardised approach requires banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') or Export Credit Agencies ('ECAs') to determine the risk weightings applied to rated counterparties.

ECAI risk assessments are used within the Group as part of the determination of risk weightings for the following classes of exposure:

– central governments and central banks;

– regional governments and local authorities;

– institutions;

– corporates;

– securitisation positions; and

– short-term claims on institutions and corporates.

We have nominated three ECAIs for this purpose – Moody's Investor Service ('Moody's'), Standard and Poor's rating agency ('S&P') and Fitch Ratings ('Fitch'). In addition to this, we use DBRS ratings specifically for securitisation positions. We have not nominated any ECAs.

Data files of external ratings from the nominated ECAIs are matched with customer records in our centralised credit database.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, risk systems identify the customer in question and look up the available ratings in the central database according to the rating selection rules. The systems then apply the prescribed credit quality step mapping to derive from the rating the relevant risk weight.

All other exposure classes are assigned risk weightings as prescribed in the PRA's Rulebook.

Credit quality step	Moody's assessment	S&P's assessment	Fitch's assessment	DBRS assessment
1	Aaa to Aa3	AAA to AA–	AAA to AA–	AAA to AAL
2	A1 to A3	A+ to A–	A+ to A–	AH to AL
3	Baa1 to Baa3	BBB+ to BBB–	BBB+ to BBB–	BBBH to BBBL
4	Ba1 to Ba3	BB+ to BB–	BB+ to BB–	BBH to BBL
5	B1 to B3	B+ to B–	B+ to B–	BH to BL
6	Caa1 and below	CCC+ and below	CCC+ and below	CCCH and below

Exposures to, or guaranteed by, central governments and central banks of the UK and equivalent countries states are risk-weighted at 0% provided that they are denominated and funded in local currency or qualify for that weight by virtue of their external rating.

The following table provides further details of the risk weighting of our standardised non-counterparty credit exposures. For information about the risk weighting of our standardised counterparty credit risk exposures, refer to Table 35.

CQS Reference table

			Institutions (includes banks)		
			Sovereign method	Credit assessment method	
	Corporates	Central government or Central Banks	Sovereign method	Maturity > 3 months	Maturity 3 months or less
Credit Quality Step 1	20 %	0%	20 %	20 %	20 %
Credit Quality Step 2	50 %	20 %	50 %	50 %	20 %
Credit Quality Step 3	100 %	50 %	100 %	50 %	20 %
Credit Quality Step 4	100 %	100 %	100 %	100 %	50 %
Credit Quality Step 5	150 %	100 %	100 %	100 %	50 %
Credit Quality Step 6	150 %	150 %	150 %	150 %	150 %

Table 23 discloses credit risk exposures under the standardised approach by risk weights split into exposure class. Securitisation positions are not included in this table.

Table 23: Standardised approach – exposures by asset classes and risk weights (CR5)

	Risk weight ('RW%')	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370 %	1250 %	Others	Total credit exposure amount (post-CCF and CRM)	*of which: unrated*[1]
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*
	Asset classes																	
1	Central governments or central banks	**91,474**	—	—	—	—	—	—	—	—	—	—	**261**	—	—	—	**91,735**	—
2	Regional governments or local authorities	**594**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**594**	—
4	Multilateral development banks	**1,341**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**1,341**	—
5	International organisations	**366**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	**366**	—
6	Institutions	—	—	—	—	**389**	—	**79**	—	—	**62**	—	—	—	—	—	**530**	***125***
7	Corporates	—	—	—	—	**58**	—	—	—	—	**8,305**	—	—	—	—	—	**8,363**	***8,305***
8	Retail exposures	—	—	—	—	—	—	—	—	**1,976**	—	—	—	—	—	—	**1,976**	***1,976***
9	Secured by mortgages on immovable property	—	—	—	—	—	**182**	—	—	—	—	—	—	—	—	—	**182**	***182***
10	Exposures in default	—	—	—	—	—	—	—	—	—	**13**	**92**	—	—	—	—	**104**	***104***
15	Equity exposures	—	—	—	—	—	—	—	—	—	**47**	—	—	—	—	—	**47**	***47***
16	Other items	—	—	—	—	**284**	—	—	—	—	**61**	—	—	—	—	—	**345**	***345***
17	**Total at 31 Dec 2023**	**93,775**	—	—	—	**731**	**182**	**79**	—	**1,976**	**8,488**	**92**	**261**	—	—	—	**105,583**	***11,084***
	Asset classes																	
1	Central governments or central banks	115,205	—	—	—	—	—	—	—	—	—	—	290	—	—	—	115,495	—
2	Regional governments or local authorities	210	—	—	—	—	—	—	—	—	—	—	—	—	—	—	210	—
5	International organisations	132	—	—	—	—	—	—	—	—	—	—	—	—	—	—	132	—
6	Institutions	—	—	—	—	194	—	642	—	—	6	—	—	—	—	—	843	*6*
7	Corporates	—	—	—	—	41	—	148	—	—	797	11	—	—	—	—	996	*797*
8	Retail	—	—	—	—	—	—	—	—	2,487	—	—	—	—	—	—	2,487	*2,487*
9	Secured by mortgages on immovable property	—	—	—	—	—	187	—	—	—	10	—	—	—	—	—	197	*197*
10	Exposures in default	—	—	—	—	—	—	—	—	—	12	56	—	—	—	—	68	*68*
15	Equity	—	—	—	—	—	—	—	—	—	36	—	—	—	—	—	36	*36*
16	Other items	—	—	—	—	353	—	—	—	—	21	—	—	—	—	—	374	*374*
17	Total at 31 Dec 2022	115,547	—	—	—	588	187	790	—	2,487	883	66	290	—	—	—	120,839	*4,255*

1 Deferred tax assets risk weighted at 250% are excluded from the 'unrated' column and prior period has been restated.

Application of the IRB approach

Our IRB credit risk rating framework incorporates PD, EAD and LGD. These measures are used to calculate RWAs and EL. They are also used with other inputs to inform rating assessments for the purposes of credit approval and many other purposes meeting the requirements of the 'use test', for example:

- credit approval and monitoring: IRB models are used in the assessment of customer and portfolio risk in lending decisions;
- risk appetite: IRB measures are an important element in identifying risk exposure at customer, sector and portfolio level;
- pricing: IRB parameters are used in pricing tools for new transactions and reviews; and
- economic capital and portfolio management: IRB parameters are used in the economic capital model that has been implemented across HSBC.

Roll-out of the IRB approach

With the PRA's permission, we have adopted the advanced IRB approach for the majority of our retail business, while our wholesale business mainly uses the Foundation IRB approach. This is subject to the roll out of new models with the remainder treated as permanently exempt and covers non-significant business units and immaterial exposure classes.

EL and credit risk adjustments

We analyse credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

When comparing regulatory EL with measures of ECL under IFRS 9, differences in the definition and scope of each are considered. These can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general, HSBC UK calculates ECL using three main components namely probability of default, loss given default, and exposure at default.

ECLs include impairment allowances (or provisions, against commitments and guarantees) calculated for a 12-month period ('12-month ECL'), for the remaining life of an exposure ('lifetime ECL'), and on financial assets that are considered to be in default or otherwise credit impaired. ECLs resulting from default events that are possible:

- within the next 12 months are recognised for financial instruments in stage 1; and
- beyond 12 months are recognised for financial instruments in stages 2 and 3.

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

Change in ECL and other credit impairment charges represents the movement in the ECL during the year including write-offs, recoveries and foreign exchange. EL represents the one-year regulatory expected loss accumulated in the book at the balance sheet date.

Credit risk adjustments ('CRAs') encompass the impairment allowances or provisions balances, and changes in ECL and other credit impairment charges.

HSBC leverages the Basel IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

Model	Regulatory capital	IFRS 9
PD	– Represents long-run average PD throughout a full economic cycle (For mortgage portfolios a Hybrid approach, which sits between the extremes of point in time and through the cycle, is used for calculating long run averages as required by the PRA). – Default backstop of 90+ days past due for all portfolios.	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) – Default backstop of 90+ days past due for all portfolios
EAD	– Cannot be lower than current balance	– Amortisation captured for term products
LGD	– Downturn LGD (consistent with losses we would expect to suffer during a severe but plausible economic downturn) – Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data – Discounted using cost of capital – All collection costs included	– Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) – No floors – Discounted using the original effective interest rate of the loan – Only costs associated with obtaining/selling collateral included
Other		– Discounted back from point of default to balance sheet date

The table 24 below shows exposures and percentages covered by the IRB and SA portfolio. This table excludes counterparty credit risk exposures and securitisation exposures.

Table 24: Scope of the use of IRB and SA approaches (UK CR6-A)[1]

		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach[2]	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposure value subject to a roll-out plan[3] (%)
		a	b	c	d	e
1	Central governments or central banks	**8,230**	**97,020**	**90**	**8**	**2**
1.1	*– of which: Regional governments or local authorities*	**—**	***56***	**—**	**—**	***100***
1.2	*– of which: Public sector entities*	**—**	***726***	**—**	**—**	***100***
2	Institutions	**2,568**	**3,058**	**16**	**84**	**—**
3	Corporates	**71,022**	**75,582**	**1**	**89**	**10**
3.1	*– of which: Corporates – Specialised lending, excluding slotting approach*	***948***	***876***	**—**	***100***	**—**
3.2	*– of which: Corporates – Specialised lending under slotting approach*	***8,223***	***7,950***	**—**	***100***	**—**
4	Retail	**173,269**	**155,135**	**—**	**98**	**1**
4.1	*– of which: Retail – Secured by real estate SMEs*	***1***	***1***	**—**	***100***	**—**
4.2	*– of which: Retail – Secured by real estate non-SMEs*	***136,293***	***133,011***	**—**	***100***	**—**
4.3	*– of which: Retail – Qualifying revolving*	***25,201***	***9,014***	**—**	***100***	**—**
4.4	*– of which: Retail – Other SMEs*	***5,530***	***5,460***	**—**	***89***	***11***
4.5	*– of which: Retail – Other non-SMEs*	***6,243***	***7,649***	***6***	***80***	***14***
5	Equity	**—**	**47**	**100**	**—**	**—**
6	Other non-credit obligation assets	**1,488**	**1,833**	**16**	**81**	**3**
7	**Total at 31 Dec 2023**	**256,577**	**332,675**	**27**	**70**	**3**
1	Central governments or central banks	5,803	114,589	95	5	—
1.1	*– of which: Regional governments or local authorities*		*15*	*100*	—	—
1.2	*– of which: Public sector entities*		*514*	—	—	*100*
2	Institutions	2,006	2,843	30	70	—
3	Corporates	73,617	70,976	1	98	1
3.1	*– of which: Corporates – Specialised lending, excluding slotting approach*	*780*	*577*	—	*100*	—
3.2	*– of which: Corporates – Specialised lending under slotting approach*	*9,233*	*9,187*	—	*100*	—
4	Retail	178,476	153,690	—	100	—
4.1	*– of which: Retail – Secured by real estate SMEs*	*2*	*2*	—	*100*	—
4.2	*– of which: Retail – Secured by real estate non-SMEs*	*141,157*	*129,774*	—	*100*	—
4.3	*– of which: Retail – Qualifying revolving*	*24,468*	*8,666*	—	*100*	—
4.4	*– of which: Retail – Other SMEs*	*6,962*	*7,792*	—	*84*	*16*
4.5	*– of which: Retail – Other non-SMEs*	*5,887*	*7,456*	—	*78*	*22*
5	Equity		36	100	—	—
6	Other non-credit obligation assets	1,564	1,938	19	81	—
7	Total at 31 Dec 2022	261,465	344,073	32	67	1

1 *Further alignment to leverage rules and our reporting of exposures under permanent partial use have been updated for this period. Prior period balances have not been restated.*
2 *The key driver for difference in IRB exposure value is mainly due to the CCF applied to the off balance sheet exposures.*
3 *Percentage of total exposure value subject to a roll-out plan, includes other STD exposures which are not subject to permanent partial use.*

Model performance

Model assessment is subject to global internal standards designed to support a comprehensive quantitative and qualitative process within a cycle of model monitoring and assessment that includes:

- investigation of model stability;
- measuring model performance by comparing the model's outputs against actual outcomes; and
- reviewing model use within the business, e.g. user input data quality, override activity and the assessment of results from key controls around the usage of the rating system as a whole within the overall credit process.

Models are monitored using a series of metrics and triggers approved by relevant parties. Model performance metrics, and material remedial actions in the event of a trigger breach, are reported at the corresponding Wholesale and Retail MOF's that are responsible for overseeing the models used within HSBC UK.

We also disclose model performance reports for our retail IRB models to our lead regulator, the PRA, quarterly.

Wholesale risk

The wholesale risk rating system

This section describes how we operate our credit risk analytical models and use IRB metrics in the wholesale customer business.

PDs for wholesale customer segments (i.e. central governments and central banks, financial institutions and corporate customers) and for certain individually assessed personal customers are derived from a customer risk rating master scale of 23 grades. Of these, 21 are non-default grades representing varying degrees of strength of financial condition, and two are default grades. Each customer risk rating has a PD range associated with it as well as a mid-point PD.

The score generated by a credit risk rating model for the obligor is mapped to a master-scale customer risk rating and corresponding PD.

Relationship managers may by exception, propose a different customer risk rating from that indicated through an override process which must be approved by the Credit function. Overrides for each model are recorded and monitored as part of the model management process. The customer risk rating is then reviewed by a credit approver who, taking into account information such as the most recent financial events and market data, makes the final decision on the rating. The rating assigned reflects the rating calculated by the model and the approver's overall view of the obligor's credit standing.

The mid-point PD associated with the approved customer risk rating is then used in the regulatory capital calculation.

The customer risk rating is assigned at an obligor level, which means that separate exposures to the same obligor are generally subject to a single, consistent rating. Exceptions may include where an exposure to a corporate or bank is capped to that of the Sovereign which may lead to different customer risk ratings for the same obligor. Unfunded credit risk mitigants, such as guarantees or parental support, may also influence the final assignment of a customer risk rating to an obligor.

If an obligor is in default on any material credit obligation to the group, all of the obligor's facilities are generally considered to be in default.

PD, LGD and EAD models all generally follow a Through the Cycle approach. LGD models are subject to a downturn adjustment. Obligor ratings are reviewed at least annually, or more frequently as necessary, to reflect changes in their circumstances and/or their economic operating environment.

Group policy allows approvers to downgrade customer risk ratings on expectations, but to upgrade them only on performance. This leads to expected defaults typically exceeding actual defaults.

For EAD and LGD estimation, operating entities are permitted, subject to overview by Risk and approval by the regulator and regulatory floors, to use their own internal models developed and calibrated to their portfolios and jurisdictions. Group Risk provides co-ordination, benchmarks, and promotion of best practice on EAD and LGD estimation. The Model Development Guide in conjunction with the Model Development Template ensures model developers follow a consistent approach to building compliant models. EAD is estimated to a 12-month forward time horizon and represents the current exposure, plus an estimate for future increases in exposure and the realisation of contingent exposures post-default.

LGD is expressed as a percentage of EAD and captures the effects of facility and collateral structure on receipts and recoveries post-default. This includes such factors as the type of client, the facility seniority, the type and value of collateral, past recovery experience and priority under law. Cashflows are adjusted to reflect the time value of money.

New IRB Repair guidelines were published by the EBA with effect from 1 January 2022. These guidelines specify detailed new requirements including the Margin of Conservatism classification framework, data representativeness, LGD in default and Expected Loss Best Estimate ('ELBE') and model monitoring.

Legacy models were not designed to comply with these new requirements and a pipeline for model re-development and/or model demise is underway with future planned submissions agreed with the regulator. The impact on RWAs and Expected Loss relating to the non-compliance with the new regulations has been assessed and additional Post model adjustments ('PMAs') have been implemented. The PMAs were submitted to the regulator and are subject to regular review to ensure they remain appropriate given changes in economic conditions and the composition of the portfolios.

Wholesale models

To determine credit ratings for the different types of wholesale obligor, multiple models and scorecards are used for PD, LGD, and EAD. These models may be differentiated by region, customer segment and/or customer size. For example, we have separate PD models for all of our key customer segments, including sovereigns, financial institutions, and large, medium and small-sized corporates.

The two major drivers of model methodology are the nature of the portfolio and the availability of internal or external data on historical defaults and risk factors. For some historically low-default portfolios, such as sovereign and financial institutions, a model will rely more heavily on external data and/or the input of an expert panel. Where sufficient data is available, models are built on a statistical basis, although the input of expert judgement may still form an important part of the overall model development methodology.

Our approach to EAD and LGD also encompasses global models for central governments and central banks, and for institutions, as exposures to these customer types are managed centrally by Global Risk.

The PRA requires all firms to apply an LGD floor of 45% for senior unsecured exposure to sovereign entities. This floor was applied to reflect the relatively few loss observations across all firms in relation to these obligors. This floor is applied for the purposes of regulatory capital reporting.

In the same guidance, the PRA also indicated that it considers income-producing real estate to be an asset class that would be difficult to model. As a result, RWAs for our CRE portfolio are calculated using the supervisory slotting approach. Under the supervisory slotting approach the bank allocates exposures to one of five categories. Each category then receives a fixed pre-determined RWA and EL percentage.

Table 25 sets out the key characteristics of the significant wholesale credit risk models that drive the capital calculation split by regulatory wholesale asset class, with their associated RWAs, including the number of models for each component, the model method or approach and the number of years of loss data used.

HSBC UK uses the HSBC Group's global models for exposures to Sovereigns and Institutions. The number of defaults in these models relating to HSBC UK customers is immaterial. Information on the performance of these global models can be found in the HSBC Holdings plc Pillar 3 Disclosures at 31 December 2023 published at www.hsbc.com/investors.

Table 25: Wholesale IRB credit risk models

Portfolio	IRB exposure class	RWA £m	Component model	Number of material component models	Model description and methodology	Number of years loss data	Regulatory Floors
Corporates	Corporates – Other, Corporates-SME	40,035	PD	1	A statistical model built on over 10 years of data. The model uses financial information, macroeconomic information and market-driven data, and is complemented by a qualitative assessment.	>10	PD floor of 0.03%
Large corporates	Corporates-Other						
UK corporates	Corporates-Other, Corporates-SME		PD	3	Corporates that fall below the global large corporate threshold are rated through UK PD models, which reflect UK specific circumstances and cover Mid-sized and Small Corporates. These models use financial information, behavioural data and qualitative information to derive a statistically built PD.	>10	PD floor of 0.03%

Table 26 below provides an overview of wholesale PD model performance for HSBC UK IRB exposures based upon data that represents an annual view as of 30 September each year. The table shows the estimated PD (including modelled and judgemental input) and actual default rate for the Corporate portfolio. The estimated PD for all Corporate PD models is calculated based on the total number of obligors covered by the models. The actuals are the observed default rate for the specified period.

The observed Corporate default rate has been below the estimate throughout the last three years. The estimated PD has reduced in 2023 due to less judgemental downgrades, whilst the actuals are increasing each year following the removal of government support during the pandemic and an increase in defaults due to a deteriorating economic environment. The result has been a reduction in the difference throughout the three year period.

Table 26: IRB PD models – estimated and actual values (wholesale)[1]

	2023		2022		2021	
	Estimated	**Actuals**	Estimated	Actuals	Estimated	Actuals
Corporates	**1.59**	**1.42**	1.85	1.24	1.89	0.43

1 *2022 and 2021 data covers the combined UK ring fenced and non-ring fenced bank populations of the global large corporates model, all UK IRB models for large, medium and small corporates, and non-bank financial institutions; 2023 reports only the UK ring fenced bank population.*

Table 27 below validate the reliability of PD calculations by comparing the PD used in IRB calculations with actual default experience.

Table 27: Wholesale IRB exposure – back-testing of probability of default (PD) per portfolio[1] (CR9)

PD range	Number of obligors: End of previous year[2]	Number of obligors: *of which: number which defaulted in the year*	Observed average default rate %	Exposures weighted average PD (%)	Average PD (%)	Average historic annual default rate (%)
2023						
FIRB						
Corporates[3]						
0.00 to <0.15	**7,789**	***3***	**0.04**	**0.09**	**0.11**	**0.07**
0.00 to <0.10	***1,804***	***—***	***—***	***0.06***	***0.06***	***0.02***
0.10 to <0.15	***5,985***	***3***	***0.05***	***0.13***	***0.13***	***0.08***
0.15 to <0.25	**7,574**	***33***	**0.44**	**0.22**	**0.22**	**0.18**
0.25 to <0.50	**6,751**	***54***	**0.80**	**0.37**	**0.37**	**0.38**
0.50 to <0.75	**5,257**	***45***	**0.86**	**0.63**	**0.63**	**0.85**
0.75 to <2.50	**14,762**	***209***	**1.42**	**1.44**	**1.44**	**1.08**
0.75 to <1.75	***11,673***	***136***	***1.17***	***1.21***	***1.23***	***0.94***
1.75 to <2.5	***3,089***	***73***	***2.36***	***2.25***	***2.25***	***1.59***
2.5 to <10.00	**6,950**	***200***	**2.88**	**4.37**	**4.33**	**3.83**
2.5 to <5	***5,249***	***124***	***2.36***	***3.61***	***3.60***	***2.43***
5 to <10	***1,701***	***76***	***4.47***	***6.53***	***6.60***	***7.93***
10.00 to <100.00	**1,090**	***170***	**15.60**	**12.77**	**18.26**	**15.46**
10 to <20	***951***	***146***	***15.35***	***12.04***	***12.47***	***13.80***
30.00 to <100.00	***139***	***24***	***17.27***	***44.19***	***57.88***	***28.44***
100.00 (Default)	**—**	***NA***	**NA**	**NA**	**NA**	**NA**

Table 27: Wholesale IRB exposure – back-testing of probability of default (PD) per portfolio[1] (CR9) (continued)

PD range	Number of obligors: End of previous year	*of which: number which defaulted in the year*	Observed average default rate %	Exposures weighted average PD (%)	Average PD (%)	Average historic annual default rate (%)
2022						
FIRB						
Corporates						
0.00 to <0.15	5,394	*0*	0.00	0.11	0.12	0.12
0.00 to <0.10	*742*	*0*	0.00	*0.06*	*0.05*	*0.12*
0.10 to <0.15	4,652	*0*	0.00	*0.13*	*0.13*	*0.11*
0.15 to <0.25	6,641	*4*	0.06	0.22	0.22	0.08
0.25 to <0.50	6,301	*5*	0.08	0.37	0.37	0.23
0.50 to <0.75	4,995	*45*	0.90	0.63	0.63	0.81
0.75 to <2.50	15,294	*170*	1.11	1.44	1.44	1.00
0.75 to <1.75	*11,840*	*92*	*0.78*	*1.20*	*1.21*	*0.91*
1.75 to <2.5	*3,454*	*78*	*2.26*	*2.25*	*2.25*	*1.32*
2.5 to <10.00	8,528	*251*	2.94	4.40	4.47	3.90
2.5 to <5	*6,064*	*104*	*1.72*	*3.58*	*3.64*	*2.25*
5 to <10	*2,464*	*147*	*5.97*	*6.85*	*6.52*	*8.70*
10.00 to <100.00	1,324	*157*	11.86	17.44	18.15	15.73
10 to <20	*1,165*	*116*	*9.96*	*13.07*	*12.84*	*14.00*
30.00 to <100.00	*159*	*41*	*25.79*	*52.81*	*57.09*	*28.86*
100.00 (Default)	2,318	NA	NA	NA	NA	NA

1 Data represents an annual view as of 30 September.
2 Back-testing is conducted on the basis of the opening count of obligors not in default in each year. Obligors who default during the year are excluded from the opening count for the following year.
3 Our Corporate model segments do not align to regulatory exposure class definitions so the information presented above includes exposures in both the Corporate-Other and Corporate-SME exposure classes.
4 For 2022 comparatives the Corporate models are primarily used by HSBC UK but the data presented will include some HSBC Bank plc customers that also use these models.

Retail risk

Retail risk rating systems

The most material risk rating systems for which we disclose details of the modelling methodology and performance data represent RWAs of £23 bn which corresponds to 82% of the total retail IRB RWA.

The UK residential mortgage portfolios are now modelled under a Hybrid approach where the PD estimates represent a combination of recent and historic default rates observed over a mix of good and bad economic periods reflecting the longer-term nature of these loans.

