

As filed with the Securities and Exchange Commission on February 22, 2024.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

For the transition period from N/A to N/A

Commission file number: 001-14930

HSBC Holdings plc

(Exact name of Registrant as specified in its charter)

N/A

United Kingdom

(Translation of Registrant's name into English)

(Jurisdiction of incorporation or organization)

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London E14 5HQ

United Kingdom

(Address of principal executive offices)

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United Kingdom

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Email jonathan.bingham@hsbc.com

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, nominal value US\$0.50 each (GB0005405286)	HSBA	London Stock Exchange
	5	Hong Kong Stock Exchange
	HSBC.BH	Bermuda Stock Exchange

	HSBC	New York Stock Exchange	*
American Depositary Shares, each representing 5 Ordinary Shares of nominal value US\$0.50 each (US4042804066)	HSBC	New York Stock Exchange	
7.625% Subordinated Notes due 2032 (US404280AF65)	HSBC/32A	New York Stock Exchange	
7.35% Subordinated Notes due 2032 (US404280AE90)	HSBC/32B	New York Stock Exchange	
6.5% Subordinated Notes 2036 (US404280AG49)	HSBC36	New York Stock Exchange	
6.5% Subordinated Notes 2037 (US404280AH22)	HSBC37	New York Stock Exchange	
6.8% Subordinated Notes Due 2038 (US404280AJ87)	HSBC38	New York Stock Exchange	
6.100% Senior Unsecured Notes due 2042 (US404280AM17)	HSBC42	New York Stock Exchange	
4.250% Subordinated Notes due 2024 (US404280AP48)	HSBC24	New York Stock Exchange	
5.250% Subordinated Notes due 2044 (US404280AQ21)	HSBC44	New York Stock Exchange	
4.250% Subordinated Notes due 2025 (US404280AU33)	HSBC25	New York Stock Exchange	
4.300% Senior Unsecured Notes due 2026 (US404280AW98)	HSBC26	New York Stock Exchange	
3.900% Senior Unsecured Notes due 2026 (US404280BB43)	HSBC26A	New York Stock Exchange	
4.375% Subordinated Notes due 2026 (US404280BH13)	HSBC26B	New York Stock Exchange	
4.041% Fixed Rate/Floating Rate Senior Unsecured Notes due 2028 (US404280BK42)	HSBC28	New York Stock Exchange	
4.583% Fixed Rate/Floating Rate Senior Unsecured Notes due 2029 (US404280BT50)	HSBC29	New York Stock Exchange	
Floating Rate Senior Unsecured Notes due 2026 (US404280BW89)	HSBC26D	New York Stock Exchange	
4.292% Fixed Rate/Floating Rate Senior Unsecured Notes due 2026 (US404280BX62)	HSBC26C	New York Stock Exchange	
3.803% Fixed Rate/Floating Rate Senior Unsecured Notes due 2025 (US404280BZ11)	HSBC25A	New York Stock Exchange	
Floating Rate Senior Unsecured Notes due 2025 (US404280CA50)	HSBC25B	New York Stock Exchange	
3.000% Resettable Senior Unsecured Notes due 2028 (XS1961843171)	HSBC28A	New York Stock Exchange	
3.973% Fixed Rate/Floating Rate Senior Unsecured Notes due 2030 (US404280CC17)	HSBC30	New York Stock Exchange	
3.00% Resettable Senior Unsecured Notes due 2030 (XS2003500142)	HSBC30A	New York Stock Exchange	
2.633% Fixed Rate/Floating Rate Senior Unsecured Notes due 2025 (US404280CE72)	HSBC25C	New York Stock Exchange	
4.950% Fixed Rate Senior Unsecured Notes due 2030 (US404280CF48)	HSBC30B	New York Stock Exchange	

2.099% Fixed Rate/Floating Rate Senior Unsecured Notes due 2026 (US404280CG21)	HSBC26E	New York Stock Exchange
2.848% Fixed Rate/Floating Rate Senior Unsecured Notes due 2031 (US404280CH04)	HSBC31	New York Stock Exchange
1.645% Fixed Rate/Floating Rate Senior Unsecured Notes due 2026 (US404280CJ69)	HSBC26F	New York Stock Exchange
2.357% Fixed Rate/Floating Rate Senior Unsecured Notes due 2031 (US404280CK33)	HSBC31A	New York Stock Exchange
2.013% Fixed Rate/Floating Rate Senior Unsecured Notes due 2028 (US404280CL16)	HSBC28B	New York Stock Exchange
1.589% Fixed Rate/Floating Rate Senior Unsecured Notes due 2027 (US404280CM98)	HSBC27	New York Stock Exchange
1.750% Fixed Rate/Floating Rate Senior Unsecured Notes due 2027 (XS2322315727)	HSBC27A	New York Stock Exchange
0.976% Fixed Rate/Floating Rate Senior Unsecured Notes due 2025 (US404280CS68)	HSBC25	New York Stock Exchange
2.804% Fixed Rate/Floating Rate Senior Unsecured Notes due 2032 (US404280CT42)	HSBC32	New York Stock Exchange
2.206% Fixed Rate/Floating Rate Senior Unsecured Notes due 2029 (US404280CV97)	HSBC29A	New York Stock Exchange
1.162% Fixed Rate/Floating Rate Senior Unsecured Notes due 2024 (US404280CW70)	HSBC24D	New York Stock Exchange
2.251% Fixed Rate/Floating Rate Senior Unsecured Notes due 2027 (US404280CX53)	HSBC27B	New York Stock Exchange
2.871% Fixed Rate/Floating Rate Senior Unsecured Notes due 2032 (US404280CY37)	HSBC32A	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2024 (US404280CZ02)	HSBC24E	New York Stock Exchange
2.999% Fixed Rate/Floating Rate Senior Unsecured Notes due 2026 (US404280DA42)	HSBC26G	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2026 (US404280DB25)	HSBC26H	New York Stock Exchange
4.762% Fixed Rate/Floating Rate Subordinated Unsecured Notes due 2033 (US404280DC08)	HSBC33	New York Stock Exchange
4.180% Fixed Rate/Floating Rate Senior Unsecured Notes due 2025 (US404280DE63)	HSBC25E	New York Stock Exchange
4.755% Fixed Rate/Floating Rate Senior Unsecured Notes due 2028 (US404280DF39)	HSBC28C	New York Stock Exchange

5.210% Fixed Rate/Floating Rate Senior Unsecured Notes due 2028 (US404280DG12)	HSBC28D	New York Stock Exchange
5.402% Fixed Rate/Floating Rate Senior Unsecured Notes due 2033 (US404280DH94)	HSBC33A	New York Stock Exchange
7.35% Subordinated Notes due 2032 (US404280DJ50)	HSBC32B	New York Stock Exchange
7.625% Subordinated Notes due 2032 (US404280DK24)	HSBC32C	New York Stock Exchange
6.5% Subordinated Notes Due 2036 (US404280DL07)	HSBC36A	New York Stock Exchange
6.5% Subordinated Notes Due 2037 (US404280DM89)	HSBC37A	New York Stock Exchange
6.8% Subordinated Notes Due 2038 (US404280DN62)	HSBC38A	New York Stock Exchange
7.336% Fixed Rate/Floating Rate Senior Unsecured Notes due 2026 (US404280DQ93)	HSBC26I	New York Stock Exchange
7.390% Fixed Rate/Floating Rate Senior Unsecured Notes due 2028 (US404280DR76)	HSBC28E	New York Stock Exchange
8.113% Fixed Rate/Floating Rate Subordinated Unsecured Notes due 2033 (US404280DS59)	HSBC33B	New York Stock Exchange
6.161% Fixed Rate/Floating Rate Senior Unsecured Notes due 2029 (US404280DU06)	HSBC29B	New York Stock Exchange
6.254% Fixed Rate/Floating Rate Senior Unsecured Notes due 2034 (US404280DV88)	HSBC34	New York Stock Exchange
6.332% Fixed Rate/Floating Rate Senior Unsecured Notes due 2044 (US404280DW61)	HSBC44A	New York Stock Exchange
6.547% Fixed Rate/Floating Rate Subordinated Unsecured Notes due 2034 (US404280DX45)	HSBC34A	New York Stock Exchange
5.887% Fixed Rate/Floating Rate Senior Unsecured Notes due 2027 (US404280DZ92)	HSBC27C	New York Stock Exchange
Floating Rate Senior Unsecured Notes due 2027 (US404280DY28)	HSBC27D	New York Stock Exchange
6.800% Fixed Rate/Floating Rate Senior Unsecured Notes due 2031 (XS2685873908)	HSBC31B	New York Stock Exchange
7.399% Fixed Rate/Floating Rate Subordinated Unsecured Notes due 2034 (US404280EC98)	HSBC34B	New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, nominal value US\$0.50 each **19,262,728,193**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ **Yes** ☐ **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ **Yes** ☒ **No**

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ **Yes** ☐ **No**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ **Yes** ☐ **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards ☒ Other ☐
as issued by the International Accounting Standards Board

If “Other” has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ **Yes** ☒ **No**

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

☐ **Yes** ☐ **No**

Opening up a world of opportunity

Our ambition is to be the preferred international financial partner for our clients.

Our purpose, ambition and values reflect our strategy and support our focus on execution.

▶ Read more on our values and strategy on pages 4 and 11.

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This *Strategic Report* was approved by the Board on 21 February 2024.

Mark E Tucker
Group Chairman

A reminder

The currency we report in is US dollars.

Our approach to ESG reporting

We embed our ESG reporting and Task Force on Climate-related Financial Disclosures ('TCFD') within this *Form 20-F for the year ended 31 December 2023*. Our TCFD disclosures are highlighted with the following symbol: **TCFD**

Constant currency performance

We supplement our IFRS Accounting Standards figures with non-IFRS Accounting Standards measures used by management internally that constitute alternative performance measures under European Securities and Markets Authority guidance and non-GAAP financial measures defined in and presented in accordance with US Securities and Exchange Commission rules and regulations. These measures are highlighted with the following symbol: ▶

▶ Further explanation may be found on page 29.

IFRS 17 'Insurance Contracts'

From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated. For further details of our adoption of IFRS 17, see page 100.

None of the websites referred to in this *Form 20-F for the year ended 31 December 2023 (the 'Form 20-F')* (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.

X @HSBC
in [linkedin.com/company/hsbc](https://www.linkedin.com/company/hsbc)
f [facebook.com/HSBC](https://www.facebook.com/HSBC)

Performance in 2023

HSBC is one of the world's leading international banks.

We have a clear strategy to deliver revenue and profit growth, enhance customer service and improve returns to shareholders.

Financial performance indicators

Our financial performance indicators demonstrate our continued focus on the delivery of sustainable returns for our shareholders and providing a strengthened platform for growth. They also provide insight into the performance that has driven the outcomes of our financial targets.

- ▶ Read more on our financial performance in 2023 on pages 2 and 27.
- ▶ For an explanation of performance against our key Group financial targets, see page 25.
- ▶ For a reconciliation of our target basis operating expenses to reported operating expenses, see page 148.
- ▶ For our financial targets we define medium term as three to four years and long term as five to six years, commencing 1 January 2024.

Return on average tangible equity ▶

14.6%

(2022: 10.0%)

Profit before tax

\$30.3bn

(2022: \$17.1bn)

Operating expenses

\$32.1bn

Target basis operating expenses up 6% to \$31.6bn
(2022: \$32.7bn)

Common equity tier 1 capital ratio

14.8%

(2022: 14.2%)

Dividend per share

\$0.61

(2022 dividend per share: \$0.32)

Strategic performance indicators

Our strategy supports our ambition of being the preferred international financial partner for our clients.

We are committed to building a business for the long term, developing relationships that last.

- ▶ Read more on our strategy on pages 11 to 13.
- ▶ Read more on multi-jurisdictional client revenue on page 124.
- ▶ Read more on how we set and define our ESG metrics on page 16.
- ▶ Read more on our definition of sustainable finance and investment on page 49.
- ▶ We no longer report the metric 'Asia as a percentage of Group tangible equity'.

Net new invested assets

\$84bn

Generated in 2023, of which \$47bn were in Asia.
(2022: \$80bn generated, of which \$59bn were in Asia)

Wholesale multi-jurisdictional client revenue ▶

61%

Wholesale client revenue generated by clients banking with us across multiple markets.

Digitally active Commercial Banking customers

83%

(2022: 78%)

Gender diversity

34.1%

Women in senior leadership roles.
(2022: 33.3%)

Sustainable finance and investment

\$294.4bn

Cumulative total provided and facilitated since January 2020.
(2022: \$210.7bn)

Cautionary statement regarding forward-looking statements

This Form 20-F contains certain forward-looking statements with respect to HSBC's financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and ESG targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, 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 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. Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's directors, officers or employees to third parties, including financial analysts. Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- changes in general economic conditions in the markets in which we operate, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment levels and the creditworthiness of customers beyond those factored into consensus forecasts; the Russia-Ukraine war and the Israel-Hamas war and their impact on global economies and the markets where HSBC operates, which could have a material adverse effect on (among other things) our financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for our ECL measurements (including, without limitation, as a result of the Russia-Ukraine war and the Israel-Hamas war, inflationary pressures, commodity price changes, and ongoing developments in the commercial real estate sector in mainland China);

potential changes in HSBC's dividend policy; changes and volatility in foreign exchange rates and interest rates levels, including the accounting impact resulting from financial reporting in respect of hyperinflationary economies; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect our ability to meet our obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the Russia-Ukraine war or the Israel-Hamas war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodity prices, claims of human rights violations, diplomatic tensions, including between China and the US, the UK, the EU, India and other countries, and developments in Hong Kong and Taiwan, alongside other potential areas of tension, which may adversely affect HSBC by creating regulatory, reputational and market risks; the efficacy of government, customer, and HSBC's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon emissions, each of which can impact HSBC both directly and indirectly through our customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using us as a conduit for illegal activities without our knowledge; the discontinuation of certain key lbors and the transition of the remaining legacy lbor contracts to near risk-free benchmark rates, which continues to expose HSBC to some financial and non-financial risks; and price competition in the market segments we serve;

- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which we operate and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war

on inflation); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to HSBC, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; the UK's relationship with the EU, which continues to be characterised by uncertainty and political disagreement, despite the signing of the Trade and Cooperation Agreement between the UK and the EU, particularly with respect to the potential divergence of UK and EU law on the regulation of financial services; changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets; changes in UK macroeconomic and fiscal policy, which may result in fluctuations in the value of the pound sterling; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies; and

- factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); our ability to achieve our financial, investment, capital and ESG targets, commitments and ambitions (including the positions set forth in our thermal coal phase-out policy and our energy policy and our targets to reduce our on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors), which may result in our failure to achieve any of the expected benefits of our strategic priorities; evolving regulatory requirements and the development of new technologies, including artificial intelligence, affecting how we manage model risk; model limitations or failure, including, without limitation, the impact that high inflationary

Cautionary statement regarding forward-looking statements continued

pressures and rising interest rates have had on the performance and usage of financial models, which may require us to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions we base our financial statements on; changes in our ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to us or any of our subsidiaries, which could increase the cost or decrease the availability of our funding and affect our liquidity position and net interest margin; changes to the reliability and security of our data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact our ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; our dependence on loan payments and dividends from subsidiaries to meet our

obligations; changes in our reporting frameworks and accounting standards, which have had and may continue to have a material impact on the way we prepare our financial statements; our ability to successfully execute planned strategic acquisitions and disposals; our success in adequately integrating acquired businesses into our business, including the integration of SVB UK into our CMB business; changes in our ability to manage third-party, fraud, financial crime and reputational risks inherent in our operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect our ability to recruit and retain senior management and diverse and skilled personnel; and changes in our ability to develop sustainable finance and ESG-related products consistent with the evolving expectations of our regulators, and our capacity to measure the environmental and social impacts from our financing activity (including as a result of data limitations and changes in methodologies), which may affect our ability to achieve our ESG ambitions, targets and commitments, including our net zero ambition, our targets

to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors and the positions set forth in our thermal coal phase-out policy and our energy policy, and increase the risk of greenwashing. Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; our success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Top and emerging risks' on pages 163 to 167.

This Form 20-F contains a number of images, graphics, infographics, text boxes and illustrative case studies and credentials which aim to give a high-level overview of certain elements of our disclosures and to improve accessibility for readers. These images, graphics, infographics, text boxes and illustrative case studies and credentials are designed to be read within the context of the Form 20-F as a whole.

Additional cautionary statement regarding ESG data, metrics and forward-looking statements

This Form 20-F contains a number of forward-looking statements (as defined above) with respect to HSBC's ESG targets, commitments, ambitions, climate-related pathways, processes and plans, and the methodologies and scenarios we use, or intend to use, to assess our progress in relation to these ('ESG-related forward-looking statements').

In preparing the ESG-related information contained in this Form 20-F, HSBC has made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. We have used ESG (including climate) data, models and methodologies that we consider, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse financed emissions - and operational and supply chain emissions, to set ESG-related targets and to evaluate the classification of sustainable finance and investments. However, these data, models and methodologies are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to

the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and we expect industry guidance, market practice, and regulations in this field to continue to change. We also face challenges in relation to our ability to access data on a timely basis, lack of consistency and comparability between data that is available and our ability to collect and process relevant data. Consequently, the ESG-related forward-looking statements and ESG metrics disclosed in this Form 20-F carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, HSBC may have to re-evaluate its progress towards its ESG ambitions, commitments and targets

in the future, update the methodologies it uses or alter its approach to ESG (including climate) analysis and may be required to amend, update and recalculate its ESG disclosures and assessments in the future, as market practice and data quality and availability develop.

No assurance can be given by or on behalf of HSBC as to the likelihood of the achievement or reasonableness of any projections, estimates, forecasts, targets, commitments, ambitions, prospects or returns contained herein. Readers are cautioned that a number of factors, both external and those specific to HSBC, could cause actual achievements, results, performance or other future events or conditions to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

Additional cautionary statement regarding ESG data, metrics and forward-looking statements continued

- Climate change projection risk: this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- ESG projection risk: ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes;
- Changes in the ESG regulatory landscape: this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets;
- Variation in reporting standards: ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging;
- Data availability, accuracy, verifiability and data gaps: our disclosures are limited by the availability of high quality data in some areas and our own ability to timely collect and process such data as required. Where data is not available for all sectors or consistently year on year, there may be an impact to our data quality scores. While we expect our data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality scores between sectors. Any such changes in the availability and quality of data over time, or our ability to collect and process such data, could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on year;
- Developing methodologies and scenarios: the methodologies and scenarios HSBC uses to assess financed emissions and set ESG-related targets may develop over

time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on financed emissions or the classification of sustainable finance and investments, meaning that data outputs may not be reconcilable or comparable year-on year; and

- Risk management capabilities: global actions, including HSBC's own actions, may not be effective in transitioning to net zero and in managing relevant ESG risks, including in particular climate, nature-related and human rights risks, each of which can impact HSBC both directly and indirectly through our customers, and which may result in potential financial and non-financial impacts to HSBC. In particular:
 - we may not be able to achieve our ESG targets, commitments and ambitions (including with respect to the positions set forth in our thermal coal phase-out policy and our energy policy, and our targets to reduce our on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors), which may result in our failure to achieve some or all of the expected benefits of our strategic priorities; and
 - we may not be able to develop sustainable finance and ESG-related products consistent with the evolving expectations of our regulators, and our capacity to measure the environmental and social impacts from our financing activity may diminish (including as a result of data and model limitations and changes in methodologies), which may affect our ability to achieve our ESG targets, commitments and ambitions, including our net zero ambition, our targets to reduce our on-balance sheet financed emissions and, where applicable, facilitated emissions in our portfolio of selected high-emitting sectors and the positions set forth in our thermal coal phase-out policy and energy policy, and increase the risk of greenwashing.

Any forward-looking statements made by or on behalf of HSBC speak only as of the date they are made. HSBC expressly disclaims any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

Written and/or oral ESG-related forward-looking statements may also be made in our periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts.

Our data dictionaries and methodologies for preparing the above ESG-related metrics and third-party limited assurance reports can be found on: www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Approach to ESG reporting

The information set out in the ESG review on pages 41 to 98, taken together with other information relating to ESG issues included in this Form 20-F, aims to provide key ESG information and data relevant to our operations for the year ended 31 December 2023. The data is compiled for the financial year 1 January to 31 December 2023 unless otherwise specified. Measurement techniques and calculations are explained next to data tables where necessary. There are no significant changes from the previous reporting period in terms of scope, boundary or measurement of our reporting of ESG matters. Where relevant, rationale is provided for any restatement of information or data that has been previously published. We

have also considered our obligations under the Environmental, Social and Governance Reporting Guide contained in Appendix C2 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ('ESG Guide') and under LR9.8.6R(8) of the Financial Conduct Authority's ('FCA') Listing Rules. We will continue to develop and refine our reporting and disclosures on ESG matters in line with feedback received from our investors and other stakeholders, and in view of our obligations under the ESG Guide and the FCA's Listing Rules.

ESG Guide

We comply with the 'comply or explain' provisions in the ESG Guide, save for certain items, which we describe in more detail below:

A1(b) on relevant laws/regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, and on emissions: taking into account the nature of our business, we do not believe that there are relevant laws and regulations in these areas that have significant impacts on our operations. Nevertheless, we are fully compliant with our publication of information regarding scope 1 and 2 carbon emissions, while we only partially publish information on scope 3 carbon emissions, as the data required for that publication is not yet fully available.

A1.3 on total hazardous waste produced, A1.4 on total non-hazardous waste produced: Taking into account the nature of our business, we do not consider hazardous waste to be a material issue for our stakeholders. As such, we report only on total waste produced, which includes hazardous and non-hazardous waste.

A1.6 on handling hazardous and non-hazardous waste: Taking into account the nature of our business, we do not consider this to be a material issue for our stakeholders. Notwithstanding this, we continue to focus on the reduction and recycling of all waste. Building on the success of our previous

operational environmental strategy, we are continuing to seek to identify key opportunities where we can lessen our wider environmental impact, including waste management. For further details, please see our ESG review on page 63.

A2.4 on sourcing water issue and water efficiency target: Taking into account the nature of our business, we do not consider this to be a material issue for our stakeholders. Notwithstanding this, we have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings and continue to track our water consumption.

A2.5 on packaging material, B6(b) on issues related to health and safety and labelling relating to products and services provided, B6.1 on percentage of total products sold or shipped subject to recalls for safety and health reasons and B6.4 in recall procedures: Taking into account the nature of our business, we do not consider these to be material issues for our stakeholders.

This is aligned with the materiality reporting principle that is set out in the ESG Guide. See 'How we decide what to measure' on page 43 for further information on how we determine what matters are material to our stakeholders.

Approach to ESG reporting continued

TCFD recommendations and recommended disclosures

As noted on page 17, we have considered our 'comply or explain' obligation under both the UK's Financial Conduct Authority's Listing Rules and Sections 414 CA and 414CB of the UK Companies Act 2006, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including its annexes and supplemental guidance, save for certain items, which we summarise below:

Targets setting

Metrics and targets (c) relating to short-term targets: For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. While the NZBA define 2030 as intermediate, we use different time horizons for climate risk management. We define short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. In 2023, we disclose interim 2030 financed emissions targets for seven sectors comprising five on-balance sheet and two combined financed emissions targets, as we outline on page 18. For the shipping sector, we have taken a decision not to set a standalone financed emissions target. The decision follows a reduction in our exposure to the sector after the strategic sale of part of our European shipping portfolio. This aligns with NZBA guidelines on sector inclusion for target setting. We have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors. We intend to review the financed emissions baselines and targets annually and restate where relevant, to help ensure that they are aligned with market practice and current climate science. For further details on the restatements and targets and progress of financed emissions, see section 'Our approach to financed emissions recalculations' and 'Targets and Progress' on page 56 and 57.

Metrics and targets (c) relating to capital deployment target: We do not currently disclose a target for capital deployment. In relation to capital deployment, since 2015, we have issued more than \$2bn of our own green bonds and structured green bonds with the capital invested into a variety of green projects, including: green buildings, renewable energy and clean transportation projects. In 2023, we further progressed our internal review and enhancement of the green bond framework, with further refinement including internal and external review to be undertaken in 2024. This will be subject to continuous review and monitoring to ensure that they remain up to date and reflect updated standards, taxonomies and best practices. Any such developments in standards, taxonomies and best practices over time could result in revisions in our reporting going

forward and lead to differences year-on-year as compared to prior years. See the HSBC Green Bond Report for further information.

Metrics and targets (c) relating to internal carbon pricing target: We do not currently disclose internal carbon pricing target due to transitional challenges such as developing the appropriate systems and processes, but we considered carbon prices as an input for our climate scenario analysis exercise. We expect to further enhance the disclosure in the medium term as more data becomes available.

Impacts on financial planning and performance

Strategy (b) relating to financial planning and performance: We have used climate scenarios to inform our organisation's business, strategy and financial planning. In 2023, we continued to incorporate certain aspects of sustainable finance and financed emissions within our financial planning process. We do not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.

Strategy (b) related to transition plan: We published our Group-wide net zero transition plan in January 2024. In this plan, we provided an overview of our approach to net zero and the actions we are taking to help meet our ambitions. We want to be clear about our approach, the change underway today and what we plan to do in the future. We also want to be transparent about where there are still unresolved issues and uncertainties. We are still developing our disclosures, including considerations of possible additional data in relation to our financial plans, budgets, and related financial approach for the implementation of the transition plan in the medium term (e.g. amount of capital and other expenditures supporting our decarbonisation strategy).

Metrics and targets (a) relating to internal carbon prices and climate-related opportunities metrics: We do not currently disclose internal carbon prices due to transitional challenges such as data challenges. But we considered carbon prices as an input for our climate scenario analysis exercise. In addition, we do not currently fully disclose the proportion of revenue or proportion of assets, capital deployment or other business activities aligned with climate-related opportunities, including

revenue from products and services designed for a low-carbon economy, forward-looking metrics consistent with our business or strategic planning time horizons. In relation to sustainable finance revenue and assets we are disclosing certain elements. We expect the data and system limitations related to financial planning and performance, and climate-related opportunities metrics to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented. We expect to further enhance this disclosure in the medium term.

Impacts of transition and physical risk

Strategy (c) relating to quantitative scenario analysis: We do not currently fully disclose the impacts of transition and physical risk quantitatively, due to transitional challenges including data limitations and evolving science and methodologies. In 2023, we have disclosed the impairment impacts for our wholesale, retail and commercial real estate portfolios in different climate scenarios. In addition, we have disclosed losses on our retail mortgage book under three scenarios and flood depths for specific markets. For our wholesale book, we have disclosed potential implications on our expected credit losses for 11 sectors under two scenarios. We have also disclosed a heat map showing how we expect the risks to evolve over time.

Metrics and targets (a) relating to detailed climate-related risk exposure metrics for physical and transition risks: We do not fully disclose metrics used to assess the impact of climate-related physical (chronic) and transitions (policy and legal, technology and market) risks on retail lending, parts of wholesale lending and other financial intermediary business activities (specifically credit exposure, equity and debt holdings, or trading positions, each broken down by industry, geography, credit quality and average tenor). We are aiming to develop the appropriate systems, data and processes to provide these disclosures in future years. We disclose the exposure to six high transition risk wholesale sectors and the flood risk exposure and Energy Performance Certificate breakdown for the UK portfolio.

Metrics and targets (c) on targets related to physical risk: We do not currently disclose targets used to measure and manage physical risk. This is due to transitional challenges including data limitations of physical risk metrics. For retail, we do not use targets to measure and manage physical risk. In 2023 we introduced internally a global 'soft trigger' monitoring and review process for physical risk exposure where a market reaches or exceeds a set threshold, as this ensures markets are actively considering their balance sheet risk exposure to peril events. We also consider physical and transition risk as an input for our climate scenario analysis exercise.

Approach to ESG reporting continued

We expect to further enhance our disclosures as our data, quantitative scenario analysis, risk metrics and physical risk targets evolve, and technology solutions are implemented in the medium term.

Scope 3 emissions disclosure

Metrics and targets (b) relating to scope 3 emissions metrics: We currently disclose partial scope 3 greenhouse gas emissions including business travel, supply chain and financed emissions. We currently disclose four out of 15 categories of scope 3 greenhouse gas emissions including business travel, supply chain and financed emissions. In relation to financed emissions, we publish on-balance sheet financed emissions for a number of sectors as detailed on page 18. We also publish facilitated emissions for the oil and gas, and power and utilities sectors. Future disclosures on financed emissions and related risks are reliant on our customers publicly disclosing their greenhouse gas emissions, targets and plans, and related risks. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes require significant enhancements.

Other matters

Strategy (b) relating to access to capital:

We have considered the impact of climate-related issues on our businesses, strategy and financial planning. Our access to capital may be impacted by reputational concerns as a result of climate action or inaction. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero ambitions, we could face reputational damage, impacting our revenue-generating ability and potentially our access to capital markets. We expect to further enhance the disclosure in the medium term as more data becomes available.

To manage these risks we have integrated climate risk into our existing risk taxonomy, and incorporated it within the risk management framework through the policies and controls for the existing risks where appropriate.

Metrics and targets (c) relating to water usage target: We have described the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. However, taking into account the nature of our business, we do not consider

water usage to be a material target for our business and, therefore, we have not included a target in this year's disclosure.

With respect to our obligations under LR9.8.6R(8) of the FCA's Listing Rules, as part of considering what to measure and publicly report, we perform an assessment to ascertain the appropriate level of detail to be included in the climate-related financial disclosures that are set out in our Annual Report and Accounts. Our assessment takes into account factors such as the level of our exposure to climate-related risks and opportunities, the scope and objectives of our climate-related strategy, transitional challenges, and the nature, size and complexity of our business. See 'How we decide what to measure' on page 43 for further information.

Insurance manufacturing alternative performance measures

In addition to IFRS Accounting Standards based results, HSBC also discloses Insurance manufacturing value of new business ('Insurance Manufacturing VNB') and Insurance manufacturing proxy embedded value ("Insurance Manufacturing PEV") as alternative performance measures within its filings to the London Stock Exchange and Hong Kong Stock Exchange.

Insurance Manufacturing VNB provides information about value generation from new business sold during the period. It is calculated as the sum of the IFRS 17 new business CSM and loss component adjusted for:

- a full attribution of expenses incurred within our manufacturing operations. IFRS 17 considers only directly attributable acquisition expenses within the new

business CSM measurement; and

- long-term asset spreads expected to be generated over the contract term. Under IFRS 17, new business CSM is in contrast calculated on a market consistent risk neutral basis. This also necessitates changes to the underlying economic scenario models used in the valuation of policyholder guarantees to reflect this basis.

Insurance Manufacturing VNB is measured before tax and after inclusion of the impact of reinsurance.

Insurance Manufacturing PEV provides information about the value of the insurance manufacturing operations. It is calculated as total shareholders' equity plus CSM net of tax adjusted for:

- a full attribution of expenses incurred within our manufacturing operations, net of tax. IFRS 17 considers only directly attributable acquisition expenses within the CSM measurement; and
- long-term asset spreads expected to be generated over the contract term, net of tax. Under IFRS 17, CSM is in contrast calculated on a market consistent risk neutral basis. This also necessitates changes to the underlying economic scenario models used in the valuation of policyholder guarantees to reflect this basis.

Insurance Manufacturing PEV is measured after tax and after inclusion of the impact of reinsurance.

Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'.

When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Holdings ordinary shares and those preference shares and capital securities issued by HSBC Holdings classified as equity. The abbreviations '\$m', '\$bn' and '\$tn' represent millions, billions

(thousands of millions) and trillions of US dollars, respectively.

Highlights

Financial performance reflected net interest income growth, and we continued to make progress against our four strategic pillars.

Financial performance (vs 2022)

- **Profit before tax rose by \$13.3bn to \$30.3bn**, primarily reflecting revenue growth. This included a favourable year-on-year impact of \$2.5bn relating to the sale of our retail banking operations in France, which completed on 1 January 2024, and a \$1.6bn provisional gain recognised on the acquisition of Silicon Valley Bank UK Limited ('SVB UK') in 2023. These were partly offset by the recognition of an impairment charge in 2023 of \$3.0bn relating to the investment in our associate, Bank of Communications Co., Limited ('BoCom'), which followed the reassessment of our accounting value-in-use. **On a constant currency basis, profit before tax increased by \$13.8bn to \$30.3bn. Profit after tax increased by \$8.3bn to \$24.6bn.**
- **Revenue rose by \$15.4bn or 30% to \$66.1bn, including growth in net interest income ('NII') of \$5.4bn**, with rises in all of our global businesses due to the higher interest rate environment. **Non-interest income increased by \$10.0bn**, reflecting a rise in trading and fair value income of \$6.4bn, mainly in Global Banking and Markets. The associated funding costs reported in NII grew by \$6.2bn. The increase also included the impact of the strategic transactions referred to above, partly offset by disposal losses of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio.
- **Net interest margin ('NIM') of 1.66% increased by 24 basis points ('bps')**, reflecting higher interest rates.
- **Expected credit losses and other credit impairment charges ('ECL') were \$3.4bn**, a reduction of \$0.1bn. The net charge in 2023 primarily comprised stage 3 charges, notably related to mainland China commercial real estate sector exposures. It also reflected continued economic uncertainty, rising interest rates and inflationary pressures. **ECL were 33bps of average gross loans**, including a 3bps reduction due to the inclusion of loans and advances classified as held for sale.
- **Operating expenses fell by \$0.6bn or 2% to \$32.1bn**, mainly due to the non-recurrence of restructuring and other related costs following the completion of our cost to achieve programme at the end of 2022. This more than offset higher technology costs, inflationary pressures and an increase in performance-related pay. We also incurred a higher UK bank levy and a charge relating to the Federal Deposit Insurance Corporation ('FDIC') special assessment in the US. **Target basis operating expenses rose by 6%**. This is measured on a constant currency basis, excluding notable items and the impact of the acquisition of SVB UK and related investments internationally. It also excludes the impact of retranslating the prior year results of hyperinflationary economies at constant currency.
- **Customer lending balances rose by \$15bn on a reported basis, but fell by \$3bn on a constant currency basis.** Growth included a \$7.8bn reclassification of secured loans in France from held for sale, an addition of \$8bn from the acquisition of SVB UK, and higher mortgage balances in HSBC UK and Hong Kong. These increases were more than offset by a reduction in wholesale term lending, notably in Asia, and from business divestments in Oman and New Zealand.
- **Customer accounts rose by \$41bn on a reported basis, and \$13bn on a constant currency basis**, primarily in Wealth and Personal Banking, reflecting growth in Asia, partly offset by reductions in HSBC UK, reflecting cost of living pressures and the competitive environment, despite an increase of \$6bn from the acquisition of SVB UK. There was also a reduction due to the sale of our business in Oman.
- **Common equity tier 1 ('CET1') capital ratio of 14.8% rose by 0.6 percentage points**, as capital generation was partly offset by dividends and share buy-backs.
- The Board has approved a **fourth interim dividend of \$0.31 per share, resulting in a total for 2023 of \$0.61 per share**. We also intend to initiate a **share buy-back of up to \$2.0bn**, which we expect to complete by our first quarter 2024 results announcement.

Outlook

- **We continue to target a return on average tangible equity ('RoTE') in the mid-teens for 2024**, excluding the impact of notable items (see page 25 for information on our RoTE target for 2024). Our guidance reflects our current outlook for the global macroeconomic environment, including customer and financial markets activity.
- **Based upon our current forecasts, we expect banking NII of at least \$41bn for 2024**. This guidance reflects our current modelling of a number of market dependent factors, including market-implied interest rates (as of mid-February 2024), as well as customer behaviour and activity levels, which we would also expect to impact our non-interest income. We do not reconcile our forward guidance on banking NII to reported NII.
- While our outlook for loan growth remains cautious for the first half of 2024, **we continue to expect year-on-year customer lending percentage growth in the mid-single digits over the medium to long term**.
- Given continued uncertainty in the forward economic outlook, we expect **ECL charges as a percentage of average gross loans to be around 40bps in 2024** (including customer lending balances transferred to held for sale). We continue to expect our ECL charges to normalise towards a range of 30bps to 40bps of average loans over the medium to long term.
- **We retain a Group-wide focus on cost discipline. We are targeting cost growth of approximately 5% for 2024 compared with 2023, on a target basis**. This target reflects our current business plan for 2024, and includes an increase in staff compensation, higher technology spend and investment for growth and efficiency, in part mitigated by cost savings from actions taken during 2023.
- Our cost target basis for 2024 excludes the impact of the disposal of our retail banking business in France and the planned disposal of our banking business in Canada from the 2023 baseline. Our cost target basis is measured on a constant currency basis and excludes notable items and the impact of retranslating the prior year results of hyperinflationary economies at constant currency. We do not reconcile our forward guidance on target basis costs to reported operating expenses.
- **We intend to continue to manage the CET1 capital ratio within our medium-term target range of 14% to 14.5%.**
- **Our dividend payout ratio target remains at 50% for 2024**, excluding material notable items and related impacts. We have announced a further share buy-back of up to \$2.0bn. Further buy-backs remain subject to appropriate capital levels.

Strategic transactions

- During 2023, we continued to acquire businesses that allow us to build scale and enhance our capabilities. **In March, we acquired SVB UK, and subsequently launched HSBC Innovation Banking**, which includes SVB UK and new teams in the US, Hong Kong and Israel, as well as in Denmark and Sweden, to deliver a globally connected, specialised banking proposition to support innovation businesses and their investors.
- As part of our ambition to be a leading wealth provider in Asia, we entered into an agreement to **acquire Citi's retail wealth management portfolio in mainland China**. This acquisition comprised the assets under management and deposits, and the associated wealth customers. We also announced a **partnership with the fintech Tradeshift to launch a joint venture focusing on embedded finance solutions and financial services applications**.
- **We continue to make good progress on our strategic disposals**. The planned sale of our banking business in Canada received government approval and is expected to complete in the first quarter of 2024. We completed the sale of our retail banking operations in France on 1 January 2024, as we reshape the organisation to focus on our international customer base. In addition, we announced the planned sale of our retail business in Mauritius, and also completed the sale of our operations in Greece, the merger of HSBC Bank Oman with Sohar International, and the sale of our New Zealand retail mortgage loan portfolio.
- While we remain committed to the sale of our business in Russia, the sale became less certain. As a result, the business is no longer classified as held for sale, the previously recognised loss has been reversed, and a broadly offsetting charge relating to recoverability was recognised in the fourth quarter of 2023.
- **We remain committed to consider the payment of a special dividend of \$0.21 per share as a priority use of the proceeds from the sale of our banking business in Canada in the first half of 2024**. The remaining proceeds will accrue into CET1 capital in consideration for organic growth and investment, and we intend to use any excess capital to supplement share buy-backs. Upon completion, the sale is expected to result in an initial increase in the CET1 ratio of approximately 1.2 percentage points.

ESG highlights

Transition to net zero

- In January 2024, we published our **first net zero transition plan**, which is an important milestone in our journey to achieving our net zero ambition – helping our people, customers, investors and other stakeholders **to understand our long-term vision, the challenges, uncertainties and dependencies** that exist, the progress we are making and what we plan to do in the future. The plan includes details on our sectoral approach, and on our implementation plan to embed net zero across key areas of our organisation.
- Our net zero transition plan provides an overview of the progress we have made to date and what we plan to do next, although **we acknowledge there is still much more to do**. It will form the basis of further work on our journey to net zero over time, and we expect to review and update it periodically.
- Following the recent launch of the Partnership for Carbon Accounting Financials ('PCAF') accounting standard for capital markets, **we have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities**, and report the combined progress for both sectors. We recognise that data, methodologies and standards for measuring emissions and for target setting will continue to evolve.
- Since 2020, we have **provided and facilitated \$294.4bn of sustainable finance and investment**, which was an increase of \$83.7bn in the past year. Of our sustainable finance and investment progress to 31 December 2023, \$258.3bn related to green and sustainable activities and \$36.1bn related to social activities.
- **Within our own operations, we have made a 57.3% reduction in our absolute greenhouse gas emissions** from a 2019 baseline.

Build inclusion and resilience

- **In 2023, 34.1% of senior leadership roles were held by women**. We have a target to achieve 35% by 2025, which we are on track to achieve, although we recognise that **progress in the past year has not been as fast paced as we would like**. We also continued to work towards meeting our ethnicity goals.
- We continue to make the **banking experience more accessible in both physical and digital spaces**. We are working to ensure that our digital channels are usable by everyone, regardless of ability. We also expanded our efforts to support customers with disabilities in our branch spaces.

Act responsibly

- We aim to be a top-three bank for customer satisfaction. In 2023, **we were ranked as a top three bank against our competitors in 58% of our six key markets across Wealth and Personal Banking and Commercial Banking**, but we still have work to do to improve our rank position against competitors.
- **We published guides to help our buyers and our suppliers better understand our net zero ambitions**. The guides provide further details to support suppliers in understanding our sustainability expectations, as set out in our supplier code of conduct.
- We continued to raise awareness and develop our understanding of our salient human rights issues. **In 2023, we provided practical guidance and training**, where relevant, to our colleagues across the Group, on how to identify and manage human rights risk.

Who we are

HSBC is one of the largest banking and financial services organisations in the world. We aim to create long-term value for our shareholders and capture opportunity.

Our values

Our values help define who we are as an organisation, and are key to our long-term success.

- 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 supports our ambition of being the preferred international financial partner for our clients, centred around four key areas.

- Focus**
 - Maintain leadership in scale markets
 - Double-down on international connectivity
 - Diversify our revenue
 - Maintain cost discipline and reshape our portfolio
- Digitise**
 - Deliver seamless customer experiences
 - Ensure resilience and security
 - Embrace disruptive technologies and partner with innovators
 - Automate and simplify at scale
- Energise**
 - Inspire leaders to drive performance and delivery
 - Unlock our edge to enable success
 - Deliver a unique and exceptional colleague experience
 - Prepare our workforce for the future
- Transition**
 - Support our customers
 - Embed net zero into the way we operate
 - Partner for systemic change
 - Become net zero in our own operations and supply chain by 2030, and our financed emissions by 2050

▶ For further details on progress made in each of our strategic areas, see pages 11 to 13.

Our global reach

Our global businesses serve around 42 million customers worldwide through a network that covers 62 countries and territories.

Our customers range from individual savers and investors to some of the world’s biggest companies, governments and international organisations. We aim to connect them to opportunities and help them to achieve their ambitions.

- Assets of**
\$3.0tn
- Operations in**
62
Countries and territories
- Approximately**
42m
Customers bank with us
- We employ approximately**
221,000
Full-time equivalent staff

▶ For further details of our customers and approach to geographical information, see page 110.

Our global businesses

We serve our customers through three global businesses.

On pages 30 to 36 we provide an overview of our performance in 2023 for each of our global businesses, as well as our Corporate Centre.

In each of our global businesses, we focus on delivering growth in areas where we have distinctive capabilities and have significant opportunities.

Each of the chief executive officers of our global businesses reports to our Group Chief Executive, who in turn reports to the Board of HSBC Holdings plc.



Wealth and Personal Banking ('WPB')

We help millions of our customers look after their day-to-day finances and manage, protect and grow their wealth.

▶ For further details, see page 30.



Commercial Banking ('CMB')

Our global reach and expertise help domestic and international businesses around the world unlock their potential.

▶ For further details, see page 32.



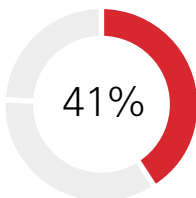
Global Banking and Markets ('GBM')

We provide a comprehensive range of financial services and products to corporates, governments and institutions.

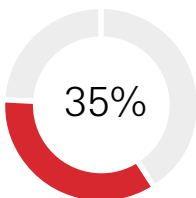
▶ For further details, see page 34.

Revenue by global business¹

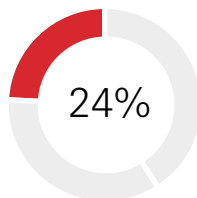
Wealth and Personal Banking



Commercial Banking



Global Banking and Markets



¹ Calculation is based on revenue of our global businesses excluding Corporate Centre. Corporate Centre had negative revenue of \$199m in 2023.

Our stakeholders

Building strong relationships with our stakeholders helps enable us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

Our stakeholders are the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and the planet we all inhabit. These human connections are complex and overlap.

Many of our employees are customers and shareholders, while our business customers are often suppliers. We aim to serve, creating value for our customers and shareholders.

Our size and global reach mean our actions can have a significant impact. We are committed to doing business responsibly, and thinking for the long term. This is key to delivering our strategy.



Customers



Employees



Investors



Communities



Regulators and governments



Suppliers

▶ For further details of how we are engaging with our stakeholders, see page 15.

Group Chairman's statement



Mark E Tucker
Group Chairman

Against a challenging global economic and political backdrop, HSBC's strategy has delivered improved financial performance and increased returns for shareholders

The global economy performed better than expected in 2023, but growth remained sluggish and the economic environment was challenging for many of our customers. Although inflation fell globally, core inflation levels and interest rates remained elevated. There was also significant variability in growth from market to market and increased volatility within the banking sector. Our core purpose of 'opening up a world of opportunity' underlines our focus on helping our customers and clients to navigate this complexity and access growth, wherever it is.

Many of our customers and colleagues are living through very difficult times. Higher interest rates have had a significant impact on businesses and households, and we will remain conscious of this with interest rates expected to begin to fall back in 2024. The wars between Russia and Ukraine, and now between Israel and Hamas, are absolutely devastating. Our thoughts are with all those impacted, including our colleagues in those parts of the world, and their families and friends. Their resilience, professionalism and care for one another during these most testing of times has been, and is, exceptional.

Progress and performance

Turning to our performance, I want to again pay tribute to my colleagues. The record profit performance that we delivered in 2023 was supported by the impact of interest rates on our strong balance sheet, but it was also testament to the tireless efforts of our people around the world. I would like to thank them sincerely for their hard work, dedication and commitment to serving our customers.

In 2023, reported profit before tax was \$30.3bn, which was an increase of \$13.3bn compared with 2022. This was due mainly to higher revenue and a number of notable items. Our three global businesses delivered good revenue growth, and we ended the year with strong capital, funding and liquidity positions.

We remain committed to sharing the benefits of our improved performance with our shareholders. The Board approved a fourth quarterly dividend of \$0.31 per share, bringing the total dividend for 2023 to \$0.61 per share. Furthermore, in 2023 we announced three share buy-backs worth a total of \$7bn and, today, have announced a further share buy-back of up to \$2bn.

The planned sale of our banking operations in Canada received final approval from the Canadian government at the end of last year. Subject to completion of the transaction, which is expected in the first quarter of 2024, the Board will consider a special dividend of \$0.21 per share, to be paid in the first half of 2024, as a priority use of the proceeds.

With this anticipated transaction and the completion of the sale of our retail banking business in France last month, our focus has moved to investing for growth, while maintaining efficiency. Two examples of growth opportunities last year were the agreed acquisition of Citi's retail wealth business in mainland China, which will help accelerate our Wealth strategy, and the acquisition of SVB UK, following the difficulties experienced by its US parent entity. Acquiring SVB UK was opportunistic, but the deal made excellent strategic sense for HSBC, and it also helped to protect clients, safeguard jobs and maintain financial stability.

Technology and sustainability are two of the trends transforming banking and the world around us. The opportunities from generative AI are among the most transformative within my working life. We are actively exploring a number of use cases, while also working to manage the associated risks.

Meanwhile the global climate challenge is becoming increasingly acute. Our presence in many of the sectors and markets where the need to reduce emissions is the greatest provides us with an opportunity to work with our clients to help address it. This is set out in our first net zero transition plan. The Board discussed and contributed to the net zero transition plan in depth. We believe that it is a realistic and ambitious assessment of the long-term journey ahead, as we continue to work with our clients on their transitions to a low-carbon future. It is clear there will be many uncertainties and dependencies, and that our approach will need to continue to evolve with the real world around us.

"Acquiring SVB UK was opportunistic, but the deal made excellent strategic sense for HSBC, and it also helped to protect clients, safeguard jobs and maintain financial stability."

Board operations

Our work on sustainability was one of the many topics discussed with our shareholders at our 2023 Annual General Meeting ('AGM') in May. Ahead of that, Noel and I were pleased to meet with Hong Kong shareholders at our Informal Shareholders' Meeting. At both meetings, we also discussed the resolutions that were requisitioned by shareholders on the Group's strategy and dividend policy. Shareholders expressed strong support for the Group's current strategy by voting overwhelmingly with the Board and against these resolutions at the AGM. This enabled the Board, my colleagues and our shareholders to focus on our shared objectives of serving our customers, driving stronger performance, and creating more value for our investors.

In 2023, the Board held meetings in London, Birmingham, Hong Kong, Paris, New York, Mumbai and Delhi. We also returned to Beijing and Shanghai last month. On each occasion, the Board engaged with clients, colleagues, government officials and regulators – with these discussions underlining that HSBC continues to have a key role connecting the world's trade and finance hubs.

There were a number of changes to the composition of the Board last year. At the 2023 AGM, we said farewell to Jackson Tai, who made an important, extensive and lasting contribution to the success of HSBC during his time as a non-executive Director. His leadership in strengthening risk and conduct governance and oversight was particularly critical through a period of significant change.

We also announced in December that David Nish intends to retire from the Board at the 2024 AGM. David has made an invaluable contribution to the Board over the past eight years, particularly in recent years as Chair of the Group Audit Committee and as Senior Independent Director. I would like to thank him warmly for his consistent counsel and guidance.

I am pleased that Kalpana Morparia, Ann Godbehere, Brendan Nelson and Swee Lian Teo joined the Board during 2023. Each of them brings experience and expertise that is an asset to the Board. Specifically, Ann's extensive public-listed company board experience means that she is ideally placed to take over as Senior Independent Director, while Brendan's UK and international financial expertise and significant experience as audit chair at UK-listed companies will be particularly valuable as he takes over leadership of the Group Audit Committee.

Macroeconomic outlook

Looking ahead, 2024 is likely to be another eventful year. The slowing of inflation in the second half of 2023 means that monetary tightening now appears to be coming to an end. However, current inflation levels in many economies remain above their targets. As central banks continue to try to bridge this gap, voters head to the polls in a significant number of countries across the globe. The timing and outcomes of these elections will impact the decision making of governments and have geopolitical, as well as fiscal, implications. We will monitor the results closely, and take a long-term view of strategy, purpose and capital allocation, while cognisant of any short-term challenges.

Among these potential challenges are the increased uncertainties due to wars in Europe and the Middle East, and disruption to global trade and supply chains caused by these and attacks on shipping in the Red Sea. However, we remain cautiously optimistic about economic prospects for 2024. We expect growth to slow in the first half of the year and recover thereafter. We also expect the variable economic growth that has characterised recent years to continue.

The economies of south and south-east Asia carry good economic momentum into 2024. India and Vietnam are currently among the fastest-growing economies in the world, benefiting from competitive labour costs, supportive policies and changing supply chains. Chinese companies are among those increasingly looking towards these and other markets, as China's economic transformation towards high-quality growth and domestic consumption continues.

China's recovery after reopening was bumpier than expected, but its economy grew in line with its annual target of around 5% in 2023. We expect this to be maintained in 2024, with recently announced policy measures to support the property sector and local government debt gradually flowing through to the wider economy. Hong Kong's growth has moved along at a slower but healthy pace and is likely to remain in line with pre-pandemic levels.

As Asia continues to grow, a significant opportunity is emerging to connect it to another high-growth region. The Middle East region performed very well economically in 2023 and the outlook remains strong for 2024, notwithstanding the risks arising from conflicts in the region. As countries like Saudi Arabia and the UAE continue to diversify their economies, new opportunities are created to connect them to Asia, and Asia to them.

The US economy grew more quickly than expected in 2023 in the face of higher interest rates. Growth is likely to be lower in 2024, although it should remain higher than in Europe where growth remains subdued. The UK economy, which entered a technical recession at the end of 2023, has nonetheless been resilient. Headline inflation should fall in the first half of the year, with core inflation following by the end of 2024. This will of course determine the pace of interest rate cuts.

I would like to end by reiterating my thanks to my colleagues for all that they have done, and all that they continue to do, for HSBC. Their tireless efforts are reflected by our improved financial performance and increased returns for shareholders in 2023 – and I look forward to them securing the foundations for our future success.

Mark E Tucker
Group Chairman

21 February 2024

Group Chief Executive's review



Noel Quinn
Group Chief Executive

Our record profit performance in 2023 reflected the hard work of the last four years and the inherent strength of our balance sheet, supported by interest rates.

Return on average tangible equity 

14.6%

(2022: 10%)

Profit before tax

\$30.3bn

(2022: \$17.1bn)

2023 was a very good year for HSBC. I would like to start by paying tribute to my colleagues for all that they did last year, and in the preceding three years. As I have said before, they have fully embraced our core purpose of 'opening up a world of opportunity' in all they do – from helping clients and customers to expand to new markets or move overseas, to digitising our business and helping our people to be their best, to our ongoing work on the transition to net zero.

Our performance last year was great credit to them. We delivered strong revenue growth across all three global businesses, supported by higher interest rates, which enabled us to deliver our best return on average tangible equity in more than a decade. As well as improving financial performance, our strategy is increasing shareholder returns. I am pleased that we have rewarded our shareholders for their loyalty with the highest full-year dividend per share since 2008, as well as three share buy-backs in 2023 totalling \$7bn. In total, we returned \$19bn to shareholders by way of dividend and share buy-backs in respect of 2023. In addition, we have today announced a further share buy-back of up to \$2bn.

As we move into 2024, I am confident that there are opportunities ahead for us and our clients that can help us to sustain our good performance going into the next phase of the interest rate cycle.

The environment does, however, remain challenging. The wars in Europe and the Middle East are beyond comprehension on a human level, and my thoughts remain with all those impacted. Both conflicts also still have the potential to escalate further. That would first and foremost deepen the humanitarian crisis, but also likely lead to another wave of market and economic turmoil. Interest rates are expected to fall this year, which we believe should in turn help to increase economic activity. The outlook currently remains uncertain, however, and many of our customers remain concerned about their finances. In the midst of these challenges, we will stay focused on what we are here to do – which is to serve our customers and clients, and help them with any financial difficulties they face.

Financial performance

Our results are a testament to the way we stayed focused in 2023. Reported profit before tax was \$30.3bn, which was \$13.3bn higher than in 2022. This included a number of notable items, including a favourable year-on-year impact of \$2.5bn relating to the sale of our retail banking operations in France and a \$1.6bn provisional gain on the acquisition of SVB UK. These were offset by a valuation adjustment of \$3.0bn relating to our investment in BoCom, which followed the reassessment of our accounting value-in-use in line with recent market developments in mainland China. This adjustment has no material impact on our capital, capital ratio and distribution capacity, and therefore no impact on our share buy-backs or dividends. We remain confident in the resilience of the Chinese economy, and the growth opportunities in mainland China over the medium to long term.

Reported revenue grew by 30% or \$15.4bn, driven by an increase in net interest income of \$5.4bn from all three global businesses. Non-interest income increased by \$10bn, reflecting increased trading and fair value income of \$6.4bn, mainly in Global Banking and Markets, and the favourable year-on-year impact from the impairment relating to the sale of our retail banking operations in France and provisional gain on the acquisition of SVB UK.

In 2023, we delivered a return on average tangible equity of 14.6%, or 15.6% excluding strategic transactions and the impairment on our investment in BoCom.

"I am confident that there are opportunities ahead for us and our clients that can help us to sustain our good performance going into the next phase of the interest rate cycle."

Our three global businesses performed well. In Commercial Banking, profit before tax was up by 76% to \$13.3bn on a constant currency basis, driven by revenue increases across all our main legal entities. Within this, Global Payments Solutions revenue increased by 78% or \$5.4bn on a constant currency basis, driven by higher margins reflecting higher interest rates and repricing. Fee income increased by 4% due to growth in transaction banking and higher volumes in cards and international payments, while our trade business performed well relative to the market and we increased our market share.

Global Banking and Markets delivered profit before tax of \$5.9bn, up 26% compared with 2022, on a constant currency basis. Revenue grew by 10% on a constant currency basis, due to higher net interest income in Global Payments Solutions and Securities Services. In Wealth and Personal Banking, profit before tax of \$11.5bn was \$6.1bn higher than in 2022, on a constant currency basis. Revenue was up by 31% or \$6.4bn on a constant currency basis, reflecting growth in Personal Banking and in Wealth, as well as the positive year-on-year impact relating to the sale of our French retail banking business. Within this, Wealth revenue of \$7.5bn was up 8% or \$0.6bn on a constant currency basis, with good growth in private banking and asset management.

Reported costs for 2023 were down by 2% compared with the previous year, as lower restructuring costs offset higher technology spending, inflation, higher performance-related pay and levies. On a target basis, costs increased by 6%, which was 1% higher than previously guided due to levies including a charge relating to the FDIC special assessment levy in the US. Our reported cost-efficiency ratio improved to 48.5% from 64.6% in 2022, supported by higher net interest income.

Our 2023 reported ECL charge of \$3.4bn was \$0.1bn lower than in 2022. This primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures, and reflected the continued uncertainty within the global economy. After good capital generation in 2023, we ended the year with a CET1 ratio of 14.8%. We are able to pay a fourth interim dividend of \$0.31 per share, bringing the total 2023 dividend to \$0.61 per share, which is the highest since 2008.

From transform to sustain and grow

Looking forward, supportive interest rates and good underlying business growth have given us strong momentum. We continue to target a mid-teens return on average tangible equity. We are also, however, mindful of the interest rate cycle and the subsequent impact on net interest income. In 2023, we increased the size and duration of our structural hedges to reduce the sensitivity of banking net interest income to interest rate movements and help stabilise future earnings. We also see a number of growth opportunities within our strategy that play to our strengths.

The first is to further grow our international businesses, which remains our biggest differentiator and growth opportunity. International expansion remains a core strategy for corporates and institutions seeking to develop and expand, especially the mid-market corporates that HSBC is very well-positioned to serve. Rather than de-globalising, we are seeing the world re-globalise, as supply chains change and intra-regional trade flows increase. Our international network and presence in markets that are benefiting like the ASEAN region and Mexico help us to capitalise on these trends. As a result, our market-leading trade franchise facilitated more than \$850bn of trade in 2023, while we are the second biggest payments company by revenue and we processed around \$500tn of payments electronically in 2023. This helped to grow wholesale multi-jurisdictional client revenue from customers who bank with us in more than one market, by 29% in 2023. With multi-jurisdictional corporate customers in Commercial Banking generating around five times as much client revenue as an average domestic customer, we continue to focus on growing this further, especially in the mid-market segment where we have a competitive advantage and there is still potential to further extend our market leadership.

The second is to diversify our revenue. Building our wealth business to meet the rising demand for wealth management services, especially in Asia, has been a strategic priority. Last year, we attracted net new invested assets of \$84bn, following \$80bn in 2022 and \$64bn in 2021, underlining the traction that we have gained. Our agreement to acquire Citi's retail wealth management portfolio in mainland China helps accelerate our plans. Another trend is the increasing demand for seamless, integrated, cross-border banking services, which innovation is helping us to deliver. We now have 1.3 million Global Money customers, up from 550,000 in 2022, and grew revenue from Wealth and Personal Banking international customers by 41% last year, from \$7.2bn to \$10.2bn. Critically, there was a 43% increase in new-to-bank international customers compared with 2022, driven by the new international proposition that we launched and continue to develop. As in wholesale, these international customers generate higher revenue, bringing in around three times as much as average domestic-only customers.

The third is continued growth in our two home markets. Our business is built on two very deep pools of liquidity in Hong Kong and the UK, which underpin our exceptional balance sheet strength and, therefore, all that we do as a business. Hong Kong and the UK are both also very profitable, well-connected markets. We are well positioned to capitalise on our positions as the number one bank in Hong Kong and a leading bank in the UK. Hong Kong's connectivity, both globally and to mainland China, are helping us to grow our franchise. We have increased our market share in trade in Hong Kong by 6.6 percentage points over the last three years, according to HKMA data. Meanwhile new-to-bank customers in Hong Kong increased by 36% over the same period as we have capitalised on the return of visitors from mainland China. In the UK, we have good traction in Commercial Banking and continue to grow market share in Wealth and Personal Banking. We are the leading bank for UK large corporates, with more than 70% market penetration last year, according to Coalition Greenwich. *Euromoney* also named us as the best bank in the UK for small and medium-sized enterprises, as digitisation helped to grow new-to-bank clients through Kinetic. We also increased our market share of UK mortgage stock, from 7.4% in 2020 to 8% in 2023, according to Bank of England data. As economic conditions improve and we continue to invest, we are confident in our ability to grow further in these critical markets.

Future growth levers

In 2023, we continued to build in areas we expect to drive future growth.

We brought in

\$84bn

of net new invested assets in wealth.

We grew multi-jurisdictional
wholesale revenue by

29%

from \$15.8bn in 2022 to \$20.4bn in 2023.

We have also continued to diversify our profit generation geographically across multiple markets. The positions that we have as a leading foreign bank in mainland China, India, Singapore, the UAE, Saudi Arabia and Mexico – all of which are also well connected to our international network – mean we are well placed to capture opportunities in these fast-growing economies. This was again evident as they all grew reported profits significantly in 2023, with mainland China (excluding associates), India, and Singapore each contributing in excess of \$1bn of profits to the Group.

It is critical that we maintain tight cost discipline. This was challenging in 2023 in a high inflation environment, and will likely remain so in 2024. At the same time, we need to invest in growth, so we remain very focused on maintaining tight underlying costs. The sale of our French retail banking operations completed on 1 January 2024, and the planned sale of our banking business in Canada remains due to complete in the first quarter of 2024. A number of smaller exits remain underway as we continue to look at opportunities to reshape our portfolio. At the same time, our acquisition of SVB UK enabled us to create a bigger, new proposition in HSBC Innovation Banking, which combines deep sector specialisms with our balance sheet strength and global reach, ensuring we continue our long history of supporting entrepreneurs.

Driving cost savings enables us to invest in technology, which is the fourth opportunity. The digitisation of our business continues to improve customer experience and increase efficiency. Using AI to help price complex structural options in our Foreign Exchange business has cut execution times down from hours to minutes. We have also identified hundreds of opportunities to leverage generative AI, and will focus our efforts on use cases with tangible benefits for the Group and our customers.

Innovation also creates new avenues for growth. We recently launched Zing, which is our open market mobile platform focused on cross-border payments, initially available in the UK. It offers similar capabilities as Global Money does to our international Wealth and Personal Banking customers, but is targeted at non-HSBC customers and allows us to drive growth beyond our traditional customer footprint.

Underpinning all of this is our work to build a stronger performance culture, improve colleague experience and prepare our workforce for the future. This is important because achieving our ambitions depends on our 220,000 colleagues feeling motivated and believing in our strategy. In our most recent staff survey, I was pleased that the number of colleagues seeing the positive impact of our strategy in 2023 was up 11 percentage points on 2020, which is also above the financial services sector benchmark.

Finally, helping to finance the substantial investment needs of our customers in the transition to net zero is a growing commercial opportunity, as well as a necessity to mitigate rising financial and wider societal risks. Our first net zero transition plan shows how we intend to finance and support the transition to net zero and collaborate globally to help enable change at scale. It also sets out our roadmap for implementing net zero, which we will do by supporting our customers, embedding net zero into the way we operate and partnering for systemic change. We understand that our approach – including our own transition plan – will need to evolve over time to keep pace with both the evolving science and real economy decarbonisation across the sectors and geographies we serve.

Thank you

On a personal note, one of the most enjoyable parts of 2023 for me was spending time with many of my colleagues around the world. Reconnecting with them, and seeing first-hand their passion for serving our customers, pride in HSBC and ambitions for the future, was energising and inspiring. Leading HSBC is a privilege, and my colleagues are the main reason why.

2023 was a very good year for HSBC. We now have an opportunity to ensure that it becomes part of a longer-term trend of ongoing good performance and to secure the foundations for future success. I am confident that we have the opportunities, the platform and the team to enable us to get it done.

Noel Quinn

Group Chief Executive

21 February 2024

Our strategy

We are implementing our strategy across the four strategic pillars aligned to our purpose, values and ambition.

Our strategy remains anchored around our four strategic pillars: 'Focus', 'Digitise', 'Energise' and 'Transition'.

We delivered a good set of results in 2023 supported by the interest rate environment and the execution of our strategy.

Our reported profit before tax was \$30.3bn and we achieved a reported return on tangible equity of 14.6%, or 15.6% excluding the impact of strategic transactions and the impairment of our investment in BoCom. In our global businesses, WPB revenue increased by 31% on a constant currency basis, including a

favourable year-on-year impact relating to the sale of our retail banking business in France. In CMB, revenue increased by 40% on a constant currency basis, including a provisional gain on the acquisition of SVB UK. In addition, revenue in GBM increased by 10% on a constant currency basis.

Focus

Wholesale – double down on leadership in international connectivity

Our strength in international connectivity remains one of our key differentiators. We seek to partner with our clients as they expand internationally, and capitalise on opportunities arising from the reconfiguration of global supply chains.

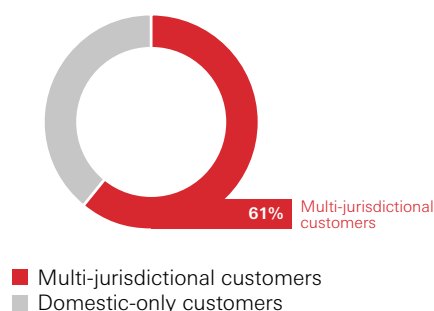
In 2023, we grew wholesale multi-jurisdictional client revenue¹ by 29% since 2022, supported by the interest rate environment. These customers also generate more revenue with us. In CMB, multi-jurisdictional corporate clients generate approximately five times the revenue of a domestic-only corporate customer. In addition, there was increased collaboration across markets. In GBM, cross-border client revenue from clients managed in the West and booked in the East increased by 39% from 2022.

Our ambition is to maintain strong, resilient returns through the interest rate cycle. As such, we are prioritising growing capital-light, fee-income generating businesses, such as transaction banking. In 2023, we processed around \$500tn electronic payment transactions, ranking second by Global Payments Solutions revenue in the first half of 2023². We also facilitated over \$850bn in trade and have been ranked first in revenue since 2018².

¹ For further information and the basis of preparation for multi-jurisdictional client revenue, see page 134.

² Global Payments Solutions and trade revenue rankings sourced from Coalition Greenwich.

Percentage of wholesale revenue from multi-jurisdictional customers



WPB – build our international and wealth propositions

We continued to build our international and wealth propositions, taking advantage of the growth of wealth assets globally but especially in Asia. We amassed \$84bn in net new invested assets in 2023, bringing total wealth invested assets to \$1,191bn, an increase of 17% from 2022.

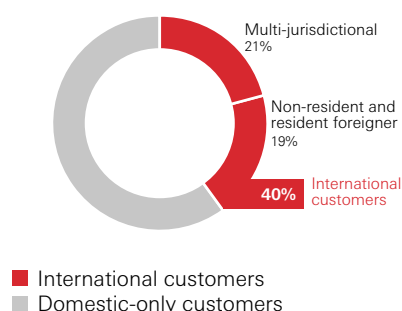
In 2023, our international strategy generated good results. We continued to attract international customers, who are either multi-jurisdictional, non-resident or resident foreigners, from our top 11 markets¹. We increased new-to-bank customers² in this segment by 43% since 2022, bringing total international customers to 6.7 million. These customers also each generated approximately three times the income compared with domestic customers. As a result, we increased revenue in this segment by 41% compared with 2022.

Customers increasingly demand seamless banking across geographies. We continued to enhance Global Money, our mobile proposition that allows customers to spend and send money in multiple currencies. The product gained traction with more than 750,000 new customers in 2023, taking total customers to over 1.3 million.

¹ Top 11 markets include the UK, Hong Kong, Mexico, the US, India, Singapore, Malaysia, the UAE, Australia, mainland China and the Channel Islands and the Isle of Man.

² New-to-bank customers includes both new to bank customers and those customers who have opened an account in a new market, including those who already bank with us in one or more other markets.

Percentage of WPB revenue from international customers



Focus continued

Maintain leadership in scale markets

We continued to take advantage of our strengths, especially our leading positions in our scale markets: Hong Kong and the UK.

Hong Kong

We have a well established business in Hong Kong, with \$544bn in customer deposits and market leadership in a number of product areas¹.

In 2023, profit before tax was \$10.7bn, an increase of 80% on a reported basis. In our wholesale businesses, we focused on maintaining our leading position across multiple products. In trade finance, our market share was 25.7%, an increase of 6.6 percentage points from 2020². We also continued to solidify our leadership position and grow our WPB business through the launch of a new Premier Elite proposition and acquisition of new customers, with new-to-bank WPB customers increasing by 36% from 2020, reaching 634,500 in 2023.

HSBC UK

HSBC UK has a universal franchise with \$340bn in customer deposits. We are a market leader across multiple CMB products, including trade finance and cash management, according to *Euromoney* and Coalition Greenwich. We aim to take advantage of our international network to maintain this position in CMB and grow our international presence in WPB.

Profit before tax was \$8.3bn in 2023, an increase of 84% on a reported basis, including a \$1.6bn provisional gain on the acquisition of SVB UK. We continued to grow our CMB business and achieved a market penetration of more than 70% within the large corporate banking segment in 2023³. In our WPB business, we opened over 1 million new current accounts and continued to grow our mortgage stock market share in the UK, reaching 8.0% in 2023, an increase of 0.6 percentage points since 2020⁴.

634,500

New-to-bank WPB customers in Hong Kong

25.7%

Share of the trade finance market in Hong Kong²

>70%

UK large corporate banking market penetration in 2023³

8.0%

HSBC UK's mortgage stock market share⁴

¹ Including deposits, assets, card spend and insurance. Source: Hong Kong Monetary Authority ('HKMA'), Hong Kong Insurance Authority.

² Source: HKMA, 31 December 2023.

³ Source: Coalition Greenwich Voice of Client – 2023 European Large Corporate Cash Management Study.

⁴ Source: Bank of England.

Diversify our revenue

In addition to Hong Kong and the UK, five markets in particular represent growth opportunities for us. We aim to be the leader within the affluent and international customer segments in mainland China, India, Singapore and the UAE, and we are a market leader within retail banking in Mexico. These markets delivered strong results in 2023, with mainland China excluding BoCom, India and Singapore each delivering over \$1bn in profit before tax. The UAE and Mexico each delivered profit before tax of over \$0.8bn.

Mainland China

We have a strong client franchise in mainland China capitalising on our role as a bridge to support clients' international needs. We were ranked number one in foreign exchange by *FX Markets Asia* in 2023. We entered into an agreement to acquire Citi's retail wealth management portfolio, and supported by our expanded onshore Global Private Banking and our Pinnacle proposition, we grew our wealth invested assets by 53% compared with 2022.

India

We aim to continue growing our wholesale franchise by taking advantage of corporate supply chains. In 2023, we were ranked number one by *Euromoney* in cash management in India. We are also tapping into the wealth pools of the Indian diaspora with the launch of onshore Global Private Banking. In 2023, we were the top foreign bank for non-resident Indians in wealth¹.

Singapore

Our ambition is to be the primary wholesale offshore booking centre and wealth hub within the ASEAN region. In 2023, we were recognised by *AsiaMoney* as the Best International Bank in Singapore. Additionally, we grew our retail franchise, with a 76% increase in new-to-bank WPB international customers compared with 2022, supported by the launch of our new customer onboarding journey.

UAE

We are growing our institutional and international wholesale business from a strong foundation. In 2023, we were ranked number one in equity and debt capital markets in MENAT². Within wealth, following the launch of onshore Global Private Banking, we grew our wealth invested assets by 35% from 2022. We also grew international new-to-bank customers by 51% since 2022.

Mexico

Within our wholesale businesses, we continue to capitalise on trade flows between Mexico and North America. In 2023, we were ranked number one by *Euromoney* within trade finance in Mexico. In our wealth and retail businesses, we remain focused on delivering improved customer experience and growing our Global Private Banking business. In addition, over half of WPB client acquisitions in 2023 were referred by the wholesale businesses through our Employee Banking Solutions proposition.

