HSBC UK Bank plc

Interim Report and Accounts 2023

HSBC

Contents

Presentation of information

This document comprises the *Interim Report 2023* for HSBC UK Bank plc ('the bank' or 'the Company') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

A full list of abbreviations is provided on page 47.

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

Our *Pillar 3 Disclosures at 30 June 2023* is expected to be published on or around 8 August 2023 at www.hsbc.com.

Unless otherwise stated, commentary on the income statement compares the six months to 30 June 2023 with the six months to 30 June 2022. Balance sheet commentary compares the position at 30 June 2023 to 31 December 2022.

In accordance with IAS 34 'Interim Financial Reporting', the Interim Report is intended to provide an update on the *Annual Report and Accounts 2022* and therefore focuses on events during the first six months of 2023, rather than duplicating information previously reported.

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

Cautionary statement regarding forward-looking statements

The *Interim Report 2023* contains certain forward-looking statements with respect to the financial condition, ESG related matters, result of operations and business of the group.

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

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

About us

HSBC UK Bank plc is a public limited company with debt securities traded on the London Stock Exchange. The Company is a ring-fenced bank and wholly owned subsidiary of HSBC Holdings plc.

HSBC UK, headquartered in Birmingham, has over 14.5 million active customers, with over 18,900 FTE employees across the country. Further support is provided by c.5,000 FTE based in our service company, HSBC Global Services (UK) Limited, who provide services to HSBC UK and the wider HSBC Group.

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

Wealth and Personal Banking

WPB serves c.14 million active customers under three brands: HSBC UK, including our Private Bank, first direct and M&S Bank. WPB helps our customers manage their day-to-day finances and aims to protect and grow their wealth.

Commercial Banking

CMB serves over 700,000 active clients, from start-ups through to multinational corporates. CMB is a full-service international commercial bank, that is highly connected to the Group network and all lines of business, delivering the Group's comprehensive product suite to meet the full life cycle needs of clients, both internationally and domestically.

On 13 March 23, HSBC UK announced the acquisition of Silicon Valley Bank UK Limited for £1. During June's London Tech Week, the rebranding of SVB UK to HSBC Innovation Bank Limited was announced. HSBC Innovation Banking was also launched by the HSBC Group as part of a Global proposition which includes HSBC Innovation Bank Limited. The results of HSBC Innovation Bank Limited are presented within CMB.

Global Banking and Markets

Within HSBC UK, we offer selected products to enable commercial hedging in permitted products under UK ring-fencing legislation, as well as foreign currency payments and transaction banking. Through close collaboration with HSBC Group, we also make available, from other entities within the Group, other GBM products required by our clients that are not available within HSBC UK.

Corporate Centre

Corporate Centre supports central operations of the HSBC UK business lines and comprises interests in a joint venture, and stewardship costs. The results of Market Treasury are allocated to the global businesses.

Our strategy

The Interim Report and Accounts outline our business and financial performance aligned to our key strategic pillars. Our UK strategy comprises the following four pillars:

Focus on our strengths

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

Digitise at scale

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

Energise for growth

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

Transition to net zero

HSBC Group is targeting a transition to net zero for financed emissions from the portfolio of customers by 2050, and operations and supply chain by 2030.

Our strategy, setting out further details of our four strategic pillars, can be found on pages 5 to 7.

Financial performance

We delivered reported profit before tax of £3,902m, £2,152m higher than 1H22, including £1,240m for the provisional gain on the acquisition of SVB UK.

Revenue increased by £2,408m or 67% including £1,240m for the provisional gain on the acquisition of SVB UK as well as wider net interest margins from 1.70% in 1H22 to 2.41% in 1H23 following successive interest rate rises. In 1H23 Loans and advances have grown by 3% (0% excluding the SVB UK acquisition) with a stable market share. Customer deposits have fallen by 3% in 1H23 (5% excluding the SVB UK acquisition) primarily due to the impact of cost of living pressures on our customers, corporate deleveraging in the market driven by prevailing conditions and the competitive environment.

Expected credit losses increased by £295m from £42m in 1H22 to £337m in 1H23 driven by the higher charges in CMB for a limited number of specific exposures in 1H23 and a release of the remaining Covid-19 related allowances in 1H22, partly offset by lower year-on-year charges in 1H23 in WPB through a lower loss experience and a strong employment market.

Operating expenses decreased by £39m in 1H23. We continue to actively manage our cost base with the impacts of the ongoing investment in technology, wage inflation and new costs from HSBC Innovation Bank Limited more than offset by reduced restructuring costs following the completion of our cost-saving programme at the end of 2022.

Our 1H23 reported RoTE of 36.4% was 20% higher than the 1H22 reported RoTE of 16.4%. The profit for the period includes the annualised impact of the provisional gain on the acquisition of SVB UK, excluding which the RoTE was 22.5%.

Supported by a CET1 ratio of 14.5% and LCR of 213% as at 30 June 2023, our balance sheet remains highly resilient with ample capital and liquidity.

Our Financial summary, containing further details of our financial performance, can be found on page 8.

Risk overview

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

Full details of our top and emerging risks and areas of key interest are included on pages 12 to 14.

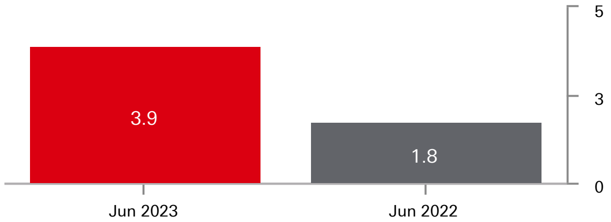
Financial highlights

For the half-year ended 30 June 2023.

Profit before tax

£3.9bn

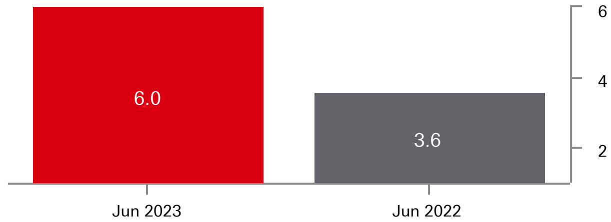
(1H22: £1.8bn)



Revenue

£6.0bn

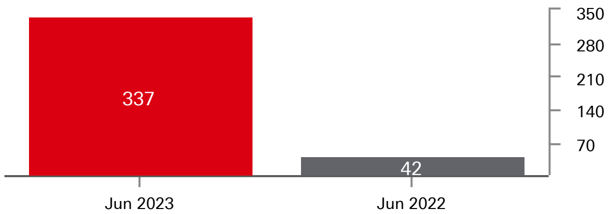
(1H22: £3.6bn)



Expected credit losses and other credit impairment charges

£337m

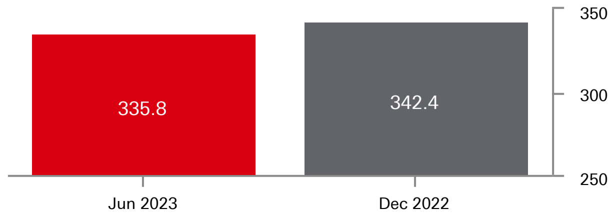
(1H22: £42m)



Total assets at period end

£335.8bn

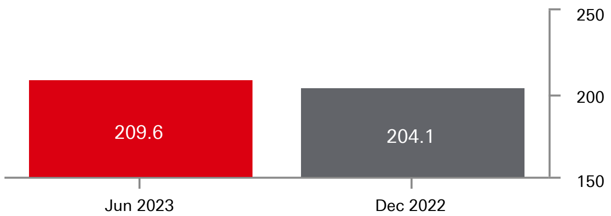
(31 Dec 2022: £342bn)



Loans and advances to customers

£209.6bn

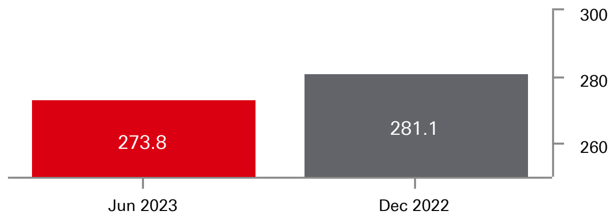
(31 Dec 2022: £204.1bn)



Customer accounts

£273.8bn

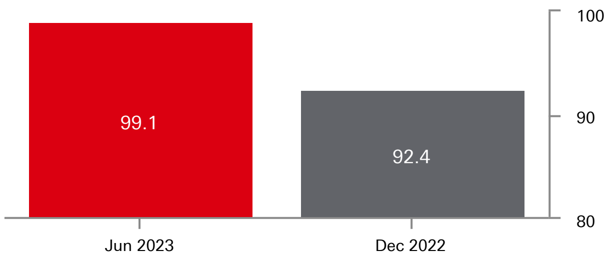
(31 Dec 2022: £281.1bn)



Risk-weighted assets

£99.1bn

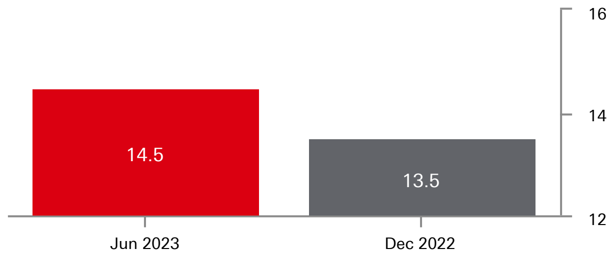
(31 Dec 2022: £92.4 bn)



Common equity tier 1 capital ratio

14.5%

(31 Dec 2022: 13.5%)



Key financial metrics

	Half-year to	
	30 Jun	30 Jun
For the period	**2023**	2022
Reported results		
Revenue (£m)[1]	**6,004**	3,596
Profit before tax (£m)[2]	**3,902**	1,750
Profit after tax (£m)	**3,203**	1,469
Profit attributable to the shareholders of the parent company (£m)	**3,200**	1,466
Net interest margin (%)	**2.41**	1.70
Cost efficiency ratio (%)[2]	**29.4**	50.2
Alternative performance measures		
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers (annualised) (%)	**0.33**	0.04
Return on average ordinary shareholder's equity (annualised)[2,6]	**29.1**	13.2
Return on average tangible equity (annualised)[2,6]	**36.4**	16.4
Return on average tangible equity excluding the acquisition of SVB UK (annualised)[2,6]	**22.5**	16.4
	At	
	30 Jun	31 Dec
Balance sheet	**2023**	2022
Total assets (£m)	**335,770**	342,441
Net loans and advances to customers (£m)	**209,566**	204,143
Customer accounts (£m)	**273,785**	281,095
Average interest-earning assets (£m)	**324,356**	327,840
Loans and advances to customers as % of customer accounts (%)	**76.5**	72.6
Total shareholders' equity (£m)	**23,910**	22,166
Tangible ordinary shareholders' equity (£m)	**17,436**	15,699
Capital, leverage and liquidity		
Common equity tier 1 capital ratio (%)[2,3,4]	**14.5**	13.5
Total capital ratio (%)[3,4]	**19.9**	19.3
Risk-weighted assets (£m)[3,4]	**99,098**	92,413
Leverage ratio (%)[2,3]	**6.3**	5.9
High-quality liquid assets (liquidity value) (£m)[4,5]	**102,757**	110,722
Liquidity coverage ratio (%)[4,5]	**213**	226

1 *Revenue also refers to net operating income before change in expected credit losses and other credit impairment charges.*
2 *These metrics are tracked as Key Performance Indicators of the group.*
3 *Unless otherwise stated, regulatory capital ratios and requirements are based on the transitional arrangements of the Capital Requirements Regulation in force at the time. Leverage metrics exclude central bank claims in accordance with the PRA's UK leverage framework. References to EU regulations and directives (including technical standards) should, as applicable, be read as references to the UK's version of such regulation or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and as may be subsequently amended under UK law.*
4 *Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those subsequently submitted in regulatory filings. Where differences are significant, we will restate in subsequent periods.*
5 *The LCR ratio presented in the above table is based on average values. The LCR is based on the average month-end value over the preceding 12 months.*
6 *In the event that the current IAS 19 Pension fund surplus was zero, RoTE would be 42.4% (1H22: 16.7%), we refer to this as Pension Adjusted RoTE. Pension Adjusted RoTE excluding the acquisition of SVB UK would be 25.8% (1H22: 16.7%). Further details are on page 46.*

Purpose and strategy

Our purpose and values

Our purpose

Opening up a world of opportunity.

Our values

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

Our strategy

Our strategy comprises the following four pillars:

Focus on our strengths

Supporting our customers

Throughout the year, we have taken a number of measures to support our customers through the current cost of living challenges. We are continuously adapting the services, information and tools available to our customers including:

- Our Cost of Living Hub, which has had over 60,000 visits this year, and financial wellbeing events that have been delivered to over 12,500 customers.
- Supporting the Mortgage Charter set out by the UK Government, committing to adopt the standards and put support within closer reach of those customers who need it the most.
- Offering competitive products to both savers and mortgage borrowers.
- Holding focused Cost of Living webinars with corporates and small and medium-sized enterprises combining economic updates with the support available to businesses.
- Launching our HSBC Connected Cashflow pilot, a tool that uses open banking to give businesses a full picture of their finances, in partnership with a fintech.

In WPB, financial accessibility and inclusion are key priorities and we are continuously improving our products and services for customers. In 1H23, we opened over 10,000 bank accounts for Ukrainian settlers. Since 2018, we have supported over 5,000 individuals through our No Fixed Address service, and over 2,500 survivors of human trafficking and modern slavery through our Survivor Bank Service. We are helping some of the most vulnerable in our society today.

In CMB, we have continued to support our business customers navigate global macro-economic challenges, in the UK and internationally, including inflation and supply chain pressures through:

- Supporting global multi-banked corporates with requirements across all HSBC's product range including capital financing structures, financial sponsor shareholding and acquisition debt.
- Launching our £15bn SME Fund for 2023, with allocated pots for clients trading internationally and sectors including Agriculture, Technology and Franchising. This brings our total support to over £100bn since the fund was first launched in 2014.
- Collaborating with Employee Banking Services within WPB to support the employees of our CMB clients. During 1H23, we provided c.40 bespoke employee financial support events to CMB clients covering financial wellbeing and employee international moves.

Growing our business

We continue to focus on growing our mortgage market share, helping our retail customers purchase their homes. As of 30 June 2023, we provided £11.1bn of gross new mortgage lending (1H22: £13.4bn), which has seen our mortgage book surpass £126bn. As of 31 May 2023, we increased our mortgage stock market share to 7.8% (1H22: 7.7%). We have also extended access to our mortgage broker platform to cover over 1,000 firms and helped over 400,000 customers manage their cash flows through providing credit cards and personal loans.

In first direct, we opened over 160,000 accounts and 250,000 savings accounts in the first half of the year. In M&S Bank, we have been focusing on our strengths in unsecured lending and following the phased introduction of Sparks Pay late last year we have processed over 18,000 transactions.

In CMB, our strategy is focused on enhancing our core strengths in International, Innovation and Sustainability underpinned by developing our digital capabilities. Our Transaction Banking core strength enables us to deliver on our strategy, with GTRF maintaining strong market share. Our market shares in 1Q23 of 28% in Receivables Finance and 61% for Export Receivables Finance have both increased since 4Q22. In GPS, we had significant revenue growth of +118%. This was supported by wider Net Interest Margins following successive base rate increases and growth in Net Fee Income including commercial cards growth of +33% following delivery of an enhanced cards proposition.

From an international perspective, we achieved over 50% international revenue growth (vs. 2022). HSBC UK was named as the UK's #1 Trade Finance Bank for the 7th consecutive year and maintained its ranking as Best in Service for Trade Finance in the UK, for the 6th consecutive year by Euromoney Trade Finance Survey.

We unveiled HSBC Innovation Banking, combining SVB UK's innovation and industry experience with the global capabilities of the HSBC Group. Investing in innovation is critical and we saw an opportunity to do that through this acquisition, which made strategic sense for our business. We expect this acquisition to strengthen our commercial banking franchise and enhance our ability to serve innovative and fast-growing firms. The acquisition accelerates our future innovation sector plans by three to four years by bringing in capabilities immediately, such as the deep industry sector knowledge and the depth of embedded industry ecosystem relationships with founders and funders. We are now the #1 bank for tech and life sciences in the UK. This international proposition aims to deliver globally-connected specialised banking services and expertise to innovation businesses and their investors. HSBC Innovation Bank Limited is a core part of the broader global HSBC Innovation Banking proposition, together with newly assembled teams in the US, Israel, and Hong Kong.

Digitise at scale

Improving customer service

The new Consumer Duty regulation was introduced by the FCA on 31 July 2023. It sets higher and clearer standards of consumer protection across financial services, requiring the delivery of good outcomes for customers and acting as an accelerator to our customer-centric ambition.

Our NPS benchmarking survey (a measurement of customer satisfaction) for 1H23, saw first direct ranked 2nd across all retail providers, previously ranked joint 1st in FY22, with a score of +45 (vs. +44 in FY22). For HSBC UK WPB, our score deteriorated to +7 vs +11 in FY22, ranking us joint 14th vs our peers. Our ranking decreased vs. FY22 by four places partly due to three new entrants into the survey.