Table 28: Retail IRB risk rating systems

Portfolio	Exposure class	RWA £m	Component model	Number of material component models	Model description and methodology	Number of years loss data[1]	Applicable Pillar 1 regulatory thresholds and overlays
UK residential mortgages	Retail – secured by mortgages on immovable property non-SME	14,226	PD	1	Statistical model built on internal behavioural data, credit bureau information and application data for new to bank customers. The model uses a hybrid approach where the PD estimates represent a combination of recent and historic default rates observed over a mix of good and bad economic periods reflecting the longer-term nature of these loans. The PD also includes a Margin of Conservatism in accordance with regulatory requirement. Properties are allocated to calibration segments based on mortgage type. PD risk grades are then assigned for each calibration segment based on a master score produced from internal behaviour and application score inputs.	> 10	PD floor of 0.03%
			LGD	1	Component based model incorporating; probability of repossession, charge-off and cure; and predicted shortfall. The model is segmented based on default status at observation. A downturn adjustment is applied to each component including a haircut adjustment to forced sale discount and a 25% reduction from peak house valuation.	> 10	LGD floor of 5% at loan level and a LGD floor of 10% at portfolio level
			EAD	1	Logical calculation that uses the sum of the balance at observation for fixed term loans. A simple CCF method is applied for offset mortgages where there is a revolving facility available.	> 10	EAD must at least be equal to current balance
UK HSBC credit cards	Retail – qualifying revolving	3,479	PD	1	Statistical model built on internal behavioural data and bureau information. Underlying PIT model is calibrated to the latest observed PD. An adjustment is then applied to generate the long-run PD based on historical observed misalignment of the underlying model.	7–10	PD floor of 0.03%
			LGD	1	Statistical model based on forecasting the amount of expected future recoveries, segmented by default status.	7–10	
			EAD	1	Statistical model that directly estimates EAD for different segments of the portfolio using either balance or limit as the key input.	7–10	EAD must at least be equal to current balance
UK HSBC personal loans	Retail – other non-SME	4,438	PD	1	Statistical model built on internal behavioural data and bureau information. Underlying PIT model is calibrated to the latest observed PD. An adjustment is then applied to generate the long-run PD based on historical observed misalignment of the underlying model.	7–10	PD floor of 0.03%
			LGD	1	Statistical model based on forecasting the amount of expected future recoveries, segmented by default status.	7–10	
			EAD	1	EAD is equal to current balance as this provides a conservative estimate.	7–10	EAD must at least be equal to current balance
UK business banking	Retail – other SME	1,840	PD	1	Statistical model built on internal behavioural data and bureau information. Underlying PIT model is calibrated to the latest observed PD. An adjustment is then applied to generate the long run PD based on historical observed misalignment of the underlying model.	7–10	PD floor of 0.03%
			LGD	1	The model estimates the amount of future recoveries and undrawn portion for unsecured products.	7–10	
			EAD	1	Statistical model using segmentation according to limit and utilisation and estimation of the undrawn exposure.	7–10	EAD must at least be equal to current balance

1 Defined as the number of years of historical data used in model development and estimation.

Retail credit models

We disclose information on our most material models. The actual and estimated values are derived from local model monitoring and calibration processes.

Our analytics teams adopt back-testing criteria specific to local conditions in order to assess the accuracy of their models.

In 2023, the observed default rates remained lower than PD estimates across retail exposure except for HSBC credit cards which is addressed by applying a post-model adjustment to the reported RWA; this adjustment is derived from a new generation of IRB models developed under the latest Basel 3.1 standards published by the PRA and expected to go live from 2025. The notable variance between the HSBC credit cards and the HSBC personal loans PD is primarily due to differences in the default definition, the HSBC personal loans is using 90 days past due while the HSBC credit cards is using 180 days past due criteria.

The table 29 below provides an overview of Retail PD model performance for IRB exposures, it shows the estimated vs actuals movements across asset classes. The data represents an annual view as of 30 September. The table shows pure modelled PD percentage and does not reflect adjustments for capital requirements.

Table 29: IRB PD models – estimated and actual values (Retail)

	2023		2022		2021	
	Estimated	**Actuals**	Estimated	Actuals	Estimated	Actuals
UK residential mortgage[1]	**0.57**	**0.21**	0.29	0.21	0.32	0.19
HSBC credit card	**0.75**	**0.79**	0.77	0.82	0.92	0.95
HSBC personal loans	**2.46**	**1.89**	2.72	1.86	3.27	2.32
Business Banking (Retail SME)	**4.09**	**4.02**	4.27	3.84	2.67	3.11

1 *The UK residential mortgages rating system approved by the PRA in April 2023 is reflected in this table, comparatives reflect the previous rating systems for HSBC and First Direct residential mortgages.*

The table 30 below provides an overview of credit risk model performance for retail IRB exposures, assessed by PD ranges. The data represents an annual view, analysed at 30 September.

Table 30: Retail IRB exposure – back-testing of probability of default ('PD') per portfolio (CR9)[1,2]

	Number of obligors					
PD range	**End of previous year[3]**	***of which: number which defaulted in the year***	**Observed average default rate %**	**Exposures weighted average PD (%)**	**Average PD (%)**	**Average historic annual default rate (%)**
2023						
Retail – Secured by real estate non-SME						
0.00 to <0.15	**124,048**	***32***	**0.03**	**0.12**	**0.12**	**0.02**
0.00 to <0.10						
0.10 to <0.15	***124,048***	***32***	***0.03***	***0.12***	***0.12***	***0.02***
0.15 to <0.25	**105,533**	***29***	**0.03**	**0.18**	**0.18**	**0.03**
0.25 to <0.50	**424,535**	***262***	**0.06**	**0.31**	**0.30**	**0.05**
0.50 to <0.75	**159,875**	***194***	**0.12**	**0.51**	**0.51**	**0.12**
0.75 to <2.50	**146,911**	***512***	**0.35**	**0.99**	**1.02**	**0.33**
0.75 to <1.75	***131,554***	***371***	***0.28***	***0.91***	***0.90***	***0.28***
1.75 to <2.5	***15,357***	***141***	***0.92***	***1.98***	***2.01***	***0.68***
2.50 to <10.00	**14,975**	***353***	**2.36**	**4.13**	**4.26**	**2.02**
2.5 to <5	***13,219***	***264***	***2.00***	***3.74***	***3.80***	***1.63***
5 to <10	***1,756***	***89***	***5.07***	***7.87***	***7.76***	***5.24***
10.00 to <100.00	**4,202**	***825***	**19.63**	**31.84**	**27.08**	**18.51**
10 to <20	***2,489***	***171***	***6.87***	***14.13***	***14.06***	***6.75***
20 to <30	***122***	***12***	***9.84***	***23.84***	***23.87***	***6.69***
30.00 to <100.00	***1,591***	***642***	***40.35***	***47.17***	***47.69***	***41.19***
100.00 (Default)	**6,234**					
Retail – qualifying revolving						
0.00 to <0.15	**1,417,034**	***1,231***	**0.09**	**0.07**	**0.07**	**0.08**
0.00 to <0.10	***1,161,193***	***918***	***0.08***	***0.05***	***0.05***	***0.07***
0.10 to <0.15	***255,841***	***313***	***0.12***	***0.12***	***0.12***	***0.12***
0.15 to <0.25	**317,952**	***534***	**0.17**	**0.20**	**0.20**	**0.17**
0.25 to <0.50	**247,051**	***838***	**0.34**	**0.35**	**0.35**	**0.35**
0.50 to <0.75	**132,835**	***814***	**0.61**	**0.61**	**0.62**	**0.61**
0.75 to <2.50	**226,548**	***3,489***	**1.54**	**1.29**	**1.31**	**1.65**
0.75 to <1.75	***184,382***	***2,448***	***1.33***	***1.13***	***1.14***	***1.38***
1.75 to <2.5	***42,166***	***1,041***	***2.47***	***2.06***	***2.07***	***2.71***
2.50 to <10.00	**82,057**	***3,660***	**4.46**	**3.88**	**3.93**	**5.08**
2.5 to <5	***65,888***	***2,105***	***3.19***	***3.19***	***3.20***	***3.85***
5 to <10	***16,169***	***1,555***	***9.62***	***6.89***	***6.90***	***9.38***
10.00 to <100.00	**21,540**	***8,716***	**40.46**	**43.02**	**41.94**	**43.16**
10 to <20	***8,714***	***1,557***	***17.87***	***13.77***	***13.75***	***17.84***
20 to <30	***3,146***	***733***	***23.30***	***24.06***	***24.08***	***24.93***

Table 30: Retail IRB exposure – back-testing of probability of default ('PD') per portfolio (CR9)[1,2] (continued)

PD range	Number of obligors		Observed average default rate %	Exposures weighted average PD (%)	Average PD (%)	Average historic annual default rate (%)
	End of previous year[3]	*of which: number which defaulted in the year*				
30.00 to <100.00	***9,680***	***6,426***	***66.38***	***72.97***	***73.13***	***68.38***
100.00 (Default)	**7,025**					
Retail – other non-SME						
0.00 to <0.15	**5,127**	***11***	**0.21**	**0.14**	**0.14**	**0.14**
0.00 to <0.10	***64***	***—***	***—***	***0.09***	***0.09***	***0.12***
0.10 to <0.15	***5,063***	***11***	***0.22***	***0.14***	***0.14***	***0.14***
0.15 to <0.25	**109,998**	***216***	**0.20**	**0.18**	**0.18**	**0.17**
0.25 to <0.50	**86,821**	***327***	**0.38**	**0.39**	**0.39**	**0.35**
0.50 to <0.75	**8**	***—***	**—**	**0.68**	**0.68**	**0.48**
0.75 to <2.50	**193,132**	***1,828***	**0.95**	**1.34**	**1.34**	**0.99**
0.75 to <1.75	***152,717***	***1,175***	***0.77***	***1.14***	***1.14***	***0.79***
1.75 to <2.5	***40,415***	***653***	***1.62***	***2.09***	***2.09***	***1.68***
2.50 to <10.00	**61,177**	***2,320***	**3.79**	**4.57**	**4.72**	**4.04**
2.5 to <5	***39,530***	***1,154***	***2.92***	***3.45***	***3.47***	***3.15***
5 to <10	***21,647***	***1,166***	***5.39***	***6.94***	***7.01***	***5.58***
10.00 to <100.00	**13,760**	***4,214***	**30.63**	**40.18**	**40.35**	**29.25**
10 to <20	***6,267***	***729***	***11.63***	***13.60***	***13.63***	***11.94***
20 to <30	***1,370***	***260***	***18.98***	***24.24***	***24.19***	***19.33***
30.00 to <100.00	***6,123***	***3,225***	***52.67***	***72.58***	***71.32***	***51.70***
100.00 (Default)	**4,936**					
Retail – other SME						
0.00 to <0.15	**34,673**	***51***	**0.15**	**0.11**	**0.11**	**0.08**
0.00 to <0.10	***13,713***	***20***	***0.15***	***0.08***	***0.08***	***0.07***
0.10 to <0.15	***20,960***	***31***	***0.15***	***0.13***	***0.13***	***0.09***
0.15 to <0.25	**28,059**	***39***	**0.14**	**0.20**	**0.20**	**0.16**
0.25 to <0.50	**92,428**	***314***	**0.34**	**0.39**	**0.37**	**0.42**
0.50 to <0.75	**63,171**	***341***	**0.54**	**0.63**	**0.63**	**0.69**
0.75 to <2.50	**234,661**	***2,810***	**1.20**	**1.60**	**1.43**	**1.31**
0.75 to <1.75	***168,623***	***1,584***	***0.94***	***1.35***	***1.16***	***1.10***
1.75 to <2.5	***66,038***	***1,226***	***1.86***	***2.08***	***2.11***	***1.91***
2.50 to <10.00	**144,257**	***6,578***	**4.56**	**5.17**	**5.11**	**4.14**
2.5 to <5	***81,950***	***2,592***	***3.16***	***3.68***	***3.68***	***3.25***
5 to <10	***62,307***	***3,986***	***6.40***	***6.92***	***6.98***	***5.24***
10.00 to <100.00	**70,349**	***22,863***	**32.50**	**26.38**	**25.24**	**14.17**
10 to <20	***37,403***	***10,432***	***27.89***	***15.02***	***14.59***	***7.08***
20 to <30	***14,304***	***3,316***	***23.18***	***24.72***	***24.28***	***13.43***
30.00 to <100.00	***18,642***	***9,115***	***48.89***	***48.29***	***47.35***	***30.11***
100.00 (Default)	**22,906**					
2022						
Retail – Secured by real estate non-SME						
0.00 to <0.15	630,244	*233*	0.04	0.06	0.06	0.04
0.00 to <0.10	*557,800*	*167*	*0.03*	*0.06*	*0.06*	*0.04*
0.10 to <0.15	*72,444*	*66*	*0.09*	*0.12*	*0.12*	*0.09*
0.15 to <0.25	62,707	*73*	0.12	0.19	0.19	0.13
0.25 to <0.50	38,961	*98*	0.25	0.34	0.34	0.3
0.50 to <0.75	9,732	*44*	0.45	0.6	0.6	0.54
0.75 to <2.50	11,120	*97*	0.87	1.29	1.33	1.12
0.75 to <1.75	8,890	66	0.74	1.11	1.14	0.95
1.75 to <2.5	2,230	31	1.39	2.07	2.07	1.77
2.50 to <10.00	3,944	*145*	3.68	4.59	4.66	3.98
2.5 to <5	*2,578*	*77*	*2.99*	*3.43*	*3.45*	*3*
5 to <10	*1,366*	*68*	*4.98*	*6.92*	*6.93*	*5.9*
10.00 to <100.00	4,035	*870*	21.56	30.74	29.58	22.27
10 to <20	*1,701*	*175*	*10.29*	*15.47*	*15.27*	*10.74*
20 to <30	*823*	*135*	*16.4*	*24.35*	*24.37*	*17.03*
30.00 to <100.00	*1,511*	*560*	*37.06*	*47.82*	*48.52*	*37.68*
100.00 (Default)	8,200					

Table 30: Retail IRB exposure – back-testing of probability of default ('PD') per portfolio (CR9)[1,2] (continued)

PD range	Number of obligors: End of previous year	*of which: number which defaulted in the year*	Observed average default rate %	Exposures weighted average PD (%)	Average PD (%)	Average historic annual default rate (%)
Retail – qualifying revolving						
0.00 to <0.15	1,459,244	*1,038*	0.07	0.06	0.06	0.07
0.00 to <0.10	*1,202,666*	*766*	*0.06*	*0.05*	*0.05*	*0.06*
0.10 to <0.15	*256,578*	*272*	*0.11*	*0.12*	*0.12*	*0.11*
0.15 to <0.25	307,967	*540*	0.18	0.2	0.19	0.17
0.25 to <0.50	239,142	*818*	0.34	0.35	0.35	0.34
0.50 to <0.75	121,853	*785*	0.64	0.61	0.62	0.58
0.75 to <2.50	205,173	*3,442*	1.68	1.3	1.31	1.6
0.75 to <1.75	*166,679*	*2,346*	*1.41*	*1.13*	*1.14*	*1.33*
1.75 to <2.5	*38,494*	*1,096*	*2.85*	*2.06*	*2.07*	*2.64*
2.50 to <10.00	64,411	*3,356*	5.21	4.08	4.11	5.11
2.5 to <5	*49,580*	*1,913*	*3.86*	*3.27*	*3.27*	*3.94*
5 to <10	*14,831*	*1,443*	*9.73*	*6.9*	*6.91*	*9.04*
10.00 to <100.00	22,432	*9,858*	43.95	47.44	45.22	42.56
10 to <20	*8,251*	*1,541*	*18.68*	*13.82*	*13.78*	*17.15*
20 to <30	*3,198*	*760*	*23.76*	*24.03*	*24.11*	*25.01*
30.00 to <100.00	*10,983*	*7,557*	*68.81*	*75.34*	*74.99*	*67.87*
100.00 (Default)	14,752					
Retail – other non-SME						
0.00 to <0.15	22,206	*28*	0.13	0.13	0.13	0.11
0.00 to <0.10	*3,050*	*4*	*0.13*	*0.09*	*0.09*	*0.1*
0.10 to <0.15	*19,156*	*24*	*0.13*	*0.13*	*0.13*	*0.12*
0.15 to <0.25	113,618	*178*	0.16	0.19	0.19	0.16
0.25 to <0.50	1,735	*5*	0.29	0.47	0.47	0.32
0.50 to <0.75	63,048	*212*	0.34	0.58	0.58	0.49
0.75 to <2.50	187,915	*1,381*	0.73	1.34	1.35	1.04
0.75 to <1.75	*147,754*	*837*	*0.57*	*1.14*	*1.14*	*0.83*
1.75 to <2.5	*40,161*	*544*	*1.35*	*2.09*	*2.1*	*1.71*
2.50 to <10.00	66,082	*2,260*	3.42	4.65	4.76	4.1
2.5 to <5	*42,105*	*1,049*	*2.49*	*3.48*	*3.49*	*3.21*
5 to <10	*23,977*	*1,211*	*5.05*	*6.91*	*6.99*	*5.64*
10.00 to <100.00	16,755	*4,678*	27.92	38.38	38.98	29.39
10 to <20	*7,423*	*795*	*10.71*	*13.84*	*13.82*	*11.89*
20 to <30	*2,132*	*296*	*13.88*	*24.36*	*24.53*	*19.48*
30.00 to <100.00	*7,200*	*3,587*	*49.82*	*70.53*	*69.2*	*51.93*
100.00 (Default)	9,269					
Retail – other SME						
0.00 to <0.15	19,679	*29*	0.15	0.11	0.11	0.07
0.00 to <0.10	*5,056*	*5*	*0.1*	*0.08*	*0.08*	*0.05*
0.10 to <0.15	*14,623*	*24*	*0.16*	*0.12*	*0.12*	*0.08*
0.15 to <0.25	35,172	*62*	0.18	0.2	0.2	0.15
0.25 to <0.50	57,617	*166*	0.29	0.38	0.36	0.4
0.50 to <0.75	66,203	*335*	0.51	0.62	0.61	0.67
0.75 to <2.50	290,838	*3,657*	1.26	1.74	1.47	1.36
0.75 to <1.75	*209,249*	*2,163*	*1.03*	*1.39*	*1.21*	*1.14*
1.75 to <2.5	*81,589*	*1,494*	*1.83*	*2.11*	*2.14*	*2.01*
2.50 to <10.00	179,681	*9,194*	5.12	5.19	5.11	4.3
2.5 to <5	*96,017*	*2,978*	*3.1*	*3.56*	*3.53*	*3.34*
5 to <10	*83,664*	*6,216*	*7.43*	*6.82*	*6.94*	*5.98*
10.00 to <100.00	76,127	*18,300*	24.04	26.06	24.33	15.88
10 to <20	*41,569*	*5,492*	*13.21*	*13.95*	*14.01*	*8.34*
20 to <30	*15,921*	*3,910*	*24.56*	*24.46*	*24.31*	*14.99*
30.00 to <100.00	*18,637*	*8,898*	*47.74*	*48.32*	*47.37*	*34.44*
100.00 (Default)	26,142					

1 Data represents an annual view, analysed at 30 September.
2 The UK residential mortgages rating system approved by the PRA in April 2023 is reflected in the 31 December 2023 results, comparatives reflect the previous rating systems for HSBC and First Direct residential mortgages.
3 Back-testing is conducted on the basis of the opening count of obligors not in default in each year. Obligors who default during the year are excluded from the opening count for the following year.

Credit risk

Additional tables

Table 31 sets out the specialised lending exposures by different regulatory slotting categories split by remaining maturity.

Table 31: Specialised lending and equity exposures under the simple risk-weight approach (CR10)

Specialised lending: Income-producing real estate and high volatility commercial real estate (Slotting approach)		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected loss
Regulatory categories	Remaining maturity	£m	£m	%	£m	£m	£m
Category 1	Less than 2.5 years	**3,198**	**574**	**50**	**3,571**	**1,735**	**—**
	Equal to or more than 2.5 years	**784**	**192**	**70**	**901**	**631**	**4**
Category 2	Less than 2.5 years	**2,224**	**116**	**70**	**2,306**	**1,539**	**9**
	Equal to or more than 2.5 years	**685**	**130**	**90**	**782**	**728**	**6**
Category 3	Less than 2.5 years	**179**	**16**	**115**	**190**	**203**	**5**
	Equal to or more than 2.5 years	**56**	**16**	**115**	**67**	**69**	**2**
Category 4	Less than 2.5 years	**96**	**62**	**250**	**96**	**238**	**8**
	Equal to or more than 2.5 years	**1**	**—**	**250**	**1**	**3**	**—**
Category 5	Less than 2.5 years	**211**	**—**	**—**	**212**	**—**	**106**
	Equal to or more than 2.5 years	**96**	**—**	**—**	**96**	**—**	**48**
Total at 31 Dec 2023	Less than 2.5 years	**5,908**	**768**	**—**	**6,375**	**3,715**	**128**
	Equal to or more than 2.5 years	**1,622**	**338**	**—**	**1,847**	**1,431**	**60**
Category 1	Less than 2.5 years	4,035	639	50	4,436	2,218	—
	Equal to or more than 2.5 years	1,843	358	70	2,080	1,453	8
Category 2	Less than 2.5 years	1,359	130	70	1,447	1,013	6
	Equal to or more than 2.5 years	549	182	90	664	591	5
Category 3	Less than 2.5 years	118	—	115	118	135	3
	Equal to or more than 2.5 years	24	3	115	22	25	1
Category 4	Less than 2.5 years	7	—	250	7	16	1
	Equal to or more than 2.5 years	7	—	250	7	17	1
Category 5	Less than 2.5 years	264	—	—	265	—	132
	Equal to or more than 2.5 years	174	9	—	176	—	88
Total at 31 Dec 2022	Less than 2.5 years	5,783	770	—	6,273	3,383	142
	Equal to or more than 2.5 years	2,597	551	—	2,949	2,086	103

Table 32 discloses the detailed key parameters used for the calculation of capital requirements of credit risk exposure under the IRB approach, broken down by exposure class and PD range. The risk parameters within this table do not reflect the application of PMAs. The table excludes securitisation positions and non-credit obligation assets. The number of obligors disclose the single obligor with multiple PD ratings counted separately for every PD band. We count these on the basis of our exposure to the original counterparty, reported in the first two columns of this table. The disclosures across all PD ranges are modelled LGD. Deferred tax RWAs reported on IRB approach are not included in this table. Slotting exposures are disclosed in table 31, Specialised lending and equity exposures under the simple risk-weight approach (CR10).

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6)

PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors[2]	Exposure weighted average LGD (%)	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors[1]	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	£m	£m	%	£m	%		%	years	£m	%	£m	£m
AIRB – Central government and central banks												
0.00 to <0.15	8,230	—	—	8,230	0.01	54	45.0	3.2	782	9.5	—	—
0.00 to <0.10	*8,230*	*—*	*—*	*8,230*	*0.01*	*54*	*45.0*	*3.2*	*782*	*9.5*	*—*	*—*
Sub-total	8,230	—	—	8,230	0.01	54	45.0	3.2	782	9.5	—	—
AIRB – Institutions												
0.00 to <0.15	2,386	161	72.0	2,327	0.05	401	23.1	2.5	295	12.7	—	2
0.00 to <0.10	*2,011*	*102*	*84.0*	*1,921*	*0.03*	*293*	*19.8*	*2.7*	*188*	*9.8*	*—*	*—*
0.10 to <0.15	*375*	*59*	*51.0*	*406*	*0.13*	*108*	*38.6*	*1.5*	*107*	*26.4*	*—*	*2*
0.15 to <0.25	66	—	—	66	0.22	5	12.5	2.8	14	21.0	—	—
Sub-total	2,452	161	72.0	2,393	0.06	406	22.8	2.5	309	12.9	—	2
AIRB – Corporate – specialised lending (excluding slotting)												
0.00 to <0.15	—	17	57.0	10	0.13	1	18.0	2.3	1	10.7	—	—
0.10 to <0.15	*—*	*17*	*57.0*	*10*	*0.13*	*1*	*18.0*	*2.3*	*1*	*10.7*	*—*	*—*
0.15 to <0.25	204	88	57.0	255	0.22	11	29.0	3.6	79	30.9	—	—
0.25 to <0.50	194	70	61.0	220	0.37	6	27.8	4.4	102	46.5	—	1
0.50 to <0.75	138	36	57.0	158	0.63	11	22.3	3.8	61	38.5	—	—
0.75 to <2.50	76	284	62.0	252	0.99	7	29.7	4.7	211	83.6	1	1
0.75 to <1.75	*76*	*284*	*62.0*	*252*	*0.99*	*7*	*29.7*	*4.7*	*211*	*83.6*	*1*	*1*
2.50 to <10.00	33	5	57.0	36	5.75	1	45.0	3.1	64	177.2	1	3
5 to <10	*33*	*5*	*57.0*	*36*	*5.75*	*1*	*45.0*	*3.1*	*64*	*177.2*	*1*	*3*
Sub-total	645	500	61.0	931	0.75	37	28.3	4.1	518	55.6	2	5
AIRB – Corporate – SME												
0.25 to <0.50	1	1	98.0	2	0.37	2	48.0	0.7	1	34.4	—	—
Sub-total	1	1	98.0	2	1.83	2	48.0	0.7	1	34.4	—	—
AIRB – Corporate – Other												
0.00 to <0.15	142	306	9.0	172	0.09	82	19.8	2.0	22	12.9	—	—
0.00 to <0.10	*72*	*294*	*8.0*	*95*	*0.06*	*64*	*23.1*	*1.8*	*11*	*11.7*	*—*	*—*
0.10 to <0.15	*70*	*12*	*45.0*	*77*	*0.13*	*18*	*15.6*	*2.4*	*11*	*14.4*	*—*	*—*
0.15 to <0.25	161	66	4.0	163	0.22	41	27.1	2.4	56	34.1	—	—
0.25 to <0.50	186	58	1.0	125	0.34	66	14.5	1.5	19	14.9	—	4
0.50 to <0.75	118	32	3.0	120	0.60	94	15.0	1.9	28	23.1	—	—
0.75 to <2.50	247	97	47.0	213	1.31	5,714	21.9	2.2	126	59.0	1	1
0.75 to <1.75	*234*	*95*	*48.0*	*200*	*1.25*	*5,351*	*22.4*	*2.2*	*121*	*60.6*	*1*	*1*
1.75 to <2.5	*13*	*2*	*6.0*	*13*	*2.17*	*363*	*13.4*	*1.4*	*5*	*34.8*	*—*	*—*
2.50 to <10.00	97	103	2.0	98	4.16	1,494	31.5	1.4	92	93.7	1	1
2.5 to <5	*97*	*103*	*2.0*	*98*	*4.16*	*1,494*	*31.5*	*1.4*	*92*	*93.7*	*1*	*1*
10.00 to <100.00	24	10	1.0	23	89.77	106	20.0	1.1	7	31.7	3	—
30 to <100	*24*	*10*	*1.0*	*23*	*89.77*	*106*	*20.0*	*1.1*	*7*	*31.7*	*3*	*—*
100.00 (Default)	78	21	13.0	81	100.00	773	22.6	1.1	158	196.1	8	7
Sub-total	1,053	693	12.0	995	11.05	8,370	21.6	1.9	508	51.0	13	13
Wholesale AIRB – Total at 31 Dec 2023	12,381	1,355	37.1	12,551	0.90	8,869	37.7	3.0	2,118	16.8	15	20