1st

Foreign exchange ranking in mainland China
Source: *FX Markets Asia*

1st

Cash management ranking in India
Source: *Euromoney*

76%

Increase in new-to-bank WPB international customers in Singapore compared with 2022

35%

Increase in wealth invested assets in the UAE compared with 2022

51%

WPB client acquisition from wholesale referrals in Mexico

¹ Source: Indian Mutual Fund Industry

² Source: *Dealogic*

Focus continued

Maintain cost discipline and reshape our portfolio

In 2023, our costs were up by 6% on a target basis. Our aim is to maintain cost discipline by driving efficiencies in our operations and reinvesting cost savings in areas that will drive future growth. We are prioritising investments in transaction banking, wealth and international propositions, and product innovation. At the same time, we continue to reshape our portfolio through exits and bolt-on acquisitions.

We completed our exit from our retail banking operations in France, our WPB business in New Zealand, and our businesses in Greece and Oman. Further exits from Canada, Russia and Armenia are underway as well as in our retail banking business in Mauritius.

These exits will pave the way for investments in growth and efficiency areas such as HSBC

Innovation Banking, which was launched after the acquisition of SVB UK. We also entered into an agreement to acquire Citi's retail wealth management portfolio in mainland China in August 2023, and completed our purchase of SilkRoad Property Partners, a real estate fund manager in January 2024, which will be integrated into our asset management business.

Digitise

Improve customer experience and efficiency while investing in innovation

In 2023, we made progress on our goal to become a digital-first bank, and our customers have been increasingly adopting our digital services. In CMB, 83% of customers were digitally active, an increase of 5 percentage points since 2022. Our net promoter score for onboarding wholesale international clients in the last quarter of 2023 improved by 12 points when compared with the first three months of the year. At 54%, more than half of WPB customers were mobile active, an increase of 6 percentage points from 2022. Furthermore, a total of 75% of WPB's international customer accounts were opened digitally in 2023, an increase of 30 percentage points from 2022.

We are also focused on building future-ready business models by investing in open-market propositions. In 2023, we announced a partnership with Tradeshift to launch a new embedded finance solution in the first half of 2024, which will provide payment and financial services embedded into trade, e-commerce and marketplace experiences. In January 2024, in the UK we launched Zing, a mobile platform enabling cross-border payments available to non-HSBC consumers.

We are also investing in innovative technologies for the future. In 2024, we plan to both concentrate our efforts and increase our

investment in artificial intelligence ('AI'). At present, we employ AI in areas such as fraud detection and transaction monitoring. We also launched AI Markets, a digital service that utilises natural language processing to enrich the way investors interact with global markets. Additionally, we are in the process of piloting numerous generative AI use cases in areas like developer augmentation, creative content generation and knowledge management, and have identified hundreds more potential opportunities.

Energise

Inspire a dynamic culture

We are opening up a world of opportunity for our colleagues by building an inclusive organisation that empowers and energises them. We intend to accomplish this by building a stronger performance culture, improving colleague experience and preparing a workforce for the future.

Our success is underpinned by our colleagues. In a changing world, we empower our colleagues by providing clarity of our strategy and opportunities for them to develop and have

fulfilling careers. Our 2023 employee Snapshot survey showed that 73% of our colleagues see the positive impact of our strategy, a 3 percentage point increase from 2022, and a 11 percentage point improvement from 2020. The survey also showed that 81% of our colleagues feel confident about HSBC's future, a 4 percentage point increase from 2022, and also a 11 percentage point improvement over 2020.

We remain focused on creating a diverse and inclusive environment. In 2023, 34.1% of senior

leadership roles were held by women, and we are on track to achieve our ambition of 35% by 2025. We also set a Group-wide ethnicity strategy to better represent the communities we serve, with 3.0% of leadership roles in the UK and US held by colleagues of Black heritage in 2023, against our ambition of 3.4% by 2025. Additionally, in 2023, over 37.8% of our senior leaders have identified as being from an Asian heritage background.

I In the following 'ESG overview' section, we outline how we put our purpose and values into practice.

Transition

Support the transition to net zero

In 2020, we set out our ambition to become a net zero bank by 2050. Since then, we have taken a number of steps to execute on our ambition and manage climate risks. In January 2024, we published our first net zero transition plan, which provides an overview of the progress we have made to date and the actions being taken and planned to embed our net zero ambition across HSBC. It sets out how we intend to harness our strengths and capabilities in the areas where we believe we can support large-scale emissions reduction: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains.

To support our customers through the transition to net zero and to a sustainable future, in 2020, we set out an ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investments by 2030. In 2023, we provided and facilitated \$83.7bn of sustainable finance and investments, bringing our cumulative total since January 2020 to \$294.4bn.

As part of our ambition to align our financed emissions to achieve net zero by 2050, we have set on-balance sheet or combined financed emissions targets for a number of emission-intensive sectors.

Work continues on the integration of ESG and climate analysis into HSBC Asset

Management's actively managed product offerings to help ensure the ESG risks faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.

We also made progress in our ambition to become net zero in our own operations and supply chain by 2030. In 2023, we reduced our absolute greenhouse gas emissions in our operations to 293,333 tonnes CO₂e, which represents a 57.3% reduction from our 2019 baseline.

I For further details on our climate ambition, see the following 'ESG overview' section.

ESG overview

We are taking steps to incorporate environmental, social and governance principles throughout the organisation, supporting the success of our customers, people and other stakeholders.

Our approach

We are guided by our purpose: to open up a world of opportunity for our customers, colleagues and communities. Our purpose is underpinned by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our approach to ESG is shaped by our purpose and values and a desire to create sustainable long-term value for our stakeholders. As an international bank with significant breadth and scale, we understand that our economies, societies, supply chains and people's lives are interconnected. We recognise we can play an important role in helping to tackle ESG challenges. We focus our efforts on three areas: the transition to net zero, building inclusion and resilience, and acting responsibly.

Transition to net zero

In 2020, we set an ambition to become a net zero bank by 2050. Since then, we have made progress in support of this ambition – including providing and facilitating sustainable finance and investment for our customers, updating several of our sustainability and investment risk policies, and setting 2030 targets for financed emissions in a range of high-emitting sectors.

We recognise both the commercial opportunity of taking action to transition to net zero and the potential risks of inaction by society at large. In our net zero transition plan, we provide an overview of the actions we are taking and plan to take to support our customers, embed net zero into the way we operate and partner for systemic change. We also set out how we are starting to work to integrate nature and just transition considerations into our net zero approach.

We set out in more detail the steps we are taking on our climate ambitions in the ESG review on page 41.

Build inclusion and resilience

To help create long-term value for all stakeholders, we focus on fostering inclusion and building resilience for our colleagues, our customers and the communities we operate within.

For colleagues, we focus on creating an inclusive, healthy and rewarding environment as this helps us to attract, develop and retain the best talent, and we support their resilience through well-being and learning resources. We continue to make progress towards our goals for gender and ethnic diversity.

We strive to provide an inclusive and accessible banking experience for our customers. We do this by providing resources that help them manage their finances, and services that help them protect what they value.

We are developing an updated global philanthropy strategy that aligns with our ESG areas of focus: 'transition to net zero' and 'building inclusion and resilience'.

Act responsibly

We are focused on operating a strong and sustainable business that puts the customer first, values good governance, and gives our stakeholders confidence in how we do what we do. Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the financial markets in which we operate. Customer experience is at the heart of how we operate. We aim to act responsibly and with integrity across the value chain.

On page 15, we have set out ways that we have supported our stakeholders through a challenging year.

ESG disclosure map and directory

Transition to net zero	Our approach to the transition	Read more on our approach to the transition to net zero	▶ Page 45
	Supporting our customers	Read more on our progress made against our \$750bn to \$1tn sustainable finance and investment ambition	▶ Page 49
		Read more on our progress made against our ambition to achieve net zero in our financed emissions by 2050	▶ Page 53
	Embedding net zero into the way we operate	Read more on our ambition to achieve net zero in our own operations and supply chain by 2030	▶ Page 63
	Partnering for systemic change	Read more on how we partner externally in support of systemic change	▶ Page 68
	Detailed Task Force on Climate-related Financial Disclosures ('TCFD')	We make disclosures consistent with Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, highlighted with the symbol: TCFD	▶ Page 69
Build inclusion and resilience	Diversity and inclusion disclosures	Read more on how we are building an inclusive environment that reflects our customers and communities, and our latest pay gap statistics	▶ Page 76
	Pay gap disclosures		▶ Page 77
Act responsibly	How we govern ESG	Read more on our approach to ESG governance and human rights	▶ Page 88
	Human rights and modern slavery disclosures		▶ Page 89
	How our ESG targets link to executive remuneration	Read more on our ESG targets embedded in executive remuneration	▶ Page 16 ▶ Pages 320 to 335
ESG Data Pack	Detailed ESG information	Our <i>ESG Data Pack</i> provides more granular ESG information, including the breakdown of our sustainable finance and investment progress, and complaints volumes	www.hsbc.com/esg

Engaging with our stakeholders and our material ESG topics

We know that engaging with our stakeholders is core to being a responsible business. To determine material topics that our stakeholders are interested in, we conduct a number of activities throughout the year,

including engagements outlined in the table below. Disclosure standards such as the TCFD, World Economic Forum ('WEF') Stakeholder Capitalism Metrics and Sustainability Accounting Standards Board ('SASB'), as well

as the ESG Guide under the Hong Kong Stock Exchange Listing Rules and other applicable rules and regulations, are considered as part of the identification of material issues and disclosures.

Our stakeholders	How we engage	Material topics highlighted by the engagement ¹
Customers 	Our customers' voices are heard through our interactions with them, surveys and by listening to their complaints.	– Customer advocacy – Cybersecurity – Employee training – Diversity and inclusion – Employee engagement – Supporting our customers – financed emissions – Embedding net zero into the way we operate – Sustainability risk policies, including thermal coal phase-out policy and energy policy – Net zero transition plan – Financial inclusion and community investment – Climate risk – Anti-bribery and corruption – Conduct and product responsibility – Supply chain management – Human rights
Employees 	Our colleagues' voices are heard through our annual Snapshot survey, Exchange meetings, global jams, townhalls, leadership summits, and our 'speak-up' channels, including our global whistleblowing platform, HSBC Confidential.	
Investors 	We engage with our shareholders through our AGMs, virtual and in-person meetings, investor roadshows, conferences and our annual investor survey.	
Communities 	We engage with non-governmental organisations ('NGOs'), charities and other civil society groups through forums, summits and roundtables supporting ESG causes such as COP28. We engage directly on specific issues by taking part in working groups.	
Regulators and governments 	We proactively engage with regulators and governments to build strong relationships through virtual and in-person meetings and by responding to consultations individually and jointly via industry bodies.	
Suppliers 	Our code of conduct sets out our ambitions, targets and commitments on the environment, diversity and human rights, and outlines the minimum standards we expect of our suppliers. We engage with key suppliers in real estate, technology and other sectors through meetings.	

¹ These form part of our ESG disclosures suite together with other requirements, and are not exhaustive or exclusive to one stakeholder group. For further details of our disclosures, see our ESG review and ESG Data Pack, as well as our ESG reporting centre at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Supporting our customers in challenging economic times

We know that many of our customers continue to face difficult financial circumstances due to cost of living pressures, and we are working to support them. As the rising cost of living has been particularly high in the UK, one of our largest markets, most of our initiatives focused on supporting our UK personal and business customers. We have enhanced our range of digital resources available on our website and we are proactively approaching those most in need – both personal and business customers – to offer targeted support and help build their financial resilience.

Proactive support

For personal customers in financial difficulty, we have developed our digital services with improvements to the 'Rising cost of living' hub on our public website in the UK. Use of segmentation data has enabled us to take a proactive approach to supporting customers and offering targeted solutions to those who are identified as being most in need.

We have engaged with vulnerable customer groups through cost of living calls, targeted emails and direct mail. In 2023, we also:

- offered customers the option to switch mortgage rates early, extend their mortgage term with an option to reverse it at a later date, or pay interest only for six months, as part of our commitment to the new UK Mortgage Charter;
- offered a temporary reduction of fees on arranged overdrafts to help those most in need pay less;
- held over 1,000 financial well-being webinars, including 227 cost of living sessions for 50,000 customers and colleagues;
- helped more than 37,000 customers identify £2.9m in potential benefits by providing access to a benefits calculator tool via our website; and
- helped more than 130,000 customers generate a financial fitness score, and obtain tips on how to improve their financial resilience using our online financial fitness tool.

In the UK, CMB has continued to support commercial banking clients exhibiting signs of financial vulnerability. We reviewed client needs on a case-by-case basis and provided solutions including repayment holidays, extending loan repayments and offering extensions to collection periods. The use of data and front-line insights has improved our ability to identify financially vulnerable customers.

In 2023, we contacted targeted clients to help improve awareness of the support available, including communicating with over 178,000 SMEs and proactively making over 43,000 outbound calls.

Increasing understanding of fraud and scam risk and education on how to protect against becoming a victim continues to be another key area of focus. In 2023, we also:

- held fraud and scam awareness webinars to highlight recent trends and case studies, attended by approximately 4,300 customers;
- sent 2.1 million emails and 300,000 letters in quarterly campaigns to share our insights and enhance understanding of key fraud topics and trends; and
- published 44 articles and alerts on the HSBC Fraud and Cyber Awareness mobile app, covering a broad range of topics as well as any emerging threats and trends.

▶ For further details of our work to support vulnerable communities and customers see page 85.

▶ For further details on our conduct and product responsibilities, see the ESG review on page 96.

Our ESG ambitions, metrics and targets TCFD

We have established ambitions and targets that guide how we do business, including how we operate and how we serve our customers. These include targets designed to help track our progress against our environmental and social sustainability goals. They also help us to improve employee advocacy and the diversity of senior leadership, as well as strengthen our market conduct. The targets for these measures

are linked to the pillars of our ESG strategy: transition to net zero, building inclusion and resilience, and acting responsibly.

To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives that underpin the ESG metrics in the table below.

For a summary of how all financial and non-financial metrics link to executive remuneration, see pages 320 to 335 of the Directors' remuneration report.

The table below sets out some of our key ESG metrics that we use to measure our progress against our ambitions. For further details of how we are doing, see the ESG review on page 41.

Environmental:

Transition to net zero¹

Sustainable finance and investment²

\$294.4bn

Cumulative total provided and facilitated since January 2020. (2022: \$210.7bn)

Ambition: Provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030.

Net zero in our own operations³

57.3%

Reduction in absolute operational greenhouse gas emissions from 2019 baseline. (2022: 58.5%)

Ambition: To be net zero in our own operations and supply chain by 2030.

Financed emissions⁴

7 sectors

Number of sectors where we have set financed emissions targets, comprising five on-balance sheet and two combined financed emissions targets.

Ambition: Align our financed emissions to achieve net zero by 2050.

Social:

Build inclusion and resilience

Gender diversity⁵

34.1%

Senior leadership roles held by women. (2022: 33.3%)

Ambition: Achieve 35% senior leadership roles held by women by 2025.

Black heritage⁵

3.0%

Senior leadership roles held by Black heritage colleagues in the UK and US combined (2022: 2.5%)

Ambition: 3.4% of senior leadership roles held by Black heritage colleagues in the UK and US combined by 2025.

Employee engagement⁶

77%

Employee engagement score. (2022: 74%)

Ambition: Maintain 72% in the employee Snapshot engagement index.

Governance:

Acting responsibly

Conduct training⁷

98%

Employees who completed conduct training in 2023. (2022: 98%)

Target: At least 98% of employees complete conduct and financial crime training each year.

Customer satisfaction⁸

3 out of 6

WPB markets that sustained top-three rank and/or improved in customer satisfaction. (2022: 4 out of 6)

Target: To be ranked top three and/or improve customer satisfaction rank.

5 out of 6

CMB markets that sustained top-three rank and/or improved in customer satisfaction. (2022: 5 out of 6)

Target: To be ranked top three and/or improve customer satisfaction rank

¹ For further details of our approach to transition to net zero, methodology and third-party limited assurance reports on financed emissions, sustainable finance and investment progress, and our own operations' scope 1, 2 and 3 (business travel and supply chain) greenhouse gas emissions data, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

² In October 2020, we announced our ambition to provide and facilitate between \$750bn to \$1tn of sustainable finance and investment by 2030. For further details and breakdown, see the ESG review on page 49. For details of how this target links with the scorecards, see page 320.

³ This absolute greenhouse gas emission figure covers scope 1, scope 2 and scope 3 business travel emissions. For further details of how this target links with the scorecards, see page 320.

⁴ See page 53 for further details of our targets, which include combined on-balance sheet financed emissions and facilitated emission targets for two emissions-intensive sectors: oil and gas, and power and utilities. The remaining five sectors for which we have set on-balance sheet financed emissions targets are: cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining.

⁵ Senior leadership is classified as those at band 3 and above in our global career band structure. For further details, see the ESG review on page 77. For details of how this target links with the scorecards, see page 320. Colleagues in Canada are excluded from this disclosure to align with scorecards.

⁶ For further details, see the ESG review on page 79. For details of how this target links with the scorecards, see page 320.

⁷ The completion rate shown relates to the 'Fighting financial crime' training module in 2023 and covers permanent and non-permanent employees. The latest global conduct training 'Conduct matters and taking responsibility – 2023' was launched in December 2023 and will run through the first quarter.

⁸ The markets where we report rank positions for WPB and CMB – the UK, Hong Kong, mainland China, India, Mexico and Singapore – are in line with the annual executive scorecards. Our WPB NPS ranking in mainland China is based on 2022 results. Due to data integrity challenges, we are unable to produce a 2023 ranking. For further details of customer satisfaction, see the ESG review on page 91. For further details of how this target links with the scorecards, see page 320.

Task Force on Climate-related Financial Disclosures ('TCFD') TCFD

The Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') recommendations set an important framework for understanding and analysing climate-related risks, and we are committed to regular and transparent reporting to help communicate and track our progress. We will advocate the same from our customers, suppliers and the industry.

We have set out our key climate-related financial disclosures throughout the *Annual Report and Accounts 2023* and related disclosures. We recognise that further work lies ahead as we continue to develop our management and reporting capabilities. In 2023, we made certain enhancements to our disclosures. These include enhancing our merger and acquisition process to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC. In addition, we published our net zero transition plan.

We have considered our 'comply or explain' obligation under both the UK's Financial Conduct Authority's Listing Rules and Sections 414CA and 414CB of the UK Companies Act 2006, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including its annexes and supplemental guidance, save for certain items, which we summarise below.

- For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. While the NZBA defines 2030 as intermediate, we use different time horizons for climate risk management. For climate, we define short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. These time periods align to the Climate Action 100+ disclosure framework. In 2023, we disclosed interim 2030 targets for financed emissions for a number of sectors as we outline on page 18. Following this, we have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities.
- The methodology and data used for financed emissions is evolving and we expect industry guidance, market practice, data availability, scenarios and regulatory disclosure requirements to continue to change, along with the shape of our own business. We expect to periodically review and, if required, update our methodologies, baselines, scenarios, and targets to reflect real economy decarbonisation and evolving guidance and data.
- We do not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.
- We currently disclose four out of 15 categories of scope 3 greenhouse gas emissions including business travel, supply chain and financed emissions. In relation to financed emissions, we publish on-balance sheet financed emissions for a number of sectors as detailed on page 18. We also publish facilitated emissions for the oil and gas, and power and utilities sectors. Future disclosures on financed emissions and related risks are reliant on our customers publicly disclosing their greenhouse gas emissions, targets and plans, and related risks. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes require significant enhancements.

■ For a full summary of our TCFD disclosures, including detailed disclosure locations for additional information, see pages 69 to 74. The additional information section on page 1e provides further detail.

How we measure our net zero progress TCFD

We are helping the transition to a net zero economy by transforming ourselves, and supporting our customers to make their own transitions. Our ambition is to align our financed emissions to net zero by 2050 or sooner.

Our net zero transition plan sets out how we intend to harness our strengths and capabilities in areas where we believe we can support large-scale emissions reduction: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains. The plan also provides details on our sectoral approach, and on our implementation plan to embed net zero into the way we operate.

We continue to track our progress against our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030, aligned to our published data dictionary, and our ambition to achieve net zero in our own operations and supply chain by 2030. We also recognise that green and sustainable finance and investment taxonomies are not consistent globally, and evolving taxonomies and practices could result in revisions in our sustainable finance reporting going forward.

To date, we have set 2030 financed emissions targets across energy, heavy industry and

transport, specifically for the following sectors: oil and gas; power and utilities; cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining.

Following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with NZBA guidelines on sector inclusion for target setting. Due to ongoing data availability and quality challenges, we continue to assess our financed emissions for our real estate and agriculture sectors.

We recognise that there is a significant amount of uncertainty and complexity related to the transition, and that progress in the real economy will depend heavily on external factors including the policy and regulatory landscape across markets, the speed of technological innovation and growth, and economic and geopolitical events. In addition, climate science and the availability and quality of climate data continue to evolve, and the net zero-aligned scenarios upon which we have based our approach will also update

over time to keep pace with real economy developments. Emissions and broader customer data is also expected to improve, as well as approaches and standards for greenhouse gas accounting and target setting. As a result of this, we expect to regularly refine and update our analysis as well as data collection and consolidation processes to accommodate new data sources and updated methodologies and scenarios, and intend to be transparent on any changes we make and why. As an example, our ESG review includes recalculated 2019 and 2020 financed emissions figures for the oil and gas, and power and utilities sectors. In addition, periodic updates to published net zero-aligned scenarios mean that it will be important that our net zero-aligned reference scenario choice, and by extension our target-setting approach, remain in step with the evolving real economy context and is informed by the latest science.

In the following table, we set out our metrics and indicators and assess our progress against them.

▶ For further details of our approach to measuring financed emissions, including scope, methodology, assumptions and limitations, see page 53.

Net zero implementation plan	Metrics and indicators	Progress to date
Supporting our customers	Sustainable finance and investment provided and facilitated (\$bn) ¹	\$294.4bn cumulative progress since 2020 (for further breakdown see page 49)
	Number of sectors analysed for financed emissions ²	We have set seven financed emissions targets, comprising five on-balance sheet and two combined financed emissions targets so far (see pages 53 to 62)
	Thermal coal financing exposures ^{2,3}	Our thermal coal financing drawn balance exposure was approximately \$1bn as at 31 December 2020 (for further details, see page 67)
Embedding net zero into the way we operate	Percentage of absolute operational greenhouse gas emissions reduced ⁴	57.3% reduction in absolute greenhouse gas emissions from 2019 baseline (see page 63)
	Percentage of renewable electricity sourced across our operations	Increase from 48.3% in 2022 to 58.4% (see page 63)
	Percentage of energy consumption reduced	26.3% reduction in energy consumption from 2019 baseline (see page 63)
Partnering for systemic change	Philanthropic investment in climate innovation ventures, renewable energy, and nature-based solutions	Committed \$105m to our NGO partners since 2020, as part of the Climate Solutions Partnership (see page 68)

¹ The detailed definitions of the contributing activities for sustainable finance and investment are available in our revised Sustainable Finance and Investment Data Dictionary 2023. For this, together with our ESG Data Pack and third-party limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

² For further details of our financed emissions methodology, exclusions and limitations, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

³ Data is subject to independent third-party limited assurance in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and independent third-party limited assurance report at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

⁴ Our reported scope 3 greenhouse gas emissions of our own operations in 2023 are related to business travel. For further details on scope 1, 2 and 3, and our progress on greenhouse gas emissions and renewable energy targets, see page 64 and our ESG Data Pack at www.hsbc.com/esg. For further details of our methodology and independent third-party limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Responsible business culture

We have a responsibility to help protect our customers, our communities and the integrity of the financial system.

Employee matters

We are building a responsible business culture that values difference, takes responsibility, seeks different perspectives and upholds good standards of conduct.

There may be times when our colleagues need to speak up about behaviours in the workplace. In the first instance we encourage colleagues to speak to their line manager, and our annual Snapshot survey showed that 86% of colleagues have trust in their direct manager. HSBC Confidential is our whistleblowing channel, which allows colleagues past and present to raise concerns confidentially and, if preferred, anonymously (subject to local laws). Our Snapshot survey showed that 80% of colleagues feel able to speak up when they see behaviours they consider to be wrong.

We promote an environment where our colleagues are treated with dignity and respect and we act where we find behaviours that fall short. Our inclusion index measures our colleagues' sense of belonging and psychological safety within the organisation, and in 2023 this increased to 78%.

We aspire to be an organisation that is representative of the communities in which we serve. We have committed to achieving a 35% representation of women in senior leadership roles (classified as those at band 3 and above in our global career band structure) by 2025. We remain on track, having achieved 34.1% in 2023.

We aspire to achieve a 3.4% representation of Black heritage colleagues in senior leadership roles across the UK and US combined by 2025. We are on track to achieve this, having increased our representation to 3.0% this year. We continue to make progress but we know there is more to be done.

To ensure we set representation goals that are locally relevant, we enable our employees to self-disclose ethnicity data. We have enabled

91% of our colleagues to disclose their ethnicity, with 62% currently choosing to do so, where this is legally permissible.

The table below outlines high-level diversity metrics.

All employees

Male	48%
Female	52%

Senior leadership¹

Male	66%
Female	34%

Holdings Board

Male	53%
Female	47%

¹ Senior leadership is classified as those at band 3 and above in our global career band structure.

► For further details of how we look after our people, including our diversity targets, how we encourage our employees to speak up, and our approach to employee conduct, see the Social section of the ESG review on page 75.

Listening to our customers

We continue to listen, learn and act on our customers' feedback. We have implemented the net promoter system, enabling us to share customer feedback with our front-line teams and allowing them to respond directly to customers. We also have dedicated global forums to promote continuous improvement of our customers' experience.

Social matters

We invest in the long-term prosperity of the communities where we operate. We aim to provide people, especially those in marginalised and vulnerable communities, with the skills and knowledge needed to thrive through the transition to a sustainable future. For this reason, we focus our support on programmes that help build inclusion and resilience. We also support climate solutions and innovation, and contribute to disaster

relief when needed. For examples of our programmes, see the 'Communities' section of the ESG review on page 86.

Human rights

As set out in our Human Rights Statement, we recognise the role of business in respecting human rights. Our approach is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Our Human Rights Statement, and annual statements under the UK's Modern Slavery Act, are available on www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre. For further details of our approach, see the 'Human rights' section of the ESG review on page 89.

Anti-corruption and anti-bribery

We are required to comply with all applicable anti-bribery and corruption laws in every market and jurisdiction in which we operate while focusing on the spirit of relevant laws and regulations to demonstrate our commitment to ethical behaviours and conduct as part of our environmental, social and corporate governance.

Environmental matters

For details of our climate ambition and carbon emission metrics, see the ESG review on page 44.

Group non-financial and sustainability information statement

This section primarily covers Group non-financial and sustainability information as required by applicable regulations. Other related information can be found as follows:

- For further details of our key performance indicators, see page 1.
- For further details of our business model, see page 4.
- For further details of our principal risks and how they are managed, see pages 37 to 39.
- For further details of our TCFD disclosures, including alignment with sections 414CA and 414CB of the Companies Act 2006, see pages 69 to 74.



Training colleagues and partners on digital accessibility

With 'Digitise' being one of our strategic pillars, we are committed to improving how our customers can access our online and mobile services. We review against the Web Content Accessibility Guidelines for our websites in 23 markets and mobile apps in 18 markets, and engaged with more than 10,000 colleagues, partners and companies through our digital accessibility training and awareness programme in 2023. To share best practice externally, HSBC sponsored and hosted AbilityNet's Techshare Pro at our head office in the UK. Our work on digital accessibility was recognised through 11 awards in 2023, including in Hong Kong, where we were the only financial services provider to be recognised for our core banking apps.

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Remuneration

The Group’s financial and strategic performance is reflected in remuneration outcomes for colleagues.

Our reward principles and commitments to colleagues

Our goal is to deliver a unique and exceptional experience to colleagues so that we sustain our performance in competitive markets. Our reward principles and commitments centre on rewarding colleagues responsibly, recognising their success and supporting colleagues to grow.

Pay is a critical part of our proposition. We were encouraged by a nine percentage point improvement to 52% in colleagues’ perceptions they are paid fairly because of actions we took through 2022. The Group Remuneration Committee remain very focused on the need to improve this further. For 2024, we are putting more structure in place to improve transparency and clarity about how we make pay decisions.

Rewarding colleagues responsibly
Fixed pay increases for 2024 were determined based on consistent principles to help address wage inflation in the markets where we operate.

As part of the 2023 pay review we introduced fixed pay ranges to help managers make fair and competitive fixed pay decisions and improve clarity for colleagues.

We will award an overall global fixed pay increase of 4.4% in 2024, compared with 5.5% for the previous year, reflecting lower wage inflation in many markets.

The level of increases vary by market, depending on the economic situation and individual roles.

To ensure fixed pay levels provide financial security to colleagues, we established Living Wage benchmarks for every market and have been certified by the Fair Wage Network as a global Living Wage employer for 2024. This is an important commitment we make to our employees and the communities in which we operate to help ensure we pay responsibly and provide financial security.

More than 95% of colleagues have private medical insurance, a retirement plan and life insurance.

Recognising colleagues’ success
The Group Remuneration Committee determined an overall variable pay pool for Group employees of \$3,774m (2022: \$3,359m). This followed a review of our performance against financial and non-financial metrics set out in the Group risk framework.

Individual variable pay outcomes varied significantly depending on role, business area and performance. Our highest performers and those who role-model our values-aligned behaviours received the largest increases in variable pay compared with the previous year.

Variable pay pool (\$m)

2023	3,774
2022	3,359

From 2024, we will introduce a new variable pay structure for over 150,000 junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance.

Supporting colleagues to grow
Guided by data and colleague feedback, the pillars of our well-being programme are mental, physical, financial and social well-being.

In our 2023 employee Snapshot survey, 83% of employees said their mental health was positive, while all measures of physical well-being (exercise, sleep, nutrition) have improved. For the second year running, HSBC has been ranked top tier for mental health in the global CCLA Corporate Mental Health Benchmark.

For details of how the Group Remuneration Committee sets the pool, see page 315.

Remuneration for our executive Directors

Variable pay for our executive Directors is driven by achievement against performance scorecards set by the Group Remuneration Committee at the start of the year to align pay outcomes with the delivery of our strategy and plan.

The Committee considered carefully the impact of strategic transactions and one-offs on the Group’s financial performance in 2023. Consistent with the approach in prior years, the Committee judged that it was appropriate to assess financial performance for the purpose of the annual scorecard excluding these items, to ensure that out-turns were not impacted by one-offs.

Reflecting on the overall risk management in the year and in respect of the PRA Notice relating to compliance with the UK Financial Services Compensation Scheme and related Depositor Protection rules, the Committee applied a downward adjustment of 7.5% to Noel Quinn’s annual incentive outcome.

The Committee also carefully considered the executive Directors’ pay outcomes in the context of pay decisions made for the wider workforce and determined that these were an appropriate reflection of Group, business and individual performance delivered in 2023.

Details of the current executive Directors’ remuneration policy can be found on pages 257 to 265 of our Annual Report and Accounts 2021.

Executive Directors’ scorecard outcomes (% of maximum opportunity)

2023 annual incentive	
Group Chief Executive	70.24%
Group Chief Financial Officer	76.75%

2021–2023 long-term incentive ¹	
Group Chief Executive	75.00%

¹ The current Group Chief Financial Officer did not participate in the 2021–2023 long-term incentive.

For details of Directors’ pay and performance for 2023, see the Directors’ remuneration report on page 320.

Financial overview

In assessing the Group's financial performance, management uses a range of financial measures that focus on the delivery of sustainable returns for our shareholders and maintaining our financial strength.

Executive summary

Our financial performance demonstrates the execution of our strategy and the strengthened platform for growth, and in 2023 it was favourably impacted by a higher global interest rate environment.

This section sets out our key Group financial targets and the progress we made towards

these in 2023, and – where relevant – our expectations for 2024 and beyond. We also include a more detailed table covering further key financial metrics that we consider insightful for understanding the Group's performance.

The Group financial results that follow provide more detailed insight into the performance

that has driven the outcomes of our financial targets. It covers income statement performance on both a reported and constant currency basis, and the main factors impacting the strength of our balance sheet, capital and liquidity position.

Group financial targets

Return on average tangible equity

14.6%

(2022: 10.0%)

In 2023, RoTE was 14.6%, an increase of 4.6 percentage points from 2022. Excluding the impact of strategic transactions and the impairment of our investment in BoCom, RoTE was 15.6%.

From 2024, we intend to revise the adjustments made to RoTE to exclude all notable items, improving alignment with the treatment of notable items in our other income statement disclosures. On this basis, we continue to target a RoTE in the mid-teens for 2024.

Our guidance reflects our current outlook for the global macroeconomic environment, including customer and financial markets activity.

Target basis operating expenses

\$31.6bn

(2022: \$29.8bn)

In 2023, the Group targeted cost growth of approximately 3% on a target basis. Our target basis excluded the impact of foreign currency translation differences, notable items and the impact of retranslating the 2022 results of hyperinflationary economies at constant currency, as well as cost growth from our acquisition of SVB UK and related investments internationally.

In 2023, target basis cost growth was 6% compared with 2022. In addition to our targeted growth of 3%, there was an incremental rise of approximately 1%, primarily due to technology expenditure,

which we did not mitigate. We also increased performance-related pay, which resulted in a further rise of around 1%. Costs grew by an additional 1%, primarily due to a charge relating to the FDIC special assessment.

In 2024, we will target growth of approximately 5% compared with 2023, on a target basis (2023: \$31.1bn). This target reflects our current business plan for 2024, and includes an increase in staff compensation, higher technology spend and investment for growth and efficiency, in part mitigated by cost savings from actions taken during 2023.

Our cost target basis for 2024 excludes the direct cost impact of the disposal in France and the planned disposal in Canada from the 2023 baseline. It is measured on a constant currency basis and excludes notable items and the impact of retranslating the prior year results of hyperinflationary economies at constant currency.

Capital and dividend policy CET1 ratio

14.8%

Dividend payout ratio

50%

At 31 December 2023, our CET1 capital ratio was 14.8%, which was higher than our medium-term target range of 14% to 14.5%. We intend to continue to manage the CET1 ratio to within this range.

The total dividend per share in 2023 of \$0.61 resulted in a dividend payout ratio of 50% of earnings per share. For the purposes of computing our dividend payout ratio, we

exclude from earnings per share material notable items and related impacts. See page 146 for our calculation of earnings per share.

We aim to retain our dividend payout ratio of 50% for 2024, excluding material notable items and related impacts. From 2024 this will be disclosed as our 'dividend payout ratio target basis'.

Interest rate management strategy

Our ambition is to maintain strong, resilient returns through the interest rate cycle. As part of our balance sheet structural hedging and risk management strategy we continue to seek opportunities to stabilise future earnings and mitigate downside risk from interest rate movements. During 2023, we took actions to increase the size and duration of our structural hedge. This has the effect of stabilising our future earnings and contributed to a reduction in the sensitivity of banking net interest income ('NII'), a new alternative performance measure introduced in 2023, from changes in interest rates.

Banking NII adjusts our NII, primarily for the impact of funding trading and fair value activities reported in interest expense. It represents the Group's banking revenue that is directly impacted by changes in interest rates. To supplement banking NII, we also provide banking NII sensitivity to demonstrate our revenue sensitivity to interest rate movements. Management uses these measures to determine the deployment of our surplus funding, and to help optimise our structural hedging and risk management actions.

Key financial metrics

Reported results	For the year ended		
	2023	2022 ¹	2021
Profit before tax (\$m)	30,348	17,058	18,906
Profit after tax (\$m)	24,559	16,249	14,693
Cost efficiency ratio (%)	48.5	64.6	69.9
Net interest margin (%)	1.66	1.42	1.20
Basic earnings per share (\$)	1.15	0.72	0.62
Diluted earnings per share (\$)	1.14	0.72	0.62
Dividend per ordinary share (in respect of the period) (\$)	0.61	0.32	0.25
Dividend payout ratio (%) ²	50	44	40

Alternative performance measures

Constant currency profit before tax (\$m)	30,348	16,541	17,400
Constant currency cost efficiency ratio (%)	48.5	64.8	70.0
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers (%)	0.36	0.36	(0.07)
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers, including held for sale (%)	0.33	0.35	(0.07)
Basic earnings per share excluding material notable items and related impacts (\$)	1.22	N/A	N/A
Return on average ordinary shareholders' equity (%)	13.6	9.0	7.1
Return on average tangible equity (%)	14.6	10.0	8.3
Return on average tangible equity excluding strategic transactions and impairment of BoCom (%)	15.6	11.3	N/A
Target basis operating expenses (\$m)	31,614	29,811	N/A

Balance sheet	At 31 December		
	2023	2022 ¹	2021
Total assets (\$m)	3,038,677	2,949,286	2,957,939
Net loans and advances to customers (\$m)	938,535	923,561	1,045,814
Customer accounts (\$m)	1,611,647	1,570,303	1,710,574
Average interest-earning assets (\$m)	2,161,746	2,143,758	2,209,513
Loans and advances to customers as % of customer accounts (%)	58.2	58.8	61.1
Total shareholders' equity (\$m)	185,329	177,833	198,250
Tangible ordinary shareholders' equity (\$m)	155,710	146,927	158,193
Net asset value per ordinary share at period end (\$)	8.82	8.01	8.76
Tangible net asset value per ordinary share at period end (\$)	8.19	7.44	7.88

Capital, leverage and liquidity

Common equity tier 1 capital ratio (%) ³	14.8	14.2	15.8
Risk-weighted assets (\$m) ^{3,4}	854,114	839,720	838,263
Total capital ratio (%) ^{3,4}	20.0	19.3	21.2
Leverage ratio (%) ^{3,4}	5.6	5.8	5.2
High-quality liquid assets (liquidity value) (\$m) ^{4,5}	647,505	647,046	688,209
Liquidity coverage ratio (%) ^{4,5}	136	132	139
Net stable funding ratio (%) ^{4,5}	133	136	N/A

Share count

Period end basic number of \$0.50 ordinary shares outstanding (millions)	19,006	19,739	20,073
Period end basic number of \$0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	19,135	19,876	20,189
Average basic number of \$0.50 ordinary shares outstanding (millions)	19,478	19,849	20,197

For reconciliation and analysis of our reported results on a constant currency basis, including lists of notable items, see page 124. Definitions and calculations of other alternative performance measures are included in 'Reconciliation of alternative performance measures' on page 145.

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² In 2023, our dividend payout ratio was adjusted for material notable items and related impacts, including all associated income statement impacts relating to those items. In 2022, our dividend payout ratio was adjusted for the loss on classification to held for sale of our retail banking business in France, items relating to the planned sale of our banking business in Canada, and the recognition of certain deferred tax assets. No items were adjusted for in 2021.

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. 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 submitted in regulatory filings. Where differences are significant, we may restate in subsequent periods.

⁵ The liquidity coverage ratio is based on the average value of the preceding 12 months. The net stable funding ratio is based on the average value of four preceding quarters.

Basis of presentation

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date.

► For further details, see 'Changes to presentation from 1 January 2023' on page 100.

Changes to our reporting framework

On 1 January 2023, we updated our financial reporting framework. We no longer report 'adjusted' results, which excluded the impact of both foreign currency translation differences and significant items. Instead, we compute constant currency performance by adjusting comparative reported results only for the effects of foreign currency translation differences between the relevant periods.

Constant currency performance

Constant currency performance is computed by adjusting reported results of comparative

periods for the effects of foreign currency translation differences, which distort period-on-period comparisons.

We consider constant currency performance to provide useful information for investors by aligning internal and external reporting, and reflecting how management assesses period-on-period performance.

The results of our global businesses are presented on a constant currency basis, which is consistent with how we manage and assess global business performance.

Notable items

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 pages 112 to 113 and pages 123 to 128 detail the effects of notable items on each of our global business segments and legal entities during 2023, 2022 and 2021.

Material notable items are a subset of notable items, which are excluded from our earnings per share measure for the purposes of calculating our dividend payout ratio, and from 2024 will be referred to as on a 'dividend payout ratio target basis'. Categorisation as a material notable is dependent on the nature of each item in conjunction with the financial impact on the Group's income statement.

Management view of revenue on a constant currency basis

Our global business segment commentary includes tables that provide breakdowns of revenue on a constant currency basis by major product. These reflect the basis on which revenue performance of the businesses is assessed and managed.

Comparative periods

Unless otherwise stated, all performance commentary that follows compares our results in 2023 with those of 2022.

Reported results (vs 2022)

Reported profit

Reported profit before tax of \$30.3bn was \$13.3bn higher. This was driven by a \$15.4bn increase in revenue, primarily due to growth in net interest income, reflecting the impact of interest rate rises. The increase also included a provisional gain of \$1.6bn recognised on the acquisition of SVB UK in 2023, as well as a year-on-year favourable impact of \$2.5bn associated with the sale of our retail banking operations in France. This reflected an initial impairment loss of \$2.3bn following the initial classification of these operations as held for sale in 2022, a reversal of \$2.1bn in the first quarter of 2023 as the sale became less certain, and a subsequent impairment loss of \$2.0bn as we reclassified these operations as held for sale in the fourth quarter of 2023.

These increases were in part offset by an impairment charge in 2023 of \$3.0bn relating to our investment in BoCom. This impairment reflected a reduction to the accounting value-in-use in line with recent market-wide developments in mainland China. For further details, see page 101. This impairment will have no material impact on HSBC's capital, capital ratios or distribution capacity and therefore no impact on dividends or share buy-backs. Reported operating expenses decreased, primarily reflecting a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022, which mitigated growth notably from higher technology spend, an increase in the performance-related pay

accrual and the impact of inflation. Reported ECL of \$3.4bn decreased by \$0.1bn and included charges of \$1.0bn relating to exposures in the commercial real estate sector in mainland China.

Reported profit after tax of \$24.6bn was \$8.3bn higher than in 2022. This included a higher tax expense, in part from the non-recurrence of a \$2.2bn gain in 2022 resulting from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings.

Reported revenue

Reported revenue of \$66.1bn was \$15.4bn or 30% higher, which included a \$2.5bn year-on-year favourable impact relating to the sale of our retail banking operations in France, and the recognition of a \$1.6bn provisional gain on the acquisition of SVB UK in 2023, as mentioned above.

The remaining growth primarily reflected the impact of interest rate rises, mainly in Global Payments Solutions ('GPS') in CMB and GBM, Personal Banking and Global Private Banking in WPB, as well as Securities Services in GBM. There were also good performances in Capital Markets and Advisory and Securities Financing in GBM, as well as in life insurance and asset management in WPB. An increase in revenue in Corporate Centre was driven by Central Treasury, mainly due to the non-recurrence of adverse fair value movements on financial instruments, and valuation gains on structural hedging.

These increases were partly offset by lower Credit and Lending revenue in CMB and GBM, mainly driven by a fall in balances and margin compression, and a decline in revenue in Equities in GBM, reflecting weaker client demand and softer market conditions.

Revenue reduced in Markets Treasury due to the impact of rising interest rates on our funding costs and flattening yield curves, partly offset by increases from dynamic risk management and redeployment of asset disposals. We incurred losses on asset disposals of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio in certain key legal entities. These actions are accretive to net interest income and reduce the consumption of the Group's financial resources. This revenue is allocated to our global businesses.

Revenue in 2023 was also adversely affected by a \$1.4bn impact of hyperinflationary accounting in Argentina, including the devaluation of the Argentinian peso, compared with a \$0.4bn adverse impact in 2022.

Reported results continued

	2023	2022	2021	2023 vs 2022	Impact of FX	
	\$m	\$m	\$m	\$m	%	%
Reported results						
Net operating income before change in expected credit losses and other credit impairment charges ('revenue')	66,058	50,620	49,552	15,438	30	(2)
ECL	(3,447)	(3,584)	928	137	4	1
Net operating income	62,611	47,036	50,480	15,575	33	(2)
Total operating expenses	(32,070)	(32,701)	(34,620)	631	2	(1)
Operating profit	30,541	14,335	15,860	16,206	>100	(6)
Share of profit in associates and joint ventures less impairment	(193)	2,723	3,046	(2,916)	>(100)	—
Profit before tax	30,348	17,058	18,906	13,290	78	(6)
Tax expense	(5,789)	(809)	(4,213)	(4,980)	>(100)	
Profit after tax	24,559	16,249	14,693	8,310	51	
Notable items	2023	2022	2021			
	\$m	\$m	\$m			
Revenue						
Disposals, acquisitions and related costs	1,298	(2,737)	—			
Fair value movements on financial instruments ¹	14	(618)	(221)			
Restructuring and other related costs	—	(247)	(307)			
Disposal losses on Markets Treasury repositioning	(977)	—	—			
Currency translation on revenue notable items	—	(105)	—			
Operating expenses						
Disposals, acquisitions and related costs	(321)	(18)	—			
Impairment of non-financial items	—	—	(587)			
Restructuring and other related costs	136	(2,882)	(1,836)			
Currency translation on operating expenses notable items	—	(31)	113			
Share of profit in associates and joint ventures less impairment						
Impairment of interest in associate	(3,000)	—	—			

¹ Fair value movements on non-qualifying hedges in HSBC Holdings.

Reported ECL

Reported ECL of \$3.4bn were \$0.1bn or 4% lower. The charge in 2023 primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures. ECL charges in this sector were \$1.0bn in 2023. The charge in 2023 also reflected the impact of continued economic uncertainty, rising interest rates and inflationary pressures. The charge in 2022 included \$1.3bn of charges related to mainland China commercial real estate exposures.

► For further details of the calculation of ECL, see pages 192 to 204.

Reported operating expenses

Reported operating expenses of \$32.1bn were \$0.6bn or 2% lower, primarily driven by lower restructuring and other related costs of \$3.0bn following the completion of our cost to achieve programme, which concluded at the end of 2022. The reduction also included favourable foreign currency translation differences between the periods of \$0.4bn, a \$0.2bn reduction due to a reversal of historical asset impairments, and the effects of our

continued cost discipline. There was also a favourable impact of \$0.2bn due to the impact of hyperinflationary accounting in Argentina in 2023.

These reductions were partly offset by increases in technology costs, the impacts of inflation, a higher performance-related pay accrual and severance payments. There was also an increase in the UK bank levy of \$0.3bn, including adjustments relating to prior years, and we incurred a \$0.2bn charge in the US relating to the FDIC special assessment.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2023 was 220,861, an increase of 1,662 compared with 31 December 2022. The number of contractors at 31 December 2023 was 4,676, a decrease of 1,371 due to the completion of our cost-saving programme.

Reported share of profit from associates and joint ventures less impairment

Reported share of profit from associates and joint ventures included an impairment charge of \$3.0bn relating to our investment in BoCom due to a reduction to the accounting value-

in-use of the investment, resulting in a loss of \$0.2bn in 2023. This compared with a profit of \$2.7bn in 2022. The impact of the impairment in 2023 was partly offset by an increase in the share of profit from Saudi Awwal Bank ('SAB').

Tax expense

The effective tax rate for 2023 of 19.1% was higher than the 4.7% in 2022. The effective tax rate for 2023 was increased by 2.3 percentage points by the non-deductible impairment of investments in associates, and reduced by 1.6 percentage points by the release of provisions for uncertain tax positions and reduced by 1.5 percentage points by the non-taxable bargain purchase gain on the acquisition of SVB UK. The effective tax rate for 2022 was reduced by 12.8 percentage points by the recognition of a deferred tax asset on historical tax losses of HSBC Holdings as a result of improved profit forecasts for the UK tax group. Excluding these items, the effective tax rates were 19.9% for 2023 and 17.5% for 2022.

Constant currency results

Results – on a constant currency basis	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Revenue	66,058	49,871	46,079	16,187	32
ECL	(3,447)	(3,630)	758	183	5
Total operating expenses	(32,070)	(32,302)	(32,244)	232	1
Operating profit	30,541	13,939	14,593	16,602	>100
Share of profit in associates and joint ventures less impairment	(193)	2,602	2,807	(2,795)	>(100)
Profit before tax	30,348	16,541	17,400	13,807	83

Profit before tax of \$30.3bn was \$13.8bn higher than in 2022 on a constant currency basis, primarily driven by higher revenue.

Revenue increased by \$16.2bn or 32% on a constant currency basis, which included a \$2.6bn year-on-year favourable impact relating to the sale of our retail banking operations in France, and a provisional gain of \$1.6bn recognised on the acquisition of SVB UK in 2023. The remaining increase in revenue was primarily due to growth in net interest income from the impact of global interest rate rises. There was also a good performance from Capital Markets and Advisory in GBM and higher revenue in Corporate Centre.

Revenue reduced in Markets Treasury due to the impact of rising interest rates on our funding costs and flattening yield curves, partly offset by increases from dynamic risk

management and the deployment of asset disposals. Markets Treasury also incurred losses on asset disposals of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio in certain key legal entities. These actions are accretive to net interest income and reduce the consumption of the Group's financial resources. This revenue is allocated to our global businesses.

ECL were \$0.2bn or 5% lower on a constant currency basis. The charge in 2023 primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures. ECL charges in this sector were \$1.0bn in 2023. The charge in 2023 also reflected the impact of continued economic uncertainty, rising interest rates and inflationary pressures.

Operating expenses were \$0.2bn or 1% lower on a constant currency basis, as reduced restructuring and other related costs following the completion of our cost-saving programme were broadly offset by increases in technology costs, the impacts of inflation, and a higher performance-related pay accrual. There was also an increase in the UK bank levy, including adjustments relating to prior years, and a charge in the US relating to a special assessment of the FDIC.

Share of profit in associates and joint ventures less impairment included a \$3.0bn impairment of our investment in BoCom due to a revision to the accounting value-in-use of the investment, resulting in a loss of \$0.2bn in 2023. This compared with a share of profit of \$2.6bn in 2022 on a constant currency basis. The impact of the impairment was partly offset by an increase in the share of profit from SAB.

Balance sheet and capital

Balance sheet strength

Total assets of \$3.0tn were \$89bn higher than at 31 December 2022 on a reported basis, and included the favourable effects of foreign currency translation differences of \$58bn. Within total assets, there were \$114bn of assets held for sale, mainly related to our retail banking operations in France and our banking operations in Canada, which was broadly unchanged compared with 2022.

On a constant currency basis, total assets rose by \$31bn, mainly from an increase in financial investments and higher trading balances, while cash and balances at central banks and derivative asset balances fell.

Reported loans and advances to customers increased by \$15bn. On a constant currency basis, loans and advances fell by \$3bn, which included an increase in secured home loans, previously classified as held for sale in France. There was mortgage balance growth in our main legal entity in Hong Kong and in HSBC UK, although lending fell in CMB and GBM in our main entity in Hong Kong, including a reduction in commercial real estate lending.

Reported customer accounts of \$1.6tn increased by \$41bn. On a constant currency basis, they grew by \$13bn, notably from growth in WPB in our main legal entity in Asia and CMB in Europe.

Loans and advances to customers as a percentage of customer accounts was 58.2%, compared with 58.8% at 31 December 2022.

Distributable reserves

The distributable reserves of HSBC Holdings at 31 December 2023 were \$30.9bn, a \$4.3bn decrease since 2022, primarily driven by \$18.6bn in ordinary dividend, additional tier 1 coupon and share buy-back payments, offset by profits generated and other reserve movements of \$14.3bn. Distributable reserves are sensitive to impairments of investments in subsidiaries to the extent they are not offset by the realisation of related reserves. The impairment of BoCom in 2023 did not impact distributable reserves, as its intermediate parent and direct subsidiary of HSBC Holdings, HSBC Asia Holdings Limited, was not impaired.

Capital position

We actively manage the Group's capital position to support our business strategy and meet our regulatory requirements at all times, including under stress, while optimising our capital efficiency. To do this, we monitor our capital position using a number of measures. These include our capital ratios and the impact on our capital ratios as a result of stress.

Our CET1 ratio at 31 December 2023 was 14.8%, up 0.6 percentage points from 2022, mainly driven by capital generation net of dividends, share buy-backs and regulatory

adjustments, which was partly offset by an increase in risk-weighted assets ('RWAs') during the year.

Liquidity position

We actively manage the Group's liquidity and funding to support the business strategy and meet regulatory requirements at all times, including under stress. To do this, we monitor our position using a number of risk appetite measures, including the liquidity coverage ratio and the net stable funding ratio. During 2023, the average high-quality liquid assets we held was \$647.5bn. This excludes high-quality liquid assets in legal entities which are not transferable due to local restrictions.

For further details, see page 242.

Total assets (\$bn)

\$3,039bn
(2022: \$2,949bn)

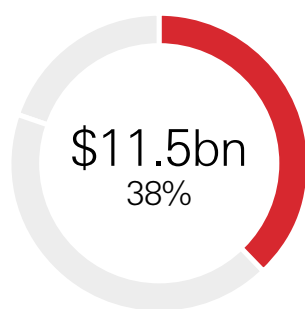
Common equity tier 1 ratio (%)

14.8%
(2022: 14.2%)

Wealth and Personal Banking

We serve 41 million customers globally, including 6.7 million who are international, from retail customers to ultra high net worth individuals and their families.

Contribution to Group profit before tax ▶



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

To meet our customers' needs, we offer a full suite of products and services across transactional banking, lending and wealth.

WPB continued to invest in our key strategic priorities of expanding our Wealth franchise, developing our transactional banking and lending capabilities, and addressing our customers' international needs.

Performance in 2023 benefited from rising interest rates and balance sheet growth, including Wealth deposits. There was also positive growth in Wealth, including strong sales in insurance and net new invested assets growth. The results included a broadly stable ECL charge, despite ongoing macroeconomic uncertainty.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	27,275	20,884	20,972	6,391	31
ECL	(1,058)	(1,186)	195	128	11
Operating expenses	(14,738)	(14,248)	(15,338)	(490)	(3)
Share of profit in associates and JVs	65	30	36	35	>100
Profit before tax	11,544	5,480	5,865	6,064	>100
RoTE (annualised) ¹ (%)	28.5	13.8			

¹ RoTE (annualised) in 2022 included a 4.7 percentage point adverse impact from the impairment losses relating to the sale of our retail banking operations in France.

Divisional highlights

\$84bn

WPB net new invested assets in 2023, up 6% compared with 2022.

6.7 million

International customers at 31 December 2023, an increase of 12% compared with 2022.

Constant currency profit before tax (\$bn) ▶

\$11.5bn

2023	11.5
2022	5.5
2021	5.9

Constant currency net operating income (\$bn)

\$27.3bn

2023	27.3
2022	20.9
2021	21.0

▶ International customers are those who bank with us in our 11 key markets, excluding Canada, and who bank in more than one market, those whose address is different from the market we bank them in and customers whose nationality, or country of birth for non-resident Indians and overseas Chinese, is different to the market we bank them in. Customers may be counted more than once when banked in multiple countries.

Global businesses

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue 					
Wealth	7,524	6,970	8,812	554	8
– investment distribution	2,528	2,469	3,367	59	2
– Global Private Banking	2,252	2,016	1,777	236	12
net interest income	1,155	965	630	190	20
non-interest income	1,097	1,051	1,147	46	4
– life insurance (IFRS 17) ¹	1,462	1,354	—	108	8
– life insurance manufacturing (IFRS 4) ¹			2,512		
– asset management	1,282	1,131	1,156	151	13
Personal Banking	20,463	15,939	11,648	4,524	28
– net interest	19,124	14,631	10,298	4,493	31
– non-interest income	1,339	1,308	1,350	31	2
Other ²	(712)	(2,025)	512	1,313	65
– of which: impairment (loss)/reversal relating to the sale of our retail banking operations in France ³	4	(2,354)	—	2,358	>100
Net operating income⁴	27,275	20,884	20,972	6,391	31

1 From 1 January 2023 we adopted IFRS 17 and have restated 2022 financial data. Data for 2021 is not restated, and 'Life insurance manufacturing' is disclosed on the basis of preparation prevailing in 2021, which includes our manufacturing business only. Insurance distribution of \$518m is presented in 'investment distribution'.

2 Other² includes Markets Treasury, HSBC Holdings interest expense and hyperinflation. It also includes the distribution and manufacturing (where applicable) of retail and credit protection insurance, disposal gains and other non-product-specific income.

3 The amounts associated with the sale of our retail banking operations in France include all related impacts disclosed in notable items, which are presented across various lines in our consolidated income statement.

4 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Disposals, acquisitions and related costs	4	(2,212)	—
Restructuring and other related costs	—	98	14
Disposal losses on Markets Treasury repositioning	(391)	—	—
Currency translation on revenue notable items	—	(142)	(5)
Operating expenses			
Disposals, acquisitions and related costs	(53)	(7)	—
Impairment of non-financial items	—	—	(587)
Restructuring and other related costs	20	(357)	(296)
Currency translation on operating expenses notable items	—	—	4

Financial performance

Profit before tax of \$11.5bn was \$6.1bn higher than in 2022 on a constant currency basis. The growth in revenue reflected growth in both Personal Banking and Wealth. The increase also reflected a \$2.4bn year-on-year impact relating to the sale of our retail banking operations in France. ECL remained broadly stable and operating expenses grew by \$0.5bn.

Revenue of \$27.3bn was \$6.4bn or 31% higher on a constant currency basis.

In Wealth, revenue of \$7.5bn was up \$0.6bn or 8%.

- Global Private Banking revenue was \$0.2bn or 12% higher due to rising interest rates and deposit growth of \$11bn or 15%.
- Asset management revenue was \$0.2bn or 13% higher, driven by an increase in assets under management of 15%, and from positive market movements.
- Life insurance revenue rose by \$0.1bn or 8%, mainly driven by an increase of \$0.2bn

in contractual service margin ('CSM') earnings and favourable net investment returns of \$0.1bn, partly offset by a \$0.3bn loss from corrections to historical valuation estimates. There was strong growth in the new business CSM, up \$0.6bn or 47%, mainly in Hong Kong.

In Personal Banking, revenue of \$20.5bn was up \$4.5bn or 28%.

- Net interest income was \$4.5bn or 31% higher due to rising interest rates and balance sheet growth. Mortgage lending balances rose in Hong Kong by \$6bn and in HSBC UK by \$5bn. Unsecured lending balances increased by \$3bn, notably in HSBC UK, Mexico and Hong Kong. In addition, there was an increase of \$7.8bn from a reclassification of secured loans in France from held for sale. Deposit balances remained broadly stable as growth in Asia was partly offset by outflows, mainly in HSBC UK due to higher cost of living and competitive pressures, and in our main entity in the US.

Other revenue increased by \$1.3bn, mainly due to a \$2.4bn year-on-year impact relating to the sale of our retail banking operations in France. This was partly offset by a \$0.7bn reduction in Markets Treasury allocated revenue, including disposal losses on repositioning and an adverse impact of \$0.5bn due to hyperinflationary accounting.

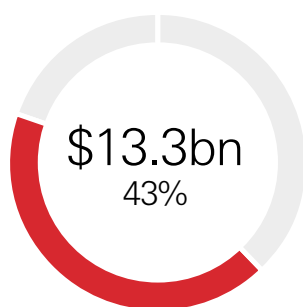
ECL were \$1.1bn in 2023, down \$0.1bn on a constant currency basis, as credit performance remained resilient, despite a rise in inflationary pressures.

Operating expenses of \$14.7bn were \$0.5bn or 3% higher on a constant currency basis, mainly due to continued investments, notably in wealth in Asia, higher technology spend, higher performance-related pay and the impact of higher inflation. These increases were partly offset by a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022 and ongoing cost discipline.

Commercial Banking

We operate in more than 50 markets, serving around 1.3 million customers, ranging from small enterprises to large companies operating globally including those in the new innovation economy.

Contribution to Group profit before tax



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

We partner with businesses around the world, supporting every stage of their growth, their international ambitions and their sustainability transitions. We deliver value to our clients through our international network, financing strength, digital capabilities and our universal banking capabilities, including our industry leading global trade and payments solutions.

We aim to be a leader in the innovation economy, with the launch of HSBC Innovation Banking in 2023 enhancing our proposition to clients in the technology and healthcare sectors. During 2023, we delivered a strong revenue performance, notably in Global Payments Solutions ('GPS') and in collaboration revenue from GBM products.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis	\$m	\$m	\$m	\$m	%
Net operating income	22,867	16,283	12,699	6,584	40
ECL	(2,062)	(1,862)	339	(200)	(11)
Operating expenses	(7,524)	(6,894)	(6,691)	(630)	(9)
Share of profit/(loss) in associates and JVs	(1)	—	1	(1)	—
Profit before tax	13,280	7,527	6,348	5,753	76
RoTE (annualised) ¹ (%)	23.4	13.7			

¹ RoTE (annualised) in 2023 included a 3.1 percentage point favourable impact of the provisional gain recognised on the acquisition of SVB UK.

Divisional highlights

78%

Increase in GPS revenue.

10%

Increase in collaboration income from the sale of GBM products to CMB clients.

Constant currency profit before tax (\$bn)

\$13.3bn

2023	13.3
2022	7.5
2021	6.3

Constant currency net operating income (\$bn)

\$22.9bn

2023	22.9
2022	16.3
2021	12.7

Global businesses

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue 					
Global Trade and Receivables Finance	2,025	2,075	1,832	(50)	(2)
Credit and Lending	5,343	5,745	5,752	(402)	(7)
Global Payments Solutions	12,381	6,966	3,411	5,415	78
Markets products, Insurance and Investments and Other ¹	3,118	1,497	1,704	1,621	>100
– of which: share of revenue for Markets and Securities Services and Banking products	1,299	1,182	1,008	117	10
– of which: provisional gain on the acquisition of Silicon Valley Bank UK Limited	1,591	—	—	1,591	>100
Net operating income²	22,867	16,283	12,699	6,584	40
– of which: transaction banking ³	15,393	9,940	5,971	5,453	55

¹ Includes CMB's share of revenue from the sale of Markets and Securities Services and Banking products to CMB customers. GBM's share of revenue from the sale of these products to CMB customers is included within the corresponding lines of the GBM management view of revenue. Also includes allocated revenue from Markets Treasury, HSBC Holdings interest expense and hyperinflation.

² 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

³ Transaction banking comprises Global Trade and Receivables Finance, Global Payments Solutions and CMB's share of Global Foreign Exchange (shown within 'share of revenue for Markets and Securities Services and Banking products').

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Disposals, acquisitions and related costs	1,591	—	—
Restructuring and other related costs	—	(16)	(3)
Disposal losses on Markets Treasury repositioning	(316)	—	—
Currency translation on revenue notable items	—	1	(6)
Operating expenses			
Disposals, acquisitions and related costs	(55)	—	—
Restructuring and other related costs	32	(266)	(83)
Currency translation on operating expenses notable items	—	(5)	7

Financial performance

Profit before tax of \$13.3bn was \$5.8bn or 76% higher than in 2022 on a constant currency basis. This was driven by an increase in revenue in all our main legal entities, primarily from a \$5.3bn increase in GPS net interest income. It also included a provisional gain of \$1.6bn from HSBC UK's acquisition of SVB UK. These increases were partly offset by a rise in operating expenses as a result of the SVB UK acquisition and increases in technology costs.

Revenue of \$22.9bn was \$6.6bn or 40% higher on a constant currency basis.

- In GPS, revenue increased by \$5.4bn, with growth in all main legal entities. The increase was driven by higher margins, reflecting interest rate rises and repricing actions, which were partly offset by lower average balances notably due to a market-wide reduction in the UK. There was a 6% increase in fee income, as business initiatives drove growth in transaction banking, with higher volumes in cards and international payments.
- In Global Trade and Receivables Finance ('GTRF'), revenue decreased by \$0.1bn or

2%, driven by lower average balances in our main legal entities in Asia and Europe, primarily reflecting the softer trade cycle, partly offset by wider margins in our legal entities in Latin America and the UK. In addition, there was a \$28m or 3% increase in fee income.

- In Credit and Lending, revenue decreased by \$0.4bn or 7%, notably in our main legal entities in Asia and Europe, primarily due to margin compression. It also reflected lower balances due to softer demand from customers across these markets, and reduced exposures in the commercial real estate sector, notably in mainland China and the US.
- In GBM products, Insurance and Investments and Other, revenue increased by \$1.6bn, driven by incremental revenue from HSBC Innovation Banking of \$2.1bn, which included the provisional gain of \$1.6bn on the acquisition of SVB UK. There was also an increase in collaboration revenue from GBM products of \$0.1bn, notably in Foreign Exchange. These increases were partly offset by a reduction in Markets Treasury allocated income of \$0.6bn, including disposal losses on portfolio repositioning and the adverse

impacts of hyperinflationary accounting of \$0.6bn. The remaining increase in revenue reflected higher interest on capital held in the business, partly offset by higher HSBC Holdings interest expense.

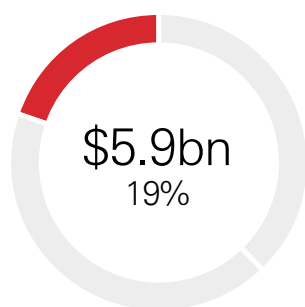
ECL were a charge of \$2.1bn, compared with a charge of \$1.9bn in 2022 on a constant currency basis. The increase of \$0.2bn was mainly driven by higher stage 3 charges in the UK, and included provisions from HSBC Innovation Banking, and charges in the Middle East. ECL in both periods reflected charges relating to the commercial real estate sector in mainland China, although they were lower in 2023.

Operating expenses of \$7.5bn were higher by \$0.6bn on a constant currency basis. The increase reflected incremental costs in HSBC Innovation Banking of \$0.3bn including the acquisition and integration of SVB UK, higher performance-related pay, ongoing investment in technology and inflationary impacts. These increases were in part mitigated by the impact of continued cost discipline and a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022.

Global Banking and Markets

We support multinational corporates, financial institutions and institutional clients, as well as public sector and government bodies.

Contribution to Group profit before tax ▶



Calculation is based on profit before tax of our global businesses excluding Corporate Centre.

We are a leader in facilitating global trade and payments, particularly into and within Asia and the Middle East, helping to enable our clients in the East and West to achieve their objectives by accessing our expertise and geographical reach. Our product specialists deliver a comprehensive range of transaction banking, financing, capital markets and advisory, and risk management services.

Profit before tax increased in 2023, reflecting a strong revenue performance due to rising interest rates and from Capital Markets and Advisory. This was partly offset by weaker client activity in our Equities business. We continued to invest in technology to modernise our infrastructure, innovate product capabilities and support our clients.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	16,115	14,602	13,086	1,513	10
ECL	(326)	(573)	221	247	43
Operating expenses	(9,865)	(9,338)	(9,255)	(527)	(6)
Share of profit/(loss) in associates and JVs	—	(2)	—	2	100
Profit before tax	5,924	4,689	4,052	1,235	26
RoTE (annualised) (%)	11.4	9.8			

Divisional highlights

11.4%

RoTE in 2023, up 1.6 percentage points compared with 2022. ▶

56%

Increase in GPS revenue.

Constant currency profit before tax (\$bn) ▶

\$5.9bn

2023	5.9
2022	4.7
2021	4.1

Constant currency net operating income (\$bn) ▶

\$16.1bn

2023	16.1
2022	14.6
2021	13.1

Global businesses

	2023	2022	2021	2023 vs 2022	
	\$m	\$m	\$m	\$m	%
Management view of revenue 					
Markets and Securities Services	9,008	8,874	7,684	134	2
– Securities Services	2,411	2,022	1,776	389	19
– Global Debt Markets	823	697	819	126	18
– Global Foreign Exchange	4,133	4,137	3,097	(4)	—
– Equities	552	1,003	1,156	(451)	(45)
– Securities Financing	1,116	918	827	198	22
– Credit and funding valuation adjustments	(27)	97	9	(124)	>(100)
Banking	8,540	6,721	5,858	1,819	27
– Global Trade and Receivables Finance	669	678	626	(9)	(1)
– Global Payments Solutions	4,483	2,879	1,581	1,604	56
– Credit and Lending	1,970	2,231	2,332	(261)	(12)
– Capital Markets and Advisory	1,033	731	1,180	302	41
– Other ¹	385	202	139	183	91
GBM Other	(1,433)	(993)	(456)	(440)	(44)
– Principal Investments	(4)	55	372	(59)	>(100)
– Other ²	(1,429)	(1,048)	(828)	(381)	(36)
Net operating income³	16,115	14,602	13,086	1,513	10
– of which: transaction banking ⁴	11,696	9,716	7,080	1,980	20

¹ Includes portfolio management, earnings on capital and other capital allocations on all Banking products.

² Includes notional tax credits and Markets Treasury, HSBC Holdings interest expense and hyperinflation.

³ 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

⁴ Transaction banking comprises Securities Services, Global Foreign Exchange (net of revenue shared with CMB), Global Trade and Receivables Finance and Global Payments Solutions.

	2023	2022	2021
	\$m	\$m	\$m
Notable items			
Revenue			
Restructuring and other related costs	—	(184)	(395)
Disposal losses on Markets Treasury repositioning	(270)	—	—
Currency translation on revenue notable items	—	3	25
Operating expenses			
Disposals, acquisitions and related costs	3	—	—
Restructuring and other related costs	21	(252)	(195)
Currency translation on operating expenses notable items	—	(4)	20

Financial performance

Profit before tax of \$5.9bn was \$1.2bn or 26% higher than in 2022 on a constant currency basis. This was driven by an increase in revenue of \$1.5bn or 10%, notably from higher net interest income in GPS and Securities Services. ECL fell by \$0.2bn, while operating expenses increased by \$0.5bn or 6%.

Revenue of \$16.1bn was \$1.5bn or 10% higher on a constant currency basis.

In Markets and Securities Services ('MSS'), revenue was marginally higher by \$0.1bn or 2%.

- Securities Services revenue grew by \$0.4bn or 19%, from higher net interest income as global interest rates rose.
- Global Debt Markets revenue increased by \$0.1bn or 18%, from favourable primary market conditions and higher client trading volumes as the market environment normalised. The 2022 performance was impacted by lower primary activity and client flow due to uncertainty and challenging market conditions.

– Global Foreign Exchange revenue was largely in line with 2022 and reflected continued elevated client activity and trading facilitation, as we captured the benefit of market-wide volatility relating to interest rate and inflation differentials.

- Equities revenue fell by \$0.5bn or 45%, due to lower client activity as a result of reduced market volatility.
- Securities Financing revenue rose by \$0.2bn or 22%, driven by higher client flows, growth in prime finance and the onboarding of new clients.

In Banking, revenue increased by \$1.8bn or 27%.

- GPS revenue increased by \$1.6bn or 56%, driven by margin growth as a result of the rising global interest rate environment and business pricing actions.
- Capital Markets and Advisory revenue rose by \$0.3bn or 41%, primarily from increased financing activities and higher interest rates, against a backdrop of a smaller global market fee pool.

- Credit and Lending revenue decreased by \$0.3bn or 12%, due to weaker client demand.
- Banking Other revenue increased by \$0.2bn or 91%, from higher interest on capital held in the business.

In GBM Other, there was a \$0.4bn reduction in revenue, mainly due to lower Markets Treasury allocated revenue, including disposal losses on repositioning, higher HSBC Holdings interest expense and the adverse impacts of hyperinflationary accounting.

ECL of \$0.3bn were \$0.2bn lower on a constant currency basis, reflecting a favourable credit performance, including lower charges in the commercial real estate sector in mainland China.

Operating expenses of \$9.9bn increased by \$0.5bn or 6% on a constant currency basis due to the impact of higher inflation and strategic investments, which was in part mitigated by business actions and a reduction in restructuring and other related costs following the completion of our cost-saving programme at the end of 2022.

Corporate Centre

The results of Corporate Centre primarily comprise the share of profit from our interests in our associates and joint ventures and related impairments. It also includes Central Treasury, stewardship costs and consolidation adjustments.

Corporate Centre performance in 2023 reflected the recognition of an impairment in our investment in our associate BoCom. Additionally, the non-recurrence of restructuring and other related costs following the completion of our cost-saving programme at the end of 2022 resulted in lower operating expenses, while higher revenue included the non-recurrence of adverse fair value movements on financial instruments and the impacts of restructuring our business in Europe.