In CMB, we have a core strength in Corporate Banking with our Large Corporate segment ranked 2nd for NPS in the 2022 Greenwich UK Large Corporate Banking Study. We have seen an increase in our overall 1Q23[1] CMB NPS score to -16 (vs. -19 in FY22), as measured by the Savanta MarketVue Business Banking Survey. Our MME segment maintained 3rd position, with an improving score to +14 (vs. +12 in FY22). We have also maintained our BB segment ranking at 4th, increasing our score to -7pts (vs. -14 in FY22), while our SBB segment remains ranked 8th, with our score improving to -17pts (vs. -19 in FY22).

1 *Year Ending 1Q23, covering period from 2Q22 - 1Q23.*

Customer satisfaction, measured in part through NPS, is a key focus for Management and the Board, and guides our focus on investment and service improvements. We acknowledge that there is more work to be done to consistently meet and exceed customer expectations.

Our branches remain an important face to face channel, though they are no longer our customers' preferred engagement channel for most transactions. Our branches or the counter service of the Post Office, with whom we have partnered, still provide an important role in providing access to physical cash. They also help facilitate customer adoption of digital journeys through education and problem solving. While we have proactively chosen to reduce our branch estate, with 114 announced closures, we remain focused on modernising our go-forward branch footprint and supporting our customers in the communities we serve:

- We expect to run over 460 Community Pop Up events during 2023 in locations where we will be closing a branch and we will continue to support the roll out of Shared Banking Hubs.
- We are developing remote cash pods that will provide cash withdrawal and deposit facilities in communities and aim to deploy the first of these by the end of the year. Three sites have been secured for installation by 31 December 2023.
- We have supported over 33,000 vulnerable customers on the telephone or in branch to ensure they are aware of the closure, and to provide guidance on how they can continue to bank with us post closure, including Post Office Services.
- We are a founding member of Cash Access UK Limited which will set up Banking Hubs. To date, 64 Hubs have been announced for 2023-2024 across the UK. Each Hub has a dedicated room where customers can see Community Bankers from their own bank on a set day of the week or use the counter services run by the Post Office at any time.
- We have provided over 1,800 tablets to customers that want to become digitally active and supported them with accessing our services in this way.

Improving digital capabilities

We aim to use technology to deliver fast, easy and secure banking, with a critical focus on delivering key digital priorities across our two main business areas, CMB and WPB.

In CMB, we deployed Digital Banking learning to all UK CMB colleagues, with the purpose of developing knowledge and confidence across our digital products and services. We continue to enhance our digital capabilities in Kinetic, HSBCnet, and Digital Business Banking. Kinetic was named Best App Based Business Bank Account for the 2nd year running in the Moneynet Personal Finance Awards. We have onboarded over 66,000 customers to the platform since its launch in 2021 and have a 92% customer satisfaction score. We are focused on enhancing our digital customer journeys and increasing client digital adoption which is now at 83% and on a positive trajectory. We continue to scale our HSBC Trade Solutions platform migrating over 90% of all trade clients onto this new API enabled digital platform that operates as a single point of contact for all of our client's trade finance needs providing a smoother end to end journey.

In WPB, we launched mobile registration with digital ID, reducing the time it takes to complete to less than five minutes, improving current conversion by 50% and removing up to 54,000 customer calls this year. To help customers understand and manage their money better, we launched new digital features to our mobile app, including Spending Insights and Monthly Budgets. M&S Bank continues to focus on digitising lending and payments for customers and improving key processes. So far this year, 128,000 customers have adopted the mobile app, with 8 out of 10 users awarding it 5 stars. Over 283,000 customers have been helped through online chat channels, with MOBI the AI Chat assisting a third of these customers.

As an international bank, we are committed to offering customers international services that meet their needs. This year, in WPB, we launched our new international proposition to make it quicker and easier to bank internationally, helping customers open an account before they land in another country. Following the launch of Global Money last year, which allows fee-free spending and sending money abroad across 65 currencies, we have onboarded 389,000 customers. In CMB, we have grown the client base of Global Wallet, our multi-currency virtual wallet, by over 50% in 1H23.

We are constantly innovating to keep our customers and their money safe. This year we launched Aura, our new internal fraud Chatbot to provide quick and accurate procedural guidance to help colleagues better support customers.

Energise for growth

Supporting our colleagues

Providing our customers with the highest standards of service quality is underpinned by our colleagues performing at their best. Managing well-being and engagement is key. During 2023, we continued to focus on our colleagues' well-being and engagement, with key activities including: well-being month; recognition awards; developing leadership capability; and immersive events.

We hosted Executive-led Future Fit For Customers events throughout 1Q23 to emphasise our commitment to delivering for our customers now and in the future. Over 24,000 colleagues attended these sessions which aimed to bring to life what it means to be truly customer centric. A key component is that colleagues feel empowered to find solutions for our customers and to take action to ensure we are delivering good outcomes. The sessions were an opportunity for our colleagues to form a consistent view on the priority of consumer duty.

Speak-up culture

We foster and encourage a strong speak-up culture where all of our colleagues feel able to raise issues. Colleagues make use of a variety of speak up channels such as our confidential whistleblowing helpline and our HR Direct platform. The HSBC Confidential whistleblowing line enables colleagues to raise concerns in confidence and anonymously if they wish, without fear of retaliation. Concerns are investigated thoroughly and independently by specialist investigation teams. HSBC UK does not condone or tolerate any acts of retaliation against those involved in internal investigations.

Inclusion

In 2023, we continue the delivery of our '3 Rs' inclusion strategy: Representation, Respect and Reputation. Our strategy is delivering better outcomes for customers, colleagues and the wider community.

We provided employability learning, in partnership with Scope, supporting 46 people into employment as at 31 May 2023. External bodies are also showing their recognition for our Inclusion efforts. So far in 2023, HSBC UK has received five awards and been shortlisted 16 times for our Inclusion work and we continue to be the only organisation in the UK to have achieved the Business Disability Forum Gold standard since their model was upgraded in 2021.

In May this year we sponsored Birmingham Pride, with c.500 HSBC colleagues, customers and community supporters taking part in the parade. Additionally, we have been recognised by Stonewall as the 12th best employer in the UK for LGBTQ+ Inclusion.

Supporting our community

In CMB, we have launched Social Loans, a new sustainable finance option for businesses looking to reinvest their returns into social projects. New and existing clients can use the loan to fund schemes that tackle social issues or achieve positive social outcomes, such as creating affordable housing, employment programmes or access to education and training. As well as having a positive impact on local communities, the facility will enable our customers to showcase their sustainability strategies and demonstrate their social credentials.

Community partnerships

Shelter Partnership

In April 2023, HSBC UK and housing and homelessness charity Shelter announced a new multi-year partnership to support the financial health of people and communities during the cost of living crisis and help break the vicious circle of homelessness. The partnership builds on the work of HSBC UK's 'No Fixed Address' service which has helped people without a fixed home address to open a bank account and rebuild their lives after experiencing homelessness.

HSBC UK's additional support will enable Shelter to help over a million people at risk of losing their home during the cost-of-living crisis, and together we aim to build financial resilience in local communities to help prevent homelessness.

Youth Financial Education

In 2023, HSBC UK has supported c.348,000 children and young people to learn about money through our programmes and partnership. A great deal of thanks goes to our Education Team and volunteer network who make this happen.

Transition to net zero

HSBC Group is supporting customers through the transition to net zero and a sustainable future.

HSBC Group continues to take steps to implement its climate ambition to become net zero in its operations and supply chain by 2030, and align financed emissions to the Paris Agreement goal of net zero by 2050. HSBC Group aims to provide between $750bn to $1tn of sustainable financing and investment by 2030. HSBC Group has set on-balance sheet 2030 financed emissions targets for emissions-intensive sectors. In December 2022, HSBC Group published an updated energy policy covering the broader energy system including upstream oil and gas, oil and gas power generation, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. HSBC Group also updated the thermal coal phase-out policy.

HSBC Group continues to focus on the implementation of these policies through customer engagement and assessment of their transition plans. *For further details, please refer to the 'ESG Overview' section in the HSBC Holdings plc Interim Report 2023.*

For further details, please refer to the 'ESG Overview' section in the *HSBC Holdings plc Interim Report 2023.*

Supporting our customers

In 1H23, HSBC UK provided and facilitated £2.3bn of sustainable finance[1]. In addition, we launched a Sustainable Finance Ambassadors Influencers network to play a key role in supporting business areas to drive greater adoption of Sustainable Finance. We have launched our Sustainability Tracker. It enables businesses to understand how sustainable their business, get tailored suggestions to build a plan and take action, and track their progress. This builds on our ongoing commitment to support businesses on their ESG journey and complements our existing sustainable finance products.

We have also launched new Environmental, Social and Governance metrics that provide Private Banking clients with insight into their sustainability holdings. Clients can gain more knowledge about ESG through insights available on dedicated educational pages, giving them the opportunity to learn more about sustainable investing.

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

Supporting climate solutions and thought-leadership

Through our philanthropic partners we are unlocking barriers to finance ventures and projects that tackle climate change. Since the start of our partnership with the National Trust in 2021, we have planted nearly 600,000 native trees across England, Wales and Northern Ireland. Working together with the National Trust for Scotland, we supported the pioneering Threave Landscape Restoration Project, with restoration work being carried out across 60 hectares in Dumfries and Galloway since 2021.

Our partnerships with the University of Birmingham and Imperial College London since 2021 have enabled us to support 113 climate innovation ventures. We have partnered with Economist Impact to publish a series of Sector focussed reports to help inform our business customers about the future of industries key to the transition to net zero.

Economic background and outlook

UK economic outlook

High inflation, continued interest rate rises

UK consumer price inflation remains high. While the headline inflation rate fell to 7.9% in June 2023, compared to a peak of 11.1% in October 2022, that largely reflects the 'dropping out' of last year's sharp rises in utility bills from the annual calculation. The 'core' inflation rate, which excludes food and energy prices, remained elevated at 6.9% in June 2023, only a touch below its May 2023 peak of 7.1%.

A large portion of this inflation strength is likely being driven by labour cost pressures. 'Regular' wages, excluding bonuses, grew by 7.3% year-on-year in the three months to May. This might partly reflect ongoing labour shortages, perhaps stemming from a combination of elevated rates of economic inactivity due to long term sickness, and lower levels of low-skilled worker immigration. That said, the unemployment rate rose to 4.0% in the three months to May, versus 3.5% in August 2022.

Despite strength in pay growth, it has not kept up with inflation, implying a fall in real household incomes. This has held back economic growth. GDP rose by a sub-par 0.1% in the first quarter of 2023 and remains 0.5% below the peak level seen before the Covid-19 pandemic. Regarding interest rates, the Bank of England has raised Bank Rate in every policy meeting since December 2021, taking it to 5.00% in June 2023.

Financial summary

Summary consolidated income statement

	Half-year to	
	30 Jun 2023	30 Jun 2022
	£m	£m
Net interest income	**3,871**	2,752
Net fee income	**649**	597
Net income from financial instruments held for trading or managed on a fair value basis	**190**	173
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**7**	32
Gains less losses from financial investments	**36**	21
Gain on acquisition of subsidiary[1]	**1,240**	–
Other operating income	**11**	21
Net operating income before change in expected credit losses and other credit impairment charges	**6,004**	3,596
Change in expected credit losses and other credit impairment charges	**(337)**	(42)
Net operating income	**5,667**	3,554
Total operating expenses	**(1,765)**	(1,804)
Operating profit	**3,902**	1,750
Profit before tax	**3,902**	1,750
Tax expense	**(699)**	(281)
Profit for the period	**3,203**	1,469
Profit attributable to shareholders of the parent company	**3,200**	1,466
Profit attributable to non-controlling interests	**3**	3

1 *Provisional gain of £1.24bn recognised in respect of the acquisition of SVB UK.*

Reported performance

In 1H23, reported profit before tax was £3,902m, £2,152m or 123% higher than 1H22, including £1,240m for the provisional gain on the acquisition of SVB UK.

Net interest income increased by £1,119m or 41%, due to wider net interest margins following successive interest rate increases, partly offset by the impact of lower deposit balances resulting from the cost of living pressures on our customers, corporate deleveraging in the market driven by prevailing conditions and the competitive environment.

Net fee income increased by £52m or 9%, due to increased WPB foreign exchange fees, higher Global Payments Services fees, and new HSBC Innovation Bank Limited revenue.

Net income from financial instruments held for trading or managed on a fair value basis increased by £17m or 10%, due to increases in interest rate expectations.

Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss decreased by £25m, due to a fair value gain of £32m in 1H22 following the revaluation of equity investments.

Gains less losses from financial investments increased by £15m, from lower disposal gains realised in 1H22 due to the volatile market conditions.

Gain on acquisition is the provisional gain of £1,240m on the acquisition of SVB UK.

Expected credit losses increased by £295m from £42m in 1H22 to £337m in 1H23 driven by the higher charges in CMB for a limited number of specific exposures in 1H23 and a release of the remaining Covid-19 related allowances in 1H22, partly offset by lower year-on-year charges in 1H23 in WPB through a lower loss experience and a strong employment market.

Total operating expenses decreased by £39m or 2%, due to reduced restructuring costs following the completion of our cost-saving programme at the end of 2022 partly offset by ongoing investment in technology cost, wage inflation and new costs from HSBC Innovation Bank Limited, including the cost of completing its integration.

Tax expense The effective tax rate is 17.9% (1H22: 16.1%). The effective tax rates included certain significant one-off items in both 1H23 and 1H22, a non-taxable provisional gain arising on the acquisition of SVB UK in 1H23 and a tax credit in 1H22 arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3%. The effective tax rates excluding these items would have been 26.4% in 1H23 and 25.9% in 1H22.

Net interest income

	Half-year to	
	30 Jun 2023	30 Jun 2022
	£m	£m
Interest income	**6,012**	3,113
Interest expense	**(2,141)**	(361)
Net interest income	**3,871**	2,752
Average interest-earning assets	**324,356**	325,781
	%	%
Gross interest yield[1]	**3.74**	1.93
Less: Gross interest payable[1]	**(1.72)**	(0.29)
Net interest spread[2]	**2.02**	1.64
Net interest margin[3]	**2.41**	1.70

1 *Gross interest yield is the average annualised interest rate earned on AIEA. Gross interest payable is the average annualised interest cost as a percentage of average interest-bearing liabilities.*
2 *Net interest spread is the difference between the average annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the average annualised interest rate payable on average interest-bearing funds.*
3 *Net interest margin is net interest income expressed as an annualised percentage of AIEA.*

Net interest margin increased from 1.70% in 1H22 to 2.41% in 1H23. This was driven by the UK interest rate increases in 2023, with increased yields on cash at central banks and customer lending, partly offset by an increase in interest expense on customer accounts.

Return on average tangible equity

RoTE is measured as the profit attributable to ordinary shareholders divided by the average reported equity adjusted for goodwill and intangibles. A reconciliation is provided on page 46, which details the adjustments made to the reported results and equity in calculating RoTE.

In 1H23, our annualised RoTE was 36.4%. Excluding the impact of the acquisition of SVB UK the annualised RoTE was 22.5%.

Alternative Performance Measures

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

Changes to our reporting framework

On 1 January 2023, we updated our financial reporting framework. We no longer report 'adjusted' results, which exclude the impact of significant items. Instead, we separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and generally non-recurring in nature.

The tables on page 10 detail the effects of notable items on each of our global business segments.

Segmental reporting

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

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

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

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

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

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

	Half-year to 30 Jun 2023				
	WPB	**CMB**	**GBM**	**Corporate Centre**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	**2,429**	**3,545**	**78**	**(48)**	**6,004**
– external	**2,449**	**3,212**	**198**	**145**	**6,004**
– inter-segment	**(20)**	**333**	**(120)**	**(193)**	**—**
– *of which: net interest income/(expense)*	***2,091***	***1,816***	***(1)***	***(35)***	***3,871***
– *of which: provisional gain on the acquisition of SVB UK*	**—**	***1,240***	**—**	**—**	***1,240***
Change in expected credit losses and other credit impairment charges	**(33)**	**(304)**	**—**	**—**	**(337)**
Net operating income/ (expense)	**2,396**	**3,241**	**78**	**(48)**	**5,667**
Total operating (expenses)/ income	**(1,162)**	**(654)**	**(22)**	**73**	**(1,765)**
Operating profit	**1,234**	**2,587**	**56**	**25**	**3,902**
Profit before tax	**1,234**	**2,587**	**56**	**25**	**3,902**
	%	**%**	**%**	**%**	**%**
Cost efficiency ratio	**47.8**	**18.4**	**28.2**	**152.1**	**29.4**

	At 30 Jun 2023				
Balance sheet information	**£m**	**£m**	**£m**	**£m**	**£m**
Loans and advances to customers	**140,490**	**69,319**	**—**	**(243)**	**209,566**
Customer accounts	**174,715**	**99,366**	**—**	**(296)**	**273,785**

	Half-year to 30 Jun 2022				
	£m	£m	£m	£m	£m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	1,952	1,585	71	(12)	3,596
– external	1,889	1,501	188	19	3,597
– inter-segment	63	84	(117)	(31)	(1)
– *of which: net interest income*	*1,633*	*1,097*	—	*22*	*2,752*
Change in expected credit losses and other credit impairment charges	(167)	125	—	—	(42)
Net operating income/(expense)	1,785	1,710	71	(12)	3,554
Total operating expenses	(1,131)	(545)	(16)	(112)	(1,804)
Operating profit/(loss)	654	1,165	55	(124)	1,750
Profit/(loss) before tax	654	1,165	55	(124)	1,750
	%	%	%	%	%
Cost efficiency ratio	57.9	34.4	22.5	(933.3)	50.2

	At 31 Dec 2022				
Balance sheet information	£m	£m	£m	£m	£m
Loans and advances to customers	138,927	65,408	—	(192)	204,143
Customer accounts	181,785	99,622	—	(312)	281,095

Notable items

	Half-year to 30 Jun 2023				
	WPB	CMB	GBM	Corporate Centre	Total
	£m	£m	£m	£m	£m
Revenue					
Disposals, acquisitions and related costs	—	**1,240**	—	—	**1,240**
Restructuring and other related costs	—	—	—	—	—
Operating expenses					
Disposals, acquisitions and related costs	—	**(12)**	—	—	**(12)**
Restructuring and other related costs	—	—	—	—	—
	Half-year to 30 Jun 2022				
Revenue					
Disposals, acquisitions and related costs	—	—	—	—	—
Restructuring and other related costs	—	—	—	1	1
Operating expenses					
Disposals, acquisitions and related costs	—	—	—	—	—
Restructuring and other related costs	(26)	(10)	—	(129)	(165)

Reported Performance

Wealth and Personal Banking

Profit before tax of £1,234m in 1H23 was £580m or 89% higher than 1H22, driven by higher revenue and lower ECL, partly offset by higher operating costs.