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6) (continued)

PD scale	On-balance sheet exposures £m	Off-balance-sheet exposures pre-CCF £m	Exposure weighted average CCF %	Exposure post CCF and post-CRM £m	Exposure weighted average PD %	Number of obligors[2]	Exposure weighted average LGD %	Exposure weighted average maturity years	Risk weighted exposure amount after supporting factors[1] £m	Density of risk weighted exposure amount %	Expected loss amount £m	Value adjustments and provisions £m
AIRB – Secured by mortgages on immovable property SME												
2.50 to <10.00	1	—	—	1	4.80	18	86.7	—	2	226.0	—	—
2.5 to <5	*1*	—	—	*1*	*4.80*	*18*	*86.7*	—	*2*	*226.0*	—	—
Sub-total	1	—	—	1	4.80	18	86.7	—	2	226.0	—	—
AIRB – Secured by mortgages on immovable property non-SME[4]												
0.00 to <0.15	12,321	6,016	74.0	16,759	0.11	116,910	13.5	—	830	5.0	4	2
0.00 to <0.10	*120*	*2,779*	*100.0*	*2,888*	*0.05*	*39*	*19.5*	—	*229*	*7.9*	*1*	—
0.10 to <0.15	*12,201*	*3,237*	*52.0*	*13,871*	*0.12*	*116,871*	*12.3*	—	*601*	*4.3*	*3*	*2*
0.15 to <0.25	11,878	1,635	48.0	12,669	0.18	90,793	12.6	—	693	5.5	3	2
0.25 to <0.50	53,984	1,686	35.0	54,573	0.31	414,000	13.5	—	4,378	8.0	23	16
0.50 to <0.75	23,579	230	74.0	23,772	0.51	169,637	14.3	—	2,875	12.1	19	16
0.75 to <2.50	25,698	601	78.0	26,269	1.00	176,613	13.6	—	4,663	17.8	36	46
0.75 to <1.75	*23,751*	*517*	*84.0*	*24,282*	*0.92*	*155,336*	*13.6*	—	*4,120*	*17.0*	*31*	*36*
1.75 to <2.5	*1,947*	*84*	*40.0*	*1,987*	*1.98*	*21,277*	*13.4*	—	*543*	*27.4*	*5*	*10*
2.50 to <10.00	1,243	237	23.0	1,302	4.18	21,046	12.7	—	515	39.6	7	12
2.5 to <5	*1,124*	*200*	*23.0*	*1,174*	*3.79*	*12,733*	*12.6*	—	*441*	*37.5*	*6*	*10*
5 to <10	*119*	*37*	*24.0*	*128*	*7.74*	*8,313*	*13.6*	—	*74*	*58.1*	*1*	*2*
10.00 to <100.00	320	35	22.0	331	31.04	7,306	8.9	—	158	47.8	9	6
10 to <20	*160*	*31*	*15.0*	*166*	*14.09*	*3,463*	*8.9*	—	*81*	*48.8*	*2*	*2*
20 to <30	*6*	—	—	*6*	*23.18*	*2,286*	*9.6*	—	*3*	*50.1*	—	—
30 to <100	*154*	*4*	*83.0*	*159*	*48.93*	*1,557*	*8.9*	—	*74*	*46.6*	*7*	*4*
100.00 (Default)	616	11	30.0	619	100.00	6,343	15.2	—	776	125.4	33	113
Sub-total	129,639	10,451	62.0	136,294	1.01	1,002,648	13.6	—	14,888	10.9	134	213
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	1,938	21,606	65.0	15,892	0.05	10,682,180	76.8	—	700	4.4	10	29
0.00 to <0.10	*1,575*	*19,344*	*65.0*	*14,190*	*0.04*	*9,441,131*	*76.3*	—	*537*	*3.8*	*7*	*24*
0.10 to <0.15	*363*	*2,262*	*59.0*	*1,702*	*0.12*	*1,241,049*	*80.9*	—	*163*	*9.6*	*3*	*5*
0.15 to <0.25	499	2,858	62.0	2,286	0.19	1,693,335	83.3	—	341	14.9	6	8
0.25 to <0.50	766	2,080	63.0	2,072	0.35	1,408,956	81.3	—	484	23.4	10	12
0.50 to <0.75	665	852	57.0	1,102	0.61	543,013	82.8	—	428	38.8	10	18
0.75 to <2.50	1,499	993	83.0	2,343	1.34	1,220,023	83.2	—	1,678	71.6	46	90
0.75 to <1.75	*1,179*	*854*	*78.0*	*1,857*	*1.15*	*932,628*	*83.6*	—	*1,217*	*65.5*	*32*	*70*
1.75 to <2.5	*320*	*139*	*115.0*	*486*	*2.07*	*287,395*	*81.9*	—	*461*	*95.0*	*14*	*20*
2.50 to <10.00	761	429	79.0	1,118	4.45	625,211	80.2	—	1,597	142.9	60	72
2.5 to <5	*502*	*357*	*71.0*	*769*	*3.32*	*422,623*	*81.9*	—	*999*	*130.1*	*34*	*40*
5 to <10	*259*	*72*	*116.0*	*349*	*6.94*	*202,588*	*76.5*	—	*598*	*171.1*	*26*	*32*
10.00 to <100.00	230	77	77.0	299	27.65	175,613	79.5	—	864	289.1	110	51
10 to <20	*133*	*58*	*83.0*	*186*	*13.92*	*107,544*	*78.4*	—	*535*	*287.6*	*31*	*23*
20 to <30	*32*	*7*	*95.0*	*41*	*24.00*	*29,168*	*77.7*	—	*133*	*328.1*	*11*	—
30 to <100	*65*	*12*	*42.0*	*72*	*64.99*	*38,901*	*83.3*	—	*196*	*271.0*	*68*	*28*
100.00 (Default)	86	14	36.0	90	100.00	190,453	81.6	—	157	174.1	44	39
Sub-total	6,444	28,909	65.0	25,202	1.11	16,538,784	78.8	—	6,249	24.8	296	319
AIRB – Other SME												
0.00 to <0.15	2	21	89.0	21	0.11	39,221	94.0	—	4	20.1	—	46
0.00 to <0.10	*1*	*8*	*97.0*	*8*	*0.08*	*16,408*	*94.2*	—	*1*	*16.8*	—	*46*
0.10 to <0.15	*1*	*13*	*85.0*	*13*	*0.13*	*22,813*	*93.9*	—	*3*	*22.1*	—	—
0.15 to <0.25	6	45	61.0	32	0.20	43,393	93.7	—	10	32.1	—	—
0.25 to <0.50	16	131	63.0	97	0.38	94,676	94.6	—	50	51.7	—	—
0.50 to <0.75	14	89	72.0	77	0.62	73,769	94.4	—	52	67.4	1	—
0.75 to <2.50	1,762	795	51.0	882	1.57	412,944	84.4	—	773	87.7	14	9
0.75 to <1.75	*1,397*	*656*	*51.0*	*746*	*1.48*	*323,787*	*83.5*	—	*599*	*80.4*	*10*	*6*
1.75 to <2.5	*365*	*139*	*53.0*	*136*	*2.09*	*89,157*	*89.3*	—	*174*	*127.7*	*4*	*3*
2.50 to <10.00	1,170	234	51.0	465	5.10	207,135	85.4	—	519	111.5	25	12

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6) (continued)

PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post CCF and post-CRM	Exposure weighted average PD	Number of obligors[2]	Exposure weighted average LGD	Exposure weighted average maturity	Risk weighted exposure amount after supporting factors[1]	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	£m	£m	%	£m	%		%	years	£m	%	£m	£m
2.5 to <5	*653*	*152*	*49.0*	*262*	*3.67*	*120,037*	*85.4*	*—*	*286*	*109.4*	*11*	*5*
5 to <10	*517*	*82*	*53.0*	*203*	*6.94*	*87,098*	*85.4*	*—*	*233*	*114.2*	*14*	*7*
10.00 to <100.00	1,100	69	62.0	242	23.19	140,011	85.4	—	391	161.7	61	37
10 to <20	*727*	*43*	*59.0*	*140*	*13.71*	*81,064*	*83.2*	*—*	*189*	*135.5*	*18*	*16*
20 to <30	*170*	*15*	*61.0*	*50*	*24.76*	*26,263*	*87.9*	*—*	*93*	*187.8*	*13*	*1*
30 to <100	*203*	*11*	*74.0*	*52*	*46.93*	*32,684*	*88.8*	*—*	*109*	*207.0*	*30*	*20*
100.00 (Default)	787	8	51.0	49	100.00	16,124	65.4	—	41	84.7	41	30
Sub-total	4,857	1,392	55.0	1,865	7.70	1,027,273	85.5	—	1,840	98.8	142	134
AIRB – Other non-SME												
0.00 to <0.15	339	1,278	33.0	755	0.11	26,696	20.4	—	42	5.5	—	2
0.00 to <0.10	*97*	*707*	*5.0*	*133*	*0.05*	*18,748*	*36.9*	*—*	*9*	*6.3*	*—*	*1*
0.10 to <0.15	*242*	*571*	*67.0*	*622*	*0.13*	*7,948*	*16.9*	*—*	*33*	*5.4*	*—*	*1*
0.15 to <0.25	583	64	75.0	630	0.22	107,028	83.1	—	236	37.4	1	2
0.25 to <0.50	1,228	143	4.0	1,229	0.39	109,897	79.0	—	639	52.0	4	7
0.50 to <0.75	422	56	4.0	423	0.57	34,558	75.4	—	259	61.4	2	5
0.75 to <2.50	2,281	177	25.0	2,315	1.40	251,114	79.6	—	2,190	94.6	25	13
0.75 to <1.75	*1,799*	*73*	*10.0*	*1,799*	*1.20*	*179,044*	*79.6*	*—*	*1,627*	*90.4*	*17*	*10*
1.75 to <2.5	*482*	*104*	*35.0*	*516*	*2.06*	*72,070*	*79.5*	*—*	*563*	*109.1*	*8*	*3*
2.50 to <10.00	677	34	33.0	685	4.58	118,726	83.4	—	882	128.9	26	22
2.5 to <5	*472*	*34*	*33.0*	*481*	*3.54*	*88,585*	*82.1*	*—*	*593*	*123.4*	*14*	*6*
5 to <10	*205*	*—*	*78.0*	*204*	*7.01*	*30,141*	*86.5*	*—*	*289*	*141.7*	*12*	*16*
10.00 to <100.00	159	26	2.0	158	41.01	20,092	77.0	—	236	149.7	47	51
10 to <20	*69*	*—*	*90.0*	*68*	*13.73*	*10,008*	*84.6*	*—*	*117*	*168.9*	*8*	*15*
20 to <30	*17*	*—*	*33.0*	*17*	*24.11*	*2,221*	*78.7*	*—*	*32*	*199.2*	*3*	*4*
30 to <100	*73*	*26*	*1.0*	*73*	*70.54*	*7,863*	*69.5*	*—*	*87*	*120.2*	*36*	*32*
100.00 (Default)	46	2	8.0	47	100.00	4,953	81.7	—	139	298.4	27	31
Sub-total	5,735	1,780	30.0	6,242	2.95	673,064	72.7	—	4,623	74.1	132	133
Retail AIRB – Total at 31 Dec 2023	146,676	42,532	62.4	169,604	1.00	19,241,787	26.2	—	27,602	16.3	704	799
FIRB – Corporate – SME[3]												
0.00 to <0.15	334	178	18.0	361	0.13	648	39.5	2.6	92	25.4	—	—
0.00 to <0.10	*1*	*—*	*—*	*1*	*0.07*	*9*	*45.0*	*1.4*	*—*	*14.5*	*—*	*—*
0.00 to <0.10	*333*	*178*	*18.0*	*360*	*0.13*	*639*	*39.5*	*2.6*	*92*	*25.5*	*—*	*—*
0.15 to <0.25	873	330	15.0	898	0.22	1,597	37.4	2.9	305	34.0	1	2
0.25 to <0.50	1,157	334	13.0	1,163	0.37	1,750	37.6	2.9	506	43.6	2	5
0.50 to <0.75	885	194	15.0	875	0.63	1,304	38.4	2.5	473	54.0	3	4
0.75 to <2.50	1,732	394	20.0	1,718	1.31	2,517	38.1	2.7	1,203	70.0	12	13
0.75 to <1.75	*1,490*	*333*	*21.0*	*1,492*	*1.16*	*2,078*	*38.1*	*2.7*	*1,016*	*68.1*	*9*	*10*
1.75 to <2.5	*242*	*61*	*12.0*	*226*	*2.25*	*439*	*38.1*	*2.8*	*187*	*83.1*	*3*	*3*
2.50 to <10.00	634	111	19.0	594	4.69	925	39.0	2.4	600	100.9	15	17
2.5 to <5	*366*	*78*	*22.0*	*354*	*3.50*	*591*	*38.9*	*2.5*	*327*	*92.4*	*7*	*7*
5 to <10	*268*	*33*	*12.0*	*240*	*6.46*	*334*	*39.2*	*2.3*	*273*	*113.5*	*8*	*10*
10.00 to <100.00	206	23	29.0	191	21.62	244	39.7	1.8	275	144.2	23	11
10 to <20	*165*	*19*	*24.0*	*150*	*12.87*	*210*	*39.5*	*1.8*	*215*	*143.9*	*10*	*8*
30 to <100	*41*	*4*	*56.0*	*41*	*53.52*	*34*	*40.3*	*1.7*	*60*	*145.3*	*13*	*3*
100.00 (Default)	385	16	10.0	355	100.00	327	38.9	2.2	—	—	138	49
Sub-total	6,206	1,580	16.0	6,155	7.45	9,312	38.2	2.6	3,454	56.1	194	101

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6) (continued)

PD scale	On-balance sheet exposures £m	Off-balance-sheet exposures pre-CCF £m	Exposure weighted average CCF %	Exposure post CCF and post-CRM £m	Exposure weighted average PD %	Number of obligors[2]	Exposure weighted average LGD %	Exposure weighted average maturity years	Risk weighted exposure amount after supporting factors[1] £m	Density of risk weighted exposure amount %	Expected loss amount £m	Value adjustments and provisions £m
FIRB – Corporate – Other												
0.00 to <0.15	**6,015**	**6,130**	**63.0**	**10,622**	**0.10**	**5,543**	**37.7**	**2.5**	**2,970**	**28.0**	**4**	**6**
0.00 to <0.10	***2,991***	***2,915***	***67.0***	***5,384***	***0.06***	***801***	***35.0***	***2.3***	***1,051***	***19.5***	***1***	***1***
0.10 to <0.15	***3,024***	***3,215***	***59.0***	***5,238***	***0.13***	***4,742***	***40.5***	***2.7***	***1,919***	***36.6***	***3***	***5***
0.15 to <0.25	**5,764**	**4,066**	**49.0**	**7,528**	**0.22**	**4,176**	**35.7**	**2.0**	**2,916**	**38.7**	**7**	**10**
0.25 to <0.50	**5,100**	**2,874**	**41.0**	**6,383**	**0.37**	**4,625**	**38.4**	**2.1**	**3,484**	**54.6**	**11**	**22**
0.50 to <0.75	**4,798**	**2,328**	**39.0**	**5,733**	**0.63**	**3,586**	**38.7**	**1.9**	**3,875**	**67.6**	**17**	**23**
0.75 to <2.50	**12,902**	**6,127**	**39.0**	**14,391**	**1.45**	**33,679**	**37.6**	**2.1**	**13,204**	**91.8**	**95**	**87**
0.75 to <1.75	***9,653***	***4,775***	***38.0***	***10,911***	***1.19***	***31,123***	***37.6***	***2.0***	***9,396***	***86.1***	***59***	***57***
1.75 to <2.5	***3,249***	***1,352***	***45.0***	***3,480***	***2.25***	***2,556***	***37.5***	***2.3***	***3,808***	***109.4***	***36***	***30***
2.50 to <10.00	**4,868**	**2,482**	**51.0**	**5,875**	**4.22**	**4,644**	**35.3**	**2.1**	**7,092**	**120.7**	**105**	**113**
2.5 to <5	***3,670***	***2,109***	***51.0***	***4,572***	***3.56***	***3,560***	***35.5***	***2.2***	***5,325***	***116.5***	***70***	***71***
5 to <10	***1,198***	***373***	***50.0***	***1,303***	***6.52***	***1,084***	***34.7***	***1.7***	***1,767***	***135.6***	***35***	***42***
10.00 to <100.00	**1,530**	**298**	**41.0**	**1,586**	**14.67**	**868**	**38.2**	**1.6**	**3,039**	**191.6**	**107**	**80**
10 to <20	***1,363***	***216***	***51.0***	***1,412***	***11.84***	***761***	***38.8***	***1.7***	***2,703***	***191.4***	***80***	***72***
30 to <100	***167***	***82***	***15.0***	***174***	***37.65***	***107***	***33.6***	***1.0***	***336***	***193.1***	***27***	***8***
100.00 (Default)	**1,316**	**279**	**52.0**	**1,339**	**100.00**	**1,500**	**41.9**	**1.8**	**—**	**—**	**561**	**375**
Sub-total	**42,293**	**24,584**	**49.0**	**53,457**	**3.96**	**58,621**	**37.4**	**2.1**	**36,580**	**68.4**	**907**	**716**
FIRB - Total at 31 Dec 2023	**48,499**	**26,164**	**47.0**	**59,612**	**4.32**	**67,933**	**37.5**	**2.2**	**40,034**	**67.2**	**1,101**	**817**
AIRB – Central government and central banks												
0.00 to <0.15	5,803	—	—	5,803	0.01	58	45.0	4.00	700	12.1	—	—
0.00 to <0.10	*5,803*	—	—	*5,803*	*0.01*	*58*	*45.0*	*4.00*	*700*	*12.1*	—	—
Sub-total	5,803	—	—	5,803	0.01	58	45.0	4.00	700	12.1	—	—
AIRB – Institutions												
0.00 to <0.15	1,924	107	76.0	1,987	0.05	0	0.00	0.0	323	16.2	0	2
0.00 to <0.10	*1,697*	*67*	*72.0*	*1,727*	*0.04*	*0*	*22.10*	*3.2*	*233*	*13.5*	*0*	*0*
0.10 to <0.15	*226*	*40*	*84.0*	*260*	*0.13*	*0*	*47.60*	*1.2*	*89*	*34.4*	*0*	*1*
0.15 to <0.25	0	1	0.0	0	0.22	0	45.00	1.0	0	38.3	0	0
Sub-total	1,924	108	76.0	1,987	0.05	0	25.50	3.0	323	16.2	0	2
AIRB – Corporate – specialised lending (excluding slotting)												
0.00 to <0.15	6	17	57.0	15	0.13	2	30.2	3.3	4	23.3	—	—
0.10 to <0.15	*6*	*17*	*57.0*	*15*	*0.13*	*2*	*30.2*	*3.3*	*4*	*23.3*	—	—
0.15 to <0.25	160	40	57.0	183	0.22	8	26.1	4.1	52	28.5	—	1
0.25 to <0.50	224	68	58.0	263	0.37	6	33.8	4.4	149	56.4	—	1
0.50 to <0.75	104	31	57.0	122	0.63	9	40.4	3.3	86	70.5	—	—
0.75 to <2.50	83	189	60.0	196	1.09	8	36.3	4.5	204	104.1	1	—
0.75 to <1.75	*83*	*189*	*60.0*	*196*	*1.09*	*8*	*36.3*	*4.5*	*204*	*104.1*	*1*	—
Sub-total	577	345	59.0	780	0.55	33	33.6	4.2	494	63.4	2	2

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6)

PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	£m	£m	%	£m	%		%	years	£m	%	£m	£m
AIRB – Corporate – SME												
0.25 to <0.50	2	—	—	2	0.37	1	48	0.9	1	42.9	—	—
Sub-total	2	—	—	2	0.37	1	48	0.9	1	42.9	—	—
AIRB – Corporate – Other												
0.00 to <0.15	159	174	1.0	165	0.10	66	15	2.2	20	12.2	—	—
0.00 to <0.10	*67*	*158*	*1.0*	*67*	*0.05*	*45*	*17*	*1.8*	*7*	*10.3*	—	—
0.10 to <0.15	*92*	*15*	*10.0*	*98*	*0.13*	*21*	*13*	*2.5*	*13*	*13.5*	—	—
0.15 to <0.25	104	1	73.0	105	0.22	24	15	3.6	18	17.4	—	—
0.25 to <0.50	125	39	53.0	146	0.36	46	19	2.5	43	29.5	—	—
0.50 to <0.75	180	35	4.0	181	0.59	29	11	1.9	37	20.3	—	—
0.75 to <2.50	222	65	105.0	286	1.80	1,760	22	1.8	163	56.9	1	1
0.75 to <1.75	*87*	*24*	*237.0*	*140*	*1.40*	*1,748*	*18*	*1.8*	*63*	*45.5*	—	—
1.75 to <2.5	*135*	*41*	*29.0*	*147*	*2.18*	*12*	*26*	*1.7*	*100*	*67.8*	*1*	—
2.50 to <10.00	70	739	—	70	4.56	29	30	1.1	65	91.6	1	—
2.5 to <5	*69*	*738*	—	*70*	*4.54*	*25*	*29*	*1.1*	*63*	*90.7*	*1*	—
5 to <10	*1*	—	—	*1*	*5.84*	*4*	*50*	*1.2*	*1*	*167.7*	—	—
10.00 to <100.00	7	—	—	7	16.34	9	13	1.0	5	64.4	—	—
10 to <20	*6*	—	—	*6*	*10.91*	*6*	*15*	*1.0*	*4*	*67.6*	—	—
30 to <100	*2*	—	—	*2*	*36.01*	*3*	*8*	*1.0*	*1*	*52.8*	—	—
100.00 (Default)	61	—	—	62	100.00	13	18	1.0	68	110.1	7	7
Sub-total	928	1,053	9.0	1,023	7.19	1,976	18	2.0	419	40.9	10	8
Wholesale AIRB – Total at 31 Dec 2022	9,234	1,506	25.2	9,594	0.80	2,476	37	3.6	1,937	20.2	12	12
AIRB – Secured by mortgages on immovable property SME												
10.00 to <100.00	1	1	15.0	1	14.08	43	72.4	—	2	299.6	—	—
20 to <30	*1*	*1*	*15.0*	*1*	*14.08*	*43*	*72.4*	—	*2*	*299.6*	—	—
Sub-total	1	1	15.0	1	14.08	43	72.4	—	2	299.6	—	—
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	104,652	9,528	102.0	116,521	0.07	836,341	13.6	—	7,735	6.6	29	9
0.00 to <0.10	*89,988*	*6,582*	*101.0*	*98,510*	*0.05*	*717,635*	*12.8*	—	*5,349*	*5.4*	*19*	*7*
0.10 to <0.15	*14,664*	*2,946*	*104.0*	*18,011*	*0.12*	*118,706*	*17.9*	—	*2,386*	*13.2*	*10*	*3*
0.15 to <0.25	9,925	1,898	104.0	12,096	0.20	75,777	16.8	—	2,159	17.8	10	4
0.25 to <0.50	5,595	636	107.0	6,382	0.35	42,368	15.4	—	1,541	24.1	8	4
0.50 to <0.75	1,966	170	107.0	2,187	0.61	12,581	14.1	—	670	30.6	4	3
0.75 to <2.50	1,958	194	103.0	2,190	1.27	12,421	14.7	—	995	45.4	7	7
0.75 to <1.75	*1,680*	*161*	*101.0*	*1,870*	*1.12*	*10,263*	*15.7*	—	*848*	*45.4*	*6*	*5*
1.75 to <2.5	*278*	*33*	*113.0*	*320*	*2.11*	*2,158*	*9.2*	—	*146*	*45.7*	*1*	*3*
2.50 to <10.00	525	80	114.0	626	4.63	5,058	7.3	—	327	52.3	4	15
2.5 to <5	*357*	*54*	*114.0*	*424*	*3.58*	*3,362*	*7.9*	—	*211*	*49.8*	*2*	*7*
5 to <10	*169*	*26*	*115.0*	*201*	*6.86*	*1,696*	*6.2*	—	*116*	*57.6*	*2*	*7*
10.00 to <100.00	507	14	109.0	531	28.29	5,227	9.6	—	626	117.8	32	59
10 to <20	*227*	*8*	*113.0*	*240*	*15.58*	*2,264*	*10.9*	—	*305*	*127.3*	*8*	*18*
20 to <30	*97*	*1*	*127.0*	*100*	*24.51*	*981*	*6.7*	—	*106*	*105.7*	*4*	*12*
30 to <100	*183*	*6*	*101.0*	*192*	*46.14*	*1,982*	*9.5*	—	*215*	*112.2*	*20*	*29*
100.00 (Default)	623	16	20.0	624	100.00	7,789	11.7	—	725	116.2	28	83
Sub-total	125,751	12,537	103.0	141,157	0.69	997,562	13.9	—	14,778	10.5	123	185
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	2,029	22,021	65.0	16,269	0.05	10,659,512	77.0	—	734	4.5	11	22
0.00 to <0.10	*1,522*	*18,927*	*65.0*	*13,915*	*0.04*	*9,500,989*	*76.2*	—	*491*	*3.5*	*7*	*15*
0.10 to <0.15	*507*	*3,094*	*59.0*	*2,355*	*0.13*	*1,158,523*	*81.8*	—	*242*	*10.3*	*4*	*7*
0.15 to <0.25	459	2,458	64.0	2,024	0.22	1,605,945	83.2	—	336	16.6	6	10