Financial performance

Loss before tax of \$0.4bn was \$0.8bn or 65% lower than the loss in 2022, on a constant currency basis. This reflected lower restructuring and other related costs and higher revenue, partly offset by the impact of an impairment of our investment in BoCom. This impairment reflects a reduction to the accounting value-in-use in line with recent market-wide developments in mainland China. For further details, see page 101.

Revenue was \$1.7bn or 90% higher than in 2022 on a constant currency basis. The increase was primarily from the non-recurrence of adverse fair value movements on financial instruments in Central Treasury and structural hedges, together with the non-recurrence of losses and charges associated with the disposals of our branch operations in Greece and our French retail banking business, the planned disposal of our business in Russia, and legacy portfolios. These favourable year-on-year impacts were partly offset by adverse fair value movements in 2023 on foreign exchange hedges related to the planned sale of our banking business in Canada.

Operating expenses decreased by \$1.9bn on a constant currency basis, primarily driven by the non-recurrence of restructuring and other related costs following the completion of our cost-saving programme at the end of 2022. These were partly offset by the recognition of a charge related to the FDIC special assessment, costs associated with the disposal of our retail banking operations in France and the planned disposal of our banking business in Canada, and a higher allocation of the UK bank levy, including adjustments related to prior years. Since 2021, the UK bank levy and any related adjustments have been allocated across our global businesses and Corporate Centre, primarily to GBM.

	2023	2022	2021	2023 vs 2022	
Results – on a constant currency basis ▶	\$m	\$m	\$m	\$m	%
Net operating income	(199)	(1,898)	(678)	1,699	90
ECL	(1)	(9)	3	8	89
Operating expenses	57	(1,822)	(960)	1,879	>100
Share of profit in associates and joint ventures less impairment	(257)	2,574	2,770	(2,831)	>(100)
– of which: impairment loss relating to our investment in BoCom	(3,000)	—	—	(3,000)	
Profit/loss before tax	(400)	(1,155)	1,135	755	65
RoTE (annualised) (%)	(1.0)	2.8			

	2023	2022	2021	2023 vs 2022	
Management view of revenue ▶	\$m	\$m	\$m	\$m	%
Central Treasury ¹	99	(742)	(324)	841	>100
Legacy portfolios	3	(174)	(54)	177	>100
Other ^{2,3}	(301)	(982)	(300)	681	69
Net operating income⁴	(199)	(1,898)	(678)	1,699	90

¹ Central Treasury comprises valuation differences on issued long-term debt and associated swaps and fair value movements on financial instruments.

² Other comprises consolidation adjustments, funding charges on property and technology assets, revaluation gains and losses on investment properties and property disposals, gains and losses on certain planned disposals, including charges relating to our business in Russia, and other revenue items not allocated to global businesses.

³ Revenue from Markets Treasury, HSBC Holdings net interest expense and hyperinflation are allocated out to the global businesses, to align them better with their revenue and expense. The total Markets Treasury revenue component of this allocation for 2023 was \$(139)m (2022: \$1,431m; 2021: \$2,142m).

⁴ 'Net operating income' means net operating income before change in expected credit losses and other credit impairment charges (also referred to as 'revenue').

	2023	2022	2021
Notable items	\$m	\$m	\$m
Revenue			
Disposals, acquisitions and related costs	(297)	(525)	—
Fair value movements on financial instruments	14	(618)	(221)
Restructuring and other related costs	—	(145)	77
Disposal losses on Markets Treasury repositioning	—	—	—
Currency translation on revenue notable items	—	33	(16)
Operating expenses			
Disposals, acquisitions and related costs	(216)	(11)	—
Restructuring and other related costs	63	(2,007)	(1,262)
Currency translation on operating expenses notable items	—	(22)	81
Impairment of interest in associate	(3,000)	—	—

Share of profit in associates and joint ventures in 2023 included an impairment charge of \$3.0bn in 2023 relating to our investment in BoCom due to a reduction of the accounting value-in-use of our investment, resulting in a

loss of \$0.3bn. This compared with a share of profit of \$2.6bn in 2022. The impact of the impairment was partly offset by growth of \$0.2bn, mainly driven by an increase in the share of profits from SAB.

Risk overview

Active risk management helps us to achieve our strategy, serve our customers and communities and grow our business safely.

Managing risk

The global economy proved more resilient in 2023 than had been expected, supported by strong growth in the US, and a stabilisation in China's economy, although there continues to be uncertainty and weakness in Europe. In most key markets, a fall in energy prices and other commodity prices facilitated a decrease in inflation. Central banks in most developed markets are expected to have concluded monetary policy tightening in the second half of 2023 and to start reducing interest rates in 2024. Certain emerging market central banks began reducing interest rates during 2023. However, interest rates in the medium term are likely to remain materially higher than in recent years.

Geopolitical tensions are a source of significant risk, including the ongoing Russia-Ukraine and Israel-Hamas wars. Both could have significant global economic and political consequences. The Israel-Hamas war has led to renewed volatility in energy prices, and recent attacks on commercial shipping in the Red Sea and the counter-measures taken to improve security have begun to disrupt supply chains. These developments have the potential to halt or reverse the recent decline in inflation especially in Europe and North America.

Sanctions and trade restrictions are complex, novel and evolving. In particular, the US, the UK and the EU, as well as other countries, have imposed significant sanctions and trade restrictions against Russia. In December 2023, the US established a new secondary sanctions regime, providing itself broad discretion to impose severe sanctions on non-US banks that are knowingly or even unknowingly engaged in certain transactions or services involving Russia's military-industrial base. This creates challenges associated with the detection or prevention of third-party activities beyond HSBC's control. The imposition of such sanctions against any non-US HSBC entity could result in significant adverse commercial, operational and reputational consequences for HSBC.

The relationships between China and several other countries, including the US and the UK, remain complex. Supply chains remain vulnerable to a deterioration in these relationships and this has resulted in efforts to de-risk certain sectors by reshoring manufacturing activities. The US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese

Key risk appetite metrics

Component	Measure	Risk appetite	2023
Capital	CET1 ratio – end point basis	≥13.0%	14.8%
Change in expected credit losses and other credit impairment charges	Change in expected credit losses and other credit impairment charges as a % of advances: (WPB)	≤0.50%	0.21%
	Change in expected credit losses and other credit impairment charges as a % of advances: wholesale (GBM, CMB)	≤0.45%	0.40%

persons and companies. The approach of countries to strategic competition and engagement with China continues to develop. In response, China has imposed sanctions, trade restrictions and law enforcement measures. Further sanctions or counter-sanctions may adversely affect the Group, its customers and various markets.

Fiscal deficits are expected to remain large in both developed and emerging markets, as public spending on social welfare, defence and climate transition initiatives is expected to remain high. In many countries, the fiscal response to the Covid-19 pandemic has also left a very high public debt burden. Against a backdrop of slower economic growth and high interest rates, elevated borrowing costs could increase the strains on highly indebted sovereigns.

Political changes may also have implications for policy. Many countries are expected to hold elections in 2024. This may result in uncertainty in some markets in response to domestic political priorities.

Sectoral risks are also a focus, and the real estate sector in particular faces challenges in many of our major markets. In mainland China, commercial real estate conditions remain distressed and signs of a material or sustained recovery are yet to emerge. Market data continues to reflect reduced investment and weak sentiment in the short term, although authorities are expanding fiscal and monetary support to the economy including specific measures to support developers and stimulate housing demand. We continue to closely monitor this sector, and take action to manage our commercial real estate portfolio risk.

The impact of the rising cost of living on retail customers is a key risk for our society. Our primary concern is to ensure that we offer

the right support to customers in line with regulatory, government and wider stakeholder expectations. This follows our adoption of the UK government's Mortgage Charter released in June 2023.

We engage closely with regulators to help ensure that we continue to meet their expectations regarding financial institutions' activities to support economies during times of market volatility.

Our approach to macroeconomic scenarios in relation to IFRS 9 'Financial Instruments' remained unchanged in the fourth quarter of 2023 compared with the corresponding period in 2022. Adjustments to the design and narrative of the most severe downside scenario were made to reflect increased geopolitical risks.

In addition, management adjustments to ECL were applied to reflect persisting uncertainty in certain sectors, driven by inflation, interest rate sensitivity and other macroeconomic risks, which were not fully captured by our models.

We continue to monitor, and seek to manage, the potential implications of all the above developments on our customers and our business. While the financial performance of our operations varies by geography, our balance sheet and liquidity remained strong.

► For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 192.

Managing risk continued

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.

At 31 December 2023, our CET1 ratio and ECL charges were within their defined risk appetite thresholds. Our CET1 capital ratio at 31 December 2023 was 14.8%, up 0.6 percentage points from 2022, mainly driven by capital generation net of dividends, share buy-backs and regulatory adjustments, partly offset by an increase in RWAs during the year. For further details of the key drivers of the overall CET1 ratio, see 'Own funds disclosure' on page 243. Wholesale ECL charges during the year reflected the default of several mainland China commercial real estate developer clients. Wholesale ECL charges fell outside of appetite in the first half of 2023, although returned within appetite during the second half of 2023, due to relatively lower defaults in the UK and most other markets. During 2023, we enhanced the coverage of interest rate risk metrics in the banking book within the Group's appetite statement.

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 to review and calibrate as required 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 the Group's 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.

In January 2023, HSBC Holdings and HSBC UK, its UK ring-fenced bank, submitted the internally modelled results of the Bank of England's ('BoE') 2022–2023 annual cyclical scenario to the regulator. The BoE uses

the annual cyclical scenario stress test to determine the banking sector's ability to withstand an adverse scenario and continue to serve UK households and businesses.

The results were published on 12 July 2023 by the BoE in its Financial Stability Report and indicated that both HSBC Holdings and HSBC UK are sufficiently capitalised with a CET1 capital ratio remaining well above the regulatory reference rate on both an IFRS 9 transitional basis and on a non-transitional basis.

During the second half of 2023, the Group-wide internal stress test was completed alongside testing of the Group's strategy. The concluding results of the Group-wide internal stress test provided updates to the Group Risk Committee in support of its assessment of adequacy of HSBC Holdings capital levels. The underlying conclusions drawn from this exercise will also be included in the Group internal capital adequacy assessment process ('ICAAP') in the first quarter of 2024.

Climate risk

Climate risk relates to the financial and non-financial impacts that may arise as a consequence of climate change and the move to a net zero economy. Climate risk can impact us either directly or through our relationships with our clients. These include the potential risks arising as a result of our net zero ambition, which could lead to reputational concerns, and potential legal and/or regulatory action if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero targets.

We seek to manage climate risk across all our businesses in line with our Group-wide risk management framework and are incorporating climate considerations within our traditional risk types.

► For further details of our approach to climate risk management, see 'Climate risk' on page 257.

► For further details of our TCFD disclosures, see the 'ESG review' on page 42.

Climate stress tests

To support the requirements for assessing the impacts of climate change, we continue to develop a set of capabilities to execute climate stress testing and scenario analysis. These are used to help improve our understanding of risk exposures for managing risk and business decision making.

In the second half of 2023, we ran further internal climate scenario analyses. The outcomes were used to identify challenges and opportunities to our net zero strategy, inform capital planning and risk appetite, as well as to respond to climate stress tests for regulators, including the Hong Kong Monetary Authority and the Central Bank of the United Arab Emirates.

► For further details of our approach to climate risk stress testing, see 'Insights from scenario analysis' on page 261.

Our operations

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, which support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services. In our approach to defending against these threats, we invest in business and technical controls to help us detect, manage and recover from issues in a timely manner.

We are working to ensure that we balance the opportunity AI presents to accelerate delivery of our strategy with the need to ensure appropriate controls are in place to mitigate the associated risks. HSBC is committed to using AI ethically and responsibly. We continue to refine and embed robust and effective governance and controls into our risk management processes to help meet the Group's needs and increasing regulatory expectations for when AI is both developed internally and enabled through third parties.

We continue to focus on improving the quality and timeliness of the data used to inform management decisions, and are progressing with the implementation of our strategic and regulatory change initiatives to help deliver the right outcomes for our customers, people, investors and communities.

► For further details of our risk management framework and risks associated with our banking and insurance manufacturing operations, see pages 160 and 181, respectively.

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 have the potential to have a material adverse impact on the

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

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

Risk overview

Risk	Trend	Description
Externally driven		
Geopolitical and macroeconomic risks	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict, which could lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. Conflict in certain regions and geopolitical tensions are creating a more complicated business environment. Despite expected reductions, global interest rates are nevertheless likely to remain high in 2024, which could slow the growth of the global economy and affect our credit portfolio.
Technology and cybersecurity risk	►	There is a risk of service disruption or loss of data resulting from technology failures or malicious activities by internal or external threats. We continue to monitor changes to the threat landscape, including those arising from ongoing geopolitical and macroeconomic events, and the impact this may have on third-party risk management. We operate a continuous improvement programme to help protect our technology operations and counter a fast-evolving cyber threat environment.
Environmental, social and governance ('ESG') risks	▲	We are subject to ESG risks including in relation to climate change, nature and human rights. These risks have increased owing to the pace and volume of regulatory developments globally, increasing frequency of severe weather events, and due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks.
Financial crime risk	▲	We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Digitalisation and technological advances	▲	Developments in technology and changes in regulations continue to enable new entrants to the banking industry and new products and services offered by competitors. This challenges us to continue to innovate with new digital capabilities and adapt our products, to attract, retain and best serve our customers. Along with opportunities, new technology, including generative AI, can introduce risks and we seek to ensure these are understood and managed with appropriate controls.
Evolving regulatory environment risk	►	The regulatory and compliance risk environment remains complex, in part due to the UK's Financial Conduct Authority's ('FCA') implementation of its Consumer Duty in July 2023. There continues to be an intense regulatory focus on ESG matters, including on 'green' products. Regulatory scrutiny of financial institutions following recent banking failures may result in new or additional regulatory requirements impacting the Group in the short to medium term.
Internally driven		
Data risk	►	We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We seek to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Risks arising from the receipt of services from third parties	▲	We procure goods and services from a range of third parties. Due to the current macroeconomic and geopolitical climate, the risk of service disruption in our supply chain has heightened. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.
Model risk	▲	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. New technologies, including AI and generative AI, are driving a need for enhanced model risk controls.
Change execution risk	►	Failure to effectively prioritise, manage and/or deliver transformation across the organisation impacts our ability to achieve our strategic objectives. We continue to monitor, manage and oversee change execution risk to try to ensure that our change portfolios and initiatives deliver the right outcomes for our customers, people, investors and communities.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▼	Our businesses, functions and geographies are exposed to risks associated with employee retention and talent availability, and compliance with employment laws and regulations. While high employee attrition has continued to ease generally, a small number of markets still experience heightened inflation, turnover and labour market difficulties. Failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims.
▲ Risk heightened during 2023 ► Risk remained at the same level as 2022 ▼ Risk decreased during 2023		

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Environmental, social and governance review

Our ESG review sets out our approach to our environment, customers, employees and governance. It explains how we aim to achieve our purpose, deliver our strategy in a way that is sustainable, and build strong relationships with all of our stakeholders.

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How we present our TCFD disclosures

Our overall approach to TCFD can be found on page 17 and additional information is included on pages 69 and 440. Further details have been embedded in this section and the Risk review section on pages 257 to 266. Our TCFD disclosures are highlighted with the following symbol: **TCFD**

Our approach to ESG

We continue to work to incorporate environmental, social and governance principles throughout the organisation and to embed sustainability into the way we operate.

About the ESG review

Our purpose is: 'Opening up a world of opportunity'.

Our purpose is guided by our values: we value difference; we succeed together; we take responsibility; and we get it done.

Our approach to ESG is shaped by our purpose and values and a desire to create sustainable long-term value for our stakeholders. We collaborate and aim to build strong relationships with all of our stakeholders, which include the people who work for us, bank with us, own us, regulate us, and live in the societies we serve and on the planet we all inhabit to deliver the ESG approach.

Transition to net zero

We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050. In January 2024, we published our net zero transition plan, which is an important milestone in our journey to achieving our net zero ambition. The plan will help our people, customers, investors and other stakeholders to understand our long-term vision, the challenges, uncertainties and dependencies that exist, the progress we are making towards our own transition and what we plan to do in the future.

In this ESG review, we publish on-balance sheet financed emissions for thermal coal mining, in addition to other sectors we have already been reporting on, noting the challenge of evolving methodologies and data limitations. We also publish combined on-balance sheet financed and facilitated emissions for the oil and gas, and power and utilities sectors. We expect to iterate and mature our approach to supporting sector transitions over time. We also continue to work on improving our data management processes.

We continue to review policy implementation as we apply our policies in practice and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy policy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality.

We are also working with peers and industry bodies to help mobilise the systemic change needed to deliver action on climate change, nature and the just transition.

Environmental – Transition to net zero

- In January 2024, we published our net zero transition plan. This provides an overview of the progress we have made to date and what we plan to do next, although we acknowledge there is still much more to do.
- We have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors.

▶ [Read more in the Environmental section on page 44.](#)

Social – Building inclusion and resilience

- In 2023, 34.1% of senior leadership roles were occupied by women, with a target to achieve 35% by 2025, although progress has not been as fast paced as we would have liked. We also continued on a journey to meet our ethnicity goals.
- Employee engagement, which is our headline measure, increased by three points in 2023 and is now seven points ahead of the external financial services benchmark.

▶ [Read more in the Building inclusion and resilience section on page 75.](#)

Governance – Acting responsibly

- We continue to raise awareness and develop our understanding of our salient human rights issues. In 2023, we provided practical guidance and training, where relevant, to our colleagues across the Group on how to identify and manage human rights risk.
- We were ranked as a top three bank against our competitors in 58% of our key six markets, although we still have work to do to improve our rank positions.

▶ [Read more in the Governance section on page 87.](#)

Building inclusion and resilience

Our social approach is centred around fostering inclusion and building resilience for our colleagues, our customers, and in the communities we serve.

We are building a workforce that is representative of the communities that we serve and we have targets and programmes in place to ensure fair and inclusive recruitment and to support the equitable progression of under-represented groups. We also strive to create an inclusive and accessible banking experience for all of our customers, and to help them access the finance they need without unnecessary barriers.

Employee resilience is central to our success, so we provide a wide range of resources to support colleagues' mental, physical and financial well-being, as well as training and support so that they are equipped with the skills they need to further their careers. We support customer resilience with products, services and education that build their

capabilities so that they can understand their finances and manage them effectively.

Acting responsibly

Our governance approach focuses on acting responsibly and recognises topics such as human rights, conduct and data integrity.

Our policies and procedures help us to provide the right outcomes for customers, including those with enhanced care needs, which in 2023 took into account pressures from the increased cost of living. Customer experience is at the heart of how we operate and is measured through customer satisfaction and customer complaints.

We are continuing our journey to embed ESG principles across the organisation, including incorporating climate risks within the risk management framework, training our workforce, incorporating climate-related targets within executive scorecards, and engaging with customers and suppliers.

How we decide what to measure

We listen to our stakeholders in a number of different ways, which we set out in more detail within the 'ESG overview' on page 14. We use the information they provide us to identify the issues that are most important to them and consequently also matter to our own business.

Our ESG Committee and other relevant governance bodies regularly discuss the new and existing themes and issues that matter to our stakeholders. Our management team then uses this insight, alongside the framework of the ESG Guide (which refers to our obligations under the Environmental, Social and Governance Reporting Guide contained in Appendix C2 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited), and the LR9.8.6R(8) of the Financial Conduct Authority's ('FCA') Listing Rules, and other applicable laws and regulations to choose what we measure and publicly report in this ESG review. Under the ESG Guide, 'materiality' is considered to be

the threshold at which ESG issues become sufficiently important to our investors and other stakeholders that they should be publicly reported. Our approach to materiality also considers disclosure standards and other applicable rules and regulations as part of our materiality assessment for specific ESG topics and relevant disclosures.

Given the recent developments in the ESG regulatory environment across various jurisdictions in which we operate, combined with the relative immaturity of processes, systems, data quality and controls, our focus remains on supporting a globally consistent set of mandatory sustainability standards. We aim to continue to evolve our reporting to recognise market developments, such as the International Sustainability Standard Board ('ISSB') or the Corporate Sustainability Reporting Directive ('CSRD'), and support the efforts to harmonise the disclosures. In this *Form 20-F*, we continue to report

against the core World Economic Forum ('WEF') Stakeholder Capitalism Metrics, and Sustainability Accounting Standards Board ('SASB') metrics and will continue to review our approach as the regulatory landscape evolves.

Consistent with the scope of financial information presented in this *Form 20-F*, the ESG review covers the operations of HSBC Holdings plc and its subsidiaries. Given the relative immaturity of ESG-related data and methodologies in general, we are on a journey towards improving completeness and robustness.

► For further details of our material ESG topics, see 'Engaging with our stakeholders and our material ESG topics' on page 15.

► For further details of our approach to reporting, see 'Additional information' on page 1d.

Our reporting around ESG

We report on ESG matters throughout this *Form 20-F*, including the 'ESG overview' section of the Strategic Report (pages 14 to 19), this ESG review (pages 41 to 98), and the 'Climate risk' and 'Insights from climate scenario analysis' sections of the Risk review (pages 257 to 266). In addition, we have other supplementary materials, including our *ESG Data Pack*, which provides a more granular breakdown of ESG information.

Detailed data	Additional reports
<i>ESG Data Pack 2023</i> , including SASB Index 2023 and WEF Index 2023	UK Pay Gap Report 2023 Modern Slavery and Human Trafficking Statement 2023 Green Bond Report 2023 HSBC UN Sustainable Development Goals Bond and Sukuk Report 2023

► For further details of our supplementary materials, see our *ESG reporting centre* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Assurance relating to ESG data TCFD

HSBC Holdings plc is responsible for preparation of the ESG information and all the supporting records, including selecting appropriate measurement and reporting criteria, in this *Form 20-F*, *ESG Data Pack* and the additional reports published on our website.

We recognise the importance of ESG disclosures and the quality of data underpinning them. We also acknowledge that our internal processes to support ESG disclosures are in the process of being developed and currently rely on manual sourcing and categorisation of data. Certain aspects of our ESG disclosures are subject to enhanced verification and assurance procedures including the first, second and third line of defence. Assurance assists in reducing the risk of restatement, although it cannot be fully eliminated given the challenges in data, evolving methodologies and emerging standards. We aim to continue to enhance our approach in line with external expectations.

For 2023, ESG data is subject to stand-alone independent limited third-party assurance in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance Engagements on Greenhouse Gas Statements', issued by the International Auditing and Assurance Standards Board, on the following specific ESG-related disclosures and metrics:

- our Green Bond Report 2023 (published in December 2023);
- our progress towards our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030 (see page 49);
- our on-balance sheet financed emissions for 2021 and 2022 for six sectors, our on-balance sheet financed emissions for 2020

for thermal coal mining, and our facilitated emissions for two sectors for 2019 to 2022 (see page 61);

- our thermal coal financing drawn balance exposures for 2020 (see page 67); and
- our own operations' scope 1, 2 and 3 (business travel) greenhouse gas emissions data (see page 64), as well as supply chain emissions data.

The work performed for independent limited assurance is substantially less than the work performed for a reasonable assurance opinion, like those provided over financial statements.

Our data dictionaries and methodologies for preparing the above ESG-related metrics and independent third-party limited assurance reports can be found at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Environmental ^{TCFD}

Transition to net zero

We support the transition of our customers, industries and markets to a net zero and a sustainable future, while moving to net zero ourselves.

At a glance

Our approach to transition to net zero

Our net zero ambition represents one of our four strategic pillars. In January 2024, we published our net zero transition plan. It provides an overview of our approach to net zero and the actions we are taking to help meet our ambition. It sets out how we are working to embed net zero across key areas of our organisation to help ensure that we can play a role in the transition to net zero in the markets we serve.

Supporting our customers

To help achieve the scale and speed of change required to transition to net zero, we know we need to support our customers not just with finance, but with the services, insights and tools to help them to transition. In 2023, we continued to provide sustainable financing and investment to our customers in line with our ambition to provide and facilitate \$750bn to \$1tn by 2030. We report our progress against our 2030 financed emissions targets and our wider progress towards net zero by 2050, including how we plan to engage with customers in high-emitting sectors.

Embedding net zero into the way we operate

We take a risk-based, proportionate and iterative approach to embedding net zero into our organisation, focusing our efforts on where we can help drive material and implementable change, and applying learnings as we go along. Our approach will continue to mature over time with evolving science, methodologies, industry standards and regulatory requirements, and improvements in data and in technology infrastructure.

Partnering for systemic change

Our ability to achieve our own net zero ambition is heavily reliant on the mobilisation of all stakeholders, public and private, across multiple geographies. We continue to support systemic change through new and existing partnerships, and we engage through industry alliances and initiatives to help build a supportive enabling environment.

Impact on reporting and financial statements

We have assessed the impact of climate risk on our balance sheet and have concluded that there is no material impact on the financial statements for the year ended 31 December 2023. The effects of climate change are a source of uncertainty. We capture known and observable potential impacts of climate-related risks in our asset valuations and balance sheet calculations. These are considered in relevant areas of our balance sheet, including expected credit losses, classification and measurement of financial instruments, goodwill and other intangible assets; and in making the long term viability and going concern assessment. As part of assessing the impact on our financial statements we conducted scenario analysis to understand the impact of climate risk on our business (see page 65). For further details of our climate risk exposures, see page 257.

For further details of how management considered the impact of climate-related risks on its financial position and performance, see 'Critical estimates and judgements' on page 370.

In this section

Overview	Our approach to the transition	We aim to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030.	Page 45
	Understanding our climate reporting	To achieve our climate ambition we need to be transparent on the opportunities, challenges, related risks and progress we make.	Page 46
Supporting our customers	Sustainable finance and investment	Our ability to help finance the transformation of businesses and infrastructure is key to building a sustainable future for our customers and society.	Page 49
	Financed emissions	We aim to align our financed emissions to achieve net zero by 2050 and support our clients on their transition.	Page 53
Embedding net zero into the way we operate	Net zero in our own operations	Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030.	Page 63
	Managing climate risk	We manage climate risk across all our businesses in line with our Group-wide risk management framework. Enhancing our climate change stress testing and scenario analysis capability is crucial in identifying and understanding climate-related risks and opportunities.	Page 65
	Sustainability risk policies	Our sustainability risk policies seek to ensure that the financial services that we provide to customers do not result in unacceptable impacts on people or the environment.	Page 66
Partnering for systemic change	Supporting systemic change to deliver net zero	We collaborate with a range of partners to support the development of an enabling environment and mobilise finance for nature and climate.	Page 68
Our approach to climate reporting	Task Force on Climate-related Financial Disclosures ('TCFD')	Our TCFD index provides our responses to each of the 11 recommendations and summarises where additional information can be found.	Page 69

Overview TCFD

Our approach to the transition

The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, compared with pre-industrial levels. To limit the rise to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050. We are working to achieve a 1.5°C-aligned phase-down of financed emissions from our portfolio.

In October 2020, we announced our ambition to become a net zero bank by 2050 and in 2021 we included the transition to net zero as one of the four key pillars of our corporate strategy.

Our starting point in the transition to net zero is one of a heavy financed emissions footprint. Our history means our balance sheet is weighted towards the sectors and regions which matter the most in terms of emissions, and whose transitions are therefore key to the world’s ability to reach net zero on time. This means we will have a complex transition, with markets and sectors at different starting points and moving at different speeds. However, it also provides us with an opportunity to work with our customers to help make an impact – in both the emissions challenge and the financing challenge.

Responding to the challenges and opportunities presented by net zero requires us to work across HSBC to implement and embed our net zero approach, to manage associated risks, and to help sustain and grow value for our customers, our shareholders and our wider stakeholders. We want to make financing, facilitating and investment choices that can lead to a meaningful impact on emissions reduction in the real economy, not just in our portfolio. This requires engaging with our customers on their transitions to help finance decarbonisation in the sectors and geographies with the most change ahead.

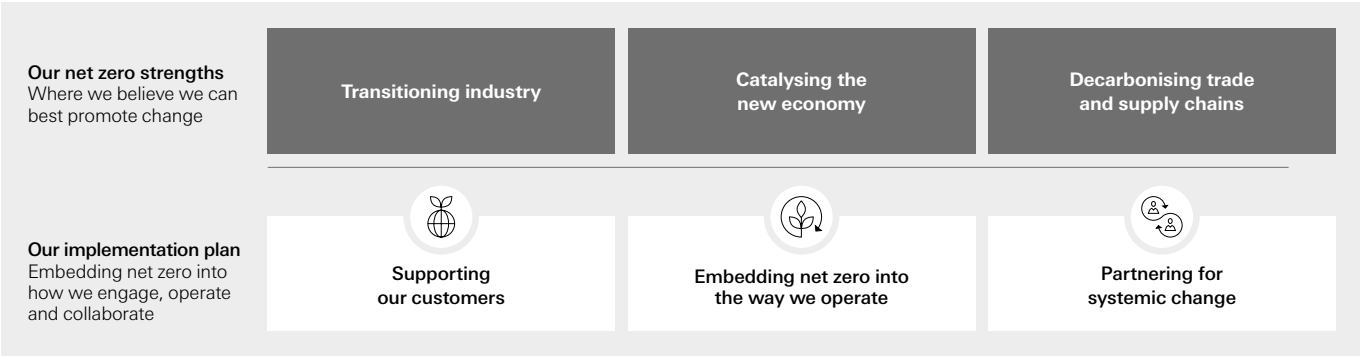
In January 2024, we published our net zero transition plan. It provides an overview of our approach to net zero and the actions we are taking to help meet our ambition. It sets out how we intend to use our strengths as an organisation to help deliver a broader impact on decarbonisation, how we are working to embed net zero across key areas of our organisation, and the principles that we aim to use to guide the implementation of our approach.

Our net zero strengths
We aim to rebalance our capital deployment towards achieving net zero over the coming decades. We believe we can do this best by promoting change in three key areas that play to our strengths as an organisation: transitioning industry; catalysing the new economy; and decarbonising trade and supply chains.

Our implementation plan
We are working to embed net zero across our organisation. This includes embedding net zero into: the way that we support our customers, both through customer engagement and the provision of financing solutions; the way that we operate as an organisation, including risk management, policies, governance and own operations; and how we partner externally in support of systemic change. It also means focusing first on the sectors and customers with the highest emissions and transition risks, and evolving and expanding our efforts over time.

Our net zero principles
In implementing our approach to net zero, we aim to be guided by a set of principles which are aligned with our core values: science-based, transparent and accountable; integrating nature; and just and inclusive.

 For further details of our approach to the transition, see our Net Zero Transition Plan 2024 at www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan.



Understanding our climate reporting

The availability of high-quality climate-related data, transparent reporting standards and consistent methodology will play a vital role in helping deliver the economic transformation required to limit global warming to 1.5°C at the speed and scale that is needed. We understand that our existing data, systems, controls and processes require significant enhancements to drive effective change, but we recognise the necessity to balance this with providing early transparency on climate disclosures.

Our stakeholder dependency

Critical to our approach is a recognition that as a bank we cannot do this alone. Our ability to transition relies on decarbonisation in the real economy – both the supply and demand side – happening at the necessary pace. Our customers and the industries and markets we serve will need to transition effectively, supported by strong government policies and regulation, and substantially scaled investment. Engagement and collaboration are therefore key to how we respond.

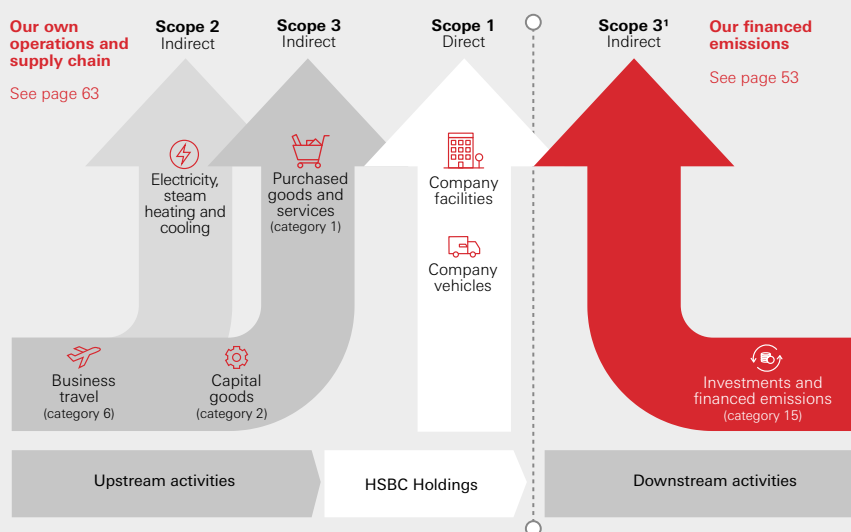
We acknowledge that to achieve our climate ambition we need to be transparent about the opportunities, challenges, related risks we face and progress we make. Our reporting must evolve to keep pace with market developments, and we will aim to work through challenges and seek to improve consistency across different markets. Standard setters and regulators will play a critical role. Some of the limitations and challenges that our organisation, and the wider industry, currently face with regard to climate reporting are highlighted on pages 47 to 48.

Explaining scope 1, 2 and 3 emissions

To measure and manage our greenhouse gas emissions, we follow the Greenhouse Gas Protocol global framework, which identifies three scopes of emissions. Scope 1 represents the direct emissions we create. Scope 2 represents the indirect emissions resulting from the use of electricity and energy to run a business. Scope 3 represents indirect emissions attributed to upstream and downstream activities. Our upstream activities include business travel and emissions from our supply chain including transport, distribution and waste. Our downstream activities include those related to investments and including financed emissions.

Under the protocol, scope 3 emissions are also broken down into 15 categories, of which we provide reporting emissions data for three related to upstream activities. These are: purchased goods and services (category 1); capital goods (category 2); and business travel (category 6). We also report data on downstream activities for financed emissions (category 15).

▶ For further breakdown of our scope 1, 2 and 3 emissions, see our ESG Data Pack at www.hsbc.com/esg.



1 Our analysis of financed emissions comprises 'on-balance sheet financed emissions' and 'facilitated emissions'.

Understanding our climate reporting continued

Keeping up-to-date with real economy progress

Net zero-aligned scenarios are dynamic by nature; they are typically updated every few years to incorporate significant shifts that have occurred in the real economy. Key drivers of this include changes in the economic environment, new data on technology deployment across sectors and geographies, new policies, and increased investment in clean energy and/or in fossil fuels.

The reference scenario we have selected to date for our published 2030 targets, for on-balance sheet and facilitated emissions, is the International Energy Agency's ('IEA') NZE 2021 scenario, which is 1.5°C-aligned with limited overshoot. In September 2023, the IEA's NZE 2023 scenario was published as an update to reflect developments since 2021. As outlined in our net zero transition plan, going forwards we intend to review each updated set of 1.5°C-aligned scenarios to further develop and enhance our understanding of the latest outlooks for evolving pathways to achieve net zero by 2050. This will help us to consider whether, how and when to iterate and update our approach to scenario selection and target setting, portfolio alignment, and policies to keep pace with the latest science and real-world developments. We anticipate standard setter and industry guidance on the treatment of updated scenarios in target-setting to emerge.

We recognise that the so-called 'hard-to-abate' sectors, such as cement, iron, steel and aluminium, and aviation have a large dependence on nascent technologies and the presence (or not) of enabling policies and regulations. We may consider tracking progress relative to 1.5°C-aligned ambition ranges for these sectors in the future, which could include industry-specific scenarios alongside the IEA NZE scenario.

Critical dependencies

Progress in the real economy towards net zero will likely be non-linear and will depend heavily on external factors including the

policy and regulatory landscape, the speed of technological innovation, major economic shifts and geopolitical events. There is also a risk of government or customer net zero pledges or transition plans not turning into the necessary emissions reductions in the coming decade, or in the case of hard-to-abate sectors, being pared back if technologies do not scale in time. In addition, climate science, the quality of data, and the scenarios upon which we have based our approach will change. We recognise that while we have limited control of these external dependencies, we can be clear on where we intend to focus our efforts to help drive meaningful change, and that we expect to iterate and mature our approach over time.

Our internal and external data challenges

Our climate ambition requires us to continue to enhance our capabilities including governance, processes, systems and controls. In addition, there is a heightened need for subject matter experts for climate-related topics as well as upskilling of key colleague groups who are supporting customers through their net zero transition. We also need new sources of data, some of which may be difficult to assure using traditional verification techniques. This challenge, coupled with diverse external data sources and structures, further complicates data consolidation. Our internal data on customer groups used to source financial exposure and emissions data is based on credit and relationship management attributes, and is not always aligned to the data needed to analyse emissions across sector value chains. As a consequence, this can result in an inconsistent basis in our financed emissions calculations.

We continue to invest in our climate resources and skills. Our activities are underpinned by efforts to develop our data and analytics capabilities and to help ensure that we have the appropriate processes, systems, controls and governance in place to support our transition.

We continue to increase automation of our processes, with a particular focus on developing our ESG data capabilities to help address data gaps and improve consistency.

This includes sourcing more reliable data from external providers. We are also developing our processes, systems, controls and governance to meet the demands of future ESG reporting. Certain aspects of our reporting rely on manual sourcing and categorisation of data that is not always aligned with how our businesses are managed. We also have a dependency on emissions data from our clients. Given the manual nature of the process, enhanced verification and assurance procedures are performed on a sample basis over this reporting, including the first and second line of defence. Our climate models undergo independent review by an internal model review group, and we obtain limited assurance on our financed emissions and sustainable finance disclosures from external parties, including our external auditors.

Policy implementation

We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

An evolving approach to embedding net zero

We acknowledge that our assessment of client transition plans – which to date has focused on clients in scope of our thermal coal phase-out and energy policies – is at an early stage with initial learnings on methodology and client engagement. We are also at the early stages of embedding transition plans alongside financed emissions into transaction and portfolio level business and risk processes. Our net zero transition plan provides further details of work underway and planned.



Limited alignment on sustainable finance taxonomies

Sustainable finance metrics, taxonomies and best practices lack global consistency. As standards develop over time and as the regulatory guidance around them evolves across jurisdictions, our methodologies, disclosures and targets may need to evolve. This could lead to differences in year-on-year reporting and restatements.

We continue to engage with standard setters in different regions to support the development of transparent and consistent taxonomies to best incentivise science-based decarbonisation, particularly in high transition risk sectors. We aim to align to enhanced industry standards as they are further developed, and increase transparency across the different types of green and sustainable finance and investment categories going forward.

Understanding our climate reporting continued

Financed emissions reporting challenges

The methodologies and data used to assess financed emissions and set targets continue to evolve alongside changes to industry guidance, market practice and regulation. We plan to refine our analysis using appropriate data sources and current methodologies available for the sectors we analyse. We have developed an internal recalculation policy (see page 56) to define the circumstances under which a recalculating of financed emissions is necessary to help support the consistency, comparability and relevance of our reported emissions data over time.

We have now set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors. We continue to report on-balance sheet financed emissions and targets for cement, iron, steel and aluminium, aviation, automotive and in 2023 we added thermal coal mining financed emissions.

Emissions related to our insurance business are partially captured within the disclosures of HSBC Asset Management, which manages the vast majority of our insurance assets. The Partnership for Carbon Accounting Financials ('PCAF') standard for insurance associated emissions (part C) is not applicable to our insurance business as HSBC Insurance focuses on the manufacturing of life insurance products.

In November 2023, our asset management business updated its 2022 thermal coal phase-out policy and released a new energy policy. It continues to focus on its portfolios' scope 1 and scope 2 decarbonisation target for 2030 with the aim of aligning with net zero emissions by 2050 or sooner. The commitment covers listed equity and corporate fixed income where data is most reliable and methodologies are most mature.

In January 2023, we withdrew our commitment to the Science Based Targets initiative ('SBTi'), which we had made in 2016, because we determined that it would not be feasible for us to meet SBTi's requirement to submit a complete set of sector targets for validation by its deadline. We continue to engage with SBTi on guidance for financial institutions and we participated in SBTi's consultation process on its revised standards during the year.

Disclosure revisions

We are committed to timely and transparent reporting. However, we recognise that challenges on data sourcing, as well as the evolution of our processes and industry standards, may result in us having to restate

certain disclosures. In 2023, there has been an impact on certain climate disclosures, as follows:

- Financed emissions: we improved our methodology for calculating financed emissions using more granular product identification to isolate exposure in scope, more consistent emission factors for estimates, and a revised aggregation method for emission intensity. Previously reported on-balance sheet numbers included non-lending exposures for market products in error. The more granular product identification will help ensure these are not included in future.
- Financed emissions: to reflect these enhancements we have set out the recalculated metrics for the oil and gas, and power and utilities sectors in the financed emissions section. The oil and gas baseline for on-balance sheet financed emissions is now 28.4 million tonnes of carbon dioxide equivalent ('Mt CO₂e') for 2019 versus 33.0 Mt CO₂e reported in the *Annual Report and Accounts 2022*. The power and utilities baseline for on-balance sheet financed emissions is now 537.5 tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh') for 2019 versus 589.9 tCO₂e/GWh reported in the *Annual Report and Accounts 2022*. For other sectors, changes were not material enough to warrant a recalculation.
- Thermal coal exposures: we have now revised the basis of preparation for our thermal coal exposures. Aligned with our thermal coal phase-out policy, we applied a risk-based approach to identify clients and report on relevant exposures. Our thermal coal financing drawn balance exposure was approximately \$1bn[†] as at 31 December 2020. We continue to work on our 2021 and 2022 numbers based on our revised basis of preparation and expect to report on these in future disclosures.
- Thermal coal power financed emissions: we have discontinued separate tracking and reporting of thermal coal power financed emissions. A review of the counterparties included within the on-balance sheet financed emissions calculation showed that the majority of thermal coal power entities in scope are included in other financed emission sector targets. We previously set separate targets to reduce on-balance sheet financed emissions for thermal coal power and thermal coal mining aligned to our thermal coal phase-out policy. We plan to maintain a financed emissions target for thermal coal mining only, and have set an absolute on-balance sheet reduction target for 2030 from a 2020 baseline. We used 2020 as a baseline to align with those applied to our drawn balance exposure targets. These targets reflect the percentage reduction that the IEA indicates in its net zero emissions scenario for global emissions to 2030.

Continuing to evolve our climate disclosures

We understand the need to provide early transparency on climate disclosures but we must balance this with the recognition that our existing data and reporting processes require significant enhancements. Due to ongoing data availability and quality challenges, we continue to assess our financed emissions for our real estate and agriculture sectors.

We are engaging with standard setters to support the development of transparent and consistent climate-related industry standards in areas such as product labelling, sustainability disclosures, sustainable finance taxonomy and emissions accounting. Voluntary industry initiatives can also help shape action and collaboration, and often form the basis of future climate policy and regulation. For example, we supported the TCFD, which is now referenced in climate disclosure rules around the world.

In 2024, we will continue to review our approach to disclosures, and enhance as appropriate.

- Shipping: following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with Net-Zero Banking Alliance ('NZBA') guidelines on sector inclusion for target setting.

▮ For details of assurance over our ESG data, see page 43.

▮ For details of our approach to calculating financed emissions and the relevant data and methodology limitations, see page 55.

▮ For details of our sustainable finance and investment ambition, see page 49.

▮ For details of our approach to thermal coal financing exposures, see page 67.

▮ For further details of our asset management policies, see page 67.

[†] Data is subject to independent limited third-party assurance in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and independent third-party limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Supporting our customers

Sustainable finance and investment TCFD

We recognise that we have an important role to play in supporting the transition to a net zero global economy. As a global organisation with a presence in the regions and sectors where most significant change is needed, we are well placed to help transition industry and catalyse the new economy to reach net zero.

Progress on our sustainable finance and investment ambition

We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. Our sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.

Since 1 January 2020, we have provided and facilitated \$267.8bn of sustainable finance and \$26.6bn of ESG and sustainable investing, as defined in our *Sustainable Finance and Investment Data Dictionary 2023*. This included 38% where the use of proceeds were dedicated to green financing, 12% to social financing, and 15% to other sustainable financing. It also included 26% of sustainability-linked financing and 9% of net new investment flows managed and distributed on behalf of investors. In 2023, our underwriting of green, social, sustainability and sustainability-linked bonds for clients decreased over the year, measured on a proportional share basis, in line with the wider bond market environment, although it remained at 15% of our total bond underwriting. On-balance sheet sustainable

lending transactions increased by 7% compared with 2022. In 2023, transactions totalling \$0.7bn were identified as no longer fulfilling our eligibility criteria. These were declassified and removed from the cumulative progress total, and reported as a negative entry in 2023.

Continued progress towards achieving our sustainable finance and investment ambition is dependent on market demand for the products and services set out in our *Sustainable Finance and Investment Data Dictionary 2023*.

	2023 (\$bn)	2022 (\$bn)	2021 (\$bn)	2020 (\$bn)	Cumulative progress since 2020 (\$bn)
Sustainable finance and investment summary¹					
Balance sheet-related transactions provided	42.7	42.2	26.0	10.4	121.3
Capital markets/advisory (facilitated)	33.3	34.5	48.7	30.0	146.5
ESG and sustainable investing (net new flows)	7.7	7.5	7.7	3.7	26.6
Total contribution²	83.7	84.2	82.4	44.1	294.4
Sustainable finance and investment classification by theme					
Green use of proceeds ^{3,4}	37.1	29.0	27.1	18.9	112.1
Social use of proceeds ³	8.4	6.7	11.3	9.7	36.1
Other sustainable use of proceeds ^{3,5}	10.7	12.6	11.7	8.3	43.3
Sustainability-linked ⁶	19.8	28.4	24.6	3.5	76.3
ESG and sustainable investing ⁷	7.7	7.5	7.7	3.7	26.6
Total contribution^{2,8}	83.7	84.2	82.4	44.1	294.4

1 The 2023 data in this table has been prepared in accordance with our Sustainable Finance and Investment Data Dictionary 2023, which includes green, social and sustainability activities. The amounts provided and facilitated include: the limits agreed for balance sheet-related transactions provided, the proportional share of facilitated capital markets/advisory activities and the net new flows of sustainable investments within assets under management.

2 The \$294.4bn cumulative progress since 2020 is subject to independent third-party limited assurance in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. For our Sustainable Finance and Investment Data Dictionary 2023 and independent third-party limited assurance report, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

3 For green, social and other sustainable use of proceeds, the capital markets products are aligned to the International Capital Markets Association's ('ICMA') Green Bond Principles, Social Bond Principles or Sustainability Bond Guidelines or the Climate Bonds Initiative as applicable. The lending labelled products are aligned to the Green Loan Principles ('GLP') or Social Loan Principles of the Loan Market Association ('LMA'), Asia-Pacific Loan Market Association ('APLMA') and the Loan Syndications and Trading Association ('LSTA') as applicable; or for our sustainable trade instruments, are aligned to HSBC's internal sustainable trade instrument principles which are based on the GLP and reference the UN SDGs. Also included are facilities where HSBC identifies that the use of proceeds would meet eligibility criteria as defined and approved by appropriate governance committees but these are not labelled or marketed as green or social.

4 Included within the total cumulative contribution towards our ambition are transactions to customers within the six high transition risk sectors (i.e. automotive, chemicals, construction and building materials, metal and mining, oil and gas, and power and utilities) as described on page 259. Of which approximately \$37bn is defined as green use of proceeds in line with the Sustainable Finance and Investment Data Dictionary 2023.

5 Sustainable use of proceeds can be used for green, social or a combination of green and social purposes.

6 Our sustainability-linked labelled products are aligned to either the ICMA Sustainability-Linked Bond Principles or the Sustainability-Linked Loan Principles of the LMA, APLMA and the LSTA as applicable. The coupon or interest rate is dependent on whether the borrower achieves predefined sustainability performance targets. The funds can be used for general purposes.

7 Net new flows of both HSBC-owned (Asset Management) sustainable investment funds and Wealth and Global Private Banking investments assessed against the Sustainable Finance and Investment Data Dictionary 2023.

8 Additional detailed information on our sustainable finance and investment progress can be found in the ESG Data Pack at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Sustainable finance and investment continued

Sustainable finance and investment definitions

Our data dictionary defining our sustainable finance and investment continues to evolve, and is reviewed annually to take into account the evolving standards, taxonomies and practices we deem appropriate. This involves reviewing and strengthening our product definitions, where appropriate, adding and deleting qualifying products, making enhancements to our internal standards, and developing our reporting and governance.

Industry and regulatory guidance on definitions for sustainable finance continue to evolve. In 2023, the Glasgow Financial Alliance for Net Zero ('GFANZ'), NZBA and the UK government released work-in-progress definitions of transition finance. We will continue to monitor these and other developments in sustainable finance definitions.

Our progress will be published each year, and we will seek to continue for it to be independently assured.

Mobilising capital to support our customers

In 2023, we continued to focus on providing our customers with products, services and initiatives to help enable emissions reduction in the real economy.

For example, we increased our funding from \$5bn to \$9bn for our sustainable finance scheme that supports businesses of all sizes in China's Greater Bay Area to transition to low-carbon operations. The scheme, launched in 2022, provides successful loan applicants access to a range of additional services including training, subsidised third-party assessments and assistance from a team with sustainable financing expertise. For our Wealth and Personal Banking customers, we launched green mortgages in Mexico, electric vehicle loans in India and a referral service to our electric vehicle leasing partner in the UK.

In 2023, we introduced an internal briefing series called Net Zero in Practice, which covers new technologies relevant to the net zero transition, drawing on expertise from across the organisation and highlighting financing opportunities and case studies.

We continue to be a participant in the Just Energy Transition Partnerships ('JETPs') in Indonesia and Vietnam, and in the Nexus for Water, Food and Energy in Egypt. These initiatives aim to play a catalytic role in mobilising finance to accelerate the energy transition. For further details of our involvement with the JETPs, see page 68.

In 2023, we won three awards at the *Environmental Finance* Bond Awards. We retained the *Euromoney* award for Best Bank for Sustainable Finance in Asia for the sixth year in a row, and won the global award for Best Bank for Public Sector Clients in recognition of our innovation in sustainability and tokenised public-sector bonds.

Our sustainable finance and investment data dictionary

We define sustainable finance and investment as any form of financial service that integrates ESG criteria into business or investment decisions. This includes financing, investing and advisory activities that support the achievement of UN Sustainable Development Goals ('SDGs'), including but not limited to the aims of the Paris Agreement on climate change.

Details of our revised definitions of the contributing activities for sustainable finance and investment and how we calculate the amounts we count are available in our *Sustainable Finance and Investment Data Dictionary 2023*.

▶ For our ESG Data Pack and Sustainable Finance and Investment Data Dictionary, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Sustainable finance and investment continued

Responsible and sustainable investment

We offer a broad suite of ESG capabilities across asset management, global markets, wealth, private banking and securities services, to help institutional and individual investors to generate financial returns, manage risk and pursue ESG-related opportunities.

Our Asset Management business is committed to further developing our sustainable product range across asset classes, as well as enhancing our existing product suite for ESG and climate-related criteria where it is in the investors' interests to do so. In 2023, we launched 10 funds within our ESG and sustainable strategies, which adhere to, and are classified within, our *Sustainable Finance and Investment Data Dictionary 2023*.

HSBC Asset Management managed over \$684bn assets at the end of 2023, of which \$73.3bn comprise assets of funds and mandates invested in our ESG and sustainable strategies.

Our ESG and sustainable investing approach across different investment products can include but is not limited to the UN SDGs, including climate. For the avoidance of doubt, assets invested pursuant to, or considered to be in alignment with, HSBC's ESG and sustainable investing approach do not necessarily qualify as 'sustainable investments' as defined by the EU Sustainable Finance Disclosures Regulation ('SFDR') or other relevant regulations. Our ESG and sustainable investing approach is an HSBC internal classification approach used to establish our own ESG and sustainable investing criteria (recognising the subjectivity inherent in such an approach and the variables involved). It is also used to promote consistency across asset classes and business lines where relevant, and should not be relied on externally to assess the sustainability characteristics of any given product. There is no single global standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable investing products.

We seek to take an active stewardship role to help drive positive change in the companies on our priority list in which we invest on behalf of our customers. The priority list, which is defined in our Global Stewardship Plan, can be found at: www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/responsible-investing/-/media/files/attachments/uk/policies/stewardship-plan-uk.pdf.

HSBC Asset Management's fixed income, equity and stewardship teams held over 2,000 meetings with companies in its portfolios. This included engaging with companies on the priority list across several thematic priorities, such as climate change, human rights, public health, inclusive growth and shared prosperity, biodiversity and nature, trusted technology and data, and diversity, equity and inclusion.

For our private banking and wealth customers, we expanded our investment offering with the launch of eight ESG and sustainable investing mutual funds and exchange-traded funds in 2023. We also enhanced our ESG and sustainable investing structured products offering linked to indices such as the MSCI World Islamic ESG Select 8% Risk Control Index. Throughout 2023, we published regular ESG and sustainability-related market insights and updates such as #WhyESGMatters and Learning about ESG to help clients better understand the implications for their investments.

HSBC Life, our insurance business, continues to expand the availability of ESG investment fund options within its investment-linked products. In 2023, eight new ESG funds were introduced across Hong Kong, France and Singapore with a range of investment themes, including environmental, circular economy and sustainable energy.

In June, under the United Nations Environment Programme Finance Initiative ('UNEP FI') Principles for Sustainable Insurance, HSBC Life co-led a team of insurance organisations to publish an industry position paper focused on the role and opportunity for life and health insurers to help build a more inclusive and preventative healthcare model. This included examples of good industry practice to: help insurers improve access to healthcare; close the health protection gap; drive better health outcomes across populations; and mitigate potential health risks due to climate change and other environmental factors.

▶ For further details of our asset management policies, see page 67.

Helping customers to understand ESG in their investments

We have launched new metrics to help our Global Private Banking and Wealth customers understand the ESG performance of their investments. In selected markets in 2023, we also introduced a sustainability preference questionnaire to help identify and understand our customers' sustainable investing objectives and ambitions. By improving clarity on ESG performance, which traditional financial metrics fail to capture, we aim to provide customers with meaningful insights to enable them to make informed investment decisions. Examples of these metrics, available on digital platforms in selected markets, are:

- 'ESG rating and score', which measures a company's resilience to material long-term, industry ESG risks and opportunities, with data provided by MSCI.
- 'Carbon intensity', which measures a company's carbon emissions per million of revenue, with data provided by S&P Trucost.

In addition, we have also introduced 'HSBC ESG and sustainable investing classifications', which help customers to understand and identify ESG and sustainable investing products in their investment portfolio according to HSBC's definition.

Sustainable finance and investment continued TCFD

Unlocking climate solutions and innovation

We recognise the need to find new solutions and increase the pace of change for the world to achieve the Paris Agreement goal of being net zero by 2050.

We are working with a range of partners to accelerate investment in sustainable infrastructure, natural resources and climate technology to help reduce emissions and address climate change.

Sustainable infrastructure

Addressing climate change requires the rapid development of a new generation of sustainable infrastructure.

HSBC continues to support the FAST-Infra Initiative, which we helped conceive, working with the IFC, OECD, the World Bank's Global Infrastructure Facility and the Climate Policy Initiative, under the auspices of the One Planet Lab. In 2023, the initiative, which aims to mobilise large-scale financing to develop sustainable infrastructure, invited pilot photovoltaic and wind power projects around the world to apply for the provisional FAST-Infra label. The label is awarded to projects that meet specific sustainability criteria. HSBC is supporting the introduction and widespread adoption of the labelling system as a standard for sustainable infrastructure assets globally.

Natural capital as an emerging asset class

Climate Asset Management, a joint venture we launched with climate investment and advisory firm Pollination in 2020, continues to create investment opportunities for investors to help protect biodiversity and support the transition to net zero.

It offers two investment strategies that aim to build resilience across landscapes while generating returns. Its nature-based carbon strategy targets nature restoration and conservation projects in developing economies, prioritising community benefits while generating high-quality carbon credits. Its natural capital strategy invests in agriculture, forestry and environmental assets and aims to deliver impact at scale alongside long-term financial returns.

Backing new technology and innovation

At the COP28 Summit in the UAE, HSBC pledged its support for the Energy Transition Accelerator Financing Platform, which aims to scale up the development of renewable energy projects in developing countries. Established in 2021 with initial support from the Abu Dhabi Fund for Development and the International Renewable Energy Agency, the platform brings together public and private institutions. HSBC signed alongside the European Bank for Reconstruction and Development, the International Finance Corporation and the Multilateral Investment Guarantee Agency. We will work with platform partners to expand the pipeline of investable projects in core HSBC markets, including in Asia and the Middle East, bringing financing solutions that support the transition to net zero.

We also became a founding member of the Global Climate Finance Centre, a newly launched UAE-based think tank created to connect public and private finance to help accelerate the transition to net zero.

HSBC Alternatives made direct investments in assets that help to promote the transition to a net zero climate. The venture capital strategy invests across four themes: power transformation, transport electrification, supply chain sustainability and climate risk mitigation. The strategy raised additional funds from institutional and private wealth clients over the course of 2023. As the health and productivity of trees.

Financed emissions TCFD

We announced our ambition to become a net zero bank in October 2020, including an aim to align our financed emissions to net zero by 2050 or sooner. We have published initial financed emissions targets for 2030, and plan to review them in five-year increments thereafter.

Our analysis of financed emissions comprises 'on-balance sheet financed emissions' and 'facilitated emissions', which we distinguish where necessary in our reporting. Our on-balance sheet financed emissions include emissions related to on-balance sheet lending, such as project finance and direct lending. Our facilitated emissions include emissions related to financing we help clients to raise through capital markets activities. Our analysis covers financing from Global Banking and Markets, and Commercial Banking.

Financed emissions link the financing we provide to our customers and their activities in the real economy, and provide an indication of the associated greenhouse gas emissions.

They form part of our scope 3 emissions, which include emissions associated with the use of a company's products and services.

In 2021, we started measuring financed emissions for oil and gas, and power and utilities. Following the December 2023 release of the PCAF Global GHG Accounting Standard for capital markets, we now include facilitated emissions for these sectors, in recognition of our role as service provider when customers issue debt and equity to investors. For target setting we now track the combined progress for on-balance sheet financed and facilitated emissions.

In 2022, we disclosed the on-balance sheet financed emissions targets for the following additional sectors: cement; iron, steel and aluminium; aviation; and automotive. We also set a target, and now measure, on-balance sheet financed emissions for the thermal coal mining sector. As part of our financial reporting, we present the progress for these sectors

against the financed emissions baselines that we now measure ourselves against.

Following a reduction in our exposure to the shipping sector after the strategic sale of part of our European shipping portfolio in 2023, and work undertaken to assess the materiality of our remaining portfolio from a financed emissions perspective, we have concluded that the remaining exposure as of year-end 2023 is not material enough to warrant setting a stand-alone target. This aligns with NZBA guidelines on sector inclusion for target setting.

We have announced a number of planned business disposals in recent years, and we will continue to consider how these may impact future disclosures, including recalculations.

For all sectors other than oil and gas and thermal coal mining, we have set emissions intensity targets. These targets are linked to real world production and help us to deploy capital towards decarbonisation solutions.

Our approach to financed emissions

In our approach to assessing our financed emissions, our key methodological decisions were shaped in line with industry practices and standards. We recognise these are still developing.

Coverage of our analysis

For each sector, our analysis focuses on the parts of the value chain where we believe the majority of emissions are produced to help reduce double counting of emissions. By estimating emissions and setting targets for customers that directly account for, or indirectly influence, the majority of emissions in each

industry, we can focus our engagement and resources where we believe the potential for change is highest. For each sector, our reported emissions now typically include all the major greenhouse gases, including carbon dioxide, methane and nitrous oxide, among others. These are reported as tonnes of CO₂ equivalent, in line with NZBA guidelines.

To calculate annual on-balance sheet financed emissions, we use drawn balances as at 31 December in the year of analysis related to wholesale credit and lending, which include business loans and project finance as the

value of finance provided to customers. We excluded products that were short term by design, and typically less than 12 months in duration, consistent with guidance from the PCAF, to reduce volatility. For facilitated emissions we considered all capital market transactions in scope for the year of analysis. These included debt and equity capital markets, and syndicated loans.

► For further details of our financed emissions methodology, exclusions, and limitations, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

The chart below shows the scope of our financed emissions analysis of the seven sectors, including upstream, midstream and downstream activities within each sector. The allocation of companies to different parts of the value chain is highly dependent on expert judgement and data available on company revenue streams. As data quality improves, this will be further refined.

Sector	Scope of emissions	Value chain in scope				Coverage of greenhouse gases ('GHGs')
		Upstream (e.g. extraction)	Midstream (e.g. transport)	Downstream (e.g. fuel use)	Integrated/diversified	
Oil and gas	1, 2 and 3	Included in analysis			Included in analysis	All GHGs
Power and utilities	1 and 2	Included in analysis				All GHGs
Cement	1 and 2		Included in analysis			All GHGs
Iron, steel and aluminium	1 and 2		Included in analysis			All GHGs
Aviation	1 for airlines, 3 for aircraft lessors			Included in analysis		All GHGs
Automotive	1, 2 and 3		Included in analysis			All GHGs
Thermal coal mining	1, 2 and 3	Included in analysis				All GHGs

Key: Included in analysis

Financed emissions continued

Setting our targets

Our target-setting approach to date, for on-balance sheet financed emissions and facilitated emissions, has been to utilise a single net zero reference scenario (IEA NZE 2021) to underpin both energy supply-related sectors (oil and gas, power and utilities, and thermal coal mining) and our published targets for demand-side sectors in transport and heavy industry.

The impact of our capital markets activities is now reflected in our combined financed emissions targets for the oil and gas, and power and utilities sectors. Our facilitated emissions, included in our combined metrics, are weighted at 33%, in accordance with the PCAF standard. This approach dampens volatility, apportions responsibility between underwriters and asset owners, and allows for flexibility in deploying on and off-balance sheet financing in line with clients' needs. To further reduce the inherent volatility in facilitated emissions, we apply a three-year moving average across transactions for our target metric, building up from 2019 data. This means that transactions facilitated in 2028 and 2029 will still have an impact on the 2030 progress number and will need to be taken into consideration as we manage progress towards our target. We aim to achieve our target in 2030 notwithstanding the application of a three-year average.

Our approach for financed emissions accounting does not rely on purchasing offsets to achieve any financed emissions targets we set.

An evolving approach

We believe methodologies for calculating financed emissions and setting targets should be transparent and comparable, and should provide science-based insights that focus engagement efforts, inform capital allocation and support the development of solutions that are both timely and impactful. We continue to engage with regulators, standard setters and industry bodies to help shape our approach to measuring financed emissions and managing portfolio alignment to net zero. We also work with data providers and our clients to help us gather data from the real economy to improve our analysis.

Scenarios used in our analysis are modelled on assumptions of the available carbon budget and actions that need to be taken to limit the long-term increase in average global temperatures to 1.5°C with limited overshoot. We expect that the scenarios we use will be updated periodically. We plan to refine our own analysis of financed emissions as industry guidance on scenarios, data and methodologies more broadly evolve in the years ahead.

Agriculture

For the agriculture sector, due to ongoing data availability and quality challenges, and lack of developed methodologies, we are not in a position to report our financed emissions or set a target at this time. We aim to build data availability and continue to work with partners and industry bodies to develop data and methodologies across a wider section of the agriculture value chain – such as farm-related and downstream emissions, including from the food and beverage sector – while assessing the make-up of our portfolio.

Residential real estate

For residential real estate, where our customers are consumers not corporates, our approach needs to consider financial inclusivity, and our ability to provide customers access to suitable mortgages in addition to decarbonisation aims. We expect to measure and report our residential real estate financed emissions in future disclosures. We continue to consider our approach to setting an appropriate target to measure our contribution to helping the sector transition.

Commercial real estate

For commercial real estate, we continue to work towards outlining a baseline and a 2030 financed emissions ambition or ambition range, starting with our major markets and where sufficient data is available to track decarbonisation progress. We expect to review our approach and coverage periodically in line with evolving data, methodologies, scenarios and real-world progress. Methodologies for embedded carbon need to be developed given the materiality of financing new property development within our portfolio, from a financed emissions perspective.

Financed emissions continued

Data and methodology limitations

Our financed emissions estimates and methodological choices are shaped by the availability of data for the sectors we analyse.

- We are members of the PCAF, which defines and develops greenhouse gas accounting standards for financial institutions. Its Global GHG Accounting and Reporting Standards for Financed Emissions and for Facilitated Emissions provide detailed methodological guidance to measure and disclose financed and facilitated emissions.
- We have found that data quality scores vary across the different sectors and years of our analysis, although not significantly. While we expect our data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be fluctuations within sectors year on year, and/or differences in the data quality scores between sectors due to changes in data availability.
- The majority of our clients do not yet report the full scope of greenhouse gas emissions included in our analysis, in particular scope 3 emissions. In the absence of client-reported emissions, we estimated emissions using proxies based on company production and revenue figures. Although we sought to minimise the use of non-company-specific data, we applied industry averages in our analysis where company-specific data was unavailable through our vendor datasets. As data improves, estimates will be replaced with reported figures.

- Third-party datasets that feed into our analysis may have up to a two-year lag in reported emissions figures, and we are working with data providers to help reduce this. Mapping external datasets to our internal client entities is challenging due to complex company ownership structures.
- The methodology and data used to assess financed emissions and set targets are new and evolving, and we expect industry guidance, market practice, and regulations to continue to change. We plan to refine our analysis using appropriate data sources and current methodologies available for the sectors we analyse.
- We remain conscious that the attribution factor used in the financed emissions calculation is sensitive to changes in drawn amounts or market fluctuations, and we plan to be transparent around drivers for change to portfolio financed emissions where possible.
- To calculate sector-level baselines and annual updates, our portfolio-level emissions intensity was previously weighted by the ratio of our financing in relation to the value of the financed company. We believe this introduced volatility. We have now calculated sector level emissions intensity metrics using a portfolio-weighted approach. Due to data limitations, we are unable to obtain production data for all of our clients. We therefore calculate an emissions intensity figure using the 75th percentile to meet this data gap.

- The classification of our clients into sectors is performed with inputs from subject matter experts, and will also continue to evolve with improvements to data and our sector classification approach. Our internal data on customer groups used to source financial exposure and emissions data is based on credit and relationship management attributes and is not always aligned to the data needed to analyse emissions across sector value chains. As a consequence, this can result in an inconsistent basis in our financed emissions calculations. As the sub-sector, and therefore the value chain classification is based on judgement, this may be revised as better data becomes available. Emissions are calculated at a counterparty group level and each client is mapped to a single sector. Companies with multiple activities such as conglomerates, with near to equal business activity split across multiple sectors, are excluded as these can have different activities covered by multiple sector targets. Once we define a methodology for conglomerates these may be covered according to their activity split.
- The operating environment for climate analysis and portfolio alignment is maturing. We continue to work to improve our data management processes, and are implementing steering mechanisms to align our provision of finance with the goals and timelines of the Paris Agreement.

▶ For further details of our financed emissions methodology, see our *Financed Emissions and Thermal Coal Exposures Methodology* at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Financed emissions continued

Our approach to financed emissions recalculations

The PCAF recommends that financial institutions should, in line with the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard requirement, establish a recalculation policy. To adhere to this recommendation, we have defined the circumstances under which we consider a recalculation of baseline and/or progress against financed emissions target metrics is necessary to help ensure the consistency, comparability and relevance of the reported greenhouse gas emissions data

over time. Our recalculation policy covers revisions of metrics linked to the targets due to changes in financed emissions accounting, such as changes to methodology, errors, and improvements to data. We expect our recalculation policy to evolve with further industry guidance.

The table below outlines the action we take when key areas of change, individually or in aggregate, breach our defined significance thresholds for the baseline year metric linked

to the target. Enhancements to internal or external data, such as changes to the classification of the population to a different business activity type or more, or improved quality data reported by clients, would not constitute a change to the financed emissions estimation methodology or an error.

Key reasons for change	What we expect to disclose
Changes to the financed emissions methodology such as changes to design choices	– The reasons why applying the new metrics provides reliable and more relevant information – The actions being taken to remediate same or similar errors in the future – The nature of the change(s) and errors in financed emissions accounting impacting the baseline progress metric and all prior year progress metrics disclosed as far as is practicable
Errors such as a failure to carry out our methodology or errors in internal financial data	– The aggregate amount of any adjustments impacting the baseline progress metric and all prior year progress metrics disclosed as far as is practicable – The change in financed emissions accounting baseline progress metric and all prior year progress metrics disclosed as far as is practicable

In 2023, we improved our methodology for calculating financed emissions using more granular product identification to isolate exposure in scope, more consistent emission factors for estimates, and a revised aggregation method for emissions intensity. Previously some reported on-balance sheet numbers included non-lending exposures for market products in error. The more granular product identification will help ensure these are not included in future.

To reflect these enhancements we have set out the recalculated metrics for the oil and gas, and power and utilities sectors in the table below. For other sectors, changes were not material enough to warrant a recalculation.

The oil and gas baseline for on-balance sheet financed emissions is now 28.4 million tonnes of carbon dioxide equivalent ('Mt CO₂e') for 2019 versus 33.0 Mt CO₂e reported in the *Annual Report and Accounts 2022*. Of this change, 62% (2.9 Mt CO₂e) was related to the inclusion of non-lending products in error

and the remaining 38% (1.8 Mt CO₂e) was due to the enhanced product mapping and streamlined approach for emissions estimates.

The power and utilities baseline for on-balance sheet financed emissions is now 537.5 tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh') for 2019 versus 589.9 tCO₂e/GWh reported in the *Annual Report and Accounts 2022*. This change reflects the implementation of the revised aggregation method and enhanced product mapping.

Revisions		Previously reported		Recalculated metrics		Percentage change	
Sector	Reporting metrics	2019	2020	2019	2020	2019	2020
Oil and gas	On-balance sheet financed – Mt CO ₂ e	33.0	30.1	28.4	25.0	(14)%	(17)%
	Facilitated (100% weighting) – Mt CO ₂ e	29.5	N/A	43.2	N/A	47%	N/A
Power and utilities	On-balance sheet financed – tCO ₂ e/GWh	589.9	509.6	537.5	511.1	(9)%	—%
	Facilitated (100% weighting) – tCO ₂ e/GWh	360.0	N/A	420.7	N/A	17%	N/A

Financed emissions continued

Targets and progress

We have set out in the table below our combined on-balance sheet financed and facilitated emissions targets for the oil and gas, and power and utilities sectors. These show the revised baselines.

For facilitated emissions, we track progress to target using a three-year average moving window (average of 2020, 2021 and 2022 for the 2022 progress number) and figures weighted at 33%. This means that transactions facilitated in 2028 and 2029 will still have an impact on the 2030 progress number and will need to be taken into consideration as we manage progress towards our target. We aim to achieve our target in 2030 notwithstanding the application of a three-year average.

The facilitated emissions values total 17.5 Mt CO₂e in 2021 and 14.4 Mt CO₂e in 2022 for the oil and gas sector, and 398.3 tCO₂e/GWh for 2021 and 377.6 tCO₂e/GWh in 2022 for the power and utilities sector. These values are then combined with the on-balance sheet

numbers for the relevant year to track progress to target. We set out the annual figures before the application of the three-year average in the facilitated emissions table on page 61.

We have also set out our defined targets for the on-balance sheet financed emissions of the following sectors: cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining. We disclose emissions in 2021 and 2022 and progress achieved in 2022 versus baseline for each sector.

We have implemented a revised approach to calculate the sector-level intensity metric in 2023, which has been applied for the recalculated power and utilities baseline metric, and for 2021 and 2022 actual data for all intensity-based sectors. Emissions intensity is a weighted average according to the portfolio weight of each investment, as a proportion of the total portfolio value.

The progress figures show the trend in financed emissions before targets were set.

Targets were set for oil and gas, and power and utilities in February 2022, for thermal coal mining in December 2022, and for the other sectors in February 2023. On the following pages, we provide more granular details of our financed emissions within these sectors.