Revenue increased by £477m or 24%, primarily due to wider margins following successive interest rate increases, partly offset by the impact of lower deposit balances resulting from the cost of living pressures on our customers and the competitive environment.

ECL decreased by £134m, to £33m in 1H23, reflecting resilience in our unsecured lending portfolio and a strong employment market, whilst remaining conservative regarding the impact that higher interest rates may have on our secured lending portfolio.

Operating expenses increased by £31m or 3%, due to increased technology investment costs, partly offset by actions taken to reduce the direct staff costs of the business and lower back-office operations costs.

Commercial Banking

Profit before tax of £2,587m in 1H23 was £1,422m or 122%, higher than 1H22, due to higher revenue, party offset by higher operating expenses and ECL.

Revenue increased by £1,960m or 124%, due to the provisional gain on the acquisition of SVB UK of £1,240m, the post-acquisition operating revenues of HSBC Innovation Bank Limited and wider margins following successive interest rate increases, partly offset by the impact of lower deposit balances resulting from the inflationary pressure, corporate deleveraging in the market driven by prevailing conditions, and the competitive environment on our customers. Excluding HSBC Innovation Bank Limited, revenue increased by £567m or 36%.

ECL increased by £429m from a £125m release in 1H22 to a £304m charge in 1H23. The 1H22 release included the release of our remaining Covid-19 related allowances. The charge in 1H23 related to a limited number of exposures that migrated into Stage 3 or where provisions increased for existing Stage 3 exposures.

Operating expenses increased by £109m or 20%, driven by increased technology investment costs and post-acquisition HSBC Innovation Bank Limited costs, including the cost of completing its integration.

Global Banking and Markets

GBM in HSBC UK reflects the transacting of foreign currency exchange for WPB and CMB customers. The majority of the foreign exchange revenue is transferred to WPB and CMB, with an element retained in GBM.

Profit before tax of £56m in 1H23 was £1m or 2% higher than 1H22.

Corporate Centre

Profit before tax of £25m in 1H23 was £149m higher than the loss before tax of £124m in 1H22, driven by lower operating expenses due to a reduced restructuring costs following the completion of our cost-saving programme in 2022 and the increased benefit arising from our defined benefit pension surplus as discount rates rose in line with the prevailing interest rate environment.

Dividends

The consolidated reported profit for the period attributable to the shareholder of the bank was £3,200m.

Interim dividends of £807m were paid on ordinary share capital during the 1H23, out of which £539m relates to the previous financial year and £268m relates to the current financial year. £101m of dividends were paid in respect of additional tier 1 capital instruments.

On 19 July 2023, the Directors resolved to pay an interim dividend of £948m to the ordinary shareholder of the parent company in respect of the financial year ending 31 December 2023.

Further information regarding dividends is given in Note 5.

Summary consolidated balance sheet as at

	30 Jun 2023 £m	31 Dec 2022 £m
Total assets	**335,770**	342,441
– cash and balances at central banks	**76,666**	94,407
– financial assets mandatory measured at fair value through profit and loss	**118**	108
– derivative assets	**422**	546
– loans and advances to banks	**7,324**	6,357
– loans and advances to customers	**209,566**	204,143
– reverse repurchase agreements – non-trading	**6,781**	7,406
– financial investments	**22,129**	16,092
– other assets	**12,764**	13,382
Total liabilities	**311,800**	320,215
– deposits by banks	**10,844**	10,721
– customer accounts	**273,785**	281,095
– repurchase agreements – non-trading	**7,659**	9,333
– derivative liabilities	**206**	304
– debt securities in issue	**1,257**	1,299
– other liabilities	**18,049**	17,463
Total equity	**23,970**	22,226
– total shareholders' equity[1]	**23,910**	22,166
– non-controlling interests	**60**	60

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

The commentary below compares the balance sheet at 30 June 2023 to that at 31 December 2022.

HSBC UK maintained a strong and liquid balance sheet. The ratio of customer advances to customer accounts marginally increased to 76.5% compared to 72.6% at 31 December 2022.

Assets

Cash and balances at central banks decreased by £17.7bn due to the decrease in customer accounts (£7.3bn), continued growth in customer lending (£5.4bn) and an increase in financial investments (£6.0bn).

Loans and advances to customers increased by £5.4bn, from growth in retail mortgage lending by £0.9bn and an increase in commercial lending by £5.4bn from the acquisition of HSBC Innovation Bank Limited, partly offset by repayments of £1.6bn mainly against government supported Covid-19 lending. Reverse repurchase agreements decreased by £0.6bn mainly from maturities/disposals as part of Markets Treasury activities to manage liquidity and margin. Financial investments increased by £5bn as it incorporates securities from the acquisition of HSBC Innovation Bank Limited and further diversification of the overall liquidity position of the bank via the purchase of Asset swaps.

Liabilities

Customer accounts decreased by £7.3bn, across both retail (£7bn) and commercial (£5.8bn) in line with the overall market liquidity reduction driven by seasonal tax payments in 1Q23 by our customers as well as heightened cost of living pressures on our customers, corporate deleveraging, and the competitive environment. This was partially offset by the increase in deposits by £5.5bn from the acquisition of HSBC Innovation Bank Limited.

Equity

Total shareholders' equity, including non-controlling interests, increased by £1.7bn or 7.8% compared with 31 December 2022.

This reflected the effects of profits generated of £3.2bn, partly offset by dividend payments of £0.9bn and a reduction in OCI of £0.6bn from cash flow hedge reserves as a result of the impact of increasing interest rates.

Risk

Risk overview

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

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

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

The exposure to our risks and risk management of these are explained in more detail in the Risk section of the Report of the Directors on pages 17 to 28 of the *Annual Report and Accounts 2022.*

Managing risk

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

Difficult economic conditions in the UK continue to impact our customers and our organisation in 2023. GDP growth remains slow with the country struggling to consistently return to economic activity levels seen before the Covid-19 pandemic. With the rate of inflation remaining high, interest rates have continued to rise putting additional pressures on consumers. Our balance sheet and liquidity has remained strong which has enabled us to provide support to our customers and we will continue to use proactive communications to provide details of how we can help as the cost of living crisis continues. We are seeing pressure building on our mortgage customers that are either on variable rates or have recently refinanced at a higher fixed rate, from increased monthly repayments. Whilst we have seen limited signs of stress, our mortgage portfolio remains highly resilient, but we remain vigilant and continue to focus on supporting customers. We have agreed to the targets of the

Mortgage Charter announced by the UK Government in June 2023 that will provide additional assistance options to customers. Pressure on our business operations and customer support centres remains high as the current challenging economic environment continues.

Since HSBC UK announced the acquisition of Silicon Valley Bank UK Limited in March 2023, now HSBC Innovation Bank Limited, we have been working to ensure that all risks associated with integrating HSBC Innovation Bank Limited into the group are managed effectively. These include ensuring that the provision of customer products and services are maintained, fully assessing all current risk and compliance policies and procedures so that these can be aligned to HSBC UK's frameworks and putting in place the necessary governance and control guardrails while the integration activity is underway.

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

Climate Risk

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a greener economy. Financial impacts could materialise, for example, through greater transactional losses and/or increased capital requirements. Non-financial impacts could materialise if our own assets or operations are impacted by extreme weather or chronic changes in weather patterns, or as a result of business decisions to help achieve the HSBC Group's climate ambition. Our most material medium to long term risks in regards to managing climate risk relate to corporate and retail client financing within our banking portfolio. The Trustee of our employee pension plan, the HSBC Bank (UK) Pension Scheme also manages climate risk in line with its fiduciary duties and local regulatory requirements, with global corporate policy encouraging consideration of ESG risks when selecting investments.

We continue to monitor the impacts of climate risk and further embed our approach across our key risk areas and business lines.

Our Risk Appetite

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

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

Stress tests

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

For the 2022 annual cyclical scenario, the HSBC Group was asked to submit results for HSBC UK as a ring fenced bank, on a stand-alone basis for the first time. The stand-alone results showed that HSBC UK is sufficiently capitalised, indicating that its CET1 capital ratio on an IFRS 9 transitional basis would fall to a low point of 10.1%, above its CET1 reference rate of 6.2%. On an IFRS 9 non-transitional basis, HSBC UK's CET1 capital ratio is projected to reach a low point of 8.9%, which is above its IFRS 9 non-transitional CET1 reference rate of 6.4%.

HSBC UK's results incorporated strategic management actions. In practice, under such adverse economic circumstances, HSBC UK would consider a variety of management actions depending on the prevailing circumstances at the time.

Top and emerging risks

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

Top risks are those that may have a material impact on the financial results, reputation or business model of HSBC UK in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If any of these risks were to occur, they could have a material effect on HSBC UK.

Our suite of top and emerging risks is subject to regular review by senior governance forums. We continue to monitor closely the identified risks and ensure robust management actions are in place, as required. Some risks were removed as these were considered as having been absorbed into business as usual risk management practices, such as Ibor transition.

Our current top and emerging risks are summarised below and discussed in more detail on page 19 of our *Annual Report and Accounts 2022.*

Risk		Description
Externally driven		
Geopolitical and macroeconomic risk	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict. This could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Geopolitical tensions remain high, although global supply chain disruptions have abated. The impact of increased inflation and interest rate rises in the UK, geopolitical events such as the ongoing Russia-Ukraine war, and the volatility seen this year in the US and Swiss banking sectors have increased uncertainty and may affect our customers and our business.
Credit risk	▲	We remain focused on assessing and managing the impacts of the cost of living crisis and higher interest rates on our customers. We have put in place additional early warning indicators to help identify segments that we believe may be at risk due to the macroeconomic situation. This includes our mortgage customers who may be impacted by increased monthly payments and across our lending portfolio, those with reduced affordability due to other cost of living increases. We are ensuring that we have adequate capacity within our Financial Support Team and are contacting customers potentially at risk. We remain focused on managing credit facilities appropriately, and adjusting policy and strategy as needed, including regular refreshes of our affordability models. Industry sector analysis is regularly conducted with particular focus on the Construction and Contracting, Commercial Real Estate, Hospitality, Hotels, and Retail industry sectors, as well as parts of Agriculture and Manufacturing. We have increased the frequency and depth of our monitoring activities with stress tests and other reviews performed to identify portfolios or customers who are likely to experience financial difficulty.
Evolving regulatory environment risk	▲	The regulatory and compliance risk environment is increasingly complex, in part driven by heightened geopolitical tensions, changes to the regulatory framework following the UK's withdrawal from the EU, and the cost of living crisis. There is a continued focus on protection of consumers, particularly vulnerable ones, strategy execution, transformation, capital management, operational resilience, recovery and resolution and regulatory reporting. These, alongside other regulatory priorities, may result in change requirements across HSBC UK in the short to medium term. We continue to monitor regulatory and wider industry developments closely, engaging with regulators as appropriate.
Cyber threat and unauthorised access to systems	▶	HSBC UK faces a risk of service disruption from external and internal malicious activity. We continue to monitor ongoing geopolitical events and changes to the threat landscape. HSBC UK operates a continuous improvement programme to protect our technology operations and to counter a fast-evolving cyber threat environment.
Environmental, social and governance risk	▲	We are subject to ESG risks relating to climate change, greenwashing, nature and human rights. This risk continues to increase owing to the pace and volume of regulatory developments globally and stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial cost for HSBC UK, including adverse reputational consequences.
Digital currencies and disintermediation risk	▶	Focus remains on digital currencies from governments, regulatory bodies and central banks. There have been increased debate on CBDC with the BoE and HMT consultation on the subject in the UK and more design studies and pilots taking place in locations such as Hong Kong, India, the eurozone and Japan. The cryptocurrency and stablecoin ecosystem has seen exceedingly volatile prices with some risk of contagion spreading beyond these markets. There is still no suggestion that cryptocurrencies or stablecoins have moved from being a speculative asset to being a replacement for existing fiat currencies. We continue to monitor the evolution of digital assets and decentralised finance across channels including consultations, pilots and issuances to assess the implications for our products and services and our customers.
Internally driven		
People risk	▶	HSBC UK is exposed to risks associated with employee retention, talent availability and compliance with employment laws and regulations. Whilst overall HSBC UK attrition has stabilised, we remain vigilant in light of external market factors including the cost of living crisis and an active labour market, that might impact our ability to retain and attract talent. HSBC UK is embedding hybrid working, with further opportunities to continuously enhance our proposition in 2023.
IT systems infrastructure and service resilience	▲	We continue to monitor and improve our IT systems and network resilience to minimise service disruption and improve HSBC UK customer experience through, for example, HSBC Group's Vision 27 programme for digital transformation. The significant volume of change and the complexity of our IT environment increase the risk of service disrruption which we work to mitigate through change management controls. We continue to experience increased demand on customer support centres and our business operations as a result of the current economic environment creating additional focus on service resilience. To support the business strategy, we are continuing to strengthen our end-to-end service chain mapping, and build and deploy controls and system monitoring capabilities.
Model risk	▶	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications. The model landscape continues to be impacted by regulatory requirements driving material changes to the way model risk is managed across the banking industry in the UK. The focus has been extended from capital models to all models based on the Supervisory Statement (SS 1/23) 'Model Risk Management Principles for Banks' issued by the PRA in May 2023. The rapidly changing technology environment including generative Artificial Intelligence and large language models utilising AI are impacting the need for enhanced model risk controls.
Financial crime and fraud risk	▶	We are exposed to financial crime risk from our customers, staff and third-parties engaging in criminal activity. The financial crime risk environment continues to evolve, affected by complex geopolitical challenges, the macroeconomy, sanctions regulations, technological developments, and national data privacy requirements. Fraud, which is becoming ever-more sophisticated, continues to be an area of focus for HSBC UK. Regulatory scrutiny has increased around scams and the impacts from recent changes to the PSR's reimbursement requirements. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Conduct and customer detriment	▶	Throughout 2023, HSBC UK has been working towards meeting new Consumer Duty requirements, and a new Code of Conduct rule, seeking to ensure we act to deliver good customer outcomes and act consistently to support customers. Work will continue to ensure good customer outcomes on an ongoing basis.
Data risk	▶	HSBC UK uses data to serve our customers and run our operations, often in real-time within digital experiences and processes. Data risk remains a key area of focus for HSBC UK and is receiving significant management attention as we continue to enhance our control environment. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We need to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.

Risk		Description
Internally driven (continued)		
Third-party risk	▲	HSBC UK procures goods and services from a range of third parties, who we recognise may be impacted by the same heightened external markets factors as us. It is critical that we have appropriate risk management policies and processes to select and govern third parties, including third parties' increasingly complex supply networks, particularly for key activities that could adversely affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.
Execution risk	▶	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. Given the increased scale, complexity and pace of change at HSBC UK, we aim to monitor, manage and oversee change execution risk to ensure our change portfolio and initiatives continue to deliver the right outcomes for our customers, people, investors and communities.

▲ Risk has heightened during the first half of 2023

▶ Risk remains at the same level as 2022

Area of key interest

During the first half of 2023, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on HSBC UK. In this section we have focused on geopolitical and macroeconomic risk.

Geopolitical and macroeconomic risk

Geopolitical and macroeconomic risk continued to be high in the first half of 2023 as the UK economy faced a number of challenges, including persistently high inflation, increased interest rates and a period of significant market volatility that followed stressed conditions in the US and Swiss banking sectors. Consumer confidence remains low as the cost of living crisis has deepened, partly driven by continued high food prices and with real incomes falling. The UK has not entered into a recession so far in 2023 but the economic outlook remains uncertain.