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6)

PD scale	On-balance sheet exposures £m	Off-balance-sheet exposures pre-CCF £m	Exposure weighted average CCF %	Exposure post-CCF and post-CRM £m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity years	Risk weighted exposure amount after supporting factors £m	Density of risk weighted exposure amount %	Expected loss amount £m	Value adjustments and provisions £m
0.25 to <0.50	597	1,350	77.0	1,629	0.36	1,339,551	81.9	—	391	24.0	7	16
0.50 to <0.75	534	816	67.0	1,115	0.59	534,542	84.0	—	443	39.8	9	27
0.75 to <2.50	1,310	986	80.0	2,129	1.39	1,122,226	82.6	—	1,554	73.0	42	120
0.75 to <1.75	*1,079*	*809*	*76.0*	*1,724*	*1.21*	*836,122*	*83.1*	—	*1,188*	*68.9*	*31*	*97*
1.75 to <2.5	*230*	*177*	*95.0*	*405*	*2.18*	*286,104*	*80.5*	—	*366*	*90.4*	*11*	*24*
2.50 to <10.00	600	316	87.0	894	4.63	584,571	78.9	—	1,277	142.8	47	85
2.5 to <5	*371*	*244*	*77.0*	*571*	*3.45*	*377,447*	*80.5*	—	*746*	*130.6*	*25*	*46*
5 to <10	*229*	*71*	*118.0*	*323*	*6.71*	*207,124*	*76.1*	—	*531*	*164.3*	*22*	*39*
10.00 to <100.00	213	47	85.0	268	28.61	158,373	80.1	—	763	284.4	107	52
10 to <20	*129*	*29*	*105.0*	*166*	*13.17*	*93,252*	*78.3*	—	*449*	*270.4*	*25*	*24*
20 to <30	*19*	*3*	*117.0*	*29*	*27.27*	*29,980*	*82.6*	—	*107*	*367.5*	*9*	—
30 to <100	*65*	*15*	*37.0*	*73*	*64.09*	*35,141*	*83.2*	—	*208*	*283.1*	*73*	*28*
100.00 (Default)	123	28	66.0	139	100.00	223,370	65.7	—	229	164.4	77	62
Sub-total	5,863	28,022	66.0	24,468	1.28	16,228,090	78.7	—	5,727	23.4	306	394
AIRB – Other SME												
0.00 to <0.15	1	13	101.0	14	0.12	30,845	93.5	—	3	21.4	—	46
0.00 to <0.10	—	*3*	*100.0*	*3*	*0.08*	*6,448*	*93.9*	—	—	*16.0*	—	*46*
0.10 to <0.15	*1*	*10*	*101.0*	*11*	*0.13*	*24,397*	*93.4*	—	*3*	*22.8*	—	—
0.15 to <0.25	5	22	73.0	19	0.21	28,715	92.4	—	6	31.1	—	—
0.25 to <0.50	11	96	60.0	67	0.39	79,901	94.4	—	32	48.4	—	—
0.50 to <0.75	13	96	66.0	75	0.63	69,450	94.6	—	48	63.1	—	—
0.75 to <2.50	2,226	866	53.0	976	1.61	525,135	83.6	—	834	85.4	16	15
0.75 to <1.75	*1,533*	*675*	*53.0*	*791*	*1.50*	*386,002*	*83.2*	—	*649*	*82.0*	*11*	*8*
1.75 to <2.5	*693*	*191*	*53.0*	*184*	*2.09*	*139,133*	*85.7*	—	*185*	*100.2*	*5*	*7*
2.50 to <10.00	1,663	288	52.0	553	5.19	310,360	83.2	—	639	115.6	36	31
2.5 to <5	*827*	*180*	*52.0*	*293*	*3.64*	*171,169*	*83.8*	—	*343*	*117.0*	*15*	*10*
5 to <10	*837*	*108*	*52.0*	*260*	*6.94*	*139,191*	*82.7*	—	*296*	*114.0*	*20*	*21*
10.00 to <100.00	1,355	86	52.0	219	22.16	212,352	85.9	—	338	154.1	47	57
10 to <20	*910*	*58*	*48.0*	*130*	*13.87*	*135,061*	*84.6*	—	*177*	*135.6*	*18*	*32*
20 to <30	*206*	*17*	*56.0*	*46*	*24.24*	*35,091*	*87.7*	—	*81*	*177.2*	*11*	*1*
30 to <100	*239*	*11*	*67.0*	*44*	*44.74*	*42,200*	*88.2*	—	*81*	*185.0*	*19*	*24*
100.00 (Default)	1,113	11	68.0	76	100.00	54,640	68.0	—	50	66.3	59	49
Sub-total	6,388	1,478	55.0	1,998	8.48	1,311,398	84.1	—	1,949	97.5	159	200
AIRB – Other non-SME												
0.00 to <0.15	492	655	61.0	890	0.10	54,366	24.4	—	65	7.3	—	2
0.00 to <0.10	*215*	*302*	*21.0*	*277*	*0.04*	*27,313*	*26.7*	—	*17*	*6.3*	—	*2*
0.10 to <0.15	*278*	*353*	*95.0*	*612*	*0.13*	*27,053*	*23.4*	—	*47*	*7.7*	—	—
0.15 to <0.25	542	47	41.0	560	0.20	94,612	77.9	—	188	33.5	1	2
0.25 to <0.50	1,343	134	4.0	1,345	0.37	111,077	74.8	—	649	48.2	4	7
0.50 to <0.75	198	44	5.0	200	0.60	12,741	61.8	—	98	49.0	—	—
0.75 to <2.50	2,098	105	39.0	2,131	1.36	213,708	77.6	—	1,939	91.0	22	30
1.75 to <2.5	*1,737*	*93*	*42.0*	*1,770*	*1.20*	*166,107*	*76.2*	—	*1,523*	*86.1*	*15*	*19*
0.75 to <1.75	*362*	*12*	*13.0*	*362*	*2.13*	*47,601*	*84.0*	—	*416*	*115.1*	*6*	*10*
2.50 to <10.00	595	11	93.0	602	4.66	98,119	85.8	—	789	131.0	24	53
2.5 to <5	*393*	*11*	*93.0*	*401*	*3.47*	*68,939*	*85.5*	—	*506*	*126.3*	*12*	*29*
5 to <10	*203*	—	—	*202*	*7.02*	*29,180*	*86.4*	—	*283*	*140.2*	*12*	*24*
10.00 to <100.00	111	1	65.0	110	35.13	17,630	85.2	—	187	169.2	33	31
10 to <20	*61*	*1*	*42.0*	*61*	*14.03*	*9,218*	*83.4*	—	*101*	*166.7*	*7*	*11*
20 to <30	*10*	—	—	*10*	*25.90*	*1,793*	*86.4*	—	*22*	*220.2*	*2*	*2*
30 to <100	*40*	—	—	*39*	*70.12*	*6,619*	*87.7*	—	*63*	*159.8*	*24*	*18*
100.00 (Default)	48	1	63.0	47	100.00	6,038	82.1	—	104	219.9	31	36
Sub-total	5,428	997	48.0	5,885	2.58	608,291	69.4	—	4,018	68.3	115	162
Retail AIRB – Total at 31 Dec 2022	143,432	43,035	75.91	173,510	1.00	22,107,934	25.7	0	26,476	15.3	703	941

Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6) (continued)

PD scale	On-balance sheet exposures	Off-balance-sheet exposures pre-CCF	Exposure weighted average CCF	Exposure post-CCF and post-CRM	Exposure weighted average PD	Numb-er of obligors	Exposure weighted average LGD	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors	Density of risk weighted exposure amount	Expected loss amount	Value adjustments and provisions
	£m	£m	%	£m	%		%	years	£m	%	£m	£m
FIRB – Corporate – SME												
0.00 to <0.15	622	231	19.0	652	0.13	1,392	40.7	2.6	196	30.1	—	1
0.00 to <0.10	*3*	*—*	*—*	*3*	*0.07*	*2*	*45.0*	*1.5*	*—*	*16.8*	*—*	*—*
0.10 to <0.15	*619*	*231*	*19.0*	*649*	*0.13*	*1,390*	*40.7*	*2.6*	*196*	*30.2*	*—*	*1*
0.15 to <0.25	1,608	586	16.0	1,639	0.22	2,573	38.8	2.3	575	35.1	2	3
0.25 to <0.50	1,903	491	11.0	1,885	0.37	2,661	38.0	2.7	900	47.7	4	5
0.50 to <0.75	1,608	325	21.0	1,604	0.63	1,901	38.1	2.6	969	60.4	5	7
0.75 to <2.50	3,117	632	21.0	3,036	1.32	4,222	38.3	2.4	2,300	75.8	21	14
0.75 to <1.75	*2,650*	*544*	*22.0*	*2,606*	*1.17*	*3,597*	*38.3*	*2.4*	*1,920*	*73.7*	*16*	*12*
1.75 to <2.5	*468*	*88*	*17.0*	*429*	*2.25*	*625*	*38.4*	*2.4*	*380*	*88.5*	*5*	*2*
2.50 to <10.00	956	164	16.0	872	4.83	1,416	38.2	2.4	960	110.2	22	16
5 to <10	*529*	*94*	*19.0*	*500*	*3.56*	*826*	*38.2*	*2.7*	*507*	*101.3*	*9*	*7*
2.5 to <5	*427*	*70*	*12.0*	*372*	*6.54*	*590*	*38.2*	*2.1*	*454*	*122.1*	*12*	*9*
10.00 to <100.00	313	41	18.0	279	14.60	409	38.4	1.9	437	156.7	21	12
10 to <20	*289*	*39*	*18.0*	*258*	*12.70*	*357*	*38.3*	*1.9*	*397*	*154.1*	*17*	*11*
30 to <100	*24*	*2*	*11.0*	*21*	*38.02*	*52*	*39.7*	*2.1*	*40*	*189.5*	*4*	*1*
100.00 (Default)	530	27	15.0	473	100.00	348	38.7	2.2	—	—	183	78
Sub-total	10,658	2,497	17.0	10,439	5.92	14,922	38.5	2.5	6,337	60.7	257	137
FIRB – Corporate – Other												
0.00 to <0.15	5,114	6,390	64.0	9,608	0.09	4,401	36.1	2.1	2,371	25	4	3.6
0.00 to <0.10	*2,438*	*3,693*	*68.0*	*5,245*	*0.06*	*920*	*35.4*	*2.0*	*980*	*19*	*1*	*1.12*
0.10 to <0.15	*2,676*	*2,698*	*58.0*	*4,363*	*0.13*	*3,481*	*37.1*	*2.3*	*1,390*	*32*	*3*	*2.48*
0.15 to <0.25	5,671	4,327	53.0	7,884	0.22	3,633	37.4	2.2	3,317	42	8	14.01
0.25 to <0.50	4,640	2,510	46.0	5,958	0.37	3,338	39.4	1.9	3,247	55	11	15.92
0.50 to <0.75	4,455	2,273	44.0	5,539	0.63	2,652	33.8	1.7	3,287	59	14	14.27
0.75 to <2.50	12,291	5,853	47.0	14,172	1.48	31,115	38.6	2.1	14,054	99	98	80.97
0.75 to <1.75	*9,304*	*4,594*	*45.0*	*10,798*	*1.24*	*28,801*	*38.8*	*2.1*	*10,287*	*95*	*63*	*56.75*
1.75 to <2.5	*2,986*	*1,259*	*55.0*	*3,374*	*2.25*	*2,314*	*37.8*	*2.2*	*3,767*	*112*	*35*	*24.22*
2.50 to <10.00	4,578	2,123	51.0	5,213	4.30	3,782	38.4	2.0	6,898	132	104	73.34
2.5 to <5	*3,265*	*1,742*	*52.0*	*3,797*	*3.57*	*3,016*	*37.8*	*2.2*	*4,769*	*126*	*62*	*38.15*
5 to <10	*1,313*	*381*	*46.0*	*1,415*	*6.25*	*766*	*40.0*	*1.6*	*2,129*	*150*	*42*	*35.19*
10.00 to <100.00	988	130	45.0	998	12.24	602	35.1	1.5	1,758	176.2	55	43.83
10 to <20	*965*	*119*	*48.0*	*974*	*11.06*	*539*	*35.1*	*1.5*	*1,724*	*177.0*	*49*	*42.91*
30 to <100	*24*	*10*	*11.0*	*24*	*60.29*	*63*	*35.8*	*1.1*	*35*	*145.4*	*6*	*.92*
100.00 (Default)	1,444	172	47.0	1,392	100.00	1,444	40.8	2.0	—	—	577	342.38
Sub-total	39,180	23,777	53.0	50,762	4.00	50,967	37.5	2.0	34,933	68.8	870	588.31
FIRB – Total at 31 Dec 2022	49,838	26,274	49.0	61,201	4.33	65,781	37.6	2.1	41,269	67.4	1,127	725

1 *Figures have been prepared on an IFRS 9 transitional basis.*
2 *For current period, single obligor with multiple ratings/PD are counted separately for every PD band. We count the number of obligors on the basis of our exposure to the original counterparty (reported in the first two columns of this table). Where exposure is subject to risk-transfer to another party, to avoid duplication, we do not count the exposure again after risk transfer.*
3 *Reporting process improvements resulted in the re-classification of some exposures from Corporate SME to Corporate Other in Dec'23.*
4 *A new mortgage model was implemented for HSBC UK in May 23, which changed the exposure distribution across PD bands.*

Counterparty credit risk

Counterparty credit risk management

Counterparty credit risk ('CCR') is the risk that a counterparty may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to central counterparties ('CCP') in both the trading and non trading books.

Limits for CCR exposures, including to central counterparties ('CCPs'),are assigned within the overall credit risk management process. The credit risk function assigns a limit against each counterparty to cover exposure which may arise as a result of a counterparty default.

Banks are permitted to apply the following methods to determine exposure values for CCR:

- the Internal Model Method ('IMM');
- the Standardised Approach (SA-CCR) – for derivatives and long settlement transactions;
- the simple/comprehensive approach to recognition of collateral with SFTs; and
- the Value at Risk models approach, again applicable for SFTs.

HSBC UK uses the standardised approach to determine CCR exposures. Under the SA-CCR approach, the EAD is calculated as the sum of Replacement Cost and Potential Future Exposures ('PFE') multiplied by an alpha factor of 1.4.

Table 33 analyses CCR exposures by approach for derivatives and securities financing transactions, excluding the CVA charge, failed settlements, free deliveries and exposures to CCPs.

Table 33: Analysis of counterparty credit risk exposure by approach (excluding centrally cleared exposures) (CCR1)

		Replacement cost	Potential future exposure	Effective expected positive exposure[1]	Alpha used for computing regulatory exposure value	EAD pre-CRM	EAD post-CRM	Exposure Value	RWAs
		£m	£m	£m		£m	£m	£m	£m
1	SA-CCR (for derivatives)	**46**	**87**	**—**	**1.40**	**187**	**187**	**187**	**94**
4	Financial collateral comprehensive method (for SFTs)	**—**	**—**	**—**	**—**	**122**	**122**	**122**	**16**
6	**Total at 31 Dec 2023**	**46**	**87**	**—**	**1.40**	**309**	**309**	**309**	**110**
1	SA-CCR (for derivatives)	44	133		1.40	248	248	248	99
4	Financial collateral comprehensive method (for SFTs)	—	—	—	—	119	119	119	20
6	Total at 31 Dec 2022	44	133	—	1.40	367	367	367	119

1 *Effective expected positive exposure column is not relevant for HSBC UK, as the exposures are calculated under SA-CCR.*

Credit valuation adjustment

Credit valuation adjustments ('CVA') represent the risk of mark-to-market losses on the expected counterparty risk to over-the-counter ('OTC') derivatives and SFTs. HSBC UK applies the standardised approach for CVA. Certain qualifying central counterparties are exempt from CVA.

Table 34 sets out exposures and RWAs related to CVA regulatory calculations with the breakdown by standardised and advanced approaches.

Table 34: Credit valuation adjustment capital charge (CCR2)

		At 31 Dec 2023		At 31 Dec 2022	
		Exposure value	**RWAs**	Exposure value	RWAs
		£m	**£m**	£m	£m
4	Transactions subject to the Standardised method	**69**	**21**	98	18
5	**Total transactions subject to own funds requirements for CVA risk**	**69**	**21**	98	18

The following table presents information on the risk-weighting of CCR exposures under the standardised approach by regulatory portfolio.

Further detail on the standardised approach is provided on page 30.

Table 35 presents information on the risk weighting of CCR exposures under the standardised approach by regulatory portfolio. It excludes the failed settlements, free deliveries, default fund contributions and CVA charge.

Table 35: Standardised approach – CCR exposures by regulatory exposure class and risk weights (CCR3)

		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	Total exposure value
Risk weight		**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
6	Institutions					**35**	**15**						**50**
	Total at 31 Dec 2023					**35**	**15**						**50**
6	Institutions					52	21						73
	Total at 31 Dec 2022					52	21						73

Collateral arrangements

Our policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management function manages the collateral process, including pledging collateral, receiving collateral, investigating disputes and following up non-receipts.

Collateral types are controlled under a policy to help ensure price transparency, price stability, liquidity, enforceability,independence, reusability and eligibility for regulatory purposes.

A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement. Approximately 95% of collateral held as variation margin under credit support annex ('CSA') agreements is composed of either cash or liquid government securities.

Further information on gross fair value exposure and the offset due to legally enforceable netting and collateral is set out on page 117 of the Annual Report and Accounts 2023.

Table 36 below analyses collateral used in derivatives and SFT transactions.

Table 36: Composition of collateral for CCR exposure (CCR5)

		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
		£m	£m	£m	£m	£m	£m
1	Cash	**—**	**132**	**—**	**440**	**—**	**—**
2	Debt	**—**	**1**	**1,673**	**1,095**	**10,941**	**9,126**
5	**Total at 31 Dec 2023**	**—**	**133**	**1,673**	**1,535**	**10,941**	**9,126**
1	Cash	—	626	—	2,352	—	—
2	Debt	177	—	1,910	1,484	11,876	14,471
5	Total at 31 Dec 2022	177	626	1,910	3,836	11,876	14,471

Central counterparties

While exchange traded derivatives have been cleared through central counterparties ('CCPs') for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to also be cleared through CCPs.

To manage the significant concentration of risk in CCPs that results from this, we have developed a risk appetite framework to manage risk accordingly, at the level of individual CCPs and globally. A dedicated CCP risk team has been established to manage the interface with CCPs and undertake in-depth due diligence of the unique risks associated with these organisations.

Table 37 below provides the exposures and RWAs breakdown related to CCPs.

Table 37: Exposures to central counterparties (CCR8)

		At			
		31 Dec 2023		31 Dec 2022	
		Exposure value	**RWAs**	EAD post-CRM	RWAs
		£m	**£m**	£m	£m
1	**Exposures to qualifying central counterparties ('QCCPs') (total)**	**—**	**105**	—	68
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	**2,847**	**57**	2,538	51
3	– OTC derivatives	**1,546**	**31**	1,396	28
5	– securities financing transactions	**1,301**	**26**	1,142	23
7	Segregated initial margin	**1,673**	**0**	1,726	—
8	Non-segregated initial margin	**394**	**8**	306	6
9	Pre-funded default fund contributions	**—**	**41**	—	11

Wrong-way risk

Wrong-way risk occurs when a counterparty's exposures are adversely correlated with its credit quality.

There are two types of wrong-way risk:

- General wrong-way risk occurs when the probability of counterparty default is positively correlated with general risk factors, for example, where a counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a non-domestic currency in exchange for its home currency; and
- Specific wrong-way risk occurs in self-referencing transactions. These are transactions in which exposure is driven by capital or financing instruments issued by the counterparty and occurs where exposure from HSBC UK's perspective materially increases as the value of the counterparty's capital or financing instruments referenced in the contract decreases. It is our policy that specific wrong-way transactions are approved on a case-by-case basis.

We use a range of tools to monitor and control wrong-way risk, including requiring the business to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

Credit rating downgrade

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a credit support annex ('CSA') is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

HSBC UK has no such clauses.

The table 38 below shows the detailed key parameters used for the calculation of capital requirements of counterparty credit risk exposure under the IRB approach broken down by exposure class and PD range.

Table 38: IRB - CCR exposures by portfolio and PD scale (CCR4)

	Exposure value	Exposure weighted average PD	Number of obligors	Exposure weighted average LGD	Exposure weighted average maturity	RWAs	Density of risk weighted exposure amounts
PD scale	**£m**	**%**		**%**	**years**	**£m**	**%**
AIRB – Institutions							
PD scale							
0.00 to <0.15	**171**	**0.06**	**14**	**45.0**	**0.88**	**29**	**17**
0.15 to <0.25							
0.25 to <0.50	**3**	**0.37**	**2**	**45.0**	**2.53**	**3**	**87**
0.50 to <0.75	**—**	**0.63**	**1**	**45.0**	**1.00**	**—**	**62**
0.75 to <2.50	**—**	**0.87**	**1**	**45.0**	**1.00**	**—**	**83**
Sub-total	**174**	**0.07**	**18**	**45.0**	**0.91**	**32**	**19**
FIRB – Corporates							
0.00 to <0.15	**9**	**0.13**	**81**	**45.0**	**1.01**	**2**	**27**
0.15 to <0.25	**14**	**0.22**	**142**	**45.0**	**1.01**	**5**	**38**
0.25 to <0.50	**14**	**0.37**	**138**	**45.0**	**1.02**	**7**	**53**
0.50 to <0.75	**9**	**0.63**	**93**	**45.0**	**1.00**	**6**	**70**
0.75 to <2.50	**34**	**1.53**	**230**	**45.0**	**1.03**	**33**	**98**
2.50 to <10.00	**4**	**4.95**	**65**	**45.0**	**1.01**	**6**	**153**
10.00 to <100.00	**1**	**15.40**	**17**	**45.0**	**1.00**	**3**	**238**
100.00 (Default)	**1**	**100.00**	**14**	**45.0**	**1.00**	**—**	**—**
FIRB - Total at 31 Dec 2023	**86**	**2.74**	**780**	**45.0**	**1.02**	**63**	**73**
Total (all portfolio) at 31 Dec 2023	**260**	**0.95**	**798**	**45.0**	**0.95**	**95**	**37**
PD scale							
AIRB – Institutions							
0.00 to <0.15	147	0.07	22	45.0	0.69	25	17
0.15 to <0.25	1	0.22	1	45.0	5.00	1	99
0.25 to <0.50							
0.50 to <0.75	—	0.63	1	45.0	1.00	—	62
0.75 to <2.50	—	0.87	1	45.0	1.00	—	73
Sub-total	148	0.07	25	45.0	0.72	26	18
FIRB – Corporates							
0.00 to <0.15	64	0.13	77	45.0	0.42	13	20
0.15 to <0.25	20	0.22	185	45.0	1.02	8	38
0.25 to <0.50	20	0.37	139	45.0	1.02	11	53
0.50 to <0.75	12	0.63	95	45.0	1.02	9	71
0.75 to <2.50	22	1.50	233	45.0	1.03	22	100
2.50 to <10.00	4	4.07	61	45.0	1.00	6	146
10.00 to <100.00	1	14.22	12	45.0	1.00	3	231
100.00 (Default)	2	100.00	19	45.0	1.00	—	—
FIRB - Total at 31 Dec 2022	146	1.99	821	45.0	0.76	72	49
Total (all portfolio) at 31 Dec 2022	294	1.03	846	45.0	0.74	98	33

Securitisation

Securitisation strategy

HSBC UK acts as originator and investor to securitisation positions. Our strategy is to use securitisation to meet our needs for aggregate funding or capital management (to the extent that market conditions, regulatory treatments and other conditions are suitable) and for customer facilitation.

Securitisations follow a detailed due diligence framework in accordance with the securitisation framework. Wholesale Credit Risk conducts the credit approval process for securitisations in the banking book. Traded Risk set and monitor detailed risk limits and criteria for securitisations in the trading book. HSBC does not provide support to its originated or sponsored securitisation transactions as a policy.

Securitisation activity

Our roles in the securitisation process are as follows:

- originator: where we originate the assets being securitised, either directly or indirectly; and
- investor: where we invest in a securitisation transaction directly or provide derivatives or liquidity facilities to a securitisation.

SPE	Underlying assets	Start date	Maturity date	EAD (£m)	Capital requirement before securitisation (£m)	Capital requirement after securitisation (£m)
Neon Portfolio Distribution DAC	Corporate loans	Dec-19	Dec-26	1,262	92	20
Neon Portfolio Distribution DAC	Corporate loans	Dec-23	Dec-30	1,788	114	27

HSBC UK as originator

We are originator of two securitisation programmes outstanding as at 31 December 2023. We have used SPE (Neon Portfolio Distribution) to securitise customer loans and advances and other debt that we have originated in order to diversify our sources of funding for asset origination and for capital efficiency purposes.