When assessing the changes from 2019 to 2022, it is important to emphasise the long-term commitment that is needed to meet our 2030 interim targets, and how changes to exposure and market fluctuations impact yearly updates. Movement from one year to the next may not reflect future trends for the financed emissions of our portfolio. In the hard-to-abate sectors, where decarbonisation progress is expected to be slower, we are taking steps to engage with clients on their transition plans.

As we are at the beginning of our journey to track and measure progress, we believe it would be premature to infer future trends from the 2019 to 2022 progress at this stage.

Sector ¹	Baseline	2021	2022	2022 % change vs. baseline	2030 target	Unit ²	Target scenario
Combined on-balance sheet financed and facilitated emissions at 33% with three-year moving average							
Oil and gas	42.6 in 2019	37.9	31.9	(25)%	(34)%	Mt CO ₂ e	IEA NZE 2021
Power and utilities	513.4 in 2019	405.1	396.8	(23)%	138.0	tCO ₂ e/GWh	IEA NZE 2021
On-balance sheet financed emissions							
Cement	0.64 in 2019	0.70	0.71	10%	0.46	tCO ₂ e/t cement	IEA NZE 2021
Iron, steel and aluminium	1.8 in 2019	2.4	2.5	38%	1.05 (1.43) ³	tCO ₂ e/t metal	IEA NZE 2021
Aviation	84.0 in 2019	85.9	86.5	3%	63.0 ⁴	tCO ₂ e/million rpk	IEA NZE 2021
Automotive	191.5 in 2019	215.7	216.6	13%	66.0	tCO ₂ e/million vkm	IEA NZE 2021
Thermal coal mining	4.0 in 2020	N/A	N/A	N/A	(70)% ⁵	Mt CO ₂ e	IEA NZE 2021

¹ Our absolute and intensity emission metrics and targets are measured based on the drawn exposures of the counterparties in scope for each sector. For oil and gas; and power and utilities, the baseline, 2021, 2022 and target type figures represent revised combined on-balance sheet financed and facilitated emissions. For iron, steel and aluminium; cement; aviation; automotive; and thermal coal mining, the baseline, 2021, 2022 and target type figures represent on-balance sheet financed emissions (no revisions applied).

² For the oil and gas sector, absolute emissions are measured in million tonnes of carbon dioxide equivalent ('Mt CO₂e'); for the power and utilities sector, intensity is measured in tonnes of carbon dioxide equivalent per gigawatt hour ('tCO₂e/GWh'); for the cement sector, intensity is measured in tonnes of carbon dioxide equivalent per tonne of cement ('tCO₂e/t cement'); for the iron, steel and aluminium sector, intensity is measured in tonnes of carbon dioxide equivalent per tonne of metal ('tCO₂e/t metal'); for the aviation sector, intensity is measured in tonnes of carbon dioxide equivalent per million revenue passenger kilometres ('tCO₂e/million rpk'); for the automotive sector, intensity is measured in tonnes of carbon dioxide equivalent per million vehicle kilometres ('tCO₂e/million vkm'); and for the thermal coal mining sector, absolute emissions are measured in million tonnes of carbon dioxide equivalent ('Mt CO₂e').

³ While the iron, steel and aluminium 2030 target is aligned with the IEA NZE 2021 scenario, we also reference the Mission Possible Partnership Technology Moratorium scenario, whose 2030 reference range is shown in parentheses.

⁴ Our aviation unit includes passenger and cargo tonnes, converted into revenue passenger kilometre ('rpk'), to align with our target pathway. This is comparable to revenue tonne kilometre (rtk) using a 100kg per passenger conversion factor as we already include belly and dedicated cargo in our production figures. The conversion factor changed from 95kg per passenger in the previous disclosure to align with industry practice.

⁵ The thermal coal mining scope differs from the other sectors. We include solely emissions from thermal coal production and coal power generation, rather than the total emissions of a counterparty within a sector, to reflect the absolute financed emissions reduction thermal coal mining sector target.

Financed emissions continued

We plan to report financed emissions and progress against our targets annually and to be transparent in our disclosures about the methodologies applied and any challenges or dependencies. However, financed emissions figures may not be reconcilable or comparable year on year in future, and baselines and targets may require recalibration as data, methodologies and reference scenarios develop.

Consistent with PCAF guidance on financed emissions accounting, we only consider the outstanding drawn financing amount

given this has a direct link to real economy emissions.

A number of clients have material undrawn balances that, if drawn, could significantly increase the financed emissions related to those clients. We expect to assess how to manage these exposures on a forward-looking basis as we progress towards our 2030 targets. In addition, for the intensity-based sectors, the emissions intensity is sensitive to material clients and changes to drawn balances year on year can therefore influence the trend.

We are developing portfolio modelling capabilities that integrate risk, profitability and financed emissions to inform decision making and determine how to best steer our portfolios to meet our financed emissions targets and commercial and strategic ambitions. As part of this we are testing and developing an analytics capability that will provide an up-to-date view of our position relative to our 2030 targets and an indication of the financed emissions impact of a transaction to consider alongside risk-return metrics.

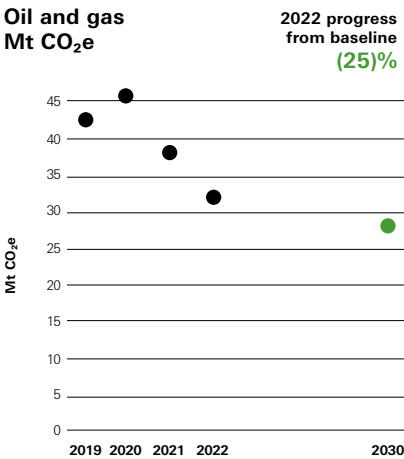
Oil and gas

For the oil and gas sector, our analysis included scope 1, 2 and 3 emissions, including carbon dioxide and methane, for upstream and integrated companies. We revised our baseline for 2019 and progress figures to reflect combined on-balance sheet financed and facilitated emissions and our revised approach.

We have set a target to reduce absolute on-balance sheet financed emissions and facilitated emissions for our oil and gas portfolio by 34% by 2030 relative to a 2019 baseline. This is consistent with a global 1.5°C-aligned pathway as defined by the IEA NZE 2021 scenario. This target is unchanged with the inclusion of facilitated emissions. We plan to update our target following the periodic release of new 1.5°C-aligned scenarios in the years ahead to reflect shifts in the real economy.

Our core approach as we progress towards our portfolio decarbonisation targets is to engage with major oil and gas customers to understand their transition plans and to help support and accelerate those efforts. This is in line with the Group's energy policy, which supports the phasing down of fossil fuel sources with the highest emission intensity as well as financing restrictions for projects relating to new oil and gas fields, and infrastructure.

In 2022, absolute combined on-balance sheet financed and facilitated emissions decreased by 25% to 31.9 Mt CO₂e relative to the 2019 baseline, and by 16% from 2021 to 2022. This decline was achieved through a risk-weighted assets reduction strategy and aided by market conditions, with stronger oil and gas cash flows and higher interest rates resulting in reduced demand for bank debt and capital markets financing. Market dynamics will continue to create volatility in future years as we make progress towards our financed emissions target.



Power and utilities

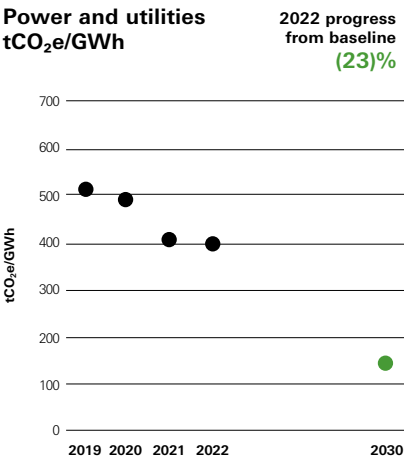
For the power and utilities sector, our analysis included scope 1 and 2 emissions for upstream power generation companies. Although scope 1 emissions are most material for the sector, most companies report scope 1 and 2 emissions together making it challenging to split out the data. We revised our baseline for 2019 and progress figures to reflect combined on-balance sheet financed and facilitated emissions and our revised approach.

We have set a target to reduce the financed emissions intensity of our on-balance sheet and facilitated power and utilities portfolio to 138 tCO₂e/GWh by 2030. This target is unchanged with the inclusion of facilitated emissions. We have chosen an intensity-based target as electricity demand is expected to more than double by 2050 due to both population growth and electrification required to decarbonise mobility, buildings, and industry. We have focused on power generation companies because they control sector output. By engaging with them, we believe we can help drive the most material emissions impact in the real economy.

Our target is consistent with a global 1.5°C-aligned pathway, as defined by the IEA NZE 2021 scenario. We plan to refresh our target following the periodic release of new 1.5°C-aligned scenarios in the years ahead.

In 2022, our combined on-balance sheet financed and facilitated emissions intensity decreased by 23% to 396.8 tCO₂e/GWh relative to the 2019 baseline. This reduction was driven by an increase in financing of renewable energy projects and companies, and a decrease in financing of high emissions intensity clients. Over the period from 2022 to 2021 the fall in sector portfolio financed emissions was a more modest 2%.

Over the reported period, the average emissions intensity of clients for whom we helped raise funds in the capital markets was lower than for clients financed directly on our balance sheet. This means the combined on-balance sheet financed and facilitated emissions intensity from 2019 to 2022 was lower than for on-balance sheet financing alone.



Key:
● HSBC sector target
● HSBC sector portfolio emissions

Financed emissions continued

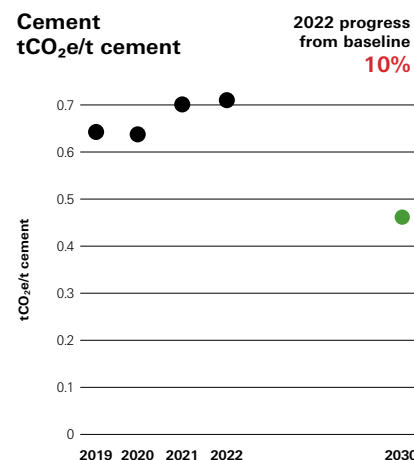
Cement

For the cement sector, our analysis included scope 1 and 2 emissions for midstream companies with clinker and cement manufacturing facilities.

In line with the IEA NZE 2021 scenario, we target an on-balance sheet financed emissions intensity of 0.46 tonnes of carbon dioxide equivalent per tonne of cement ('tCO₂e/t cement') by 2030, using 2019 as our baseline. While some emissions reductions can be achieved through energy efficiency, we believe that to significantly reduce fuel and process emissions from cement manufacturing, and to meet our targets, large-scale investments are required in new technologies, including clinker substitution, alternative fuel use such as bioenergy, and carbon capture use and storage.

Our 2022 emissions intensity was 10% higher than the 2019 baseline due to higher drawn balances for emissions intensive clients, but at 0.71 tCO₂e/t cement in 2022, it was marginally up by 1% from 2021.

Our cement portfolio is relatively concentrated in customer numbers, and even where customers have set science-based targets there is still a risk of pledges not turning into the necessary emissions reductions if technologies do not scale in time. It will be important, therefore, to regularly review progress on technology scaling across the industry over the years ahead to 2030. For cement and the other intensity-based sectors we plan to integrate net zero considerations into our transaction processes and controls and we expect this to help guide our activities towards progressive alignment of the portfolio with our 2030 targets.



Iron, steel and aluminium

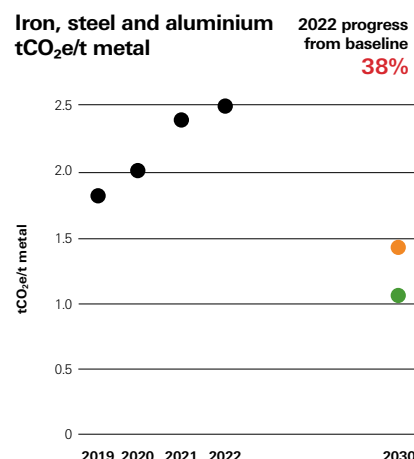
We covered scope 1 and 2 for midstream iron, steel and aluminium production in our analysis. Due to the low significance of the aluminium sector's financed emissions within our portfolio, we combined them with our iron and steel financed emissions. In the event that aluminium becomes a more material part of our portfolio in the future, we may consider creating a separate target for aluminium production given the varied decarbonisation pathway for this metal.

For the iron, steel and aluminium sector, we target an on-balance sheet financed emissions intensity of 1.05 tonnes of carbon dioxide equivalent per tonne of metal ('tCO₂e/t metal') by 2030, using the IEA NZE 2021 scenario as our core scenario and 2019 as our baseline.

Due to the challenges of decarbonising this hard-to-abate sector, we also outline an alternative scenario from the Mission Possible Partnership ('MPP').

The emissions intensity in 2022 rose by 38% to 2.5 tCO₂e/t metal against our 2019 baseline and by 4% versus 2021. This was due to increased financing to the aluminium sector, which has a higher carbon intensity than that of steel.

We aim to actively manage our portfolio to achieve our 2030 financed emissions target for our iron, steel and aluminium portfolio, taking into account the actions our customers are taking to achieve emissions reductions.



Aviation

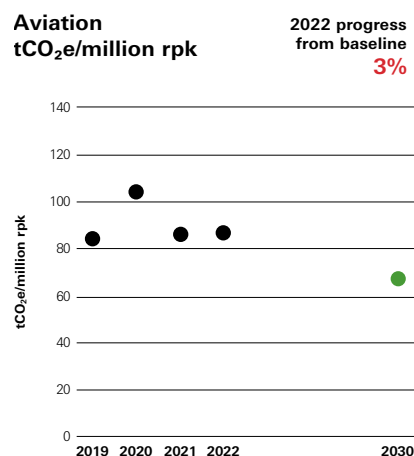
In the aviation sector, we included passenger airlines' scope 1 and aircraft lessors' scope 3 downstream emissions. We excluded military and dedicated cargo flights as the emissions intensity of such cargo flights is different to that of passenger airlines. This approach is in line with industry practice to ensure consistency of financed emissions measurement and target setting.

Aligned with the IEA NZE 2021 scenario, we target an on-balance sheet financed emissions intensity of 63.0 tonnes of carbon dioxide equivalent per million revenue passenger kilometres ('tCO₂e/million rpk') by 2030, using 2019 as our baseline. To reach these intensity levels and help meet our targets, we believe the sector needs significant policy support, investments in alternative fuels, such as sustainable aviation fuel, and new aircraft to reduce emissions.

The industry is also adopting the unit of revenue tonne kilometre ('rtk') to take into account the transport of cargo for airlines in scope of the target. We will consider this as part of our methodology enhancement.

At 86.5 tCO₂e/million rpk in 2022, the emissions intensity increased by 3% versus the 2019 baseline and was marginally up by 1% from 2021. In 2020 there was a peak in emissions intensity due to the impact of the Covid-19 pandemic, as planes carried fewer passengers.

We plan to engage with our major customers on their transition plans, as well as integrate financed emissions implications into transaction and portfolio management for the sector.



Key:

- HSBC sector target
- HSBC sector portfolio emissions
- Mission Possible Partnership ('MPP') pathway

Financed emissions continued

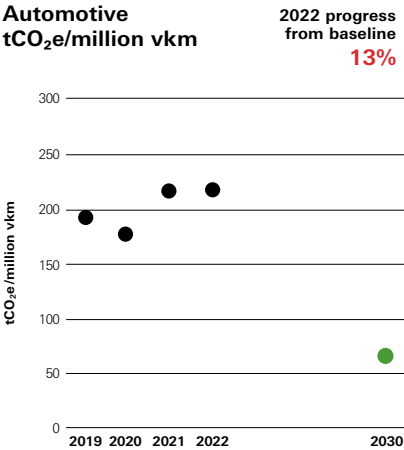
Automotive

For the automotive sector, we looked at scope 1, 2 and 3 emissions from the midstream manufacturing of vehicles, and tank-to-wheel exhaust pipe emissions for light-duty vehicles. We excluded heavy-duty vehicles from our analysis as the target pathway derived from the IEA excludes them, as they have a different decarbonisation pathway relative to light-duty vehicles. This approach is in line with industry practice to ensure consistency of financed emissions measurement and target setting. We will consider including heavy-duty vehicle manufacturers as well as heavy-duty vehicle production at a later stage of our analysis, as data and methodologies develop.

We target an on-balance sheet financed emissions intensity of 66.0 tonnes of carbon dioxide equivalent per million vehicle kilometres ('tCO₂e/million vkm') by 2030 using 2019 as our baseline. This is in line with the IEA NZE 2021 scenario, which is a 1.5C°

aligned pathway, modified to match the share of new in-year vehicle sales for light-duty vehicles. Decarbonisation of the automotive sector, and therefore our ability to meet our targets, needs large-scale investments in new electric vehicle and battery manufacturing plants, widespread charging infrastructure, and government policies to support electric vehicles.

Our 2022 emissions intensity rose by 13% to 216.6 tCO₂e/million vkm against our 2019 baseline and stayed level with 2021. This increase, after an 8% reduction in 2020 versus 2019, was caused by a shift in the portfolio towards companies producing more emissions-intensive vehicles. This can be the case for manufacturers that produce more sports utility vehicles or fewer electric vehicles.

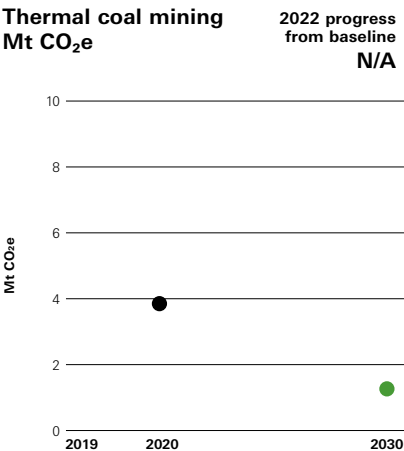


Thermal coal mining

For the thermal coal mining sector, our analysis focused on scope 1, 2 and 3 emissions in upstream companies, including those involved in extraction. The majority of our financed emissions relate to scope 3 emissions associated with coal mining.

We set an absolute on-balance sheet reduction target of 70% for 2030, from an absolute 2020 baseline measure of 4.0 Mt CO₂e. We used 2020 as a baseline to align with the baseline used for our drawn balance exposure targets in the thermal coal phase-out policy. The financed emissions target is aligned with the IEA NZE 2021 scenario.

When calculating our financed emissions from thermal coal mining, we focused on thermal coal extraction and processing companies, and diversified mining companies. We aim to measure and focus on our customers with the most material thermal coal-related emissions in order to help drive a meaningful impact in the real economy.



Key:
● HSBC sector target
● HSBC sector portfolio emissions

Financed emissions continued

On-balance sheet financed emissions

The table below summarises the results of our assessment of on-balance sheet financed emissions using 2021 and 2022 data. For thermal coal mining, disclosures commenced in 2020 to align with thermal coal exposure reporting metrics. The PCAF data quality score has not improved for 2022 due to limited availability of actual reported emissions from our customers.

On-balance sheet financed emissions – wholesale credit lending and project finance ^{1,2}						
Sector	Year	Scope 1–2 (Mt CO ₂ e) [†]	Scope 3 (Mt CO ₂ e) [†]	Emissions intensity ⁴	PCAF data quality score ^{3,†}	
					Scope 1 and 2	Scope 3
Oil and gas	2021	2.1	18.4	N/A	2.8	2.9
	2022	1.3	16.2	N/A	3.2	3.2
Power and utilities	2021	8.1	N/A	407.0	2.9	N/A
	2022	7.6	N/A	401.7	3.3	N/A
Cement	2021	2.2	N/A	0.70	2.8	N/A
	2022	4.5	N/A	0.71	2.9	N/A
Iron, steel and aluminium	2021	2.0	N/A	2.4	3.0	N/A
	2022	2.7	N/A	2.5	3.0	N/A
Aviation	2021	2.7	0.16	85.9	3.0	3.3
	2022	2.6	0.15	86.5	3.3	2.4
Automotive	2021	0.07	3.6	215.7	2.8	2.9
	2022	0.12	5.4	216.6	2.7	2.9
Thermal coal mining	2020	0.17	3.8	N/A	3.0	3.0

Facilitated emissions

The table below summarises the results of our assessment of facilitated emissions from 2019 to 2022 for the oil and gas, and power and utilities sectors.

Applying a 100% weighting, the oil and gas values for scope 1 to 3 emissions decreased from 43.2 Mt CO₂e in 2019 to 15.2 Mt CO₂e in 2022. For the power and utilities sector, the values for scope 1 and 2 emissions fell from 8.5 Mt CO₂e in 2019 to 3.8 Mt CO₂e in 2022. For all 100%-weighted facilitated values, please refer to the *ESG Data Pack*. The total capital markets activity analysed applying a 100% weighting in 2019 was \$22.6bn, representing 5.5% of capital markets activity at 31 December 2019. In 2020, it was \$26.0bn, representing 6.2% of capital markets activity at 31 December 2020. In 2021, it was \$18.1bn, representing 4.1% of capital markets activity at 31 December 2021. In 2022, it was \$10.4bn representing 3.2% of capital markets activity at 31 December 2022.

Facilitated emissions – ECM, DCM and syndicated loans (33% weighting)						
Sector	Year ⁵	Scope 1–2 (Mt CO ₂ e) [†]	Scope 3 (Mt CO ₂ e) [†]	Emissions intensity ⁴	PCAF data quality score ^{3,†}	
					Scope 1 and 2	Scope 3
Oil and gas	2019	1.6	12.7	N/A	2.3	2.7
	2020	2.7	24.0	N/A	2.0	2.1
	2021	0.90	10.5	N/A	2.9	3.1
	2022	0.36	4.7	N/A	3.3	3.3
Power and utilities	2019	2.8	N/A	420.7	2.5	N/A
	2020	2.1	N/A	410.1	2.5	N/A
	2021	1.5	N/A	364.1	2.9	N/A
	2022	1.2	N/A	358.7	2.9	N/A

1 The total amount of short-term finance excluded for the thermal coal mining sector was \$0.37bn in 2020; for all other sectors it was \$7.0bn in 2021 and \$8.5bn in 2022.

2 The total loans and advances analysed in 2020 for the thermal coal mining sector were \$2.89bn, representing 0.28% of total loans and advances to customers at 31 December 2020. For all other sectors in 2021, they were \$24.1bn representing 2.3% of total loans and advances to customers at 31 December 2021 and in 2022, they were \$23.6bn representing 2.6% of total loans and advances to customers at 31 December 2022. The total loans and advances analysed for the purpose of the financed emissions calculation and reporting have not been adjusted for assets held for sale.

3 PCAF scores where 1 is high and 5 is low. This is a weighted average score based on financing for on-balance sheet financed emissions.

4 Emissions intensity under the new aggregation method.

5 Due to timing differences the approach for calculating 2021-2022 facilitated emissions has been enhanced compared to that of 2019-2020. Enhancements are mainly data and process-related for the later years to include more consistent and higher quality data sources and are therefore applied prospectively in line with our recalculation policy. Small methodology changes were applied as well but these do not materially change our 2019-2020 numbers.

† Data is subject to independent limited third-party assurance in accordance with ISAE 3000/ ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and independent third-party limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Financed emissions continued

Integrating net zero into transaction and portfolio decision making

In 2023, we began to embed net zero factors alongside standard risk-return and other considerations when evaluating specific transactions starting with oil and gas, power and utilities, and thermal coal mining sectors.

We have been testing and developing an analytics capability that, where relevant, begins to provide front-line business teams and management with insight on the up-to-date on-balance sheet financed emissions and facilitated emissions position of a sector, the impact of a transaction where material, and implications relative to pathways in line with our 2030 targets.

We continued our efforts to design and implement a differentiated approach to understand and assess the transition plans and risks of our corporate customers, including state-owned enterprises. These assessments help us to identify opportunities, manage climate risks and define areas to drive strategic engagement with each corporate customer.

In 2023, we completed assessments for most customers in scope of our thermal coal phase-out policy. We also completed assessments for customers that make the most material contribution to our financed emissions in the oil and gas, and power and utilities sectors.

Once completed, these assessments can be used to support business decisions in relation to our financed emissions portfolio management and alignment, and our climate risk management efforts.

Our processes and controls will continue to evolve as we look at net zero considerations for sectors, customers and deals with higher climate impact and risk. These considerations include: adherence with our sustainability risk policies; climate-related credit risk; customer transition plan assessment outcomes (where relevant); reputational risk considerations; and financed and, where applicable, facilitated emissions implications (where transactions are in scope of our financed emissions disclosures and 2030 targets). We have dedicated governance, with escalation pathways for deals deemed high risk, including in terms of financed emissions implications and reputation risk.

Reducing emissions in our assets under management

In July 2021, our asset management business, HSBC Asset Management, signed up to the Net Zero Asset Managers initiative, which encourages investment firms to commit to managing assets in line with achieving net zero emissions by 2050 or sooner. HSBC Asset Management continues to work towards its ambition of reducing scope 1 and 2 financed emissions intensity by 58% by 2030 for 38% of its total assets under management. These listed equity and corporate fixed income assets

amounted to \$193.9bn at 31 December 2019. We use 2019 as the baseline year for our calculations. Implementation of the net zero targets remains subject to consultation with stakeholders including investors, fund boards and regulators.

In 2023, HSBC Asset Management worked to develop solutions for clients to address climate ambitions while investing. Further data science expertise will be added to support sustainability through

the creation of a Sustainable Investment Solutions Lab. HSBC Asset Management reported an update through the Principles for Responsible Investment annual submission, as required under its Net Zero Asset Managers commitment. As part of its thermal coal policy, it fulfilled a commitment to initiate engagement with all listed issuers held in active fundamental portfolios with more than 10% revenue exposure to thermal coal.

Embedding net zero into the way we operate

Net zero in our own operations TCFD

Part of our ambition to be a net zero bank is to achieve net zero carbon emissions in our operations and supply chain by 2030.

Reduce, replace and remove

We have three elements to our strategy: reduce, replace and remove. We plan to first focus on reducing carbon emissions from consumption, and then replacing remaining emissions with low-carbon alternatives in line with the Paris Agreement.

We plan to remove the remaining emissions that cannot be reduced or replaced by procuring, in accordance with prevailing regulatory requirements, high-quality offsets at a later stage. We are working on our carbon credits strategy by engaging with a range of market participants.

Our energy consumption

In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline, and in 2023 we achieved 26.3%. We continue to work to do this by optimising the use of our real estate portfolio, and carrying out a strategic reduction in our office space and data centres. We are using new technology and emerging products to make our spaces more energy efficient.

As part of our ambition to achieve 100% renewable electricity across our operations by 2030, we continue to look for opportunities to procure green electricity in each of our markets. In 2023, our fourth UK renewable power purchase agreement ('PPA') went live in Sorbie, Scotland. A key challenge remains the limited opportunity to pursue PPAs or green tariffs in key markets due to regulations.

Business travel

Our ambition is to halve travel emissions by 2030, compared with pre-pandemic levels. In 2023, our travel emissions remained below 50% of our 2019 baseline, despite the lifting of international travel restrictions. We are

closely managing the gradual resumption of travel through internal reporting and review of emissions, internal carbon budgets and the introduction of emissions information at the point of booking. With hybrid working embedded across the organisation, the use of virtual working practices has reduced the need for our colleagues to travel to meet with other colleagues and customers.

We continue to focus on reducing the environmental impact from the vehicles we use in our global markets, and accelerate the use of electric vehicles. In 2023, we reduced the company car fleet size by 9% compared with 2022. We are now aiming to ensure that all new vehicles ordered are fully electric or hybrid vehicles where possible.

Engaging with our supply chain

Our supply chain is critical to achieving our net zero ambitions, and we are partnering with our suppliers on this journey. Since 2020, we have been encouraging our largest suppliers to make their own carbon commitments, and to disclose their emissions via the CDP (formerly the Carbon Disclosure Project) supply chain programme. In 2023, suppliers representing 70.6% of total supplier spend completed the CDP questionnaire, compared with 63.5% in 2022.

We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero.

In 2023, we launched our supplier net zero guides, providing further details to support suppliers in understanding our net zero ambitions, as set out in our supplier code of conduct. We are developing internal decarbonisation plans for the highest-emitting procurement categories (IT hardware, real estate, data centre and servers, and telecom services), to be included in category strategies and to support future supplier selection.

Focus on natural resources

Alongside our net zero operations ambition, our aim is to be a responsible consumer of natural resources. Through design, construction and operational standards, we strive to ensure that, wherever possible, our premises do not adversely affect the environment or natural resources. We have identified specific focus areas including waste, paper and sustainable diets, and are exploring key opportunities to reduce our wider environmental impact over the coming decade.

Our presence in environmentally sensitive areas

As a global organisation, our branches, offices and data centres may be located in areas of high or very high water stress and/or protected areas of biodiversity, as we support our customers and communities in these locations.

Approximately 55% of our global offices, branches and data centres are located in areas identified as being subject to high and very high water stress, accounting for 50% of our annual water consumption. These are predominantly urban or city centre locations with large, concentrated populations. Our industry is a low user of potable water, and we have implemented measures to further reduce water consumption through the installation of flow restrictors, auto-taps and low or zero flush sanitary fittings.

In addition, 0.9% of our global office, branch and data centre portfolio lies in protected areas of biodiversity. We strive through our design, construction and operational standards to ensure that, where possible, our premises do not adversely affect the environment or natural resources in these areas.



Our environmental and sustainability management policies

Our buildings policy recognises that regulatory and environmental requirements vary across geographies and may include environmental certification. The policy is supported by Corporate Services procedures on environmental and sustainability management, seeking to ensure that HSBC's properties continually reduce their overall direct impact on the environment. Detailed design considerations documented in our Global Engineering Standards aim to reduce or avoid depletion of critical resources, such as energy, water, land and raw materials. Suppliers are required to adhere to strict environmental management principles and reduce their impact on the environment in which they operate.

Net zero in our own operations continued

Emissions from our energy and travel

We report our emissions following the Greenhouse Gas Protocol, which incorporates the scope 2 market-based emissions methodology. We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. Due to the nature of our primary business, carbon dioxide is the main type of greenhouse gas applicable to our operations. While the amount is immaterial, our current reporting also incorporates methane and nitrous oxide for completeness. Our environmental data for our own operations is based on a 12-month period to 30 September.

In 2023, we reduced emissions from our energy consumption and travel to 293,333 tonnes CO₂e, which represents a 57.3% reduction compared with our 2019 baseline. This was mainly attributed to:

- travel volumes remaining low compared with pre-pandemic levels;
- an increase in our consumption of renewable electricity to 58.4%; and
- the reduction of energy consumption as a result of strategic footprint reductions and the implementation of over 450 energy conservation measures, which amounted to an estimated energy avoidance in excess of 12 million kWh.

Emissions from business travel increased compared with 2022, due to the easing of pandemic-related travel restrictions which resulted in a return to travel. A decrease in scope 1 emissions was partly attributed to a correction in the classification of road-based business travel in the UK and India from scope 1 to scope 3.

In 2023, we collected data on energy use and business travel for our operations in 34 countries and territories, which accounted for approximately 96.0% of our full-time employees ('FTEs'). To estimate the emissions of our operations in entities where we have operational control and a small presence, we scale up the emissions data from 96.0% to 100%. We then apply emission uplift rates to reflect uncertainty concerning the quality and coverage of emission measurement and estimation. This is consistent with both the Intergovernmental Panel on Climate Change's Good Practice Guidance and Uncertainty Management in National Greenhouse Gas Inventories and our internal analysis of data coverage and quality.

Emissions from our supply chain

Our calculation methodology uses supplier emissions data where we have it from suppliers, through CDP. Where we do not have actual emissions data, we use industry

Energy and travel greenhouse gas emissions in tonnes CO₂e

		2023	2022	2019 baseline
Scope 1 ¹	▼	16,918	19,329	22,066
Scope 2 (market-based) ¹	▼	167,174	223,334	392,270
Scope 3	▲	1,090,280	1,052,264	1,139,260
Category 1: Purchased goods and services ^{1,2}	▼	859,256	865,747	829,635
Category 2: Capital goods ^{1,2}	▼	121,783	144,232	37,617
Category 6: Business travel ¹	▲	109,241	42,285	272,008
Total	▼	1,274,372	1,294,927	1,553,596
Included energy UK	▼	5,909	9,264	10,432

¹ Our data is now presented on an absolute value basis and not rounded values. Data in 2023 is subject to an independent third-party limited assurance in accordance with International Standard on Assurance engagements 3410 (Assurance Engagements on Greenhouse Gas Statements). For further details, see GHG Reporting Guidance 2023 and third-party limited assurance report at www.hsbc.com/our-approach/esg-information/esg-reporting-and-policies. In respect of data in 2019 and 2022, see our relevant Annual Report and Accounts.

² Supply chain emissions calculated using a combination of supplier emissions data and industry averages. A data quality score is applied to this calculation where 1 is high and 5 is low, based on the quality of emissions data. This is a weighted average score based on HSBC supplier spend and is in line with HSBC's financed emissions reporting methodology. Data quality scores can be found in the ESG Data Pack.

▶ For further details of our methodologies, our independent third-party limited assurance reports and relevant environment key facts, see our ESG Data Pack at www.hsbc.com/esg.

Greenhouse gas emissions in tonnes CO₂e per FTE

		2023	2022	2019 baseline
Scope 1, 2 and 3 (Category 6)	▲	1.3	1.3	2.9
Scope 1, 2 and 3 (Category 1, 2 and 6)	▼	5.8	5.9	6.6

Energy consumption in kWh in 000s

		2023	2022	2019 baseline
Total	▼	772,736	797,264	913,556
UK only	▼	209,939	222,322	281,271

average carbon intensities and spend data to determine their contribution to our supply chain emissions. As more of our suppliers report their emissions, we should be able to include more accurate data and fewer industry averages in the calculation. We have applied a data quality score to the sources of data we used to determine counterparty emissions. For further details, see our GHG (Greenhouse Gas) Reporting Guidance at www.hsbc.com/esg.

In 2022, we disclosed our supply chain emissions for the first time, using supplier emissions data and industry averages where actual data was not available. This approach is heavily dependent on external data sources to calculate estimates of our supply chain emissions.

In 2023, emissions from our supply chain reduced by 3% compared with 2022. This is due to a reduction in spend and an increase in the availability of actual emissions data from our suppliers. Emissions have increased by 13% compared with 2019, as industry

averages remain significantly elevated. Due to volatility in industry average data, we will undertake a review of our data sources and methodology during 2024. As supplier emissions reporting matures, we will be able to include more actual data and fewer industry averages in the methodology. Our initial supply chain emission figures may require updating as data availability changes over time and methodologies and climate science evolve.

▶ For further details of our methodologies and relevant environmental key facts, see the ESG Data Pack at www.hsbc.com/esg.

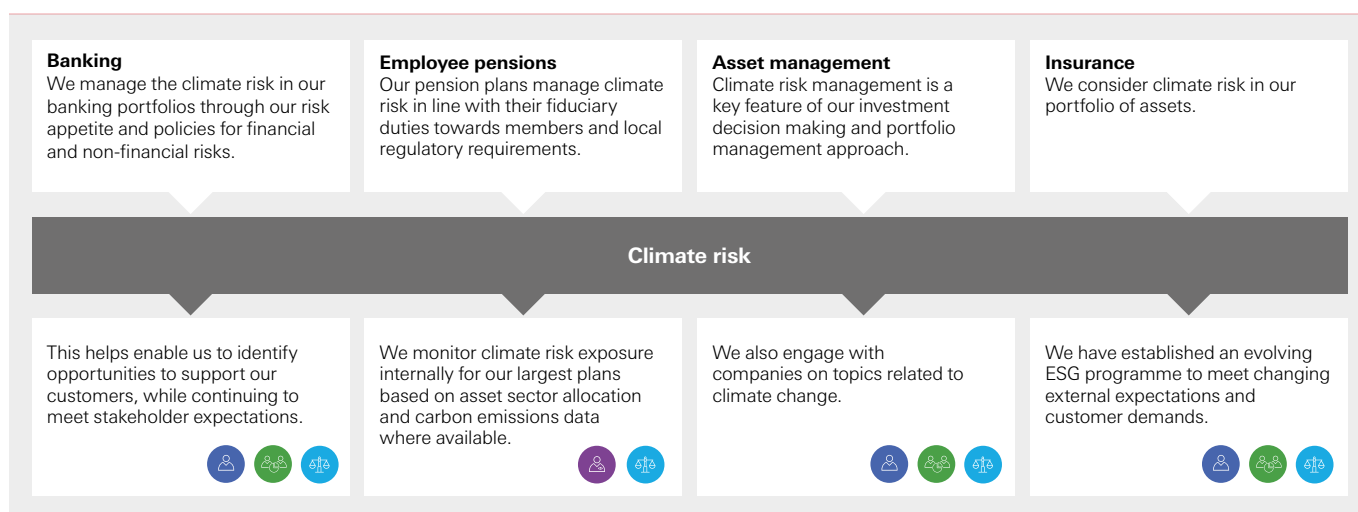
Managing climate risk TCFD

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. We manage climate risk across all our businesses and are incorporating climate considerations within our traditional risk types in line with our Group-wide risk management framework.

Our material exposure to climate risk relates to wholesale and retail client financing activity within our banking portfolio. We are also exposed to climate risk in relation to asset ownership by our insurance business and employee pension plans. Our clients are exposed to climate-related investment risk in our asset management business.

In the table below, we set out our duties to our stakeholders in our four most material roles.

For further details of our approach to climate risk, see 'ESG risk' on page 164 and 'Climate risk' on page 257.



Banking

Our banking business is well positioned to support our customers managing their own climate risk through financing. For our wholesale customers, we use our transition engagement questionnaire to understand clients' climate strategies and risks. We have set out a suite of policies to guide our management of climate risk. We continue to develop our climate risk appetite and metrics to help manage climate exposures in our wholesale and retail portfolios. We also develop and use climate scenario analysis to gain insights on the long-term effects of transition and physical risks across our wholesale and retail banking portfolios (for further details, see page 261).

faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.

HSBC Asset Management engages with investee companies on a priority list as defined in its Global Stewardship Plan, and votes at company general meetings, including on the topic of climate change. It also works with collaborative engagement initiatives such as Climate Action 100+ and Nature Action 100.

For further details of the HSBC Bank (UK) Pension Scheme's annual TCFD statements and climate action plan, see <https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/common/tcfd-report-2022.pdf>.

and 2022 through its annual TCFD Report, will continue to report against the 2030 targets and aims to widen the coverage of its assessment and reporting over time. In 2023, its asset managers were formally notified of the Trustee's ESG risk mitigation priorities and encouraged to develop commensurate risk mitigation strategies. The manager monitoring and selection processes now explicitly include assessment of these strategies where financially material.

For further details of the HSBC Bank (UK) Pension Scheme's annual TCFD statements and climate action plan, see <http://futurefocus.staff.hsbc.co.uk/active-dc/information-centre/other-information>.

Asset management

HSBC Asset Management recognises that climate risk may manifest as transition and physical risks over the short, medium and long term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography. Where applicable and relevant, HSBC Asset Management incorporates climate-related indicators, such as carbon intensity and management of carbon emissions, into investment decisions as well as insights from its climate-related engagement.

Employee pensions

The Trustee of the HSBC Bank (UK) Pension Scheme, our largest plan with \$36bn assets under management, aims to achieve net zero greenhouse gas emissions across its defined benefit and defined contribution assets by 2050. To help achieve this, it is targeting an interim emissions reduction of 50% by 2030, from 2019 levels, for its equity and corporate bond mandates. This commitment was made in the context of wider efforts to manage the impact of climate change on the Scheme's investments and the consequent impact on the financial interests of members.

The Scheme, which has reported emission reductions for its listed equity and corporate bond mandate portfolios between 2019

Insurance

In 2023, our Insurance business updated its sustainability procedures to align with the Group's updated energy and thermal coal-phase out policies. We also delivered ESG product marketing guidelines with insurance examples and training.

In response to various ESG regulatory initiatives and developments, HSBC's insurance manufacturing entities in the EU, which are in Malta and France, have continued to implement key disclosure-related regulatory requirements, including pre-contractual reporting, client periodic reporting and sustainable investment impact statements. Related requirements for the UK are expected to be introduced in 2024.

Work continues on the integration of ESG and climate analysis into HSBC Asset Management's actively managed product offerings to help ensure the climate risks

Sustainability risk policies TCFD

Our sustainability risk policies help to set out our appetite for financing and advisory activities in certain sectors. Our policies are important mechanisms for delivering our net zero ambitions, as well as for managing sustainability risks.

Our policies

Our sustainability risk policies comprise our core net zero-aligned policies – thermal coal phase-out and energy – and our broader sustainability risk policies covering: agricultural commodities, chemicals, forestry, mining and metals, and World Heritage Sites and Ramsar-designated wetlands. We also apply the Equator Principles when financing relevant projects.

Our sustainability risk policies focus on mitigating the negative impacts of specific sectors on people and the environment. Our net zero policies, including energy and thermal coal phase-out, also support our ambition to transition to net zero. Engaging with customers on their transition plans is a key aspect of our net zero policy approach. These policies aim to provide clear signals to our customers on how our appetite and expectations for different activities are changing, as well as how we will consider their plans for the future.

We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

We regularly review our policies, incorporating feedback and building on experience from policy implementation over time.

Where we identify activities that could cause material negative impacts, we expect customers to demonstrate that they are identifying and mitigating risks responsibly, and we will look to take required actions as outlined in our policies, which may include applying financing restrictions or enhanced due diligence.

For further details of how we manage sustainability risk, as well as our full policies, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Governance and implementation

Our Group Risk and Compliance function has specialists who review and support implementation of our sustainability risk policies. Our relationship managers are the primary point of contact for many of our business customers and are responsible for managing customers' adherence to the sustainability risk policies. They are supported by sustainability risk managers across the Group who have local or regional responsibility for advising on, and overseeing, the management of risks as outlined in the policies. Where considered appropriate, policy matters are escalated to relevant internal governance committees.

Oversight of the development and implementation of policies is the responsibility of relevant governance committees comprising senior members of the Group Risk and Compliance function and global businesses.

Biodiversity and natural capital-related policies

Our sustainability risk policies impose restrictions on certain financing activities that may have material negative impacts on nature. While a number of our sustainability risk policies have such restrictions, our forestry and agricultural commodities policies focus specifically on a key nature-related impact: deforestation. These policies require customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles. We also require palm oil customers to obtain certification under the Roundtable on Sustainable Palm Oil, and commit to 'No Deforestation, No Peat and No Exploitation' (see 'Our respect for human rights' on page 89).

Our energy policy

Our energy policy covers the broader energy system, including upstream oil and gas, fossil fuel power generation, hydrogen, renewables and hydropower, nuclear, biomass and waste-to-energy sectors.

The policy seeks to balance three objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the long term; and supporting a just and affordable transition, recognising the local realities in all the communities we serve.

The energy policy was first published in December 2022 and updated in January 2024. We review the policy annually to help ensure that it remains aligned with our net zero by 2050 ambition and strategic objectives.

For further details of our oil and gas, and power and utilities financed emissions targets, see the 'Targets and progress' section in 'Financed emissions on page 57.

For further details of our energy policy, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Sustainability risk policies continued

Our thermal coal phase-out policy

As set out in the thermal coal phase-out policy, we are committed to phasing out the financing of thermal coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040.

Our policy aims to support thermal coal phase-out aligned to science-based timeframes, recognising the different pace between advanced and emerging economies. In turn our policy supports progress towards our financed emissions targets for the power and utilities and thermal coal mining sectors.

The policy was first published in December 2021 and is reviewed annually, with the most recent update in January 2024, to help ensure that it remains aligned with our commitments and takes into consideration relevant changes in external factors.

► For our thermal coal phase-out policy, see www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-thermal-coal-phase-out-policy.pdf.

► For further details of our thermal coal phase-out policy January 2024 update, see page 71 of our *Net Zero Transition Plan 2024*, which is available at www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan.

Thermal coal financing exposures

We intend to reduce thermal coal financing drawn balance exposure from a 2020 baseline by at least 25% by 2025 and aim to reduce it by 50% by 2030.

In our *Annual Report and Accounts 2022* we acknowledged that our processes, systems, controls and governance were not yet designed to fully identify and disclose thermal coal exposures and that we planned to reassess the reliability of our data and review our basis of preparation to help ensure that we are reporting all relevant thermal coal exposures aligned to our thermal coal phase-out policy.

We have now revised the basis of preparation for our thermal coal exposures. Aligned with our thermal coal phase-out policy, we applied a risk-based approach to identify clients and report on relevant exposures. This includes the use of globally recognised third-party data sources to screen clients and applies materiality considerations to product type, customer type and exposure type, which informs inclusion and exclusion requirements.

Specifically, for product types, short-term lending exposures are excluded from our thermal coal financing exposures reporting in line with our financed emissions methodology. For customer types, exclusions are applied for certain customer types such as sovereigns and individuals. For exposure types, a threshold of \$15m for drawn balances is applied for thermal coal financing exposures reporting. For the avoidance of doubt, the \$15m threshold applies only to exposure reporting analysis and does not apply to the application of the thermal coal phase-out policy.

► For further details of our *Financed Emissions and Thermal Coal Exposures Methodology*, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Considering materiality criteria helps us to focus our efforts on areas where we believe we can help drive meaningful change, while taking into account experience from policy implementation over time.

Applying our revised basis of preparation, our thermal coal financing drawn balance exposure was approximately \$1bn[†] as at 31 December 2020. We continue to work on our 2021 and 2022 numbers based on our revised basis of preparation and expect to report on these in future disclosures.

► For further details of our approach to financed emissions, see 'Our Approach to financed emissions' on page 53.

[†] Data is subject to independent third party limited assurance in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and independent third party limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Asset Management policy

HSBC Asset Management published its own policy on thermal coal in September 2022, and its own energy policy in November 2023. As an asset manager, it is subject to separate regulatory and legal obligations to deliver customers' investment interests and deliver fair outcomes.

Under its thermal coal policy, HSBC Asset Management will not hold listed securities of issuers with more than de minimis revenue exposure to thermal coal in its actively managed funds beyond 2030 for EU and OECD markets, and globally by 2040. The policy also includes enhanced due diligence on the transition plans of investee companies with thermal coal exposure. Companies held in investment portfolios that do not develop credible plans to

transition away from thermal coal could face voting sanctions and ultimately a divestment of holdings.

Under its energy policy, HSBC Asset Management will engage with – and assess the transition plans of – oil and gas, and power and utilities companies held in its portfolios. For its active fundamental sustainable named funds, it will exclude listed issuers whose overall operations are substantially in unconventional oil and gas, subject to data availability, and with the level and scope of exclusions to be set out in fund prospectuses. In its alternatives business, it will not undertake new direct investments in projects associated with the energy-related activities identified as excluded from new finance or advisory services

under the Group energy policy. HSBC Asset Management's policy work will continue to support the Group's sustainability objectives and the commitment made under the Net Zero Asset Managers initiative to support investing aligned with net zero by 2050. We continue on the journey of policy implementation, including engaging with the companies in which we invest, and improving the data we rely on to monitor the policies.

► For further details of the energy policy, see www.assetmanagement.hsbc.lu/-/media/files/attachments/common/energy-policy-en.pdf.

► For further details of the thermal coal policy, see www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/coal-policy-en.pdf.

Partnering for systemic change

Supporting systemic change to deliver net zero

We recognise that collective action is critical to achieve net zero. We seek to collaborate with a range of partners to develop a supportive environment for achieving net zero and mobilising finance for climate action and nature-based solutions. Our partnerships vary in scope and form depending on the sector and geography, as well as our presence in local markets. We act independently and voluntarily in our decision making, based on our own business interests, priorities and objectives, and in accordance with the laws and regulations of the markets in which we operate.

Working with the public sector

We engage with governments and public bodies to support the implementation of policies and regulations, including promoting good practice to develop globally consistent approaches to nature and climate-related financial regulation. In 2023, this included:

- working with the UK Net Zero Council, a cross-government business partnership, to help address market barriers to delivering net zero, including high start-up costs for renewable energy projects, regulatory challenges and uncertainty around policy frameworks; and
- continuing to engage with Just Energy Transition Partnerships contributing to Indonesia's comprehensive investment and policy plan and Vietnam's resource mobilisation plan, which provide roadmaps for minimising the negative impact on local communities of phasing out fossil fuels and how banks can support the transition.

Working with industry

We participate in cross-industry alliances and initiatives to stimulate industry engagement in nature and climate-related issues, and improve consistency in global financial standards, guidance and frameworks to accelerate implementation. In 2023, these included:

- We are supporting the widespread adoption of the GFANZ net zero transition plan framework, as a member of its Principals Group. We also jointly led a working group

to develop guidance for financial institutions on financing the managed phase-out of coal-fired power plants in Asia-Pacific.

- As Chair of the Sustainable Markets Initiative's ('SMI') Financial Services Taskforce, we have been actively involved in the publication of industry guidance to help encourage investment in critical ecosystems and sustainable agricultural practices. These include sponsorship of a report by Pollination on financing coastal nature-based solutions, as well as contributing to the Mangrove Breakthrough initiative's financial roadmap and the SMI Agribusiness Task Force's blended finance framework for regenerative farming.
- As a member of the Taskforce on Nature-related Financial Disclosures ('TNFD'), we have piloted the TNFD beta framework to better understand our exposure to nature-related risks, including on subsets of customers. We are currently focused on assessing and preparing for mandatory nature-related disclosure requirements, and we continue to engage with TNFD and explore ways it can help us and our clients to strengthen nature-related reporting.

In 2023, we also supported financial product development to help mobilise the allocation of capital towards halting and reversing nature loss:

- We worked with the ICMA to help develop global guidance for issuers launching blue bonds – debt instruments that raise capital to finance sustainable marine and ocean-based projects – including eligibility criteria, standards for evaluating the impact of projects, and the steps needed to build the integrity of the blue economy and mobilise investment.
- We partnered with Earth Security to explore the barriers, opportunities and design options for creating a 'mangrove bond' in Queensland, Australia to help generate funding to enhance mangrove ecosystems. This led to the publication of a practical blueprint for investors, banks, corporates and governments to develop new sustainable fixed income and investment product opportunities.

Working with civil society and non-governmental organisations

As part of our global philanthropy, we have partnered with a range of organisations to support the acceleration of climate action and investments in nature.

Our five-year Climate Solutions Partnership initiative with the World Resources Institute, WWF and over 50 local partners, continues to support the scaling up of nature-based solutions and the transition of the energy sector in Asia. This includes engaging with local enterprises across Asia to make climate commitments and take corporate action. Under the Asia Sustainable Palm Oil Links programme, we are working closely with smallholders and traders to transition to more sustainable practices and reduce nature-related losses.

We have also established several new partnerships focused on transitioning industry, decarbonising global trade and catalysing the new economy. These include:

- a three-year partnership with the Apparel Impact Institute to mobilise blended finance for projects to reduce supply chain emissions in the global fashion industry;
- a founding membership of the Capacity-building Alliance for Sustainable Investment, a global platform providing local capacity building services and technical assistance to support growth of transition financing in emerging markets and developing economies; and
- a two-year partnership with Repower, a global non-profit initiative analysing the technical and commercial feasibility of various options for repowering and repurposing coal-fired power plants to accelerate the transition to clean energy.

Our approach to climate reporting TCFD

Task Force on Climate-related Financial Disclosures ('TCFD')

The table below sets out the 11 TCFD recommendations and summarises where additional information can be found.

We have considered our 'comply or explain' obligation under both the UK's Financial Conduct Authority's Listing Rules and Sections 414CA and 414CB of the UK Companies Act 2006, and confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, including its annexes and supplemental guidance, save for certain items, which we summarise below and in the additional information section on page 1e.

Recommendation	Response	Disclosure location
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities (Companies Act 2006 – Sections 414CA and 414CB 2A (a))		
Process, frequency and training	- The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. It considered ESG at eight meetings during the year. - Board members receive ESG-related training as part of their induction and ongoing development, and seek out further opportunities to build their skills and experience in this area.	▶ Pages 88 and 292 ▶ Page 88
Sub-committee accountability, processes and frequency	- The Group Audit Committee ('GAC') considered ESG and climate reporting matters at eight meetings during 2023. Furthermore, as an area of expanded assurance, the GAC, supported by the executive-level ESG Committee, provided close oversight of the disclosure risks in relation to ESG and climate reporting, amid rising stakeholder expectations. - The Group Risk Committee ('GRC') received reports on climate risk management, energy and thermal coal phase-out policies, while maintaining oversight of delivery plans to ensure that the Group develops robust climate risk management capabilities. It considered ESG risk at five meetings in 2023. - The diagram on page 88 provides an illustration of our ESG governance process, including how the Board's strategy on climate is cascaded and implemented throughout the organisation. It identifies examples of forums that manage both climate-related opportunities and risks, along with their responsibilities and the responsible chair.	▶ Page 303 ▶ Pages 311 and 314 ▶ Page 88
Examples of the Board and relevant Board committees taking climate into account	- The Board considered whether to establish a Board committee dedicated to ESG issues, but instead decided that the best way to support the oversight and delivery of the Group's climate ambition and ESG strategy was to retain governance at Board level. - In 2023, the Board oversaw the implementation of ESG strategy through regular dashboard reports and detailed updates including: review and approval of the net zero transition plan, deep dives on the sustainability execution programme, reviews of net zero-aligned policies and climate-aligned financing initiatives.	▶ Page 290 ▶ Page 290
b) Describe management's role in assessing and managing climate-related risks and opportunities (Companies Act 2006 – Sections 414CA and 414CB 2A (a))		
Who manages climate-related risks and opportunities	- The ESG Committee supports the development and delivery of our ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and initiatives. It is co-chaired by the Group Chief Sustainability Officer and the Group Chief Financial Officer. - In 2023, we enhanced our ESG governance with the establishment of a new Sustainability Execution Committee, which focuses on defining and measuring the success of our climate ambition, and developing commercial opportunities that support it through the sustainability execution programme. - The Group Chief Risk and Compliance Officer is the senior manager responsible for the management of climate risk under the UK Senior Managers Regime, which involves holding overall accountability for the Group's climate risk programme.	▶ Page 258 ▶ Page 88 ▶ Page 258
How management reports to the Board	- The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. The Group Chief Executive is supported in his management of the Group by recommendations and advice from the Group Executive Committee, an executive forum comprising members of senior management that include chief executive officers of the global businesses, regional chief executive officers and functional heads. - The Group Executive Committee further enhanced its governance model of ESG matters with the introduction of a new Sustainability Execution Committee and supporting forums. These support senior management in the operationalisation of the Group's sustainability strategy, through the oversight of the sustainability execution programme.	▶ Page 286 ▶ Page 290
Processes used to inform management	- The Group Risk Management Meeting oversees the enterprise-wide management of all risks, including updates relating to the Group's climate risk profile and risk appetite, top and emerging climate risks, and key climate initiatives. - The Environmental Risk Oversight Forum oversees global risk activities relating to environmental risk management, including the transition and physical risks from climate change. Equivalent forums have been established at regional level, where appropriate.	▶ Page 88 ▶ Page 88

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Recommendation	Response	Disclosure location
Strategy		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term (Companies Act 2006 – Sections 414CA and 414CB 2A (d))		
Processes used to determine material risks and opportunities	– To support the requirements for assessing the impacts of climate change, we continue to develop a set of capabilities to execute climate stress testing and scenario analysis. These are used to improve our understanding of our risk exposures for risk management and business decision making. – We also develop and use climate scenario analysis to gain insights on the long-term effects of transition and physical risks across our wholesale and retail banking portfolios. – Our sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.	▶ Page 37 ▶ Page 65 ▶ Page 50
Relevant short-, medium-, and long-term time horizons	– We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050. – In 2023, we continued to provide sustainable financing and investment to our customers in line with our ambition to provide and facilitate \$750bn to \$1tn by 2030. – Our assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050. These time periods are aligned to the Climate Action 100+ framework v1.2.	▶ Page 42 ▶ Page 44 ▶ Page 164
Transition or physical climate-related issues identified	– We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. Our sustainable finance data dictionary includes a detailed definition of contributing activities. – For transition risk, we have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. As at 31 December 2023, the overall exposure to six high transition risk sectors was \$112bn. Our relationship managers engage with our key wholesale customers through a transition engagement questionnaire (formerly the transition and physical risk questionnaire) to gather information and assess the alignment of our wholesale customers' business models to net zero and their exposure to physical and transition risks. We use the responses to the questionnaire to create a climate risk score for our key wholesale customers. – We measure the impacts of climate and weather events to our buildings on an ongoing basis using historical, current and scenario modelled forecast data. In 2023, there were 27 major storms that had a minor impact on five premises with no impact on the availability of our buildings.	▶ Page 50 ▶ Page 259 ▶ Page 265
Risks and opportunities by sector and/or geography	– For transition risk, we have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. These are automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities. – Within our mortgage portfolios, properties or areas with potentially heightened physical risk are identified and assessed locally, and potential exposure is monitored through quarterly metrics. We have also set risk appetite metrics for physical risk in our largest mortgage markets, the UK and Hong Kong, as well as those with local regulatory requirements, including Singapore. – We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030. For a detailed breakdown of our sustainable finance progress, see the <i>ESG Data Pack</i>.	▶ Page 259 ▶ Page 260 ▶ Page 50
Concentrations of credit exposure to carbon-related assets (supplemental guidance for banks)	– We report our exposure to the six high transition risk sectors in the wholesale portfolio. For details, see the <i>ESG Data Pack</i>. – The UK is our largest mortgage market, which at September 2023 made up 40.0% of our global mortgage portfolio. We estimate that 0.2% of our UK retail mortgage portfolio is at very high risk of flooding and 3.5% is at high risk. This is based on approximately 94.2% climate risk data coverage by value of our UK portfolio as at September 2023.	▶ Page 259 ▶ Page 260
Climate-related risks (transition and physical) in lending and other financial intermediary business activities (supplemental guidance for banks)	– Our material exposure to climate risk relates to wholesale and retail client financing activity within our banking portfolio. – We are also exposed to climate risk in relation to asset ownership by our insurance business and employee pension plans. – HSBC Asset Management recognises that climate risk may manifest as transition and physical risks over the short, medium and long term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography. Where applicable and relevant, HSBC Asset Management incorporates climate-related indicators, such as carbon intensity and management of carbon emissions, into investment decisions as well as insights from its climate-related engagement. – In climate scenario analysis on page 263, we show the relative size of exposures at default in 2023 and the increase in cumulative ECL under each scenario compared with a counterfactual scenario by 2035 (expressed as a multiple).	▶ Page 65 ▶ Page 65 ▶ Page 65 ▶ Page 263

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Recommendation	Response	Disclosure location
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning (Companies Act 2006 – Sections 414CA and 414CB 2A (e))		
Impact on strategy, business, and financial planning	- Our net zero ambition represents one of our four strategic pillars. We aim to achieve net zero in our financed emissions by 2050, and in our own operations and supply chain by 2030. - Scenario analysis supports our strategy by assessing our potential exposures to risks and vulnerabilities under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements. Developments in climate science, data, methodology and scenario analysis techniques will help us shape our approach further. We therefore expect this view to change over time. - We continue to enhance our climate scenario analysis exercises so that we can have a more comprehensive understanding of climate headwinds, risks and opportunities to support our strategic planning and actions. - We have used climate scenarios to inform our organisation's business, strategy and financial planning. In 2023, we continued to incorporate certain aspects of sustainable finance and financed emissions within our financial planning process. - We do not fully disclose impacts from climate-related opportunities on financial planning and performance including on revenue, costs and the balance sheet, quantitative scenario analysis, detailed climate risk exposures for all sectors and geographies or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.	▶ Page 44 ▶ Page 261 ▶ Page 261 ▶ Page 258 ▶ Page 1e
Impact on products and services	We aim to help our customers transition to net zero and a sustainable future by providing and facilitating between \$750bn and \$1tn of sustainable finance and investment by 2030.	▶ Page 50
Impact on supply chain and/or value chain	- We will continue to engage with our supply chain through CDP, and through direct discussions with our suppliers on how they can further support our transition to net zero. - We recognise that collective action is critical to achieve net zero. We seek to collaborate with a range of partners to develop a supportive environment for achieving net zero and mobilising finance for climate action and nature-based solutions. Our partnerships vary in scope and form depending on the sector and geography, as well as our presence in local markets. - HSBC Asset Management engages with investee companies on a priority list as defined in its Global Stewardship Plan, and votes at company general meetings, including on the topic of climate change.	▶ Page 63 ▶ Page 68 ▶ Page 65
Impact on adaptation and mitigation activities	- In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline. As part of our ambition to achieve 100% renewable electricity across our operations by 2030, we continue to look for opportunities to procure green electricity in each of our markets. In 2023, our fourth UK renewable PPA went live in Sorbie, Scotland. A key challenge remains the limited opportunity to pursue PPAs or green tariffs in key markets due to regulations. - We regularly review and enhance our building selection process and global engineering standards and will continue to assess historical claims data to help ensure our building selection and design standards address the potential impacts of climate change.	▶ Page 63 ▶ Page 265
Impact on operations	- We have three elements to our strategy: reduce, replace and remove. We plan to first focus on reducing carbon emissions from consumption, and then replacing remaining emissions with low-carbon alternatives in line with the Paris Agreement. We plan to remove the remaining emissions that cannot be reduced or replaced by procuring, in accordance with prevailing regulatory requirements, high-quality offsets at a later stage. - We use stress testing to evaluate the potential for impact on our owned or leased premises. Our scenario stress test, conducted in 2023, analysed how eight climate change-related hazards could impact 1,000 of our critical and important buildings. These hazards were coastal inundation, extreme heat, extreme winds, wildfires, riverine flooding, pluvial flooding, soil movement due to drought, and surface water flooding.	▶ Page 63 ▶ Page 265
Impact on investment in research and development	- Throughout 2023, we published regular ESG and sustainability-related market insights and updates such as #WhyESGMatters and Learning about ESG to help clients better understand the implications for their investments. - We recognise the need to find new solutions and increase the pace of change for the world to achieve the Paris Agreement goal of being net zero by 2050. We are working with a range of partners to accelerate investment in sustainable infrastructure, natural resources and climate technology to help reduce emissions and address climate change.	▶ Page 51 ▶ Page 52
Impact on acquisitions or divestments	We have updated our merger and acquisition process to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC.	▶ Page 258
Impact on access to capital	We have considered the impact of climate-related issues on our businesses, strategy and financial planning. Our access to capital may be impacted by reputational concerns as a result of climate action or inaction. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero ambitions, we could face reputational damage, impacting our revenue-generating ability and potentially our access to capital markets. We expect to further enhance the disclosure in the medium term as more data becomes available. To manage these risks we have integrated climate risk into our existing risk taxonomy, and incorporated it within the risk management framework through the policies and controls for the existing risks where appropriate.	▶ Page 1e
Transition plan to a low-carbon economy	We published our Group-wide net zero transition plan in January 2024. In this plan, we provided an overview of our approach to net zero and the actions we are taking to help meet our ambitions. We want to be clear about our approach, the change underway today and what we plan to do in the future. We also want to be transparent about where there are still unresolved issues and uncertainties. We are still developing our disclosures, including considerations of possible additional data in relation to our financial plans, budgets, and related financial approach for the implementation of the transition plan in the medium term (e.g. amount of capital and other expenditures supporting our decarbonisation strategy). The UK Transition Plan Taskforce published its final transition plan disclosure framework in October 2023. We will continue to evolve our transition plan disclosures to take into account new and evolving regulatory developments.	▶ Page 1e

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Recommendation	Response	Disclosure location
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (Companies Act 2006 – Sections 414CA and 414CB 2A (f))		
Embedding climate into scenario analysis	– Scenario analysis supports our strategy by assessing our potential exposures to risks and vulnerabilities under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements.	Page 261
	– In our 2023 climate scenario analysis exercises, we explored five scenarios that were created to examine the potential impacts from climate change for the Group and its entities.	Page 261
Key drivers of performance and how these have been taken into account	– Climate scenario analysis allows us to model how different potential climate pathways may affect and impact the resilience of our customers and our portfolios, particularly in respect of credit losses. Under the Current Commitments scenario, we expect lower levels of losses relating to transition risks, although we would expect an increase in the effects of climate-related physical risks over the longer term.	Page 263
	– Scenario analysis results have been used to support the Group's ICAAP. This is an internal assessment of the capital the Group needs to hold to meet the risks identified on a current and projected basis, including climate risk.	Page 265
	– In addition, scenario analysis informs our risk appetite statement metrics. As an example, it supports the calibration of physical risk metrics for our retail mortgage portfolios and it is used to consider climate impact in our IFRS 9 assessment.	Page 265
Scenarios used and how they factored in government policies	– Our scenarios are: the Net Zero scenario, the Current Commitments scenario, the Delayed Transition Risk scenario, the Downside Physical Risk scenario and the Near Term scenario.	Page 261
	– Our scenarios reflect different levels of physical and transition risks over a variety of time periods. The scenario assumptions include varying levels of governmental climate policy changes, macroeconomic factors and technological developments. However, these scenarios rely on the development of technologies that are still unproven, such as global hydrogen production to decarbonise aviation and shipping.	Page 261
How our strategies may change and adapt	– The nature of the scenarios, our developing capabilities, and limitations of the analysis lead to outcomes that are indicative of climate change headwinds, although they are not a direct forecast.	Page 261
	– Developments in climate science, data, methodology and scenario analysis techniques will help us shape our approach further. We therefore expect this view to change over time.	Page 261
	– Climate scenario analysis plays a crucial role helping us to identify and understand the impact of climate-related risks and potential opportunities as we navigate the transition to net zero.	Page 265
	– Our target-setting approach to date, for on-balance sheet financed emissions and facilitated emissions, has been to utilise a single net zero reference scenario (IEA NZE 2021) to underpin both energy supply-related sectors (oil and gas, power and utilities, and thermal coal mining) and our published targets for demand-side sectors in transport and heavy industry.	Page 53
	– We recognise that the so-called 'hard-to-abate' sectors, such as cement, iron, steel and aluminium, and aviation have a large dependence on nascent technologies and the presence (or not) of enabling policies and regulations. We may consider tracking progress relative to 1.5°C-aligned ambition ranges for these sectors in the future, which could include industry-specific scenarios alongside the IEA NZE scenario.	Page 48
	– We do not currently fully disclose the impacts of transition and physical risk quantitatively, due to transitional challenges including data limitations and evolving science and methodologies. In 2023, we have disclosed the impairment impacts for our wholesale, retail and commercial real estate portfolios in different climate scenarios. In addition, we have disclosed losses on our retail mortgage book under three scenarios and flood depths for specific markets. For our wholesale book, we have disclosed potential implications on our expected credit losses for 11 sectors under two scenarios. We have also disclosed a heat map showing how we expect the risks to evolve over time.	Page 1e

Risk management

a) Describe the organisation's processes for identifying and assessing climate-related risks (Companies Act 2006 – Sections 414CA and 414CB 2A (b))		
Process	– We continue to integrate climate risk into policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time.	Page 258
	– We updated our climate risk management approach to incorporate net zero alignment risk and developed guidance on how climate risk should be managed for non-financial risk types. While we have made progress in enhancing our climate risk framework, further work remains. This includes the need to develop additional metrics and tools to measure our exposure to climate-related risks, and to incorporate these tools within decision making.	Page 258
	– In 2023, we enhanced our internal climate scenario analysis exercise by focusing our efforts on generating more granular insights for key sectors and regions to support core decision-making processes, and to respond to our regulatory requirements. In climate scenario analysis, we consider, jointly, both physical risks and transition risks.	Page 261
	– We continue to review policy implementation as we apply our policies in practice, and our operationalisation of such policies continues to be enhanced. We take a risk-based approach when identifying transactions and clients to which our energy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality.	Page 66
Integration into policies and procedures	– We continue to integrate climate risk into policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time.	Page 258
Consider climate-related risks in traditional banking industry risk categories (supplementary guidance for banks)	– We provide further details of how we have embedded the management of climate risk across key risk types, including wholesale credit risk, retail credit risk, treasury risk, traded risk, reputational risk, regulatory compliance risk, resilience risk, model risk, and financial reporting risk.	Page 259

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Recommendation	Response	Disclosure location
b) Describe the organisation's processes for managing climate-related risks (Companies Act 2006 – Sections 414CA and 414CB 2A (b))		
Process and how we make decisions	– The Group Risk Management Meeting and the Group Risk Committee receive regular updates on our climate risk profile and progress of our climate risk programme. – The Environmental Risk Oversight Forum (formerly the Climate Risk Oversight Forum) oversees risk activities relating to climate and sustainability risk management, including the transition and physical risks from climate change. Equivalent forums have been established at a regional level.	▶ Page 258 ▶ Page 258
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management framework (Companies Act 2006 – Sections 414CA and 414CB 2A (c))		
How we have aligned and integrated our approach	– Our climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess and manage our risks. – We are developing our climate risk capabilities across our businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. – In 2023, we updated our climate risk materiality assessment, to understand how climate risk may impact across HSBC's risk taxonomy. – In addition to this assessment, we also consider climate risk in our emerging risk reporting and scenario analysis.	▶ Page 257 ▶ Page 257 ▶ Page 257 ▶ Page 257
How we take into account interconnections between entities and functions	– Our climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess and manage our risks. – Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including through risk policy updates and the completion of our annual climate risk materiality assessment. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis. – We continue to make progress in enhancing our climate risk capabilities, and recognise it is a long-term iterative process. This includes updating our approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how we embed climate risk factors into strategic planning, transactions and decision making across our businesses.	▶ Page 257 ▶ Page 162 ▶ Page 257
Metrics and targets		
a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process (Companies Act 2006 – Sections 414CA and 414CB 2A (h))		
Metrics used to assess the impact of climate-related risks on our loan portfolio	– We have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors. As at 31 December 2023, the overall exposure to six high transition risk sectors was \$112bn. – The UK is our largest mortgage market, which at September 2023 made up 40.0% of our global mortgage portfolio. We estimate that 0.2% of our UK retail mortgage portfolio is at very high risk of flooding, and 3.5% is at high risk. This is based on approximately 94.2% climate risk data coverage by value of our UK portfolio as at September 2023. – In 2023, we further developed our risk metrics to monitor our performance against our net zero targets for both financed emissions and own operations.	▶ Page 259 ▶ Page 260 ▶ Page 258
Metrics used to assess progress against opportunities	– We continue to track our progress against our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030, aligned to our published data dictionary. For a detailed breakdown of our sustainable finance progress, see the <i>ESG Data Pack</i>. – We do not currently fully disclose the proportion of revenue or proportion of assets, capital deployment or other business activities aligned with climate-related opportunities, including revenue from products and services designed for a low-carbon economy, forward-looking metrics consistent with our business or strategic planning time horizons. In relation to sustainable finance revenue and assets we are disclosing certain elements. We expect the data and system limitations related to financial planning and performance, and climate-related opportunities metrics to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented. We expect to further enhance this disclosure in the medium term.	▶ Page 18 ▶ Page 1e
Board or senior management incentives	– To help us achieve our ESG ambitions, a number of measures are included in the annual incentive and long-term incentive scorecards of the Group Chief Executive, Group Chief Financial Officer and Group Executives.	▶ Page 16
Internal carbon price	– We do not currently disclose internal carbon prices due to transitional challenges such as data challenges. But we considered carbon prices as an input for our climate scenario analysis exercise. We expect to further enhance this disclosure in the medium term.	▶ Page 1e
Metrics used to assess the impact of climate risk on lending and financial intermediary business (supplemental guidance for banks)	– As part of our 2023 internal climate scenario analysis, we completed a detailed climate risk assessment for the UK, Hong Kong, mainland China and Australia, which together represent 75% of the balances in our global retail mortgage portfolio. Our analysis shows that over the longer term, we expect minimal losses to materialise when considering the Current Commitments scenario. – In insights from climate scenario analysis on page 263, we showed the relative size of exposures at default in 2023 and the increase in cumulative ECL under each scenario compared with a counterfactual scenario by 2035 (expressed as a multiple). – We do not fully disclose metrics used to assess the impact of climate-related physical (chronic) and transitions (policy and legal, technology and market) risks on retail lending, parts of wholesale lending and other financial intermediary business activities (specifically credit exposure, equity and debt holdings, or trading positions, each broken down by industry, geography, credit quality and average tenor). We are aiming to develop the appropriate systems, data and processes to provide these disclosures in future years. We disclose the exposure to six high transition risk wholesale sectors and the flood risk exposure and Energy Performance Certificate breakdown for the UK portfolio.	▶ Page 264 ▶ Page 263 ▶ Page 1e

Task Force on Climate-related Financial Disclosures ('TCFD') continued

Recommendation	Response	Disclosure location
b) Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions and the related risks (Companies Act 2006 – Sections 414CA and 414CB 2A (h))		
Our own operations	– We report greenhouse gas emissions resulting from the energy used in our buildings and employees' business travel. In 2023, we also continue to disclose our scope 3 (category 1 and category 2) supply chain emissions. Our initial supply chain emission figures may require updating as data availability changes over time and methodologies and climate science evolve.	▶ Page 64
Greenhouse gas emissions for lending and financial intermediary business (supplemental guidance for banks)	– Our analysis of financed emissions comprises 'on-balance sheet financed emissions' and 'facilitated emissions'. Our on-balance sheet financed emissions include emissions related to on-balance sheet lending, such as project finance and direct lending. Our facilitated emissions include emissions related to financing we help clients to raise through capital markets activities.	▶ Page 53
	– Work continues on the integration of ESG and climate analysis into HSBC Asset Management's actively managed product offerings to help ensure the climate risks faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.	▶ Page 65
	– We currently disclose four out of 15 categories of scope 3 greenhouse gas emissions including business travel, supply chain and financed emissions. In relation to financed emissions, we publish on-balance sheet financed emissions for a number of sectors as detailed on page 18. We also publish facilitated emissions for the oil and gas, and power and utilities sectors. Future disclosures on financed emissions and related risks are reliant on our customers publicly disclosing their greenhouse gas emissions, targets and plans, and related risks. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes require significant enhancements.	▶ Page 1e
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets (Companies Act 2006 – Sections 414CA and 414CB 2A (g))		
Details of targets set and whether they are absolute or intensity based	– We continue to track our progress against our ambition to provide and facilitate \$750bn to \$1tn of sustainable finance and investment by 2030, aligned to our published data dictionary.	▶ Page 18
	– We have continued to take steps to implement our climate ambition to become net zero in our operations and our supply chain by 2030, and align our financed emissions to net zero by 2050.	▶ Page 42
	– For financed emissions we do not plan to set 2025 targets. We set targets in line with the Net-Zero Banking Alliance ('NZBA') guidelines by setting 2030 targets. While the NZBA defines 2030 as intermediate, we use different time horizons for climate risk management. For climate, we define short term as time periods up to 2025; medium term is between 2026 and 2035; and long term is between 2036 and 2050. These time periods align to the Climate Action 100+ disclosure framework. In 2023, we disclosed interim 2030 targets for financed emissions for a number of sectors as we outline on page 18.	▶ Page 17
	– We do not currently disclose a target for capital deployment. In relation to capital deployment, since 2015, we have issued more than \$2bn of our own green bonds and structured green bonds with the capital invested into a variety of green projects, including: green buildings, renewable energy and clean transportation projects. In 2023, we further progressed our internal review and enhancement of the green bond framework, with further refinement including internal and external review to be undertaken in 2024. This will be subject to continuous review and monitoring to ensure that they remain up to date and reflect updated standards, taxonomies and best practices. Any such developments in standards, taxonomies and best practices over time could result in revisions in our reporting going forward and lead to differences year-on-year as compared to prior years. See the HSBC Green Bond Report for further information.	▶ Page 1e
	– We do not currently disclose internal carbon pricing target due to transitional challenges such as developing the appropriate systems and processes, but we considered carbon prices as an input for our climate scenario analysis exercise. We expect to further enhance the disclosure in the medium term as more data becomes available.	▶ Page 1e
	– We do not currently disclose targets used to measure and manage physical risk. This is due to transitional challenges including data limitations of physical risk metrics. For retail, we do not use targets to measure and manage physical risk. In 2023 we introduced internally a global 'soft trigger' monitoring and review process for physical risk exposure where a market reaches or exceeds a set threshold, as this ensures markets are actively considering their balance sheet risk exposure to peril events. We also consider physical and transition risk as an input for our climate scenario analysis exercise. We expect to further enhance our disclosures as our data, quantitative scenario analysis, risk metrics and physical risk targets evolve, and technology solutions are implemented in the medium term.	▶ Page 1e
	– We have described the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. However, taking into account the nature of our business, we do not consider water usage to be a material target for our business and, therefore, we have not included a target in this year's disclosure.	▶ Page 1e
Other key performance indicators used	– In October 2020, we announced our ambition to reduce our energy consumption by 50% by 2030, against a 2019 baseline, and in 2023 we achieved 26.3%.	▶ Page 63
	– As part of our ambition to achieve 100% renewable electricity across our operations by 2030, we continue to look for opportunities to procure green electricity in each of our markets. In 2023, our fourth UK renewable PPA went live in Sorbie, Scotland.	▶ Page 63

Social

Building inclusion and resilience

We play an active role in opening up a world of opportunity for our customers, colleagues and communities by connecting across our international networks to help build a more inclusive and resilient society.