The current economic environment continued to impact on ECL and could increase the uncertainty of our modelled ECL estimates. The combined pressure of higher inflation and interest rates may impact the ability of our personal and business customers to repay mortgages, loans and other forms of borrowing. In line with existing practice we have continued to carry out enhanced monitoring of model outputs and the use of model overlays, including management adjustments. These adjustments are based on the expert judgement of senior credit risk managers to reflect current market inflation and interest rate conditions where they have not been incorporated in the underlying macroeconomic scenarios. Inflation and rising interest rates have been considered both directly in certain models, and assessed via adjustments where not directly considered.

The Russia-Ukraine war has continued to have far-reaching geopolitical implications. It has resulted in the imposition of significant sanctions and trade restrictions. The war's economic impact has reduced as the global economy has adapted to the sanctions regime. In particular, Europe is diversifying its energy sources to reduce dependence on Russian energy supplies.

The continuation of, or any further escalation in, the Russia-Ukraine war however, could have additional economic, social and political consequences. These include further sanctions and trade restrictions, longer-term changes in the macroeconomic environment with the risk of higher and sustained inflation, and a continued increase in energy prices. HSBC UK is monitoring the impacts of the Russia-Ukraine war and continues to respond to the further economic sanctions and trade restrictions that have been imposed on Russia in response.

The conclusion of the Windsor Framework between the UK and the EU introduced a new system of checks on goods moving from the UK to Northern Ireland, and removed a major area of friction in the post-UK withdrawal relationship. On 27 June 2023, the UK and the EU also signed a memorandum of understanding on regulatory cooperation in financial services, potentially paving the way for closer coordination of policy making for the sector. Over the medium to long term, the UK's withdrawal from the EU may increase the country's economic risk, which could adversely impact our profitability. We are monitoring the situation closely, including the potential impacts on our customers.

The relationship between China and several countries, including the UK and the US, remains complex. The UK, the US, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies. In response China has imposed sanctions and introduced new laws and trade restrictions that could impact HSBC UK and its customers. Further sanctions or counter-sanctions may create regulatory, reputational and market risks for HSBC UK.

Our Central macroeconomic scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' calculations of ECL, assumes low growth and a higher inflation environment. The Central scenario has been assigned a standard weighting across all of the Group's major markets including the UK reflecting narrowing forecast dispersion, reduced uncertainty and a view that forecasts now sufficiently capture the weak growth outlook. There remains continued uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which has required adjustments to modelled ECL in cases where we determined that the model was unable to capture the material underlying risks. For retail portfolios where models do not sufficiently capture the interest rate and inflation risks, there has been a globally consistent approach developed. This is utilised for assessing the affordability pressure on potentially affected customers and the consequential impact this would have on ECL and is incorporated into ECL via management judgemental adjustments.

For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 17.

Key developments in the first half of 2023

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

- We continued to embed the governance and oversight around the IFRS9 process including financial reporting processes.
- Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including enhancing our approach to assessing the impact of climate on capital, and continued development of risk metrics to manage our exposure to climate risk.
- We have continued to strengthen our third-party risk policy and have enhanced the way third party risk is overseen and managed across all non-financial risks. Our processes, framework and reporting capabilities have been enhanced to improve the control and oversight of our material third parties to help maintain our operational resilience and to meet new and evolving regulatory requirements.

Credit risk

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 26 of the *Annual Report and Accounts 2022*.

Credit risk in the first half of 2023

Summary of credit risk

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

On 31 December 2022, the IFRS 9 allowance for ECL was £2,016m. This allowance has increased by £128m to £2,144m at 30 June 2023.

The IFRS 9 allowance for ECL at 30 June 2023 comprises £8m in respect of assets held at amortised cost and £101m in respect of loan commitments and financial guarantees. There is £1m allowance for ECL in respect of debt instruments measured at FVOCI.

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

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

	At 30 Jun 2023		At 31 Dec 2022	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
	£m	**£m**	£m	£m
Loans and advances to customers at amortised cost	**211,599**	**(2,033)**	206,055	(1,912)
– personal	**140,034**	**(835)**	138,626	(872)
– corporate and commercial	**64,638**	**(1,169)**	64,955	(1,035)
– non-bank financial institutions	**6,927**	**(29)**	2,474	(5)
Loans and advances to banks at amortised cost	**7,326**	**(2)**	6,359	(2)
Other financial assets measured at amortised cost	**93,189**	**(8)**	109,137	(5)
– cash and balances at central banks	**76,666**	**—**	94,407	—
– items in the course of collection from other banks	**327**	**—**	353	—
– reverse repurchase agreements – non-trading	**6,781**	**—**	7,406	—
– financial investments	**7,755**	**(1)**	5,160	—
– prepayments, accrued income and other assets[2]	**1,660**	**(7)**	1,811	(5)
Total gross carrying amount on-balance sheet	**312,114**	**(2,043)**	321,551	(1,919)
Loans and other credit-related commitments	**70,966**	**(98)**	67,628	(91)
– personal	**42,101**	**(11)**	42,059	(9)
– corporate and commercial	**25,282**	**(84)**	24,669	(82)
– non-bank financial institutions	**3,583**	**(3)**	900	—
Financial guarantees	**1,076**	**(3)**	1,148	(6)
– personal	**313**	**—**	342	—
– corporate and commercial	**506**	**(3)**	518	(6)
– non-bank financial institutions	**257**	**—**	288	—
Total nominal amount off-balance sheet[3]	**72,042**	**(101)**	68,776	(97)
	384,156	**(2,144)**	390,327	(2,016)

	Fair value	**Memorandum allowance for ECL[4]**	Fair value	Memorandum allowance for ECL[4]
	£m	**£m**	£m	£m
Debt instruments measured at fair value through other comprehensive income	**14,374**	**(1)**	10,932	(1)

1 Total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
2 Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 36, includes both financial and non-financial assets.
3 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
4 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.

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

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

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

	Gross carrying/nominal amount[1]					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%	%	%	%
Loans and advances to customers at amortised cost	**153,637**	**53,835**	**4,127**	**—**	**211,599**	**(254)**	**(988)**	**(791)**	**—**	**(2,033)**	**0.2**	**1.8**	**19.2**	**—**	**1.0**
– personal	**104,237**	**34,938**	**859**	**—**	**140,034**	**(118)**	**(521)**	**(196)**	**—**	**(835)**	**0.1**	**1.5**	**22.8**	**—**	**0.6**
– corporate and commercial	**43,283**	**18,159**	**3,196**	**—**	**64,638**	**(124)**	**(458)**	**(587)**	**—**	**(1,169)**	**0.3**	**2.5**	**18.4**	**—**	**1.8**
– non-bank financial institutions	**6,117**	**738**	**72**	**—**	**6,927**	**(12)**	**(9)**	**(8)**	**—**	**(29)**	**0.2**	**1.2**	**11.1**	**—**	**0.4**
Loans and advances to banks at amortised cost	**7,324**	**—**	**2**	**—**	**7,326**	**—**	**—**	**(2)**	**—**	**(2)**	**—**	**—**	**100.0**	**—**	**—**
Other financial assets measured at amortised cost	**93,007**	**155**	**27**	**—**	**93,189**	**(4)**	**—**	**(4)**	**—**	**(8)**	**—**	**—**	**14.8**	**—**	**—**
Loan and other credit-related commitments	**61,678**	**9,062**	**226**	**—**	**70,966**	**(28)**	**(37)**	**(33)**	**—**	**(98)**	**—**	**0.4**	**14.6**	**—**	**0.1**
– personal	**38,273**	**3,763**	**65**	**—**	**42,101**	**(10)**	**—**	**(1)**	**—**	**(11)**	**—**	**—**	**1.5**	**—**	**—**
– corporate and commercial	**20,221**	**4,900**	**161**	**—**	**25,282**	**(17)**	**(35)**	**(32)**	**—**	**(84)**	**0.1**	**0.7**	**19.9**	**—**	**0.3**
– financial	**3,184**	**399**	**—**	**—**	**3,583**	**(1)**	**(2)**	**—**	**—**	**(3)**	**—**	**0.5**	**—**	**—**	**0.1**
Financial guarantee and similar contracts	**745**	**317**	**14**	**—**	**1,076**	**—**	**—**	**(3)**	**—**	**(3)**	**—**	**—**	**21.4**	**—**	**0.3**
– personal	**304**	**9**	**—**	**—**	**313**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**365**	**127**	**14**	**—**	**506**	**—**	**—**	**(3)**	**—**	**(3)**	**—**	**—**	**21.4**	**—**	**0.6**
– financial	**76**	**181**	**—**	**—**	**257**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Jun 2023	**316,391**	**63,369**	**4,396**	**—**	**384,156**	**(286)**	**(1,025)**	**(833)**	**—**	**(2,144)**	**0.1**	**1.6**	**18.9**	**—**	**0.6**
Loans and advances to customers at amortised cost	154,818	46,693	4,521	23	206,055	(248)	(941)	(722)	(1)	(1,912)	0.2	2.0	16.0	4.3	0.9
– personal	106,745	31,041	840	—	138,626	(112)	(571)	(189)	—	(872)	0.1	1.8	22.5	—	0.6
– corporate and commercial	45,739	15,520	3,673	23	64,955	(134)	(368)	(532)	(1)	(1,035)	0.3	2.4	14.5	4.3	1.6
– non-bank financial institutions	2,334	132	8	—	2,474	(2)	(2)	(1)	—	(5)	0.1	1.5	12.5	—	0.2
Loans and advances to banks at amortised cost	6,354	1	4	—	6,359	—	—	(2)	—	(2)	—	—	50.0	—	—
Other financial assets measured at amortised cost	108,987	126	24	—	109,137	—	(1)	(4)	—	(5)	—	0.8	16.7	—	—
Loan and other credit-related commitments	62,581	4,806	241	—	67,628	(29)	(37)	(25)	—	(91)	—	0.8	10.4	—	0.1
– personal	41,614	358	87	—	42,059	(9)	—	—	—	(9)	—	—	—	—	—
– corporate and commercial	20,120	4,395	154	—	24,669	(20)	(37)	(25)	—	(82)	0.1	0.8	16.2	—	0.3
– financial	847	53	—	—	900	—	—	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	983	147	18	—	1,148	—	—	(6)	—	(6)	—	—	33.3	—	0.5
– personal	335	7	—	—	342	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	407	93	18	—	518	—	—	(6)	—	(6)	—	—	33.3	—	1.2
– financial	241	47	—	—	288	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2022	333,723	51,773	4,808	23	390,327	(277)	(979)	(759)	(1)	(2,016)	0.1	1.9	15.8	4.3	0.5

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

Measurement uncertainty and sensitivity analysis of ECL estimates

There continues to be a high degree of uncertainty in relation to economic scenarios. The increased risks of lower economic growth with higher inflation and unemployment have been exacerbated by the geopolitical environment and the effects of global supply chain disruption.

As a result of this uncertainty, management judgements and estimates continue to reflect a degree of caution both in the selection of economic scenarios and their weightings, and in the use of management judgemental adjustments, described in more detail below. Additional stage 1 and 2 allowances were recorded in respect of the heightened levels of uncertainty.

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

Methodology

At 30 June 2023, four economic scenarios have been used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios are updated with new forecasts and estimates each quarter.

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

In June 2023, following a significant shift in UK policy interest rate expectations, the Central scenario and key economic and financial variables were updated. Outer scenario economic variables for the UK were changed in parallel with these Central scenario adjustments.

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

Description of consensus economic scenarios

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

In the Central scenario, global economic forecasts have improved, with output and consumption data from Q1, proving better than had been expected and GDP and employment have proved resilient to higher inflation and interest rates.

The level of UK Inflation is considered to have peaked in Q4 2022 and is expected to reduce in the coming months, although remaining at elevated levels in 2023. Interest rate expectations have shifted higher and additional rate rises are expected.

The Upside and Downside scenarios are designed to encompass the potential crystallisation of a number of key macro-financial risks. Higher inflation, tighter monetary policy and financial conditions, and an escalation of geopolitical risks pose key downside risks to the outlook. To the upside, a swifter decline in inflation and a cut to interest rates would drive faster economic growth.

The four global scenarios used for the purpose of calculating ECL at 30 June 2023 are the consensus Central scenario, the consensus Upside scenario, the consensus Downside scenario, and the Downside 2 scenario.

The scenarios used to calculate ECL in the *Interim Report 2023* are described below.

The consensus Central scenario

HSBC Group's Central scenario features a slow down in GDP growth through in 2023 relative to 2022 and a rise in unemployment.

GDP forecasts have been raised in recent quarters, due to stronger-than expected 1Q23 growth, underpinned by resilience in household consumption. Nevertheless, the outlook for the remainder of 2023 and the beginning of 2024 remains subdued as high inflation continues to erode disposable income and curtail investment.

The Central scenario assumes that inflation gradually declines through 2023 and, reverts back towards the BoE's target range in 2025.

UK GDP is expected to be flat in 2023 in the Central scenario. The average rate of UK GDP growth is expected to be 0.8% over the forecast period, which is below the average growth rate of 1.6% over the five-year period prior to the onset of the pandemic.

In the UK, the Central scenario assumes that persistently high inflation and wage growth has caused a significant re-appraisal of interest rate expectations. A substantially higher terminal rate for interest rates implies a bigger impact on confidence, discretionary income and investment. HSBC Group has sought to reflect this in an updated Central scenario which incorporates a recession for the UK that begins in the second half of 2023 and persists into 2024. Interest rates are forecast to rise through to year end and remain high for an extended period of time.

The Central scenario was first created from consensus forecasts available in May, and subsequently updated in June. For the UK, significant UK variables, including GDP, unemployment and policy rates were updated in late June with judgemental adjustments.

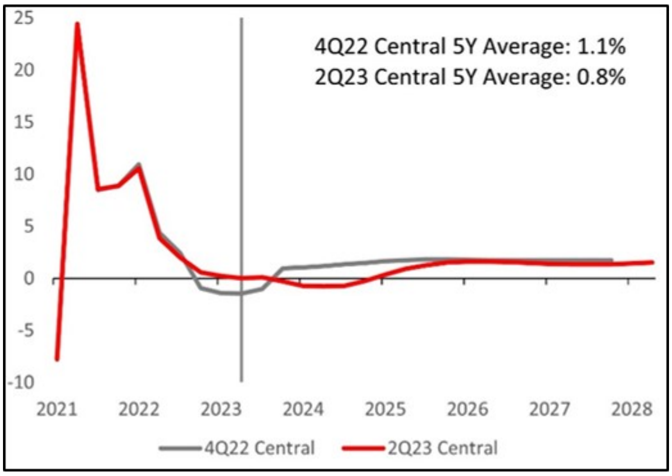
The following table describes key macroeconomic variables and the probability assigned in the consensus Central scenario at 30 June 2023.

Central scenario applied at 30 June 2023

	3Q23-2Q28 %
GDP growth rate	
2023: Annual average growth rate	—
2024: Annual average growth rate	**(0.6)**
2025: Annual average growth rate	**1.0**
5-year average	**0.8**
Unemployment rate	
2023: Annual average rate	**4.2**
2024: Annual average rate	**4.7**
2025: Annual average rate	**4.5**
5-year average	**4.5**
House price growth	
2023: Annual average growth rate	**(1.3)**
2024: Annual average growth rate	**(5.7)**
2025: Annual average growth rate	**(1.9)**
5-year average	**(0.6)**
Inflation rate	
2023: Annual average rate	**7.5**
2024: Annual average rate	**2.8**
2025: Annual average rate	**1.8**
5-year average	**2.5**
Probability	**75.0**

The graphs compare the respective Central scenario at year end 2022 with current economic expectations in the second quarter of 2023.

GDP growth: Comparison of Central scenarios



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

The consensus Upside scenario

The consensus Upside scenario features stronger growth, lower unemployment and a faster fall in inflation compared with the Central scenario. Asset prices, including housing also rise more quickly. This is consistent with a number of key upside risk themes, including falling energy and commodity prices and easing wage growth, which allow central banks to lower interest rates; a de-escalation in geopolitical tensions; and looser financial conditions.

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

Consensus Upside scenario best outcome

	UK %	
GDP growth rate	**8.7**	**(2Q28)**
Unemployment rate	**3.0**	**(2Q25)**
House price growth	**5.7**	**(2Q28)**
Inflation rate	**1.0**	**(2Q24)**
Probability	**5.0**	

Note: extreme point in the consensus Upside is 'best outcome' in the scenario, for example, highest GDP growth and the lowest unemployment rate, in the first two years of the scenario. Inflation is positively correlated with GDP in the Upside scenario, and the 'best outcome' also refers to the cyclical high point.

Downside scenarios

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

High Inflation and the monetary policy response remain a key concern for UK growth. While supply chain disruptions, caused by the Covid-19 pandemic and the Russia-Ukraine war, are easing helping to reduce headline price inflation across many markets, core inflation remains high in the UK. This reflects a tight labour market, which is putting upward pressure on wages, and resilience in demand. In turn, it raises the risk of a more forceful policy response from the BoE, encompassing a steeper trajectory for interest rates and ultimately, economic recession.