Typically we follow an approach commonly known as synthetic securitisation, using credit derivatives and financial guarantees to transfer the credit risk associated with such customer loans and advances.

In order to recognise capital benefit under synthetic securitisation, we satisfy the regulatory requirements for significant risk transfer ('SRT') and monitor our compliance periodically.

HSBC UK maintains a unhedged holding of at least 5% in each reference obligation. None of these transactions are categorised as Simple Transparent and Standardised ('STS') as per securitisation framework.

Further details are available in Note 14 of the Financial Statements in the Annual Report and Accounts 2023.

HSBC UK as investor

We have exposure to third-party securitisations across sectors in the form of investments and liquidity facilities.

Monitoring of securitisation positions

Securitisation positions are managed by a dedicated team that uses a combination of market standard systems and third-party data providers to monitor performance data and manage market and credit risks.

Liquidity risk of securitised assets is consistently managed as part of the group's liquidity and funding risk management framework.

Securitisation accounting treatment

For accounting purposes, we consolidate structured entities (including SPEs) when the substance of the relationship indicates that we control them; that is, we are exposed, or have rights, to variable returns from our involvement with the structured entity and have the ability to affect those returns through our power over the entity.

We reassess the need to consolidate whenever there is a change in the substance of the relationship between HSBC UK and a structured entity.

Full details of these assessments and our accounting policy on structured entities may be found in Note 1.2(a) and Note 14 on the Financial Statements respectively of the Annual Report and Accounts 2023.

Valuation of securitisation positions

Valuation of our investments in securitisation exposures primarily focuses on quotations from third parties, observed trade levels and calibrated valuations from market standard models.

Our hedging and credit risk mitigation strategy, with regards to retained securitisation and re-securitisation exposures, is to continually review our positions.

Securitisation regulatory treatment

Any reduction in RWAs as a result of our own originated securitisations must receive the PRA's permission and be justified by a commensurate transfer of credit risk to third parties. If these conditions are met, the underlying assets are de-recognised for regulatory purposes and any retained exposures to the securitisation, including derivatives or liquidity facilities, are risk weighted as securitisation positions.

For all securitisation positions we follow the hierarchy of RWA calculation approaches as described in the securitisation framework. Our originated positions are all reported under the Internal Rating Based Approach ('Sec-IRBA').

Analysis of securitisation exposures

Table 39 provides the carrying amount of non-trading securitisation exposures, separately for traditional and synthetic securitisations where the bank acts as originator, sponsor or investor.

Table 39: IRB – Securitisation exposures in the non-trading book (SEC1)

		Bank acts as originator							Bank acts as sponsor				Bank acts as investor			
		Traditional				Synthetic			Traditional				Traditional			
		STS		Non-STS												
		Total	*of which: SRT*	Total	*of which: SRT*	Total	*of which: SRT*	Sub-total	STS	Non-STS	Syn-thetic	Sub-total	STS	Non-STS	Syn-thetic	Sub-total
		£m	£m	£m	£m	£m	*£m*	£m	£m	£m	£m	£m	£m	£m	£m	£m
2	Retail (total)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**149**	**736**	**—**	**885**
5	– other retail exposures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**149**	**736**	**—**	**885**
7	Wholesale (total)	**—**	**—**	**—**	**—**	**3,050**	***3,050***	**3,050**	**—**	**—**	**—**	**—**	**—**	**75**	**—**	**75**
8	– loans to corporates	**—**	**—**	**—**	**—**	**3,050**	***3,050***	**3,050**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	– lease and receivables	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**75**	**—**	**75**
1	**Total at 31 Dec 2023**	**—**	**—**	**—**	**—**	**3,050**	***3,050***	**3,050**	**—**	**—**	**—**	**—**	**149**	**811**	**—**	**960**
2	Retail (total)	—	—	—	—	—	—	—	—	—	—	—	5	775	—	780
3	– residential mortgage	—	—	—	—	—	—	—	—	—	—	—	5	—	—	5
5	– other retail exposures	—	—	—	—	—	—	—	—	—	—	—	—	775	—	775
7	Wholesale (total)	—	—	—	—	2,276	*2,276*	2,276	—	—	—	—	—	75	—	75
8	– loans to corporates	—	—	—	—	2,276	*2,276*	2,276	—	—	—	—	—	—	—	—
10	– lease and receivables	—	—	—	—	—	—	—	—	—	—	—	—	75	—	75
1	Total at 31 Dec 2022	—	—	—	—	2,276	*2,276*	2,276	—	—	—	—	5	850	—	855

Table 40 presents the RWAs and exposures by type, risk-weight bands and regulatory approach in the non-trading securitisation exposures and associated regulatory capital requirements where the Group acts as originator or as sponsor.

Table 40: Securitisation exposures in the non-trading book and associated regulatory capital requirements – bank acting as originator or as sponsor (SEC3)

		Exposure values (by risk weight bands/deductions)					Exposure values (by regulatory approach)			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to 1250% RW	1250% RW deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
		£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total at 31 Dec 2023**	**3,035**	**—**	**—**	**15**	**—**	**3,050**	**—**	**—**	**—**
9	Synthetic securitisation	**3,035**	**—**	**—**	**15**	**—**		**—**	**—**	**—**
10	Securitisation	**3,035**	**—**	**—**	**15**	**—**	**3,050**	**—**	**—**	**—**
12	– wholesale	**3,035**	**—**	**—**	**15**	**—**	**3,050**	**—**	**—**	**—**
1	Total at 31 Dec 2022	2,262	—	—	3	11	2,265	—	—	11
9	Synthetic securitisation	2,262	—	—	3	11	2,265	—	—	11
10	Securitisation	2,262	—	—	3	11	2,265	—	—	11
12	– wholesale	2,262	—	—	3	11	2,265	—	—	11

		RWAs (by regulatory approach)				Capital charge after cap			
		SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deductions
		£m	£m	£m	£m	£m	£m	£m	£m
1	**Total at 31 Dec 2023**	**587**	**—**	**—**	**—**	**46**	**—**	**—**	**—**
9	Synthetic transactions	**587**	**—**	**—**	**—**	**46**	**—**	**—**	**—**
10	Securitisation	**587**	**—**	**—**	**—**	**46**	**—**	**—**	**—**
12	– wholesale	**587**	**—**	**—**	**—**	**46**	**—**	**—**	**—**
1	Total at 31 Dec 2022	367	—	—	142	29	—	—	11
9	Synthetic transactions	367	—	—	142	29	—	—	11
10	Securitisation	367	—	—	142	29	—	—	11
12	– wholesale	367	—	—	142	29	—	—	11

The table 41 presents RWAs and exposures by type, risk-weight bands and regulatory approach in the non-trading book and associated regulatory capital requirements where we act as an investor.

Table 41: Securitisation exposures in the non-trading book and associated capital requirements – bank acting as investor (SEC4)

		Exposure values (by risk weight bands)					Exposure values (by regulatory approach)			
		≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to 1250% RW	1250%/ deduct-ions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deduct-ions
		£m	£m	£m	£m	£m	£m	£m	£m	£m
1	**Total at 31 Dec 2023**	**960**	**—**	**—**	**—**	**—**	**—**	**38**	**922**	**—**
2	Traditional securitisation	**960**	**—**	**—**	**—**	**—**	**—**	**38**	**922**	**—**
3	Securitisation	**960**	**—**	**—**	**—**	**—**	**—**	**38**	**922**	**—**
4	– retail underlying	***885***	**—**	**—**	**—**	**—**	**—**	***38***	***847***	**—**
5	– *of which: STS*	***149***	**—**	**—**	**—**	**—**	**—**	***38***	***111***	**—**
6	Wholesale	***75***	**—**	**—**	**—**	**—**	**—**	**—**	***75***	**—**
1	Total at 31 Dec 2022	780	75	—	—	—	—	—	855	—
2	Traditional securitisation	780	75	—	—	—	—	—	855	—
3	Securitisation	780	75	—	—	—	—	—	855	—
4	– retail underlying	*780*	—	—	—	—	—	—	*780*	—
5	– *of which: STS*	*5*	—	—	—	—	—	—	*5*	—
6	Wholesale		75						75	

Table 41: Securitisation exposures in the non-trading book and associated capital requirements – bank acting as investor (SEC4) (continued)

		RWAs (by regulatory approach)				Capital charge after cap			
		SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deduct-ions	SEC-IRBA	SEC-ERBA (including IAA)	SEC-SA	1250%/ deduct-ions
		£m	£m	£m	£m	£m	£m	£m	£m
1	**Total at 31 Dec 2023**	**—**	**4.0**	**134**	**—**	**—**	**—**	**11**	**—**
2	Traditional securitisation	**—**	**4.0**	**134**	**—**	**—**	**—**	**11**	**—**
3	Securitisation	**—**	**4.0**	**134**	**—**	**—**	**—**	**11**	**—**
4	– retail underlying	**—**	***4.0***	***123***	**—**	**—**	**—**	***10***	**—**
5	– *of which: STS*	**—**	***4.0***	***12***	**—**	**—**	**—**	***1***	**—**
6	Wholesale	**—**	**—**	**11**	**—**	**—**	**—**	**1**	**—**
1	Total at 31 Dec 2022	—	—	141	—	—	—	11	—
2	Traditional securitisation	—	—	141	—	—	—	11	—
3	Securitisation	—	—	141	—	—	—	11	—
4	– retail underlying	—	—	*125*	—	—	—	*10*	—
6	*Wholesale*	—	—	*16*	—	—	—	1	—

Table 42 sets out the outstanding nominal amount, exposures in default and specific credit risk adjustments by exposure type where the institution acts as originator or sponsor.

Table 42: Exposures securitised by the institution – Institution acts as originator or as sponsor (SEC5)

		Total outstanding nominal amount		Total amount of specific credit risk adjustments made during the period
			of which: exposures in default	
		£m	£m	£m
1	**Total at 31 Dec 2023**	**3,376**	**—**	**9**
7	Wholesale (total)	**3,376**	**—**	**9**
8	– loans to corporates	***3,376***	**—**	***9***
1	Total at 31 Dec 2022	2,498	—	10
7	Wholesale (total)	2,498	—	10
8	– loans to corporates	*2,498*	—	*10*

Market risk

Overview of market risk

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

Further explanation of the group's approach to managing market risk can be found from page 59 of the Annual Report and Accounts 2023.

Tables 43 below reflect the components of capital requirements under the standardised approach for market risk.

Table 43: Market risk under standardised approach (MR1)

		At	
		31 Dec 2023 RWAs £m	31 Dec 2022 RWAs £m
	Outright products		
1	Interest rate risk (general and specific)	**38**	48
3	Foreign exchange risk	**93**	53
9	**Total**	**131**	101

Prudent valuation adjustment

Prudent value represents a conservative estimate with a 90% degree of certainty of a price that would be received to sell an asset or paid to transfer a liability in orderly transactions occurring between market participants at the balance sheet date.

HSBC has documented policies and maintains systems and controls for the calculation of the prudent valuation adjustment ('PVA').

HSBC's methodology addresses fair value uncertainties arising from a number of sources: market price uncertainty, bid-offer uncertainty, model risk, concentration, administrative costs, unearned credit spreads and investing and funding costs.

The table 44 below shows the PVA split by risk category for each of the trading book exposure risks.

Table 44: Prudential valuation adjustments (PV1)

		Risk Category					Category level AVA – Valuation uncertainty				
		Equity £m	Interest rates £m	FX £m	Credit £m	Comm-odities £m	Unearn-ed credit spreads AVA £m	Invest-ment and funding costs AVA £m	Total category level post-diversi-fication £m	*of which: in the trading book £m*	*of which: in the banking book £m*
1	Market price uncertainty	**8**	**4**	**—**	**—**	**—**	**—**	**—**	**6**	**—**	***6***
3	*Close-out cost*	**—**	***10***	**—**	**—**	**—**	**—**	**—**	***5***	**—**	**5**
4	*Concentrated positions*	**—**	***5***	**—**	**—**	**—**	**—**	**—**	***5***	**—**	**5**
7	Operational risk	**—**	**1**	**—**	**—**	**—**			**1**	**—**	***1***
12	**Total Additional Valuation Adjustments (AVAs) as at 31 Dec 2023**								**17**	**—**	***17***
1	Market price uncertainty	2	15						9		*8*
3	*Close-out cost*		*7*						*4*		3
4	*Concentrated positions*		*6*						*6*		6
7	Operational risk		1						1		*1*
12	Total Additional Valuation Adjustments (AVAs) as at 31 Dec 2022								19		*19*

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') 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 with the intent of trading.

Risk management and governance

Treasury measures, monitors and manages interest rate risk in the banking book. This includes reviewing and challenging the interest rate management impacts of new products and the proposed behavioural assumptions used for hedging activities. Treasury is also responsible for maintaining and updating the transfer pricing framework, informing ALCO of HSBC UK's overall banking book interest rate risk exposure.

All material interest rate risk must be identified, measured, monitored, managed and controlled by metrics within limits for HSBC UK. Key metrics used to monitor IRRBB include: projected net interest income ('NII') and economic value of equity ('EVE') sensitivities under varying interest rate scenarios as prescribed by the regulators and internally calibrated scenarios and shocks. A stressed VaR is used for the portfolio of liquid securities held by Markets Treasury that are accounted for at fair value through other comprehensive income.

EVE and NII sensitivities are monitored against thresholds for HSBC UK. Treasury is subject to an independent oversight and challenge from Treasury Risk, Internal Audit and model governance. The sensitivity calculations exclude pension, insurance and investments in subsidiaries.

Stress testing is used to assess how the bank copes with severe economic scenarios, in particular looking at bank's resilience to make sure there is enough capital to withstand extreme shocks.

At HSBC, stress testing also forms a key part of our risk management framework. HSBC runs various internal and regulatory stress tests during the year which helps us to identify key economic risks the entity is exposed to and how they impact on its financial and capital position in a severe economic shock. Identifying these risks allow the entity to actively assess and put in place effective risk management strategies to help mitigate before those risks occur. The results of the various stress tests also help to ensure that the bank has adequate capital and liquidity to withstand extreme hypothetical economic shocks as defined in the stress scenarios and thus to help determine our capital requirements under ICAAP.

Economic value of equity and net interest income sensitivity

EVE sensitivities represent the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant representing the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This can be used to assess the economic capital required to support interest rate risk in the banking book and provides a comprehensive view of the potential long term effects of the changes in interest. HSBC UK is required to monitor EVE sensitivities as a percentage of capital resources and this is calculated on a quarterly basis.

NII sensitivities apply varying interest rate scenarios (i.e. simulation modelling) under a static balance sheet whilst all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates, and is assessed over both 1 year and 5 years horizon.

Active management of IRRBB

Interest rate risk that can be economically hedged is 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 from where the risks originate.

Markets Treasury safeguards the bank by ensuring risk remains within appetite and seeks to generate sustainable returns through management of those risks within the risk appetite set by Treasury Risk. Markets Treasury manages a variety of risks including duration, credit spread, cross currency basis, inflation and convexity utilising products including liquid fixed income securities, interest rate swaps, cross currency swaps, and money markets loans and deposits. Treasury Risk measures and monitors against limits the Markets Treasury activities using metrics including present value of one basis point, credit spread of one basis point and VaR on a daily basis.

The large majority of Markets Treasury activity is on a non-market risk capitalised basis. The only Markets Treasury activity treated as market risk capitalised is the use of FX swaps to manage cash. All returns generated by Markets Treasury are transferred into global businesses.

Interest rate shock and stress scenarios applied

The NII sensitivities are indicative and based on scenarios and shocks prescribed by the PRA instructions (Rule 9.4A of the PRA Rulebook: CRR Firms: Interest Rate Risk Arising from Non Trading Activities Instrument 2020 and in accordance with Article 448(1) CRR). Calculations are done under the following scenarios:

- Parallel up;
- Parallel down;
- An immediate shock of +/-200 bps for USD, EUR, HKD and +/-250 bps for GBP to the current market-implied path of interest rates across all currencies (effects over one year); and
- Other currency shocks as per regulatory guidelines (effects over one year).

The EVE sensitivities are based on six Basel Standard Outlier shocks:

- Parallel up;
- Parallel down;
- Steepener;
- Flattener;
- Short rates shock up; and
- Short rates shock down.

Key modelling assumptions

For EVE sensitivities, commercial margins and other spread components have been excluded from the interest cash flows calculation and all balance sheet items are discounted at the risk free rate. All equity instruments that have no coupon or call dates are excluded. Interest rate floors start at -1.0% for overnight yield curve tenors and increase 5bps per year to 0.0% at 20 year tenors. 100% of the negative values are netted with 50% of the positive values by currency as per regulatory guidelines.

For NII sensitivities we assume constant balance sheet, and we include commercial margin. All forecasted market rates are based on implied forward rates from the reporting date. Interest rate floors start at -1.0% for overnight yield curve tenors and increase 5bps per year to 0.0% at 20 year tenors. We apply internal pass on assumptions to managed rate products. Customer pricing includes flooring where there is contractual obligations and customer optionality including prepayment and early redemption risk is included where present.

Non-maturing deposits ('NMDs') are deposits that have no explicit maturity and no explicit repricing dates thus behaviouralisation assumptions are applied.

Pillar 3 disclosure has different assumptions to Group IRRBB internal model assumptions. Those include, but not limited to treatment of NMDs, shocks, scenarios and flooring.

The average repricing maturity for NMDs as at 31 December 2023 was 20 months. The longest repricing maturity for NMDs as at 31 December 2023 was 120 months.

Quantitative information on IRRBB

As of 31 December 2023, the maximum decline in EVE is £1,490m from a parallel shock up which translates to 9% of tier 1 capital. The most adverse NII scenario over the next 12 months was the parallel shock down, this would result in a decrease of projected NII by £1,285m. The changes in sensitivities from 31 December 2022 have been driven by factors including model improvements, structural interest rate hedging and balance sheet evolution.

Table 45 discloses our changes in Interest rate risk in the banking book for economic value of equity and net interest income, calculated under the supervisory shock scenarios defined in the PRA Rulebook. 31 December 2022 disclosures are reported on a solo basis and 31 December 2023 are reported on a consolidated basis.

Table 45: Quantitative information on IRRBB (UK IRRBB1)

		ΔEVE		ΔNII		Tier 1 capital	
		31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
		£m	£m	**£m**	£m	**£m**	£m
10	Parallel shock up	**(1,490)**	(458)	**583**	1,697		
20	Parallel shock down	**926**	294	**(1,285)**	(2,414)		
30	Steepener shock	**(353)**	(280)				
40	Flattener shock	**34**	103				
50	Short rates shock up	**(463)**	4				
60	Short rates shock down	**252**	(19)				
70	Maximum	**(1,490)**	(458)	**(1,285)**	(2,414)		
80	Tier 1 capital					**16,479**	14,771

Non-financial risk

Non-financial risk is the risk of loss resulting from people, inadequate or failed internal processes, data or system, or external events. Sound non-financial risk management is central to achieving fair outcomes for our customers, grow our business safely and maintain orderly and transparent operation of financial markets. Non-financial risk is relevant to every aspect of our business and is broadly managed through the risk management framework ('RMF').

Nonfinancial risk covers a wide spectrum of areas, such as resilience risk, financial crime risk, regulatory compliance risk, financial reporting and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk.

Operational risk capital requirements

Operational risk is part of non-financial risk. The table below provides details of the overall calculation. We currently use the standardised approach ('TSA') in determining our operational risk capital requirement.

Table 46: Operational risk own funds requirements and risk-weighted exposure amounts (OR1)

	a	b	c	d	e
	Relevant indicator			**Own funds requirements**	**Risk weighted exposure amount amount**
	2021	**2022**	**2023**		
Banking activities	**£m**	**£m**	**£m**	**£m**	**£m**
Banking activities subject to standardised (TSA)/alternative standardised (ASA) approaches				**1,089**	**13,607**
Subject to TSA:					
Trading and Sales	**345**	**190**	**(355)**		
Commercial Banking	**2,619**	**3,615**	**4,936**		
Retail Banking	**3,072**	**4,049**	**4,545**		
Payment and Settlement	**104**	**191**	**215**		
Agency Services	**50**	**52**	**53**		
Asset Management	**126**	**114**	**120**		

Organisation and responsibilities

The RMF sets out our approach to governance and risk appetite and the principles for our management of non-financial risks and associated controls. Responsibility for managing non-financial risk lies with our people. During 2023, we remained focused on strengthening our approach to managing non-financial risk. We continue to enhance the framework and tools for strengthening the control environment and to improve practices in the management of non-financial risk.

Progress has been made in enhancing the framework and tools for strengthening the control environment and we will continue to improve practices in the management of non-financial risk.

In 2023 we continued to develop the Operational and Resilience Risk sub-function, which provides robust non-financial risk steward oversight of the management of risk by the Group businesses, functions and legal entities. The sub-function helps the business grow safely and ensures governance and management of Operational and Resilience Risk through the delivery and embedding of effective frameworks and policies, and continuous oversight and assurance of risks, controls, events and impacts. The effectiveness of first line of defence risk and control owners, and second line of defence risk stewards in managing our Non-Financial Risk processes and practices are reported through the HSBC UK RMM.

The RMM is chaired by the HSBC UK Chief Risk Officer; it is a formal governance meeting which oversees all risk which includes the management of HSBC UK's Non-Financial Risk profile.

Non-Financial risk is organised as a specific risk discipline within the Enterprise Risk function and is headed by the Head of Enterprise Risk Management. The Head of Enterprise Risk Management is responsible for monitoring the effectiveness of the first line of defence in its management of Non-Financial Risk. The Head of Enterprise Risk Management is accountable to HSBC UK's Chief Risk Officer in respect of this element of the overall RMF.

Activity to strengthen the first and second lines of defence continued to be a key focus in 2023. The first line of defence owns the risk and is accountable for identifying, assessing and managing key existing and emerging risks. The second line of defence sets the policy and control standards to manage risks, and provides advice and guidance to support these policies. It also challenges the first line to ensure it is managing risk effectively. The third line of defence is Global Internal Audit, which provides independent assurance to the Board and management that our risk management approach and processes are designed and operating effectively.

Measurement and monitoring

The RMF is written as a high-level standard, supplemented by detailed policies.

These policies explain our approach to identifying, assessing, monitoring and controlling non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified.

In order to drive risk awareness in a more forward looking manner, we set out our risk appetite and then regularly monitor non-financial risk exposure against that risk appetite. This assists management in determining whether further action is required.

Risk scenario analysis across HSBC UK provides a top down, forward-looking assessment of risks to help determine whether they are being effectively managed within our risk appetite or whether further management action is required. In HSBC UK, the first line of defence are responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

Risk and control assessment approach

Non-financial risk and control assessments are performed by the first line of defence. The risk and control assessment process is designed to provide the first line of defence with a view of non-financial risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage non-financial risks within acceptable levels. Appropriate means of mitigation and controls are considered. These include making specific changes to strengthen the internal control environment, and investigating whether cost-effective insurance cover is available to mitigate the risk.

Recording

We use a Group-wide risk management system to record the results of our non-financial risk management process. Non-financial risk and control assessments, as described above, are input and maintained by the first line of defence. The first line of defence monitors and follows up the progress of documented action plans. Operational risk losses are entered into the Group-wide risk management system and reported to governance on a monthly basis. Loss capture thresholds are in line with industry standards.

Liquidity

Management of liquidity and funding risk

We aim to ensure that management has oversight of our liquidity and funding risks by maintaining comprehensive policies, metrics and controls.

Liquidity coverage ratio

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar day liquidity stress scenario. For the calculation of the LCR, we follow Article 451a of CRR II.

HSBC UK's liquid asset buffer mainly comprised of central bank reserves and Level 1 securities.

At 31 December 2023, HSBC UK's LCR was above regulatory minimum. 2023 average LCR has decreased by 25% as compared to 2022 average LCR mainly due to decrease in deposits by £10bn (retail: £8bn and corporate: £2bn) from cost of living impact on customers, corporate deleveraging and competitive pressures.

Net stable funding ratio

We use the net stable funding ratio ('NSFR'), alongside other appropriate metrics, as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. These metrics require institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity. From 1 January 2022, we started managing funding risk based on the PRA's NSFR rules.

Currency mismatch in the LCR

Our internal liquidity and funding risk management framework requires all operating entities to monitor the LCR for material currencies. This continuous monitoring helps with overall management of currency exposures, in line with our internal framework.

The following tables presents liquidity coverage and funding risk information on a HSBC UK Bank Domestic Liquidity Sub-group basis reflecting the way we manage liquidity within HSBC UK.

The HSBC UK Bank Domestic Liquidity Sub-group comprises: HSBC UK Bank plc, Marks and Spencer Financial Services plc, HSBC Trust Company (UK) Limited, HSBC Private Bank (UK) Limited and HSBC Innovation Bank Limited (HSBC Innovation Bank Limited is included from 31 March 2023 reporting).

For details on our approach to manage Liquidity Risk, please refer Treasury Risk management section page 11.

More details on the concentration of funding and liquidity sources may be found on page 58 of the Annual Report and Accounts 2023.

Table 47 below sets out the granular split of cash outflows and cash inflows, as well as the available high-quality liquid assets on both an unweighted and weighted basis, that are used to derive the liquidity coverage ratio. The table discloses the liquidity coverage ratio, high-quality liquid assets and net outflows based on end-of-the-month observations over the preceding 12 months for each quarter.