At a glance

Inclusion is key to opening up a world of opportunity. It involves a commitment to identifying and addressing barriers that may stop people from accessing opportunities because of who they are or where they are from.

Inclusion goes hand in hand with resilience. We aim to help people build the capabilities they need to achieve their goals and to deal with the challenges they face, so we are focused on delivering products, services and education that support our colleagues, customers and communities.

Colleagues

We believe that an inclusive, healthy and rewarding workplace helps the whole Group succeed. We are focused on recruiting and retaining diverse talent by offering fair pay and career progression so we can ensure our colleagues – and particularly our leadership – are representative of the communities we serve. We do this by setting meaningful goals and tracking and monitoring our progress. In 2023, we continued to make progress against all of our goals, although the progress we are

making with women in senior leadership roles has not been as fast paced as we would like.

Employee well-being is essential. We offer all colleagues a wide range of resources that help support their mental, physical and financial well-being so they can thrive in and out of work. We are working to ensure that our offices, branches and digital spaces are accessible and safe for all.

We also help our colleagues build resilience by ensuring that they are equipped with the skills and knowledge they need to progress their careers during a period of significant economic transformation.

Customers

We are committed to helping our customers access the financial services they need. They should not find it more difficult to access finance because of their gender, their ethnicity, their sexual orientation, their neurodiversity or their disability. Our ambition is to create a welcoming, inclusive and accessible banking experience for all our customers.

We build resilience by creating products and services that simplify the banking experience, so customers can manage and grow their wealth more easily. We also help protect what people value most – their health, families, homes and belongings. We also build resilience by providing education so customers can understand how to manage their finances more effectively.

Communities

We are developing an updated global philanthropy strategy that allows us to work alongside the communities we operate within, and which aligns with our ESG areas of focus – ‘transition to net zero’ and ‘building inclusion and resilience’.

We believe that fostering inclusion and building resilience helps us to create long-term value and growth. By removing unnecessary barriers and striving to be a fair and equitable organisation, we can attract and retain the best talent, support a wider customer base to achieve their goals and stimulate growth in our communities. This is how we open up a world of opportunity for our colleagues, our customers and our communities.

In this section

Promoting diversity and fostering inclusion	Our approach to diversity and inclusion	We value diversity of thought and we are building an inclusive environment that reflects our customers and communities.	Page 76
	Creating a diverse environment		Page 77
	Fostering an inclusive culture		Page 78
Building a healthy workplace	Listening to our colleagues	We run a Snapshot survey and report insights to our Group Executive Committee and the Board.	Page 79
	Being a great place to work	We aim to create a great workplace that will help in attracting, retaining and motivating our colleagues so they can deliver for our customers across countries and territories.	Page 81
Developing skills, careers and opportunities	Learning and skills development	We aim to build a dynamic, inclusive culture where colleagues can develop skills and experiences that help them fulfil their potential.	Page 83
	Energising our colleagues for growth	We are committed to offering colleagues the chance to develop their skills while building pipelines of talented colleagues to support the achievement of our strategic priorities.	Page 84
Building customer inclusion and resilience	Our approach to customer inclusion and resilience	We aim to support financial well-being and remove barriers people can face in accessing financial services.	Page 85
Engaging with our communities	Building a more inclusive and resilient world	We focus on a number of priorities where we can make a difference to the community and support sustainable growth.	Page 86

Promoting diversity and fostering inclusion

Our approach to diversity and inclusion

Our purpose, ‘Opening up a world of opportunity’, explains why we exist as an organisation, and is the foundation of our diversity and inclusion strategy. Inclusion is an enabler for our ‘energise’ strategic pillar, and is embedded in the values of our organisation. By valuing difference and seeking different

perspectives, we can more accurately reflect the societies we serve, creating better outcomes for customers and colleagues.

Our data-driven strategy enables us to set aspirational goals to track and monitor our progress. We remain focused on specific

Group-wide priorities for which we hold senior executives accountable. Some executives also have local priorities, which ensures our diversity and inclusion agenda remains locally relevant.

How we hold ourselves to account

We set meaningful goals

Our executive Directors and Group Executives are accountable for progressing our agenda through a series of diversity and inclusion aspirational goals that align to three public commitments that we have made. In 2023, we continued to make progress against our three goals by:

- achieving a 34.1% representation of women in senior leadership roles, with a goal of achieving 35% by 2025;
- attaining a 3.0% representation of Black heritage colleagues in senior leadership in the UK and US combined, against a goal to achieve 3.4% by 2025; and
- increasing our Inclusion index as measured in our Snapshot survey, to 78% against a 2023 target of 75%.

We report and track progress

Measuring our performance ensures we consistently and accurately monitor the progress made against our aspirational goals. Our data-backed approach tracks this through:

- an inclusion dashboard, which monitors progress against goals with trend data on hiring, promotion and exit ratios, is reported to the Group Executive Committee on a quarterly basis; and
- semi-annual review meetings where our Head of Inclusion meets each Group Executive to review data, their progress against their aspirational goals, and to support further progress.

We benchmark our performance

External disclosures and benchmarks allow us to measure the progress that we are making and identify opportunities for future prioritisation. In 2023, we:

- scored 87.2% in the Bloomberg Gender-Equality Index measuring our gender-related data, transparency and performance;
- maintained our Stonewall Gold standard and rank as a top global LGBTQ+ inclusion employer; and
- ranked as a Top 75 employer in the UK Social Mobility Index in our first year of entering a submission.

A data-driven approach to inclusion

We are evolving our data-driven approach by enabling more of our colleagues to self-identify across a range of data points. This data has enabled us to set locally relevant priorities and identify areas of our organisation where we need to focus our attention. We invite colleagues to self-identify on a broad range of data points where we can, although given the international nature of our business, there are some jurisdictions where we are unable to invite colleagues to share their diversity data with us. We have enabled 91% of our colleagues to disclose their ethnic background, with 62% of colleagues choosing to do so, where this is legally permissible.

Our approach goes beyond ethnic heritage and considers broader representation within the workplace. We have enabled 90% of the workforce to share whether they have a disability, 71% of our workforce to share their sexual orientation, and all UK-based colleagues to share their socio-economic background.



Our approach to Asian heritage representation

Our roots as an organisation trace back over 150 years to Hong Kong, where HSBC opened its doors to serve clients with international needs. Asia remains a strategic focus for us today.

To better reflect the communities we serve, we have a focus on increasing representation across our global workforce, including Asian heritage representation. Defining Asian heritage can be complex due to the vast range of ethnicities and identities across the region. In 2023, 37.8% of our senior leaders were able to self-identify as being from an Asian heritage background. To deliver our international strategy it is vital that we are both representative of our local communities, and able to mobilise leaders with global perspective and diverse heritage backgrounds across our international network.

Creating a diverse environment

Women in senior leadership

Since achieving our ambition of having 30% of senior leadership positions held by women in 2020, we set a new goal to reach 35% by 2025. We remain on track, with 34.1% of senior leadership roles held by women at the end of 2023, excluding our Canada business, which is planned for sale in 2024. Progress in the past year has not been as fast paced as we would like. A total of 37.7% of all external appointments into senior positions were female, compared with 35.7% in 2022, and women represented 39.6% of all promotions into senior leadership roles in 2023.

Development programmes, including our Accelerating Female Leaders initiative, have helped to increase the visibility, sponsorship and network of our high performing, senior women. Since the start of the programme in 2017, 24% of participants have been promoted and 2% have taken a lateral move to develop their careers. We have also retained over 79% of colleagues who completed the programme.

In our 2023 Accelerating into Leadership programme, which prepares high potential, mid-level colleagues for leadership roles, 43% of participants were women. More than 5,200 women also participated in our Coaching Circles programme, which matches senior leaders with a small group of colleagues to provide advice and support on the development of leadership skills and network building.

Our succession planning for key leadership roles includes an assessment of the diversity of our succession plans. We are improving the gender diversity of those roles critical to our organisation and the successors to those roles. In 2023, 40% of the succession pool for these roles were women, compared with 36% in 2022.

Black colleagues in senior leadership

We remain on track to double the number of Black colleagues in senior leadership roles globally by 2025, having increased the number of Black senior leaders by 62% since 2020.

In 2022, we set a new Group-wide ethnicity strategy, which is overseen by a senior working group and led by our Group Chief Risk and Compliance Officer. The aim of the strategy is to ensure we accurately reflect the communities we serve and the societies in which we operate. We continue to identify challenges colleagues from diverse backgrounds face in achieving their aspirations at HSBC.

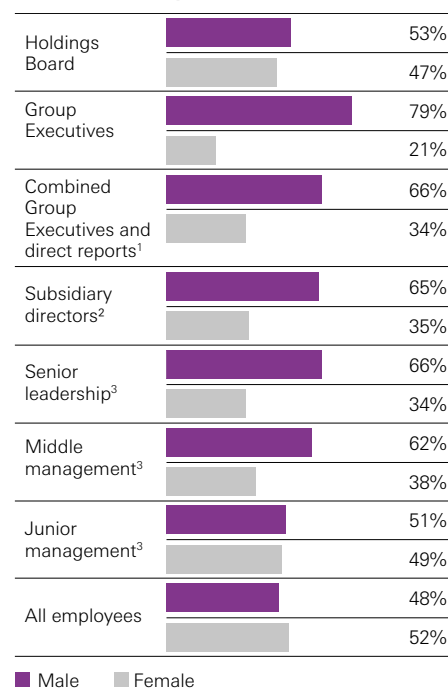
We have continued to focus on the development of Black heritage colleagues through the delivery of dedicated development programmes. Using data analytics, we have identified that in the UK, Black heritage female colleagues are less likely to hold positions as people managers. To address this, we introduced the Solaris programme to provide coaching and development for our UK-based Black heritage female colleagues. Forty women have successfully completed the programme and 29% have been promoted.

We also partnered with Vivida, a virtual reality firm, to launch an immersive learning programme designed to bring to life the experiences of Black heritage and ethnic minority colleagues, highlighting the pressures, barriers and biases faced by these communities. The programme has been completed by 11,900 colleagues, and was nominated for awards at the 2023 European Diversity Awards and as finalists at The 2024 Learning Awards.

In 2023 EmpowHER was launched, a programme created by Black heritage women for Black heritage women at mid-management levels across the UK business.

The programme encourages participants to support each other with the tools and shared experiences to structure their careers, expand their network and seek job opportunities. It also helps to create improved visibility of talent to senior leadership.

Gender diversity data



¹ Combined Group Executives and direct reports includes HSBC Group Executives and their direct reports (excluding administrative staff) as of 31 December 2023.

² Directors (or equivalent) of subsidiary companies that are included in the Group's consolidated financial statements, excluding corporate directors.

³ In our leadership structure, we classify senior leadership as those at career band 3 and above; middle management as those at global career band 4; and junior management as those at global career bands 5 and 6.

Representation and pay gaps

We publish this data annually to ensure both transparency and a maintained focus on addressing representation gaps within the organisation. Our gender and ethnicity pay gap reporting shows the difference in average pay between two groups of people (regardless of roles or seniority). We have reported our UK gender representation and pay gap data since 2017 in line with reporting regulations, and have voluntarily extended this to include the US, mainland China, Hong Kong, India, Mexico, Singapore and the UAE, alongside ethnicity data for the UK and US. In 2023, we also included gender pay gap data for Argentina and Malaysia, covering

approximately 80% of our workforce (excluding our Canada business held for sale). In 2023, our mean aggregate UK-wide gender pay gap was 43.2%, compared with 45.2% in 2022, and the ethnicity pay gap was 4.5%, compared with 0.4% in 2022. Our UK gender pay gap is driven by several factors including the shape of our workforce, where there are more men than women in senior higher-paid roles, and more women than men in junior roles. While we are confident in our approach to pay equity, until women and ethnic minority colleagues are proportionately represented across all areas and levels of the organisation we will continue to see gaps in average pay. We

are committed to paying colleagues fairly regardless of their gender or ethnicity and have processes to ensure that remuneration is free from bias. We review our pay practices and undertake a pay equity review annually, including a regular independent third-party review of equal pay in major markets. If pay differences are identified that are not due to objective, tangible reasons such as performance, skills or experience, we make adjustments.

► For further details on our representation data, pay gap data, and actions, see www.hsbc.com/diversitycommitments and the ESG Data Pack at www.hsbc.com/esg.

Fostering an inclusive culture

Our inclusion strategy seeks to make HSBC an organisation in which every colleague can feel like they belong, and are empowered to contribute their perspectives and ideas. Our strategy sits above a range of diversity and inclusion strands from gender, ethnicity and faith to disability and socio-economic background – we want to ensure that all colleagues are able to realise their full potential.

We use the Inclusion index in our annual Snapshot survey to measure the extent to which our colleagues feel a sense of belonging and psychological safety within the organisation, alongside their perception of fairness and trust. In 2023, we achieved a score of 78%, which is three percentage points ahead of our annual aspirational goal, and two percentage points ahead of the financial services industry benchmark.

Analysis of our Inclusion index allows us to measure engagement levels of specific colleague groups in greater detail, in particular different diversity strands, to better understand the experiences of our colleagues globally. We found that scores from colleagues who identify as male and female were broadly in line with the overall Group-wide result, at 79% and 77% respectively. From an ethnicity perspective, our Black heritage colleagues were four percentage points below the Group-wide average, while our Asian heritage colleagues' results were on a par with the overall score, at 78%.

Our employee resource groups

Our employee resource groups ('ERGs') foster an inclusive culture and contribute significantly to the experience of tens of thousands of colleagues. They operate globally and are led by colleagues with a range of shared values, identities, interests and goals, including disability, LGBTQ+, ethnicity, faith and gender.

Each of our non-executive Directors and most Group Executives are aligned with one of our global ERGs, ensuring there is a direct link between senior leadership and our colleagues. The non-executive Director dedicated to workforce engagement is closely aligned to our diversity and inclusion strategy and has attended events such as our 2023 Global ERG Summit.

In 2023, our ERGs led numerous initiatives and events, including the Ability network hosting a global summit aimed at driving cultural change to build confidence for colleagues with a disability. Our Nurture ERG, which supports working parents and carers, launched the #LeaveLoudly Campaign globally. Its aim is to drive engagement by counteracting 'presenteeism', acknowledging that everyone has multifaceted lives, and to show that leaders across HSBC support a healthy work-life balance.

Looking to the future on disability

Enhancing the experience of our employees, particularly those with disabilities, is a vital part of our commitment to build an inclusive organisation. A key initiative has been a targeted career development programme to empower colleagues with confidence to drive their careers forward.

Recognising the pivotal role of line managers, we have introduced a learning plan through our Degreed platform to help managers support team members with physical, sensory, long-term, and mental health conditions, as well as those who identify as neurodiverse. Our Ability ERG has hosted support sessions globally, where colleagues shared their experiences and raised awareness for disability inclusion, and the support provided by HSBC.

In collaboration with PurpleSpace, the disability network and professional development hub, we sponsored and published a Leadership Model resource for employee groups. In 2023, we also sponsored

the UK Business Disability Forum's roundtable and conference. We have enhanced the support we provide to colleagues through our workplace adjustment programme partnering with Microlink, extending the availability of this service to almost 37,790 colleagues in our global service centres and technology centres in India.

UK socio-economic diversity

We believe that no-one should be limited by their socio-economic background and are committed to driving socio-economic inclusion within our workforce.

In 2022, we began exploring the impact socio-economic background has on our colleagues, working with them, and internal and external stakeholders to develop our understanding on socio-economic diversity.

In 2023, we entered the Social Mobility Index for the first time and gained recognition as a top 75 employer. Our Strive ERG, sponsored by the Group Chief Human Resources Officer, now has over 1,000 members. We have continued to be an active member of Progress Together, focused on helping members progress and retain a socio-economically diverse workforce, including taking part in the largest financial services study of socio-economic diversity.

We launched a career development programme through the Strive ERG, enabling colleagues from different backgrounds to lead with impact and build career confidence.

We continue to improve the socio-economic diversity data we collect by running campaigns encouraging our colleagues and job applicants to share their socio-economic background. In 2023, we extended our socio-economic focus to Asia, with an initial data collection pilot in Singapore through our employee engagement survey. We also launched a new learning plan, available for all employees to better understand what socio-economic diversity is and why it matters.



Supporting colleagues experiencing menopause

Many of our female colleagues will experience menopause symptoms during their career. We do not want menopause to be a silent struggle and we have put in place the right support so it does not need to be. In 2023, we launched a new global framework centred around three principles of: creating awareness; removing barriers; and being adaptable. These form the basis of our menopause toolkit, which is available to all colleagues, and includes guidance on how to access menopause support and guidance for line managers on how to best support those in need.

We recognise that there is much more we can do to support those who are experiencing menopause and those who are supporting others experiencing it. Senior sponsorship is helping to raise awareness and our first step is to provide access to dedicated resources on menopause.

Building a healthy workplace

Listening to our colleagues

Listening to our colleagues is an essential part of building a healthy workplace at HSBC. We capture employee feedback in a variety of ways to understand how our colleagues feel about HSBC and to help us improve the employee experience.

How we listen

Our annual Snapshot survey runs every September and gives all HSBC employees the opportunity to share their experiences of working at the organisation. Our 2023 survey achieved a record response rate of 85%, up from 78% in 2022, with nearly 180,000 colleagues choosing to share their views.

The results of Snapshot are discussed at all levels. Our record participation has enabled us to put more data directly in the hands of our people managers, with more than 11,000 teams able to access their results, while maintaining the confidentiality of individual employees' responses. Managers are supported by a guided action planning tool to help them understand and interpret insights relevant to their team, while directing them towards support resources for them and their teams to explore. Results are also shared with executive leadership teams across the Group, with detailed reporting provided to our Group People Committee and the Board.

We complement the Snapshot survey with our annual Performance and Reward survey, which runs every March. Open to all employees, it captures feedback on our annual performance and pay review cycle, providing valuable insight into how well we are meeting our colleagues' needs and expectations on compensation, development and professional growth.

We also run targeted listening activities for employees at key moments in their careers, capturing detailed feedback from new joiners, internal movers and voluntary leavers.

Employee conduct and harassment

We expect all our employees to treat each other with respect and dignity, and we do not tolerate or condone harassment or bullying in any form. We continually strive to improve awareness and education around such behaviours, and strengthen our understanding and response to these issues across all levels of the organisation. In 2023, our overall Snapshot Speak up index improved slightly to 76%, up one percentage point from 2022.

We encourage our colleagues to speak up about poor behaviour or things that do not seem right, and we have included bullying, harassment, discrimination and retaliation in our 2023 Global Mandatory Training curriculum. Our Snapshot survey revealed an increase in colleagues able to state their opinion without fear of negative consequences, with 72% of colleagues feeling able to do so, up from 70% in 2022.

In 2023, we launched our global code of conduct which is supported by our global anti-bullying and harassment code. This continues to help us to maintain high standards of conduct across the Group.

We have mandatory procedures, both globally and locally, for handling and investigating employee concerns, which include those for bullying and harassment. Cases are continually monitored from our speak-up channels, and data is reported to management committees to ensure there is visibility at leadership level.

In 2023, we had a total of 834 concerns raised relating to bullying, harassment, discrimination and retaliation. Where the concerns were substantiated following an investigation, appropriate action was taken, which included termination of services, where appropriate. In 2023, 38% of concerns raised were either partly or fully substantiated and 24 colleagues were dismissed in relation to bullying, harassment, discrimination or retaliation.

We are committed to addressing this type of behaviour and will continue to take action where we find that an employee has breached our values and high standards of conduct.

Employee engagement:

77%

Employee engagement score
(2022: 74%)

81%

Of colleagues who feel confident about this company's future
(2022: 77%)

85%

Of colleagues who completed our annual Snapshot survey
(2022: 78%)



Promoting mental health awareness

A poll posted by a senior leader on our intranet revealed that 94% of colleagues said they trust leadership more when they open up about their own mental health.

To build on this sentiment, we celebrated World Mental Health Day by running a global awareness campaign 'The Big Mental Health Conversation' in October 2023. We encouraged leaders to post questions on our intranet to gather feedback from colleagues on their experiences and how we can improve mental health support. We surveyed our colleagues during the campaign and half said they were very satisfied with the mental health support HSBC offers. Supporting the mental health of our colleagues continues to be a priority, including ensuring that we continue to signpost how colleagues can access available support. Throughout 2023, we also held over 200 virtual events, featuring internal and external experts providing advice on mental health and topics related to well-being.

Listening to our colleagues continued

Employee engagement

We use eight Snapshot indices to measure key areas of focus and compare against peer institutions. The table below sets out how we performed.

Index	Score ¹	vs 2022 ²	HSBC vs benchmark ³	Questions that make up the index
Employee engagement	77%	+3	+7	I am proud to say I work for this company. Right now, I feel motivated by this organisation to do the best job I can. ⁴ I would recommend this company as a great place to work.
Employee focus	76%	+4	+4	I generally look forward to my work day. My work gives me a feeling of personal accomplishment. My work is challenging and interesting.
Strategy	78%	+3	+5	I have a clear understanding of this company's strategic objectives. I am seeing the positive impact of our strategy. I feel confident about this company's future.
Change leadership	76%	0	+4	Leaders in my area set a positive example. My line manager does a good job of communicating reasons behind important changes that are made. Senior leaders in my area communicate openly and honestly about changes to the business.
Speak up	76%	+1	0	I believe my views are genuinely listened to when I share my opinion. ⁵ I feel able to speak up when I see behaviour which I consider to be wrong. I can state my opinion without the fear of negative consequences. ⁶
Trust	78%	+1	0	I trust my direct manager. I trust senior leadership in my area. Where I work, people are treated fairly.
Career	71%	+3	+6	I feel able to achieve my career objectives at this company. I believe that we have fair processes for moving/promoting people into new roles. My line manager actively supports my career development.
Inclusion	78%	+2	+2	I feel a genuine sense of belonging to my team. I feel able to achieve my career objectives at this company. I feel able to be myself at work. I trust my direct manager. Where I work, people are treated fairly. I can state my opinion without the fear of negative consequences. ⁶

¹ Each index comprises constituent questions, with the average of these questions forming the index score.

² We revised the questions that comprise some of our indices to ensure the reliability of external benchmark data. New questions were trialled in 2022 so comparisons are all reported on a like-for-like basis; as such, historical comparison figures differ slightly from those reported last year.

³ We benchmark Snapshot results against a peer group of global financial services institutions, provided by our research partner, Ipsos Karian and Box. Scores for each question are calculated as the percentage of employees who agree to each statement. For further details of the constituent questions and past results, see the ESG Data Pack at www.hsbc.com/esg.

⁴ Previously: I feel valued at this company.

⁵ Previously: My company is genuine in its commitment to encourage colleagues to speak up.

⁶ Previously: Where I work, people can state their opinion without fear of negative consequences.

► For further details of well-being, see page 82, and for further details of inclusion, see page 76.

What employees told us

Seven of our eight Snapshot indices improved in 2023, while our change leadership index remained static. Our headline measure of employee engagement captures how employees feel about HSBC: whether they are proud to say they work here, whether they would recommend working at HSBC, and how motivated they feel to do their best work. Employee engagement increased by three percentage points compared with 2022, and seven percentage points above the external financial services benchmark. Our employee focus index, which measures how employees feel about their day-to-day work, increased by four percentage points to put HSBC four points ahead of the industry benchmark.

Analysis of the key drivers of our engagement scores showed that engaged colleagues are more likely to feel positive about their career, our strategy and our leadership. Our free text responses also showed that training and progression opportunities was the most cited reason for recommending HSBC, followed by our approach to flexible and hybrid working and the strength of our management.

Negative comments continued to focus around pay and benefits but were mentioned less than in 2022. For further details of our approach to being a great place to work, including pay transparency, see page 81.

Our Snapshot survey showed that 67% of employees plan to stay at HSBC for five or more years, a two percentage point increase since 2022. This aligned with a drop in voluntary turnover in 2023 to 9.3%, compared with 14.1% in 2022, and reflects trends in the wider employment market. Results from our listening channels continued to show that career opportunities and competitive reward packages remain the two key drivers behind our ability to attract and retain talented colleagues.

We are committed to building on our high levels of engagement and feedback throughout 2024.

Being a great place to work

To deliver our purpose, ambition and strategy we need the best people, performing at their best. Creating a great workplace helps us attract, retain and motivate our colleagues so they can deliver for our customers.

Underpinning this is our reward strategy, which we updated in 2022 to create an environment where the best people want to work. Our workforce proposition is rooted in our purpose and values, and the principles of rewarding colleagues responsibly, recognising colleagues' success and supporting our colleagues to grow.

Rewarding colleagues responsibly

We believe in rewarding our colleagues responsibly, which means ensuring that our pay and benefits provide financial security for all. Our annual Performance and Reward survey measures several factors, including how colleagues feel about our reward proposition. In 2023, seven key performance indicators related to our year-end review improved by four or more percentage points, including a nine percentage point increase in colleagues who feel they are paid fairly for the work they do.

As part of our commitment to rewarding colleagues responsibly, we went beyond compliance in assessing statutory minimum wages, to ensure that all colleagues are paid at least a living wage.

A living wage should be sufficient to cover an adequate standard of living considering the cost of goods and services in each country and territory in which we operate. In 2023, we worked with the Fair Wage Network, which provided an independent source of wage levels. As a result, HSBC achieved accreditation as a global living wage employer in 2024. We will continue to review our pay levels to ensure that no colleague falls below a living wage level.

► For further details of our approach to colleague remuneration, see page 326.

Recognising colleagues' success

We are committed to recognising the achievements of our colleagues' success. Variable pay, which forms part of total compensation alongside fixed pay, allows us to recognise the performance and behaviours of our colleagues.

At the beginning of each year, we ask colleagues to set goals with support from their line managers to ensure they are aligned with the overall Group strategy and business priorities. As a result, 87% of colleagues said they have a clear understanding of what is expected of them throughout the year.

We expect our people managers to hold regular performance and development conversations to review progress, incorporate feedback and discuss well-being. In 2023, our Snapshot survey revealed that 81% of colleagues said they had regular performance conversations with their manager, while 63% had them at least once a month, up from 57% in 2022. These conversations also provide an opportunity for colleagues to regularly revisit any goals set to maintain the right level of challenge in their day-to-day work.

At year-end, employees are rated on both performance and behaviour. In our Pay and Benefits survey, 72% of colleagues said their year-end performance assessment fairly reflected their performance and 83% agreed that rating decisions were determined in an unbiased way, regardless of any protected characteristics or work patterns. In our Snapshot survey, 81% of employees said they receive feedback that helps them improve their performance, compared with 74% in 2022, and 81% feel motivated to do the best job they can, up from 78% last year.

We have continued to enhance our 'At Our Best' platform that allows colleagues to recognise each other's contributions, by providing mobile access to encourage real-time acts of appreciation. In 2023, colleagues made more than 1.4 million At Our Best recognitions, an increase of 13% from 2022.

Managers are encouraged to recognise colleagues' service anniversaries every five years up to 40 years of service. This also includes the presentation of a special commemorative HSBC medallion. The At Our Best platform supports the global service recognition programme, which in 2023 helped to celebrate more than 30,000 service anniversaries.

Share plans are another way to empower colleagues to participate in the Group's success and to have a share in the rewards. In 2023, we expanded our global share plan to include the Philippines, making it available to 91% of colleagues globally. Our 2020 three-year Sharesave plan, in which 42% of UK employees took part, matured in November 2023. The share price at maturity represented more than double the option price, providing employees with significant share price growth. We ran information webinars, attended by more than 11,000 colleagues, and offered support resources to help our colleagues understand tax considerations and the choices available to them at maturity.

Supporting our colleagues to grow

To help our colleagues to grow personally and professionally, we are committed to providing flexibility and choice around how, when and where they work, supporting their well-being, and helping them develop skills. The sections on the next page detail the ways in which we support our colleagues. For further details of our approach to skills and career development, see page 83.



Increasing social connection in the office

Since the Covid-19 pandemic and the return of colleagues to the office, we identified the need for changes to improve team cohesion and a sense of belonging among our colleagues in Hong Kong. To help address this we created a new type of work and social space at the HSBC Centre office in Kowloon, Hong Kong.

'The Hub' is a flexible informal space that can be adapted to accommodate a range of different group activities and number of people, from large social events to smaller team training sessions. It is also designed to be a multi-level and interconnected space, with a central social meeting point to enhance the sense of community, improve levels of engagement and encourage greater social connection between colleagues.

Being a great place to work continued

Social well-being and flexible working

In 2023, we focused on embedding hybrid working across the Group and helping colleagues strike the right balance of office and remote working.

Our colleagues continue to embrace hybrid working, with 78% now splitting their time between home and the workplace, compared with 58% in 2022. To support managers and colleagues to continue to find the right balance between individual flexibility and social connection, we have refreshed our training to equip managers with skills to lead flexible teams. In 2023, hybrid workers spent approximately 47% of their time in the workplace, compared with 36% in 2022.

We know that getting the balance right has a positive effect on our colleagues. Colleagues who spend around 40% of their time in the workplace reported the highest positive sentiment across key employee indices, including engagement, trust and inclusion.

We track and measure responses from our Snapshot survey to ensure our broader approach to flexibility works for our customers and teams. A total of 81% of colleagues said they feel a genuine sense of belonging to their team, a two percentage point increase from 2022. A new question in the survey also found that 87% of new joiners feel they receive the right level of face-to-face support in order to succeed.

In the same survey, 76% of colleagues said they are able to integrate their work and personal life positively, a slight increase compared with 75% in 2022. To help the work-life balance of our colleagues, in Australia, we have introduced 20-weeks paid, gender-neutral parental leave for when a child joins their family. Longer periods of paid parental leave have also been introduced in Mexico, Singapore, South Korea, Taiwan and Thailand.

Mental well-being

Supporting the mental health of our colleagues remains a top priority. Cost-of-living pressures and global crises continue to increase mental health challenges in many countries and territories. Our Snapshot survey revealed a slight decrease in mental well-being, with 83% of colleagues rating their mental health as positive, compared with 84% in 2022. However, it also found that 74% of colleagues feel comfortable talking to their manager about their mental health, and 77% said they know how to access mental health support at work. Both increased one percentage point compared with 2022.

We have continued to make the meditation app Headspace and counselling services available to all colleagues globally.

More than 200,000 colleagues took part in mental health awareness training as part of global mandatory training. Our voluntary mental health education modules have been completed by 31,000 employees, with people managers making up 74% of the completions. Our network of mindfulness champions, who are specially trained colleagues who volunteer to run mindfulness sessions, community events and courses for the benefit of fellow colleagues, has almost 200 members with representation in 22 countries and territories. In 2023, we held 1,400 mindfulness sessions, a 26% increase compared with 2022, and these were attended by 25,000 colleagues.

Physical well-being

The Snapshot survey also revealed an increase in physical well-being, with 74% of colleagues rating their physical health as positive, compared with 71% in 2022.

In February 2023, our Pay and Benefits survey showed that 69% of colleagues highly valued the health benefits we offer, and 34% of colleagues wanted more support with physical activity and exercise. In response, we launched a platform called Virgin Pulse, which incentivises colleagues to set and track health goals, and to take part in active challenges. Since launching globally in November 2023, more than 5,700 colleagues have downloaded the app and more than 30 activity challenges have been run.

We have continued to provide access to private medical insurance as well as telemedicine healthcare services in the majority of our countries and territories, covering 98% of permanent employees. In certain countries and territories, we also provide on-site medical centres that the majority of colleagues can access.

Financial well-being

We recognise that financial challenges remain a concern for colleagues, caused by increases in the cost of living globally. Our Snapshot survey revealed a slight increase in financial well-being, with 61% of colleagues reporting positively, compared with 60% in 2022. Just over half (56%) of colleagues said they have at least three months of essential outgoings saved, the same as in 2022.

In 2023, we ran campaigns in all regions to raise awareness of financial education and tools, and more than 1,000 colleagues attended our seminars on psychology and spending habits. We continue to offer

Prioritising benefits that matter most to colleagues

For a second year our Pay and Benefits survey showed that 59% of colleagues feel their benefits meet their needs and those of their family 'well'. To improve sentiment, we have focused on enhancing benefits in areas that colleagues tell us are most important including health, saving for the future and time off.

Cancer checks were made available to all UK colleagues, as early detection can result in higher survival rates. In the US, we have enhanced our fertility, adoption and surrogacy benefits to support colleagues starting a family. We also expanded our gender dysphoria benefits for LGBTQ+ colleagues in the UK.

Carer leave of five paid working days has also been introduced in the UAE, Egypt, Algeria, Bahrain, Kuwait, Qatar, Türkiye, Saudi Arabia and Mexico.

To help employees plan for their retirement, we became the first international bank to launch a defined contribution pension plan in Vietnam. We also implemented a new defined contribution plan in Guernsey and enhanced our retirement savings plan in Egypt, to support employees to plan for retirement with the benefit of employer contributions.

retirement or longer-term savings plans to 95% of permanent employees, and our life insurance cover is available to 99.9% of colleagues to help provide financial security for their families.

Awards



CCLA Global 100 Mental Health Benchmark
– Ranked number 1 global employer for the second consecutive year

Developing skills, careers and opportunities

Learning and skills development

We aim to build a dynamic environment where our colleagues can develop skills and undertake experiences that help them fulfil their potential. Our approach helps us meet our key strategic priorities and support our colleagues to achieve their career goals.

Our learning and skills platforms

We continue to evolve the opportunities to learn and develop at HSBC. We use a range of skill development platforms, learning courses and resources to help colleagues take ownership of their development and career, including:

- HSBC University, our home for learning and skills accessed online and through a network of training centres, where learning is organised through technical academies on topics of strategic importance;
- Degreed, our learning experience platform that provides access to internal and external learning content and courses, where colleagues can share, collaborate and learn with individuals and in groups via learning pathways;
- Talent Marketplace, our online platform that uses artificial intelligence ('AI') to match colleagues interested in developing specific skills or career goals with opportunities that exist throughout our global network; and
- Careers at HSBC, which enables all employees to set alerts and search for internal career opportunities.

Our learning fundamentals

We expect all colleagues, regardless of their contract type, to complete global mandatory training each year. This training plays a critical role in shaping our culture, ensuring a focus on the issues that are fundamental to our work, such as sustainability, financial crime risk and our intolerance of bullying and harassment. New joiners attend our Global Discovery programme, which is designed to build their knowledge of the organisation and engage with our purpose, values and strategy.

As the risks and opportunities our business faces change, our global academies adapt to offer general and targeted development. Our Risk Academy provides learning for every employee in traditional areas of risk management such as financial crime risk, and also offers more specific development for those in senior leadership, high-risk roles and learning for colleagues on emerging issues such as ESG risk, terrorist financing, proliferation financing and sanctions.

We have continued to deliver targeted skills programmes, including our Vision 27 programme that aims to ensure we are attracting, developing and retaining critical technology talent. We have also expanded our Accelerating Wealth Programme, which prioritises hiring for transferable skills rather than experience. For further details of how we are achieving our wealth goals in Asia, see page 84.

Building skills with Talent Marketplace

Our people capability teams partner with businesses and functions to identify the key skills we need now and in the future. We also continue to support colleagues to develop new skills that achieve their career aspirations.

We have helped colleagues identify opportunities to enhance their skills through our Talent Marketplace. More than 38,000 colleagues have created a profile on the platform to help identify their existing skills and those they would like to develop. In 2023, it matched colleagues to a number of projects and networking opportunities unlocking over 123,000 hours of skills development.

Projects centred around Cloud computing, data analytics, software development and project management have created opportunities for colleagues to work on in-demand skills.

Training at HSBC

In 2023, we continued to enable colleagues to learn via a range of channels including digital and on-the-job learning. This is reflected in a reduction in overall learning hours as colleagues access different learning channels.

5.3 million

Training hours by our colleagues in 2023.
(2022: 6.3 million)

23.9 hours

Training hours per FTE in 2023.
(2022: 28.8 hours)

Identifying and retaining future talent

The need for talent is greater than ever. In 2023, a further 9,000 managers completed our compulsory inclusive hiring training, promoting cognitive awareness of bias. Our targeted talent programmes and enterprise-wide solutions are designed to support employees transitioning to more complex roles, and provide wider career opportunities and career growth.

Our recruitment programmes are a key enabler of achieving our broader diversity goals (see page 76). In 2023, we welcomed more than 720 graduates and 651 interns to the organisation. The graduate intake represented 48 nationalities, over 25 ethnic backgrounds, and 51% were women. In 2023, we continued to broaden our emerging talent programmes beyond traditional graduate and internship programmes, developing early access schemes for those in school and first year of university, as well as expanding our apprenticeship scheme (see page 84).

We continually refresh all our talent programmes to ensure they remain aligned to HSBC's strategic priorities. Our key programmes include:

- Accelerating Female Leaders, which has been re-designed in partnership with Cranfield School of Management. This programme supports female colleagues with learning materials, coaching and senior sponsorship to help them prepare for leadership roles; and
- Accelerating into Leadership, which aims to improve role mobility and retention, and supports colleagues identified as having the capacity, interest and drive to succeed in more complex roles.

Energising our colleagues for growth

We aspire to offer colleagues the opportunity to develop their skills while ensuring we build a pipeline of talent to support our strategic priorities. It is vital that we demonstrate the right leadership and create the right environment to energise our colleagues for growth.

Skilling the transition to net zero

The Sustainability Academy was launched in 2022 to support our net zero ambitions. As the academy has evolved we have shifted the focus from knowledge building to capability building across key colleague groups who are supporting customers on their transition to net zero. In 2023, we applied four main activities to support this effort:

- supplying on-demand learning modules based on role, region and client-base for colleagues who support customers with core transition activities;
- creating advanced workshops across our global businesses and functions to build colleagues' knowledge and develop practical skills to achieve business outcomes;
- encouraging external certifications and qualifications, where required, to deepen colleagues' expertise; and
- designing a 16-week sustainability leadership programme, in partnership with Imperial College London, which combines education on core sustainability concepts with change management, purpose and leadership principles. In 2023, the programme was completed by more than 170 senior leaders. Additional net zero learning opportunities were also provided to the Board and 100 of our most senior leaders.

We need to build strong leadership and develop our colleagues' capabilities to navigate the transition to net zero and achieve our climate goals. In 2023, we worked with our internal experts from the Sustainability Centre of Excellence to provide more advanced skills training in key transition areas such as energy transition, climate technology and financed emissions, alongside other core sustainability topics such as biodiversity.

Supporting our Asia wealth strategy

Our ambition is to become the preferred international financial partner for clients, and the expansion of our wealth management services particularly in Asia, sits at the heart of this ambition.

To help achieve this, we have continued to expand our Accelerating Wealth Programme, which offers a skills-based development plan for colleagues who are looking to pursue a career as a relationship manager in wealth management. The programme enables HSBC to develop talent from within and hire talented people with different career backgrounds from outside the business. In 2023, we extended the programme to external applicants in Hong Kong and to internal applicants in mainland China, India and Singapore. We will continue to add new countries and territories in 2024 to provide a sustainable hiring channel for front-line roles.

Technology transformation

We are committed to delivering better customer outcomes through digital transformation. Our technology transformation skills programme aims to ensure we attract, develop and retain the skilled talent we need to execute our strategy.

In 2023, our technology colleagues completed more than 800,000 hours of learning and gained over 950 certifications in software development, cyber, AI, data processes, Cloud computing and app development, among others. Our new Principle Engineer and Principle Architecture accelerator programmes have equipped colleagues with advanced technical knowledge and skills, enhancing their ability to innovate in their roles.

Leadership development

We continue to strengthen the training and development opportunities we offer our leaders at all levels of the Group, to ensure they are equipped with the clarity, alignment and capability with our goals to drive the performance of our organisation. In 2023, we significantly increased investment in the development of our leadership population.

For senior leaders, our Executive and Managing Director Leadership Programmes helped bring our purpose and strategy to life through innovative flagship courses, masterclasses and strategy briefing sessions.

We recognise the importance of people managers in shaping the experience of our colleagues. In 2023, we re-designed our People Management Excellence programme to better support managers at all levels. The face-to-face and virtual training includes a focus on the role and expectations of managers, how to design and organise work, and how to nurture a productive team environment. In 2023, over 3,800 colleagues attended this programme.



Supporting UK emerging talent

We continue to extend our emerging talent programmes beyond traditional graduate and internship schemes to support our socio-economic diversity ambitions (see page 78). In 2023, we awarded more than 100 apprenticeships to external and internal applicants. Our degree apprenticeship programmes provided an alternative to the traditional university route for 47 individuals, and we launched a disability apprenticeship programme for our Marketing function. We have also offered over 460 structured work placements to secondary school students and continued to support the #merkybook financial literacy programme for young people.

HSBC has funded 30 University of Cambridge scholarships for Black and socially disadvantaged students through our Stormzy partnership, and will invest a further £2m to achieve 60 scholarships by 2026 to support underrepresented groups. In 2023, Black heritage representation in our graduate and summer internship programmes was 10% of job applicants and 11% of new hires.

Building customer inclusion and resilience

Our approach to customer inclusion and resilience

We believe that financial services, when accessible and fair, can reduce inequality and help more people access opportunities. We are playing an active role in opening up a world of opportunity for individuals by supporting their financial well-being, and removing the different barriers that people can face in accessing financial services.

Access to products and services

We provide innovative solutions to help improve customer access to products and services. HSBC UK and HSBC Hong Kong provide no-cost accounts for customers who do not qualify for a standard account or who might need additional support due to social or financial vulnerability. In 2023, HSBC Egypt ran a campaign that allowed new customers to open bank accounts with no minimum balance required and no account opening fees. In the UK, we continue to make our branches more accessible by providing 'safe spaces' for domestic abuse victims, where they can seek specialist support and advice. In 2023, we also launched a specialist training programme to raise awareness among our colleagues of modern slavery and human trafficking. This has been completed by more than 5,300 UK colleagues. In addition, our strategic partnership with housing and homelessness charity Shelter UK aims to support those in crisis and build financial resilience solutions to help prevent homelessness in the future.

Making banking accessible

Number of no-cost accounts held for customers who do not qualify for a standard account or who might need additional support due to social or financial vulnerability.

2023	718,306
2022	716,957
2021	692,655

Supporting financial knowledge and education

We continue to invest in financial education content and features across different channels to help customers, colleagues and communities be confident users of financial services.

Since 2020, we received over 6.6 million unique visitors to our global digital financial education content. We continue to help customers expand their financial capabilities through our personal financial management tools. In 2023, HSBC UK launched new capabilities on our app enabling customers to manage their budgets, see their spending

insights and view financial fitness content. This new tab on the app has attracted over 4.5 million unique visitors. We also added investment pots and goals to help motivate customers to save for the future.

In 2022, we launched our 'Well+' reward programme on the HSBC HK Mobile Banking app to help customers improve the health of their body, money and mind. Reward points are earned by completing a series of simple activities, such as building their financial knowledge. In 2023, we added new capabilities, such as bonus badges, and more than 212,000 customers have engaged with Well+ in Hong Kong since launch.

To help customers understand complex products and make informed decisions, HSBC Life UK launched a series of quick video guides to explain the key benefits, exclusions and underwriting process of critical illness cover.

To support Hong Kong customers with special educational needs, we launched simple step-by-step guides, which were shared with our partners, to explain how to access basic banking services.

We also support programmes that help expand the financial knowledge of children and young people to ensure future resilience. HSBC Egypt partnered with Injaz Al-Arab, a member of JA Worldwide, to deliver its 'building a financially capable generation' programme to students in seven schools in Cairo. In Mexico, we created a podcast, targeted at developing the financial capabilities of young people with each episode covering a specific theme, to enhance their basic financial knowledge.

We continued to build on our financial literacy programmes for young people in the UK, with the launch of the first financial capability skills module for the Duke of Edinburgh's Award.

Creating an inclusive banking experience

We aim to ensure that our banking products and services are designed to be accessible for customers experiencing either temporary or permanent challenging circumstances, such as disability, impairment or a major life event.

A simplified version of the HSBC HK Mobile Banking app aims to continue to enhance digital inclusion for all, including seniors. The app is the first of its kind among Hong Kong banks and has attracted more than 477,000 unique users since launch.

We are committed to improving accessibility experiences across our digital channels and continuously review our browser-based websites in 23 markets, and our mobile banking services in 18 markets, against the WCAG 2.0 AA standards. We also share our digital accessibility expertise with partners, companies and colleagues. More than 10,000 people and 66 companies have taken advantage of our specialised training programmes. To further share our best practice externally, HSBC sponsored and hosted AbilityNet's Techshare Pro event in our Group head office in London. Our work on digital accessibility was recognised with 11 awards in 2023.

Support for customers extends beyond our digital channels and we recognise that not all disabilities are visible or immediately obvious to others. We have expanded our commitment to the Hidden Disabilities Sunflower Lanyard Scheme, rolling it out across the UK, Hong Kong, the Channel Islands and Australia. The lanyard indicates that an individual may need a little more help, support or time. HSBC UK is also making use of virtual reality tools, such as EBOX (Empathy Box), to give colleagues the opportunity to experience vulnerability from the perspective of the customer.

In 2023, HSBC UK was awarded the UK Construction Industry Council's Inclusive Environments Recognition at the Organisational Level certification. This recognises the strong organisation and design processes HSBC has put in place to support accessible and inclusive design.

Supporting women

HSBC UAE and HSBC Singapore have collaborated with digital financial education provider Sophia, to create a programme designed specifically to help female customers build their financial knowledge. It covers a range of topics, including budgeting, ways to invest and investment strategies.

In Mexico, our Mujeres Al Mundo programme continues to support women as customers through products, services, education and networking. In 2023, we also supported female-owned businesses through our \$1bn Female Entrepreneur Fund, alongside hosting bespoke Pitch Day events for a number of female entrepreneurs seeking investment.

Engaging with our communities

Building a more inclusive and resilient world

We have a long-standing commitment to support the communities in which we operate. We aim to empower people and communities to develop the skills and knowledge needed to thrive in the future.

Through the global reach of our charitable partnerships we bring together diverse people, ideas and perspectives that help us open up opportunities and build a more inclusive world.

Building community and future skills

We work with charity partners to initiate programmes that help people and communities respond to opportunities and challenges as global economies transition towards a low-carbon future. In 2023, these included:

- launching a three-year partnership with the British Council in Brazil, Mexico, India, Indonesia and Vietnam, and extending The Prince’s Trust programmes in Australia, Canada, India and Malaysia, to help young, marginalised people develop the skills they need to thrive in the green economy;
- partnering with the Guangdong Lyva Rural Women Development Foundation in China to help equip women in remote mountain areas with sustainable farming skills; and
- partnering with the Ghabbour Foundation in Egypt to help provide technicians with specialist skills training to work in the electric vehicle market.

We also work with our charity partners around the world to strengthen the resilience of disadvantaged communities:

- In Hong Kong, we announced a three-year partnership with Food Angel to increase its capacity to provide meals to underprivileged elderly groups.
- In the US, we expanded our workforce development programme with Feeding America to support communities to find meaningful employment, especially mothers and Black, Indigenous People of Colour women.
- In the UK, we announced a three-year partnership with Shelter to help develop the homeless charity’s training, guidance, tools and support within local communities to help build financial resilience.
- In France, we continued our work with Article 1 to help young people from deprived communities succeed in higher education through mentoring programmes.
- We supported disaster relief agency response to humanitarian needs, including those in Israel, Libya, Morocco, the Palestinian territories, Türkiye, and the Hawaiian island of Maui.

Community engagement and volunteering

We offer paid volunteering days, and encourage our people to offer their time, skills and knowledge to causes within their communities. In 2023, our colleagues gave over 181,800 hours to community activities during work hours.

Awards



- National CSR Fund 2023 UAE – Platinum Impact Seal
- Charitable giving by HSBC in China received recognition from the *China Philanthropy Times*

Charitable giving in 2023 (%)



- Social, including Future Skills: **26%**
- Environment, including the Climate Solutions Partnership: **37%**
- Local priorities: **24%**
- Disaster relief and other giving: **13%**

Total cash giving towards charitable programmes

\$107.3m

Hours volunteered during work time

>181,800

People projected to be reached through our Future Skills programme

1.25m



Advancing financing and digital literacy

Over the past five years, HSBC worked with three microfinance networks to advance financial and digital literacy of women from unbanked and underbanked communities in India. The programme has engaged with more than 550,000 women to build awareness and understanding of digital payment platforms, and enhance their ability to access banking services, such as savings, credit and insurance, as well as government welfare schemes. By the end of 2023, 56,000 women had undertaken loan repayments worth \$521,000 via digital channels. Insights from the initiative will be shared with financial institutions and the National Payment Corporation of India, set up by the banking regulator to oversee retail payments and settlement systems in India, to increase unbanked households’ access to financial services and products.

Governance

Acting responsibly

We remain committed to high standards of governance. We work alongside our regulators and recognise our contribution to building healthy and sustainable societies.

At a glance

Our relationship

We act on our responsibility to run our business in a way that upholds high standards of corporate governance.

Customer experience is at the heart of how we operate. It is imperative that we treat our customers well, that we listen, and that we act to resolve complaints quickly and fairly. We measure customer satisfaction through net promoter scores across each of our global businesses, listen carefully to

customer feedback so we know where we need to improve, and take steps to do this. Our customer satisfaction performance improved in many markets in which we operate, although we still have work to do to improve our rank position against competitors.

We are committed to working with our regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing our industry.

We strive to meet our responsibilities to society, including through being transparent in our approach to paying taxes. We also seek to ensure we respect global standards on human rights in our workplace and our supply chains, and continually work to improve our compliance management capabilities.

▶ For further details of our corporate governance, see our corporate governance report on page 274.

In this section

Setting high standards of governance	How ESG is governed	We expect that our approach to ESG governance is likely to continue to develop, in line with our evolving approach to ESG matters and stakeholder expectations.	▶ Page 88
Human rights	Our respect for human rights	We have continued to raise awareness and develop our understanding of our salient human rights issues.	▶ Page 89
Customer experience	Customer satisfaction	While we are ranked in the top three banks against our competitors in 58% of our key markets across WPB and CMB, we still have work to do to improve our rank position against competitors	▶ Page 91
	How we listen	We aim to be open and transparent in how we track, record and manage complaints.	▶ Page 92
Integrity, conduct and fairness	Safeguarding the financial system	We have continued our efforts to combat financial crime and reduce its impact on our organisation, customers and communities that we serve.	▶ Page 94
	Whistleblowing	Our global whistleblowing channel, HSBC Confidential, allows our colleagues and other stakeholders to raise concerns confidentially.	▶ Page 94
	A responsible approach to tax	We seek to pay our fair share of tax in all jurisdictions in which we operate.	▶ Page 95
	Conduct: Our product responsibilities	Our conduct approach guides us to do the right thing and to focus on the impact we have on our customers and the geographies in which we operate.	▶ Page 96
	Our approach with our suppliers	We require suppliers to meet our third-party risk compliance standards and we assess them to identify any financial stability concerns.	▶ Page 96
Safeguarding data	Data privacy	We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the markets in which we operate.	▶ Page 97
	Cybersecurity	We invest in our business and technical controls to help prevent, detect and mitigate cyber threats.	▶ Page 98

Setting high standards of governance TCFD

How ESG is governed

The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against our ESG ambitions is reviewed through Board discussion and review of key topics such as updates on customer experience and employee sentiment. The Board is regularly provided with specific updates on ESG matters, including the financed emissions sector targets, human rights and employee well-being. Board members receive ESG-related training as part of their induction and ongoing development, and seek out further opportunities to build their skills and experience in this area. For further details of Board members' ESG skills and experience, see page 275. For further details of their induction and training in 2023, see page 289.

Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate. These include the Group Disclosure and Controls Committee and Group Audit Committee, which provide oversight for the scope and content of ESG disclosures, and the Group People Committee, which provides oversight support for the Group's approach to performance management. For some areas, such as climate where our approach is more advanced, dedicated governance activities exist to support the wide range of activities, including climate risk management in the Environmental Risk Oversight Forum.

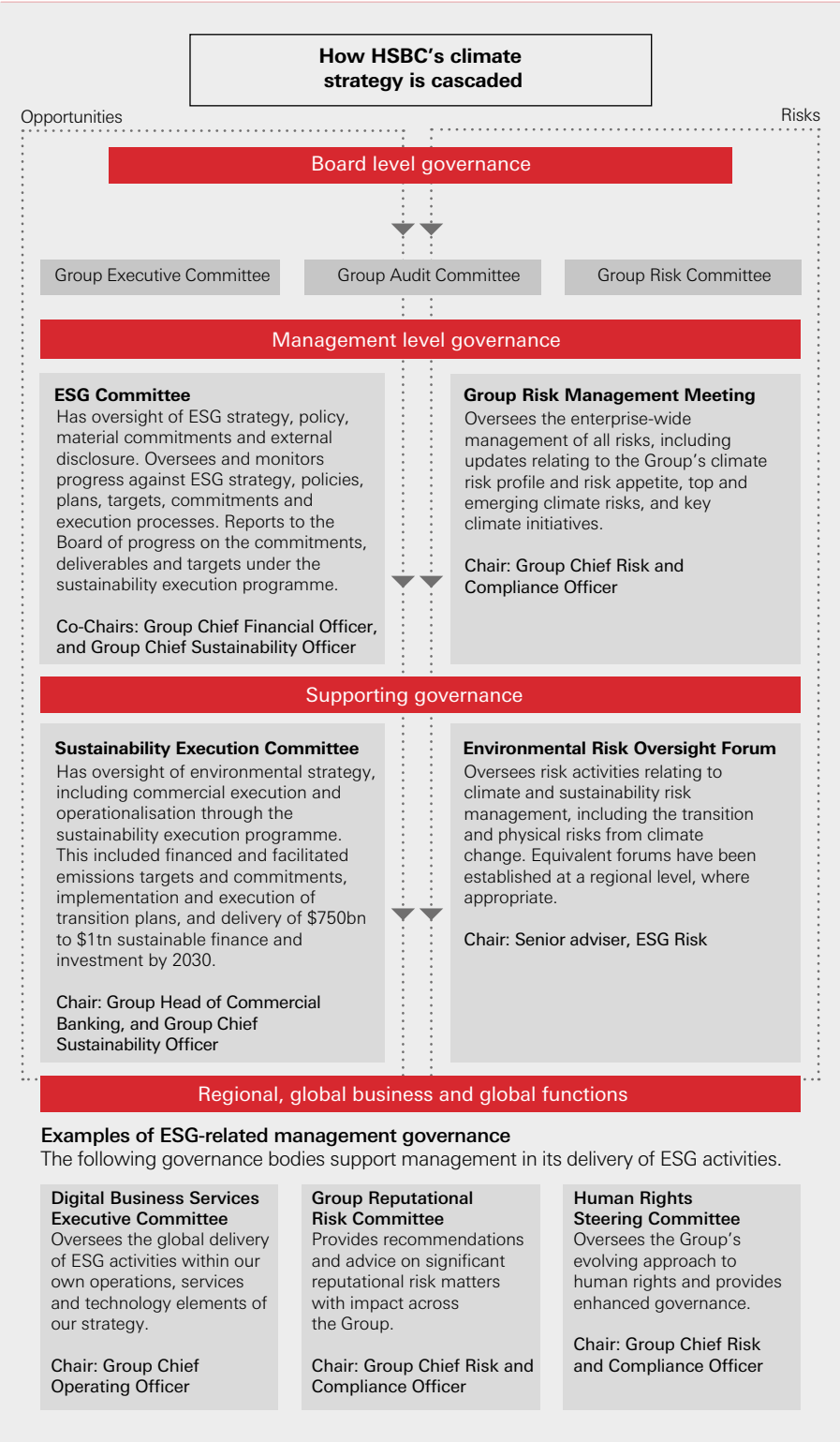
The Group Chief Risk and Compliance Officer and the chief risk officers of our PRA-regulated businesses are the senior managers responsible for climate financial risks under the UK Senior Managers Regime. Climate risks are considered in the Group Risk Management Meeting and the Group Risk Committee, with scheduled updates provided, as well as detailed reviews of material matters, such as climate-related stress testing exercises.

The diagram on the right provides an illustration of our ESG governance process, including how the Board's strategy on climate is cascaded and implemented throughout the organisation. It identifies examples of forums that manage both climate-related opportunities and risks, along with their responsibilities and the responsible chair. The structure of the process is similar for the escalation of problems, with issues either resolved in a given forum or raised to the appropriate level of governance with appropriate scope and authority.

In 2023, we enhanced our ESG governance with the establishment of a new Sustainability Execution Committee, which focuses on

defining and measuring the success of our climate ambition, and developing commercial opportunities that support it through the sustainability execution programme.

We expect that our approach to ESG governance is likely to continue to develop, in line with our evolving approach to ESG matters and stakeholder expectations.



Human rights

Our respect for human rights

As set out in our Human Rights Statement, we recognise the role of business in respecting human rights. Our approach is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct.

Our salient human rights issues

We continue to raise awareness and develop our understanding of our salient human rights issues. These are the human rights at risk of the most severe negative impact through our business activities and relationships.

An extensive review of our salient human rights issues conducted in 2022 identified five human rights risks inherent to HSBC's business globally, and five types of activity through which such risks might arise. These are represented in the adjacent table.

In 2023, building on this assessment, we provided practical guidance and training, where relevant, to our colleagues across the Group on how to identify and manage human rights risk.

We are now focusing on translating this into risk management enhancements in two key areas of activity. These are the services we provide to business customers and the goods and services we buy from third parties.

Managing risks to human rights

In 2023, we continued the process of adapting our risk management procedures to reflect what we learned from our work on salient human rights issues and related guidance.

We continued to embed and build on the Sustainable Procurement Mandatory Procedure, which sets out the minimum sustainability requirements for procurement activity. This included enhanced procedures for human rights risk identification through the introduction of a human rights residual risk questionnaire for suppliers as part of our global onboarding assessment process, and human rights supplier audit pilots in our Asia-Pacific and Latin America regions to assess the potential need for further supplier audits in the future.

New approaches to identifying and managing human rights risk in respect of our business customers have also been piloted. These included screening for indicators of potential negative impacts on people, including media monitoring and other relevant third-party data.

Our salient human rights issues

Illustration of HSBC Group's inherent human rights risks mapped to business activities.

Inherent human rights risks		HSBC activities				
		Employer	Buyer	Provider of products and services		
				Personal customers	Business customers	Investor ¹
Right to decent work	Freedom from forced labour		◆		◆	◆
	Just and favourable conditions of work	◆	◆		◆	◆
	Right to health and safety at work	◆	◆	◆	◆	◆
Right to equality and freedom from discrimination		◆	◆	◆	◆	◆
Right to privacy		◆		◆		◆
Cultural and land rights			◆		◆	◆
Right to dignity and justice		◆	◆	◆	◆	◆

¹ Investor includes our activities in HSBC Asset Management.

We continued to develop our in-house capability on human rights with the launch of further online resources for all staff and bespoke human rights training for colleagues in key roles, including those managing relationships with suppliers, and those with responsibility for overseeing risk management processes.

The actions we are taking to address these salient human rights issues are consistent with our values and will help us to meet our commitments on diversity and inclusion, and those we have made under the UN Global Compact and WEF metrics on risk for incidents of child, forced or compulsory labour.

▶ For further details of the actions taken to respect the right to decent work, see our 2023 Annual Statement under the UK Modern Slavery Act at www.hsbc.com/modernslaveryact.

▶ For further details of the actions taken to respect the right to equality and freedom from discrimination, see 'Our approach to diversity and inclusion' on page 76.

Sustainability risk policies

Some of our business customers operate in sectors where the risk of adverse human rights impact is high. Our sustainability risk policies for agricultural commodities, energy, forestry, mining and metals consider human rights issues such as forced labour, harmful or exploitative child labour and land rights. They also consider the rights of indigenous peoples such as 'free prior and informed consent', workers' rights, and the health and safety of communities.

Through our membership of international certification schemes such as the Forestry Stewardship Council, the Roundtable on Sustainable Palm Oil and the Equator Principles, we support standards aimed at respecting human rights.

Our sustainability risk policies are reviewed periodically to ensure they reflect our priorities.

▶ For further details, see our sustainability risk policies at www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk.

Financial crime controls

The risk of us causing, contributing or being linked to adverse human rights impacts is also mitigated by our financial crime risk framework, which includes our global policies and associated controls.

▶ For further details of how we fight financial crime, see www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime.

Our respect for human rights continued

Driving change

We continued to participate in industry forums, including the Thun Group of Banks, which is an informal group that seeks to promote understanding of the UNGPs within the sector, and the UN Global Compact Human Rights Working Group.

HSBC has been a member of the Mekong Club since 2016. We are a participant of its monthly financial services working group, and we use its informative typological toolkits, infographics, and other multimedia resources covering current and emerging issues. Our Compliance teams regularly collaborate and engage with the Mekong Club in designing Group-wide knowledge sharing and training sessions.

Investments

Since 2022, HSBC Asset Management has published an annual *Global Stewardship Plan* outlining its approach to engagement, prioritisation of investee companies, objective-setting and escalation procedures. The plan also highlights its thematic priorities including human rights.

HSBC Asset Management recognises collaborative engagement as a tool to promote change. It participates in investor-led joint engagement initiatives where it believes these can have a positive influence. It is a signatory to the Principles for Responsible Investment Advance initiative to promote active stewardship on human rights and social issues. It has also actively contributed to other sector-specific initiatives, including engaging with technology firms on digital rights and responsible AI, and working with ESG data providers to promote higher quality human rights data set.

HSBC Asset Management has also incorporated human rights and modern slavery considerations into its Global Voting Guidelines. This helps to identify non-compliance with UN Global Compact principles, as well as a company’s competency in human rights management and disclosures. Where a company falls below expectations, HSBC Asset Management may vote against the re-election of the board chair or relevant board director.

As a signatory to the Net Zero Asset Management Initiative, HSBC Asset Management is taking steps to reduce the carbon exposure of its portfolios and engage with issuers on their climate strategies. It also recognises the impact that the climate transition can have on workers, communities, consumers and other stakeholders, and has published its perspectives on a just transition.

- ▶ For the *Global Stewardship Plan*, see www.assetmanagement.hsbc.co.uk/-/media/files/attachments/uk/policies/stewardship-plan-uk.pdf.
- ▶ For further details of the *Net Zero Asset Management Initiative*, see www.assetmanagement.hsbc.co.uk/en/institutional-investor/about-us/road-to-net-zero/a-transition-for-everyone.

Supporting those impacted and those potentially at risk

We continued to expand our Survivor Bank programme, which has now supported over 3,000 survivors of modern slavery and human trafficking in the UK, and is a model for making financial services more accessible to vulnerable communities worldwide.

We built on this experience in developing access to banking services for customers with no fixed abode in the UK and in Hong Kong, providing over 5,700 accounts under these programmes.

- ▶ For further details of our work to support vulnerable communities, see page 86.

Effectiveness

The table below includes some indicative metrics we use to measure year-on-year continual improvement to our human rights processes.

- ▶ For further diversity and inclusion metrics, see page 76 in this ESG review, as well as Section 4 of the 2023 Annual Statement under the UK Modern Slavery Act, which is available at www.hsbc.com/who-we-are/esg-and-responsible-business/modern-slavery-act.

Monitoring effectiveness		
Metric	2023	2022
Contracted suppliers who either confirmed adherence to the code of conduct or provided their own alternative that was accepted by our Global Procurement function	95%	93%
Employees who have received training on human rights	8,176	520
Votes by HSBC Asset Management against management for reasons including human rights ¹	213	87
<i>1 The figure represents the number of resolutions at investee company shareholder meetings (including AGMs) where votes were cast against management for reasons related to human rights.</i>		



Working for a just transition

Just Energy Transition Partnerships are becoming increasingly popular bringing key stakeholders together to enable a clean, fair energy transition in emerging economies that rely heavily on coal. Essentially, they are multilateral financial agreements aimed at accelerating the phase-out of fossil fuels, in a way that addresses the social consequences of doing so.

- ▶ For further details on HSBC’s role in Just Energy Transition Partnerships with Indonesia and Vietnam, see www.hsbc.com/news-and-views/views/hsbc-views/jetps-powering-a-faster-energy-transition.
- ▶ Read more on Just Energy Transition Partnerships on page 68 of this ESG Review.

Customer experience

We remain committed to improving customers’ experiences. In 2023, we gathered feedback from over one million customers across our three global businesses to help us understand our strengths and the areas we need to focus on. We were ranked among the top three banks against our competitors in 58% of our six key markets across WPB and CMB¹. This was lower than in 2022 when we were ranked among the top three banks against our competitors in 66% of our key markets.

Customer satisfaction

Listening to drive improvement

We have continued to embed our feedback system so we can better listen, learn and act on our customers’ feedback. We use the net promoter score (‘NPS’) to provide a consistent measure of our performance. NPS is measured by subtracting the percentage of ‘detractors’ from the percentage of ‘promoters’. ‘Detractors’ are customers who provide a score of 0 to 6, and ‘promoters’ are customers who provide a score of 9 to 10 to the question: ‘On a scale on 0 to 10, how likely is it that you would recommend HSBC to a friend or colleague’.

We run studies that allow us to benchmark ourselves against other banks. We try to make it as easy as possible for customers to give us feedback, accelerating our use of digital real-time surveys to capture insight. By sharing this and other feedback with our front-line teams, and allowing them to respond directly to customers, we are improving how we address issues and realise opportunities.

In 2023, we launched the CMB Customer Impact Forum, a dedicated global forum set up to provide oversight of our business and corporate customers’ experiences and promote continuous improvement. This, alongside our WPB ‘Customer in the room’ programme launched in 2022, helps ensure we use feedback in all aspects of how we run our business and prioritise initiatives that matter most to our customers.

How we fared

In WPB, our NPS increased in four of our six key markets, which were Hong Kong, Mexico, India and Singapore. Our NPS in the UK declined slightly, largely among our mass affluent customers. In Hong Kong, we remained first overall against our competitors, driven by our mass affluent customers. In India we ranked in first place, driven by increased digitalisation. We introduced digital self-service solutions for updating customer details and downloading key documents, and digitised our onboarding process. We were also a top three bank in mainland China, based on 2022 data (see footnote 3 in the adjacent table).

In our private bank, our global NPS increased to 42 points, compared with 25 points in 2022. This was largely due to increased customer satisfaction in Asia, with improved scores in Hong Kong, Singapore, Taiwan and mainland China. This was driven by relationship manager engagement and enhancements to our digital services.

In CMB, we were ranked among the top three banks against our competitors in four of our six key markets. We ranked first in Hong Kong and as a top three bank in mainland China, Singapore and Mexico. In India and the UK, we were ranked outside the top three. Our NPS rank improved in the UK, driven by our business banking customers and our top three ranking among UK corporate customers. Our NPS declined slightly among our mid-market enterprise customers.

In GBM, we had one of the highest NPS scores in the market against our competitors, including the quality of our digital trade finance platforms and for satisfaction with our digital capabilities.