The rapid increase in interest rates has already led to a repricing of asset valuations, as corporate and household borrowers face steep increases in debt service costs. Policymakers have also raised concerns that, following the collapse of several US regional banks, financial conditions could tighten further, acting as another constraint on activity. Insolvencies and default rates could rise sharply as businesses find it difficult to refinance and cash buffers diminish amid weaker demand.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is considerably weaker compared with the Central scenario, driven by an intensification of geopolitical risks that aggravate supply chain disruptions and causes energy and other commodity prices to rise. In this scenario, economies experience moderate recession, unemployment rates increase, and asset prices fall.

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

Consensus Downside scenario worst outcome

	UK %	
GDP growth rate	**(3.2)**	**(3Q25)**
Unemployment rate	**6.2**	**(4Q24)**
House price growth	**(16.6)**	**(2Q25)**
Inflation rate	**7.0**	**(3Q23)**
Probability	**15.0**	

Note: Extreme point in the consensus downside is 'worst outcome' in the scenario, for example the lowest GDP growth, and the highest unemployment rate, in the first two years of the scenario. Inflation is positively correlated with GDP in the Downside scenario, and the 'worst outcome' refers to the cyclical low point.

Downside 2 scenario

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

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

Downside 2 scenario worst outcome

	UK %	
GDP growth rate	**(7.7)**	**(4Q24)**
Unemployment rate	**9.0**	**(4Q24)**
House price growth	**(40.8)**	**(3Q25)**
Inflation rate	**10.3**	**(4Q23)**
Probability	**5.0**	

Note: Extreme point in the Downside 2 is 'worst outcome' in the scenario, for example the lowest GDP growth, and the highest unemployment rate, in first two years of the scenario. After a temporary increase, inflation remains positively correlated with GDP in the Downside 2 scenario, and the 'worst outcome' refers to the scenario low point.

Scenario weightings

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

In 2Q23, the level of certainty attached to the Central scenario was deemed to have increased. It was noted that:

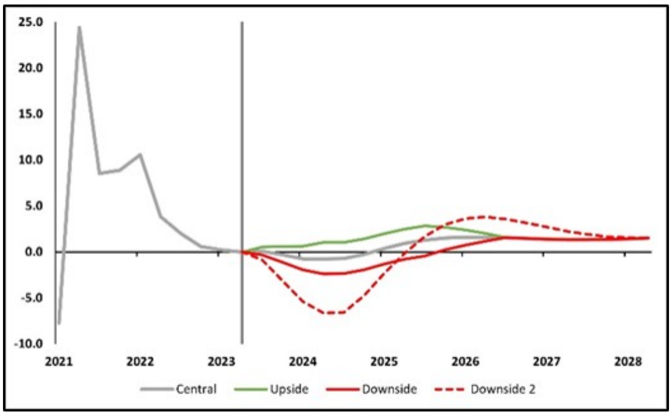
- dispersion of economic forecasts have narrowed;
- the stabilisation of a number of key risk drivers. For example, the economic implications of the Russia-Ukraine war have diminished;
- the current Central scenario forecasts are sufficiently reflective of weak GDP growth prospects.

Consequently, probability weights assigned to the Central scenario have reverted back to the standard weight of 75%, from 60% at December 2022.

For the UK, uncertainty generated by shifting interest rate expectations was addressed with revisions to scenario variables. The weighting assigned to the UK Central scenario therefore aligns to the standard weight.

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

UK GDP growth



Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates, as set out in the *Annual Report and Accounts 2022* under 'Critical accounting estimates and judgements'. The level of estimation uncertainty and judgement has remained high since 31 December 2022 including judgements relating to:

– the selection and weighting of economic scenarios, given rapidly changing economic conditions and a wide distribution of economic forecasts; and

– estimating the economic effects of those scenarios on ECL, particularly the effect of interest rates and inflationary pressures in specific sectors.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail loans and portfolios are set out on page 36 of the *Annual Report and Accounts 2022*. Models are used to reflect economic scenarios on ECL estimates. These models are based largely on historical observations and correlations with default.

Management judgemental adjustments

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

This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher level quantitative analysis for impacts that are difficult to model. The effects of management judgmental adjustments are considered for both balances and ECL, and will consider any changes to stage allocation where appropriate. This is in accordance with the internal adjustments framework.

The wholesale and retail management judgemental adjustments are presented as part of the global and HSBC UK business impairment committees with representation from Model Risk Management. This is in line with the governance process for IFRS 9 as set out on page 26 of the *Annual Report and Accounts* 2022.

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

At 30 June 2023 management judgemental adjustments reduced by £126m compared with 31 December 2022. Adjustments related to sector-specific risks were maintained. They were also maintained to account for elevated uncertainty under the high inflation scenarios.

We have internal governance in place to monitor management judgemental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Given the level of economic uncertainty and idiosyncratic events, we believe that management judgemental adjustments will continue to be a key component of ECL for the foreseeable future.

Management judgemental adjustments made in estimating the reported ECL at 30 June 2023 are set out in the following table:

Management judgemental adjustments to ECL at 30 June 2023[1]

	Retail	**Wholesale**	**Total**
	£m	**£m**	**£m**
Corporate lending adjustments	**—**	**5**	**5**
Retail lending adjustments	**113**	**—**	**113**
Total	**113**	**5**	**118**

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

	Retail	Wholesale	Total
	£m	£m	£m
Corporate lending adjustments	—	114	114
Retail lending adjustments	130	—	130
Total	130	114	244

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

In the wholesale portfolio, management judgemental adjustments were an ECL increase of £5m comprising £(46)m relating to Corporate portfolios and £51m relating to Retail SME portfolios which use Retail models (31 December 2022: £114m increase including £67m from Retail SME).

Supported by credit experts' input, portfolio risk metrics and quantitative analyses, these adjustments principally reflected the outcome of management judgements to account for sensitivity to challenging macro-economic environment.

In the retail portfolio, management judgemental adjustments were an ECL increase of £113m at 30 June 2023 (31 December 2022: £130m increase).

These adjustments were primarily in relation to macroeconomic impacts, including adjustments to address inflation and interest rate risks which were not fully captured by the modelled output, with a number of other smaller retail lending adjustments relating to data and models.

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss-given default of a particular portfolio was sensitive to these changes.

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

For wholesale credit risk exposures, the sensitivity analysis excludes ECL for financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios. Therefore, it is impracticable to separate the effect of macroeconomic factors in individual assessments.

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

Wholesale and retail sensitivity

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario. The results tables exclude some small portfolios, and as such cannot be directly compared with personal and wholesale lending presented in other credit risk tables.

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2023 £m	31 Dec 2022 £m
ECL of financial instruments subject to significant measurement uncertainty at 30 June 2023		
Reported ECL	**657**	559
Consensus scenarios		
Central scenario	**569**	458
Upside scenario	**406**	354
Downside scenario	**772**	606
Downside 2 scenario	**1,988**	1,604

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

At 30 June 2023, a significant level of ECL sensitivity was observed. This higher ECL impact was largely driven by significant exposure in downside risks of specific sectors.

Compared with 31 December 2022, the Downside 2 ECL impact was higher, reflective of the heightened macroeconomic uncertainty driven by the high inflation and interest rate environment.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

	30 Jun 2023 £m	31 Dec 2022 £m
ECL of loans and advances to customers at 30 June 2023		
Reported ECL	**821**	860
Consensus scenarios		
Central scenario	**780**	799
Upside scenario	**654**	715
Downside scenario	**864**	848
Downside 2 scenario	**1,454**	1,443

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

At 30 June 2023, a significant level of 100% scenario-weighted ECL sensitivity was observed. Mortgages reflected the lowest level of ECL sensitivity as collateral values remain resilient.

Credit cards and other unsecured lending, as these products generally have higher ECL, are more sensitive to economic forecasts, which have reflected deteriorations during the first half of 2023. Compared with 31 December 2022, the Downside 2 ECL impact was higher due to the deterioration in the macroeconomic forecast.

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

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

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

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

The 'new financial assets originated or purchased', 'net further lending' and 'assets derecognised (including final repayments)' represent the gross carrying/nominal amount and associated allowance ECL impact from volume movements within the group's lending portfolio.

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**223,956**	**(277)**	**51,572**	**(978)**	**4,784**	**(755)**	**23**	**(1)**	**280,335**	**(2,011)**
Transfers of financial instruments:	**(14,120)**	**(122)**	**13,217**	**179**	**903**	**(57)**	**—**	**—**	**—**	**—**
– transfers from stage 1 to stage 2	**(28,200)**	**85**	**28,200**	**(85)**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from stage 2 to stage 1	**14,309**	**(204)**	**(14,309)**	**204**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers to stage 3	**(364)**	**2**	**(1,000)**	**79**	**1,364**	**(81)**	**—**	**—**	**—**	**—**
– transfers from stage 3	**135**	**(5)**	**326**	**(19)**	**(461)**	**24**	**—**	**—**	**—**	**—**
Net remeasurement of ECL arising from transfer of stage	**—**	**117**	**—**	**(143)**	**—**	**(2)**	**—**	**—**	**—**	**(28)**
New financial assets originated or purchased	**30,439**	**(100)**	**—**	**—**	**—**	**—**	**—**	**—**	**30,439**	**(100)**
Asset derecognised (including final repayments)	**(10,932)**	**15**	**(2,838)**	**55**	**(909)**	**33**	**—**	**—**	**(14,679)**	**103**
Changes to risk parameters – further lending/repayment	**(7,871)**	**41**	**1,142**	**4**	**(165)**	**29**	**(23)**	**—**	**(6,917)**	**74**
Changes to risk parameters – credit quality	**—**	**47**	**—**	**(150)**	**—**	**(321)**	**—**	**1**	**—**	**(423)**
Changes to model used for ECL calculation	**—**	**(2)**	**—**	**8**	**—**	**—**	**—**	**—**	**—**	**6**
Assets written off	**—**	**—**	**—**	**—**	**(244)**	**244**	**—**	**—**	**(244)**	**244**
Others	**24**	**(1)**	**—**	**—**	**—**	**—**	**—**	**—**	**24**	**(1)**
At 30 Jun 2023	**221,496**	**(282)**	**63,093**	**(1,025)**	**4,369**	**(829)**	**—**	**—**	**288,958**	**(2,136)**
ECL release/(charge) for the period		**118**		**(226)**		**(261)**		**1**		**(368)**
Recoveries										**37**
Others										**(6)**
Total change in ECL for the period										**(337)**

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	240,386	(348)	22,039	(718)	4,283	(860)	20	(5)	266,728	(1,931)
Transfers of financial instruments:	(34,718)	(175)	32,900	245	1,818	(70)	—	—	—	—
– transfers from stage 1 to stage 2	(57,652)	177	57,652	(177)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	23,349	(337)	(23,349)	337	—	—	—	—	—	—
– transfers to stage 3	(638)	3	(2,125)	153	2,763	(156)	—	—	—	—
– transfers from stage 3	223	(18)	722	(68)	(945)	86	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	214	—	(264)	—	(3)	—	—	—	(53)
New financial assets originated or purchased	55,066	(154)	—	—	—	—	—	—	55,066	(154)
Asset derecognised (including final repayments)	(30,601)	36	(3,700)	98	(781)	20	—	—	(35,082)	154
Changes to risk parameters – further lending/repayment	(10,027)	76	333	13	(46)	105	3	—	(9,737)	194
Changes to risk parameters – credit quality	—	70	—	(214)	—	(449)	—	4	—	(589)
Changes to model used for ECL calculation	—	4	—	(138)	—	12	—	—	—	(122)
Assets written off	—	—	—	—	(490)	490	—	—	(490)	490
Others[2]	3,850	—	—	—	—	—	—	—	3,850	—
At 31 Dec 2022	223,956	(277)	51,572	(978)	4,784	(755)	23	(1)	280,335	(2,011)
ECL release/(charge) for the period		246		(505)		(315)		4		(570)
Recoveries										71
Others										22
Total change in ECL for the period										(477)

1 *The Reconciliation excludes loans and advances and commitments to other HSBC Group companies. As at 30 June 2023, these amounted to £1.6bn (2022: £0.5bn) and were classified as stage 1 with no ECL.*
2 *£3.8bn of gross carrying amounts of stage 1 loans and advances to banks, representing the balance maintained with the BoE to support BACS along with Faster Payments and the cheque-processing Image Clearing System in the UK as at 30 June 2022 when it was reclassified from 'Cash and balances at central banks'. Comparatives have not been restated.*

Credit quality of financial instruments

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

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

Credit quality classification

	Debt securities and other bills	Wholesale lending		Retail lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12 month probability-weighted PD %
Quality classification[1,2]					
Strong	A- and above	CRR 1 to CRR 2	0 – 0.169	Band 1 and 2	0.000 – 0.500
Good	BBB+ to BBB-	CRR 3	0.170 – 0.740	Band 3	0.501 – 1.500
Satisfactory	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	Band 4 and 5	1.501 – 20.000
Sub-standard	B- to C	CRR 6 to CRR 8	4.915 – 99.999	Band 6	20.001 – 99.999
Credit impaired	Default	CRR 9 to CRR 10	100	Band 7	100

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

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	121,881	45,007	35,617	4,967	4,127	211,599	(2,033)	209,566
– stage 1	102,668	26,589	23,500	880	—	153,637	(254)	153,383
– stage 2	19,213	18,418	12,117	4,087	—	53,835	(988)	52,847
– stage 3	—	—	—	—	4,127	4,127	(791)	3,336
– POCI	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	6,964	6	354	—	2	7,326	(2)	7,324
– stage 1	6,964	6	354	—	—	7,324	—	7,324
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	2	2	(2)	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	92,730	201	228	3	27	93,189	(8)	93,181
– stage 1	92,696	154	157	—	—	93,007	(4)	93,003
– stage 2	34	47	71	3	—	155	—	155
– stage 3	—	—	—	—	27	27	(4)	23
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	44,445	13,916	11,698	681	226	70,966	(98)	70,868
– stage 1	40,547	11,442	9,499	190	—	61,678	(28)	61,650
– stage 2	3,898	2,474	2,199	491	—	9,062	(37)	9,025
– stage 3	—	—	—	—	226	226	(33)	193
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	557	222	209	74	14	1,076	(3)	1,073
– stage 1	425	173	144	3	—	745	—	745
– stage 2	132	49	65	71	—	317	—	317
– stage 3	—	—	—	—	14	14	(3)	11
– POCI	—	—	—	—	—	—	—	—
At 30 Jun 2023	266,577	59,352	48,106	5,725	4,396	384,156	(2,144)	382,012
Debt instruments at FVOCI[1]	15,773	—	—	—	—	15,773	(1)	15,772
– stage 1	15,773	—	—	—	—	15,773	(1)	15,772
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 30 Jun 2023	15,773	—	—	—	—	15,773	(1)	15,772

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

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	£m	£m	£m	£m	£m	£m	£m	£m
Loans and advances to customers at amortised cost	129,503	32,452	34,283	5,273	4,544	206,055	(1,912)	204,143
– stage 1	105,529	24,826	23,794	669	—	154,818	(248)	154,570
– stage 2	23,974	7,626	10,489	4,604	—	46,693	(941)	45,752
– stage 3	—	—	—	—	4,521	4,521	(722)	3,799
– POCI	—	—	—	—	23	23	(1)	22
Loans and advances to banks at amortised cost	6,355	—	—	—	4	6,359	(2)	6,357
– stage 1	6,354	—	—	—	—	6,354	—	6,354
– stage 2	1	—	—	—	—	1	—	1
– stage 3	—	—	—	—	4	4	(2)	2
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	108,783	126	201	3	24	109,137	(5)	109,132
– stage 1	108,737	105	145	—	—	108,987	—	108,987
– stage 2	46	21	56	3	—	126	(1)	125
– stage 3	—	—	—	—	24	24	(4)	20
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	42,289	14,141	10,407	550	241	67,628	(91)	67,537
– stage 1	41,874	12,551	8,030	126	—	62,581	(29)	62,552
– stage 2	415	1,590	2,377	424	—	4,806	(37)	4,769
– stage 3	—	—	—	—	241	241	(25)	216
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	642	186	264	38	18	1,148	(6)	1,142
– stage 1	632	182	166	3	—	983	—	983
– stage 2	10	4	98	35	—	147	—	147
– stage 3	—	—	—	—	18	18	(6)	12
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	287,572	46,905	45,155	5,864	4,831	390,327	(2,016)	388,311
Debt instruments at FVOCI[1]	12,384	—	—	—	—	12,384	(1)	12,383
– stage 1	12,384	—	—	—	—	12,384	(1)	12,383
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	12,384	—	—	—	—	12,384	(1)	12,383