Table 47: Quantitative information of LCR (UK LIQ1)

	Quarter ended 31 Dec 2023		Quarter ended 30 Sep 2023		Quarter ended 30 Jun 2023		Quarter ended 31 Mar 2023	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
	£m	**£m**	£m	£m	£m	£m	£m	£m
Number of data points used in the calculation of averages		**12**		12		12		12
High quality liquid assets								
Total high quality liquid assets ('HQLA')		**94,765**		98,181		102,757	—	107,018
Cash outflows								
Retail deposits and small business funding	**195,364**	**16,039**	198,657	16,355	202,307	16,675	204,713	16,800
– *of which:*								
stable deposits	***123,853***	***6,193***	*125,071*	*6,253*	*126,378*	*6,319*	*127,527*	*6,377*
less stable deposits	***71,511***	***9,846***	*73,586*	*10,102*	*75,929*	*10,356*	*77,186*	*10,423*
Unsecured wholesale funding	**73,345**	**28,719**	74,220	28,887	74,905	29,005	75,164	28,975
– operational deposits (all counterparties) and deposits in networks of cooperative banks	**22,248**	**5,203**	22,593	5,282	22,667	5,302	22,532	5,274
– non-operational deposits (all counterparties)	**50,932**	**23,351**	51,476	23,454	52,087	23,552	52,498	23,567
– unsecured debt	**165**	**165**	151	151	151	151	134	134
Secured wholesale funding		**—**			—	—	—	—
Additional requirements	**25,333**	**3,980**	24,845	3,678	23,860	3,374	22,766	3,105
– outflows related to derivative exposures and other collateral requirements	**733**	**731**	729	728	691	691	652	651
– *credit and liquidity facilities*	**24,600**	**3,249**	24,116	2,950	23,169	2,683	22,114	2,454
Other contractual funding obligations	**737**	**501**	701	475	745	522	728	502
Other contingent funding obligations	**55,564**	**3,818**	54,709	3,968	54,472	4,054	54,543	4,250
Total cash outflows		**53,057**		53,363	—	53,629	—	53,632
Cash inflows								
Secured lending transactions (including reverse repos)	**3,581**	**65**	3,702	71	4,459	56	4,231	49
Inflows from fully performing exposures	**4,257**	**3,544**	4,036	3,334	3,683	2,987	3,425	2,687
Other cash inflows	**10,281**	**2,214**	10,655	2,297	10,845	2,350	10,803	2,273
Total cash inflows	**18,119**	**5,823**	18,393	5,702	18,987	5,393	18,459	5,009
Inflows Subject to 75% Cap	**18,119**	**5,823**	18,393	5,702	18,987	5,393	18,459	5,009
Liquidity coverage ratio (Adjusted value)								
Liquidity Buffer		**94,765**		98,181		102,757	—	107,018
Total net cash outflows		**47,234**		47,661		48,236	—	48,623
Liquidity coverage ratio (%)		**200.6**		206.0		213.0		220.1

Table 48 below shows the components of the net stable funding ratio for unweighted values by residual maturity and the resultant weighted amounts.

Table 48: Net stable funding ratio (UK LIQ2)

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		£m	£m	£m	£m	£m
				31 December 2023		
Available stable funding ('ASF') Items						
1	Capital items and instruments	**23,540**	**—**	**—**	**3,115**	**26,655**
2	– Own funds	**23,540**	**—**	**—**	**3,115**	**26,655**
4	Retail deposits	**—**	**195,277**	**—**	**—**	**181,946**
5	– Stable deposits	**—**	**123,932**	**—**	**—**	**117,736**
6	– Less stable deposits	**—**	**71,345**	**—**	**—**	**64,211**
7	Wholesale funding:	**—**	**84,840**	**1,558**	**19,398**	**56,129**
8	– Operational deposits	**—**	**22,270**	**—**	**—**	**11,135**
9	– Other wholesale funding	**—**	**62,570**	**1,558**	**19,398**	**44,993**
11	Other liabilities:	**—**	**5,406**	**—**	**—**	**—**
13	– All other liabilities and capital instruments not included in the above categories	**—**	**5,406**	**—**	**—**	**—**
14	**Total available stable funding ('ASF')**	**—**	**—**	**—**	**—**	**264,729**
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')	**103,587**	**—**	**—**	**—**	**318**
17	Performing loans and securities:	**—**	**30,744**	**11,170**	**171,946**	**143,542**
18	– Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	**—**	**4,703**	**1,391**	**—**	**696**
19	– Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	**—**	**242**	**—**	**—**	**12**
20	– Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs	**—**	**16,445**	**5,412**	**46,442**	**49,749**
21	*– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	**—**	***550***	***515***	***3,276***	***2,662***
22	– Performing residential mortgages	**—**	**2,974**	**2,698**	**121,311**	**87,181**
23	*– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	**—**	***2,947***	***2,672***	***119,783***	***85,855***
24	– Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	**—**	**6,381**	**1,669**	**4,193**	**5,904**
26	Other assets:	**—**	**4,148**	**—**	**12,765**	**16,452**
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	**—**	**341**	**—**	**—**	**290**
29	– NSFR derivative assets	**—**	**141**	**—**	**—**	**141**
30	– NSFR derivative liabilities before deduction of variation margin posted	**—**	**187**	**—**	**—**	**9**
31	– All other assets not included in the above categories	**—**	**3,479**	**—**	**12,765**	**16,011**
32	Off-balance sheet items	**—**	**31,670**	**6,271**	**43,150**	**7,212**
33	**Total RSF**	**—**	**—**	**—**	**—**	**167,523**
34	Net stable funding ratio (%)	**0**	**0**	**0**	**0**	**158**
				31 December 2022		
Available stable funding ('ASF') Items						
1	Capital items and instruments	22,192	—	—	3,075	25,267
2	– Own funds	22,192	—	—	3,075	25,267
4	Retail deposits	—	206,425	—	—	192,207
5	– Stable deposits	—	128,479	—	—	122,055
6	– Less stable deposits	—	77,946	—	—	70,151
7	Wholesale funding:	—	86,821	962	19,321	56,328
8	– Operational deposits	—	22,514	—	—	11,257
9	– Other wholesale funding	—	64,307	962	19,321	45,071
11	Other liabilities:	—	4,700	—	—	—
13	– All other liabilities and capital instruments not included in the above categories	—	4,700	—	—	—

Table 48: Net stable funding ratio (UK LIQ2) (continued)

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		£m	£m	£m	£m	£m
14	Total available stable funding ('ASF')	—	—	—	—	273,801
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')	117,351	—	—	—	288
17	Performing loans and securities:	—	32,085	11,761	165,866	138,852
18	– Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	—	7,890	3,170	—	1,596
19	– Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	—	87	—	—	4
20	– Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs	—	17,865	5,680	48,271	51,810
21	*– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	—	780	577	4,966	3,906
22	– Performing residential mortgages	—	2,834	2,778	116,385	83,520
23	*– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	—	2,819	2,769	115,932	83,123
24	– Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	—	3,408	133	1,210	1,922
26	Other assets:	—	4,354	—	13,167	16,880
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	—	96	—	—	82
29	– NSFR derivative assets	—	217	—	—	217
30	– NSFR derivative liabilities before deduction of variation margin posted	—	328	—	—	16
31	– All other assets not included in the above categories	—	3,714	—	13,167	16,566
32	Off-balance sheet items	—	19,571	—	57,340	10,530
33	**Total RSF**	—	—	—	—	166,551
34	Net stable funding ratio (%)	—	—	—	—	164

Remuneration

As a wholly-owned subsidiary, HSBC UK is subject to the remuneration practices established by HSBC. Details of HSBC Group's remuneration practices, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration structure of HSBC Identified Staff and Material Risk Takers ('MRT') is available in the Directors' Remuneration Report from page 279 of the HSBC Holdings plc *Annual Report and Accounts 2023*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC UK for 2023. Individuals have been identified as MRTs as set out in the European Union Regulatory Technical Standard ('RTS') 2021/923. The tables below include the total remuneration of HSBC UK senior management and other individuals identified as HSBC UK MRTs based on their role and professional activities. This also includes certain individuals employed by the Group who have broader roles within HSBC, for example those with global roles.

Table 49: Remuneration awarded for the financial year (REM1)

£m	**MB Supervisory function**	**MB Management function**	**Other senior management**	**Other identified staff**
Number of Identified Staff	**9**	**2**	**14**	**108.9**
Total fixed remuneration	**1.5**	**2.4**	**9.6**	**23.4**
– of which: *cash-based*[1]	***1.5***	***2.4***	***9.6***	***23.4***
shares or equivalent ownership interests[2]	—	—	—	***0***
Number of identified staff	**9**	**2**	**14**	**108.9**
Total variable remuneration [3,4]	—	**3.8**	**9.7**	**17.3**
– of which: *cash-based*	—	***1.7***	***3.7***	***8.9***
deferred	—	***1.0***	***1.9***	***3.2***
shares or equivalent ownership interests	—	***2.1***	***6.0***	***8.4***
deferred	—	***1.4***	***4.2***	***3.9***
Total (£m)	**1.5**	**6.2**	**19.3**	**40.7**

1 *Cash-based fixed remuneration is paid immediately.*
2 *Paid in HSBC shares. Vested shares are subject to a retention period of up to one year.*
3 *Variable pay awarded in respect of 2023. In accordance with shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration.*
4 *13 identified staff members were exempt from the application of the remuneration structure requirements for MRTs under the PRA and FCA remuneration rules. Their total remuneration is £2.1m, of which £1.7m is fixed pay and £0.4m is variable remuneration.*

Table 50: Special payments to staff whose professional activities have a material impact on institutions' risk profile (REM2)

£m	MB Supervisory function	MB Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards[1]	—	—	—	**0.0**
Guaranteed variable remuneration awards – Number of identified staff	—	—	—	—
Guaranteed variable remuneration awards – Total amount	—	—	—	—
– *of which: guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap*	—	—	—	—
Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff[2]	—	—	—	—
Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount	—	—	—	—
Severance payments awarded during the financial year	—	—	—	—
Severance payments awarded during the financial year – Number of identified staff[2]	—	—	—	**4**
Severance payments awarded during the financial year – Total amount	—	—	—	**0.8**
– *of which: paid during the financial year*	—	—	—	**0.8**
– *of which: deferred*	—	—	—	—
severance payments paid during the financial year, that are not taken into account in the bonus cap	—	—	—	**0.8**
highest payment that has been awarded to a single person	—	—	—	**0.2**

1 *No guaranteed variable remuneration was awarded in 2023. HSBC would offer a guaranteed variable remuneration award in exceptional circumstances for new hires, and for the first year of employment only. It would typically involve a critical new hire, and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year.*

2 *Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefit entitlements triggered on terminations).*

Table 51: Deferred remuneration at 31 December[1] (REM3)

Deferred and retained remuneration – £m	Total amount of deferred remuneration awarded for previous performance periods	*of which: due to vest in the financial year*	*of which: vesting in subsequent financial years*	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	—	—	—	—	—	—
Cash-based	—	—	—	—	—	—
Shares or equivalent ownership interests	—	—	—	—	—	—
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—
Other forms	—	—	—	—	—	—
MB Management function	**8.1**	***1.1***	***7***	**0.7**	**1.1**	**0.2**
Cash-based	**3**	***0.4***	***2.6***	—	**0.4**	—
Shares or equivalent ownership interests	**5.1**	***0.7***	***4.4***	**0.7**	**0.7**	**0.2**
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—
Other forms	—	—	—	—	—	—
Other senior management	**12.9**	***2.2***	***10.7***	**0.9**	**2.2**	**0.5**
Cash-based	**5**	***0.6***	***4.4***	—	**0.6**	—
Shares or equivalent ownership interests	**7.9**	***1.6***	***6.3***	**0.9**	**1.6**	**0.5**
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—
Other forms	—	—	—	—	—	—
Other identified staff	**10.7**	***2.7***	***8***	**0.6**	**2.7**	**0.4**
Cash-based	**4.2**	***0.9***	***3.3***	—	**0.9**	—
Shares or equivalent ownership interests	**6.5**	***1.8***	***4.7***	**0.6**	**1.8**	**0.4**
Share-linked instruments or equivalent non-cash instruments	—	—	—	—	—	—
Other forms	—	—	—	—	—	—
Total amount	**31.7**	***6***	***25.7***	**2.2**	**6**	**1.1**

1 *This table provides details of balances and movements during performance year 2023. For details of variable pay awards granted for 2023, refer to the 'Remuneration awarded for the financial year' table. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC shares.*

Table 52: Identified staff – Remuneration by band[1] (REM4)

	Identified staff that are high earners as set out in Article 450(i) CRR
€1,000,000 – 1,500,000	**2**
€1,500,000 – 2,000,000	**5**
€2,000,000 – 2,500,000	**2**
€2,500,000 – 3,000,000	**—**
€3,000,000 – 3,500,000	**—**
€3,500,000 – 4,000,000	**1**
€4,000,000 – 4,500,000	**1**
€4,500,000 – 5,000,000	**—**
€5,000,000 – 6,000,000	**1**
€6,000,000 – 7,000,000	**—**
€7,000,000 – 8,000,000	**—**

1 *Table prepared in Euros in accordance with Article 450 of the European Union Capital Requirements Regulation, using the exchange rates published by the European Commission for financial programming and budget for December of the reported year as published on its website.*

Table 53: Remuneration of staff whose professional activities have a material impact on institutions' risk profile (REM5)

	Management body remuneration			Business areas				
£m	MB Supervisory function	MB Management function	Total MB	Retail banking	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff								**133.9**
– *of which: members of the MB*	***9***	***2***	***11***					
other senior management				***4***	***6***	***3***	***1***	
other identified staff				***68***	***18***	***20.9***	***2***	
Total remuneration of identified staff	**1.5**	**6.2**	**7.7**	**37**	**13**	**8.8**	**1.2**	
– *of which: variable remuneration*[1]	***—***	***3.8***	***3.8***	***17.9***	***5.5***	***3.2***	***0.4***	
fixed remuneration	***1.5***	***2.4***	***3.9***	***19.1***	***7.5***	***5.6***	***0.8***	

1 *Variable pay awarded in respect of 2023. In accordance with shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration.*

Other risk

Countercyclical capital buffer

The table below discloses the geographical distribution of credit exposures relevant to the calculation of the countercyclical buffer under Article 440 of the Regulation (EU) 575/2013. Countries or territories that have a CCyB requirement, or have an own funds requirement of greater than 0.1%, or that are material in nature are disclosed below.

Table 54: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1)

	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures		Own funds requirements						
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Securitisation positions in the non-trading book	Total	Risk weighted exposure amounts	Own funds requirements weights	CCyB rate
Country	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**
Anguilla	—	40	—	—	—	40	8	—	—	8	95	0.11	—
Australia	—	274	—	—	—	274	5	—	—	5	68	0.08	1.00
Bulgaria	—	4	—	—	—	4	—	—	—	—	1	—	2.00
Cayman Islands	247	5	—	—	—	252	20	—	—	20	251	0.29	—
Croatia	—	—	—	—	—	—	—	—	—	—	—	—	1.00
Cyprus	—	8	—	—	—	8	—	—	—	—	1	—	0.50
Czech Republic	—	8	—	—	—	8	—	—	—	—	3	—	2.00
Denmark	103	37	—	—	—	140	9	—	—	9	115	0.13	2.50
Estonia	—	—	—	—	—	—	—	—	—	—	—	—	1.50
France	—	91	—	—	—	91	1	—	—	1	17	0.02	0.50
Germany	228	88	—	—	—	317	20	—	—	20	254	0.30	0.75
Guernsey	637	123	—	—	—	759	55	—	—	55	686	0.80	—
Hong Kong	—	1,362	—	—	—	1,362	23	—	—	23	293	0.34	1.00
Iceland	—	—	—	—	—	—	—	—	—	—	—	—	2.00
Ireland	56	197	—	—	—	253	11	—	—	11	143	0.17	1.00
Jersey	681	422	—	—	—	1,103	75	—	—	75	942	1.10	—
Lithuania	—	1	—	—	—	1	—	—	—	—	—	—	1.00
Luxembourg	2,485	255	—	—	—	2,740	215	—	—	215	2,686	3.13	0.50
Netherlands	100	649	—	—	—	749	32	—	—	32	402	0.47	1.00
Norway	19	5	—	—	—	24	2	—	—	2	19	0.02	2.50
Romania	—	10	—	—	—	10	—	—	—	—	4	—	1.00
Slovakia	—	11	—	—	—	11	—	—	—	—	4	0.01	1.50
Slovenia	—	—	—	—	—	—	—	—	—	—	—	—	0.50
Spain	124	37	—	—	—	161	10	—	—	10	131	0.15	—
Sweden	309	10	—	—	—	319	25	—	—	25	312	0.36	2.00
Switzerland	—	373	—	—	—	373	10	—	—	10	128	0.15	—
United Arab Emirates	1	659	—	—	—	660	9	—	—	9	111	0.13	—
United Kingdom	5,864	238,094	—	—	4,010	247,968	6,147	—	58	6,205	77,564	90.50	2.00
United States	221	1,939	—	—	—	2,160	78	—	—	78	974	1.14	—
Other countries	86	1,768	—	—	—	1,854	43	—	—	43	502	0.58	NA
Total at 31 Dec 2023	11,161	246,470	—	—	4,010	261,641	6,798	—	58	6,856	85,706	100.00	

Table 54: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1) (continued)

	General credit exposures		Relevant credit exposures – Market risk		Securitisation exposures		Own funds requirements						
	SA	IRB	Sum of long/short positions for SA	Internal models	Total Exposure value for non-trading book	Total exposure value	Relevant credit risk exposures – Credit risk	Relevant credit exposures – Market risk	Securitisation positions in the non-trading book	Total	Risk weighted exposure amounts	Own funds requirements weights	CCyB rate
Country	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
Bulgaria	—	4	—	—	—	4	—	—	—	—	1	—	1.00
Czech Republic	—	10	—	—	—	10	—	—	—	—	3	—	1.50
Denmark	—	20	—	—	—	20	—	—	—	—	5	0.01	2.00
Estonia	—	1	—	—	—	1	—	—	—	—	—	—	1.00
Hong Kong	—	1,458	—	—	—	1,458	35	—	—	35	434	0.55	1.00
Iceland	—	—	—	—	—	—	—	—	—	—	—	—	2.00
Ireland	12	320	—	—	—	332	9	—	—	9	116	0.15	—
Jersey	—	413	—	—	—	413	22	—	—	22	271	0.34	—
Luxembourg	—	247	—	—	—	247	17	—	—	17	211	0.27	0.50
Netherlands	—	825	—	—	—	826	37	—	—	37	469	0.60	—
Norway	—	6	—	—	—	6	—	—	—	—	2	—	2.00
Romania	—	11	—	—	—	11	—	—	—	—	4	0.01	0.50
Singapore	—	454	—	—	—	454	12	—	—	12	155	0.20	—
Slovakia	—	11	—	—	—	11	—	—	—	—	4	0.01	1.00
Sweden	—	11	—	—	—	11	—	—	—	—	1	—	1.00
Switzerland	—	326	—	—	—	326	8	—	—	8	98	0.12	—
United Arab Emirates	2	666	—	—	—	668	12	—	—	12	144	0.18	—
United Kingdom	4,228	245,502	—	—	3,131	252,861	5,957	—	52	6,009	75,115	95.41	1.00
United States	149	1,633	—	—	—	1,782	66	—	—	66	823	1.05	—
Virgin Islands, British	—	226	—	—	—	226	10	—	—	10	124	0.16	—
Other countries	26	2,410	—	—	—	2,436	59	—	—	59	744	0.94	NA
Total at 31 Dec 2022	4,417	254,553	—	—	3,131	262,101	6,246	—	52	6,298	78,725	100.00	

Table 55: Amount of institution-specific countercyclical capital buffer (UK CCyB2)

	2023	2022
Total Risk Exposure Amount (£m)	**101,478**	92,413
Institution specific countercyclical capital buffer rate (%)	**1.85**	0.96
Institution specific countercyclical capital buffer requirement (£m)	**1,877**	888

Asset encumbrance

The below asset encumbrance tables are prepared on the regulatory scope of consolidation basis consistent with the regulatory scope of consolidation used to prepare other liquidity reporting. Each of the reported values in the below tables are based on the average of the previous four quarters.Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, are considered encumbered.

The table 56 below provides split of on balances sheet assets between encumbered and unencumbered

Table 56: Encumbered and unencumbered assets (UK AE1)

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		Total	***of which: notionally eligible EHQLA and HQLA***	**Total**	***of which: notionally eligible EHQLA and HQLA***	**Total**	***of which: EHQLA and HQLA***	**Total**	***of which: EHQLA and HQLA***
		010	***030***	**040**	***050***	**060**	***080***	**090**	***100***
2023		**£m**	***£m***	**£m**	***£m***	**£m**	***£m***	**£m**	***£m***
010	**Assets of the reporting institution**	**27,025**	***6,993***			**308,384**	***90,118***		
020	Loans on demand	**5,000**	—			**76,208**	***74,356***		
030	Equity instruments	—	—	—	—	**40**	—	**40**	—
040	Debt securities	**6,993**	***6,993***	**6,993**	***6,993***	**15,980**	***15,234***	**15,591**	***14,804***
	– *of which:*								
050	*covered bonds*	—	—	—	—	***1,479***	**1,479**	***1,479***	**1,479**
060	*securitisations*	—	—	—	—	***109***	**38**	***109***	**38**
070	*issued by general governments*	***6,985***	**6,985**	***6,985***	**6,985**	***12,295***	**11,702**	***11,896***	**11,282**
080	*issued by financial corporations*	***8***	**8**	***8***	**8**	***3,300***	**3,146**	***3,309***	**3,137**
120	Other assets	**15,032**	—			**216,156**	***528***		

The table 57 below provides details for collateral received and own debt security issued.

Table 57: Collateral received and own debt securities issued (UK AE2)

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered Fair value of collateral received or own debt securities issued available for encumbrance	
		Total	***of which: notionally eligible EHQLA and HQLA***	**Total**	***of which: EHQLA and HQLA***
		010	***030***	**040**	***060***
2023		**£m**	***£m***	**£m**	***£m***
130	**Collateral received by the reporting institution**	**3,667**	***3,560***	**5,111**	***5,075***
160	Debt securities	**3,667**	***3,560***	**5,111**	***5,075***
170	– *of which:*				
	covered bonds	—	—	***240***	**240**
190	*issued by general governments*	***3,604***	**3,510**	***4,335***	**4,318**
200	*issued by financial corporations*	***63***	**50**	***776***	**758**
250	**Total assets, collateral received and own debt securities issued**	**30,692**	***10,553***		

The table 58 below provides sources of encumbrance

Table 58: Sources of encumbrance (UK AE3)

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	**030**
2023		**£m**	**£m**
010	Carrying amount of selected financial liabilities	**17,282**	**24,062**

Importance of encumbrance

We are a deposit-led bank and hence the majority of our funding is from customer current accounts and customer savings deposits payable on demand or at short notice. Given this structural unsecured funding position, we have less requirement to fund ourselves in secured markets, and therefore our overall low level of encumbrance reflects this position. There is monitoring against a limit on the level of asset encumbrance.