Number of markets in top three or improving rank ^{1,2}	
	2023
WPB ³	3 out of 6
CMB	5 out of 6

1 The six markets comprise: the UK, Hong Kong, Mexico, mainland China, India and Singapore. Rank positions are provided using data gathered through third-party research agencies.

2 We benchmark our NPS against our key competitors to create a rank position in each market. This table is based is on the number of markets where we are in the top three or have improved rank from the previous year.

3 Our WPB NPS ranking in mainland China is based on 2022 results. Due to data integrity challenges, we are unable to produce a 2023 ranking. The next mainland China results will be in 2024.

Acting on feedback

We have continued to focus on developing our products and services, and enhancing our digital capabilities to improve customer experience.

In WPB, we redesigned our international products and services to make it quicker and easier to bank internationally. This involved the launch of six products and services across 10 international markets. International customers can open an international account digitally pre-departure, gain access to a credit card in their new market, and make use of cross-border payment solutions with 24/7 global support to manage their international needs.

In CMB, we introduced a new credit application system, the Digital Credit Portal, in 15 markets. It uses internal and external data combined with automation to streamline credit journeys. In Hong Kong, the portal also integrates with a credit decision engine to automate credit decisions for qualifying customers, reducing the assessment time on loan approvals from days to as little as a few minutes. Our digital onboarding tool, SmartServe, has been implemented in 21 markets to support international and domestic account opening. We have onboarded 89% of eligible customers through the digital platform, with 72% of customers rating this experience as ‘easy’.

In GBM, we continued to execute our strategy and refine the client coverage model. In 2023, we accelerated our ‘originate-to-distribute’ model, providing clients with an effective capital efficiency strategy. We have refinanced our in-country and cross-border coverage model in mainland China and refreshed our growth plans in India based on client feedback. We also launched growth initiatives against our Asia-MENAT corridor to better service our clients.

How we listen

To improve how we serve our customers, we must be open to feedback and acknowledge when things go wrong. We continue to adapt at pace to provide support for customers facing new challenges, new ways of working and those that require enhanced care needs.

We aim to be open and consistent in how we track, record and manage complaints, although as we serve a wide range of customers – from personal banking and wealth customers to large corporates, institutions and governments – we tailor our approach in each of our global businesses. As the table on the right demonstrates, we have a consistent set of principles that enable us to remain customer-focused throughout the complaints process.

► For further details of complaints volumes by geography, see our ESG Data Pack at www.hsbc.com/esg.

How we handle complaints

Our principles	Our actions
Making it easy for customers to complain	Customers can complain through the channel that best suits them. We provide a point of contact along with clear information on next steps and timescales.
Acknowledging complaints	All colleagues welcome complaints as opportunities and exercise empathy to acknowledge our customers’ issues. Complaints are escalated if they cannot be resolved at first point of contact.
Keeping the customer up to date	We set clear expectations and keep customers informed throughout the complaint resolution process through their preferred channel.
Ensuring fair resolution	We thoroughly investigate all complaints to address concerns and ensure the right outcome for our customers.
Providing available rights	We provide customers with information on their rights and the appeal process if they are not satisfied with the outcome of the complaint.
Undertaking root cause analysis	Complaint causes are analysed on a regular basis to identify and address any systemic issues and to inform process improvements.

Wealth and Personal Banking (‘WPB’)

In 2023, we received approximately 1.2 million complaints from customers. The ratio of complaints per 1,000 customers per month in our large markets remained stable at around 2.3.

In the UK, complaints fell 19%. In 2023, we applied the new UK Consumer Duty rules to our complaint handling processes and invested in root cause analysis to ensure good outcomes and avoid instances of foreseeable harm. We will continue to focus on enhancing our processes and on training complaint handlers to improve the customer experience and reduce our complaint volumes further.

The decrease in complaints in Hong Kong was primarily driven by improvements in our digital capabilities to make it easier for customers to connect with us. Regular reviews, analysis of customer feedback and greater collaboration across business lines to address emerging customer pain points also contributed to the fall in complaints.

In response to an increase in credit and debit card fraud attacks in Mexico during the first quarter of 2023, we focused on strengthening our monitoring and fraud detection capabilities to help protect our customers. In October, we also released the new Visa Account Attack Intelligence tool to mitigate foreign e-commerce attacks on customer debit cards. As a result of these efforts, average monthly complaints in Mexico for the last nine months of the year decreased by 20.5% compared with the first quarter.

In our private bank, we received 507 complaints, an increase of 176 compared with 2022. This was largely due to growth in our customer base since establishing new private banking operations in the UAE and Mexico, along with an increase in complaints in the US. This led to an increase in administration and service issues, a high proportion of which were attributable to delays and errors in processing client instructions. Overall, the private bank resolved 465 complaints. Complaint data for the new private banking operation in India was reported within the WPB figures, pending system development to separately report the complaint figures.

WPB complaint volumes¹
(per 1,000 customers per month)

	2023	2022
Total²	2.3	2.3
UK ³	 1.1	1.4
Hong Kong ³	 0.9	1.0
Mexico ³	 5.2	5.1

1 A complaint is any expression of dissatisfaction about WPB’s activities, products or services where a response or resolution is explicitly or implicitly expected.
2 Markets included: Hong Kong, mainland China, France, the UK, UAE, Mexico, Canada and the US.
3 The UK, Mexico and Hong Kong make up 86% of total complaints.

Acting on feedback

In 2023, we continued to develop and embed tools and capabilities across our business to deliver improved experiences for our customers around the world. Through our measurement of customer experience, we identify opportunities for improvement, develop agile customer experience plans and track and measure our progress. As a result of standardising our approach to customer experience globally, we have strengthened our capability to listen, understand and act on what our customers are telling us on a regular basis.

How we listen continued

Commercial Banking ('CMB')

In 2023, we received 45,899 customer and client complaints, a decrease of 27% from 2022. Of the overall volumes, 33,777 came from HSBC UK and 7,354 from Asia-Pacific.

The most common complaint related to servicing and transactions, with the largest volume of complaints globally coming from business banking customers, which represented 87% of our total complaints.

We attribute the overall decrease in our complaint volumes to enhanced training of our front-line colleagues to ensure they can identify the differences between a complaint, query and feedback. We also focused on addressing the root causes of the complaint trends, as well on improvements to our systems, processes and advice to our clients.

We resolved 47,812 complaints globally in 2023. The average resolution time for complaints was 24 days, which was just above our global target of 20 days.

CMB complaint volumes¹ (000s)

	2023	2022
Total	46	63
UK	▼ 33.8	49.2
Hong Kong	▼ 6.5	8.1

Acting on feedback

In 2023, we focused on improvements to our governance of complaints, creating regular forums in key markets to ensure that analysis of the root cause of issues and trends are prioritised to enhance our understanding of pain points for our customers. Since the Covid-19 pandemic, there has been increased efforts Group-wide to identify customers who are more exposed to harm or declare as vulnerable. In 2023, we focused on identifying these complaint types to ensure that we can offer adjustments and support within our processes. This new process helps to improve our understanding and support of clients at risk of financial or non-financial harm to ensure our banking services are accessible to all.

Global Banking and Markets ('GBM')

In 2023, we received 1,552 customer complaints in Global Banking, a decrease of 27% from 2022. Of the overall complaint volumes, 49% came from Europe and 23% came from the Middle East, North Africa and Türkiye. The most common complaint, at 38% of total complaints, related to servicing, which was in line with previous years.

In Markets and Securities Services ('MSS') complaints increased by 21% to 354. We attribute some of the increase to improvements in our data reporting processes globally. The majority of complaints were operational in nature and resolved in a timely manner. Of the overall MSS complaints, 47% came from Europe and 34% from Asia, our two largest markets.

GBM complaint volumes¹

	2023	2022
Total	1,906	2,419
Global Banking ²	▼ 1,552	2,127
Global Markets and Securities Services ³	▲ 354	292

Acting on feedback

We have continued to invest in our client feedback tool to create a more consistent and streamlined experience for colleagues across GBM and our wholesale businesses globally. In 2023, we introduced additional automation to improve the process of logging complaints, and simplified our procedures to make it easier for front-line colleagues to record feedback. We have also introduced mandatory training around conduct and complaints to ensure our people are acting on the feedback they receive and are consistent in how they evaluate queries and complaints.

¹ Globally, a complaint is any expression of dissatisfaction, whether justified or not, relating to the provision of, or failure to provide, a specific product or service or service activity. Within the UK, a complaint is any expression of dissatisfaction – whether justified or not – about our products, services or activities which suggests we have caused (or might cause) financial loss, or material distress or material inconvenience.

² Global Banking also includes Global Payments Solutions (previously known as Global Liquidity and Cash Management) and complaints relating to payment operations, which is part of Digital Business Services.

³ Contains Global Research complaint volumes.

Integrity, conduct and fairness

Safeguarding the financial system

We have continued our efforts to combat financial crime and reduce its impact on our organisation, customers and the communities that we serve. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We have a financial crime risk management framework that is applicable across all global businesses and functions, and in all countries and territories in which we operate. The financial crime risk framework, which is overseen by the Board, is supported by our financial crime policy that is designed to enable adherence to applicable laws and regulations globally. Annual global mandatory training is provided to all colleagues, with additional targeted training tailored to certain individuals. We carry out regular risk assessments to identify where we need to respond to evolving financial crime threats, as well as to monitor and test our financial crime risk management programme.

We continue to invest in new technology, including through the deployment of a capability to monitor correspondent banking activity. We are also enhancing our fraud

monitoring capability and our trade screening controls, and investing in the application of machine learning to improve the accuracy and timeliness of our detection capabilities.

These new technologies should enhance our ability to respond effectively to unusual activity and be more granular in our risk assessments. This helps us to protect our customers, the organisation and the integrity of the global financial system against financial crime.

Our anti-bribery and corruption policy

Our global financial crime policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. There were no concluded legal cases regarding bribery or corruption brought against HSBC or its employees in 2023. Our global financial crime policy requires that we identify and mitigate the risk of our customers and third parties committing bribery or corruption. Among other controls, we use customer due diligence and transaction monitoring to identify and help mitigate the risk that our customers are involved in bribery or corruption. We perform anti-bribery and corruption risk assessments on third parties that expose us to this risk.



The scale of our work

Each month, on average, we monitor over 1.35 billion transactions for signs of financial crime. In 2023, we filed over 96,000 suspicious activity reports to law enforcement and regulatory authorities where we identified potential financial crime. We perform daily screening of 125 million customer records for sanctions exposure. In 2022, we reported screened customer records as a monthly average, although screening was, and continues to be, performed on a daily basis.

98%

Total percentage of permanent and non-permanent employees who received financial crime training, including on anti-bribery and corruption.

Whistleblowing

We want colleagues and stakeholders to have confidence in speaking up when they observe unlawful or unethical behaviour. We offer a range of speak-up channels to listen to the concerns of individuals and have a zero tolerance policy for acts of retaliation.

Listening through whistleblowing channels

Our global whistleblowing channel, HSBC Confidential, is one of our speak-up channels, which allows colleagues and other stakeholders to raise concerns confidentially and, if preferred, anonymously (subject to local laws). In most of our markets, HSBC Confidential concerns are raised through an independent third party, offering 24/7 hotlines and a web portal in multiple languages. We also provide and monitor an external email address for concerns about accounting, internal financial controls or auditing matters (accountingdisclosures@hsbc.com). Concerns are investigated proportionately and independently, with action taken where appropriate. This can include disciplinary action, such as dismissal and adjustments

to variable pay and performance ratings, or operational actions including changes to policies and procedures.

We actively promote our full range of speak-up channels to colleagues to help ensure their concerns are handled through the most effective route. In 2023, 4% fewer concerns were raised through HSBC Confidential compared with 2022. Of the concerns investigated through the HSBC Confidential channel in 2023, 81% related to individual behaviour and personal conduct, 14% to security and fraud risks, 4% to compliance risks and less than 1% to other categories.

The Group Audit Committee has oversight of the Group's whistleblowing arrangements, and the Chair of the Group Audit Committee acts as HSBC's Whistleblowers' Champion with responsibility for ensuring and overseeing the integrity, independence and effectiveness of the Group's policies and procedures.

Regulatory Compliance sets the whistleblowing policy and procedures, and

provides the Group Audit Committee with periodic updates on their effectiveness. Specialist teams and investigation functions own whistleblowing controls, with monitoring in place to determine control effectiveness.

For further details of the role of the Group Audit Committee in relation to whistleblowing, see page 306.

HSBC Confidential concerns raised in 2023:

1,746

(2022: 1,817)

Substantiation rate of concerns investigated through HSBC Confidential in 2023:

41%

(2022: 41%)

A responsible approach to tax

We seek to pay our fair share of tax in all jurisdictions in which we operate, and to minimise the likelihood of customers using our products and services to evade or inappropriately avoid tax. We also abide by international protocols that affect our organisation. Our approach to tax and governance processes is designed to achieve these goals.

Through adoption of the Group's risk management framework, we seek to ensure that we do not adopt inappropriately tax-motivated transactions or products, and that tax planning is scrutinised and supported by genuine commercial activity. HSBC has no appetite for using aggressive tax structures.

With respect to our own taxes, we are guided by the following principles:

- We are committed to applying both the letter and spirit of the law. This includes adherence to a variety of measures arising from the OECD Base Erosion and Profit Shifting initiative including the 'Pillar Two' global minimum tax rules which will apply to the Group from 2024. These rules seek to ensure that the Group pays tax at a minimum rate of 15% in each jurisdiction in which it operates. We have identified 12 jurisdictions that may have an effective tax rate below 15% in 2024. We continually monitor the number of active subsidiaries within each jurisdiction as part of our ongoing entity rationalisation programme.

- We seek to ensure that our entities active in nil or low tax jurisdictions have clear business rationale for why they are based in these locations and appropriate transparency over their activities.
- We seek to have open and transparent relationships with all tax authorities. Given the size and complexity of our organisation, which operates across over 60 jurisdictions, a number of areas of differing interpretation or disputes with tax authorities exist at any point in time. We cooperate with the relevant local tax authorities to mutually agree and resolve these in a timely manner.

With respect to our customers' taxes, we are guided by the following principles:

- We have made considerable investments to support external tax transparency initiatives and reduce the risk of banking services being used to facilitate customer tax evasion. Initiatives include the US Foreign Account Tax Compliance Act, the OECD Standard for Automatic Exchange of Financial Account Information ('Common Reporting Standard'), and the UK legislation on the corporate criminal offence of failing to prevent the facilitation of tax evasion.

- We implement processes that aim to ensure that inappropriately tax-motivated products and services are not provided to our customers.

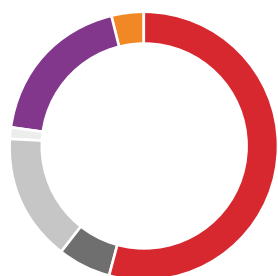
Our tax contributions

The effective tax rate for the year of 19.1% was higher than in the previous year (2022: 4.7%). The effective tax rate for the year was increased by 2.3% from the non-taxable impairment of the Group's interest in BoCom, and reduced by 1.6% by the release of provisions for uncertain tax positions and by 1.5% by the non-taxable provisional gain on the acquisition of SVB UK. Further details are provided on page 396.

The UK bank levy charge for 2023 of \$339m was higher than the charge of \$13m in 2022, mainly due to adjustments arising upon filing prior year returns, which represented a credit in 2022 and a charge in 2023.

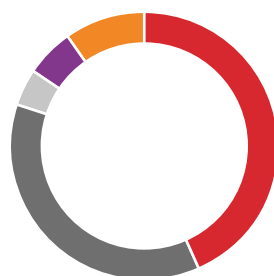
As highlighted below, in addition to paying \$6.8bn of our own tax liabilities during 2023, we collected taxes of \$10.8bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2023 is provided in the *ESG Data Pack*.

Taxes paid – by type of tax



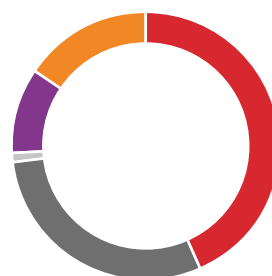
■ Tax on profits	\$3,685m (2022: \$2,429m)
■ Withholding taxes	\$432m (2022: \$361m)
■ Employer taxes	\$1,052m (2022: \$1,041m)
■ Bank levy	\$57m (2022: \$314m)
■ Irrecoverable VAT	\$1,298m (2022: \$1,152m)
■ Other duties and levies	\$249m¹ (2022: \$232m)

Taxes paid – by region



■ Europe	\$2,945m (2022: \$2,745m)
■ Asia-Pacific	\$2,488m (2022: \$1,894m)
■ Middle East, North Africa and Türkiye	\$296m (2022: \$259m)
■ North America	\$389m (2022: \$207m)
■ Latin America	\$655m (2022: \$424m)

Taxes collected – by region



■ Europe	\$4,714m (2022: \$4,197m)
■ Asia-Pacific	\$3,226m (2022: \$3,274m)
■ Middle East, North Africa and Türkiye	\$77m (2022: \$67m)
■ North America	\$1,119m (2022: \$1,129m)
■ Latin America	\$1,680m (2022: \$1,493m)

¹ Other duties and levies includes property taxes of \$91m (2022: \$94m)

Conduct: Our product responsibilities

Our conduct approach guides us to do the right thing and to focus on the impact we have for our customers and the financial markets in which we operate. It is embedded into the way we design, approve, market and manage products and services, with a focus on five clear outcomes:

- We understand our customers' needs.
- We provide products and services that offer a fair exchange of value.
- We service customers' ongoing needs and put it right if we make a mistake.
- We act with integrity in the financial markets we operate in.
- We operate resiliently and securely to avoid harm to customers and markets.

We train all our colleagues on our approach to customer and market conduct, helping to ensure our conduct outcomes are part of everything we do.

Designing products and services

Our approach to product development is set out in our policies and provides a clear basis on which informed decisions can be made. Our policies require that products must be fit-for-purpose throughout their existence, meeting regulatory requirements and associated conduct outcomes.

Our approach includes:

- designing products to meet identified customer needs;
- managing products through governance processes, helping to ensure they meet customers' needs and deliver a fair exchange of value;
- periodically reviewing products to help ensure they remain relevant and perform in line with expectations we have set; and
- improving, or withdrawing from sale, products which do not meet our customers' needs or no longer meet our high standards.

Meeting our customers' needs

Our policies and procedures set standards to ensure that we consider and meet customer needs. These include:

- enabling customers to understand the key features of products and services;
- enabling customers to make informed decisions before purchasing a product or service; and
- ensuring processes are in place for the provision of advice to customers.

They help us provide the right outcomes for customers, including those with enhanced care needs. This helps us to support customers who are more vulnerable to external impacts, including the current cost of living crisis (see 'Supporting our customers in challenging economic times' on page 15).

Financial promotion

Our policies help to ensure that in the sale of products and services, we use marketing and product materials that support customer understanding and fair customer outcomes. This includes providing information on products and services that is clear, fair and not misleading. We also have controls in place to ensure our cross-border marketing complies with relevant regulatory requirements.

Product governance

Our product management policy covers the entire lifecycle of the product. This helps ensure that our products meet our requirements before we sell them and allows continued risk-based oversight of product performance against the intended customer outcomes.

When we decide to withdraw a product from sale, we aim to consider the implications for our existing customers and agree actions to help them achieve a fair outcome where appropriate.

Our approach with our suppliers

We maintain global standards and procedures for the onboarding and use of third-party suppliers. We require suppliers to meet our third-party risk compliance standards and we assess them to identify any financial stability concerns.

Sustainable procurement

Supporting and engaging with our supply chain is vital to the development of our sustainable procurement processes. In 2023:

- We published net zero guides to help buyers and suppliers understand our net zero ambitions. The guides explain our carbon reduction requirements and provide practical advice for meeting these ambitions, as laid out in our supplier code of conduct.
- We began developing decarbonisation plans for high-emitting procurement categories, including real estate services, telecommunications, data centres

and servers, and computer hardware. Engagement with suppliers has given us a better understanding of their decarbonisation efforts and the challenges and opportunities of achieving net zero in these categories. As a result, strategies for these procurement categories will include decarbonisation plans from 2024 onwards.

- We completed analysis to understand the impacts and dependencies of our supply chain on biodiversity. The analysis will inform the development of a biodiversity strategy for global procurement in 2024, to reduce supply chain biodiversity impacts.
- We launched the supplier diversity portal in the UK and US. The portal enables small and medium-sized enterprises or businesses, which are majority-owned, operated and controlled by historically underrepresented groups, to register interest in becoming an HSBC supplier. For further details, see www.hsbc.com/our-approach/risk-and-responsibility/working-with-suppliers.

Supplier code of conduct

Our supplier code of conduct sets out our ambitions, targets and commitments on the environment, diversity and human rights, and outlines the minimum standards we expect of our suppliers on these issues. We seek to formalise adherence to the code with clauses in our supplier contracts, which support the right to audit and act if a breach is discovered. At the end of 2023, 95% of approximately 10,400 contracted suppliers had either confirmed adherence to the supplier code of conduct or provided their own alternative that was accepted by our Global Procurement function.

For further details of the number of suppliers in each geographical region, see the ESG Data Pack at www.hsbc.com/esg.

Safeguarding data

Data privacy

We are committed to protecting and respecting the data we hold and process, in accordance with the laws and regulations of the markets in which we operate.

Our approach rests on having the right talent, technology, systems, controls, policies and processes to ensure appropriate management of privacy risk. Our Group-wide privacy policy and principles provide a consistent global approach to managing data privacy risk, and must be applied by all our global businesses and functions. Our privacy principles are available at www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/operational-risk.

We conduct regular employee training and awareness sessions on data privacy and security issues throughout the year. This includes mandatory training for all our colleagues globally, with additional training sessions, where needed, to keep up to date with new developments in this space.

We provide transparency to our customers and stakeholders on how we collect, use and manage their personal data, and their associated rights. Where relevant, we work with third parties to help ensure adequate protections are provided, in line with our data privacy policy and as required under data privacy law. We offer a broad range of channels in the markets where we operate, through which customers and stakeholders can raise concerns about the privacy of their data.

Our dedicated privacy teams report to the highest level of management on data privacy risks and issues, and oversee our global data privacy programmes. We review data privacy regularly at multiple governance forums, including at Board level, to help ensure appropriate challenge and visibility for senior executives. Data privacy laws and regulations continue to evolve globally. We continually monitor the regulatory environment to ensure we respond appropriately to any changes.

As part of our three lines of defence model, our Global Internal Audit function provides independent assurance as to whether our data privacy risk management approaches and processes are designed and operating effectively. In addition, we have established data privacy governance structures, and continue to embed accountability across all businesses and functions.

We continue to implement industry practices for data privacy and security. Our privacy teams work closely with our data protection officers, industry bodies and research institutions to drive the design, implementation and monitoring of privacy solutions. We conduct regular reviews and privacy risk assessments, and continue to develop solutions to strengthen our data privacy controls.

We continue to enhance our internal data privacy tools to improve accountability for data privacy. We have procedures to articulate the actions needed to deal with data privacy considerations. These include notifying regulators, customers or other data subjects, as required under applicable privacy laws and regulations, in the event of a reportable incident occurring.

Intellectual property rights practices

We have a group intellectual property risk policy, supported by controls and guidance, to manage risk relating to intellectual property. This is to help ensure that commercially and strategically valuable intellectual property is identified and protected appropriately, including by applying to register trademarks and patents and enforcing our intellectual property rights against unauthorised use by third parties. Our intellectual property framework also helps us avoid infringement of third-party intellectual property rights, supporting our consistent and effective management of intellectual property risk in line with our risk appetite.



Data Privacy Day

In January 2023, we held a hybrid roundtable event for our colleagues to mark International Data Privacy Day. The event was hosted by our Global Head of Data Legal, and guest speakers included the former UK Information Commissioner and industry specialists from an external law firm, with HSBC's own data privacy experts in attendance.

The event covered privacy-related developments likely to have the greatest impact across the Group. Key themes included upcoming data privacy reforms in the UK and the implications for global organisations, and trends in enforcement of data privacy laws and regulations. We also reviewed the impact, successes and challenges of General Data Protection Regulation ('GDPR') implementation globally.



The ethical use of data and AI

Artificial intelligence and other emerging technologies provide the opportunity to process and analyse data at a depth and breadth not previously possible. While these technologies offer significant potential benefits for our customers, they also pose potential ethical risks for the financial services industry and society as a whole. We have a set of principles to help ensure we consider and address the ethical issues that could arise. HSBC's Principles for the Ethical Use of Data and Artificial Intelligence are available at www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct.

We continue to develop and enhance our approach to, and oversight of, AI, taking into consideration the fast-evolving regulatory landscape, market developments and best practice.

Cybersecurity

The threat of cyber-attacks remains a concern for our organisation, as it does across the financial sector and other industries. As cyber-attacks continue to evolve, failure to protect our operations may result in the loss of sensitive data, disruption for our customers and our business, or financial loss. This could have a negative impact on our customers and our reputation, among other risks.

We continue to monitor ongoing geopolitical events and changes to the cyber threat landscape and take proactive measures with the aim to reduce any impact to our customers.

Prevent, detect and mitigate

We invest in business and technical controls to help prevent, detect and mitigate cyber threats. Our cybersecurity controls follow a 'defence in depth' approach, making use of multiple security layers, recognising the complexity of our environment. Our ability to detect and respond to attacks through round-the-clock security operations centre capabilities is intended to help reduce the impact of attacks.

We have a cyber intelligence and threat analysis team, which proactively collects and analyses internal and external cyber information to continuously evaluate threat levels for the most prevalent attack types and their potential outcomes. We actively participate in the broader cyber intelligence community, including by sharing technical expertise in investigations, alongside others in the financial services industry and government agencies around the world.

In 2023, we further strengthened our cyber defences and enhanced our cybersecurity capabilities with the objective to help reduce the likelihood and impact of unauthorised access, security vulnerabilities being exploited, data leakage, third-party security exposure, and advanced malware. These defences build upon a proactive data analytical approach to help identify advanced targeted threats and malicious behaviour.

We work with our third parties, including suppliers, financial infrastructure bodies and other non-traditional third parties, in an effort to help reduce the threat of cyber-attacks impacting our business services.

We have a third-party security risk management process in place to assess, identify and manage the risks associated with cybersecurity threats with supplier and other third-party relationships. The process includes risk-based cybersecurity due diligence reviews that assess third parties' cybersecurity programmes against our standards and requirements.

Policy and governance

We have a robust suite of cybersecurity policies, procedures and key controls designed to help ensure that the organisation is well managed, with effective oversight and control. This includes but is not limited to defined information security responsibilities for employees, contractors and third parties, as well as standard procedures for cyber incident identification, investigation, mitigation and reporting.

We operate a three lines of defence model, aligned to the enterprise risk management framework, to help ensure oversight and challenge of our cybersecurity capabilities and priorities. In the first line of defence, we have risk owners within global businesses and functions who are accountable for identifying and managing cyber risk. They work with cybersecurity control owners to apply the appropriate risk treatment in line with our risk appetite. Our controls are designed to be executed in line with our policies and are reviewed and challenged by our risk stewards representing the second line of defence. They are independently assured by the Global Internal Audit function, the third line of defence. The assessment and management of our cybersecurity risk is led and coordinated by a Global Chief Information Security Officer, who has extensive experience in financial services, security and resilience, as well as in strategy, governance, risk management and regulatory compliance. The Global Chief Information Security Officer is supported by regional and business level chief information security officers. In the event of incidents, the Global Chief Information Security Officer and relevant supporting officers are informed by our security operations team and are engaged in alignment with our cybersecurity incident response protocols.

Key performance indicators, control effectiveness and other matters related to cybersecurity, including significant cyber incidents, are presented on a regular basis to various management risk and control committees including to the Board, the Group Risk Management Meeting and across global businesses, functions and regions. This is done to ensure ongoing awareness and management of our cybersecurity position.

Our cybersecurity capabilities are regularly assessed against the National Institute of Standards and Technology framework by independent third parties, and we proactively collaborate with regulators to participate in regular testing activities. HSBC also engages external independent third parties to support our penetration and threat-led penetration testing, which help to identify vulnerabilities to cyber threats and test security resilience.

Cyber training and awareness

We understand the important role our people play in protecting against cybersecurity threats. Our aim is to equip every colleague with the appropriate tools and behaviours they need to keep our organisation and customers' data safe. We provide cybersecurity training and awareness to our people, ranging from our top executives to IT developers to front-line relationship managers around the world.

Over 94% of our IT developers hold at least one of our enhanced security certifications to help ensure we build secure systems and products.

We host an annual Cyber Awareness Month for all colleagues, covering topics such as online safety at home, social media safety, safe hybrid working, and cyber incidents and response. Our dedicated cybersecurity training and awareness team provides a wide range of education and guidance to both customers and our colleagues about how to identify and prevent online fraud.

Over 99%

Employees completed mandatory cybersecurity training on time.

Over 94%

IT developers hold at least one of our internal secure developer certifications.

Over 90

Cybersecurity education events were held globally.

Over 96%

Of survey respondents to cybersecurity education events said they have a better understanding of cybersecurity following these events.



Financial review

The financial review gives detailed reporting of our financial performance at Group level as well as across our different global businesses and legal entities.

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Financial summary

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Changes to presentation from 1 January 2023

Changes to our reporting framework

On 1 January 2023, we updated our financial reporting framework. We no longer report 'adjusted' results, which excluded the impact of both foreign currency translation differences and significant items. Instead, we compute constant currency performance by adjusting comparative reported results only for the effects of foreign currency translation differences between the relevant periods. This will enable users to understand the impact of foreign currency translation differences on the Group's performance. 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. While our primary segmental reporting by global business remains unchanged, effective from 1 January 2023, the Group changed the supplementary presentation of results from geographical regions to main legal entities to better reflect the Group's structure.

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. As required by IAS 1 'Presentation of Financial Statements' a third statement of financial position as at the transition date of 1 January 2022 has been disclosed (for further details, see page 358). Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised up front. Instead the measurement of the insurance contract liability takes into account fulfilment cash flows and a contractual service margin ('CSM') representing the unearned profit. In contrast to the Group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the expected coverage period. The CSM also includes directly attributable costs, which had previously been expensed as incurred and which are now incorporated within the insurance liability measurement and recognised over the expected coverage period.

In conjunction with the implementation of IFRS 17, the Group has made use of the option to re-designate to fair value through profit or loss assets that were previously held at amortised cost totalling \$55.1bn, and eligible assets previously held at fair value through other comprehensive income totalling \$1.1bn. The re-designation of amortised cost assets generated a net increase to assets of \$4.9bn because the fair value measurement on transition was higher than the previous amortised cost carrying amount.

The impact of the transition was a reduction of \$1.1bn on the Group's full-year 2022 reported revenue and a reduction of \$0.5bn on full-year 2022 reported profit before tax. The Group's total equity at 1 January 2022 reduced by \$10.5bn to \$196.3bn on the transition, and tangible equity reduced by \$2.4bn to \$146.9bn. For further details of our adoption of IFRS 17, see Note 38 'Effects of adoption of IFRS 17' on page 449.

Cost target

At our full-year 2022 results, we set a target for our 'adjusted' operating expenses of growth for 2023 compared with 2022. Under our new reporting framework we no longer present 'adjusted' results. The exception to this is for operating expenses, where our 'target basis' will adjust reported results for notable items and the period-on-period effects of foreign currency translation differences. We also exclude the impact of retranslating comparative period financial information at the latest rates of foreign exchange in hyperinflationary economies, which is not within our control. We consider that this measure provides useful information to investors by quantifying and excluding the items that management considered when setting and assessing cost-related targets. In our target basis, we also exclude the costs related to the acquisition of SVB UK and related investments internationally, which are expected to add approximately 1% to our cost growth compared with 2022.

Our 2022 baseline for operating expenses on this basis is \$29.8bn, which has been retranslated at the average rates of foreign exchange for 2023.

Resegmentation

In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our Global Banking customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly. Similar smaller transfers from GBM to CMB were also undertaken within our entities in Australia and Indonesia, where comparative data have not been re-presented.

Banking NII

At our interim 2023 results, we introduced banking net interest income. This alternative performance measure is reconciled on page 104, and deducts from Group reported net interest income: the impact of the cost of funding reported in net interest income used to fund trading and fair value net assets; the impact of foreign exchange swaps in Markets Treasury, where an offsetting income or loss is recorded in trading and fair value income, and third-party net interest income from our insurance business.

This resulting measure is intended to approximate the Group's banking revenue that is directly impacted by changes in interest rates.

Use of alternative performance measures

Our reported results are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IFRS Accounting Standards'), as detailed in the financial statements starting on page 356.

To measure our performance, we supplement our IFRS Accounting Standards figures with non-IFRS Accounting Standards measures, which constitute alternative performance measures under European Securities and Markets Authority guidance and non-GAAP financial measures defined in and presented in accordance with US Securities and Exchange Commission rules and regulations. These measures include those derived from our reported results that eliminate factors that distort year-on-year comparisons. The 'constant currency performance' measure used throughout this report is described below. Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 145. In addition, an insurance-specific non-GAAP measure 'Insurance equity plus CSM net of tax', is provided on pages 129 to 130, together with its definition and reconciliation to GAAP measures. All alternative performance measures are reconciled to the closest reported performance measure.

The global business segmental results are presented on a constant currency basis in accordance with IFRS 8 'Operating Segments' as detailed in Note 10 'Segmental analysis' on page 399.

Constant currency performance

Constant currency performance is computed by adjusting reported results for the effects of foreign currency translation differences, which distort year-on-year comparisons.

We consider constant currency performance to provide useful information for investors by aligning internal and external reporting, and reflecting how management assesses year-on-year performance.

Notable items

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 pages 125 to 126 and pages 138 to 143 detail the effects of notable items on each of our global business segments, legal entities and selected countries/territories in 2023, 2022 and 2021.

Foreign currency translation differences

Foreign currency translation differences reflect the movements of the US dollar against most major currencies during 2023.

We exclude them to derive constant currency data, allowing us to assess balance sheet and income statement performance on a like-for-like basis and to better understand the underlying trends in the business.

Foreign currency translation differences for 2023 are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for 2022 and 2021 at the average rates of exchange for 2023; and
- the balance sheets at 31 December 2022 and 31 December 2021 at the prevailing rates of exchange on 31 December 2023.

No adjustment has been made to the exchange rates used to translate foreign currency-denominated assets and liabilities into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates. The constant currency data of HSBC's Argentina subsidiaries have not been adjusted further for the impacts of hyperinflation. Since 1 June 2022, Türkiye has been deemed a hyperinflationary economy for accounting purposes. HSBC has an operating entity in Türkiye and the constant currency data have not been adjusted further for the impacts of hyperinflation.

When reference is made to foreign currency translation differences in tables or commentaries, comparative data reported in the functional currencies of HSBC's operations have been translated at the appropriate exchange rates applied in the current period on the basis described above.

Critical estimates and judgements

The results of HSBC reflect the choice of accounting policies, assumptions and estimates that underlie the preparation of HSBC's consolidated financial statements. The material accounting policies, including the policies which include critical estimates and judgements, are described in Note 1.2 on the financial statements. The accounting policies listed below are highlighted as they involve a high degree of uncertainty and have a material impact on the financial statements:

- Impairment of amortised cost financial assets and financial assets measured at fair value through other comprehensive income ('FVOCI'): The most significant judgements relate to defining what is considered to be a significant increase in credit risk, determining the lifetime and point of initial recognition of revolving facilities, selecting and calibrating the probability of default ('PD'), the loss given default ('LGD') and the exposure at default ('EAD') models, as well as selecting model inputs and economic forecasts, making assumptions and estimates to incorporate relevant information about late-breaking and past events, current conditions and forecasts of economic conditions, and selecting applicable

recovery strategies for certain wholesale credit-impaired loans. A high degree of uncertainty is involved in making estimations using assumptions that are highly subjective and very sensitive to the risk factors. See Note 1.2(i) on page 375.

- Deferred tax assets: The most significant judgements relate to those made in respect of recoverability, which are based on expected future profitability. See Note 1.2(l) on page 380.
- Valuation of financial instruments: In determining the fair value of financial instruments a variety of valuation techniques are used, some of which feature significant unobservable inputs and are subject to substantial uncertainty. See Note 1.2(c) on page 372.
- Impairment of investment in subsidiaries: Impairment testing, including testing for reversal of impairment, involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions. See Note 1.2(a) on page 370.
- Impairment of interests in associates: Impairment testing, including testing for reversal of impairment, involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions. The most significant judgements relate to the impairment testing of our investment in Bank of Communications Co., Limited ('BoCom'). See Note 1.2(a) on page 370.
- Impairment of goodwill and non-financial assets: A high degree of uncertainty is involved in estimating the future cash flows of the cash-generating units ('CGUs') and the rates used to discount these cash flows. See Note 1.2(a) on page 370 and Note 1.2(n) on page 380.
- Provisions: Significant judgement may be required due to the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. See Note 1.2(m) on page 380.
- Post-employment benefit plans: The calculation of the defined benefit pension obligation involves the determination of key assumptions including discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. See Note 1.2(k) on page 379.
- Non-current assets and disposal groups held for sale: Management judgement is required in determining the likelihood of the sale to occur, and the anticipated timing in assessing whether the held for sale criteria have been met. See Note 1.2(o) on page 381.

Given the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of the items above, it is possible that the outcomes in the next financial year could differ from the expectations on which management's estimates are based, resulting in the recognition and measurement of materially different amounts from those estimated by management in these financial statements.

Impact of hyperinflationary accounting

We continue to treat Argentina and Türkiye as hyperinflationary economies for accounting purposes. The impact of applying IAS 29 'Financial Reporting in Hyperinflationary Economies' and the hyperinflation provisions of IAS 21 'The Effects of Changes in Foreign Exchange Rates' in the current period for our operations in both Argentina and Türkiye was a decrease in the Group's profit before tax of \$1,297m (2022: \$548m), comprising a decrease in revenue, including loss on net monetary position, of \$1,586m (2022: \$541m) and a decrease in ECL and operating expenses of \$289m (2022: increase of \$7m). The CPI at 31 December for Argentina was 3,576, with an increase in the year of 2,429.13 (2022: 563.92 increase). The CPI for Türkiye was 1,859 with an increase in the year of 730.89 (2022: 359.94 increase).

Consolidated income statement

Summary consolidated income statement

	2023	2022 ¹	2021	2020	2019
	\$m	\$m	\$m	\$m	\$m
Net interest income	35,796	30,377	26,489	27,578	30,462
Net fee income	11,845	11,770	13,097	11,874	12,023
Net income from financial instruments held for trading or managed on a fair value basis	16,661	10,278	7,744	9,582	10,231
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	7,887	(13,831)	4,053	2,081	3,478
Net insurance premium income	—	—	10,870	10,093	10,636
Insurance finance (expense)/income	(7,809)	13,799	—	—	—
Insurance service result	1,078	809	—	—	—
Gain on acquisition ²	1,591	—	—	—	—
(Impairment)/reversal of impairment relating to the sale of our retail banking operations in France ³	150	(2,316)	—	—	—
Other operating (expense)/income ⁴	(1,141)	(266)	1,687	1,866	4,194
Total operating income	66,058	50,620	63,940	63,074	71,024
Net insurance claims and benefits paid and movement in liabilities to policyholders	—	—	(14,388)	(12,645)	(14,926)
Net operating income before change in expected credit losses and other credit impairment charges⁵	66,058	50,620	49,552	50,429	56,098
Change in expected credit losses and other credit impairment charges	(3,447)	(3,584)	928	(8,817)	(2,756)
Net operating income	62,611	47,036	50,480	41,612	53,342
Total operating expenses excluding impairment of goodwill and other intangible assets	(32,355)	(32,554)	(33,887)	(33,044)	(34,955)
Impairment of goodwill and other intangible assets	285	(147)	(733)	(1,388)	(7,394)
Operating profit	30,541	14,335	15,860	7,180	10,993
Share of profit in associates and joint ventures	2,807	2,723	3,046	1,597	2,354
Impairment of interest in associate	(3,000)	—	—	—	—
Profit before tax	30,348	17,058	18,906	8,777	13,347
Tax expense	(5,789)	(809)	(4,213)	(2,678)	(4,639)
Profit for the year	24,559	16,249	14,693	6,099	8,708
Attributable to:					
– ordinary shareholders of the parent company	22,432	14,346	12,607	3,898	5,969
– preference shareholders of the parent company	—	—	7	90	90
– other equity holders	1,101	1,213	1,303	1,241	1,324
– non-controlling interests	1,026	690	776	870	1,325
Profit for the year	24,559	16,249	14,693	6,099	8,708

Five-year financial information

	2023	2022 ¹	2021	2020	2019
	\$	\$	\$	\$	\$
Basic earnings per share	1.15	0.72	0.62	0.19	0.3
Diluted earnings per share	1.14	0.72	0.62	0.19	0.3
Dividends per ordinary share (paid in the period) ⁶	0.53	0.27	0.22	—	0.51
	%	%	%	%	%
Dividend payout ratio ⁷	50	44	40	79	100
Post-tax return on average total assets	0.8	0.5	0.5	0.2	0.3
Return on average ordinary shareholders' equity	13.6	9.0	7.1	2.3	3.6
Return on average tangible equity	14.6	10.0	8.3	3.1	8.4
Effective tax rate	19.1	4.7	22.3	30.5	34.8

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the years ended 31 December 2021, 2020 and 2019 are prepared on an IFRS 4 basis.

2 Provisional gain recognised in respect of the acquisition of SVB UK.

3 In the fourth quarter of 2023, an impairment loss of \$2.0bn was recognised relating to the sale of our retail banking operations in France. This largely offset the \$2.1bn recognised in the first quarter of 2023 on the reversal of the held for sale classification at that time. In 2023, a total net \$0.1bn of credit was recognised in other operating income, reflecting the net asset value disposed under the final terms of sale. The \$0.4bn impairment of goodwill recognised in the third quarter in 2022 has not been reversed.

4 Other operating (expense)/income includes a loss on net monetary positions of \$1,667m (2022: \$678m; 2021: \$576m) as a result of applying IAS 29 'Financial Reporting in Hyperinflationary Economies' and disposal losses on capitalised markets treasury repositioning of \$977m in 2023.

5 Net operating income before change in expected credit losses and other credit impairment charges also referred to as revenue.

6 Includes dividend paid during the period, which consisted of a second interim dividend of \$0.23 per ordinary share in respect of the financial year ended 31 December 2022 paid in April 2023 and the first, second and third interim dividends of \$0.30 per ordinary share in respect of the financial year ending 31 December 2023.

7 In 2023, our dividend payout ratio was adjusted for material notable items and related impacts. In 2022, our dividend payout ratio was adjusted for the loss on classification to held for sale of our retail banking business in France, items relating to the planned sale of our banking business in Canada, and the recognition of certain deferred tax assets. No items were adjusted for in 2021, 2020 or 2019.

Unless stated otherwise, all tables in the Form 20-F are presented on a reported basis.

For a summary of our financial performance in 2023, see page 27.

For further financial performance data for each global business and legal entity, see pages 124 to 127 and 135 to 145 respectively. The global business segmental results are presented on a constant currency basis in accordance with IFRS 8 'Operating Segments' as set out in Note 10: Segmental analysis on page 399.

Income statement commentary

The following commentary compares Group financial performance for the year ended 2023 with 2022, unless otherwise stated.

Net interest income

	Year ended			Quarter ended		
	31 Dec 2023 \$m	31 Dec 2022 ¹ \$m	31 Dec 2021 \$m	31 Dec 2023 \$m	30 Sep 2023 \$m	31 Dec 2022 ¹ \$m
Interest income	100,868	52,826	36,188	26,714	27,198	18,957
Interest expense	(65,072)	(22,449)	(9,699)	(18,430)	(17,950)	(9,971)
Net interest income	35,796	30,377	26,489	8,284	9,248	8,986
Average interest-earning assets	2,161,746	2,143,758	2,209,513	2,164,324	2,157,370	2,116,018
	%	%	%	%	%	%
Gross interest yield ²	4.67	2.46	1.64	4.90	5.00	3.55
Less: gross interest payable ²	(3.47)	(1.24)	(0.53)	(3.83)	(3.80)	(2.21)
Net interest spread ³	1.20	1.22	1.11	1.07	1.20	1.34
Net interest margin ⁴	1.66	1.42	1.20	1.52	1.70	1.68

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² Gross interest yield is the average annualised interest rate earned on average interest-earning assets ('AIEA'). Gross interest payable is the average annualised interest cost as a percentage of average interest-bearing liabilities.

³ 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.

⁴ Net interest margin is net interest income expressed as an annualised percentage of AIEA.

Summary of interest income by type of asset

	2023			2022 ¹			2021		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Short-term funds and loans and advances to banks	403,674	14,770	3.66	445,659	5,577	1.25	450,678	1,105	0.25
Loans and advances to customers	957,717	47,673	4.98	1,022,320	32,543	3.18	1,060,658	26,071	2.46
Reverse repurchase agreements – non-trading ²	240,263	14,391	5.99	231,058	4,886	2.11	206,246	1,019	0.49
Financial investments	407,363	16,858	4.14	372,702	7,704	2.07	438,840	6,729	1.53
Other interest-earning assets	152,729	7,176	4.70	72,019	2,116	2.94	53,091	1,264	2.38
Total interest-earning assets	2,161,746	100,868	4.67	2,143,758	52,826	2.46	2,209,513	36,188	1.64

Summary of interest expense by type of liability

	2023			2022 ¹			2021		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Deposits by banks ³	60,392	2,401	3.98	75,739	770	1.02	75,671	198	0.26
Customer accounts ⁴	1,334,803	34,162	2.56	1,342,342	10,903	0.81	1,362,580	4,099	0.30
Repurchase agreements – non-trading ²	146,605	10,858	7.41	118,308	3,085	2.61	114,201	363	0.32
Debt securities in issue – non-trading	184,867	11,223	6.07	179,775	5,607	3.12	193,137	3,603	1.87
Other interest-bearing liabilities	146,216	6,428	4.40	87,965	2,084	2.37	70,929	1,436	2.02
Total interest-bearing liabilities	1,872,883	65,072	3.47	1,804,129	22,449	1.24	1,816,518	9,699	0.53

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² The average balances for repurchase and reverse repurchase agreements include net amounts where the criteria for offsetting are met, resulting in a lower net balance reported for repurchase agreements and thus higher cost.

³ Including interest-bearing bank deposits only.

⁴ Including interest-bearing customer accounts only.

Net interest income ('NII') for 2023 was \$35.8bn, an increase of \$5.4bn or 18% compared with 2022. This reflected higher average interest rates across major currencies compared with 2022.

Excluding the unfavourable impact of foreign currency translation differences, net interest income increased by \$6.0bn or 20%.

NII for the fourth quarter of 2023 was \$8.3bn, down 10% compared with the previous quarter, and down 8% compared with the fourth quarter of 2022. The decrease was predominantly driven by the impact of higher funding costs across our liabilities, which included the impact of deposit migration in our main legal entities in Asia and Europe. In addition, the fourth quarter of 2023 included an adverse impact of \$0.2bn, relating to the first nine months of 2023, due to reclassifications to NII from 'net income from financial instruments

held for trading or managed on a fair value basis' related to hedges in Canada that will not recur given the expected sale of the business.

The impact of hyperinflation in Argentina on NII in 2023 was an adverse movement of \$0.5bn, with an associated impact on NIM of 2bps. The impact in the fourth quarter of 2023 was an adverse movement of \$0.5bn, with an associated impact on NIM of 9bps. This compared with minimal movements in the equivalent periods in 2022. The increase in hyperinflationary accounting impacts in 2023 was notably due to the impact of the devaluation of the Argentinian peso.

Net interest margin ('NIM') for 2023 of 1.66% was 24bps higher compared with 2022, as the rise in the yield on average interest-earning assets ('AIEA') of 220bps was partly offset by the rise in the funding costs of average interest-bearing liabilities of 196bps.

Financial summary

The increase in NIM in 2023 included the unfavourable impact of foreign currency translation differences. Excluding this, NIM increased by 27bps.

NIM for the fourth quarter of 2023 was 1.52%, down 18bps compared with the previous quarter, and down 16bps compared with the fourth quarter of 2022. The decreases were predominantly driven by a rise in funding costs of average interest-bearing liabilities, which included the impact of customer deposit migration in our main legal entities in Asia and Europe, as well as the Argentina hyperinflation impact as noted above, partly offset by an increase in the yield on AIEA.

Interest income for 2023 of \$100.9bn increased by \$48.0bn compared with 2022. Interest income of \$26.7bn in the fourth quarter of 2023 was down \$0.5bn compared with the previous quarter, and up \$7.8bn compared with the fourth quarter of 2022. The respective increases of \$48.0bn and \$7.8bn were predominantly driven by the impact of higher market interest rates. The decrease of \$0.5bn compared with the previous quarter was predominantly due to hyperinflation in Argentina.

Banking net interest income

	Year ended		Quarter ended		
	31 Dec 2023	31 Dec 2022	31 Dec 2023	30 Sep 2023	31 Dec 2022
	\$bn	\$bn	\$bn	\$bn	\$bn
Net interest income	35.8	30.4	8.3	9.2	9.0
Banking book funding costs used to generate 'net income from financial instruments held for trading or managed on a fair value basis'	8.7	2.5	2.5	2.4	1.3
Third-party net interest income from insurance	(0.4)	(0.4)	(0.1)	(0.1)	(0.1)
Banking net interest income	44.1	32.5	10.7	11.5	10.2

Banking net interest income is an alternative performance measure, and is defined as Group reported net interest income after deducting:

- the internal cost to fund trading and fair value net assets for which associated revenue is reported in 'Net income from financial instruments held for trading or managed on a fair value basis', also referred to as 'trading and fair value income'. These funding costs reflect proxy overnight or term interest rates as applied by internal funds transfer pricing;
- the funding costs of foreign exchange swaps in Markets Treasury, where an offsetting income or loss is recorded in trading and fair value income. These instruments are used to manage foreign currency deployment and funding in our entities; and
- third-party net interest income in our insurance business.

In our segmental disclosures, the funding costs of trading and fair value net assets are predominantly recorded in GBM in 'net income from financial instruments held for trading or managed on a fair value basis'. On consolidation, this funding is eliminated in Corporate Centre, resulting in an increase in the funding costs reported in net interest income with an equivalent offsetting increase in 'net income from financial instruments held for trading or managed on a fair value basis' in this segment. In the second quarter of 2023 we implemented a consistent reporting approach across our most material entities that contribute to our trading and fair value net assets, which resulted in an increase to the first half of 2023 associated funding costs reported through the intersegment elimination in Corporate Centre of approximately \$0.4bn, recognised in the second quarter of 2023. In the consolidated Group results, the cost to fund these trading and fair value net assets is reported in net interest income.

The internally allocated funding cost of \$8.7bn, which was incurred in 2023 to generate trading and fair value income, related to trading, fair value and associated net asset balances predominantly in GBM. At 31 December 2023, these stood at approximately \$164bn.

Net fee income of \$11.8bn was \$0.1bn higher than in 2022, and included an adverse impact from foreign currency translation differences of \$0.1bn. The rise in net fee income in CMB and WPB was partly offset by a reduction in GBM.

The change in interest income in 2023 compared with 2022 included an adverse impact of foreign currency translation differences of \$1.2bn. After excluding foreign currency translation differences, interest income increased by \$49.2bn.

Interest expense for 2023 of \$65.1bn increased by \$42.6bn compared with 2022. This reflected an increase in funding costs of 223bps, mainly due to the impact of higher interest rates on our liabilities including customer deposit migration, notably in Asia and Europe. Within interest expense was the effect of higher funding costs associated with supporting our trading and fair value activities, as explained below in banking net interest income.

The rise in interest expense included the favourable effects of foreign currency translation differences of \$0.6bn. Excluding this, interest expense increased by \$43.2bn.

Interest expense of \$18.4bn in the fourth quarter of 2023 was up \$0.5bn compared with the third quarter of 2023, and up \$8.5bn compared with the fourth quarter of 2022. The increase was predominantly driven by the impact of higher market interest rates, and the impact of deposit migration.

In CMB, net fee income increased by \$0.2bn driven by higher fees from credit facilities, notably in Europe and the UK due to an increase in trade products. Fee income also grew in account services, reflecting greater client activity in transaction banking, mainly in Global Payments Solutions ('GPS'), and in cards, as spending increased compared with 2022. These increases were partly offset by a reduction in fees from funds under management and broking activities.

In WPB, net fee income increased by \$0.1bn. The rise was mainly due to higher cards income, mainly in our legal entities in Hong Kong and in Mexico, as customer spending increased. However, income from broking fell, notably in Hong Kong, due to weaker equity markets and muted customer sentiment. The rise in cards activity resulted in higher fee expenses.

In GBM, net fee income decreased by \$0.2bn. This was driven by higher fee expense, notably in our main entities in Hong Kong, mainly relating to GBM products sold to customers in other global businesses. In Europe, fee expense grew in our private credit business, and we incurred higher interbank and clearing fee expense. There was a decrease in corporate finance fee income, reflecting lower client activity in Europe, and a fall in broking income due to lower equity turnover. Global custody income also fell. This was partly offset by an increase in underwriting income, from an increase in syndicated fees in Europe and a rise in fees in the US following historical lows in 2022.

Net income from financial instruments held for trading or managed on a fair value basis of \$16.7bn was \$6.4bn higher compared with 2022. This reflected a rise in income, primarily relating to trading activities in GBM, for which the associated funding costs are reported in net interest income, notably in our main legal entities in Hong Kong and Europe. The rise also included a favourable movement on non-qualifying hedges of \$0.5bn due to the non-recurrence of fair value losses in 2022. These increases were partly offset by an adverse fair value movement on foreign exchange hedges related to the planned sale of our banking business in Canada.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss of \$7.9bn compared with a net expense of \$13.8bn in 2022. This increase reflected favourable movements on debt

securities, due to movements in interest rates, and equities. The increases were notably in our portfolios in Hong Kong and France.

This favourable movement resulted in a corresponding movement in insurance finance expense, which has an offsetting impact for the related liabilities to policyholders.

Insurance finance expense of \$7.8bn compared with an income of \$13.8bn in 2022, reflecting the impact of investment returns on underlying assets on the value of liabilities to policyholders, which moves inversely with 'net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Insurance service result of \$1.1bn increased by \$0.3bn compared with 2022, primarily due to an increase in the release of the contractual service margin ('CSM'). This primarily reflected a higher CSM balance from higher new business written and favourable assumption updates, primarily from updates to lapse rate assumptions. The increase also reflected a reduction in losses from onerous contracts. Under IFRS 17, the measurement of the insurance contract liability takes into account fulfilment cash flows and a CSM representing the unearned profit. In contrast to the Group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the life of the contract. The CSM also includes attributable cost, which had previously been expensed as incurred and which is now incorporated within the insurance liability measurement and recognised over the life of the contract.

Gain on acquisition of \$1.6bn related to the provisional gain recognised in respect of the acquisition of Silicon Valley Bank UK Limited.

Impairment loss relating to the sale of the retail banking operations in France was a net impairment reversal of \$0.2bn in 2023, compared with an impairment of \$2.3bn in 2022.

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the disposal group was classified as held for sale on 30 September 2022, at which point the Group recognised the estimated impairment of \$2.3bn, which included impairment of

goodwill of \$0.4bn and related transaction costs. In the first quarter of 2023, \$2.1bn of this impairment loss was reversed as the sale became less certain. It was reinstated in the fourth quarter of 2023 as we reclassified these operations as held for sale and remeasured the disposal group at the lower of carrying value and fair value less costs to sell, resulting in a \$2.0bn impairment loss, reflecting the final terms of the sale. The sale completed on 1 January 2024.

Other operating expense of \$1.1bn was \$0.9bn higher than in 2022. The increase primarily related to losses in 2023 in Markets Treasury on asset disposals of \$1.0bn relating to repositioning and risk management activities in our hold-to-collect-and-sell portfolio in certain key legal entities. These actions are accretive to net interest income and reduce the consumption of the Group's financial resources.

The increased expense also included a loss of \$0.3bn in 2023 relating to corrections to historical valuation estimates in our life insurance business, and losses related to the disposal of our New Zealand retail mortgage loan portfolio and the merger of HSBC Bank Oman in 2023 with Sohar International. These were partly offset by losses in 2022 relating to the disposal of our branch operations in Greece and the planned disposal of our business in Russia.

Change in expected credit losses and other credit impairment charges ('ECL') were a charge of \$3.4bn, a decrease of \$0.1bn or 4% compared with 2022.

The charge in 2023 primarily comprised stage 3 net charges, notably related to mainland China commercial real estate sector exposures. ECL charges in this sector were \$1.0bn in 2023. The charge in 2023 also reflected the impact of continued economic uncertainty, rising interest rates and inflationary pressures. The charge in 2022 of \$3.6bn included charges related to mainland China commercial real estate exposures of \$1.3bn.

For further details on the calculation of ECL, including the measurement uncertainties and significant judgements applied to such calculations, the impact of the economic scenarios and management judgemental adjustments, see pages 192 to 204.

Operating expenses

	Year ended		
	2023	2022 ¹	2021
	\$m	\$m	\$m
Gross employee compensation and benefits	19,623	19,288	19,612
Capitalised wages and salaries	(1,403)	(1,285)	(870)
Goodwill impairment	—	—	587
Property and equipment	4,285	4,949	5,145
Amortisation and impairment of intangibles	1,827	1,701	1,438
UK bank levy	339	13	116
Legal proceedings and regulatory matters	188	246	106
Other operating expenses ²	7,211	7,789	8,486
Reported operating expenses	32,070	32,701	34,620
Currency translation	—	(399)	(2,376)
Constant currency operating expenses	32,070	32,302	32,244

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² Other operating expenses includes professional fees, contractor costs, transaction taxes, marketing and travel. The decrease was driven by favourable currency translation differences and lower restructuring and other related costs following the completion of our cost-saving programme at the end of 2022.

Staff numbers (full-time equivalents)¹

	2023	2022	2021
Global businesses			
Wealth and Personal Banking	128,399	128,764	130,185
Commercial Banking	45,884	43,640	42,969
Global Banking and Markets	46,241	46,435	46,166
Corporate Centre	337	360	377
At 31 Dec	220,861	219,199	219,697

¹ Represents the number of full-time equivalent people with contracts of service with the Group who are being paid at the reporting date.

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Operating expenses of \$32.1bn were \$0.6bn or 2% lower than in 2022, including a favourable impact of \$0.4bn from foreign currency translation differences.

This was driven by lower restructuring and other related costs following the completion of our cost to achieve programme, which concluded at the end of 2022, as well as a \$0.2bn reduction due to a reversal of historical asset impairments, and the effects of our continued cost discipline. There was also a favourable impact of \$0.2bn due to the impact of hyperinflationary accounting in Argentina in 2023.

These reductions were partly offset by an increase in technology costs, the impacts of inflation, a higher performance-related pay accrual and severance payments. In addition, the UK bank levy increased by \$0.3bn, which included adjustments related to prior years, and we incurred a \$0.2bn charge in the US relating to the FDIC special assessment.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2023 was 220,861, an increase of 1,662 compared with 31 December 2022. The number of contractors at 31 December 2023 was 4,676, a decrease of 1,371.

Share of profit in associates and joint ventures of \$2.8bn was \$0.1bn or 3% higher than in 2022, reflecting an increase in the share of profit from Saudi Awwal Bank ('SAB').

Impairment of interest in associate of \$3.0bn related to our investment in BoCom.

We maintain a 19.03% interest in BoCom. Since our investment in 2004, BoCom has grown its business significantly to the extent that it has recently been designated as a global systemically important bank ('GSIB').

For accounting purposes, the balance sheet carrying value attributed to BoCom represents our share of its net assets. We perform quarterly impairment tests incorporating a value-in-use calculation, recognising the gap between this carrying value and the fair value (based on the list share price). We have previously disclosed that the excess of the value-in-use calculation over its carrying value has been marginal in recent years, and that reasonably possible changes in assumptions could generate an impairment.

Recent macroeconomic, policy and industry factors resulted in a wider range of reasonably possible value-in-use outcomes for our BoCom valuation. At 31 December 2023, the Group performed an impairment test on the carrying value which resulted in an impairment of \$3.0bn, as the recoverable amount as determined by a value-in-use calculation was lower than the carrying value. Our value-in-use calculation uses both historical experience and market participant views to estimate future cash flows, relevant discount rates and associated capital assumptions.

This impairment will have no material impact on HSBC's capital, capital ratios or distribution capacity, and therefore no impact on dividends or share buy-backs. The insignificant impact on HSBC's capital and CET1 ratio is due to the compensating release of regulatory capital deductions to offset the impairment charge.

We remain strategically committed to mainland China as demonstrated by our recent announcements to acquire Citi's retail wealth management portfolio and the investments made into mainland China in recent years. BoCom remains a strong partner in China, and we remain focused on maximising the mutual value of our partnership. Our positive views on the medium- and long-term structural growth opportunities in mainland China are unchanged.

For further details, see Note 18: Interests in associates and joint ventures on page 418.

Tax expense

	Year ended	
	2023	2022
	\$m	\$m
Tax (charge)/credit		
Reported	(5,789)	(809)
Currency translation	—	160
Constant currency tax (charge)/credit	(5,789)	(649)

Notable items

	Year ended	
	2023	2022
	\$m	\$m
Tax		
Tax (charge)/credit on notable items	207	1,026
Recognition of losses	—	2,333
Uncertain tax positions	427	(142)

Tax expense

The effective tax rate for 2023 of 19.1% was higher than the 4.7% in 2022. The effective tax rate for 2023 was increased by 2.3 percentage points by the non-deductible impairment of investments in associates, and reduced by 1.6 percentage points by the release of provisions for uncertain tax positions and reduced by 1.5 percentage points by the non-taxable accounting gain on the acquisition of SVB UK. The effective tax rate for 2022 was reduced by 12.8 percentage points by the recognition of a deferred tax asset on historical tax losses of HSBC Holdings as a result of improved profit forecasts for the UK tax group. Excluding these items, the effective tax rates were 19.9% for 2023 and 17.5% for 2022.

Return on average tangible equity

In 2023, RoTE was 14.6%, compared with 10.0% in 2022. Excluding the impact of strategic transactions and the impairment of BoCom, RoTE was 15.6%.

Supplementary table for planned disposals

The income statements and selected balance sheet metrics for the year ended 31 December 2023 of our banking business in Canada and our retail banking operations in France are shown below.

The asset and liability balances relating to these planned disposals are reported on the Group balance sheet within 'Assets held for sale' and 'Liabilities of disposal groups held for sale', respectively, as at 31 December 2023.

Income statement and selected balance sheet metrics of disposal groups held for sale

	Year ended 2023	
	Canada ¹	France retail ²
	\$bn	\$bn
Revenue	2.0	0.3
ECL	—	—
Operating expenses	(1.0)	(0.6)
<i>of which: costs expected to be exited</i>	<i>(0.7)</i>	<i>(0.4)</i>
Profit before tax	0.9	(0.2)
Loans and advances to customers	56.1	16.9
Customer accounts	63.0	22.3
RWA ³	31.9	4.1

- ¹ Under the terms of the sale agreement, the pre-tax profit on sale will be recognised through a combination of the consolidation of HSBC Canada's results into the Group's financial statements from 30 June 2022 until completion, and the remaining gain on sale recognised at completion.
- ² France retail includes the transferring of the retail banking business, HSBC SFH and associated supporting services. For further details, see Note 23: Assets held for sale and liabilities of disposal groups held for sale on page 428.
- ³ Includes \$3.5bn in Canada in respect of operational risk RWAs, and \$0.6bn associated with our retail banking business in France.

2022 compared with 2021

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Comparative data for 2021 has not been restated.

Net interest income ('NII') for 2022 was \$30.4bn, an increase of \$3.9bn or 15% compared with 2021. The 2022 figure has been restated to reflect the impact of the adoption of IFRS 17 'Insurance contracts' on 1 January 2023, which resulted in a reduction in net interest income of \$2.2bn.

The increase in NII reflected the benefit of rising global interest rates, while actively managing our pricing strategy and funding requirements, with growth in all regions, notably in Asia and the UK.

NII for the fourth quarter of \$9.0bn, which included an adverse impact from the IFRS 17 restatement of \$0.6bn, was \$2.2bn of 33% higher than in the fourth quarter of 2021. The increase was driven by higher interest rates and management of our funding costs, with growth in all legal entities, notably in Asia and the UK.

Net interest margin ('NIM') for 2022 of 1.42% included an adverse impact of the IFRS 17 restatement of 6bps. The remaining increase of 28 basis points ('bps'), was due to an increase in the gross yield on AIEA due to the rising interest rate environment. This was partly offset by a rise in the funding cost of average interest-bearing liabilities.

NIM for the fourth quarter of 2022 was 1.68%, up 49bps year on year, which included an adverse impact of 6bps due to the IFRS 17 restatement. The increase was driven by the impact of higher market interest rates.

Interest income for 2022 of \$52.8bn, which included an adverse impact of \$2.3bn from the IFRS 17 restatement, increased by \$16.6bn or 46%. This was primarily due to higher average interest rates compared with 2021, as the yield on AIEA rose, mainly driven by loans and advances to customers, short-term funds, loans and advances to banks, and reverse repurchase agreements. However, mortgage yields rose more modestly due to competitive pressures and market factors in the UK and Hong Kong.

Interest income of \$19.0bn in the fourth quarter, which included an adverse impact of \$0.6bn from the IFRS 17 restatement, was up \$9.7bn compared with the fourth quarter of 2021. The increase was driven by the impact of higher interest rates, resulting in improved yields on loans and advances to customers and reverse repurchase agreements.

Interest expense for 2022 of \$22.4bn increased by \$12.8bn compared with 2021. This reflected the increase in funding cost of 71bps, mainly arising from higher interest rates paid on interest-bearing customer accounts, repurchase agreements and debt securities in issue.

Included within net interest income in 2022 was a \$2.5bn interest expense representing a component of centrally allocated funding costs associated with generating 'net income from financial instruments held for trading or managed on a fair value basis'. This compared with an interest expense of \$0.4bn in 2021.

Interest expense of \$10.0bn in the fourth quarter of 2022 was up \$7.5bn year on year, and up \$3.9bn compared with the previous quarter. The steep rise in interest expense was mainly driven by higher funding cost on customer accounts as interest rates increased, particularly in Asia and Europe.

Net fee income of \$11.8bn was \$1.3bn lower than in 2021, and included an adverse impact from foreign currency translation differences of \$0.6bn. Net fee income fell in WPB and GBM, although it increased in CMB.

In WPB, reported net fee income decreased by \$0.6bn. The reduction was mainly in Wealth, as adverse market sentiment resulted in lower customer demand, mainly in Hong Kong. Fee income fell due to lower sales of unit trusts and from subdued customer demand in funds under management, as well as from lower broking income. Cards income grew as spending increased compared with 2021. This also resulted in higher fee expense.

In GBM, reported net fee income decreased by \$0.9bn. This was driven by lower fee income from underwriting, in line with the reduction in the global fee pool. Fee income also decreased in credit facilities and in corporate finance, reflecting subdued client demand.

In CMB, reported net fee income increased by \$0.1bn. Fee income grew in cards, as spending increased compared with 2021, and in account services, reflecting greater client activity in transaction banking, notably Global Payments Solutions ('GPS').

Net income from financial instruments held for trading or managed on a fair value basis of \$10.3bn was \$2.5bn higher compared with 2021. This primarily reflected a strong trading performance in Global Foreign Exchange due to increased client activity, driven by elevated levels of market volatility. This was partly offset by adverse fair value movements on non-qualifying hedges of \$0.5bn

Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss of \$13.8bn compared with a net income of \$4.1bn in 2021. This reduction included a \$10.4bn impact on the transition to IFRS 17 following the re-designation of financial assets supporting policyholder liabilities to fair value through profit or loss classification. Under IFRS 17, the offsetting increase in the carrying value of insurance contracts is reported within the 'insurance finance income/(expense)' line described below.

The remaining reduction reflected unfavourable equity market performances in Hong Kong and France. This compared with 2021, which benefited from favourable equity markets.

On the implementation of IFRS 17, new income statement lines associated with insurance accounting were introduced. Consequently, the previously reported IFRS 4 line items '**Net insurance premium income**' and '**Net insurance claims and benefits paid and movement in liabilities to policyholders**' were removed.

Insurance finance income of \$13.8bn represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For variable fee approach contracts, which represent more than 90% of HSBC's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Insurance service result of \$0.8bn mainly relates to the release of the contractual service margin ('CSM'), which comprises the insurance service income associated with insurance contracts held during the period.

Impairment losses related to the planned sale of our retail banking operations in France was \$2.3bn. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the disposal group was classified as held for sale on 30 September 2022, at which point the Group recognised the estimated impairment of \$2.3bn, which included impairment of goodwill of \$0.4bn and related transaction costs.

Other operating income was an expense of \$0.3bn compared with an income of \$1.7bn in 2021. The reduction reflected lower revaluation gains of \$0.6bn in our Principal Investments business in GBM, losses of \$0.4bn related to the planned sales of our branch operations in Greece and our business in Russia in 2022, as well as the non-recurrence of a prior year gain on the sale of a property in Germany. In addition, there were also lower gains on the disposal of debt securities in Market Treasury. These reductions were partly

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offset by a gain of \$0.1bn on the completion of our acquisition of AXA Singapore.

Following the implementation of IFRS 17, we no longer recognise a PVIF asset and the associated revenue is no longer reported, including the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances. PVIF gains of \$0.1bn were recognised in 2021 with no equivalent amount reported in 2022, as PVIF is no longer recognised following the transition to IFRS 17.

Changes in expected credit losses and other credit impairment charges ('ECL') were a charge of \$3.6bn, compared with a net release of \$0.9bn in 2021.

The charges in 2022 reflected stage 3 charges of \$2.2bn, in part relating to exposures to the commercial real estate sector in mainland China. We also recognised stage 1 and stage 2 charges in all global businesses, reflecting a deterioration in the macroeconomic environment, with many markets experiencing increased interest rates, continued inflation, supply chain risks and heightened recessionary risks. These economic conditions also contributed to the increase in stage 3 charges, mainly in CMB and GBM. These increases were in part mitigated by the release of most of our remaining Covid-19-related allowances.

The charge in 2022 compared with a net release in 2021, primarily relating to Covid-19-related allowances previously built up in 2020.

For further details on the calculation of ECL, including the measurement uncertainties and significant judgements applied to such calculations, the impact of alternative/additional scenarios and management judgemental adjustments, see pages 185 to 194 of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Operating expenses of \$32.7bn were \$1.9bn or 6% lower than in 2021, primarily as foreign currency translation differences resulted in a favourable impact of \$2.0bn, and due to the non-recurrence of a 2021 goodwill impairment of \$0.6bn related to our WPB business in Latin America.

Reported operating expenses also reflected the impact of ongoing cost discipline across the Group. This helped mitigate growth from increased investment in technology of \$0.5bn, which included investments in our digital capabilities, the impact of business volume growth, and inflation. Restructuring and other related costs increased by \$1.0bn.

In 2022, cost to achieve spend, included within restructuring and other related costs, was \$2.9bn. This three-year programme ended on 31 December 2022 with a total spend of \$6.5bn and cumulative gross saves realised of \$5.6bn.

The number of employees expressed in full-time equivalent staff ('FTE') at 31 December 2022 was 219,199, a decrease of 498 compared with 31 December 2021. The number of contractors at 31 December 2022 was 6,047, a decrease of 145 compared with 31 December 2021.

Share of profit in associates and joint ventures of \$2.7bn was \$0.3bn lower, primarily as 2021 included a higher share of profit from Business Growth Fund in the UK due to the recovery in asset valuations. This was partly offset by an increase in the share of profit from Saudi Awwal Bank ('SAB').

In relation to Bank of Communications Co., Limited ('BoCom'), we continued to be subject to a risk of impairment in the carrying value of our investment. We performed an impairment test on the carrying amount of our investment and confirmed there was no impairment at 31 December 2022.