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

Wholesale lending

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

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	43,283	18,159	3,196	—	64,638	(124)	(458)	(587)	—	(1,169)
– agriculture, forestry and fishing	3,012	1,047	178	—	4,237	(5)	(31)	(23)	—	(59)
– mining and quarrying	444	164	37	—	645	(1)	(5)	(17)	—	(23)
– manufacture	4,969	2,431	397	—	7,797	(10)	(56)	(69)	—	(135)
– electricity, gas, steam and air-conditioning supply	376	256	1	—	633	(1)	(8)	—	—	(9)
– water supply, sewerage, waste management and remediation	623	322	9	—	954	(1)	(8)	(3)	—	(12)
– construction	2,236	1,001	226	—	3,463	(9)	(22)	(38)	—	(69)
– wholesale and retail trade, repair of motor vehicles and motorcycles	6,271	4,062	579	—	10,912	(24)	(74)	(112)	—	(210)
– transportation and storage	1,396	682	68	—	2,146	(3)	(15)	(7)	—	(25)
– accommodation and food	3,076	2,930	309	—	6,315	(14)	(81)	(24)	—	(119)
– publishing, audiovisual and broadcasting	2,627	393	170	—	3,190	(7)	(26)	(71)	—	(104)
– real estate	8,386	1,772	545	—	10,703	(22)	(30)	(128)	—	(180)
– professional, scientific and technical activities	3,218	680	167	—	4,065	(9)	(35)	(30)	—	(74)
– administrative and support services	3,336	1,620	131	—	5,087	(9)	(36)	(16)	—	(61)
– education	502	146	65	—	713	(2)	(4)	(20)	—	(26)
– health and care	1,365	304	117	—	1,786	(1)	(14)	(10)	—	(25)
– arts, entertainment and recreation	699	89	59	—	847	(3)	(5)	(14)	—	(22)
– other services	743	260	138	—	1,141	(3)	(8)	(5)	—	(16)
– activities of households	1	—	—	—	1	—	—	—	—	—
– government	3	—	—	—	3	—	—	—	—	—
Non-bank financial institutions	6,117	738	72	—	6,927	(12)	(9)	(8)	—	(29)
Loans and advances to banks	7,324	—	2	—	7,326	—	—	(2)	—	(2)
At 30 Jun 2023	56,724	18,897	3,270	—	78,891	(136)	(467)	(597)	—	(1,200)

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

	Nominal amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	20,586	5,027	175	—	25,788	(17)	(35)	(35)	—	(87)
Financial	3,260	580	—	—	3,840	(1)	(2)	—	—	(3)
At 30 Jun 2023	23,846	5,607	175	—	29,628	(18)	(37)	(35)	—	(90)

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

	Gross carrying amount					Allowance for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Corporate and commercial	45,739	15,520	3,673	23	64,955	(134)	(368)	(532)	(1)	(1,035)
– agriculture, forestry and fishing	3,018	889	152	—	4,059	(5)	(26)	(26)	—	(57)
– mining and quarrying	507	140	34	—	681	(1)	(1)	(7)	—	(9)
– manufacture	6,070	1,444	420	—	7,934	(11)	(24)	(88)	—	(123)
– electricity, gas, steam and air-conditioning supply	942	56	1	—	999	(1)	(1)	—	—	(2)
– water supply, sewerage, waste management and remediation	737	88	8	—	833	(1)	(1)	(2)	—	(4)
– construction	2,256	898	234	—	3,388	(10)	(24)	(37)	—	(71)
– wholesale and retail trade, repair of motor vehicles and motorcycles	5,915	5,137	837	—	11,889	(22)	(121)	(113)	—	(256)
– transportation and storage	1,522	358	80	—	1,960	(4)	(7)	(6)	—	(17)
– accommodation and food	3,840	2,359	341	—	6,540	(12)	(56)	(25)	—	(93)
– publishing, audiovisual and broadcasting	1,870	435	125	23	2,453	(10)	(18)	(9)	(1)	(38)
– real estate	8,265	2,009	551	—	10,825	(22)	(29)	(109)	—	(160)
– professional, scientific and technical activities	3,349	378	132	—	3,859	(11)	(21)	(18)	—	(50)
– administrative and support services	3,880	651	260	—	4,791	(8)	(17)	(34)	—	(59)
– education	670	98	69	—	837	(3)	(3)	(17)	—	(23)
– health and care	1,275	273	122	—	1,670	(4)	(10)	(6)	—	(20)
– arts, entertainment and recreation	700	108	92	—	900	(3)	(4)	(27)	—	(34)
– other services	919	199	215	—	1,333	(6)	(5)	(8)	—	(19)
– activities of households	1	—	—	—	1	—	—	—	—	—
– government	3	—	—	—	3	—	—	—	—	—
Non-bank financial institutions	2,334	132	8	—	2,474	(2)	(2)	(1)	—	(5)
Loans and advances to banks	6,354	1	4	—	6,359	—	—	(2)	—	(2)
At 31 Dec 2022	54,427	15,653	3,685	23	73,788	(136)	(370)	(535)	(1)	(1,042)

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

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

Personal lending

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

The following table shows the levels of personal lending products in the various portfolios. At 30 June 2023, Stage 2 personal lending balances increased by £3.9bn compared with 31 December 2022. The transfer to stage 2 balances was largely explained by deterioration in the economic outlook on account of rising interest rates and inflationary pressures. The quality of the mortgage book remained high, with low levels of impairment allowances. The average LTV ratio on new lending was 64%, compared with an estimated 52% for the overall mortgage portfolio.

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

	Gross carrying amount				**Allowance for ECL**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
By portfolio								
First lien residential mortgages	**93,309**	**32,466**	**576**	**126,351**	**(18)**	**(101)**	**(60)**	**(179)**
– of which: interest only (including offset)	***13,440***	***5,275***	***90***	***18,805***	***(5)***	***(21)***	***(7)***	***(33)***
Other personal lending	**10,928**	**2,472**	**283**	**13,683**	**(100)**	**(420)**	**(136)**	**(656)**
– other	**6,292**	**1,385**	**186**	**7,863**	**(56)**	**(190)**	**(80)**	**(326)**
– credit cards	**4,636**	**1,087**	**97**	**5,820**	**(44)**	**(230)**	**(56)**	**(330)**
At 30 Jun 2023	**104,237**	**34,938**	**859**	**140,034**	**(118)**	**(521)**	**(196)**	**(835)**
By portfolio								
First lien residential mortgages	96,757	28,200	546	125,503	(10)	(113)	(62)	(185)
– of which: interest only (including offset)	*14,979*	*3,637*	*90*	*18,706*	*(2)*	*(37)*	*(10)*	*(49)*
Other personal lending	9,988	2,841	294	13,123	(102)	(458)	(127)	(687)
– other	5,892	1,591	198	7,681	(56)	(187)	(73)	(316)
– credit cards	4,096	1,250	96	5,442	(46)	(271)	(54)	(371)
At 31 Dec 2022	106,745	31,041	840	138,626	(112)	(571)	(189)	(872)

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

	Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 30 Jun 2023	**38,577**	**3,772**	**65**	**42,414**	**(10)**	**—**	**(1)**	**(11)**
At 31 Dec 2022	41,949	365	87	42,401	(9)	—	—	(9)

Treasury risk

Overview

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

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

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements.

Our approach to treasury management is driven by our strategic and organisational requirements, considering the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our ICAAP and our ILAAP. The risk framework incorporates several measures aligned to our assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, pensions, non-trading book foreign exchange risk, and interest rate risk in the banking book.

A summary of our current policies and practices regarding the management of Treasury risk is set out on pages 55 to 58 of the Annual Report and Accounts 2022.

Treasury risk management

Key developments in the first half of 2023

- Following high-profile US and Swiss banking failures in the first quarter of 2023, we validated our existing risk management practices including stress testing and limit setting. We also reviewed our liquidity monitoring and metric assumptions as part of our ILAAP cycle to ensure they continued to cover observed and emerging risks.
- We made our first stand-alone submission to the BoE annual stress testing exercise. The published results show that we remained above the hurdle rates for CET1 and leverage throughout the scenario.
- We continued to improve our analysis and understanding of the drivers of capital volatility and the underlying sensitivities, ensuring these are actively considered in our risk appetite and limit setting processes.
- As announced by the BoE's Financial Policy Committee, the UK countercyclical capital buffer rate increased from 1% to 2%, effective July 2023 in line with the usual 12-month implementation lag. The change is expected to increase our CET1 requirement by approximately 0.91 percentage points.
- We continued to increase the stabilisation of our NII as interest rate expectations fluctuated, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.
- Following the acquisition of SVB UK (now HSBC Innovation Bank Limited) in the first quarter of 2023, the Group launched HSBC Innovation Banking in June, combining the expertise of SVB UK with our international network. We are in the process of integrating the staff, assets and liabilities of SVB UK into the group. The acquisition was funded from existing resources, and the impact on our liquidity and CET1 ratios is minimal.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is supported by a global capital management framework. The framework sets out our approach to determining key capital risk appetites including CET1, total capital, MREL, and leverage ratio. Our ICAAP is an assessment of the group's capital position, outlining both regulatory and internal capital resources and requirements resulting from HSBC UK's business model, strategy, risk profile and management, performance and planning, risks to capital, and the implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange, interest rate risk in the banking book and Group risk. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach. Subsidiaries prepare ICAAPs in line with global guidance, while considering their local regulatory regimes to determine their own risk appetites and ratios.

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

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

Planning and performance

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

The Board-level appetite measures for funding and liquidity are the LCR and NSFR, together with an internal liquidity metric. In addition, we use a wider set of measures to manage an appropriate funding and liquidity profile, including legal entity depositor concentration limits, intra-day liquidity, forward-looking funding assessments and other key measures.

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

Risks to capital and liquidity

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

Regulatory developments

Future changes to our ratios will occur with the implementation of Basel 3.1. The PRA has published its consultation paper on the UK's implementation, with a proposed implementation date of 1 January 2025. We expect to see an RWA reduction from the initial implementation. The RWA output floor under Basel 3.1 is proposed to be subject to a five-year transitional provision. Any impact from the output floor would be towards the end of the transition period.

The PRA has published a consultation paper to remove the CET1 deduction requirement in the PRA Rulebook regarding non-performing exposures that are treated as insufficiently covered by firms' accounting provisions. The changes are anticipated to come into force in the second half of 2023.

Regulatory reporting processes and controls

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

Our ongoing programme of work on our prudential regulatory reports is being phased over a number of years, prioritising RWA, capital and liquidity reporting. This programme includes both data enhancement and the transformation of the reporting systems that they flow into. While this programme continues, there may be further impacts on some of our regulatory ratios, such as CET1, LCR and NSFR, as we implement recommended changes and continue to enhance our controls. We are also establishing optimised risk stewardship and assurance over our regulatory reports and have developed a strategic inventory and tooling to drive consistent standards, accountability and efficiency.

Stress testing and recovery and resolution planning

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

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

We maintain a recovery plan, which sets out potential options management could take in a range of stress scenarios that could result in a breach of capital or liquidity buffers. The Group recovery plan sets out the framework and governance arrangements to support restoring the HSBC Group to a stable and viable position, and so lowering the probability of failure from either idiosyncratic company-specific stress or systemic market-wide issues. HSBC UK's recovery plans provide detailed actions that management would consider taking in a stress scenario should its position deteriorate and threaten to breach risk appetite and regulatory minimum levels. This is to help ensure that we can stabilise our financial position and recover from financial losses in a stress environment.

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

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

Measurement of interest rate risk in the banking book processes

Assessment and risk appetite

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or held 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.

HSBC UK uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income sensitivity;
- economic value of equity sensitivity; and
- hold-to-collect-and-sell stressed value at risk.

Net interest income sensitivity

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

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

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

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

Economic value of equity sensitivity

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

Hold-to-collect-and-sell stressed value at risk

Hold-to-collect-and-sell stressed VaR is a quantification of the potential losses to a 99% confidence level of the portfolio of securities held under a held-to-collect-and-sell business model in the Markets Treasury business. The portfolio is accounted for at fair value through other comprehensive income together with the derivatives held in designated hedging relationships with these securities. This is quantified based on the worst losses over a one-year period going back to the beginning of 2007 and the assumed holding period is 60 days.

Hold-to-collect-and-sell stressed VaR uses the same models as those used for trading book capitalisation and covers only the portfolio managed by Markets Treasury under this business model.

Capital risk

Own funds

Own funds disclosure and capital adequacy metrics[1]

	At	
	30 Jun 2023	31 Dec 2022
	£m	£m
CET1 capital before regulatory adjustments	**20,766**	19,433
Total regulatory adjustments to common equity tier 1	**(6,384)**	(6,914)
CET1 capital	**14,382**	12,519
Additional tier 1 capital before regulatory adjustments	**2,250**	2,252
Additional tier 1 capital	**2,250**	2,252
Tier 1 capital (T1 = CET1 + AT1)	**16,632**	14,771
Tier 2 capital before regulatory adjustments	**3,039**	3,076
Tier 2 capital	**3,039**	3,076
Total regulatory capital	**19,671**	17,847
Risk-weighted assets ('RWAs')		
Credit risk	**86,746**	80,740
Counterparty credit risk	**431**	204
Market risk	**182**	101
Operational risk	**11,739**	11,368
Total risk-weighted assets	**99,098**	92,413
Capital ratios (%)	**%**	%
Common equity tier 1 ratio	**14.5**	13.5
Tier1 ratio	**16.8**	16.0
Total capital ratio	**19.9**	19.3

1 *We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. These allow banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances. Our capital and ratios are presented under these arrangements. At 30 June 2023, the add-back to CET1 capital and the related tax charge were immaterial.*

At 30 June 2023, our CET1 capital ratio increased to 14.5% from 13.5% at 31 December 2022.

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

- an increase of 0.9% from £0.6bn of capital generation through profit net of dividends and decrease in RWA of £1.4bn (excluding the provisional gain and increase in RWA on acquisition of SVB UK).
- an increase of 0.1% from the provisional gain of £1.2bn offset by increase of £8bn in RWAs on the acquisition of SVB UK.

At 30 June 2023, our Pillar 2A requirement, in accordance with the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 3.97% of RWAs, of which 2.23% was met by CET1 capital. Throughout the first half of 2023, we complied with the PRA's regulatory capital adequacy requirements.

Risk-weighted assets

RWA movement by business by key driver

	Credit risk, counterparty credit risk and operational risk				Market risk	Total RWAs
	WPB	CMB	GBM	Corporate		
	£m	£m	£m	£m	£m	£m
RWAs at 1 Jan 2023	**32,953**	**57,067**	**508**	**1,784**	**101**	**92,413**
Acquisitions and disposals	**—**	**7,979**	**—**	**—**	**58**	**8,037**
Asset size	**706**	**112**	**(9)**	**(93)**	**(10)**	**706**
Asset quality	**263**	**(15)**	**6**	**26**	**—**	**280**
Model updates	**(616)**	**—**	**—**	**—**	**—**	**(616)**
– new/updated models	**(616)**	**—**	**—**	**—**	**—**	**(616)**
Methodology and policy	**(17)**	**(1,288)**	**—**	**(51)**	**33**	**(1,323)**
– internal updates	**(17)**	**(1,288)**	**—**	**(51)**	**33**	**(1,323)**
Foreign exchange movement	**(21)**	**(308)**	**(8)**	**(60)**	**(2)**	**(399)**
Total RWA movement	**315**	**6,480**	**(11)**	**(178)**	**79**	**6,685**
RWAs at 30 Jun 2023	**33,268**	**63,547**	**497**	**1,606**	**180**	**99,098**

Excluding a decrease in RWAs of £0.4bn due to foreign currency translation differences, RWAs increased by £7.1bn, predominantly due to the acquisition of SVB UK, and lending growth and changes in assets quality. This was partly offset by reductions due to changes in methodology and policy and model updates.

Acquisitions

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

Asset size

RWAs increased in WPB by £0.7bn mainly as a result of increased mortgage lending.

Model Updates

£616m decrease mainly driven by the new mortgage model approved by PRA.

Methodology and policy

CMB RWAs decreased by £1.3bn due to risk parameter refinements and data quality improvements.

Asset quality

Asset quality changes led to a £0.3bn increase in RWAs due to credit migrations and changes in the underlying portfolio mix.

Leverage ratio

	At	
	30 Jun 2023	31 Dec 2022
Total leverage ratio exposure measure (£m)	**264,561**	251,500
Leverage ratio (%)	**6.3**	5.9

Our leverage ratio, calculated in accordance with the PRA's UK Leverage framework implemented on 1 January 2022 was 6.3% at 30 June 2023.

The leverage ratio increased to 6.3% from 5.9%, resulting from an increase in capital of £1.9bn, partly offset by an increase in exposure of £13bn. Key drivers for an overall increase in 0.4% of Leverage ratio were:

- a 0.2% increase from the £0.6bn of capital generation through profits less dividends (excluding the provisional gain on acquisition of SVB UK) , partly offset by a £2.5bn increase in lending exposures;
- a 0.2% increase from the £1.2bn increase in capital partly offset by an increase in exposure of £10.6bn due to the acquisition of SVB UK.

Liquidity and funding risk

Liquidity coverage ratio

At 30 June 2023, we were above regulatory minimum levels. The following table displays the individual LCR levels for the HSBC UK Liquidity Group on an PRA rules basis.

HSBC UK Liquidity Group LCR

	As at[2]	
	30 Jun 2023 %	31 Dec 2022 %
HSBC UK Liquidity Group[1]	**213**	226

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

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

Net stable funding ratio

At 30 June 2023, we maintained sufficient stable funding relative to the required stable funding assessed using the NSFR.