Appendix I

Summary of excluded disclosures

Template ref	Description	Rationale
UK CCA	Main features of regulatory own funds and eligible liabilities instruments	Published as supplement alongside this report at www.hsbc.com/investors
UK CCR6	Credit derivatives exposures	No reportable exposures
UK CCR7	RWA flow statements of CCR exposures under the IMM	HSBC UK does not have IMM permission for counterparty credit risk
UK CR9	Back-testing of PD per exposure class (fixed PD scale) for Sovereign and Institution exposure class	HSBC UK uses the HSBC Group's global models for exposures to Sovereigns and Institutions. The number of defaults in these models relating to HSBC UK customers is immaterial. Information on the performance of these global models can be found in the *HSBC Holdings plc Pillar 3 Disclosures at 31 December 2023* published at www.hsbc.com/investors.
UK CR7	IRB – Effect on the RWA of credit derivatives used as CRM techniques	No reportable exposures
UK CR9.1	IRB approach- Backtesting of PD per exposures class (only for PD estimates according to point (f) of Article 180(1) CRR	No reportable exposures
UK CR10.5	Equity exposures under the simple risk-weighted approach	No reportable exposures
UK SEC2	Securitisation exposures in the trading book	No reportable exposures
UK MRB	Qualitative disclosure requirements for institutions using the internal Market Risk models	HSBC UK does not have IMA permission for market risk
UK MR2-A	Market Risk under the internal model approach (IMA)	HSBC UK does not have IMA permission for market risk
UK MR2-B	RWA flow statements of market risk exposures under the IMA	HSBC UK does not have IMA permission for market risk
UK MR3	IMA values for trading portfolios	HSBC UK does not have IMA permission for market risk
UK MR4	Comparison of VaR estimates with gains/losses	No reportable exposures

Appendix II

Compliance with CRR II Pillar 3 Requirements

Article	Regulatory Requirements	Compliance reference
Disclosure requirements and policies		
431(1)	Institutions shall publicly disclose the information referred to in Titles II and III [A.435-455] in accordance with the provisions laid down in this Title, subject to the exceptions referred to in Article 432 [Non-Material, Proprietary or Confidential Information]	HSBC UK publishes Pillar 3 disclosures as required.
431 (2)	Institutions that have been granted permission by the competent authorities under Part Three for the instruments and methodologies referred to in Title III [A.452-455] of this Part shall publicly disclose the information laid down therein.	HSBC UK publishes the required information under Title III except for Advanced Operational Risk and IMA Market Risk which are not applicable.
431(3)	The management body or senior management shall adopt formal policies to comply with the disclosure requirements laid down in this Part and put in place and maintain internal processes, systems and controls to verify that the institution's disclosures are appropriate and in compliance with the requirements laid down in this Part. At least one member of the management body or senior management shall attest in writing that the relevant institution has made the disclosures required under this Part in accordance with the formal policies and internal processes, systems and controls. The written attestation and the key elements of the institution's formal policies to comply with the disclosure requirements shall be included in the institutions' disclosures. Information to be disclosed in accordance with this Part shall be subject to the same level of internal verification as that applicable to the management report included in the institution's financial report. Institutions shall also have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants. Where institutions find that the disclosures required under this Part do not convey the risk profile comprehensively to market participants, they shall publicly disclose information in addition to the information required to be disclosed under this Part. Nonetheless, institutions shall only be required to disclose information that is material and not proprietary or confidential in accordance with Article 432.	HSBC UK Pillar 3 disclosures at 31 December 2023 are approved by the HSBC UK Bank plc Board of Directors and are governed by the group's disclosure policy framework as approved by the Audit Committee('AC'), refer to 'Pillar 3 Governance'section on page 3.
431(4)	All quantitative disclosures shall be accompanied by a qualitative narrative and any other supplementary information that may be necessary in order for the users of that information to understand the quantitative disclosures, noting in particular any significant change in any given disclosure compared to the information contained in the previous disclosures.	Narratives are included to explain quantitative disclosures where required. Refer to Page 3 for overarching statement.
431(5)	Institutions shall, if requested, explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of the explanation shall be proportionate to the size of the loan.	The HSBC UK Credit Risk Management process is disclosed in the *Annual Report and Accounts 2023* on page 24.
Non-material, proprietary or confidential information		
432 (1)	With the exception of the disclosures laid down in point (c) of Article 435(2) [policy on diversity] and in Articles 437 [Own Funds] and 450 [Remuneration], institutions may omit one or more of the disclosures listed in Titles II and III where the information provided by those disclosures is not regarded as material. Information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions.	HSBC UK complies with all relevant disclosure requirements. Items omitted from disclosures are listed in Appendix I on page 67.
432 (2)	Institutions may also omit one or more items of information referred to in Titles II and III where those items include information that is regarded as proprietary or confidential in accordance with this paragraph, except for the disclosures laid down in Articles 437 and 450. Information shall be regarded as proprietary to institutions where disclosing it publicly would undermine their competitive position. Proprietary information may include information on products or systems that would render the investments of institutions therein less valuable, if shared with competitors. Information shall be regarded as confidential where the institutions are obliged by customers or other counterparty relationships to keep that information confidential.	
432 (3)	In the exceptional cases referred to in paragraph 2, the institution concerned shall state in its disclosures the fact that the specific items of information are not disclosed and the reason for not disclosing those items, and publish more general information about the subject matter of the disclosure requirement, except where that subject matter is, in itself, proprietary or confidential.	
Frequency and scope of disclosures		
433	Institutions shall publish the disclosures required under Titles II and III in the manner set out in Articles 433a [Large Institutions], 433b [Small and Non-Complex Institutions] and 433c [Other Institutions] Annual disclosures shall be published on the same date as the date on which institutions publish their financial statements or as soon as possible thereafter. Semi-annual and quarterly disclosures shall be published on the same date as the date on which the institutions publish their financial reports for the corresponding period where applicable or as soon as possible thereafter. Any delay between the date of publication of the disclosures required under this Part and the relevant financial statements shall be reasonable.	HSBC UK, complies with the frequency requirements set out in Article 433a. The annual Pillar 3 disclosures are disclosed on the same date as the Annual Report and Accounts.

Article	Regulatory Requirements	Compliance reference
433a.1	Large institutions shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) on a semi-annual basis the information referred to in: (i) point (a) of Article 437; (ii) point (e) of Article 438; (iii) points (e) to (l) of Article 439; (iv) Article 440; (v) points (c), (e), (f) and (g) of Article 442; (vi) point (e) of Article 444; (vii) Article 445; (viii) point (a) and (b) of Article 448(1); (ix) point (j) to (l) of Article 449; (x) points (a) and (c) of Article 451(1); (xi) Article 451a(3); (xii) point (g) of Article 452; (xiii) points (f) to (j) of Article 453; (xiv) points (d), (e) and (g) of Article 455; (c) on a quarterly basis the information referred to in: (i) points (d) and (h) of Article 438; (ii) the key metrics referred to in Article 447; (iii) Article 451a(2).	HSBC UK comply with the frequency requirements set out in this article.
433a.2	By way of derogation from paragraph 1, large institutions other than G-SIIs that are non-listed institutions shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) the key metrics referred to in Article 447 on a semi-annual basis.	This disclosure is not applicable as HSBC UK is not a 'non-listed institution'.
433a.3	Large institutions that are subject to Article 92a or 92b shall disclose the information required under Article 437a [of own funds and eligible liabilities] on a semi-annual basis, except for the key metrics referred to in point (h) of Article 447, which are to be disclosed on a quarterly basis.	This is not applicable because HBSC UK is not subject to Articles 92a or 92b.
433a.4	Large institutions that are LREQ firms shall disclose the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.	HSBC UK complies with this requirement and completes additional leverage disclosures on a quarterly basis.
Disclosures by small and non-complex institutions		
433b.1	Small and non-complex institutions shall disclose the information outlined below with the following frequency: (a) on an annual basis the information referred to in: (i) points (a), (e) and (f) of Article 435(1); (ii) point (d) of Article 438; (iii) points (a) to (d), (h), and (i) of Article 450(1); (b) on a semi-annual basis the key metrics referred to in Article 447.	This disclosure is not applicable to HSBC UK.
433b.2	By way of derogation from paragraph 1 of this Article, small and non-complex institutions that are non-listed institutions shall disclose the key metrics referred to in Article 447 on an annual basis.	This disclosure is not applicable to HSBC UK.
Disclosures by other institutions		
433c.1	Institutions that are not subject to Article 433a or 433b shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) the key metrics referred to in Article 447 on a semi-annual basis; (c) for such institutions that are LREQ firms, the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.	This disclosure is not applicable to HSBC UK.
433c.2	By way of derogation from paragraph 1 of this Article, other institutions that are non-listed institutions shall disclose the following information on an annual basis: (a) points (a), (e) and (f) of Article 435(1); (b) points (a), (b) and (c) of Article 435(2); (c) point (a) of Article 437; (d) points (c) and (d) of Article 438; (e) the key metrics referred to in Article 447; and (f) points (a) to (d), (h) to (k) of Article 450(1).	This disclosure is not applicable to HSBC UK.
Means of disclosures		
434 (1)	Institutions shall disclose all the information required under Titles II and III in electronic format and in a single medium or location. The single medium or location shall be a standalone document that provides a readily accessible source of prudential information for users of that information or a distinctive section included in or appended to the institutions' financial statements or financial reports containing the required disclosures and being easily identifiable to those users.	HSBC UK prepares the Pillar 3 with clear references to the Annual Report and Accounts where distinctive sections provide regulatory disclosures.
434 (2)	Institutions shall make available on their website or, in the absence of a website, in any other appropriate location an archive of the information required to be disclosed in accordance with this Part. That archive shall be kept accessible for a period of time that shall be no less than the storage period set by national law for information included in the institutions' financial reports.	Pillar 3 disclosures are published on the HSBC Investor Relations website - *www.hsbc.com/investors.*
Timing and means of disclosures under Article 441		
434b.1	By way of derogation from the second paragraph of Article 433, G-SIIs shall disclose the information required under Article 441 [Disclosure of Indicators of Global Systemic Importance] within four months after the end of the period to which the information relates.	This disclosure is not applicable to HSBC UK. HSBC Holdings plc is a G-SII and disclosures are published separately on the HSBC investor relations website, www.hsbc.com/investors, subsequent to the publication of Pillar 3 within the defined time frame.
434b.2	By way of derogation from Article 434(1), where a G-SII relies on the derogation in paragraph 1, it may disclose the information required under Article 441 in a separate medium or location from the standalone document mentioned in Article 434(1).	
434b.3	If, in accordance with paragraphs 1 and 2, a G-SII does not disclose the information required under Article 441 at the same time as, and in the same medium or location as, the other information required to be disclosed under Titles II and III, it shall include in the standalone document mentioned in Article 434(1) a statement specifying when and in what medium or location the information required under Article 441 will be disclosed.	
Risk management objectives and policies		
435.1	Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to in this Title. These disclosures shall include:	HSBC UK complies with the requirement as set out below, within the Pillar 3 and the Annual Report and Accounts.

Article	Regulatory Requirements	Compliance reference
435 (1) (a)	the strategies and processes to manage those categories of risk;	HSBC UK complies with the requirement as set out below. For a summary of the scope of application of regulatory methodologies for credit Risk, counterparty credit risk, equity, market risk and operational risk management strategy see page 17. For ESG refer page 19 and Climate Risk see page 59 of the *Annual Report and Accounts*. For Credit Risk see page 18 of *Pillar 3 2023* and page 24 of *Annual Report and accounts 2023.* For Counterparty Credit Risk see page 49. For Market Risk see page 55 of *Pillar 3 2023* and page 59 of *Annual Reports and accounts 2023.* For Non Financial and Operational Risk see page 57 of *Pillar 3 2023.* For Treasury and Capital Risk see page 11 of *Pillar 3 2023* and page 52 of *Annual Reports and Accounts 2023.* For Model Risk see page 62 of the *Annual Report and Accounts 2023.* For Resilience Risk see page 60 of *Annual Reports and Accounts 2023.* For Regulatory Compliance Risk see page 60 of *Annual Reports and Accounts 2023.*
435 (1) (b)	the structure and organisation of the relevant risk management function including information on the basis of its authority, its powers and accountability in accordance with the institution's incorporation and governing documents	
435 (1) (c)	the scope and nature of risk reporting and measurement systems	
435 (1) (d)	the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	
435 (1) (e)	a declaration approved by the management body on the adequacy of risk management arrangements of the institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy	Refer to the 'Risk management section' on page 7 and page 15 of the *Annual Report and Accounts 2023.*
435 (1) (f)	a concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy; that statement shall include: (i) key ratios and figures providing external stakeholders with a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body; (ii) information on intragroup transactions and transactions with related parties that may have a material impact of the risk profile of the consolidated group.	Refer to the 'Risk management section' on page 7 and page 15 of the *Annual Report and Accounts 2023.*
435 (2)	Institutions shall disclose the following information regarding governance arrangements:	HSBC UK complies with the requirement as set out below.
435 (2) (a)	the number of directorships held by members of the management body	Corporate governance report in the *Annual Report and Accounts 2023* on page 62
435 (2) (b)	the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	Corporate governance report in the *Annual Report and Accounts 2023* on page 62
435 (2) (c)	the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved	Refer Chairman's Nominations and Remuneration Committee section in the *Annual Report and Accounts 2023* on page 65
435 (2) (d)	whether or not the institution has set up a separate risk committee and the number of times the risk committee has met	Refer Risk Committee in the *Annual Report and Accounts 2023* on page 64
435 (2) (e)	the description of the information flow on risk to the management body.	Refer Risk Committee in the *Annual Report and Accounts 2023* on page 64
Scope of application		
436	Institutions shall disclose the following information regarding the scope of application of the CRR as follows:	HSBC UK complies with the requirement as set out below.
436 (a)	the name of the institution to which the Capital Risk Requirements applies	Refer to Page 1.
436 (b)	a reconciliation between the consolidated financial statements prepared in accordance with the applicable accounting framework and the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One; that reconciliation shall outline the differences between the accounting and regulatory scopes of consolidation and the legal entities included within the regulatory scope of consolidation where it differs from the accounting scope of consolidation; the outline of the legal entities included within the regulatory scope of consolidation shall describe the method of regulatory consolidation where it is different from the accounting consolidation method, whether those entities are fully or proportionally consolidated and whether the holdings in those legal entities are deducted from own funds	Table 3: Principal entities with a different regulatory and accounting scope of consolidation (LI3) on page 9.

Article	Regulatory Requirements	Compliance reference
436 (c)	a breakdown of assets and liabilities of the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One, broken down by type of risks as referred to under this Part	Table 4: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1) on page 10.
436 (d)	a reconciliation identifying the main sources of differences between the carrying value amounts in the financial statements under the regulatory scope of consolidation as defined in Sections 2 and 3 of Title II of Part One, and the exposure amount used for regulatory purposes; that reconciliation shall be supplemented by qualitative information on those main sources of differences	Table 5: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2) on page 11. Refer to the 'Explanations of differences between accounting and regulatory exposure amounts' section on page 11.
436 (e)	for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions	Table 44: Prudential valuation adjustments (PV1) on page 55.
436 (f)	any current or expected material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the parent undertaking and its subsidiaries	This disclosure is not applicable to HSBC UK. There is no such material or legal impediment for HSBC UK
436 (g)	the aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries	This disclosure is not applicable to HSBC UK. HSBC UK do not have such subsidiaries.
436 (h)	where applicable, the circumstances under which use is made of the derogation referred to in Article 7 or the individual consolidation method laid down in Article 9	This disclosure is not applicable to HSBC UK.
Own funds		
437	Institutions shall disclose the following information regarding their own funds:	HSBC UK complies with the requirement as set out below.
437 (a)	full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution	Table 6: Composition of Regulatory own funds (UK CC1) on page 12 Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2) on page 9.
437 (b) 437 (c)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	A summary of terms and conditions of own funds in accordance with Annex VIII is available separately on HSBC's investor relations website, *www.hsbc.com/investors*
437 (d)	a separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) items deducted pursuant to Articles 36, 56 and 66; (iii) items not deducted pursuant to Articles 47, 48, 56, 66 and 79	Table 6: Composition of Regulatory own funds (UK CC1) on page 12
437 (e)	a description of all restrictions applied to the calculation of own funds in accordance with the Capital Regulation Requirements and the instruments, prudential filters and deductions to which those restrictions apply.	Table 6: Composition of Regulatory own funds (UK CC1) on page 12
437 (f)	a comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in the CRR	HSBC UK complies with the own fund calculations set out in the CRR II rules.
Disclosure of own funds and eligible liabilities		
437a	Institutions that are subject to Article 92a or 92b [resolution entities that are G-SII/non-EU G-SII] shall disclose the following information regarding their own funds and eligible liabilities:	This disclosure does not apply to HSBC UK. HSBC UK is not a G-SII.
437 (a)(a)	The composition of their own funds and eligible liabilities, their maturity and their own features	These disclosures are not applicable for HSBC UK.
437 (a)(b)	The ranking of eligible liabilities in the creditor hierarchy	
437 (a) (c)	The amount of each issuance of eligible liabilities instruments referred to in Article 72b and the amount of those issuances that is included in eligible liabilities items within the limits specified in Article 72b(3) and (4)	
437a (d)	Total amount of excluded liabilities referred to in Article 72a(2)	
Own funds requirement and risk-weighted exposure amounts		
438	Institutions shall disclose the following information regarding their compliance with Article 92 and rules 3.1(1)(a) and 3.4 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook:	HSBC UK complies with the requirement as set out below.
438 (a)	a summary of their approach to assessing the adequacy of their internal capital to support current and future activities	Refer to the 'Internal capital adequacy assessment' on page 18.
438 (b)	the amount of the additional own funds requirements based on the supervisory review and evaluation process (within the meaning of regulation 34A of the Capital Requirements Regulations) and its composition in terms of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
438 (c)	the result of the institution's internal capital adequacy assessment process	Refer to the 'Internal capital adequacy assessment' on page 18.
438 (d)	the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds.	Table 10: Overview of risk-weighted exposure amounts (OV1) on page 17.

Article	Regulatory Requirements	Compliance reference
438 (e)	the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) [specialised lending] and the on- and off-balance-sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2) [simple risk weight approach]	Table 31: Specialised lending and equity exposures under the simple risk-weight approach (CR10) on page 41.
438 (f)	the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an individual, sub-consolidated and consolidated basis	This disclosure is not applicable to HSBC UK.
438 (g)	the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with the provisions implementing Article 6 of Directive 2002/87/EC and Annex I to that Directive where method 1 or 2 set out in that Annex is applied	This disclosure is not applicable to HSBC UK.
438 (h)	the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations	Table 11: RWA flow statements of credit risk exposures under the IRB approach (CR8) on page 17. Advanced Operational Risk and IMA Market Risk are not applicable for HSBC UK
Exposures to counterparty credit risk (CCR)		
439	Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to in Chapter 6 of Title II of Part Three:	HSBC UK complies with the requirement as set out below.
439 (a)	a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties	Refer to the 'Counterparty credit risk management' section on page 49.
439 (b)	a description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves	Refer to the 'Collateral arrangements' section on page 50.
439 (c)	a description of policies with respect to General Wrong-Way risk and Specific Wrong-Way risk as defined in Article 291	Refer to the 'Wrong way risk' section on page 51.
439 (d)	the amount of collateral the institution would have to provide if its credit rating were downgraded	Refer to the 'Credit Rating Downgrades' section on page 51.
439 (e)	for derivative transactions, the amount of segregated and unsegregated collateral received and posted per type of collateral; and for securities financing transactions, the total amount of collateral received and posted per type of collateral; provided in each case that: (i) institutions shall not disclose such amounts unless both the fair value of collateral posted in the form of debt securities and the fair value of collateral received in that form exceed GBP 125 billion; and (ii) for the purposes of subparagraph (i), institutions shall use the twelve month rolling arithmetic mean of the fair value of collateral received or posted (as the case may be) in the form of debt securities, determined using quarterly data calculated in a manner consistent with data reported under Article 430(g) [reporting the level of asset encumbrance] and covering the twelve months immediately preceding the disclosure reference date	Table 36: Composition of collateral for CCR exposure (CCR5) on page 50.
439 (f)	for derivative transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Sections 3 to 6 of Chapter 6 of Title II of Part Three*, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method; [*standardised, simplified standardised, original exposure, internal model methods]	Table 33: Analysis of counterparty credit risk exposure by approach (excluding centrally cleared exposures) (CCR1) on page 49.
439 (g)	for securities financing transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Chapters 4 and 6 of Title II of Part Three, whichever method is used, and the associated risk exposure amounts broken down by applicable method	Table 33: Analysis of counterparty credit risk exposure by approach (excluding centrally cleared exposures) (CCR1) on page 49.
439 (h)	the exposure values after credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, separately for each method as set out in Title VI of Part Three [credit valuation adjustment risk]	Table 34: Credit valuation adjustment capital charge (CCR2) on page 49.
439 (i)	the exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three [Own Funds Requirements for Exposures to a Central Counterparty], separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures	Table 37: Exposures to central counterparties (CCR8) on page 50.
439 (j)	the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold	There is no applicable data for HSBC UK.
439 (k)	the estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha in accordance with Article 284(9)	HSBC UK does not have its own estimate of alpha. Alpha estimate is used in IMM approach.
439 (l)	separately, the disclosures included in point (e) of Article 444 and point (g) of Article 452	Table 35: Standardised approach – CCR exposures by regulatory exposure class and risk weights (CCR3) on page 50. Table 38: IRB – CCR exposures by portfolio and PD scale (CCR4) on page 51.
439 (m)	for institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) [simplified standardised approach] or (2) [original exposure method], as applicable	This disclosure is not applicable to HSBC UK, as we do not use simplified SA-CCR and Original Exposure Method.
Countercyclical capital buffers		
440	Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer referred to in regulation 2 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014:	HSBC UK complies with the requirement as set out below.

Article	Regulatory Requirements	Compliance reference
440 (a)	the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer	Table 54: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1) on page 64.
440 (b)	the amount of their institution-specific countercyclical capital buffer	Table 55: Amount of institution-specific countercyclical capital buffer (UK CCyB2) on page 65.
Indicators of global systemic importance		
441	G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in regulation 23 of Part 4 of Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014	This disclosure is not applicable to HSBC UK. HSBC UK is not a G-SII.
Credit risk adjustments		
442	Institutions shall disclose the following information regarding their exposure to credit risk and dilution risk:	HSBC UK complies with the requirement as set out below.
442 (a)	the scope and definitions that they use for accounting purposes of 'past due' and 'impaired' and the differences, if any, between the definitions of 'past due' and 'default' for accounting and regulatory purposes	Refer to Non-performing and forborne exposures section on page 21.
442 (b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	Refer to Non-performing and forborne exposures section on page 21.
442(c)	information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received	Table 15: Credit quality of forborne exposures (CQ1) on page 21. Table 17: Collateral obtained by taking possession and execution processes (CQ7) on page 23. Table 18: Quality of non-performing exposures by geography (CQ4) on page 23. Table 19: Credit quality of loans and advances to non-financial corporations by industry (CQ5) on page 24.
442 (d)	an ageing analysis of accounting past due exposures	Table 16: Credit quality of performing and non-performing exposures by past due days (CQ3) on page 22.
442 (e)	the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off-balance-sheet exposures	Table 12: Performing and non-performing exposures and related provisions (CR1) on page 19. Table 15: Credit quality of forborne exposures (CQ1) on page 21. Table 18: Quality of non-performing exposures by geography (CQ4) on page 23. Table 19: Credit quality of loans and advances to non-financial corporations by industry (CQ5) on page 24.
442 (f)	any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off	Table 14: Changes in the stock of non-performing loans and advances (CR2) on page 21
442 (g)	the breakdown of loans and debt securities by residual maturity	Table 13: Maturity of exposures (CR1-A) on page 20.
Encumbered and unencumbered assets		
443	Institutions shall disclose information concerning their encumbered and unencumbered assets. For those purposes, institutions shall use the carrying amount per exposure class broken down by asset quality and the total amount of the carrying amount that is encumbered and unencumbered. Disclosure of information on encumbered and unencumbered assets shall not reveal emergency liquidity assistance provided by central banks.	Table 56: Encumbered and unencumbered assets (UK AE1) on page 66. Table 57: Collateral received and own debt securities issued (UK AE2) on page 66. Table 58: Sources of encumbrance (UK AE3) on page 66. Refer to Importance of encumbrance section page 66.
Use of the standardised approach		
444	Institutions calculating their risk-weighted exposure amounts in accordance with Chapter 2 of Title II of Part Three [standardised approach] shall disclose the following information for each of the exposure classes set out in Article 112 [exposure classes]:	HSBC UK complies with the requirement as set out below.
444 (a)	the names of the nominated ECAIs and export credit agencies and the reasons for any changes in those nominations over the disclosure period;	Refer to 'Qualitative disclosures on bank's use of external credit ratings under the standardised approach for credit risk' section on page 30.

Article	Regulatory Requirements	Compliance reference
444 (b)	the exposure classes for which each ECAI or export credit agency is used;	Refer to 'Qualitative disclosures on bank's use of external credit ratings under the standardised approach for credit risk' section on page 30.
444 (c)	a description of the process used to transfer the issuer and issue credit ratings onto items not included in the trading book;	Refer to 'Qualitative disclosures on bank's use of external credit ratings under the standardised approach for credit risk' section on page 30.
444 (d)	the association of the external rating of each nominated ECAI or export credit agency with the risk weights that correspond to the credit quality steps as set out in Chapter 2 of Title II of Part Three taking into account that it is not necessary to disclose that information where the institutions comply with the standard association published by the competent authority;	CQS reference table on page 30.
444 (e)	the exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Chapter 2 of Title II of Part Three [standardised approach] by exposure class, as well as those deducted from own funds.	Table 21: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 26. Table 23:Standardised approach – exposures by asset classes and risk weights (CR5) on page 31.
Exposure to market risk		
445	Institutions calculating their own funds requirements in accordance with points (b) [trading-book business] and (c) [market risk] of Article 92(3) shall disclose those requirements separately for each risk referred to in those provisions. In addition, own funds requirements for the specific interest rate risk of securitisation positions shall be disclosed separately.	Table 43: Market risk under standardised approach (MR1) on page 55.
Operational risk management		
446	Institutions shall disclose the following information about their operational risk management:	HSBC UK complies with the requirement as set out below.
446 (a)	the approaches for the assessment of own funds requirements for operational risk that the institution qualifies for;	Table 46: Operational risk own funds requirements and risk-weighted exposure amounts (OR1) on page 57.
446 (b)	where the institution makes use of it, a description of the methodology set out in Article 312(2), which shall include a discussion of relevant internal and external factors being considered in the institution's advanced measurement approach;	This disclosures is not applicable for HSBC UK. HSBC UK applies the standardised approach.
446 (c)	in the case of partial use, the scope and coverage of the different methodologies used.	
Disclosure of key metrics		
447	Institutions shall disclose the following key metrics in a tabular format:	HSBC UK complies with the requirement as set out below.
447 (a)	the composition of their own funds and their own funds requirements as calculated in accordance with Article 92 [own funds requirements for institutions];	Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
447 (b)	the total risk exposure amount as calculated in accordance with Article 92(3) [sets out risk exposure amounts used for capital ratios];	
447 (c)	where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with regulation 34(1) of the Capital Requirements Regulations [SI supervisory powers: own funds];	
447 (d)	their combined buffer requirement which the institutions are required to hold in accordance with regulation 35 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014;	
447 (e)	the following information in relation to their leverage ratio: (i) for all institutions, their leverage ratio and total exposure measure; (ii) for LREQ firms, the information in Article 451(1)(b) [LR including central bank claims] and (g) [LR excluding IFRS9 transitional effects on capital] and Article 451(2)(b) to (d) [average LR, average LR including central bank claims, the countercyclical LR buffer];	
447 (f)	the following information in relation to their liquidity coverage ratio as calculated in accordance with Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook: (i) the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; (ii) the average or averages, as applicable, of their total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; (iii) the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;	Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
447 (g)	the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six: (i) the average or averages, as applicable, of their net stable funding ratio based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period; (ii) the average or averages, as applicable, of their available stable funding based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period; (iii) the average or averages, as applicable, of their required stable funding based on end-of-the-quarter observations over the preceding four quarters, for each quarter of the relevant disclosure period;	Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
447 (h)	their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a [requirements for own funds and eligible liabilities for G-SIIs] and 92b and broken down at the level of each resolution group, where applicable.	This disclosure is not applicable for HSBC UK. HSBC UK is not a G-SII.