For more information on the key assumptions in our VIU calculation, including the sensitivity of the VIU to each key assumption, see Note 18 on the financial statements of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Tax expense The effective tax rate for 2022 of 4.7% was lower than the 22.3% in 2021. Tax in 2022 included a \$2.2bn credit arising from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings, which was recognised as a significant item (from 1 January 2023, termed a notable item). This was a result of improved profit forecasts for the UK tax group, which accelerated the expected utilisation of these losses and reduced uncertainty regarding their recoverability. We also benefited from other deferred tax asset reassessments during 2022. Excluding these, the effective tax rate for 2022 was 19.2%, which was 3.1 percentage points lower than in 2021. The effective tax rate for 2022 was also decreased by the remeasurement of deferred tax balances following the substantive enactment in the first quarter of 2022 of legislation to reduce the rate of the UK banking surcharge from 8% to 3% from 1 April 2023.

Further details are provided in Note 7 on the financial statements of the HSBC Holdings plc 20-F for the year ended 31 December 2022.

Consolidated balance sheet

Five-year summary consolidated balance sheet

	2023	2022 ¹	2021	2020	2019
	\$m	\$m	\$m	\$m	\$m
Assets					
Cash and balances at central banks	285,868	327,002	403,018	304,481	154,099
Trading assets	289,159	218,093	248,842	231,990	254,271
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	110,643	100,101	49,804	45,553	43,627
Derivatives	229,714	284,159	196,882	307,726	242,995
Loans and advances to banks	112,902	104,475	83,136	81,616	69,203
Loans and advances to customers	938,535	923,561	1,045,814	1,037,987	1,036,743
Reverse repurchase agreements – non-trading	252,217	253,754	241,648	230,628	240,862
Financial investments	442,763	364,726	446,274	490,693	443,312
Assets held for sale	114,134	115,919	3,411	299	123
Other assets	262,742	257,496	239,110	253,191	229,917
Total assets at 31 Dec	3,038,677	2,949,286	2,957,939	2,984,164	2,715,152
Liabilities					
Deposits by banks	73,163	66,722	101,152	82,080	59,022
Customer accounts	1,611,647	1,570,303	1,710,574	1,642,780	1,439,115
Repurchase agreements – non-trading	172,100	127,747	126,670	111,901	140,344
Trading liabilities	73,150	72,353	84,904	75,266	83,170
Financial liabilities designated at fair value	141,426	127,321	145,502	157,439	164,466
Derivatives	234,772	285,762	191,064	303,001	239,497
Debt securities in issue	93,917	78,149	78,557	95,492	104,555
Insurance contract liabilities	120,851	108,816	112,745	107,191	97,439
Liabilities of disposal groups held for sale	108,406	114,597	9,005	—	—
Other liabilities	216,635	212,319	190,989	204,019	194,876
Total liabilities at 31 Dec	2,846,067	2,764,089	2,751,162	2,779,169	2,522,484
Equity					
Total shareholders' equity	185,329	177,833	198,250	196,443	183,955
Non-controlling interests	7,281	7,364	8,527	8,552	8,713
Total equity at 31 Dec	192,610	185,197	206,777	204,995	192,668
Total liabilities and equity at 31 Dec	3,038,677	2,949,286	2,957,939	2,984,164	2,715,152

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

A more detailed consolidated balance sheet is contained in the financial statements on page 358.

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Five-year selected financial information

	2023 \$m	2022 ¹ \$m	2021 \$m	2020 \$m	2019 \$m
Called up share capital	9,631	10,147	10,316	10,347	10,319
Capital resources ²	171,204	162,423	177,786	184,423	172,150
Undated subordinated loan capital	18	1,967	1,968	1,970	1,968
Preferred securities and dated subordinated loan capital ³	36,413	29,921	28,568	30,721	33,063
Risk-weighted assets	854,114	839,720	838,263	857,520	843,395
Total shareholders' equity	185,329	177,833	198,250	196,443	183,955
Less: preference shares and other equity instruments	(17,719)	(19,746)	(22,414)	(22,414)	(22,276)
Total ordinary shareholders' equity	167,610	158,087	175,836	174,029	161,679
Less: goodwill and intangible assets (net of tax)	(11,900)	(11,160)	(17,643)	(17,606)	(17,535)
Tangible ordinary shareholders' equity	155,710	146,927	158,193	156,423	144,144
Financial statistics					
Loans and advances to customers as a percentage of customer accounts	58.2%	58.8%	61.1%	63.2%	72.0%
Average total shareholders' equity to average total assets	6.01%	5.97%	6.62%	6.46%	6.97%
Net asset value per ordinary share at year-end (\$) ⁴	8.82	8.01	8.76	8.62	8.00
Tangible net asset value per ordinary share at year-end (\$) ⁵	8.19	7.44	7.88	7.75	7.13
Tangible net asset value per fully diluted share at year-end (\$)	8.14	7.39	7.84	7.72	7.11
Number of \$0.50 ordinary shares in issue (millions)	19,263	20,294	20,632	20,694	20,639
Basic number of \$0.50 ordinary shares outstanding (millions)	19,006	19,739	20,073	20,184	20,206
Basic number of \$0.50 ordinary shares outstanding and dilutive potential ordinary shares (millions)	19,135	19,876	20,189	20,272	20,280
Closing foreign exchange translation rates to \$:					
\$1: £	0.784	0.830	0.739	0.732	0.756
\$1: €	0.903	0.937	0.880	0.816	0.890

- From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.
- Capital resources are regulatory total capital, the calculation of which is set out on page 242.
- Including perpetual preferred securities, details of which can be found in Note 29: Subordinated liabilities on page 433.
- The definition of net asset value per ordinary share is total shareholders' equity, less non-cumulative preference shares and capital securities, divided by the number of ordinary shares in issue, excluding own shares held by the company, including those purchased and held in treasury.
- The definition of tangible net asset value per ordinary share is total ordinary shareholders' equity excluding goodwill, PVIF (for 2021, 2020 and 2019) and other intangible assets (net of deferred tax), divided by the number of basic ordinary shares in issue, excluding own shares held by the company, including those purchased and held in treasury.

Combined view of customer lending and customer deposits

	2023 \$m	2022 \$m
Loans and advances to customers	938,535	923,561
– of which: HSBC Innovation Bank Limited (formerly SVB UK)	7,955	—
Loans and advances to customers of disposal groups reported in 'Assets held for sale'	73,285	80,576
– banking business in Canada	56,129	55,197
– retail banking operations in France	16,902	25,029
– other	254	350
Non-current assets held for sale	92	112
Combined customer lending	1,011,912	1,004,249
Currency translation	—	20,454
Combined customer lending at constant currency	1,011,912	1,024,703
Customer accounts	1,611,647	1,570,303
– of which: HSBC Innovation Bank Limited (formerly SVB UK)	6,019	—
Customer accounts reported in 'Liabilities of disposal groups held for sale'	85,950	85,274
– banking business in Canada	63,001	60,606
– retail banking operations in France	22,307	22,348
– other	642	2,320
Combined customer deposits	1,697,597	1,655,577
Currency translation	—	30,773
Combined customer deposits at constant currency	1,697,597	1,686,350

Balance sheet commentary compared with 31 December 2022

At 31 December 2023, total assets of \$3.0tn were \$89bn or 3% higher on a reported basis and increased by \$31bn or 1% on a constant currency basis.

Reported loans and advances to customers as a percentage of customer accounts was 58.2% compared with 58.8% at 31 December 2022. The movement in this ratio reflected a higher growth in customer accounts than in lending.

Assets

Cash and balances at central banks decreased by \$41bn or 13%, which included a \$13bn favourable impact of foreign currency translation differences. The decrease was mainly in HSBC UK, reflecting a reduction in customer accounts and repurchase agreements, as well as an increase in the deployment of our cash surplus into financial investments. Cash fell in HSBC Bank plc as our European branches managed liquidity requirements and due to the completion of the sale of our retail banking operations in France. Cash also decreased in the UK as we deployed our commercial surplus into reverse repurchase agreements and financial investments.

Trading assets increased by \$71bn or 33%, mainly as we captured increased client activity in equity and debt securities, particularly in Hong Kong and HSBC Bank plc. The increase in trading assets also reflected the use of surplus liquidity to fund trading activities given the subdued demand for customer lending.

Derivative assets decreased by \$54bn or 19%, mainly in Europe, reflecting adverse revaluation movements on interest rate contracts due to a stabilisation and downward shift in long-term yield curve rates in most major markets. Foreign exchange contracts also fell, primarily in HSBC Bank plc, as a result of reduced volatility in foreign exchange rate movements in 2023. The decrease in derivative assets was consistent with the decrease in derivative liabilities, as the underlying risk is broadly matched.

Loans and advances to customers of \$939bn increased by \$15bn or 2% on a reported basis. This included a favourable impact of foreign currency translation differences of \$18bn.

On a constant currency basis, loans and advances to customers fell by \$3bn, reflecting the following movements.

In WPB, customer lending increased by \$21bn, reflecting growth in mortgage balances, notably in our main legal entities in Hong Kong (up \$6bn), the UK (up \$5bn), Mexico (up \$1bn) and Australia (up \$1bn). There was an increase of \$7.8bn in secured lending in our main entity in Europe following the reclassification of a portfolio of home loans previously classified as assets held for sale, relating to the sale of our retail banking operations in France. The increase also included growth of \$3bn in credit card balances, mainly in our entities in Hong Kong, the UK and Mexico. These increases were partly offset by reductions due to business divestments in Oman and New Zealand.

In GBM, lending fell by \$16bn due to a reduction in term lending, primarily in our main legal entities in Hong Kong, including a reduction in the commercial real estate sector, and in Europe, reflecting muted client demand. Lending also fell by \$1bn due to the merger of our operations in Oman with Sohar International. In addition there was a transfer of GBM customers to CMB in Australia and Indonesia, resulting in a \$3bn reduction.

In CMB, customer lending was \$7bn lower, mainly in our main legal entities in Hong Kong, including in the commercial real estate sector, and in the US, as well as in HSBC Bank plc, reflecting weaker client demand in a higher interest rate environment. Lending also fell by \$1bn due to the sale of our business in Oman. In HSBC UK, lending grew by \$4bn, as an increase from the acquisition of SVB UK of \$8bn partly mitigated reductions from clients repaying their facilities. The transfer of customers to CMB from GBM in Australia and Indonesia, referred to above, led to an increase of \$3bn.

Financial investments increased by \$78bn or 21%, mainly in Asia and Europe from the purchase of debt securities, treasury and other eligible bills, as we redeployed our commercial surplus to benefit from higher yield curves and enhance our hedging activities on net interest income. The increase was across both debt instruments held at fair value through other comprehensive income and instruments held at amortised cost.

Assets held for sale of \$114bn primarily comprised the assets relating to the sale of our retail banking operations in France and the planned sale of our banking business in Canada. This balance was broadly stable compared with 2022, as a decrease of \$8bn relating to the transfer to loans and advances to customers of a portfolio of secured home loans in France was largely offset by a transfer of cash into assets held for sale, related to the completion of the sale of our retail banking operations there.

Liabilities

Customer accounts of \$1.6tn increased by \$41bn or 3% on a reported basis. This included a favourable impact of foreign currency translation differences of \$28bn.

On a constant currency basis, customer accounts increased by \$13bn, reflecting the following movements.

In WPB, customer accounts grew by \$12bn, reflecting higher interest-bearing term and money market deposit balances, as interest rates rose, primarily in our main legal entity in Asia, notably Hong Kong (up \$10bn, or 3%), Singapore (up \$5bn, or 15%), Australia (up \$3bn, or 19%), mainland China (up \$3bn, or 19%) and Taiwan (up \$2bn, or 34%). However, customer accounts fell by \$14bn in HSBC UK, reflecting cost of living and competitive pressures. There was also a reduction due to the sale of our business in Oman.

In CMB, customer accounts increased by \$3bn. The growth included an increase of \$6bn related to our acquisition of SVB UK, as well as increases in our entities in Asia, excluding Hong Kong, and in continental Europe, mainly in term and money market deposits. In addition, a transfer of customers from GBM to CMB in Australia and Indonesia resulted in a rise of \$4bn. These increases mitigated

reductions in our main entities in Hong Kong and the UK and a reduction of \$2bn due to the sale of our business in Oman.

In GBM, customer accounts were marginally lower, falling \$2bn. Balances fell in Hong Kong and the UK, although there was growth in continental Europe and Singapore. Balances fell by \$1bn following the sale of our business in Oman, and by \$4bn due to the transfer of customers from GBM to CMB in Australia and Indonesia.

Repurchase agreements – non-trading increased by \$44bn or 35%, notably in HSBC Bank plc, reflecting higher client demand, and in our main entity in Asia due to a higher requirement for short-term funding.

Derivative liabilities decreased by \$51bn or 18%, which is consistent with the reduction in derivative assets, since the underlying risk is broadly matched.

Debt securities in issue increased by \$16bn or 20%, due to a net increase in debt issuances.

Liabilities of disposal groups held for sale of \$108bn primarily comprised the liabilities relating to the sale of our retail banking operations in France and the planned sale of our banking business in Canada.

Equity

Total shareholders' equity, including non-controlling interests, increased by \$7bn or 4% compared with 31 December 2022.

Shareholders' equity was increased by profits generated of \$25bn and net gains through other comprehensive income ('OCI') of \$5bn. These increases were partly offset by the impact of dividends paid of \$12bn, the redemption of perpetual subordinated contingent convertible capital securities of \$4bn and the impact of our \$7bn share buy-back activities in 2023.

The net gains through OCI of \$5bn included favourable movements of \$3bn on financial instruments designated as hold-to-collect-and-sell, which are held as hedges to our exposure to interest rate movements. The favourable movement was a result of the fall in long-term market yield curves in 2023. The net gain also included a favourable movement on cash flow hedges of \$3bn and from the effects of hyperinflation of \$2bn. These gains were partly offset by fair value losses on liabilities related to changes in own credit risk of \$1bn, as well as other smaller losses.

Financial investments

As part of our interest rate hedging strategy, we hold a portfolio of debt instruments, reported within financial investments, which are classified as hold-to-collect-and-sell. As a result, the change in value of these instruments is recognised through 'debt instruments at fair value through other comprehensive income' in equity.

At 31 December 2023, we recognised a pre-tax cumulative unrealised loss reserve through other comprehensive income of \$3.9bn related to these hold-to-collect-and-sell positions. This reflected a \$2.6bn pre-tax gain in 2023, inclusive of movements on related fair value hedges. The gain in 2023 included a reduction in unrealised losses due to the disposal of securities as part of repositioning actions taken in this portfolio of \$1.0bn. Overall, the Group is positively exposed to rising interest rates through net interest income, although there is an adverse impact on our capital base in the early stages of a rising interest rate environment due to the fair value of hold-to-collect-and-sell instruments.

Over time, these adverse movements will unwind as the instruments reach maturity, although not all will necessarily be held to maturity.

We also hold a portfolio of financial investments measured at amortised cost, which are classified as hold-to-collect. At 31 December 2023, there was a cumulative unrealised loss of \$1.7bn, although the unrealised loss is not reflected on our balance sheet. This included \$1.0bn that related to debt instruments held to manage our interest rate exposure, representing a \$0.8bn improvement during 2023.

Financial summary

Risk-weighted assets

Risk-weighted assets ('RWAs') totalled \$854.1bn at 31 December 2023, a \$14.4bn increase since 2022, including foreign currency translation differences of \$2.0bn. This was mainly due to:

- a \$26.2bn increase in asset size, which was mostly attributed to WPB lending growth and a rise in operational risk RWAs, offset by reduced lending in CMB and GBM;
- a \$6.2bn increase from acquisitions, mainly from SVB UK, partly offset by a disposal of our Oman business; and
- a \$19.9bn decrease in RWAs due to changes in methodology and policy.

Customer accounts by country/territory

	2023 \$m	2022 ¹ \$m
Hong Kong	543,504	542,543
UK	508,181	493,028
US	99,607	100,404
Singapore	73,547	61,475
Mainland China	56,006	56,948
France ¹	42,666	33,726
Australia	32,071	28,506
Germany	30,641	28,949
Mexico	29,423	25,531
UAE	24,882	23,331
India	24,377	22,636
Taiwan	16,949	15,316
Malaysia	15,983	16,008
Switzerland	8,047	5,167
Egypt	5,858	6,045
Indonesia	5,599	5,840
Türkiye	3,510	3,497
Other ²	90,796	101,353
At 31 Dec	1,611,647	1,570,303

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

2 At 31 December 2023, customer accounts of \$86bn (2022: \$85bn) met the criteria to be classified as held for sale and are reported within 'Liabilities of disposal groups held for sale' on the balance sheet, of which \$63bn (2022: \$61bn) and \$22bn (2022: \$22bn) belongs to the planned sale of the banking business in Canada and sale of our retail banking operations in France, respectively. Refer to Note 23 on page 428 for further details.

Loans and advances, deposits by currency

	At 31 Dec 2023						
\$m	USD	GBP	HKD	EUR	CNY	Others ¹	Total
Loans and advances to banks	33,231	15,632	7,106	4,688	8,772	43,473	112,902
Loans and advances to customers	170,274	284,261	213,079	68,655	49,594	152,672	938,535
Total loans and advances	203,505	299,893	220,185	73,343	58,366	196,145	1,051,437
Deposits by banks	28,744	18,231	2,597	6,997	4,517	12,077	73,163
Customer accounts	441,967	423,725	305,520	128,444	63,535	248,456	1,611,647
Total deposits	470,711	441,956	308,117	135,441	68,052	260,533	1,684,810

	31 Dec 2022 ²						
Loans and advances to banks	34,495	12,292	5,188	6,328	7,833	38,339	104,475
Loans and advances to customers	182,719	265,988	221,150	57,077	49,036	147,591	923,561
Total loans and advances	217,214	278,280	226,338	63,405	56,869	185,930	1,028,036
Deposits by banks	23,133	16,963	4,002	8,830	4,707	9,087	66,722
Customer accounts	430,866	422,087	312,052	112,399	63,032	229,867	1,570,303
Total deposits	453,999	439,050	316,054	121,229	67,739	238,954	1,637,025

1 'Others' includes items with no currency information available of \$1,592m for loans to banks (2022: \$1,112m), \$1,904m for loans to customers (2022: \$2,112m), \$11m for deposits by banks (2022: \$13m) and \$8m for customer accounts (2022: \$6m).

2 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

RWAs by currency

	At 31 Dec 2023						
\$m	USD	GBP	HKD	EUR	CNY	Others	Total
RWAs ¹	202,697	155,231	135,701	69,996	57,907	232,582	854,114

	31 Dec 2022						
RWAs ¹	223,657	143,474	152,804	60,843	49,867	209,075	839,720

1 RWAs includes credit risk, market risk and operational risk RWAs.

Average balance sheet

Average balance sheet and net interest income

Average balances and related interest are shown for the domestic operations of our principal commercial banks by legal entity. 'Other trading entities' comprise the operations of our principal commercial banking and consumer finance entities outside their domestic markets and all other banking operations, including investment banking balances and transactions.

Average balances are based on daily averages for the principal areas of our banking activities with monthly or less frequent averages used elsewhere.

Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking and consumer finance entities, and the elimination entries are included within 'Holding companies, shared service centres and intra-group eliminations'.

Net interest margin numbers are calculated by dividing net interest income as reported in the income statement by the average interest-earning assets from which interest income is reported within the 'Net interest income' line of the income statement. Total interest-earning assets include credit-impaired loans where the carrying amount has been adjusted as a result of impairment allowances. In accordance with IFRSs, we recognise interest income on credit-impaired assets after the carrying amount has been adjusted as a result of impairment. Fee income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'.

Assets

	2023			2022 ¹		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Summary						
Interest-earning assets measured at amortised cost (itemised below)	2,161,746	100,868	4.67	2,143,758	52,826	2.46
Trading assets and financial assets designated and otherwise mandatorily measured at fair value through profit or loss	215,435	6,598	3.06	206,398	4,386	2.13
Expected credit losses provision	(11,603)	N/A	N/A	(10,753)	N/A	N/A
Non-interest-earning assets	694,309	N/A	N/A	678,092	N/A	N/A
Total assets and interest income	3,059,887	107,466	3.51	3,017,495	57,212	1.90
Average yield on all interest-earning assets			4.52			2.43
Short-term funds and loans and advances to banks						
HSBC Bank plc	174,004	6,201	3.56	178,340	1,535	0.86
HSBC UK Bank plc	100,780	3,486	3.46	120,954	1,713	1.42
The Hongkong and Shanghai Banking Corporation Limited	88,089	3,078	3.49	91,681	1,266	1.38
HSBC Bank Middle East Limited	6,289	354	5.63	5,125	121	2.36
HSBC North America Holdings Inc.	33,034	1,136	3.44	43,326	526	1.21
HSBC Bank Canada	102	2	1.96	6,143	77	1.25
Grupo Financiero HSBC, S.A. de C.V.	2,609	267	10.23	2,323	162	6.97
Other trading entities	12,752	807	6.33	12,190	230	1.89
Holding companies, shared service centres and intra-group eliminations	(13,985)	(561)	4.01	(14,423)	(53)	0.37
At 31 Dec	403,674	14,770	3.66	445,659	5,577	1.25
Loans and advances to customers						
HSBC Bank plc	109,576	4,989	4.55	113,146	2,591	2.29
HSBC UK Bank plc	261,516	11,219	4.29	249,502	7,100	2.85
The Hongkong and Shanghai Banking Corporation Limited	467,179	21,821	4.67	489,742	14,254	2.91
HSBC Bank Middle East Limited	19,769	1,229	6.22	20,546	781	3.80
HSBC North America Holdings Inc.	54,129	3,175	5.87	55,766	1,979	3.55
HSBC Bank Canada	—	—	—	51,415	1,684	3.28
Grupo Financiero HSBC, S.A. de C.V.	24,844	3,406	13.71	20,177	2,374	11.77
Other trading entities	21,083	2,338	11.09	22,375	1,828	8.17
Holding companies, shared service centres and intra-group eliminations	(379)	(504)	132.98	(349)	(48)	13.75
At 31 Dec	957,717	47,673	4.98	1,022,320	32,543	3.18
Reverse repurchase agreements – banks²						
HSBC Bank plc	53,042	3,177	5.99	32,587	644	1.98
HSBC UK Bank plc	1,700	69	4.06	1,685	22	1.31
The Hongkong and Shanghai Banking Corporation Limited	65,387	2,437	3.73	63,682	1,220	1.92
HSBC Bank Middle East Limited	3,105	171	5.51	2,696	53	1.97
HSBC North America Holdings Inc.	8,859	645	7.28	10,547	208	1.97
HSBC Bank Canada	—	—	—	1,851	19	1.03
Grupo Financiero HSBC, S.A. de C.V.	2,419	254	10.50	1,629	135	8.29
Other trading entities	3,825	604	15.79	2,238	231	10.32
Holding companies, shared service centres and intra-group eliminations	(25,187)	(871)	3.46	(10,318)	(307)	2.98
At 31 Dec	113,150	6,486	5.73	106,597	2,225	2.09

Financial summary

Assets (continued)

	2023			2022 ¹		
	Average balance \$m	Interest income \$m	Yield %	Average balance \$m	Interest income \$m	Yield %
Reverse repurchase agreements – customers²						
HSBC Bank plc	36,414	2,707	7.43	36,549	901	2.47
HSBC UK Bank plc	5,841	327	5.60	11,309	139	1.23
The Hongkong and Shanghai Banking Corporation Limited	49,010	970	1.98	45,268	374	0.83
HSBC Bank Middle East Limited	2,418	113	4.67	1,857	37	1.99
HSBC North America Holdings Inc.	34,842	3,756	10.78	28,956	1,108	3.83
HSBC Bank Canada	36	2	5.56	3,004	89	2.96
Grupo Financiero HSBC, S.A. de C.V.	269	31	11.52	215	12	5.58
Other trading entities	—	—	—	—	—	—
Holding companies, shared service centres and intra-group eliminations	(1,717)	(1)	0.06	(2,697)	1	(0.04)
At 31 Dec	127,113	7,905	6.22	124,461	2,661	2.14
Financial investments						
HSBC Bank plc	51,179	1,866	3.65	46,640	776	1.66
HSBC UK Bank plc	27,025	891	3.30	19,003	268	1.41
The Hongkong and Shanghai Banking Corporation Limited	241,467	8,664	3.59	208,592	3,466	1.66
HSBC Bank Middle East Limited	10,682	451	4.22	9,249	136	1.47
HSBC North America Holdings Inc.	39,961	1,634	4.09	37,380	836	2.24
HSBC Bank Canada	—	—	—	13,695	252	1.84
Grupo Financiero HSBC, S.A. de C.V.	4,050	291	7.19	3,929	241	6.13
Other trading entities	11,091	1,908	17.20	13,004	1,513	11.63
Holding companies, shared service centres and intra-group eliminations	21,908	1,153	5.26	21,210	216	1.02
At 31 Dec	407,363	16,858	4.14	372,702	7,704	2.07
Other interest-earning assets						
HSBC Bank plc	58,744	3,197	5.44	50,787	1,469	2.89
HSBC UK Bank plc	1,304	79	6.06	1,253	40	3.19
The Hongkong and Shanghai Banking Corporation Limited	11,182	744	6.65	10,697	250	2.34
HSBC Bank Middle East Limited	583	2	0.34	(1,522)	8	(0.53)
HSBC North America Holdings Inc.	3,720	233	6.26	4,703	101	2.15
HSBC Bank Canada	82,832	4,023	4.86	8,153	329	4.04
Grupo Financiero HSBC, S.A. de C.V.	650	24	3.69	589	8	1.36
Other trading entities	104	1,853	1,781.73	184	638	346.74
Holding companies, shared service centres and intra-group eliminations	(6,390)	(2,979)	46.62	(2,825)	(727)	25.73
At 31 Dec	152,729	7,176	4.70	72,019	2,116	2.94
Total interest-earning assets						
HSBC Bank plc	482,959	22,137	4.58	458,049	7,916	1.73
HSBC UK Bank plc	398,166	16,071	4.04	403,706	9,282	2.30
The Hongkong and Shanghai Banking Corporation Limited	922,314	37,714	4.09	909,662	20,830	2.29
HSBC Bank Middle East Limited	42,846	2,320	5.41	37,951	1,136	2.99
HSBC North America Holdings Inc.	174,545	10,579	6.06	180,678	4,758	2.63
HSBC Bank Canada	82,970	4,027	4.85	84,261	2,450	2.91
Grupo Financiero HSBC, S.A. de C.V.	34,841	4,273	12.26	28,862	2,932	10.16
Other trading entities	48,855	7,510	15.37	49,991	4,440	8.88
Holding companies, shared service centres and intra-group eliminations	(25,750)	(3,763)	14.61	(9,402)	(918)	9.76
At 31 Dec	2,161,746	100,868	4.67	2,143,758	52,826	2.46

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 The average balances for repurchase and reverse repurchase agreements include net amounts where the criteria for offsetting are met, resulting in a lower net balance reported for repurchase agreements and thus higher cost.

Equity and liabilities

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Summary						
Interest-bearing liabilities measured at amortised cost (itemised below)	1,872,883	65,072	3.47	1,804,129	22,449	1.24
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)	126,969	4,960	3.91	122,021	2,596	2.13
Non-interest bearing current accounts	253,741	N/A	N/A	310,595	N/A	N/A
Total equity and other non-interest bearing liabilities	806,294	N/A	N/A	780,750	N/A	N/A
Total equity and liabilities	3,059,887	70,032	2.29	3,017,495	25,045	0.83
Average cost on all interest-bearing liabilities			3.50			1.30

Equity and liabilities (continued)

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Deposits by banks²						
HSBC Bank plc	29,222	1,137	3.89	39,318	235	0.60
HSBC UK Bank plc	12,917	616	4.77	12,748	194	1.52
The Hongkong and Shanghai Banking Corporation Limited	22,416	507	2.26	28,897	239	0.83
HSBC Bank Middle East Limited	4,253	200	4.70	2,355	92	3.91
HSBC North America Holdings Inc.	8,150	315	3.87	8,177	88	1.08
HSBC Bank Canada	270	6	2.22	700	2	0.29
Grupo Financiero HSBC, S.A. de C.V.	540	101	18.70	657	69	10.50
Other trading entities	3,245	31	0.96	2,211	17	0.77
Holding companies, shared service centres and intra-group eliminations	(20,621)	(512)	2.48	(19,324)	(166)	0.86
At 31 Dec	60,392	2,401	3.98	75,739	770	1.02
Debt Securities in issue – non trading						
HSBC Bank plc	38,067	1,887	4.96	36,187	694	1.92
HSBC UK Bank plc	18,285	759	4.15	16,566	448	2.70
The Hongkong and Shanghai Banking Corporation Limited	48,728	2,816	5.78	46,017	1,369	2.97
HSBC Bank Middle East Limited	1,970	73	3.71	2,221	47	2.12
HSBC North America Holdings Inc.	23,921	1,505	6.29	20,872	659	3.16
HSBC Bank Canada	741	51	6.88	11,816	293	2.48
Grupo Financiero HSBC, S.A. de C.V.	1,696	92	5.42	1,184	74	6.25
Other trading entities	1,643	155	9.43	1,934	178	9.20
Holding companies, shared service centres and intra-group eliminations	49,816	3,885	7.80	42,978	1,845	4.29
At 31 Dec	184,867	11,223	6.07	179,775	5,607	3.12
Customer accounts³						
HSBC Bank plc	230,846	8,511	3.69	202,791	2,181	1.08
HSBC UK Bank plc	269,034	4,532	1.68	270,509	860	0.32
The Hongkong and Shanghai Banking Corporation Limited	702,788	14,523	2.07	694,032	4,156	0.60
HSBC Bank Middle East Limited	12,996	382	2.94	9,714	70	0.72
HSBC North America Holdings Inc.	77,557	2,731	3.52	76,652	809	1.06
HSBC Bank Canada	1	—	—	47,862	567	1.18
Grupo Financiero HSBC, S.A. de C.V.	22,579	1,489	6.59	19,121	783	4.09
Other trading entities	28,887	2,396	8.29	28,960	1,585	5.47
Holding companies, shared service centres and intra-group eliminations	(9,885)	(402)	4.07	(7,299)	(108)	1.48
At 31 Dec	1,334,803	34,162	2.56	1,342,342	10,903	0.81
Repurchase agreements – with banks⁴						
HSBC Bank plc	22,132	1,915	8.65	13,098	282	2.15
HSBC UK Bank plc	656	34	5.18	191	4	2.09
The Hongkong and Shanghai Banking Corporation Limited	43,153	1,368	3.17	26,253	464	1.77
HSBC Bank Middle East Limited	1,982	99	4.99	1,355	23	1.70
HSBC North America Holdings Inc.	5,542	444	8.01	6,756	141	2.09
HSBC Bank Canada	—	—	—	514	12	2.33
Grupo Financiero HSBC, S.A. de C.V.	296	36	12.16	148	10	6.76
Other trading entities	737	114	15.47	333	48	14.41
Holding companies, shared service centres and intra-group eliminations	(24,798)	(1,009)	4.07	(12,986)	(286)	2.20
At 31 Dec	49,700	3,001	6.04	35,662	698	1.96
Repurchase agreements – with customers⁴						
HSBC Bank plc	34,218	2,514	7.35	26,182	711	2.72
HSBC UK Bank plc	7,556	428	5.66	9,596	151	1.57
The Hongkong and Shanghai Banking Corporation Limited	22,496	994	4.42	14,401	228	1.58
HSBC Bank Middle East Limited	—	—	—	—	—	—
HSBC North America Holdings Inc.	31,161	3,538	11.35	28,597	1,025	3.58
HSBC Bank Canada	487	25	5.13	4,158	91	2.19
Grupo Financiero HSBC, S.A. de C.V.	3,429	382	11.14	2,239	178	7.95
Other trading entities	12	1	8.33	13	1	7.69
Holding companies, shared service centres and intra-group eliminations	(2,454)	(25)	1.02	(2,540)	2	(0.08)
At 31 Dec	96,905	7,857	8.11	82,646	2,387	2.89

Financial summary

Equity and liabilities (continued)

	2023			2022 ¹		
	Average balance \$m	Interest expense \$m	Cost %	Average balance \$m	Interest expense \$m	Cost %
Other interest-bearing liabilities						
HSBC Bank plc	65,326	3,498	5.35	61,942	1,458	2.35
HSBC UK Bank plc	607	19	3.13	736	11	1.49
The Hongkong and Shanghai Banking Corporation Limited	16,699	800	4.79	17,002	345	2.03
HSBC Bank Middle East Limited	92	14	15.22	79	2	2.53
HSBC North America Holdings Inc.	3,253	334	10.27	5,488	113	2.06
HSBC Bank Canada	70,814	2,519	3.56	8,390	233	2.78
Grupo Financiero HSBC, S.A. de C.V.	191	27	14.14	163	19	11.66
Other trading entities	271	1,046	385.98	238	367	154.20
Holding companies, shared service centres and intra-group eliminations	(11,037)	(1,829)	16.57	(6,073)	(464)	7.64
At 31 Dec	146,216	6,428	4.40	87,965	2,084	2.37
Total interest-bearing liabilities						
HSBC Bank plc	419,811	19,462	4.64	379,517	5,561	1.47
HSBC UK Bank plc	309,055	6,388	2.07	310,346	1,668	0.54
The Hongkong and Shanghai Banking Corporation Limited	856,280	21,008	2.45	826,602	6,801	0.82
HSBC Bank Middle East Limited	21,293	768	3.61	15,724	234	1.49
HSBC North America Holdings Inc.	149,584	8,867	5.93	146,542	2,835	1.93
HSBC Bank Canada	72,313	2,601	3.60	73,440	1,198	1.63
Grupo Financiero HSBC, S.A. de C.V.	28,731	2,127	7.40	23,512	1,133	4.82
Other trading entities	34,795	3,743	10.76	33,689	2,196	6.52
Holding companies, shared service centres and intra-group eliminations	(18,979)	108	(0.57)	(5,243)	823	(15.70)
At 31 Dec	1,872,883	65,072	3.47	1,804,129	22,449	1.24

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 This includes interest-bearing bank deposits only. See page 120 for an analysis of all bank deposits.

3 This includes interest-bearing customer accounts only. See page 120 for an analysis of all customer accounts.

4 The average balances for repurchase and reverse repurchase agreements include net amounts where the criteria for offsetting are met, resulting in a lower net balance reported for repurchase agreements and thus higher cost.

Net interest margin¹

	2023 %	2022 ² %	2021 %
HSBC Bank plc	0.55	0.51	0.49
HSBC UK Bank plc	2.43	1.89	1.53
The Hongkong and Shanghai Banking Corporation Limited	1.81	1.54	1.37
HSBC Bank Middle East Limited	3.62	2.38	1.66
HSBC North America Holdings Inc.	0.98	1.06	0.93
HSBC Bank Canada	1.54	1.49	1.19
Grupo Financiero HSBC, S.A. de C.V.	6.17	6.22	5.61
Other trading entities	7.71	4.49	3.17
At 31 Dec	1.66	1.42	1.20

1 Net interest margin is calculated as net interest income divided by average interest-earning assets.

2 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

Distribution of average total assets

	2023 %	2022 ¹ %	2021 %
HSBC Bank plc	30.0	29.0	30.0
HSBC UK Bank plc	14.0	14.0	14.0
The Hongkong and Shanghai Banking Corporation Limited	44.0	44.0	42.0
HSBC Bank Middle East Limited	2.0	2.0	2.0
HSBC North America Holdings Inc.	8.0	9.0	9.0
HSBC Bank Canada	3.0	3.0	3.0
Grupo Financiero HSBC, S.A. de C.V.	2.0	1.0	1.0
Other trading entities	2.0	2.0	2.0
Holding companies, shared service centres and intra-group eliminations	(5.0)	(4.0)	(3.0)
At 31 Dec	100.0	100.0	100.0

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

Analysis of changes in net interest income and net interest expense

The following tables allocate changes in interest income and interest expense between volume and rate for 2023 compared with 2022, and for 2022 compared with 2021. We isolate rate variances and allocate any change arising from both volume and rate/volume to volume.

Interest income

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	2021 \$m
Short-term funds and loans and advances to banks							
HSBC Bank plc	6,201	(149)	4,815	1,535	134	1,244	157
HSBC UK Bank plc	3,486	(694)	2,467	1,713	(52)	1,633	132
The Hongkong and Shanghai Banking Corporation Limited	3,078	(122)	1,934	1,266	68	696	502
HSBC Bank Middle East Limited	354	65	168	121	(12)	99	34
HSBC North America Holdings Inc.	1,136	(356)	966	526	(129)	545	110
HSBC Bank Canada	2	(119)	44	77	(78)	126	29
Grupo Financiero HSBC, S.A. de C.V.	267	29	76	162	13	64	85
Other trading entities	807	36	541	230	(13)	164	79
Holding companies, shared service centres and intra-group eliminations	(561)	17	(525)	(53)	(10)	(20)	(23)
At 31 Dec	14,770	(1,547)	10,740	5,577	(35)	4,507	1,105
Loans and advances to customers							
HSBC Bank plc	4,989	(159)	2,557	2,591	(535)	900	2,226
HSBC UK Bank plc	11,219	526	3,593	7,100	(522)	989	6,633
The Hongkong and Shanghai Banking Corporation Limited	21,821	(1,052)	8,619	14,254	36	3,619	10,599
HSBC Bank Middle East Limited	1,229	(49)	497	781	21	146	614
HSBC North America Holdings Inc.	3,175	(98)	1,294	1,979	34	400	1,545
HSBC Bank Canada	—	(1,684)	—	1,684	(16)	378	1,322
Grupo Financiero HSBC, S.A. de C.V.	3,406	641	391	2,374	198	327	1,849
Other trading entities	2,338	(143)	653	1,828	(74)	531	1,371
Holding companies, shared service centres and intra-group eliminations	(504)	(40)	(416)	(48)	5	35	(88)
At 31 Dec	47,673	(3,272)	18,402	32,543	(1,165)	7,637	26,071
Reverse repurchase agreements – with banks							
HSBC Bank plc	3,177	1,226	1,307	644	(178)	685	137
HSBC UK Bank plc	69	1	46	22	11	10	1
The Hongkong and Shanghai Banking Corporation Limited	2,437	64	1,153	1,220	135	701	384
HSBC Bank Middle East Limited	171	23	95	53	13	24	16
HSBC North America Holdings Inc.	645	(123)	560	208	(45)	245	8
HSBC Bank Canada	—	(19)	—	19	4	11	4
Grupo Financiero HSBC, S.A. de C.V.	254	83	36	135	(15)	97	53
Other trading entities	604	251	122	231	5	(19)	245
Holding companies, shared service centres and intra-group eliminations	(871)	(514)	(50)	(307)	(52)	(152)	(103)
At 31 Dec	6,486	381	3,880	2,225	(91)	1,571	745
Reverse repurchase agreements – with customers							
HSBC Bank plc	2,707	(7)	1,813	901	(30)	811	120
HSBC UK Bank plc	327	(306)	494	139	88	43	8
The Hongkong and Shanghai Banking Corporation Limited	970	75	521	374	155	155	64
HSBC Bank Middle East Limited	113	26	50	37	33	3	1
HSBC North America Holdings Inc.	3,756	636	2,012	1,108	103	970	35
HSBC Bank Canada	2	(165)	78	89	(29)	105	13
Grupo Financiero HSBC, S.A. de C.V.	31	6	13	12	8	(29)	33
Other trading entities	—	—	—	—	—	—	—
Holding companies, shared service centres and intra-group eliminations	(1)	1	(3)	1	—	1	—
At 31 Dec	7,905	166	5,078	2,661	619	1,768	274

Financial summary

Interest income (continued)

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Financial investments							
HSBC Bank plc	1,866	162	928	776	(252)	335	693
HSBC UK Bank plc	891	264	359	268	(14)	102	180
The Hongkong and Shanghai Banking Corporation Limited	8,664	1,172	4,026	3,466	(765)	230	4,001
HSBC Bank Middle East Limited	451	61	254	136	(25)	100	61
HSBC North America Holdings Inc.	1,634	106	692	836	(123)	308	651
HSBC Bank Canada	—	(252)	—	252	26	149	77
Grupo Financiero HSBC, S.A. de C.V.	291	8	42	241	(17)	35	223
Other trading entities	1,908	(329)	724	1,513	151	575	787
Holding companies, shared service centres and intra-group eliminations	1,153	38	899	216	20	140	56
At 31 Dec	16,858	1,439	7,715	7,704	(1,395)	2,370	6,729

Interest expense

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			2021 \$m
	2023 \$m	Volume \$m	Rate \$m	2022 ¹ \$m	Volume \$m	Rate \$m	
Deposits by banks							
HSBC Bank plc	1,137	(392)	1,294	235	(39)	213	61
HSBC UK Bank plc	616	8	414	194	144	46	4
The Hongkong and Shanghai Banking Corporation Limited	507	(145)	413	239	(18)	190	67
HSBC Bank Middle East Limited	200	89	19	92	(15)	78	29
HSBC North America Holdings Inc.	315	(1)	228	88	—	84	4
HSBC Bank Canada	6	(10)	14	2	(4)	6	—
Grupo Financiero HSBC, S.A. de C.V.	101	(22)	54	69	(10)	29	50
Other trading entities	31	10	4	17	1	4	12
Holding companies, shared service centres and intra-group eliminations	(512)	(33)	(313)	(166)	(10)	(127)	(29)
At 31 Dec	2,401	(611)	2,242	770	(3)	575	198
Customer accounts							
HSBC Bank plc	8,511	1,037	5,293	2,181	(54)	1,857	378
HSBC UK Bank plc	4,532	(7)	3,679	860	(57)	751	166
The Hongkong and Shanghai Banking Corporation Limited	14,523	165	10,202	4,156	35	2,187	1,934
HSBC Bank Middle East Limited	382	96	216	70	3	42	25
HSBC North America Holdings Inc.	2,731	36	1,886	809	(93)	707	195
HSBC Bank Canada	—	(567)	—	567	(26)	423	170
Grupo Financiero HSBC, S.A. de C.V.	1,489	228	478	783	62	310	411
Other trading entities	2,396	(6)	817	1,585	83	672	830
Holding companies, shared service centres and intra-group eliminations	(402)	(105)	(189)	(108)	(5)	(93)	(10)
At 31 Dec	34,162	(232)	23,491	10,903	(145)	6,949	4,099

Interest expense (continued)

	Increase/(decrease) in 2023 compared with 2022			Increase/(decrease) in 2022 compared with 2021			
	2023	Volume	Rate	2022 ¹	Volume	Rate	2021
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Repurchase agreements – with banks							
HSBC Bank plc	1,915	782	851	282	(151)	406	27
HSBC UK Bank plc	34	24	6	4	(1)	5	—
The Hongkong and Shanghai Banking Corporation Limited	1,368	536	368	464	79	244	141
HSBC Bank Middle East Limited	99	31	45	23	10	12	1
HSBC North America Holdings Inc.	444	(97)	400	141	3	134	4
HSBC Bank Canada	—	(12)	—	12	4	6	2
Grupo Financiero HSBC, S.A. de C.V.	36	18	8	10	7	(5)	8
Other trading entities	114	62	4	48	26	—	22
Holding companies, shared service centres and intra-group eliminations	(1,009)	(480)	(243)	(286)	(79)	(180)	(27)
At 31 Dec	3,001	848	1,455	698	(98)	618	178
Repurchase agreements – with customers							
HSBC Bank plc	2,514	591	1,212	711	25	645	41
HSBC UK Bank plc	428	(115)	392	151	63	87	1
The Hongkong and Shanghai Banking Corporation Limited	994	357	409	228	44	137	47
HSBC Bank Middle East Limited	—	—	—	—	—	—	—
HSBC North America Holdings Inc.	3,538	291	2,222	1,025	(11)	1,029	7
HSBC Bank Canada	25	(188)	122	91	9	74	8
Grupo Financiero HSBC, S.A. de C.V.	382	133	71	178	22	76	80
Other trading entities	1	—	—	1	1	—	—
Holding companies, shared service centres and intra-group eliminations	(25)	1	(28)	2	(1)	2	1
At 31 Dec	7,857	1,156	4,314	2,387	261	1,941	185
Debt securities in issue – non trading							
HSBC Bank plc	1,887	93	1,100	694	(330)	671	353
HSBC UK Bank plc	759	71	240	448	(9)	61	396
The Hongkong and Shanghai Banking Corporation Limited	2,816	154	1,293	1,369	182	535	652
HSBC Bank Middle East Limited	73	(9)	35	47	(20)	29	38
HSBC North America Holdings Inc.	1,505	193	653	659	(21)	314	366
HSBC Bank Canada	51	(762)	520	293	(26)	86	233
Grupo Financiero HSBC, S.A. de C.V.	92	28	(10)	74	(50)	(3)	127
Other trading entities	155	(27)	4	178	(1)	69	110
Holding companies, shared service centres and intra-group eliminations	3,885	531	1,509	1,845	59	458	1,328
At 31 Dec	11,223	313	5,303	5,607	(430)	2,434	3,603

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Loan maturity and interest sensitivity analysis

The analysis of loan maturity and interest sensitivity is presented for loans where repayment is expected to occur on a contractual repayment basis (presented within Loans and advances to banks and Loans and advances to customers on our balance sheet). Loans that have been re-classified to Assets held for sale are excluded as

recovery is expected from sale proceeds within the next 12 months rather than individual contractual repayment terms. The analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis was as follows.

	2023 \$m	2022 \$m
Maturity of 1 year or less		
Loans and advances to banks	107,658	97,785
Loans and advances to customers	344,777	350,325
	452,435	448,110
Maturity after 1 year but within 5 years		
Loans and advances to banks	5,086	6,628
Loans and advances to customers	272,772	276,826
	277,858	283,454
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	2,623	3,100
Variable interest rate	2,463	3,528
	5,086	6,628
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	60,734	62,582
Variable interest rate	212,038	214,244
	272,772	276,826
Maturity after 5 years but within 15 years		
Loans and advances to banks	173	41
Loans and advances to customers	169,345	161,596
	169,518	161,637
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	173	41
Variable interest rate	—	—
	173	41
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	72,458	67,516
Variable interest rate	96,887	94,080
	169,345	161,596
Maturity after 15 years		
Loans and advances to banks	—	90
Loans and advances to customers	162,713	146,262
	162,713	146,352
Interest rate sensitivity of loans and advances to banks		
Fixed interest rate	—	90
Variable interest rate	—	—
	—	90
Interest rate sensitivity of loans and advances to customers		
Fixed interest rate	72,014	61,051
Variable interest rate	90,699	85,211
	162,713	146,262

Deposits

The following tables summarise the average amount of bank deposits, customer deposits and certificates of deposit ('CDs') and other money market instruments (that are included within 'Debt securities in issue' in the balance sheet), together with the average interest rates paid thereon for each of the past two years.

The analysis of average deposits by legal entity is based on the legal entity in which the deposits are recorded and excludes balances with HSBC companies.

Deposits by banks

	2023		2022	
	Average balance \$m	Average rate %	Average balance \$m	Average rate %
HSBC UK Bank Plc	12,966		12,927	
– demand and other – non-interest bearing	85	—	196	—
– demand – interest bearing	20	5.0	8	—
– time	12,861	4.6	12,723	1.4
– other	—	—	—	—
HSBC Bank plc	29,569		39,361	
– demand and other – non-interest bearing	6,354	—	6,498	—
– demand – interest bearing	16,781	4.1	17,491	0.9
– time	6,113	4.0	15,126	0.2
– other	321	—	246	—
The Hong Kong and Shanghai Banking Corporation Limited	21,179		28,348	
– demand and other – non-interest bearing	3,569	—	4,598	—
– demand – interest bearing	14,311	2.2	19,665	0.7
– time	3,295	4.9	4,079	2.2
– other	4	—	6	—
HSBC Bank Middle East Limited	1,517		1,297	
– demand and other – non-interest bearing	140	—	152	—
– demand – interest bearing	558	1.3	523	0.4
– time	717	5.4	540	2.2
– other	102	—	82	—
HSBC North America Holdings Inc.	5,352		6,017	
– demand and other – non-interest bearing	780	—	1,603	—
– demand – interest bearing	3,918	4.4	4,414	1.3
– time	654	5.4	—	—
– other	—	—	—	—
HSBC Bank Canada	—		162	
– demand and other – non-interest bearing	—	—	77	—
– demand – interest bearing	—	—	14	—
– time	—	—	71	1.4
– other	—	—	—	—
Grupo Financiero HSBC, S.A. de C.V	540		657	
– demand and other – non-interest bearing	—	—	—	—
– demand – interest bearing	43	11.6	31	6.4
– time	497	18.7	626	10.4
– other	—	—	—	—
Other trading entities	291		240	
– demand and other – non-interest bearing	94	—	145	—
– demand – interest bearing	37	5.4	52	17.2
– time	160	11.3	43	9.4
– other	—	—	—	—
Total	71,414	3.4	89,009	
– demand and other – non-interest bearing	11,022	—	13,269	—
– demand – interest bearing	35,668	3.4	42,198	0.9
– time	24,297	4.9	33,208	1.2
– other	427	—	334	—

Financial summary

Customer accounts

	2023		2022	
	Average balance \$m	Average rate %	Average balance \$m	Average rate %
HSBC UK Bank Plc	334,043		345,868	
– demand and other – non-interest bearing	65,498	—	75,363	—
– demand – interest bearing	225,190	1.5	241,749	0.3
– savings	31,666	2.5	24,762	0.5
– time	11,538	3.8	3,859	1.3
– other	151	4.0	135	1.5
HSBC Bank plc	282,193		273,892	
– demand and other – non-interest bearing	59,751	—	77,329	—
– demand – interest bearing	156,071	3.8	151,092	1.0
– savings	41,771	2.9	28,140	0.9
– time	22,647	4.4	16,435	1.7
– other	1,953	4.4	896	1.3
The Hong Kong and Shanghai Banking Corporation Limited	777,111		782,339	
– demand and other – non-interest bearing	74,908	—	88,876	—
– demand – interest bearing	441,399	0.9	553,526	0.2
– savings	225,530	4.0	119,439	2.1
– time	35,274	4.5	20,493	1.9
– other	—	—	5	—
HSBC Bank Middle East Limited	31,265		28,202	
– demand and other – non-interest bearing	18,308	—	18,586	—
– demand – interest bearing	6,255	1.8	6,309	0.5
– savings	5,414	3.6	3,246	1.0
– time	1,288	5.6	61	5.0
– other	—	—	—	—
HSBC North America Holdings Inc.	99,377		104,208	
– demand and other – non-interest bearing	22,096	—	27,855	—
– demand – interest bearing	28,438	4.2	27,821	1.4
– savings	40,380	2.8	45,810	0.8
– time	8,463	4.8	2,722	2.4
– other	—	—	—	—
HSBC Bank Canada	—		53,883	
– demand and other – non-interest bearing	—	—	6,022	—
– demand – interest bearing	—	—	16,583	1.1
– savings	—	—	30,945	1.7
– time	—	—	333	1.8
– other	—	—	—	—
Grupo Financiero HSBC, S.A. de C.V.	28,315	5.3	24,281	
– demand and other – non-interest bearing	5,736	—	5,160	—
– demand – interest bearing	13,174	5.3	11,586	3.5
– savings	1,166	—	993	—
– time	8,239	9.6	6,542	5.8
– other	—	—	—	—
Other trading entities	40,516	4.3	44,475	
– demand and other – non-interest bearing	11,720	—	15,616	—
– demand – interest bearing	11,936	—	15,164	12.7
– savings	10,476	16.7	9,845	2.0
– time	6,384	—	3,850	—
– other	—	—	—	—
Total	1,592,820	2.3	1,657,148	
– demand and other – non-interest bearing	258,017	—	314,807	—
– demand – interest bearing	882,463	1.8	1,023,830	0.5
– savings	356,403	4.4	263,180	1.9
– time	93,833	5.0	54,295	2.3
– other	2,104	4.4	1,036	1.4

Net charge-offs to average loans

The following table provides the net charge-offs to average loans for loans and advances to banks and customers.

Net charge-offs to average loans

	2023 %	2022 %
Loans and advances to banks	—	—
Loans and advances to customers	0.38	0.24

Allowances for credit losses to total loans are presented in Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at page 188.

Estimate of uninsured deposits and uninsured time deposits

HSBC provides deposit services to customers across the many countries in which we operate and are therefore subject to differing national and state deposit insurance regimes. Uninsured deposits are presented on an estimated basis using the same methodologies and assumptions inherent in our liquidity reporting requirements to our primary regulator, the Prudential Regulation Authority.

The insured status of a deposit is determined on the basis of individual insurance limits enacted within local regulations.

At 31 December 2023, the amount of uninsured deposits was \$1.3tn (31 December 2022: \$1.3tn).

Uninsured time deposits are uninsured deposits which are subject to contractual maturity requirements prior to withdrawal. Amounts are presented on a residual contractual maturity basis and exclude overnight deposits where contractual requirements are imminently satisfied.

Maturity analysis of uninsured time deposits

	At 31 Dec 2023				
	3 months or less \$m	After 3 months but within 6 months \$m	After 6 months but within 12 months \$m	After 12 months \$m	Total \$m
Uninsured time deposits	246,148	18,293	10,831	3,676	278,948
At 31 Dec 2022					
Uninsured time deposits	202,777	14,935	8,436	4,894	231,042

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Summary

The Group Chief Executive, supported by the rest of the Group Executive Committee ('GEC'), reviews operating activity on a number of bases, including by global business and legal entities. Our global businesses – Wealth and Personal Banking, Commercial Banking, and Global Banking and Markets – along with Corporate Centre are our reportable segments under IFRS 8 'Operating Segments' and are presented below and in Note 10: Segmental analysis on page 399.

On 1 January 2023, we updated our financial reporting framework and changed the supplementary presentation of results from geographical regions to main legal entities to better reflect the Group's structure.

The results of main legal entities are presented on a reported and constant currency basis, including HSBC UK Bank plc, HSBC Bank plc, The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank Middle East Limited, HSBC North America Holdings Inc., HSBC Bank Canada and Grupo Financiero HSBC, S.A. de C.V.

The results of legal entities are presented on a reported basis on page 135 and a constant currency basis on page 138.

Basis of preparation

The Group Chief Executive, supported by the rest of the GEC, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Group's reportable segments. Global business results are assessed by the CODM on the basis of constant currency performance. 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. Constant currency performance information for 2022 and 2021 are presented as described on page 101. As required by IFRS 8, reconciliations of the total constant currency global business results to the Group's reported results are presented on page 400.

Supplementary reconciliations from reported to constant currency results by global business are presented on pages 124 to 126 for information purposes.

Global business performance is also assessed using return on tangible equity ('RoTE'). A reconciliation of global business RoTE to the Group's RoTE is provided on page 147.

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 and legal entities. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs that 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 businesses are presented in Corporate Centre.

HSBC Holdings incurs the liability of the UK bank levy, with the cost being recharged to its UK operating subsidiaries. The current year expense will be reflected in the fourth quarter as it is assessed on our balance sheet position as at 31 December.

In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from Global Banking and Markets to Commercial Banking for reporting purposes. Comparative data have been re-presented accordingly. Similar smaller transfers from Global Banking and Markets to Commercial Banking were also undertaken within our entities in Australia and Indonesia, where comparative data have not been re-presented.

Supplementary analysis of constant currency results and notable items by global business

Constant currency results¹

	2023				
	Wealth and Personal Banking	Commercial Banking ²	Global Banking and Markets ²	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Revenue ³	27,275	22,867	16,115	(199)	66,058
ECL	(1,058)	(2,062)	(326)	(1)	(3,447)
Operating expenses	(14,738)	(7,524)	(9,865)	57	(32,070)
Share of profit in associates and joint ventures	65	(1)	—	(257)	(193)
Profit/(loss) before tax	11,544	13,280	5,924	(400)	30,348
Loans and advances to customers (net)	454,878	309,422	173,966	269	938,535
Customer accounts	804,863	475,666	330,522	596	1,611,647

¹ In the current period constant currency results are equal to reported as there is no currency translation.

² In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our markets in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

³ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Notable items

	2023				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Notable items					
Revenue					
Disposals, acquisitions and related costs ^{1,2,3}	4	1,591	—	(297)	1,298
Fair value movements on financial instruments ⁴	—	—	—	14	14
Disposal losses on Markets Treasury repositioning	(391)	(316)	(270)	—	(977)
Operating expenses					
Disposals, acquisitions and related costs	(53)	(55)	3	(216)	(321)
Restructuring and other related costs ⁵	20	32	21	63	136
Impairment of interest in associate⁶	—	—	—	(3,000)	(3,000)

1 Includes the impact of the sale of our retail banking operations in France.

2 Includes the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK.

3 Includes fair value movements on the foreign exchange hedging of the expected proceeds from the planned sale of our banking operations in Canada.

4 Fair value movements on non-qualifying hedges in HSBC Holdings.

5 Amounts relate to reversals of restructuring provisions recognised during 2022.

6 Relates to an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 418.

Reconciliation of reported results to constant currency results – global businesses (continued)

	2022 ¹				
	Wealth and Personal Banking	Commercial Banking ¹	Global Banking and Markets ²	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Revenue³					
Reported	21,103	16,494	14,899	(1,876)	50,620
Currency translation	(219)	(211)	(297)	(22)	(749)
Constant currency	20,884	16,283	14,602	(1,898)	49,871
ECL					
Reported	(1,130)	(1,849)	(595)	(10)	(3,584)
Currency translation	(56)	(13)	22	1	(46)
Constant currency	(1,186)	(1,862)	(573)	(9)	(3,630)
Operating expenses					
Reported	(14,415)	(7,052)	(9,383)	(1,851)	(32,701)
Currency translation	167	158	45	29	399
Constant currency	(14,248)	(6,894)	(9,338)	(1,822)	(32,302)
Share of profit/(loss) in associates and joint ventures					
Reported	30	—	(2)	2,695	2,723
Currency translation	—	—	—	(121)	(121)
Constant currency	30	—	(2)	2,574	2,602
Profit/(loss) before tax					
Reported	5,588	7,593	4,919	(1,042)	17,058
Currency translation	(108)	(66)	(230)	(113)	(517)
Constant currency	5,480	7,527	4,689	(1,155)	16,541
Loans and advances to customers (net)					
Reported	422,309	311,957	188,940	355	923,561
Currency translation	11,813	4,906	1,262	6	17,987
Constant currency	434,122	316,863	190,202	361	941,548
Customer accounts					
Reported	779,310	463,928	326,630	435	1,570,303
Currency translation	14,000	8,496	5,673	23	28,192
Constant currency	793,310	472,424	332,303	458	1,598,495

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

3 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Global businesses

Notable items (continued)

	2022 ¹				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Notable items					
Revenue					
Disposals, acquisitions and related costs ²	(2,212)	—	—	(525)	(2,737)
Fair value movements on financial instruments ³	—	—	—	(618)	(618)
Restructuring and other related costs ⁴	98	(16)	(184)	(145)	(247)
Operating expenses					
Disposals, acquisitions and related costs	(7)	—	—	(11)	(18)
Restructuring and other related costs	(357)	(266)	(252)	(2,007)	(2,882)

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 Includes losses from classifying businesses as held for sale as part of a broader restructuring of our European business, of which \$2.3bn (inclusive of \$0.4bn in goodwill impairments) related to the planned sale of the retail banking operations in France.

3 Fair value movements on non-qualifying hedges in HSBC Holdings.

4 Comprises gains and losses relating to the business update in February 2020, including losses associated with the RWA reduction programme.

Reconciliation of reported results to constant currency results – global businesses (continued)

	2021 ¹				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Revenue ²					
Reported	22,117	13,743	14,276	(584)	49,552
Currency translation	(1,145)	(1,044)	(1,190)	(94)	(3,473)
Constant currency	20,972	12,699	13,086	(678)	46,079
ECL					
Reported	288	397	240	3	928
Currency translation	(93)	(58)	(19)	—	(170)
Constant currency	195	339	221	3	758
Operating expenses					
Reported	(16,306)	(7,213)	(10,045)	(1,056)	(34,620)
Currency translation	968	522	790	96	2,376
Constant currency	(15,338)	(6,691)	(9,255)	(960)	(32,244)
Share of profit/(loss) in associates and joint ventures					
Reported	34	1	—	3,011	3,046
Currency translation	2	—	—	(241)	(239)
Constant currency	36	1	—	2,770	2,807
Profit/(loss) before tax					
Reported	6,133	6,928	4,471	1,374	18,906
Currency translation	(268)	(580)	(419)	(239)	(1,506)
Constant currency	5,865	6,348	4,052	1,135	17,400
Loans and advances to customers (net)					
Reported	488,786	353,182	203,106	740	1,045,814
Currency translation	(15,482)	(12,579)	(6,913)	(28)	(35,002)
Constant currency	473,304	340,603	196,193	712	1,010,812
Customer accounts					
Reported	859,029	511,195	339,698	652	1,710,574
Currency translation	(24,262)	(15,703)	(17,392)	(30)	(57,387)
Constant currency	834,767	495,492	322,306	622	1,653,187

1 Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Net operating income/(expense) before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Notable items (continued)

	2021 ¹				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Notable items					
Revenue					
Fair value movements on financial instruments ²	—	—	—	(221)	(221)
Restructuring and other related costs ³	14	(3)	(395)	77	(307)
Operating expenses					
Impairment of non-financial items	(587)	—	—	—	(587)
Restructuring and other related costs	(296)	(83)	(195)	(1,262)	(1,836)

1 Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Fair value movements on non-qualifying hedges in HSBC Holdings.

3 Comprises gains and losses relating to the business update in February 2020, including losses associated with the RWA reduction programme.

Reconciliation of reported and constant currency risk-weighted assets

	At 31 Dec 2023				
	Wealth and Personal Banking \$bn	Commercial Banking ¹ \$bn	Global Banking and Markets ¹ \$bn	Corporate Centre \$bn	Total \$bn
Risk-weighted assets					
Reported	192.9	354.5	218.5	88.2	854.1
Constant currency	192.9	354.5	218.5	88.2	854.1
At 31 Dec 2022					
Risk-weighted assets					
Reported	182.9	342.4	225.9	88.5	839.7
Currency translation	1.7	1.8	(0.1)	—	3.4
Constant currency	184.6	344.2	225.8	88.5	843.1
At 31 Dec 2021					
Risk-weighted assets					
Reported	178.3	340.0	229.1	90.9	838.3
Currency translation	(6.1)	(15.9)	(8.4)	(1.4)	(31.8)
Constant currency	172.2	324.1	220.7	89.5	806.5

¹ In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

Supplementary tables for WPB and GBM

WPB constant currency performance by business unit

A breakdown of WPB by business unit is presented below to reflect the basis of how the revenue performance of the business units is assessed and managed.

WPB – summary (constant currency basis)

	Consists of ¹				
	Total WPB \$m	Banking operations \$m	Life insurance \$m	Global Private Banking \$m	Asset management \$m
2023					
Net operating income before change in expected credit losses and other credit impairment charges ²	27,275	22,279	1,462	2,252	1,282
– net interest income	20,491	19,055	282	1,155	(1)
– net fee income/(expense)	5,355	3,213	151	794	1,197
– other income	1,429	11	1,029	303	86
ECL	(1,058)	(1,056)	4	(6)	—
Net operating income	26,217	21,223	1,466	2,246	1,282
Total operating expenses	(14,738)	(11,474)	(682)	(1,627)	(955)
Operating profit	11,479	9,749	784	619	327
Share of profit in associates and joint ventures	65	15	50	—	—
Profit before tax	11,544	9,764	834	619	327
2022					
Net operating income before change in expected credit losses and other credit impairment charges ²	20,884	16,383	1,354	2,016	1,131
– net interest income	15,971	14,673	339	965	(6)
– net fee income/(expense)	5,307	3,260	154	788	1,105
– other income	(394)	(1,550)	861	263	32
ECL	(1,186)	(1,173)	(8)	(4)	(1)
Net operating income	19,698	15,210	1,346	2,012	1,130
Total operating expenses	(14,248)	(11,132)	(785)	(1,477)	(854)
Operating profit	5,450	4,078	561	535	276
Share of profit in associates and joint ventures	30	13	17	—	—
Profit before tax	5,480	4,091	578	535	276

WPB – summary (constant currency basis) (continued)

	Consists of ¹				
	Total WPB	Banking operations	Life insurance manufacturing ³	Global Private Banking	Asset management
	\$m	\$m	\$m	\$m	\$m
2021					
Net operating income before change in expected credit losses and other credit impairment charges ²	20,972	15,527	2,512	1,777	1,156
– net interest income	13,447	10,563	2,256	630	(2)
– net fee income/(expense)	5,677	4,249	(603)	916	1,115
– other income	1,848	715	859	231	43
ECL	195	204	(21)	13	(1)
Net operating income	21,167	15,731	2,491	1,790	1,155
Total operating expenses	(15,338)	(12,379)	(629)	(1,538)	(792)
Operating profit	5,829	3,352	1,862	252	363
Share of profit in associates and joint ventures	36	19	17	—	—
Profit before tax	5,865	3,371	1,879	252	363

- ¹ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.
- ² From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 is prepared on an IFRS 4 basis.
- ³ We adopted IFRS 17 from 1 January 2023 and have restated 2022 financial data. Data for 2021 has not restated, and 'Life insurance manufacturing' is disclosed on the basis of preparation prevailing in 2021, which includes results from our manufacturing business only, with insurance distribution presented in 'banking operations'.

Life insurance business performance

The following table provides an analysis of the performance of our life insurance business for the period. It comprises income earned by our insurance manufacturing operations within our WPB business, as well as income earned and costs incurred within our Wealth insurance distribution channels, consolidation and inter-company elimination entries.

Results of WPB's life insurance business unit (constant currency basis)

	Year ended 31 Dec 2023		
	Insurance manufacturing operations	Wealth insurance and other ¹	Life insurance
	\$m	\$m	\$m
Net interest income	283	(1)	282
Net fee income/(expense)	(27)	178	151
Other income	990	39	1,029
– insurance service results	1,127	(34)	1,093
– net investment returns (excluding net interest income)	(119)	30	(89)
– other operating income	(18)	43	25
Net operating income before change in expected credit losses and other credit impairment charges²	1,246	216	1,462
ECL	4	—	4
Net operating income	1,250	216	1,466
Total operating expenses	(571)	(111)	(682)
Operating profit	679	105	784
Share of profit/(loss) in associates and joint ventures	50	—	50
Profit before tax	729	105	834

	Year ended 31 Dec 2022 ³		
Net interest income	345	(6)	339
Net fee income/(expense)	(31)	185	154
Other income	847	14	861
– insurance service results	861	(18)	843
– net investment returns (excluding net interest income)	(176)	(28)	(204)
– other operating income	162	60	222
Net operating income before change in expected credit losses and other credit impairment charges ²	1,161	193	1,354
ECL	(8)	—	(8)
Net operating income	1,153	193	1,346
Total operating expenses	(594)	(191)	(785)
Operating profit	559	2	561
Share of profit/(loss) in associates and joint ventures	17	—	17
Profit before tax	576	2	578

- ¹ 'Wealth insurance and other' includes fee income earned and operating expenses incurred within our Wealth distribution channels. It also includes the IFRS 17 consolidation entries arising from transactions between our insurance manufacturing operations and Wealth distribution channels and with the wider Group, as well as allocations of central costs benefiting life insurance.
- ² Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.
- ³ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly. This table presents an IFRS 17-specific analysis of results and therefore does not include 2021 comparatives.

WPB insurance manufacturing (constant currency basis)

The following table shows the results of our insurance manufacturing operations for our WPB business and for all global business segments in aggregate.

Results of insurance manufacturing operations^{1,2,3}

	2023		2022		2021	
	All global WPB businesses		All global WPB businesses		All global WPB businesses	
	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	283	320	345	370	2,255	2,430
Net fee expense	(27)	(14)	(31)	(16)	(599)	(629)
Other income	990	981	847	847	14,257	14,745
Insurance service result	1,127	1,125	861	866	—	—
– release of contractual service margin	1,094	1,094	902	902	—	—
– risk adjustment release	44	44	45	45	—	—
– experience variance and other	30	28	42	47	—	—
– loss from onerous contracts	(41)	(41)	(128)	(128)	—	—
Net investment returns (excluding net interest income) ⁴	(119)	(125)	(176)	(187)	3,948	3,980
– insurance finance income/(expense)	(7,809)	(7,809)	13,850	13,853	—	—
– other investment income	7,690	7,684	(14,026)	(14,040)	3,948	3,980
Net insurance premium income	—	—	—	—	10,145	10,617
Other operating income	(18)	(19)	162	168	164	148
Total operating income	1,246	1,287	1,161	1,201	15,913	16,546
Net insurance claims and benefits paid and movement in liabilities to policyholders	—	—	—	—	(13,366)	(13,863)
Net operating income before change in expected credit losses and other credit impairment charges⁵	1,246	1,287	1,161	1,201	2,547	2,683
Change in expected credit losses and other credit impairment charges	4	4	(8)	(9)	(18)	(22)
Net operating income	1,250	1,291	1,153	1,192	2,529	2,661
Total operating expenses	(571)	(581)	(594)	(589)	(564)	(590)
Operating profit	679	710	559	603	1,965	2,071
Share of profit in associates and joint ventures	50	50	17	17	17	17
Profit before tax of insurance business operations⁶	729	760	576	620	1,982	2,088
Additional information						
Insurance manufacturing new business contractual service margin (reported basis)	1,686	1,686	1,111	1,111	—	—
Consolidated Group new business contractual service margin (reported basis)	1,812	1,812	1,229	1,229	—	—
Annualised new business premiums of insurance manufacturing operations	3,797	3,797	2,354	2,354	2,777	2,830

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for 2022 have been restated accordingly; comparative data for 2021 are reported under IFRS 4 'Insurance Contracts'.

2 Constant currency results are derived by adjusting for period-on-period effects of foreign currency translation differences. The impact of foreign currency translation differences on 'All global businesses' profit before tax was a \$13m increase for 2022 and a \$53m decrease in 2021.

3 The results presented for insurance manufacturing operations are shown before elimination of inter-company transactions with HSBC non-insurance operations. The 'All global businesses' result consists primarily of WPB business, as well as a small proportion of CMB business.

4 Net investment return under IFRS 17 for all global businesses for 2023 was \$195m (2022: \$183m), which consisted of net interest income, net income/(expenses) on assets held at fair value through profit or loss, and insurance finance income/(expense).

5 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

6 The effect of applying hyperinflation accounting in Argentina on insurance manufacturing operations in all global business resulted in a decrease of \$41m in revenue in 2023 (2022: decrease of \$7m, 2021: increase of \$1m) and a decrease of \$41m in profit before tax in 2023 (2022: decrease of \$6m, 2021: increase of \$1m).

Insurance manufacturing

The following commentary, unless otherwise specified, relates to the 'All global businesses' results.

Profit before tax of \$0.8bn increased by \$0.1bn compared with 2022. This primarily reflected the following:

- Insurance service result of \$1.1bn increased by \$0.3bn compared with 2022. This was driven by an increase in the release of CSM of \$0.2bn as a result of a higher closing CSM balance from the effect of new business written and favourable assumption updates primarily from updates to lapse rate assumptions. The improved insurance service result also reflected a reduction to losses from onerous contracts of \$0.1bn, mainly in Hong Kong and Singapore, in part due to improved market conditions in 2023.
- Net investment return (excluding net interest income) increased by \$0.1bn, with positive asset returns in 2023 compared with losses in the prior period.
- Other operating income reduced by \$0.2bn compared with 2022, and included a \$0.3bn loss from corrections to historical valuation estimates, partly offset by gains of \$0.2bn from reinsurance contracts in Hong Kong.

Profit before tax of \$0.6bn in 2022 reduced by \$1.5bn compared with 2021, primarily reflecting the change in reporting basis from IFRS 4 'Insurance Contracts' in 2021 to IFRS 17 'Insurance Contracts' in 2022. Further information regarding the impact of transition is provided in Note 38 'Effects of adoption of IFRS 17' on page 449.