HSBC UK Liquidity Group NSFR

	As at[1]	
	30 Jun 2023 %	31 Dec 2022 %
HSBC UK Liquidity Group	**162**	164

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

Liquid assets

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

HSBC UK Liquidity Group liquid assets

	Estimated liquidity value	
	As at[1]	
	30 Jun 2023 £m	31 Dec 2022 £m
HSBC UK Liquidity Group		
Cash	**90,026**	97,199
Level 1	**11,165**	12,286
Level 2	**1,566**	1,237
Liquidity pool	**102,757**	110,722

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

Sources of funding

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

The table analyses our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds. In the first six months of 2023, the level of customer accounts exceeded the level of loans and advances to customers. The positive funding gap was predominantly deployed in liquid assets, cash and balances with central banks and financial investments, as required by the LFRF.

Funding Sources

	At	
	30 Jun 2023	31 Dec 2022
	£m	£m
Sources		
Customer accounts	**273,785**	281,095
Deposits by banks	**10,844**	10,721
Repurchase agreements – non-trading	**7,659**	9,333
Debt securities in issue	**1,257**	1,299
Cash collateral, margin and settlement accounts	**447**	315
Subordinated liabilities	**13,066**	12,349
Total equity	**23,970**	22,226
Other balance sheet liabilities	**4,742**	5,103
	335,770	342,441

Funding Uses

	At	
	30 Jun 2023	31 Dec 2022
	£m	£m
Uses		
Loans and advances to customers	**209,566**	204,143
Loans and advances to banks	**7,324**	6,357
Reverse repurchase agreements – non-trading	**6,781**	7,406
Cash collateral, margin and settlement accounts	**183**	231
Financial investments	**22,129**	16,092
Cash and balances with central banks	**76,666**	94,407
Other balance sheet assets	**13,121**	13,805
	335,770	342,441

Market risk

Overview

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

Market risk is measured using the standardised approach for position risk under CRR. There were no material changes to the policies and practices for the management of market risk in the first half of 2023.

Directors’ responsibility statement

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

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

- the interim financial statements have been prepared in accordance with UK adopted IAS 34 ‘Interim Financial Reporting’, IAS 34 'Interim Financial Reporting' as issued by the IASB and the Disclosure Guidance and Transparency Rules (‘DTR’) sourcebook of the UK’s Financial Conduct Authority;
- this *Interim Report 2023* gives a true, fair, balanced and understandable view of the assets, liabilities, financial position and profit or loss of the group; and
- this *Interim Report 2023* includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year ending 31 December 2023 and their impact on the interim financial statements; and
  - a description of the principal risks and uncertainties for the remaining six months of the financial year.

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

On behalf of the Board

Dame Clara Furse

Chairman

31 July 2023

HSBC UK Bank plc

Registered number 9928412

+ Independent non-executive Director

Independent review report to HSBC UK Bank plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed HSBC UK Bank plc's condensed consolidated interim financial statements (the 'interim financial statements') in the Interim Report and Accounts of HSBC UK Bank plc and its subsidiaries (the 'group') for the six month period ended 30 June 2023 (the 'period').

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

The interim financial statements comprise:

- the consolidated balance sheet as at 30 June 2023;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the interim financial statements and certain other information[1].

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

Basis for conclusion

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

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

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

Conclusions relating to going concern

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

Responsibilities for the Interim financial statements and the review

Our Responsibilities and those of the directors

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

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

PricewaterhouseCoopers LLP

Chartered Accountants
Birmingham
31 July 2023

1 Certain other information comprises the following tables: 'Profit/(loss) before tax and balance sheet data for the period', 'Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation' and 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees'.

Condensed financial statements

Contents

Consolidated income statement

		Half-year to	
		30 Jun 2023	30 Jun 2022
	Notes	**£m**	£m
Net interest income		**3,871**	2,752
– interest income		**6,012**	3,113
– interest expense		**(2,141)**	(361)
Net fee income	2	**649**	597
– fee income		**782**	737
– fee expense		**(133)**	(140)
Net income from financial instruments held for trading or managed on a fair value basis		**190**	173
Change in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**7**	32
Gains less losses from financial investments		**36**	21
Gain on acquisition of subsidiary[1]		**1,240**	—
Other operating income		**11**	21
Net operating income before change in expected credit losses and other credit impairment charges		**6,004**	3,596
Change in expected credit losses and other credit impairment charges		**(337)**	(42)
Net operating income		**5,667**	3,554
Employee compensation and benefits		**(487)**	(498)
General and administrative expenses		**(1,068)**	(1,063)
Depreciation and impairment of property, plant and equipment and right-of-use assets		**(59)**	(94)
Amortisation and impairment of intangible assets		**(151)**	(149)
Total operating expenses		**(1,765)**	(1,804)
Operating profit		**3,902**	1,750
Profit before tax		**3,902**	1,750
Tax expense	4	**(699)**	(281)
Profit for the period		**3,203**	1,469
Attributable to:			
– ordinary shareholders of the parent company		**3,200**	1,466
– non-controlling interests		**3**	3
Profit for the period		**3,203**	1,469

1 *Provisional gain of £1,240m recognised in respect of the acquisition of SVB UK.*

The accompanying notes on pages 39 to 45, 'Profit /(loss) before tax and balance sheet data for the period' in the 'Financial summary' section on pages 8 to 11, and the following disclosures in the Risk section on pages 11 to 31 form an integral part of these condensed financial statements: 'Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation' and 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees'.

Consolidated statement of comprehensive income

	Half-year to	
	30 Jun	30 Jun
	2023	2022
	£m	£m
Profit for the period	**3,203**	1,469
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	**19**	(273)
– fair value gains/(losses)	**61**	(364)
– fair value gains transferred to the income statement on disposal	**(37)**	(21)
– expected credit recoveries recognised in the income statement	**—**	(1)
– income taxes	**(5)**	113
Cash flow hedges	**(567)**	(609)
– fair value losses	**(1,300)**	(815)
– fair value (gains)/losses reclassified to the income statement	**513**	(21)
– income taxes	**220**	227
Exchange differences	**7**	(2)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(16)**	(53)
– before income taxes	**(20)**	(256)
– income taxes[1]	**4**	203
Other comprehensive income/(expense) for the period, net of tax	**(557)**	(937)
Total comprehensive income for the period	**2,646**	532
Attributable to:		
– ordinary shareholders of the parent company	**2,643**	529
– non-controlling interests	**3**	3
Total comprehensive income for the period	**2,646**	532

1 *There is an income tax credit of £4m (1H22: credit £203m). 1H22 includes an income tax credit of £136m, arising upon the remeasurement of deferred tax following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3% with effect from 1 April 2023.*

Consolidated balance sheet

		At	
		30 Jun 2023	31 Dec 2022
	Notes	**£m**	£m
Assets			
Cash and balances at central banks		**76,666**	94,407
Items in the course of collection from other banks		**327**	353
Financial assets mandatorily measured at fair value through profit or loss	6	**118**	108
Derivatives		**422**	546
Loans and advances to banks		**7,324**	6,357
Loans and advances to customers		**209,566**	204,143
Reverse repurchase agreements – non-trading		**6,781**	7,406
Financial investments		**22,129**	16,092
Prepayments, accrued income and other assets		**8,164**	8,762
Interests in joint ventures		**8**	9
Goodwill and intangible assets	8	**4,265**	4,258
Total assets		**335,770**	342,441
Liabilities and equity			
Liabilities			
Deposits by banks		**10,844**	10,721
Customer accounts		**273,785**	281,095
Repurchase agreements – non-trading		**7,659**	9,333
Items in the course of transmission to other banks		**156**	308
Derivatives		**206**	304
Debt securities in issue		**1,257**	1,299
Accruals, deferred income and other liabilities		**3,330**	3,543
Current tax liabilities		**681**	173
Provisions	9	**375**	424
Deferred tax liabilities		**441**	666
Subordinated liabilities		**13,066**	12,349
Total liabilities		**311,800**	320,215
Equity			
Called up share capital		**—**	—
Share premium account		**9,015**	9,015
Other equity instruments		**2,196**	2,196
Other reserves		**5,580**	6,121
Retained earnings		**7,119**	4,834
Total shareholders' equity		**23,910**	22,166
Non-controlling interests		**60**	60
Total equity		**23,970**	22,226
Total liabilities and equity		**335,770**	342,441

Consolidated statement of changes in equity

	Called up share capital and share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Group re-organisation reserve[2]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2023	**9,015**	**2,196**	**4,834**	**(246)**	**(1,324)**	**7,691**	**22,166**	**60**	**22,226**
Profit for the period	**—**	**—**	**3,200**	**—**	**—**	**—**	**3,200**	**3**	**3,203**
Other comprehensive income (net of tax)	**—**	**—**	**(16)**	**26**	**(567)**	**—**	**(557)**	**—**	**(557)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**—**	**19**	**—**	**—**	**19**	**—**	**19**
– cash flow hedges	**—**	**—**	**—**	**—**	**(567)**	**—**	**(567)**	**—**	**(567)**
– remeasurement of defined benefit asset/liability	**—**	**—**	**(16)**	**—**	**—**	**—**	**(16)**	**—**	**(16)**
– exchange differences	**—**	**—**	**—**	**7**	**—**	**—**	**7**	**—**	**7**
Total comprehensive income for the period	**—**	**—**	**3,184**	**26**	**(567)**	**—**	**2,643**	**3**	**2,646**
Dividends to shareholders	**—**	**—**	**(908)**	**—**	**—**	**—**	**(908)**	**(3)**	**(911)**
Other movements[1]	**—**	**—**	**9**	**—**	**—**	**—**	**9**	**—**	**9**
At 30 Jun 2023	**9,015**	**2,196**	**7,119**	**(220)**	**(1,891)**	**7,691**	**23,910**	**60**	**23,970**
At 1 Jan 2022	9,015	2,196	4,877	56	(90)	7,691	23,745	60	23,805
Profit for the period	—	—	1,466	—	—	—	1,466	3	1,469
Other comprehensive income (net of tax)	—	—	(53)	(275)	(609)	—	(937)	—	(937)
– debt instruments at fair value through other comprehensive income	—	—	—	(273)	—	—	(273)	—	(273)
– cash flow hedges	—	—	—	—	(609)	—	(609)	—	(609)
– remeasurement of defined benefit asset/liability	—	—	(53)	—	—	—	(53)	—	(53)
– exchange differences	—	—	—	(2)	—	—	(2)	—	(2)
Total comprehensive income for the period	—	—	1,413	(275)	(609)	—	529	3	532
Dividends to shareholders	—	—	(729)	—	—	—	(729)	(3)	(732)
Other movements[1]	—	—	12	—	—	—	12	—	12
At 30 Jun 2022	9,015	2,196	5,573	(219)	(699)	7,691	23,557	60	23,617

1 *Relates primarily to £6m of pension assets transferred from HSBC Global Services (UK) Limited and HSBC Bank plc (1H22: £8m).*
2 *The Group reorganisation reserve is an equity reserve which was used to recognise the contribution of equity reserves associated with the ring-fenced businesses that were transferred from HSBC Bank plc.*

Consolidated statement of cash flows

	Half-year to	
	30 Jun 2023	30 Jun 2022
	£m	£m
Profit before tax	**3,902**	1,750
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**210**	243
Net gain from investing activities	**(23)**	(21)
Gain on acquisition of SVB UK	**(1,240)**	—
Change in expected credit losses gross of recoveries and other credit impairment charges	**367**	86
Provisions including pensions	**(122)**	(27)
Share-based payment expense	**9**	7
Other non-cash items included in profit before tax	**(42)**	(6)
Elimination of exchange differences[1]	**438**	955
Changes in operating assets	**1,372**	(12,068)
Changes in operating liabilities	**(17,239)**	2,968
Contributions paid to defined benefit plans	**(5)**	(11)
Tax (paid)	**(119)**	(1,088)
Net cash from operating activities	**(12,492)**	(7,212)
Purchase of financial investments	**(6,825)**	(6,577)
Proceeds from the sale and maturity of financial investments	**3,521**	6,245
Net cash flows from the purchase and sale of property, plant and equipment	**49**	(20)
Net investment in intangible assets	**(158)**	(163)
Net cash flow from acquisition of SVB UK	**1,023**	—
Net cash from investing activities	**(2,390)**	(515)
Subordinated loan capital issued[2]	**1,000**	—
Dividends paid to shareholders of the parent company and non-controlling interests	**(911)**	(732)
Net cash from financing activities	**89**	(732)
Net decrease in cash and cash equivalents	**(14,793)**	(8,459)
Cash and cash equivalents at the beginning of the period	**100,319**	114,134
Exchange differences in respect of cash and cash equivalents	**(177)**	27
Cash and cash equivalents at the end of the period	**85,349**	105,702

Interest received was £5,775m (1H 2022: £2,964m) and interest paid was £1,920m (1H 2022: £281m).

1 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
2 *Subordinated liabilities changes during the period are attributable to cash flows from issuance of securities £1,000m (2022: £nil) and repayments of £nil (2022: £nil). Non-cash changes during the period included foreign exchange gains/(losses) of £273m (2022: £(494)m).*

Notes on the interim condensed financial statements

Contents

1 Basis of preparation and material accounting policies

(a) Compliance with International Financial Reporting Standards

The interim condensed consolidated financial statements of HSBC UK have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and IAS 34 'Interim Financial Reporting', as issued by the International Accounting Standards Board ('IASB') and as adopted by the UK. Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in HSBC UK's financial position and performance since the end of 2022.

These financial statements should be read in conjunction with the *Annual Report and Accounts 2022*, which was prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006. These financial statements were also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee.

At 30 June 2023, there were no unendorsed standards effective for the half-year to 30 June 2023 affecting these financial statements, and there was no difference between IFRSs as adopted by the UK and IFRSs issued by the IASB in terms of their application to HSBC UK.

Standards applied during the half-year to 30 June 2023

Amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules'

On 23 May 2023, the IASB issued its amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately with disclosure requirements effective for annual reporting periods beginning on or after 1 January 2023. On 20 June 2023, legislation was substantively enacted in the UK to introduce the OECD's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The group has applied the IAS 12 exception from recognising and disclosing information on associated deferred tax assets and liabilities.

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

(b) Use of estimates and judgements

Management believes that our critical accounting estimates and judgements are those that relate to impairment of amortised cost and FVOCI debt financial assets, provisions for liabilities, impairment of goodwill and defined benefit pension obligations. Apart from estimates relating to ECL impairment there were no material changes in the current period to any of the other critical accounting estimates and judgements disclosed in 2022, which are stated on pages 87 to 94 of the *Annual Report and Accounts 2022*.

(c) Composition of the group

On 13 March 2023, HSBC UK acquired Silicon Valley Bank UK Limited which was subsequently renamed to HSBC Innovation Bank Limited. HSBC Innovation Bank Limited is a fully owned subsidiary of HSBC UK and is fully consolidated. There were no other material changes in the composition of the group in the half-year to 30 June 2023.

(d) Going concern

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

(e) Accounting policies

The accounting policies applied by the group for these interim condensed consolidated financial statements are consistent with those described on pages 87 to 94 of the *Annual Report and Accounts 2022*, as are the methods of computation, with the exception of those relating to amendments to IAS 12 and as described below.

New material accounting policies

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition-related costs are recognised as an expense in the income statement in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liabilities are generally measured at their fair values at the date of acquisition.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of HSBC UK's previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed. Any gain resulting from a bargain purchase is recognised in the income statement.

The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This election is made for each business combination.

2 Net fee income

	Half-year to	
	30 Jun 2023	30 Jun 2022
Net fee income by product	**£m**	£m
Account services	**137**	132
Funds under management	**59**	58
Cards	**290**	278
Credit facilities	**69**	67
Imports/exports	**15**	15
Insurance agency commission	**5**	12
Receivables finance	**44**	49
Other	**163**	126
Fee income	**782**	737
Less: fee expense	**(133)**	(140)
Net fee income	**649**	597
Net fee income by global business		
Wealth and Personal Banking	**293**	282
Commercial Banking	**464**	422
Global Banking and Markets	**(108)**	(106)
Corporate Centre	**—**	(1)

3 Post-employment benefit plans

We operate a pension plan for our employees called the HSBC Bank (UK) Pension Scheme ('the plan'). Details of the plan are explained on pages 96 and 97 of the *Annual Report and Accounts 2022*, and details of the policies and practices associated with the plan on page 58 of the *Annual Report and Accounts 2022.*

Net assets/(liabilities) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit assets/(liabilities)
	£m	£m	£m
At 30 Jun 2023	**20,174**	**(14,815)**	**5,359**
At 31 Dec 2022	20,853	(15,596)	5,257

Post-employment defined benefit plan actuarial financial assumptions

Key actuarial assumptions for the plan

	Discount rate	Inflation rate (RPI)	Inflation rate (CPI)	Rate of increase for pensions	Rate of pay increase
	%	%	%	%	%
At 30 Jun 2023	**5.40**	**3.44**	**3.01**	**3.32**	**3.51**
At 31 Dec 2022	4.93	3.39	2.84	3.27	3.34

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

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
At 30 Jun 2023	**SAPS S3[1]**	**26.8**	**28.3**	**28.0**	**29.6**
At 31 Dec 2022	SAPS S3[1]	27.1	28.6	28.4	29.9

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

4 Tax

Tax charge

The effective tax rate is 17.9% (1H22: 16.1%). The effective tax rate is reduced by 8.5% due to non-taxable provisional gain arising on the acquisition of SVB UK in the period. The effective tax rate excluding this item is 26.4% and reflects the statutory blended tax rate of 27.75% (post main rate of UK corporation tax increasing from 19% to 25% and surcharge rate decreasing from 8% to 3% as of 1 April 2023), tax relief on AT1 coupon payments and a tax credit from the release of provisions for uncertain tax positions. The effective tax rate for 1H22 was reduced by 9.8% by a credit arising from the remeasurement of the group's deferred tax balances following the substantive enactment of legislation to reduce the UK banking surcharge rate from 8% to 3%. The effective tax rate excluding this item in 1H22 was 25.9%.