Article	Regulatory Requirements	Compliance reference
Exposures to interest rate risk on positions not included in the trading book		
448 (1)	Institutions shall disclose the following quantitative and qualitative information on the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of their non-trading book activities referred to in in Chapter 9 of the Internal Capital Adequacy Assessment (ICAA) Part of the PRA Rulebook:	HSBC UK complies with the requirement as set out below.
448 (1) (a)	the changes in the economic value of equity calculated under the following six supervisory shock scenarios referred to in Rule 9.7 of the ICAA Part of the PRA Rulebook for the current and previous disclosure periods: (i) parallel shock up; (ii) parallel shock down; (iii) steepener shock (short rates down and long rates up); (iv) flattener shock (short rates up and long rates down); (v) short rates shock up; (vi) short rates shock down	Table 45:Quantitative information on IRRBB (UK IRRBB1) on page 57.
448 (1) (b)	the changes in the net interest income calculated under the following two supervisory shock scenarios referred to in Rule 9.7 of the ICAA Part of the PRA Rulebook for the current and previous disclosure periods: (i) parallel shock up; (ii) parallel shock down;	
448 (1) (c)	a description of key modelling and parametric assumptions used to calculate changes in the economic value of equity and in the net interest income required under points (a) and (b) of this paragraph;	Refer to the 'Interest rate risk in the banking book' section on page 55.
448 (1) (d)	an explanation of the significance of the risk measures disclosed under points (a) and (b) of this paragraph and of any significant variations of those risk measures since the previous disclosure reference date;	
448 (1) (e)	the description of how institutions define, measure, mitigate and control the interest rate risk of their non-trading book activities for the purposes of the competent authorities' review in accordance with Chapter 9 of the ICAA Part of the PRA Rulebook, including: (i) a description of the specific risk measures that the institutions use to evaluate changes in their economic value of equity and in their net interest income; (ii) a description of the key modelling and parametric assumptions used in the institutions' internal measurement systems for the purpose of calculating changes in the economic value of equity and in net interest income, as required under points (a) and (b) of this paragraph, if those assumptions differ from those used for the purposes of Chapter 9 of the ICAA Part of the PRA Rulebook or from those specified in Annex XXXVIII of Chapter 6 of this Disclosure (CRR) Part of the PRA Rulebook, including the rationale for those differences; (iii) a description of the interest rate shock scenarios that institutions use to estimate the interest rate risk; (iv) the recognition of the effect of hedges against those interest rate risks, including internal hedges that meet the requirements laid down in Article 106(3); (v) an outline of how often the evaluation of the interest rate risk occurs;	
448 (1) (f)	the description of the overall risk management and mitigation strategies for those risks;	
448 (1) (g)	average and longest repricing maturity assigned to non-maturing deposits.	Refer to the 'Interest rate risk in the banking book' section on page 55.
448 (2)	By way of derogation from paragraph 1 of this Article, the requirements set out in points (c) and (e)(i) to (e)(iv) of paragraph 1 of this Article for descriptions relating to economic value of equity shall not apply to institutions that use the standardised framework referred to in Rule 9.1B of the ICAA Part of the PRA Rulebook.	This disclosures is not applicable to HSBC UK.
Exposure to securitisation positions		
449	Institutions calculating risk-weighted exposure amounts in accordance with Chapter 5 of Title II of Part Three or own funds requirements in accordance with Article 337 or 338 shall disclose the following information separately for their trading and non-trading book activities:	HSBC UK complies with the requirement as set out below.
449 (a)	a description of their securitisation and re-securitisation activities, including their risk management and investment objectives in connection with those activities, their role in securitisation and re-securitisation transactions, whether they use the simple, transparent and standardised securitisation (STS) as defined in point (10) of Article 242, and the extent to which they use securitisation transactions to transfer the credit risk of the securitised exposures to third parties with, where applicable, a separate description of their synthetic securitisation risk transfer policy;	Refer to the 'securitisation strategy' and 'securitisation activity' sections on page 52.
449 (b)	the type of risks they are exposed to in their securitisation and re-securitisation activities by level of seniority of the relevant securitisation positions providing a distinction between STS and non-STS positions and: (i) the risk retained in own-originated transactions; (ii) the risk incurred in relation to transactions originated by third parties;	Refer to the 'securitisation strategy' and 'securitisation activity' sections on page 52.
449 (c)	their approaches for calculating the risk-weighted exposure amounts that they apply to their securitisation activities, including the types of securitisation positions to which each approach applies and with a distinction between STS and non-STS positions;	Refer to the 'securitisation regulatory treatment' section on page 52.
449 (d)	a list of SSPEs falling into any of the following categories, with a description of their types of exposures to those SSPEs, including derivative contracts: (i) SSPEs which acquire exposures originated by the institutions; (ii) SSPEs sponsored by the institutions; (iii) SSPEs and other legal entities for which the institutions provide securitisation-related services, such as advisory, asset servicing or management services; (iv) SSPEs included in the institutions' regulatory scope of consolidation;	Refer to the 'securitisation strategy' on page 52.
449 (e)	a list of any legal entities in relation to which the institutions have disclosed that they have provided support in accordance with Chapter 5 of Title II of Part Three;	HSBC UK does not provide support to its originated or sponsored securitisation transactions as a policy.
449 (f)	a list of legal entities affiliated with the institutions and that invest in securitisations originated by the institutions or in securitisation positions issued by SSPEs sponsored by the institutions;	This disclosure is not applicable to HSBC UK.
449 (g)	a summary of their accounting policies for securitisation activity, including where relevant a distinction between securitisation and re-securitisation positions;	Refer to the 'securitisation accounting treatment' section on page 52.

Article	Regulatory Requirements	Compliance reference
449 (h)	the names of the ECAIs used for securitisations and the types of exposure for which each agency is used;	Refer to 'Qualitative disclosures on bank's use of external credit ratings under the standardised approach for credit risk' section on page 30.
449 (i)	where applicable, a description of the Internal Assessment Approach as set out in Chapter 5 of Title II of Part Three, including the structure of the internal assessment process and relation between internal assessment and external ratings of the relevant ECAI disclosed in accordance with point (h), the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels;	Internal Assessment Approach is not applicable to HSBC UK securitisation positions.
449 (j)	separately for the trading book and the non-trading book, the carrying amount of securitisation exposures, including information on whether institutions have transferred significant credit risk in accordance with Articles 244 and 245, for which institutions act as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and non-STS transactions and broken down by type of securitisation exposures;	Table 39: Securitisation exposures in the non-trading book (SEC1) on page 53. HSBC UK has no trading book exposure.
449 (k)(i)	for the trading and the non-trading book activities, the following information: (i) the aggregate amount of securitisation positions where institutions act as originator or sponsor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken down into a meaningful number of risk-weight or capital requirement bands and by approach used to calculate the capital requirements ;	Table 40: Securitisation exposures in the non-trading book and associated regulatory capital requirements – bank acting as originator or as sponsor (SEC3) on page 53.
449 (k)(ii)	the aggregate amount of securitisation positions where institutions act as investor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1250%, broken down between traditional and synthetic securitisations, securitisation and re-securitisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements;	Table 41: Securitisation exposures in the non-trading book and associated capital requirements – bank acting as investor (SEC4) on page 54.
449 (l)	for exposures securitised by the institution, the amount of exposures in default and the amount of the specific credit risk adjustments made by the institution during the current period, both broken down by exposure type.	Table 42: Exposures securitised by the institution – Institution acts as originator or as sponsor (SEC5) on page 54.
Remuneration disclosures		
450.1	Institutions shall disclose the following information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on risk profile of the institutions:	HSBC UK complies with the requirement as set out below.
450 (1)(a)	information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	As a wholly-owned subsidiary, HSBC UK is subject to the remuneration practices established by HSBC. Details of HSBC Group's remuneration practices, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration structure of HSBC Identified Staff and Material Risk Takers ('MRT') is available in the Directors' Remuneration Report from page 279 of the HSBC Holdings plc *Annual Report and Accounts 2023*.
450 (1)(b)	information about the link between pay of the staff and their performance;	
450 (1)(c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	
450 (1)(d)	the ratios between fixed and variable remuneration set in accordance with rules 15.9 to 15.13 of the Remuneration Part of the PRA Rulebook;	
450 (1)(e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	
450 (1)(f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits;	
450 (1)(g)	aggregate quantitative information on remuneration, broken down by business area;	Refer to table (REM5) on page 63.
450 (1)(h)	aggregate quantitative information on remuneration, broken down by senior management and members of staff whose professional activities have a material impact on the risk profile of the institutions, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed remuneration including a description of the fixed components, and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part; (iii) the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years; (iv) the amount of deferred remuneration due to vest in the financial year, and the number of beneficiaries of those awards; (v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards; (vi) severance payments awarded in previous periods, that have been paid out during the financial year; (vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person;	Remuneration awarded for the financial year (REM1) on page 61 Special payments to staff whose professional activities have a material impact on institutions' risk profile (REM2) on page 62 Deferred remuneration at 31 December (REM3) on page 62.
450 (1)(i)	the number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	Identified staff - remuneration by band (REM4) on page 63.

Article	Regulatory Requirements	Compliance reference
450 (1)(k)	information on whether the institution benefits from a derogation laid down in the Remuneration Part of the PRA Rulebook at 5.3, and/or 12.2 (second subparagraph), and 15.A1(3). For the purposes of point (k) of the first subparagraph of this paragraph, institutions that benefit from such a derogation shall indicate whether they benefit from that derogation on the basis of the Remuneration Part of the PRA Rulebook at 5.3 [for small CRR firms], and/or 12.2 (second subparagraph[pension policy, referring to small CRR firms and small third country CRR firms]), and 15.A1(3) [where an employee subject to a buy-out is a material risk-taker in their previous firm]. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable remuneration.	HSBC UK is not a small CRR firm or a small third country CRR firm, therefore the benefits of provision 5.3 in the PRA Rulebook do not apply to HSBC 12.2 of the PRA Rulebook applies to a firm that is not a small CRR firm or a small third country CRR firm. HSBC UK doesn't offer discretionary pension benefits, therefore we don't take advantage of the exemption in the second paragraph. HSBC UK applies appropriate retention, deferral, performance and clawback arrangements to buy-outs and the duration is no shorter than such duration as was applied and remained outstanding in relation to unvested variable remuneration awarded by a previous firm to the person as an employee of that previous firm.
450 (2)	For large institutions, the quantitative information on the remuneration of institutions' collective management body referred to in this Article shall also be made available to the public, differentiating between executive and non-executive members. Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the GDPR.	Refer to the Directors' Remuneration Report on page 279 of the HSBC Holdings Plc *Annual Report and Accounts 2023*.
Leverage		
451 (1)	Institutions shall disclose the following information regarding their leverage ratio as calculated in accordance with Article 429 of Chapter 3 of the Leverage Ratio (CRR) Part and their management of the risk of excessive leverage:	HSBC UK complies with the requirement as set out below.
451 (1) (a)	Leverage ratio,	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
451 (1) (b)	the leverage ratio calculated as if central bank claims were required to be included in the total exposure measure;	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
451 (1) (c)	a breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	Table 7: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1-LRSum) on page 14
451 (1) (d)	a description of the processes used to manage the risk of excessive leverage;	Refer to Leverage ratio section on Page 13.
451 (1) (e)	a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers;	
451 (1) (f)	in relation to the quarterly periods up to 31 December 2022, the leverage ratio calculated as if Article 468 of the CRR II[temporary treatment of unrealised FVOCI G/L w.r.t. Covid] did not apply for purposes of the capital measure under Article 429(3) [Tier 1 capital] of Chapter 3 of the Leverage Ratio (CRR II) Part;	No temporary treatment for HSBC UK , Row UK-25b in the LR2-CRCom table on page 15 shows the leverage ratio is aligned to row 25.
451 (1) (g)	in relation to the quarterly periods up to 31 December 2024, the leverage ratio calculated as if Article 473a of the CRR II did not apply for purposes of the capital measure under Article 429(3) [IFRS 9] of Chapter 3 of the Leverage Ratio (CRR II) Part.	Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
451 (2)	LREQ firm must disclose each of the following - a) average exposure measure; b) average leverage ratio; c) average leverage ratio calculated as if central bank claims were required to be included in the total exposure measure; and d) countercyclical leverage ratio buffer.	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
451 (3)	An LREQ firm must disclose such information as is necessary to enable users to understand changes in the firm's total exposure measure and tier 1 capital (leverage) over the quarter that have affected the firm's average leverage ratio.	Refer to Leverage ratio section on Page 13.
451 (4)	Subject to paragraph 5 [see below]:	See below
451 (4)(a)	for the purposes of paragraph 2(a) an LREQ firm must calculate its average exposure measure for a quarter as the sum of: (i) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and (ii) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
451 (4)(b)	for the purposes of paragraphs 2(a) and 3, an LREQ firm must calculate its average leverage ratio for a quarter as its capital measure divided by its exposure measure where the: (i) capital measure is the arithmetic mean of the firm's tier 1 capital (leverage) on the last day of each month in the quarter; and (ii) exposure measure is the sum derived in accordance with (a), unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.

Article	Regulatory Requirements	Compliance reference
451 (5)	In relation to the quarterly periods up to 1 January 2023 an LREQ firm must calculate its average exposure measure for a quarter as the sum of: (a) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets on each day in the quarter; and (b) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets on the last day of each month in the quarter.	Table 8: Leverage ratio common disclosure (UK LR2-LRCom) on page 14. Table 1: Key metrics (KM1/IFRS9-FL) on page 5.
Disclosure of liquidity requirement		
451a (1)	Institutions that are subject to Part Six shall disclose information on their liquidity coverage ratio, net stable funding ratio and liquidity risk management in accordance with this Article.	HSBC UK complies with the requirement as set out below.
451a (2)	Institutions shall disclose the following information in relation to their liquidity coverage ratio as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook:	HSBC UK complies with the requirement as set out below.
451a (2)(a)	the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;	Table 47: Quantitative information of LCR (UK LIQ1) on page 59.
451a (2)(b)	the average or averages, as applicable, of their total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer;	Table 47: Quantitative information of LCR (UK LIQ1) on page 59.
451a (2)(c)	the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition.	Table 47: Quantitative information of LCR (UK LIQ1) on page 59.
451a (3)	Institutions shall disclose the following information in relation to their net stable funding ratio as calculated in accordance with Title IV of Part Six:	HSBC UK complies with the requirement as set out below.
451a (3)(a)	averages of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period, based on end-of-the-quarter observations over the preceding four quarters;	Table 48: Net stable funding ratio (LIQ2) on page 60.
451a (3)(b)	an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the-quarter observations over the preceding four quarters;	Table 48: Net stable funding ratio (LIQ2) on page 60.
451a (3)(c)	an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the-quarter observations over the preceding four quarters.	Table 48: Net stable funding ratio (LIQ2) on page 60.
451a (4)	Institutions shall disclose the arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk in accordance with the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook.	For details on our approach to managing Liquidity Risk, refer the 'Treasury Risk management' section on page 11.
Use of the IRB approach to credit risk		
452	Institutions calculating the risk-weighted exposure amounts under the IRB Approach to credit risk shall disclose the following information:	HSBC UK complies with the requirement as set out below.
452 (a)	the competent authority's permission of the approach or approved transition;	HSBC UK applies the IRB approach where it has PRA permission. Refer to the 'Application of the IRB approach' and 'Roll-out of the IRB approach' sections on page 32.
452 (b)	for each exposure class referred to in Article 147, the percentage of the total exposure value of each exposure class subject to the Standardised Approach laid down in Chapter 2 of Title II of Part Three or to the IRB Approach laid down in Chapter 3 of Title II of Part Three, as well as the part of each exposure class subject to a roll-out plan; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall disclose separately the percentage of the total exposure value of each exposure class subject to that permission;	Table 24: Scope of the use of IRB and SA approaches (UK CR6-A) on page 33.
452 (c)	the control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on: (i) the relationship between the risk management function and the internal audit function; (ii) the rating system review; (iii) the procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models; (iv) the procedure to ensure the accountability of the functions in charge of developing and reviewing the models;	Refer to the 'Risk analytics and model governance' on page 8 and 'Model Risk' section in the *Annual Reports and Accounts* on page 21.
452 (d)	the role of the functions involved in the development, approval and subsequent changes of the credit risk models;	Refer to the 'Risk analytics and model governance' on page 8 and 'Model Risk' section in the *Annual Reports and Accounts* on page 21.
452 (e)	the scope and main content of the reporting related to credit risk models;	Refer to the 'Risk analytics and model governance' on page 8 and 'Model Risk' section in the *Annual Reports and Accounts* on page 21.

Article	Regulatory Requirements	Compliance reference
452 (f)	a description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering: (i) the definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods; (ii) where applicable, the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure; (iii) where applicable, the definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables;	Table 29: IRB PD models – estimated and actual values (Retail) on page 38. Table 26: IRB PD models – estimated and actual values (wholesale) on page 35.
452 (g)	as applicable, the following information in relation to each exposure class referred to in Article 147: (i) their gross on-balance-sheet exposure; (ii) their off-balance-sheet exposure values prior to the relevant conversion factor; (iii) their exposure after applying the relevant conversion factor and credit risk mitigation; (iv) any model, parameter or input relevant for the understanding of the risk weighting and the resulting risk exposure amounts disclosed across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk; (v) separately for those exposure classes in relation to which institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, and for exposures for which the institutions do not use such estimates, the values referred to in points (i) to (iv) subject to that permission;	Table 32: IRB – Credit risk exposures by portfolio and PD range (CR6) on page 42.
452 (h)	institutions' estimates of PDs against the actual default rate for each exposure class over a longer period, with separate disclosure of the PD range, the external rating equivalent, the weighted average and arithmetic average PD, the number of obligors at the end of the previous year and of the year under review, the number of defaulted obligors, including the new defaulted obligors, and the annual average historical default rate.	Table 27: Wholesale IRB exposure – back-testing of probability of default (PD) per portfolio (CR9) on page 35. Table 30: Retail IRB exposure – back-testing of probability of default (PD) per portfolio(CR9) on page 38.
Use of credit risk mitigation techniques		
453	Institutions using credit risk mitigation techniques shall disclose the following information:	HSBC UK complies with the requirement as set out below.
453 (a)	the core features of the policies and processes for on- and off-balance-sheet netting and an indication of the extent to which institutions make use of balance sheet netting;	Refer to the Risk Mitigation' section on page 24.
453 (b)	the core features of the policies and processes for eligible collateral evaluation and management;	
453 (c)	a description of the main types of collateral taken by the institution to mitigate credit risk;	
453 (d)	for guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures;	
453 (e)	information about market or credit risk concentrations within the credit mitigation taken;	Refer to 'Concentration risk' section on page 23.
453 (f)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments; the disclosure set out in this point shall be made separately for loans and debt securities and including a breakdown of defaulted exposures;	Table 20: Credit risk mitigation techniques – overview (CR3) on page 26.
453 (g)	the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;	Table 21: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 26. Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) on page 27.
453 (h)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;	Table 21: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 26. Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) on page 27.
453 (i)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the risk-weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class;	Table 21: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 26. Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) on page 27.
453 (j)	for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission.	This disclosure is not applicable to HSBC UK, as we dont have credit derivatives exposure.

Article	Regulatory Requirements	Compliance reference
Use of the Advanced Measurement Approaches to operational risk		
454	The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of their use of insurance and other risk transfer mechanisms for the purpose of mitigating that risk.	This disclosure is not applicable to HSBC UK, as we apply the standardised approach.
Use of internal market risk models		
455	Institutions calculating their capital requirements in accordance with Article 363 [Market Risk, permission to use internal models] shall disclose the following information:	This disclosure is not applicable to HSBC UK as we apply the standardised approach.
455 (a) (i)	for each sub-portfolio covered: (i) the characteristics of the models used	
455 (a) (ii)	where applicable, for the internal models for incremental default and migration risk and for correlation trading, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model;	
455 (a) (iii)	a description of stress testing applied to the sub-portfolio;	
455 (a) (iv)	a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes;	
455 (b)	the scope of permission by the competent authority;	
455 (c)	a description of the extent and methodologies for compliance with the requirements set out in Articles 104 [inclusion in the trading book] and 105 [requirements for prudent valuation];	
455 (d)	the highest, the lowest and the mean of the following: (i) the daily value-at-risk measures over the reporting period and at the end of the reporting period; (ii) the stressed value-at-risk measures over the reporting period and at the end of the reporting period; (iii) the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and at the end of the reporting period;	
455 (e)	the elements of the own funds requirement as specified in Article 364 [own funds requirements when using internal models];	
455 (f)	the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading;	
455 (g)	a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period.	

Other Information

Abbreviations

The following abbreviated terms are used throughout this document.

A	
AC	Audit Committee
AIRB[1]	Advanced internal ratings based approach
ALCO	Asset and Liability Management Committee
ASF	Available Stable Funding
AT1	Additional tier 1
AVA	Additional value adjustment
B	
Basel	Basel Committee on Banking Supervision
C	
CCB[1]	Capital conservation buffer
CCF	Credit conversion factor
CCP[1]	Central counterparty
CCR[1]	Counterparty credit risk
CCyB[1]	Countercyclical capital buffer
CET1[1]	Common equity tier 1
CRA	Credit risk adjustment
CRD IV[1]	Capital Requirements Regulation and Directive
CRE[1]	Commercial real estate
CRM[1]	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR[1]	Customer risk rating
CRR II	Revised Capital Requirements Regulation, as implemented
CSA[1]	Credit Support Annex
CVA[1]	Credit valuation adjustment
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECA	Export Credit Agency
ECAI	External Credit Assessment Institution
ECL[1]	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
EEA	European Economic Area
EL[1]	Expected loss
EHQLA	Extremely high-quality liquid assets
ELBE	Expected Loss Best Estimate
ESG	Environmental, Social and Governance
EU	European Union
EVE	Economic value of equity
F	
FCP	Funded credit protection
FIRB[1]	Foundation internal ratings based approach
Fitch	Fitch Ratings
FVOCI[1]	Fair value through other comprehensive income
G	
G-SIB[1]	Global systemically important bank
G-SII	Global systemically important institution
H	
HQLA	High-quality liquid assets
HTC&S	Hold to collect and sell
HINV	HSBC Innovation Bank Limited
I	
IAA	Internal assessment approach
ICAAP[1]	Internal capital adequacy assessment process
ICR	Individual capital requirement
IFRS	International Financial Reporting Standards
ILAA	Individual liquidity adequacy assessment
IMA[1]	Internal models approach

IMM[1]	Internal model method
IRB[1]	Internal ratings-based approach
IRC	Incremental Risk Charge
IRRBB	Interest rate risk in the banking book
ISSB	International Sustainability Standards Board
L	
LCR[1]	Liquidity coverage ratio
LGD[1]	Loss given default
M	
MOF	Model Oversight Forum
Moody's	Moody's Investor Service
MRC	Model Risk Committee
MREL	Minimum requirements for own funds and eligible liabilities
MTM	Mark-to-Market
N	
NCOA	Non-credit obligation asset
NII	Net interest income
NMD	Non-maturity deposits
NPE	Non-performing exposures
NPL	Non-performing loan
NSFR[1]	Net stable funding ratio
O	
OTC[1]	Over-the-counter
P	
PD[1]	Probability of default
PFE	Potential future exposure
PIT	Point-in-time
PMA	Post model adjustment
POCI	Purchased or originated credit impaired loans
PP&E	Property, plant and equipment
PRA[1]	Prudential Regulation Authority (UK)
PVA	Prudent valuation adjustment
Q	
QCCP	Qualifying central counterparty
R	
RAS	Risk appetite statement
RC	Risk Committee
Retail IRB[1]	Retail internal ratings-based approach
RMF	Risk Management Framework
RMM	Risk Management Meeting
RSF	Required stable funding
RWA[1]	Risk-weighted asset
S	
SA/STD[1]	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
S&P	Standard and Poor's rating agency
SEC-ERBA	Securitisation internal rating-based approach
SEC-IRBA	Securitisation external rating-based approach
SEC-SA	Securitisation standardised approach
SFT	Securities financing transactions
SME	Small and medium-sized enterprise
SPE[1]	Special purpose entity
SREP	Supervisory review and evaluation process
SRT	Significant Risk Transfer
STS	Simple transparent and Standardised
SVaR	Stressed Value at risk
SVB UK	Silicon Valley Bank UK Limited
T	
TCR	Total capital requirement
TLAC[1]	Total Loss Absorbing Capacity
TTC	Through-the-cycle
T1 capital[1]	Tier 1 capital
T2 capital[1]	Tier 2 capital

U	
UK	United Kingdom
US	United States
V	
VaR[1]	Value at risk

1 *Full definition included in the Glossary published on HSBC website www.hsbc.com*

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