5 Dividends

On 19 July, 2023, the Directors resolved to pay an interim dividend of £948m to the ordinary shareholder of the parent company in respect of the financial year ending 31 December 2023. No liability is recognised in the financial statements in respect of this dividend.

Dividends to the shareholder of the parent company

	Half-year to			
	30 Jun 2023		30 Jun 2022	
	£ per share	**£m**	£ per share	£m
Dividends paid on ordinary shares				
Interim dividend in respect of the previous year	**10,780**	**539**	9,820	491
Interim dividend in respect of the current year	**5,360**	**268**	3,500	175
Total	**16,140**	**807**	13,320	666

Total coupons on capital securities classified as equity

		Half-year to	
		30 Jun 2023	30 Jun 2022
	First call date	**£m**	£m
Undated Subordinated Additional Tier 1 instruments			
– £1,096m	Dec 2019	**50**	31
– £1,100m	Dec 2024	**51**	32
Total		**101**	63

6 Fair values of financial instruments carried at fair value

The accounting policies, control framework and the hierarchy used to determine fair values are consistent with those applied for the *Annual Report and Accounts 2022.*

Financial instruments carried at fair value and bases of valuation

	At 30 Jun 2023				At 31 Dec 2022			
	Valuation techniques				Valuation techniques			
	Quoted market price	**Using observable inputs**	**With significant unobservable input**		Quoted market price	Using observable inputs	With significant unobservable input	
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Recurring fair value measurements								
Assets								
Financial assets mandatorily measured at fair value through profit or loss	**85**	**—**	**33**	**118**	72	–	36	108
Derivatives	**—**	**422**	**—**	**422**	14	532	–	546
Financial investments	**13,788**	**587**	**—**	**14,375**	10,757	175	–	10,932
Liabilities								
Derivatives	**—**	**206**	**—**	**206**	–	304	–	304

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency. There were no transfers between Level 1 and Level 2 during 2023 and 2022.

7 Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of loans and advances to banks and customers, deposits by banks, customer accounts, debt securities in issue, subordinated liabilities, non-trading repurchase and reverse repurchase agreements and financial investments are explained on pages 103 and 104 of the *Annual Report and Accounts 2022*.

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

	At 30 Jun 2023		At 31 Dec 2022	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	£m	**£m**	£m	£m
Assets				
Loans and advances to banks	**7,324**	**7,324**	6,357	6,357
Loans and advances to customers	**209,566**	**204,896**	204,143	199,957
Reverse repurchase agreements – non-trading	**6,781**	**6,781**	7,406	7,406
Financial investments – at amortised cost	**7,754**	**7,134**	5,160	4,772
Liabilities				
Deposits by banks	**10,844**	**10,844**	10,721	10,721
Customer accounts	**273,785**	**273,785**	281,095	281,095
Repurchase agreements – non-trading	**7,659**	**7,659**	9,333	9,333
Debt securities in issue	**1,257**	**1,243**	1,299	1,279
Subordinated liabilities	**13,066**	**13,050**	12,349	11,765

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

8 Goodwill

Impairment testing

As described on page 109 of the *Annual Report and Accounts 2022*, we test goodwill for impairment at 1 October each year and whenever there is an indication that goodwill may be impaired. At 30 June 2023, we reviewed the inputs used in our most recent impairment test in the light of current economic and market conditions and there was no indication of goodwill impairment.

9 Provisions

	Restructuring costs[2]	**Legal proceedings and regulatory matters**	**Customer remediation**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Provisions (excluding contractual commitments)					
At 1 Jan 2023	**63**	**32**	**142**	**82**	**319**
Additions	**22**	**1**	**6**	**5**	**34**
Amounts utilised	**(16)**	**(2)**	**(22)**	**(2)**	**(42)**
Unused amounts reversed	**(13)**	**—**	**(23)**	**(9)**	**(45)**
Exchange and other movements	**5**	**—**	**—**	**(5)**	**—**
At 30 Jun 2023	**61**	**31**	**103**	**71**	**266**
Contractual commitments[1]					
At 1 Jan 2023					**105**
Net change in expected credit loss provision					**4**
At 30 Jun 2023					**109**
Total provisions					
At 1 Jan 2023					**424**
At 30 Jun 2023					**375**

1 *Contractual commitments include the provision for contingent liabilities measured under IFRS 9 Financial Instruments in respect of financial guarantees and the expected credit loss provision on off-balance sheet guarantees and commitments.*
2 *Restructuring costs include charges received from HSBC Global Services (UK) Limited, which do not form part of the balance sheet provision movement.*

Customer remediation

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

Restructuring costs

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

Legal proceedings and regulatory matters

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

10 Contingent liabilities, contractual commitments, guarantees and contingent assets

	At	
	30 Jun 2023	31 Dec 2022
	£m	£m
Guarantees and other contingent liabilities:		
– financial guarantees:[1]	**1,076**	1,148
– performance and other guarantees	**2,419**	2,530
At the end of the period	**3,495**	3,678
Commitments:[2]		
– documentary credits and short-term trade-related transactions	**65**	52
– forward asset purchases and forward deposits placed	**330**	327
– standby facilities, credit lines and other commitments to lend	**73,294**	70,104
At the end of the period	**73,689**	70,483

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

2 *Includes £71bn of commitments at 30 June 2023 (31 December 2022: £68bn), to which the impairment requirements in IFRS 9 are applied where HSBC UK has become party to an irrevocable commitment.*

The preceding table discloses the nominal principal amounts of off-balance sheet liabilities and commitments for the group, which represents the maximum amounts at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not indicative of future liquidity requirements. The expected credit loss provision relating to guarantees and commitments under IFRS 9 is disclosed in Note 9. The majority of the guarantees have a term of less than one year, while guarantees with terms of more than one year are subject to the group's annual credit review process.

Contingent liabilities arising from legal proceedings and regulatory and other matters against group companies are excluded from this note but are disclosed in Note 11.

Financial Services Compensation Scheme

The FSCS provides compensation, up to certain limits, to eligible customers of financial services firms that are unable, or likely to be unable, to pay claims against them. The FSCS may impose a further levy on HSBC UK to the extent the industry levies imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate FSCS levy to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the FSCS, changes in the level of protected products (including deposits and investments) and the population of FSCS members at the time. The FCA is currently reviewing the FSCS Framework with the intention to consult on any changes in 2023/24. The FCA's goal is to ensure that the compensation framework continues to provide appropriate and proportionate consumer protection, with costs distributed across industry levy payers in a fair and sustainable way. Focus points of the review will include, the compensation limits, the funding class threshold and improving the FCA's understanding of how the scheme impacts consumer and firm behaviour.

UK branches of HSBC overseas entities

In December 2017, HMRC challenged the VAT status of certain UK branches of HSBC overseas entities. In Q1 2019, HMRC reaffirmed its assessment that the UK branches are ineligible to be members of the UK VAT group and HSBC filed appeals. In February 2022, the Upper Tribunal issued a judgment addressing several preliminary legal issues, which was partially in favour of HMRC and partially in favour of HSBC. The case will now return to the First Tier Tax Tribunal for full trial and we await confirmation of the trial window. Since January 2018, HSBC's returns have been prepared on the basis that the UK branches are not in the UK VAT group. In the event that HSBC is successful, HSBC will seek a refund of this VAT, of which £170m is estimated to be attributable to HSBC UK Bank plc.

11 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material:

- litigation in respect of historic PPI sales notwithstanding the FCA deadline for bringing PPI complaints has passed;
- claims issued by two separate investor groups against HSBC UK (as successor to HSBC Private Bank (UK) Limited ('PBGB')) in the High Court of England and Wales in connection with PBGB's role in the development of Eclipse film finance schemes;
- an investigation by the FCA in connection with collections and recoveries operations in the UK;
- an investigation by the PRA in connection with depositor protection arrangements in the UK; and
- a lawsuit brought in the US District Court for the Northern District of California, by First-Citizens Bank & Trust Company ('First Citizens') against various HSBC companies and seven HSBC US employees who had previously worked for Silicon Valley Bank ('SVB') alleging, among other things, that HSBC conspired with the individual defendants to solicit employees from First Citizens and that the individual defendants took confidential information belonging to SVB and/or First Citizens.

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

The recognition of provisions is determined in accordance with the accounting policies set out in Note 1 of the *Annual Report and Accounts 2022*. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters at 30 June 2023. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

12 Transactions with related parties

There were no changes to the related party transactions described in the *Annual Report and Accounts 2022* that have had a material effect on the financial position or performance of the group in the half-year to 30 June 2023. All other related party transactions that took place in the half-year to 30 June 2023 were similar in nature to those disclosed in the *Annual Report and Accounts 2022*.

13 Business acquisitions

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

On 13 March 2023, HSBC UK acquired SVB UK for £1, acquiring 100% of the equity and thereby obtaining control. The acquisition was funded from existing resources and brought the staff, assets and liabilities of SVB UK into the HSBC UK portfolio.

The acquisition of SVB UK made strategic sense for our business. We expect the acquisition to strengthen our commercial banking franchise and enhance our ability to serve innovative and fast-growing firms. The acquisition accelerates our future innovation sector plans by 3 to 4 years by bringing in capabilities immediately, such as the deep industry sector knowledge and the depth of embedded industry ecosystem relationships with founders and funders.

On acquisition, we performed a preliminary assessment of the fair value of the assets and liabilities purchased. We established a provisional opening balance sheet on 13 March 2023 and applied the result of the fair value assessment, which resulted in a reduction in net assets of £207m. The provisional gain on acquisition of £1,240m represents the difference between the consideration paid of £1 and the net assets acquired. This gain could change as further due diligence is performed within 12 months of the acquisition, as allowed by IFRS 3 'Business Combinations'.

HSBC Innovation Bank Limited contributed £119m of revenue and £54m to the consolidated profit of HSBC UK for the period from 13 March 2023 to 30 June 2023. As per the disclosure requirements set out in IFRS 3 (Business Combinations), if HSBC Innovation Bank Limited had been acquired on 1 January 2023, management estimates that for the six months to 30 June 2023 consolidated revenue would have been £6,124m and consolidated profit after tax £3,266m. In determining these amounts, management has assumed that the fair value adjustments, determined previously, that arose on acquisition would have been the same if the acquisition had occurred on 1 January 2023.

The details of the business combination as follows:

	£m
Fair value of consideration transferred	—
Recognised fair value of identifiable assets acquired and liabilities assumed at the acquisition date	
Assets	
Cash and balances at central banks	589
Items in course of collection from other banks	302
Loans and advances to banks	147
Loans and advances to customers	5,369
Financial investments	2,540
Other assets	344
Total assets	9,291
Liabilities	
Customer accounts	7,400
Repurchase agreements	403
Other liabilities	248
Total liabilities	8,051
Fair value of identifiable net assets acquired	1,240
Provisional gain on acquisition	1,240
Consideration transferred settled in cash	—
Cash and cash equivalents acquired	1,023
Net cash inflow on acquisition	1,023
Acquisition costs charged to expenses	6

14 Events after the balance sheet date

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

On 19 July 2023, the Directors resolved to pay an interim dividend to the ordinary shareholder of the parent company of £948m in respect of the financial year ending 31 December 2023. No liability is recognised in the financial statements in respect of this dividend as described in Note 5.

15 Interim Report 2023 and statutory accounts

The information in this *Interim Report 2023* is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The *Interim Report 2023* was approved by the Board of Directors on 31 July 2023. The statutory accounts of HSBC UK Bank plc for the year ended 31 December 2022 have been delivered to the Registrar of Companies in England and Wales in accordance with section 447 of the Companies Act 2006. The group's auditor, PricewaterhouseCoopers LLP, has reported on those accounts. Its report was unqualified, did not include a reference to any matters to which PwC drew attention by way of emphasis without qualifying their report and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Reconciliation of alternative performance measures

Return on equity and return on tangible equity

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

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

Return on Equity and Return on Tangible Equity

	Half-year to	
	30 Jun 2023	30 Jun 2022
	$m	$m
Profit		
Profit attributable to the ordinary shareholders of the parent company	**3,801**	1,827
Profit attributable to the ordinary shareholders, excluding goodwill and other intangible assets impairment	**3,801**	1,827
Impact of provisional gain on acquisition of SVB UK	**(1,582)**	–
Profit attributable to the ordinary shareholders, excluding goodwill, other intangible assets impairment and acquisition of SVB UK	**2,219**	1,827
Equity		
Average total shareholders' equity	**29,064**	30,755
Effect of average preference shares, additional Tier 1 and other equity instruments	**(2,719)**	(2,842)
Average ordinary shareholders' equity	**26,345**	27,913
Effect of goodwill and other intangibles (net of deferred tax)	**(5,291)**	(5,463)
Average tangible ordinary shareholders' equity	**21,054**	22,450
Average impact of acquisition of SVB UK	**(1,177)**	–
Average tangible ordinary shareholders' equity excluding acquisition of SVB UK	**19,877**	22,450
Ratio	**%**	%
Return on equity (annualised)	**29.1**	13.2
Return on average tangible equity (annualised)[1]	**36.4**	16.4
Return on average tangible equity excluding the acquisition of SVB UK (annualised)[1]	**22.5**	16.4

1 *Under IAS 19, HSBC UK holds a pension fund surplus, and records pension income in the Income Statement. The IAS 19 pension fund surplus increases Tangible Equity but not CET1. In the event that the IAS 19 Pension fund surplus was zero, RoTE would be 42.4% (1H22: 16.7%), we refer to this as Pension Adjusted RoTE. Pension Adjusted RoTE excluding the acquisition of SVB UK would be 25.8% (1H22: 16.7%).*

Abbreviations

Currencies	
£	British pound sterling
$	United States dollar
Abbreviations	
1H23	First half of 2023
1H22	First half of 2022
4Q24	Fourth quarter of 2024
2Q23	Second quarter of 2023
A	
AI	Artificial Intelligence
AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AT1	Additional tier 1
B	
BACS	Bankers' Automated Clearing System
Basel	Basel Committee on Banking Supervision
Basel III	Basel Committee's reforms to strengthen global capital and liquidity rules
BB	Business Banking
BoE	Bank of England
C	
CBDC	Central Bank Digital Currency
CET1	Common equity tier 1
CMB	Commercial Banking
CODM	Chief Operating Decision Maker
CRR	Customer risk rating
CRR II	Revised Capital Requirements Regulation and Directive, as implemented
CPI	Consumer Price Index
D	
DTR	Disclosure Guidance and Transparency Rules
E	
ECL	Expected credit losses. In the income statement, ECL is recorded as a change in expected credit losses and other credit impairment charges. In the balance sheet, ECL is recorded as an allowance for financial instruments to which only the impairment requirements in IFRS 9 are applied
ESG	Environmental, social and governance
EU	European Union
EVE	Economic value of equity
F	
FCA	Financial Conduct Authority (UK)
FTE	Full-time equivalent staff
FVOCI	Fair value through other comprehensive income
FY	Full Year
FY22	Full Year 2022
G	
GBM	Global Banking and Markets
GDP	Gross domestic product
group	HSBC UK Bank plc together with its subsidiary undertakings
Group	HSBC Holdings together with its subsidiary undertakings
H	
HMRC	HM Revenue & Customs
HMT	His Majesty's Treasury
HR	Human Resources
HSBC Group	HSBC Holdings together with its subsidiary undertakings
HSBC Holdings	HSBC Holdings plc
I	
IAS	International Accounting Standards
IASB	International Accounting Standards Board
Ibor	Interbank offered rate
ICAAP	Internal capital adequacy assessment process
IFRSs	International Financial Reporting Standards
ILAAP	Internal liquidity adequacy assessment process
L	
LCR	Liquidity coverage ratio
LFRF	Liquidity and Funding Risk Management Framework
LTV	Loan to value
M	
MREL	EU minimum requirements for own funds and eligible liabilities
N	
NII	Net interest income
NPS	Net Promoter Score
NSFR	Net stable funding ratio
O	
OCI	Other comprehensive income
P	
PD	Probability of default
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PSR	Payment Systems Regulator
PwC	PricewaterhouseCoopers LLP and its network of firms
R	
Revenue	Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit provisions, also referred to as revenue
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RWA	Risk-weighted asset
S	
SBB	Small Business Banking
SME	Small and medium-sized enterprise
SVB UK	Silicon Valley Bank UK Limited
U	
UK	United Kingdom
US	United States of America
V	
VaR	Value at risk
VAT	Value-added tax
W	
WPB	Wealth and Personal Banking

HSBC UK Bank plc

1 Centenary Square
Birmingham B1 1HQ
United Kingdom
Telephone: 03456 040 626
www.hsbc.co.uk