Annualised new business premiums ('ANP') is used to assess new insurance premiums generated by the business. It is calculated as 100% of annualised first year regular premiums and 10% of single premiums, before reinsurance ceded. ANP in 2023 increased by 61% compared with 2022, primarily from strong new business sales in Hong Kong and a shift in product mix from single to multi-premium products.

Insurance equity plus CSM net of tax

Insurance equity plus CSM net of tax is a non-GAAP alternative performance measure that provides information about our insurance manufacturing operations' net asset value plus the future earnings from in-force business. At 31 December 2023, insurance equity plus CSM net of tax was \$16,583m (31 December 2022: \$14,646m).

Global businesses

At 31 December 2023, insurance equity plus CSM net of tax was calculated as insurance manufacturing operations equity of \$7,731m plus CSM of \$10,786m less tax of \$1,934m. At 31 December 2022, it was calculated as insurance manufacturing operations equity of \$7,236m plus CSM of \$9,058m less tax of \$1,648m.

WPB: Wealth balances

The following table shows the wealth balances, which include invested assets and wealth deposits. Invested assets comprise customer assets either managed by our Asset Management business or by external third-party investment managers, as well as self-directed investments by our customers.

WPB – reported wealth balances¹

	2023	2022
	\$bn	\$bn
Global Private Banking invested assets	363	312
– managed by Global Asset Management	61	57
– external managers, direct securities and other	302	255
Retail invested assets	383	363
– managed by Global Asset Management	178	198
– external managers, direct securities and other	205	165
Asset Management third-party distribution	445	340
Reported invested assets¹	1,191	1,015
Wealth deposits (Premier, Jade and Global Private Banking) ²	536	503
Total reported wealth balances	1,727	1,518

¹ Invested assets are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager. At 31 December 2023, \$32bn of invested assets were classified as held for sale and are not included in the table above.

² Premier, Jade and Global Private Banking deposits, which include Prestige deposits in Hang Seng Bank, form part of the total WPB customer accounts balance of \$805bn (2022: \$779bn) on page 124. At 31 December 2023, \$42bn of wealth deposits were classified as held for sale and are not included in the table above.

Asset Management: funds under management

The following table shows the funds under management of our Asset Management business. Funds under management represents assets managed, either actively or passively, on behalf of our customers. Funds under management are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager.

Asset Management – reported funds under management¹

	2023 \$bn	2022 \$bn
Opening balance	595	630
Net new invested assets	54	45
Net market movements	23	(36)
Foreign exchange and others	12	(44)
Closing balance	684	595

Asset Management – reported funds under management by legal entities

	2023 \$bn	2022 \$bn
HSBC Bank plc	162	134
The Hongkong and Shanghai Banking Corporation Limited	198	184
HSBC North America Holdings Inc.	71	60
Grupo Financiero HSBC, S.A. de C.V.	15	8
Other trading entities ²	238	209
Closing balance	684	595

¹ Funds under management are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager.

² Funds under management of \$177bn in 2023 and \$143bn in 2022 relating to our Asset Management entity in the UK are reported under 'other trading entities' in the table above.

At 31 December 2023, Asset Management funds under management amounted to \$684bn, an increase of \$89bn or 15%. The increase reflected net new invested assets of \$54bn and a positive impact from market performances and foreign exchange translation. Net new

invested assets were notably from additions in money market and exchange traded funds, as well as passive and private equity products.

Global Private Banking: client balances

Global Private Banking client balances comprises invested assets and deposits, which are translated at the rates of exchange applicable for their respective year-ends, with the effects of currency translation reported separately.

Global Private Banking – reported client balances¹

	2023 \$bn	2022 \$bn
Opening balance	383	423
Net new invested assets	17	18
Increase/(decrease) in deposits	9	(1)
Net market movements	19	(53)
Foreign exchange and others	19	(4)
Closing balance	447	383

Global Private Banking – reported client balances by legal entities

	2023 \$bn	2022 \$bn
HSBC UK Bank plc	32	28
HSBC Bank plc	54	58
The Hongkong and Shanghai Banking Corporation Limited	209	174
HSBC North America Holdings Inc.	64	56
Grupo Financiero HSBC, S.A. de C.V.	3	—
Other trading entities	85	67
Closing balance	447	383

¹ Client balances are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager. Customer deposits included in these client balances are on balance sheet.

Retail invested assets

The following table shows the invested assets of our retail customers. These comprise customer assets either managed by our Asset Management business or by external third-party investment managers as well as self-directed investments by our customers.

Retail invested assets are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager.

Retail invested assets

	2023 \$bn	2022 \$bn
Opening balance	363	434
Net new invested assets ¹	26	26
Net market movements	7	(47)
Foreign exchange and others	(13)	(50)
Closing balance	383	363

Retail invested assets by legal entities

	2023 \$bn	2022 \$bn
HSBC UK Bank plc	29	27
HSBC Bank plc	31	27
The Hongkong and Shanghai Banking Corporation Limited	292	284
HSBC Bank Middle East Limited	3	2
HSBC North America Holdings Inc.	14	12
Grupo Financiero HSBC, S.A. de C.V.	9	7
Other trading entities	5	4
Closing balance	383	363

¹ 'Retail net new invested assets' covers nine markets, comprising Hong Kong including Hang Seng Bank (Hong Kong), mainland China, Malaysia, Singapore, HSBC UK, UAE, US, Canada and Mexico. The net new invested assets relating to all other geographies is reported in 'foreign exchange and others'.

WPB invested assets

Net new invested assets represents the net customer inflows from retail invested assets, Asset Management third-party distribution and Global Private Banking invested assets. It excludes all customer deposits. The net new invested assets in the table below is non-

additive from the tables above, as net new invested assets managed by Asset Management that are generated by retail clients or Global Private Banking will be recorded in both businesses.

WPB: Invested assets

	2023 \$bn	2022 \$bn
Opening balance	1,015	1,119
Net new invested assets	84	80
Net market movements	43	(118)
Foreign exchange and others	49	(66)
Closing balance	1,191	1,015

WPB: Net new invested assets by legal entities

	2023 \$bn	2022 \$bn
HSBC UK Bank plc	1	2
HSBC Bank plc	3	6
The Hongkong and Shanghai Banking Corporation Limited	47	59
HSBC Bank Middle East Limited	1	—
HSBC North America Holdings Inc.	7	8
HSBC Bank Canada	—	(1)
Grupo Financiero HSBC, S.A. de C.V.	5	1
Other trading entities	20	5
Total	84	80

GBM: Securities Services and Issuer Services

Assets held in custody

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Assets held in custody are not reported on the Group's balance sheet, except where it is deemed that we are acting as principal rather than agent in our role as investment manager. At 31 December 2023, we held \$9.7tn of assets as custodian, an increase of 6% compared with 31 December 2022. The balance comprised \$8.8tn of assets in Securities Services, which were recorded at market value, and \$0.9tn of assets in Issuer Services, recorded at book value.

The increase was mainly in Securities Services balances. This was driven by net asset inflows in Europe and Asia, favourable market movements in Asia, North America and Latin America, and a positive impact of currency translation differences in Europe.

Assets under administration

Our assets under administration business includes the provision of bond and loan administration services, transfer agency services and the valuation of portfolios of securities and other financial assets on behalf of clients and complements the custody business. At 31 December 2023, the value of assets held under administration by the Group amounted to \$4.9tn, which was 9% higher than at 31 December 2022. The balance comprised \$2.9tn of assets in Securities Services, which were recorded at market value, and \$2.0tn of assets in Issuer Services, recorded at book value.

The increase was mainly driven by Securities Services balances due to net asset inflows in Europe and Asia together with a favourable impact of currency translation differences, market movements and onboarding of new clients in Europe. Issuer Services balances also rose driven by new issuances, notably in the US and the UK, as well as a favourable impact of currency translation differences in the UK.

Global business financial performance 2022 compared with 2021

Wealth and Personal Banking

From 1 January 2023, we adopted IFRS17 and have restated 2022 financial data. 2021 data is not restated, and 'Life insurance manufacturing' is disclosed on the basis of preparation prevailing in 2021, which includes results from our manufacturing business only, with insurance distribution presented in 'investment distribution'.

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$5.5bn was \$0.4bn or 7% lower than in 2021 on a constant currency basis. This reflected higher net interest income in Personal Banking and Private Banking from rising interest rates, partly offset by a reduction in net interest income of \$2.1bn due to the impact of the IFRS17 restatement. There was also a net ECL charge in 2022 of \$1.2bn, compared with a net release of \$0.2bn in 2021.

Revenue of \$20.9bn was \$0.1bn lower on a constant currency basis. Net interest income grew in Personal Banking by \$4.3bn due to rising interest rates and balance sheet growth in our main legal entities in the UK, Asia, Mexico and the Middle East. In addition, there was an increase in net interest income of \$0.3bn in Global Private Banking. This was offset by lower insurance revenue, mainly due to the adoption of IFRS 17 'Insurance Contracts', as well as from adverse equity markets performance in 2022 compared with a favourable performance in 2021, and an impairment of \$2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022.

In Personal Banking, revenue of \$15.9bn was up \$4.3bn or 37%.

- Net interest income was \$4.3bn or 42% higher due to the positive impact of rising interest rates. This was supported by strong balance sheet growth in our main legal entities in the UK, Asia, Mexico and the Middle East. Compared with 2021, deposit balances in our main legal entity in Asia increased by \$6bn. Mortgage lending increased in the UK by \$9bn and in Hong Kong by \$3bn. In addition, unsecured lending increased in our main legal entities in Asia by 5% and Mexico by 18%.

In Wealth, revenue of \$7.0bn was down by \$1.8bn or 21%, notably from lower life insurance revenue as described above. However, our investments in Asia contributed to the generation of net new invested assets of \$80bn during 2022.

- Life insurance revenue was \$1.2bn or 46% lower compared with 2021. The 2022 figure has been restated to reflect the impact of the adoption of IFRS 17 on 1 January 2023, which resulted in a reduction in revenue of \$1.1bn. The 2021 figure included positive market impacts of \$0.5bn, reflecting favourable equity markets performance. This compared with adverse movements in equity markets 2022, although the impact on revenue of these movements were lower under IFRS 17 than under IFRS 4, as they are distributed over the remaining life of the impacted contracts.

The value of new business written in 2022 increased by \$0.2bn or 23%, reflecting the launch of new products. In addition, there was a \$0.3bn gain in 2022 following a pricing update for our policyholders' funds held on deposit with us in Hong Kong to reflect the cost to provide this service. We also recognised a \$0.1bn gain on the completion of our acquisition of AXA Singapore.

- Investment distribution revenue was \$0.9bn or 27% lower, as muted customer sentiment led to lower activity in equity markets, which compared with a strong 2021, and as Covid-19-related restrictions in Hong Kong in early 2022 resulted in the temporary closure of parts of our branch network. Since then, restrictions have substantially been eased. In 2021, insurance distribution income of \$0.5bn was reported in investment distribution, and from 1 January 2022 this income was reported in life insurance.
- In Global Private Banking, revenue was \$0.2bn or 13% higher due to the positive impact of rising interest rates on net interest income. This increase was partly offset by a decline in brokerage and trading revenue, reflecting reduced client activity compared with a strong 2021.
- Asset management revenue was \$25m or 2% lower, as adverse market conditions led to unfavourable valuation movements. This was in part mitigated by growth in management fees from net new invested assets of \$45bn in 2022 and improved performance fees.

In Other, revenue fell by \$2.5bn, notably from an impairment of \$2.4bn recognised following the reclassification of our retail banking operations in France as held for sale on 30 September 2022 and lower allocation of revenue from Markets Treasury.

ECL were a net charge of \$1.2bn, reflecting a more normalised level of ECL charges, including provisions relating to a deterioration in the forward economic outlook from heightened levels of uncertainty and inflationary pressures. This compared with a net release of \$0.2bn in 2021 from Covid-19-related allowances previously built up in 2020.

Operating expenses of \$14.2bn were \$1.1bn lower on a constant currency basis, in part due to the non-recurrence of a 2021 goodwill impairment of \$0.6bn related to our WPB business in Latin America. The increase also reflected continued investments, notably in wealth in Asia including the costs related to our AXA Singapore acquisition, and from the impact of higher inflation. These increases were partly offset by the benefits of our cost-saving initiatives.

Commercial Banking

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$7.5bn was \$1.2bn higher than in 2021 on a constant currency basis. This was driven by an increase in revenue across all CMB products and in all our main legal entities, notably in Asia and the UK, and included a 149% increase in GPS net interest income. This was partly offset by a net ECL charge compared with a net release of ECL in 2021. Operating expenses remained stable, as increased investment spend was mitigated by continued cost discipline.

Revenue of \$16.3bn was \$3.6bn or 28% higher on a constant currency basis.

- In GPS, revenue increased by \$3.6bn, with growth in all our main legal entities, particularly in Asia and the UK, driven by higher margins, reflecting interest rate rises and business repricing actions. Revenue also benefited from a 6% increase in average deposit balances. There was a 19% increase in fee income, notably in cards and payments, with growth in all our main legal entities, notably in the UK, supported by the delivery of our strategic fee initiatives.
- In GTRF, revenue increased by \$0.2bn or 13%, with growth in all our main legal entities, notably in the UK and Asia, driven by an increase in average balances, which rose by 17% compared with 2021 at improved margins. In addition, fee income grew by 4% compared with 2021.
- In GBM products, Insurance and Investments and Other, revenue decreased by \$0.2bn or 12%, reflecting the adverse effects of hyperinflation accounting in Türkiye and Argentina, as well as lower Markets Treasury and insurance revenue. This was partly offset by an 17% increase in collaboration revenue from GBM products, notably Foreign Exchange.

ECL were a net charge of \$1.9bn, compared with a net release of \$0.3bn in 2021. The charge in 2022 primarily related to stage 3 charges in Asia, mainly in the commercial real estate sector in mainland China, and higher charges in the UK reflecting heightened levels of uncertainty and inflationary pressures. This compared with a net release in 2021 of Covid-19-related allowances previously built up in 2020.

Operating expenses of \$6.9bn remained broadly stable (up 3%). The continued investment in technology and the impact of higher inflation were mitigated by continued cost discipline on discretionary spend and through hiring efficiencies, as well as from the impact of our cost-saving initiatives.

Global Banking and Markets

2022 compared with 2021

Financial performance (on a constant currency basis)

Profit before tax of \$4.7bn was \$0.6bn or 16% higher than in 2021 on a constant currency basis. Growth in revenue of \$1.5bn or 12% was partly offset by a net ECL charge in 2022 of \$0.6bn, compared with a net release in 2021 of \$0.2bn, and from an increase of \$0.1bn in operating expenses.

Revenue of \$14.6bn was \$1.5bn or 12% higher compared with 2020, on a constant currency basis. The increase reflected growth in GPS net interest income from higher interest rates, and a strong Markets and Securities Services performance driven by increased client activity and disciplined risk management. In MSS, revenue increased by \$1.2bn or 15%.

- In Securities Services, revenue grew by \$0.2bn or 14% from higher net interest income as global interest rates rose, partly offset by reduced fee income from lower market levels.
- In Global Debt Markets, revenue fell by \$0.1bn or 15%, reflecting lower primary issuances and challenging market conditions.
- In Global Foreign Exchange, revenue growth of \$1.0bn or 34% reflected increased client activity due to elevated market volatility

and the combined macroeconomic impacts of rising inflation, higher interest rates and a strengthening of the US dollar, as well as a strong trading performance.

- In Equities, revenue fell by \$0.2bn or 13% in the context of a strong prior year and lower client activity in 2022.
- In Securities Financing, revenue increased by \$0.1bn or 11%, driven by client franchise growth and a strong trading performance.
- In Banking, revenue increased by \$0.9bn or 15%.
- In GPS, revenue increased by \$1.3bn or 82%, driven by margin growth as a result of the rising global interest-rate environment and business pricing actions, together with active portfolio management and average balance growth. Fee income grew in all regions from the continued delivery of our strategic initiatives.
- Capital Markets and Advisory revenue decreased \$0.4bn or 38%, primarily from lower fees in line with the reduced global fee pool and adverse valuation movements on leveraged loans, net of hedging.

In GBM Other, Principal Investments revenue declined by \$0.5bn, as 2022 included lower valuation gains compared with 2021. There was also a reduction in revenue from Markets Treasury and the impact of hyperinflationary accounting, which are allocated to the global businesses. GBM Other also included a loss of \$0.1bn from a buy-back of legacy securities.

ECL were net charge of \$0.6bn on a constant currency basis. This included stage 3 charges predominantly in the commercial real estate sector in mainland China, and in Europe, which also reflected allowances due to a deterioration in the forward economic outlook given the heightened levels of uncertainty and inflationary pressures. This compared with a net release of \$0.2bn in 2021 of Covid-19-related allowances previously built up in 2020.

Operating expenses of \$9.3bn increased by \$0.1bn or 1% on a constant currency basis, as the impact of higher inflation and strategic investments were in part mitigated by our ongoing cost discipline.

Corporate Centre

2022 compared with 2021

Loss before tax of \$1.2bn was a \$2.3bn reduction compared with a profit of \$1.1bn in 2021 on a constant currency basis due to a reduction in revenue, higher costs and a lower share of profit in associates and joint ventures.

Revenue decreased by \$1.2bn on a constant currency basis. This was primarily due to higher adverse fair value movements on financial instruments, as well as the impacts of the restructuring of our business in Europe in 2022, including losses associated with the planned sale of our branch operations in Greece and losses related to the planned disposal of our operations in Russia. In addition, lower revenue included losses related to our RWA reduction programme.

Operating expenses increased by \$0.9bn or 90% compared with 2021 on a constant currency basis. This reflected an increase in restructuring and other related costs, partly offset by a favourable allocation of the UK bank levy and related prior year credits. Since 2021, the UK bank levy and any related credits have been allocated across our global businesses and Corporate Centre, primarily to GBM.

Share of profit in associates and joint ventures of \$2.6bn decreased by \$0.2bn or 7% on a constant currency basis, primarily as 2021 included a higher share of profit from BGF in the UK, due to a recovery in asset valuations. This was partly offset by an increase in the share of profit from SAB.

Analysis of reported results by legal entities

HSBC reported profit/(loss) before tax and balance sheet data

	2023									
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	HSBC Bank Canada \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Holding companies, shared service centres and intra-Group eliminations \$m	Total \$m
Net interest income	9,684	2,674	16,705	1,551	1,712	1,275	2,148	3,765	(3,718)	35,796
Net fee income	1,597	1,527	4,859	475	1,237	559	581	1,225	(215)	11,845
Net income from financial instruments held for trading or managed on a fair value basis	516	4,220	9,507	397	729	110	437	1,054	(309)	16,661
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	—	1,438	6,258	—	—	—	39	323	(171)	7,887
Insurance finance income/(expense)	—	(1,460)	(6,237)	—	—	—	(44)	(166)	98	(7,809)
Insurance service result	—	154	838	—	—	—	87	9	(10)	1,078
Other income/(expense) ¹	1,608	736	(31)	2	185	22	65	(1,481)	(506)	600
Net operating income before change in expected credit losses and other credit impairment charges²	13,405	9,289	31,899	2,425	3,863	1,966	3,313	4,729	(4,831)	66,058
Change in expected credit losses and other credit impairment charges	(523)	(212)	(1,641)	(90)	(94)	(46)	(696)	(279)	134	(3,447)
Net operating income	12,882	9,077	30,258	2,335	3,769	1,920	2,617	4,450	(4,697)	62,611
Total operating expenses excluding impairment of goodwill and other intangible assets	(4,602)	(6,483)	(13,379)	(1,095)	(3,473)	(1,049)	(1,823)	(2,631)	2,180	(32,355)
Impairment of goodwill and other intangible assets	(10)	97	(16)	(1)	222	—	(3)	(4)	—	285
Operating profit/(loss)	8,270	2,691	16,863	1,239	518	871	791	1,815	(2,517)	30,541
Share of profit in associates and joint ventures less impairment ³	—	(52)	(696)	—	—	—	14	544	(3)	(193)
Profit/(loss) before tax	8,270	2,639	16,167	1,239	518	871	805	2,359	(2,520)	30,348
	%	%	%	%	%	%	%	%	%	%
Share of HSBC's profit before tax	27.2	8.7	53.3	4.1	1.7	2.9	2.6	7.8	(8.3)	100.0
Cost efficiency ratio	34.4	68.7	42.0	45.2	84.2	53.4	55.1	55.7	45.1	48.5
Balance sheet data	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	270,208	95,750	455,315	20,072	54,829	—	26,410	15,951	—	938,535
Total assets	423,029	896,682	1,333,911	50,612	252,339	90,731	47,309	59,051	(114,987)	3,038,677
Customer accounts	339,611	274,733	801,430	31,341	99,607	—	29,423	35,326	176	1,611,647
Risk-weighted assets ^{4,5}	129,211	131,468	396,677	24,294	72,248	31,890	32,639	59,574	6,704	854,114

Legal entities

HSBC reported profit/(loss) before tax and balance sheet data (continued)

	2022 ⁶									
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Holding companies, shared service centres and intra-Group eliminations	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	7,615	2,357	14,031	903	1,922	1,251	1,796	2,244	(1,742)	30,377
Net fee income	1,536	1,601	4,924	458	1,223	598	455	1,127	(152)	11,770
Net income from financial instruments held for trading or managed on a fair value basis	472	3,564	5,270	360	485	76	351	639	(939)	10,278
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	—	(1,761)	(12,117)	—	—	—	(9)	66	(10)	(13,831)
Insurance finance income/(expense)	—	1,431	12,407	—	—	—	3	(32)	(10)	13,799
Insurance service result	—	149	636	—	—	—	50	(20)	(6)	809
Other income/(expense) ¹	148	(1,920)	491	22	533	29	67	(521)	(1,431)	(2,582)
Net operating income before change in expected credit losses and other credit impairment charges ²	9,771	5,421	25,642	1,743	4,163	1,954	2,713	3,503	(4,290)	50,620
Change in expected credit losses and other credit impairment charges	(563)	(292)	(2,090)	21	(20)	(84)	(507)	(61)	12	(3,584)
Net operating income	9,208	5,129	23,552	1,764	4,143	1,870	2,206	3,442	(4,278)	47,036
Total operating expenses excluding impairment of goodwill and other intangible assets	(4,667)	(6,497)	(13,011)	(1,033)	(3,429)	(1,017)	(1,631)	(2,359)	1,090	(32,554)
Impairment of goodwill and other intangible assets	(54)	11	(42)	(3)	(9)	(21)	(5)	(2)	(22)	(147)
Operating profit/(loss)	4,487	(1,357)	10,499	728	705	832	570	1,081	(3,210)	14,335
Share of profit in associates and joint ventures less impairment	—	(38)	2,400	—	—	—	13	351	(3)	2,723
Profit/(loss) before tax	4,487	(1,395)	12,899	728	705	832	583	1,432	(3,213)	17,058
	%	%	%	%	%	%	%	%	%	%
Share of HSBC's profit before tax	26.3	(8.2)	75.6	4.3	4.1	4.9	3.4	8.4	(18.8)	100.0
Cost efficiency ratio	48.3	119.6	50.9	59.4	82.6	53.1	60.3	67.4	24.9	64.6
Balance sheet data	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	245,921	86,964	473,985	19,762	54,159	—	20,446	22,325	(1)	923,561
Total assets	412,522	863,308	1,297,806	48,086	239,117	94,604	39,939	67,345	(113,441)	2,949,286
Customer accounts	336,086	253,075	784,236	29,893	100,404	—	25,531	41,078	—	1,570,303
Risk-weighted assets ^{4,5}	110,919	127,017	406,985	22,490	72,446	31,876	26,744	60,289	8,144	839,720

HSBC reported profit/(loss) before tax and balance sheet data (continued)

2021

	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Holding companies, shared service centres and intra-Group eliminations	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	6,397	2,411	12,623	633	1,809	978	1,542	1,586	(1,490)	26,489
Net fee income	1,484	1,945	5,828	445	1,426	634	406	1,044	(115)	13,097
Net income from financial instruments held for trading or managed on a fair value basis	437	2,382	3,649	275	226	89	272	474	(60)	7,744
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	—	1,670	2,340	—	—	—	4	44	(5)	4,053
Insurance finance income/(expense)	—	—	—	—	—	—	—	—	—	—
Insurance service result	—	—	—	—	—	—	—	—	—	—
Other income/(expense)	278	16	(1,446)	55	595	67	136	(152)	(1,380)	(1,831)
Net operating income before loan impairment (charges)/recoveries and other credit risk provisions ²	8,596	8,424	22,994	1,408	4,056	1,768	2,360	2,996	(3,050)	49,552
Change in expected credit losses and other credit impairment (charges)/recoveries	1,362	239	(840)	142	205	37	(224)	2	5	928
Net operating income	9,958	8,663	22,154	1,550	4,261	1,805	2,136	2,998	(3,045)	50,480
Total operating expenses excluding impairment of goodwill and other intangible assets	(5,147)	(7,448)	(12,975)	(955)	(3,678)	(1,036)	(1,558)	(2,060)	970	(33,887)
Impairment of goodwill and other intangible assets	(25)	(63)	(24)	(3)	(5)	(8)	(7)	(6)	(592)	(733)
Operating profit/(loss)	4,786	1,152	9,155	592	578	761	571	932	(2,667)	15,860
Share of profit in associates and joint ventures less impairment	—	263	2,486	—	—	—	17	280	—	3,046
Profit/(loss) before tax	4,786	1,415	11,641	592	578	761	588	1,212	(2,667)	18,906
	%	%	%	%	%	%	%	%	%	%
Share of HSBC's profit before tax	25.3	7.5	61.6	3.1	3.1	4.0	3.1	6.4	(14.1)	100.0
Cost efficiency ratio	60.2	89.2	56.5	68.0	90.8	59.0	66.3	69.0	12.4	69.9
Balance sheet data	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	264,624	122,954	492,523	18,623	52,678	54,226	18,043	22,142	1	1,045,814
Total assets	468,362	807,541	1,259,270	46,773	261,335	94,570	35,525	66,425	(81,862)	2,957,939
Customer accounts	381,482	270,975	792,099	26,802	111,921	58,071	23,583	45,643	(2)	1,710,574
Risk-weighted assets ^{4,5}	113,501	136,038	393,742	22,855	77,775	30,198	24,578	56,112	9,072	838,263

1 Other income/(expense) in this context comprises gain on acquisitions, impairment gain/(loss) relating to the sale of our retail banking operations in France, and other operating income/(expense).

2 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

3 Includes an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom.

4 Risk-weighted assets are non-additive across the principal entities due to market risk diversification effects within the Group.

5 Balances are on a third-party Group consolidated basis.

6 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Summary information – legal entities and selected countries/territories

Legal entity reported and constant currency results¹

	2023									
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities ²	Holding companies, shared service centres and intra-Group eliminations	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue ³	13,405	9,289	31,899	2,425	3,863	1,966	3,313	4,729	(4,831)	66,058
ECL	(523)	(212)	(1,641)	(90)	(94)	(46)	(696)	(279)	134	(3,447)
Operating expenses	(4,612)	(6,386)	(13,395)	(1,096)	(3,251)	(1,049)	(1,826)	(2,635)	2,180	(32,070)
Share of profit in associates and joint ventures	—	(52)	(696)	—	—	—	14	544	(3)	(193)
Profit/(loss) before tax	8,270	2,639	16,167	1,239	518	871	805	2,359	(2,520)	30,348
Loans and advances to customers (net)	270,208	95,750	455,315	20,072	54,829	—	26,410	15,951	—	938,535
Customer accounts	339,611	274,733	801,430	31,341	99,607	—	29,423	35,326	176	1,611,647

¹ In the current period, constant currency results are equal to reported, as there is no currency translation.

² Other trading entities includes the results of entities located in Oman, Türkiye, Egypt and Saudi Arabia (including our share of the results of Saudi Awwal Bank) which do not consolidate into HSBC Bank Middle East Limited. These entities had an aggregated impact on the Group's reported profit before tax of \$1,286m. Supplementary analysis is provided on page 145 to provide a fuller picture of the MENAT regional performance.

³ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Legal entity results: notable items

	2023									
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Holding companies, shared service centres and intra-Group eliminations	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue										
Disposals, acquisitions and related costs ^{1,2,3}	1,591	(14)	—	—	—	—	—	—	(279)	1,298
Fair value movements on financial instruments ⁴	—	—	—	—	—	—	—	—	14	14
Restructuring and other related costs	—	361	—	—	—	—	—	—	(361)	—
Disposal losses on Markets Treasury repositioning	(145)	(94)	(473)	(20)	(246)	—	—	—	1	(977)
Operating expenses										
Disposals, acquisitions and related costs	(45)	(111)	—	—	(11)	(115)	—	—	(39)	(321)
Restructuring and other related costs ⁵	20	30	10	2	10	—	6	2	56	136
Impairment of interest in associate⁶	—	—	(3,000)	—	—	—	—	—	—	(3,000)

¹ Includes the impacts of the sale of our retail banking operations in France.

² Includes the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK.

³ Includes fair value movements on the foreign exchange hedging of the expected proceeds from the planned sale of our banking operations in Canada.

⁴ Fair value movements on non-qualifying hedges in HSBC Holdings.

⁵ Balances relate to reversals of restructuring provisions recognised during 2022.

⁶ Includes an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom.

Selected countries/territories results¹

	2023				
	UK ²	Hong Kong	Mainland China	US	Mexico
	\$m	\$m	\$m	\$m	\$m
Revenue ³	19,092	20,611	3,923	3,796	3,313
ECL	(594)	(1,529)	(93)	(94)	(696)
Operating expenses	(12,485)	(8,244)	(2,713)	(3,251)	(1,826)
Share of profit/(loss) in associates and joint ventures	(53)	30	(746)	—	14
Profit before tax	5,960	10,868	371	451	805
Loans and advances to customers (net)	309,262	279,551	44,275	54,829	26,410
Customer accounts	508,181	543,504	56,006	99,607	29,423

¹ In the current period, constant currency results are equal to reported, as there is no currency translation.

² UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

³ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Selected countries/territories results: notable items

	2023				
	UK ¹ \$m	Hong Kong \$m	Mainland China \$m	US \$m	Mexico \$m
Revenue					
Disposals, acquisitions and related costs ^{1,2,3,4}	1,272	—	—	—	—
Fair value movements on financial instruments ⁵	14	—	—	—	—
Disposal losses on Markets Treasury repositioning	(239)	(473)	—	(246)	—
Operating expenses					
Disposals, acquisitions and related costs	(71)	(1)	(5)	(11)	—
Restructuring and other related costs ⁶	75	9	4	10	6
Impairment of interest in associate⁷	—	—	(3,000)	—	—

¹ UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

² Includes the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK.

³ Includes the impairment gain relating to the sale of our retail banking operations in France.

⁴ Includes fair value movements on the foreign exchange hedging of the expected proceeds from the planned sale of our banking operations in Canada.

⁵ Fair value movements on non-qualifying hedges in HSBC Holdings.

⁶ Balances relates to reversals of restructuring provisions recognised during 2022.

⁷ Includes an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom.

Legal entity reported and constant currency results (continued)

	2022 ¹									
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	HSBC Bank Canada \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities ² \$m	Holding companies, shared service centres and intra-Group eliminations \$m	Total \$m
Revenue³										
Reported	9,771	5,421	25,642	1,743	4,163	1,954	2,713	3,503	(4,290)	50,620
Currency translation	125	(11)	(278)	3	—	(67)	370	(789)	(102)	(749)
Constant currency	9,896	5,410	25,364	1,746	4,163	1,887	3,083	2,714	(4,392)	49,871
ECL										
Reported	(563)	(292)	(2,090)	21	(20)	(84)	(507)	(61)	12	(3,584)
Currency translation	(43)	14	6	—	—	2	(67)	41	1	(46)
Constant currency	(606)	(278)	(2,084)	21	(20)	(82)	(574)	(20)	13	(3,630)
Operating expenses										
Reported	(4,721)	(6,486)	(13,053)	(1,036)	(3,438)	(1,038)	(1,636)	(2,361)	1,068	(32,701)
Currency translation	(45)	(81)	134	(1)	—	37	(221)	500	76	399
Constant currency	(4,766)	(6,567)	(12,919)	(1,037)	(3,438)	(1,001)	(1,857)	(1,861)	1,144	(32,302)
Share of profit/(loss) in associates and joint ventures										
Reported	—	(38)	2,400	—	—	—	13	351	(3)	2,723
Currency translation	—	1	(123)	—	—	—	1	—	—	(121)
Constant currency	—	(37)	2,277	—	—	—	14	351	(3)	2,602
Profit/(loss) before tax										
Reported	4,487	(1,395)	12,899	728	705	832	583	1,432	(3,213)	17,058
Currency translation	37	(77)	(261)	2	—	(28)	83	(248)	(25)	(517)
Constant currency	4,524	(1,472)	12,638	730	705	804	666	1,184	(3,238)	16,541
Loans and advances to customers (net)										
Reported	245,921	86,964	473,985	19,762	54,159	—	20,446	22,325	(1)	923,561
Currency translation	14,412	4,009	(2,105)	22	—	—	3,044	(1,396)	1	17,987
Constant currency	260,333	90,973	471,880	19,784	54,159	—	23,490	20,929	—	941,548
Customer accounts										
Reported	336,086	253,075	784,236	29,893	100,404	—	25,531	41,078	—	1,570,303
Currency translation	19,697	12,400	(2,671)	35	—	—	3,802	(5,072)	1	28,192
Constant currency	355,783	265,475	781,565	29,928	100,404	—	29,333	36,006	1	1,598,495

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

² Other trading entities includes the results of entities located in Oman, Türkiye, Egypt and Saudi Arabia (including our share of the results of Saudi Awwal Bank) which do not consolidate into HSBC Bank Middle East Limited. These entities had an aggregated impact on the Group's reported profit before tax of \$997m and constant currency profit before tax of \$840m. Supplementary analysis is provided on page 145 to provide a fuller picture of the MENAT regional performance.

³ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Legal entities

Legal entity results: notable items (continued)

	2022 ¹									
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	HSBC Bank Canada \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Holding companies, shared service centres and intra-Group eliminations \$m	Total \$m
Revenue										
Disposals, acquisitions and related costs ²	—	(2,242)	—	—	—	—	—	—	(495)	(2,737)
Fair value movements on financial instruments ³	—	—	—	—	—	—	—	—	(618)	(618)
Restructuring and other related costs ⁴	1	(278)	46	(13)	98	1	(17)	—	(85)	(247)
Operating expenses										
Disposals, acquisitions and related costs	—	(18)	—	—	—	—	—	—	—	(18)
Restructuring and other related costs	(521)	(656)	(741)	(64)	(421)	(87)	(115)	(150)	(127)	(2,882)

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 Includes losses from classifying businesses as held for sale as part of a broader restructuring of our European business, of which \$2.3bn (inclusive of \$0.4bn in goodwill impairments) relates to the planned sale of the retail banking operations in France.

3 Fair value movements on non-qualifying hedges in HSBC Holdings.

4 Comprises gains and losses relating to the business update in February 2020, including losses associated with the RWA reduction programme.

Selected countries/territories results (continued)

	2022 ¹				
	UK ² \$m	Hong Kong \$m	Mainland China \$m	US \$m	Mexico \$m
Revenue ³					
Reported	17,268	15,712	4,104	4,107	2,713
Currency translation	223	8	(212)	—	370
Constant currency	17,491	15,720	3,892	4,107	3,083
ECL					
Reported	(712)	(1,683)	(326)	(20)	(507)
Currency translation	(36)	(2)	16	—	(67)
Constant currency	(748)	(1,685)	(310)	(20)	(574)
Operating expenses					
Reported	(13,232)	(7,935)	(2,757)	(3,438)	(1,636)
Currency translation	(140)	(1)	139	—	(221)
Constant currency	(13,372)	(7,936)	(2,618)	(3,438)	(1,857)
Share of profit/(loss) in associates and joint ventures					
Reported	(41)	5	2,386	—	12
Currency translation	1	—	(122)	—	2
Constant currency	(40)	5	2,264	—	14
Profit before tax					
Reported	3,283	6,099	3,407	649	582
Currency translation	48	5	(179)	—	84
Constant currency	3,331	6,104	3,228	649	666
Loans and advances to customers (net)					
Reported	286,032	294,580	50,481	54,159	20,446
Currency translation	16,763	(626)	(1,476)	—	3,044
Constant currency	302,795	293,954	49,005	54,159	23,490
Customer accounts					
Reported	493,028	542,543	56,948	100,404	25,531
Currency translation	28,895	(1,153)	(1,664)	—	3,802
Constant currency	521,923	541,390	55,284	100,404	29,333

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

3 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Selected countries/territories results: notable items (continued)

	2022 ¹				
	UK ² \$m	Hong Kong \$m	Mainland China \$m	US \$m	Mexico \$m
Revenue					
Disposals, acquisitions and related costs	(60)	—	—	—	—
Fair value movements on financial instruments ³	(617)	—	—	—	—
Restructuring and other related costs ⁴	407	(124)	71	99	(17)
Operating expenses					
Restructuring and other related costs	(1,741)	(393)	(70)	(424)	(115)

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

2 UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

3 Fair value movements on non-qualifying hedges in HSBC Holdings.

4 Comprises gains and losses relating to the business update in February 2020, including losses associated with RWA reduction commitments.

Legal entity reported and constant currency results (continued)

	2021 ¹									
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	HSBC Bank Canada \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities ¹ \$m	Holding companies, shared service centres and intra-Group eliminations \$m	Total \$m
Revenue ²										
Reported	8,596	8,424	22,994	1,408	4,056	1,768	2,360	2,996	(3,050)	49,552
Currency translation	(824)	(737)	(841)	1	—	(127)	344	(871)	(418)	(3,473)
Constant currency	7,772	7,687	22,153	1,409	4,056	1,641	2,704	2,125	(3,468)	46,079
ECL										
Reported	1,362	239	(840)	142	205	37	(224)	2	5	928
Currency translation	(128)	(25)	24	—	—	(3)	(36)	(3)	1	(170)
Constant currency	1,234	214	(816)	142	205	34	(260)	(1)	6	758
Operating expenses										
Reported	(5,172)	(7,511)	(12,999)	(958)	(3,683)	(1,044)	(1,565)	(2,066)	378	(34,620)
Currency translation	499	677	471	(1)	1	75	(250)	582	322	2,376
Constant currency	(4,673)	(6,834)	(12,528)	(959)	(3,682)	(969)	(1,815)	(1,484)	700	(32,244)
Share of profit/(loss) in associates and joint ventures										
Reported	—	263	2,486	—	—	—	17	280	—	3,046
Currency translation	—	(27)	(214)	—	—	—	3	—	(1)	(239)
Constant currency	—	236	2,272	—	—	—	20	280	(1)	2,807
Profit/(loss) before tax										
Reported	4,786	1,415	11,641	592	578	761	588	1,212	(2,667)	18,906
Currency translation	(453)	(112)	(560)	—	1	(55)	61	(292)	(96)	(1,506)
Constant currency	4,333	1,303	11,081	592	579	706	649	920	(2,763)	17,400
Loans and advances to customers (net)										
Reported	264,624	122,954	492,523	18,623	52,678	54,226	18,043	22,142	1	1,045,814
Currency translation	(15,280)	(4,501)	(13,319)	22	—	(2,183)	3,749	(3,491)	1	(35,002)
Constant currency	249,344	118,453	479,204	18,645	52,678	52,043	21,792	18,651	2	1,010,812
Customer accounts										
Reported	381,482	270,975	792,099	26,802	111,921	58,071	23,583	45,643	(2)	1,710,574
Currency translation	(22,028)	(12,400)	(16,539)	19	—	(2,338)	4,900	(9,003)	2	(57,387)
Constant currency	359,454	258,575	775,560	26,821	111,921	55,733	28,483	36,640	—	1,653,187

1 Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Legal entities

Legal entity results: notable items (continued)

	2021 ¹									
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	HSBC Bank Canada \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Holding companies, shared service centres and intra-Group eliminations \$m	Total \$m
Revenue										
Fair value movements on financial instruments ²	—	—	—	—	—	—	—	—	(221)	(221)
Restructuring and other related costs ³	4	(280)	1	1	(6)	2	(15)	2	(16)	(307)
Operating expenses										
Impairment of non-financial items	—	—	—	—	—	—	—	(1)	(586)	(587)
Restructuring and other related costs	(356)	(473)	(406)	(31)	(355)	(68)	(59)	(78)	(10)	(1,836)

¹ Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² Fair value movements on non-qualifying hedges in HSBC Holdings.

³ Comprises gains and losses relating to the business update in February 2020, including losses associated with the RWA reduction programme.

Selected countries/territories results (continued)

	2021 ¹				
	UK ² \$m	Hong Kong \$m	Mainland China \$m	US \$m	Mexico \$m
Revenue ³					
Reported	16,415	14,463	3,734	4,006	2,341
Currency translation	(1,571)	(101)	(340)	(1)	343
Constant currency	14,844	14,362	3,394	4,005	2,684
ECL					
Reported	1,645	(608)	(89)	205	(224)
Currency translation	(154)	3	11	—	(36)
Constant currency	1,491	(605)	(78)	205	(260)
Operating expenses					
Reported	(14,808)	(7,955)	(2,773)	(3,683)	(1,565)
Currency translation	1,212	51	255	1	(250)
Constant currency	(13,596)	(7,904)	(2,518)	(3,682)	(1,815)
Share of profit/(loss) in associates and joint ventures					
Reported	267	16	2,461	—	17
Currency translation	(27)	—	(213)	—	3
Constant currency	240	16	2,248	—	20
Profit before tax					
Reported	3,519	5,916	3,333	528	569
Currency translation	(540)	(47)	(287)	—	60
Constant currency	2,979	5,869	3,046	528	629
Loans and advances to customers (net)					
Reported	306,464	311,947	54,239	52,678	18,043
Currency translation	(17,696)	(553)	(5,689)	—	3,749
Constant currency	288,768	311,394	48,550	52,678	21,792
Customer accounts					
Reported	535,797	549,429	59,266	111,921	23,583
Currency translation	(30,939)	(974)	(6,217)	—	4,900
Constant currency	504,858	548,455	53,049	111,921	28,483

¹ Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

³ Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Selected countries/territories results: notable items (continued)

	2021 ¹				
	UK ²	Hong Kong	Mainland China	US	Mexico
	\$m	\$m	\$m	\$m	\$m
Revenue					
Fair value movements on financial instruments ³	(221)	—	—	—	—
Restructuring and other related costs ⁴	227	(54)	41	(9)	(15)
Operating expenses					
Restructuring and other related costs	(1,121)	(225)	(32)	(355)	(59)

1 Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 UK includes HSBC UK Bank plc (ring-fenced bank) and HSBC Bank plc (non-ring-fenced bank).

3 Fair value movements on non-qualifying hedges in HSBC Holdings.

4 Comprises gains and losses relating to the business update in February 2020, including losses associated with RWA reduction commitments.

Analysis by country/territory

Profit/(loss) before tax by country/territory within global businesses

	2023				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
UK ¹	2,415	4,437	(692)	(200)	5,960
– of which: HSBC UK Bank plc (ring-fenced bank)	2,754	5,282	144	90	8,270
– of which: HSBC Bank plc (non-ring-fenced bank)	396	295	121	177	989
– of which: Holdings and other	(735)	(1,140)	(957)	(467)	(3,299)
France	(35)	235	128	10	338
Germany	44	144	128	4	320
Switzerland	25	29	—	5	59
Hong Kong	6,808	2,970	1,394	(304)	10,868
Australia	177	319	85	(15)	566
India	56	398	774	289	1,517
Indonesia	23	124	68	(7)	208
Mainland China	(90)	339	662	(540)	371
Malaysia	111	158	219	(21)	467
Singapore	233	436	444	(31)	1,082
Taiwan	99	72	198	(7)	362
Egypt	141	98	303	(11)	531
UAE	387	212	377	(83)	893
Saudi Arabia ²	—	—	118	539	657
US	225	513	111	(398)	451
Canada	293	561	120	(96)	878
Mexico	317	504	15	(31)	805
Other ³	315	1,731	1,472	497	4,015
Year ended 31 Dec 2023	11,544	13,280	5,924	(400)	30,348

1 UK includes results from the ultimate holding company, HSBC Holdings plc, and the separately incorporated group of service companies ('ServCo Group').

2 Includes the results of HSBC Saudi Arabia and our share of the profits of our associate, Saudi Awwal Bank.

3 Corporate Centre includes the profit and loss impact of inter-company debt eliminations of \$571m.

Legal entities

Profit/(loss) before tax by country/territory within global businesses (continued)

	2022 ¹				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
UK ²	1,764	2,094	(534)	(41)	3,283
– of which: HSBC UK Bank plc (ring-fenced bank)	2,112	2,662	143	(430)	4,487
– of which: HSBC Bank plc (non-ring-fenced bank)	294	315	141	(473)	277
– of which: Holdings and other	(642)	(883)	(818)	862	(1,481)
France ³	(2,248)	210	81	(231)	(2,188)
Germany	17	8	133	(147)	11
Switzerland	25	17	13	(30)	25
Hong Kong	4,435	1,278	955	(568)	6,100
Australia	147	180	157	(36)	448
India	45	304	622	306	1,277
Indonesia	4	71	100	(8)	167
Mainland China	(100)	303	526	2,678	3,407
Malaysia	110	89	219	(36)	382
Singapore	218	255	351	(77)	747
Taiwan	36	43	137	(17)	199
Egypt	101	76	194	(4)	367
UAE	128	107	320	(86)	469
Saudi Arabia ⁴	30	—	94	345	469
US	209	557	270	(387)	649
Canada	243	548	140	(89)	842
Mexico	241	414	39	(112)	582
Other ⁵	183	1,039	1,102	(2,502)	(178)
Year ended 31 Dec 2022	5,588	7,593	4,919	(1,042)	17,058

- From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for financial year ended 31 December 2022 have been restated accordingly.
- UK includes results from the ultimate holding company, HSBC Holdings plc, and the separately incorporated group of service companies ('ServCo Group').
- Includes the impact of goodwill impairment of \$425m as a result of the reclassification of our retail banking operations in France to held for sale. At 31 December 2022, HSBC's cash-generating units were based on geographical regions, sub-divided by global businesses.
- Includes the results of HSBC Saudi Arabia and our share of the profits of our associate, Saudi Awwal Bank.
- Corporate Centre includes the profit and loss impact of inter-company debt eliminations of \$1,850m.

Profit/(loss) before tax by country/territory within global businesses (continued)

	2021				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
UK ¹	1,511	2,475	(487)	20	3,519
– of which: HSBC UK Bank plc (ring-fenced bank)	2,047	2,929	127	(318)	4,785
– of which: HSBC Bank plc (non-ring fenced bank)	176	259	220	(17)	638
– of which: Holdings and other	(712)	(713)	(834)	355	(1,904)
France	236	163	(97)	(133)	169
Germany	17	82	155	67	321
Switzerland	46	10	—	(12)	44
Hong Kong	4,076	1,303	920	(383)	5,916
Australia	146	132	131	(26)	383
India	20	265	593	232	1,110
Indonesia	14	12	111	(8)	129
Mainland China	(95)	288	586	2,554	3,333
Malaysia	37	(23)	145	(20)	139
Singapore	145	107	231	(13)	470
Taiwan	14	16	106	(5)	131
Egypt	79	42	163	(2)	282
UAE	91	3	342	(61)	375
Saudi Arabia ²	17	—	65	274	356
US	(131)	472	524	(337)	528
Canada	141	544	145	(62)	768
Mexico	305	88	222	(46)	569
Other ³	(536)	698	867	(665)	364
Year ended 31 Dec 2021	6,133	6,677	4,722	1,374	18,906

- UK includes results from the ultimate holding company, HSBC Holdings plc, and the separately incorporated group of service companies ('ServCo Group').
- Includes the results of HSBC Saudi Arabia and our share of the profits of our associate, Saudi Awwal Bank.
- Includes the impact of goodwill impairment of \$587m. At 31 December 2021, HSBC's cash-generating units were based on geographical regions, sub-divided by global businesses.

Middle East, North Africa and Türkiye supplementary information

The following tables show the results of our Middle East, North Africa and Türkiye business operations on a regional basis (including results of all the legal entities operating in the region and our share of the results of Saudi Awwal Bank). They also show the profit before tax of each of the global businesses.

Middle East, North Africa and Türkiye regional performance

	2023	2022
	\$m	\$m
Revenue ¹	3,688	2,936
Change in expected credit losses and other credit impairment charges	(133)	8
Operating expenses	(1,592)	(1,586)
Share of profit in associates and joint ventures	538	342
Profit before tax	2,501	1,700
Loans and advances to customers (net) ²	22,766	26,475
Customer accounts ²	40,708	43,933

1 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

2 In the second quarter of 2023, loans and advances to customers of \$2,975m were classified as 'Assets held for sale', and customer accounts of \$4,878m were classified as 'Liabilities of disposal groups held for sale' in respect of the planned merger of our business in Oman. The merger was subsequently completed in August 2023.

Profit before tax by global business

	2023	2022
	\$m	\$m
Wealth and Personal Banking	612	313
Commercial Banking	400	290
Global Banking and Markets	1,104	861
Corporate Centre	385	236
Total	2,501	1,700

Reconciliation of alternative performance measures

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Use of alternative performance measures

Our reported results are prepared in accordance with IFRS Accounting Standards as detailed in our financial statements starting on page 356.

As described on page 100, we use a combination of reported and alternative performance measures, including those derived from our reported results that eliminate factors that distort year-on-year comparisons. These are considered alternative performance measures (non-GAAP financial measures).

The following information details the adjustments made to the reported results and the calculation of other alternative performance measures. All alternative performance measures are reconciled to the closest reported performance measure.

On 1 January 2023, HSBC adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date.

In addition to the alternative performance measures set out in this section, further alternative performance measures in relation to the Group's insurance manufacturing operations are set out on pages 116 to 117.

Alternative performance measure definitions

Alternative performance measure	Definition
Return on average ordinary shareholders' equity ('RoE')	$\frac{\text{Profit attributable to the ordinary shareholders}}{\text{Average ordinary shareholders' equity}}$
Return on average tangible equity ('RoTE')	$\frac{\text{Profit attributable to the ordinary shareholders, excluding impairment of goodwill and other intangible assets}}{\text{Average ordinary shareholders' equity adjusted for goodwill and intangibles}}$
Return on average tangible equity ('RoTE') excluding strategic transactions and impairment of BoCom	$\frac{\text{Profit attributable to the ordinary shareholders, excluding impairment of goodwill and other intangible assets, the impact of strategic transactions and impairment of BoCom}^1}{\text{Average ordinary shareholders' equity adjusted for goodwill and intangibles, the impact of strategic transactions and impairment of BoCom}^1}$
Net asset value per ordinary share	$\frac{\text{Total ordinary shareholders' equity}^2}{\text{Basic number of ordinary shares in issue excluding treasury shares}}$
Tangible net asset value per ordinary share	$\frac{\text{Tangible ordinary shareholders' equity}^3}{\text{Basic number of ordinary shares in issue excluding treasury shares}}$
Post-tax return on average total assets	$\frac{\text{Profit after tax}}{\text{Average total assets}}$
Average total shareholders' equity on average total assets	$\frac{\text{Average total shareholders' equity}}{\text{Average total assets}}$
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers	$\frac{\text{Annualised constant currency ECL}^4}{\text{Constant currency average gross loans and advances to customers}^4}$
Expected credit losses and other credit impairment charges ('ECL') as % of average gross loans and advances to customers, including held for sale	$\frac{\text{Annualised constant currency ECL}^4}{\text{Constant currency average gross loans and advances to customers, including held for sale}^4}$
Target basis operating expenses	Reported operating expenses excluding notable items, foreign exchange translation and other excluded items ⁵
Basic earnings per share excluding material notable items and related impacts	$\frac{\text{Profit attributable to ordinary shareholders excluding material notable items and related impacts}^6}{\text{Weighted average number of ordinary shares outstanding, excluding own shares held}}$
Multi-jurisdictional client revenue	Total client revenue we generate from clients that hold a relationship with us that generates revenue in more than one market

1 Excluding the impacts of the sale of our retail banking operations in France, the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK and the impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom.

2 Total ordinary shareholders' equity is total shareholders' equity less non-cumulative preference shares and capital securities.

3 Tangible ordinary shareholders' equity is total ordinary shareholders' equity excluding goodwill and other intangible assets (net of deferred tax).

4 The constant currency numbers are derived by adjusting reported ECL and average loans and advances to customers for the effects of foreign currency translation differences.

5 Includes impact of re-translating comparative period financial information at the latest rates of foreign exchange in hyperinflationary economies, which we consider to be outside of our control, and the incremental costs associated with our acquisition of SVB UK and related international investments.

6 Excluding the impacts of material M&A transactions, the 2022 deferred tax adjustment in HSBC Holdings and the impairment loss of \$3.0bn recognised in 2023 in respect of the Group's investment in BoCom.

Return on average ordinary shareholders' equity, return on average tangible equity and return on average tangible equity excluding strategic transactions and impairment of BoCom

	2023 \$m	2022 ¹ \$m	2021 \$m
Profit			
Profit attributable to the ordinary shareholders of the parent company	22,432	14,346	12,607
Impairment of goodwill and other intangible assets (net of tax)	43	535	608
Decrease/(increase) in PVIF (net of tax) ¹	—	—	(58)
Profit attributable to the ordinary shareholders, excluding goodwill, other intangible assets impairment and PVIF	22,475	14,881	13,157
Impact of strategic transactions and impairment of BoCom ^{2,3,4}	1,275	1,886	N/A
Profit attributable to the ordinary shareholders, excluding goodwill, other intangible assets impairment, strategic transactions and impairment of BoCom	23,750	16,767	N/A
Equity			
Average total shareholders' equity	184,029	180,263	199,295
Effect of average preference shares and other equity instruments	(18,794)	(21,202)	(22,814)
Average ordinary shareholders' equity	165,235	159,061	176,481
Effect of goodwill, other intangibles and PVIF (net of deferred tax)	(11,480)	(10,786)	(17,705)
Average tangible equity	153,755	148,275	158,776
Average impact of strategic transactions and impairment of BoCom	(1,277)	748	N/A
Average tangible equity excluding strategic transactions and impairment of BoCom	152,478	149,023	N/A
	%	%	%
Ratio			
Return on average ordinary shareholders' equity	13.6	9.0	7.1
Return on average tangible equity	14.6	10.0	8.3
Return on average tangible equity excluding strategic transactions and impairment of BoCom	15.6	11.3	N/A

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Includes the impacts of the sale of our retail banking operations in France.

3 Includes the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK.

4 Includes the impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 421.

From 2024, we intend to revise the adjustments made to return on average tangible equity ('RoTE') to exclude all notable items, improving alignment with the treatment of notable items in our other income statement disclosures. On this basis, we continue to target a RoTE in the mid-teens for 2024.

The following table details the adjustments made to reported results by global business:

Return on average tangible equity by global business

	Year ended 31 Dec 2023				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Profit before tax	11,544	13,280	5,924	(400)	30,348
Tax expense	(2,141)	(2,945)	(1,165)	462	(5,789)
Profit after tax	9,403	10,335	4,759	62	24,559
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(828)	(485)	(588)	(226)	(2,127)
Profit attributable to ordinary shareholders of the parent company	8,575	9,850	4,171	(164)	22,432
Other adjustments	(221)	364	168	(268)	43
Profit attributable to ordinary shareholders	8,354	10,214	4,339	(432)	22,475
Average tangible shareholders' equity	29,352	43,687	38,036	42,680	153,755
Return on average tangible equity (%)	28.5	23.4	11.4	(1.0)	14.6

Year ended 31 Dec 2022					
Profit before tax	5,588	7,593	4,919	(1,042)	17,058
Tax expense	(1,150)	(1,796)	(761)	2,898	(809)
Profit after tax	4,438	5,797	4,158	1,856	16,249
Less attributable to: preference shareholders, other equity holders, non-controlling interests	(688)	(344)	(510)	(362)	(1,903)
Profit attributable to ordinary shareholders of the parent company	3,750	5,453	3,648	1,494	14,346
Other adjustments	432	328	255	(499)	515
Profit attributable to ordinary shareholders	4,182	5,781	3,903	995	14,861
Average tangible shareholders' equity	30,290	42,271	39,935	35,780	148,276
Return on average tangible equity (%)	13.8	13.7	9.8	2.8	10.0

Reconciliation of alternative performance measures

Net asset value and tangible net asset value per ordinary share

	2023 \$m	2022 ¹ \$m	2021 \$m
Total shareholders' equity	185,329	177,833	198,250
Preference shares and other equity instruments	(17,719)	(19,746)	(22,414)
Total ordinary shareholders' equity	167,610	158,087	175,836
Goodwill, PVIF and intangible assets (net of deferred tax)	(11,900)	(11,160)	(17,643)
Tangible ordinary shareholders' equity	155,710	146,927	158,193
Basic number of \$0.50 ordinary shares outstanding	19,006	19,739	20,073
	\$	\$	\$
Value per share			
Net asset value per ordinary share	8.82	8.01	8.76
Tangible net asset value per ordinary share	8.19	7.44	7.88

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

Post-tax return and average total shareholders' equity on average total assets

	2023 \$m	2022 ¹ \$m	2021 \$m
Profit after tax	24,559	16,249	14,693
Average total shareholders' equity	184,029	180,263	199,295
Average total assets	3,059,887	3,017,495	3,012,437
Ratio	%	%	%
Post-tax return on average total assets	0.8	0.5	0.5
Average total shareholders' equity to average total assets	6.01	5.97	6.62

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers and expected credit losses and other credit impairment charges as % of average gross loans and advances to customers, including held for sale

	2023 \$m	2022 ¹ \$m	2021 \$m
Expected credit losses and other credit impairment charges ('ECL')	(3,447)	(3,584)	928
Currency translation	—	(46)	(170)
Constant currency	(3,447)	(3,630)	758
Average gross loans and advances to customers	955,585	1,014,148	1,057,412
Currency translation	11,629	6,701	(43,098)
Constant currency	967,214	1,020,849	1,014,314
Average gross loans and advances to customers, including held for sale	1,020,992	1,035,678	1,058,947
Currency translation	12,688	7,837	(43,098)
Constant currency	1,033,680	1,043,515	1,015,849
Ratio	%	%	%
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers	0.36	0.36	(0.07)
Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers, including held for sale	0.33	0.35	(0.07)

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Target basis operating expenses

Target basis operating expenses is computed by excluding the impact of notable items and foreign exchange translation impacts from reported results. We also exclude the impact of retranslating comparative period financial information at the latest rates of foreign exchange in hyperinflationary economies, which we consider to be outside of our control. Our target basis also excludes the impact of

the acquisition of SVB UK and related investments internationally, which added approximately 1% to our cost growth in 2023 compared with 2022. We consider this measure to provide useful information to investors by quantifying and excluding the notable items that management considered when setting and assessing cost-related targets.

Target basis operating expenses

	2023 \$m	2022 \$m
Reported operating expenses	32,070	32,701
Notable items	(185)	(2,900)
Disposals, acquisitions and related costs	(321)	(18)
Impairment of non-financial items	—	—
Restructuring and other related costs ¹	136	(2,882)
Excluding the impact of SVB UK and related international investments	(271)	—
Currency translation ²	—	(430)
Excluding the impact of retranslating prior year costs of hyperinflationary economies at a constant currency foreign exchange rate	—	440
Target basis operating expenses	31,614	29,811

1 Amounts in 2023 relate to reversals of restructuring provisions recognised during 2022.

2 Currency translation on reported operating expenses, excluding currency translation on notable items.

Basic earnings per share excluding material notable items and related impacts

Material notable items are a subset of notable items. Material notable items are components of our income statement that management would consider as outside the normal course of business and generally non-recurring in nature, which are excluded from our dividend payout ratio calculation and our earnings per share measure, along with related impacts. Categorisation as a material notable item is dependent on the nature of each item in conjunction with the financial impact on the Group's income statement.

Related impacts include those items that do not qualify for designation as notable items but whose adjustment is considered by management to be appropriate for the purposes of determining the basis for our dividend payout ratio calculation.

In 2023, material notable items comprised the impacts of the sale of our retail banking operations in France, the planned sale of our

banking business in Canada, the acquisition of SVB UK and the impairment of BoCom. The impairment of BoCom is included within material notables given that the impairment relates to the accounting assessment of the future value-in-use. The impairment has no material impact on our distribution capacity, dividends or share buy-backs. Related items comprised HSBC Bank Canada's financial results from the 30 June 2022 net asset reference date onwards, as a component of the gain on sale will be recognised through the consolidation of HSBC Bank Canada's results in the Group's results, with the remainder recognised at completion.

Commencing in 2024, we will establish a dividend payout ratio on a 'target basis'. We will disclose at each quarter the adjustments that we will designate as material notable items and related impacts.

Basic earnings per share excluding material notable items and related impacts

	2023 ¹ \$m
Profit attributable to shareholders of company	23,533
Coupon payable on capital securities classified as equity	(1.1)
Profit attributable to ordinary shareholders of company	22.4
Impairment of interest in associate ²	3.0
Provisional gain on acquisition of SVB UK	(1.5)
Impairment loss relating to the sale of our retail banking operations in France (net of tax)	0.1
Impact of the planned sale of our banking business in Canada ³	(0.3)
Profit attributable to ordinary shareholders of company excluding material notable items and related impacts	23.7
Number of shares	
Weighted average basic number of ordinary shares (millions)	19,478
Basic earnings per share excluding material notable items and related impacts	1.22
Basic earnings per share	1.15
Dividend per ordinary share (in respect of the period) (\$)	0.61
Dividend payout ratio (%) (dividend per ordinary share divided by basic earnings per share excluding material notable items and related impacts)	50%

1 In 2023, earnings per share ('EPS') was adjusted for material notable items and related impacts. 2022 comparatives have not been provided due to the change our reporting framework and restatement due to the adoption of the IFRS 17. See our Annual Report and Accounts 2022 for details of the impacts of adjustments to our EPS in 2022.

2 Represents an impairment loss of \$3bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 419.

3 Represents the earnings recognised by the banking business in Canada, net of gains and losses on foreign exchange hedges held at Group level, that will reduce the gain on sale recognised by the Group on completion.

Multi-jurisdictional revenue

Multi-jurisdictional revenue is a financial metric we use to assess our ability to drive value from our international network.

In our wholesale businesses, we identify a client as multi-jurisdictional if they hold a relationship with us that generates revenue in any market outside of where the primary relationship is managed. A client is defined as a mastergroup (HSBC's own client groupings) that includes both the parent and, where relevant, any subsidiaries.

Multi-jurisdictional client revenue is a component of wholesale client revenue and represents the total client revenue we generate from

multi-jurisdictional clients. Wholesale client revenue is derived by excluding from CMB and GBM reported revenue the revenue we generate from client facilitation in fixed income and equities, the 2023 provisional gain on the acquisition of SVB UK, as well as other non-client revenue.

In WPB, we identify a customer as multi-jurisdictional if they bank with us in more than one of our 11 key markets. It is derived by excluding from WPB reported revenue the revenue from Canada and our retail business in France, as well as other non-customer income.

Wholesale multi-jurisdictional client revenue

	2023 \$bn
CMB and GBM revenue	39.0
Allocated revenue and other ¹	0.9
Client facilitation in Fixed Income and Equities	(4.8)
Provisional gain on acquisition of SVB UK	(1.6)
Wholesale client revenue	33.5
– clients banked in multiple jurisdictions ('multi-jurisdictional')	20.4
– domestic only clients	13.1

WPB multi-jurisdictional customer revenue

	2023 \$bn
WPB revenue	27.3
Allocated revenue and other ¹	(0.5)
France retail and Canada	(1.4)
WPB customer revenue	25.4
– international customer revenue	10.2
of which: customers banked in multiple jurisdictions ('multi-jurisdictional')	5.3
of which: non-resident and resident foreigner	4.9
– domestic only clients	15.2

1 including allocations of Market Treasury revenue, HSBC Holdings interest expense and hyperinflationary accounting adjustments, and interest earned on capital held in the global businesses.

Other information

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Disclosure controls

The Group Chief Executive and Group Chief Financial Officer, with the assistance of other members of management, carried out an evaluation of the effectiveness of the design and operation of HSBC Holdings' disclosure controls and procedures as at 31 December 2023. Based upon that evaluation, the Group Chief Executive and Group Chief Financial Officer concluded that the disclosure controls and procedures at 31 December 2023 were effective to provide reasonable assurance that information required to be disclosed in the reports that the company files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported as and when required. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Management's assessment of internal controls over financial reporting

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and has completed an assessment of the effectiveness of the Group's internal controls over financial reporting for the year ended 31 December 2023. In making the assessment, management used the framework for internal control evaluation contained in the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014), as well as the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') in 'Internal Control-Integrated Framework (2013)'.

There have been no changes in HSBC Holdings' internal control over financial reporting during the year ended 31 December 2023 that have materially affected, or are reasonably likely to materially affect, HSBC Holdings' internal control over financial reporting.

Based on the assessment performed, management concluded that for the year ended 31 December 2023, the Group's internal controls over financial reporting were effective.

PricewaterhouseCoopers LLP, which has audited the consolidated financial statements of the Group for the year ended 31 December 2023, has also audited the effectiveness of the Group's internal control over financial reporting as stated in their report on page 354.

Regulation and supervision

The ordinary shares of HSBC Holdings are listed in London, Hong Kong, New York and Bermuda. As a result of the listing in London, HSBC Holdings is subject to the Listing Rules of the FCA. As a result of the listing in Hong Kong, HSBC Holdings is subject to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('HKEX'). In the US, where the listing is through an American Depositary Receipt Programme, shares are traded in the form of American Depositary Shares ('ADS'), which are registered with the US Securities and Exchange Commission ('SEC'). As a consequence of its US listing, HSBC Holdings is also subject to the reporting and other requirements of: the US Securities Act of 1933, as amended; the Securities Exchange Act of 1934, as amended; and the

New York Stock Exchange's ('NYSE') Listed Company Manual, in each case as applied to foreign private issuers. In Bermuda, HSBC Holdings is subject to the listing rules of the Bermuda Stock Exchange applicable to companies with secondary listings.

A statement of our compliance with the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council and with the Hong Kong Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on HKEX can be found in the 'Report of the Directors: Statement of Compliance' on page 352.

Our operations throughout the world are regulated and supervised globally by a large number of different regulatory authorities, central banks and other bodies in those jurisdictions in which we have offices, branches or subsidiaries. These authorities impose a variety of requirements and controls designed to provide financial stability, transparency in financial markets and a contribution to economic growth. The requirements to which our operations must adhere include those relating to capital and liquidity, disclosure standards and restrictions on certain types of products or transaction structures, recovery and resolution, governance standards, conduct of business and financial crime.

The UK Prudential Regulation Authority ('PRA') is the HSBC Group's consolidated lead regulator. HSBC Holdings is approved by, and directly responsible to the PRA for ensuring the HSBC Group meets consolidated prudential requirements. The Group's other lead UK regulator, the FCA, supervises 15 of HSBC's entities in the UK, including seven where the PRA is responsible for those entities' prudential supervision. The FCA maintains global oversight of the Group's management of financial crime risk in the exercise of its wider powers under the Financial Services and Markets Act 2000, and through the exercise of direct supervisory powers over HSBC Holdings. In addition, and as required under relevant local laws, each operating bank, finance company and insurance operation within HSBC is regulated by relevant local regulatory authorities.

UK regulation and supervision

The UK's financial services regulatory structure is comprised of three regulatory bodies: The Financial Policy Committee, a committee of the BoE; the PRA; and the FCA.

The Financial Policy Committee is responsible for macro-prudential supervision, focusing on systemic risks that may affect the UK's financial stability.

The BoE conducts prudential regulation and supervision of financial services firms through the PRA, and in addition to its wider role as the UK's central bank, the BoE is the resolution authority responsible for taking action to manage the failure of financial institutions in the UK, if necessary. The latter involves a set of responsibilities and powers that apply outside of an actual bank failure and relate to general resolution planning, including an assessment of any barriers to the resolution of banks, the exercise of powers to require the removal of impediments to resolvability and the setting of minimum requirements for own funds and eligible liabilities ('MREL'), through the Banking Act and the Bank Recovery and Resolution (No. 2) Order 2014.

These include own funds and liabilities that can be written down or converted into capital resources to absorb losses or recapitalise a bank in the event of its failure. These requirements are based on the resolution strategy for the Group, as agreed by the BoE in consultation with our local regulators. The BoE set end state MREL requirements for the Group, which have applied since 1 January 2022.

The PRA and the FCA are micro-prudential supervisors. The Group's banking subsidiaries in the UK, such as HSBC Bank plc and HSBC UK, are 'dual-regulated' firms, subject to prudential regulation by the PRA and to conduct regulation by the FCA. Other (generally smaller, non-bank) UK-based subsidiaries are 'solo regulated' by the FCA (i.e. the FCA is responsible for both prudential and conduct regulation of those subsidiaries). HSBC Group is subject to consolidated supervision by the PRA.

UK banking and financial services institutions are subject to multiple regulations. The primary UK statute in this context is the Financial Services and Markets Act 2000, as amended by subsequent legislation, in addition to EU financial services legislation that was "onshored" into UK law under the European Union (Withdrawal) Act 2018 ('EUWA').

The PRA and FCA are together responsible for authorising and supervising all our operating businesses in the UK that require authorisation under the Financial Services and Markets Act 2000.

These include deposit-taking, retail banking, consumer credit, life and general insurance, pensions, investments, mortgages, custody and share-dealing businesses, and treasury and capital markets activity.

The FCA is also responsible for promoting effective competition in the interests of consumers, and an independent subsidiary of the FCA, the Payment Systems Regulator, regulates payment systems in the UK.

The PRA and FCA's rules establish the minimum criteria for the authorisation of banks and other financial sector entities that carry out regulated activities. In the UK, the PRA and FCA have the right to object, on prudential grounds, to persons who hold, or intend to hold, 10% or more of the voting power or shares of a financial institution that they regulate, or of its parent undertaking. In its capacity as our supervisor on a consolidated basis, the PRA receives information on the capital adequacy of, and sets requirements for, the Group as a whole. In addition, it conducts stress tests both on HSBC's UK entities and more widely on the Group. Individual banking subsidiaries in the Group are directly regulated by their local banking supervisors, who set and monitor, inter-alia, their capital adequacy requirements.

The Group is subject to capital requirements as set out in Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms of the European Parliament and of the Council of 26 June 2013, as amended or supplemented, as it forms part of domestic law in the UK by virtue of the EUWA (the 'UK CRR'), the PRA Rulebook and the UK law implementing the Capital Requirements Directive (the 'CRD') and together with the UK CRR, and the relevant rules of the PRA Rulebook, the 'Capital Requirements Legislative Package').

The Pillar 1 regulatory capital framework has been, and continues to be, significantly enhanced. The UK implemented the first tranche of changes associated with Basel 3.1 in January 2022. These include the changes in relation to counterparty risk, equity investments in funds and market risk RWAs and the leverage ratio. The second and final tranche of changes include the changes to credit and operational risk and credit valuation adjustment RWAs, further changes to the market risk RWAs and the implementation of an RWA output floor. In September 2023, the PRA announced a delay to the implementation date of the final elements to 1 July 2025. At the same time, it announced that it intends to reduce the transitional period of the output floor to 4.5 years to ensure full implementation by 1 January 2030.

The Group is also subject to liquidity requirements as set out in the UK CRR and as implemented by the PRA, and, in January 2022 became subject to the net stable funding ratio ('NSFR') requirements as part of the first tranche of changes arising as part of Basel 3.1.

On 30 June 2023, the Financial Services and Markets Act ('FSMA') 2023 achieved Royal Assent. FSMA 2023 provides for a number of changes to the regulatory architecture in the UK, including the introduction of a new secondary objective for the FCA and PRA to facilitate growth and international competitiveness in the UK economy. Amongst other things, FSMA 2023 also contains provisions that would allow for specified 'onshored' EU legislation, including the UK CRR, to be revoked and replaced by legislation or rules made by HM Treasury or the regulators and provides for a 'Designated Activities Regime' that would allow HM Treasury to bring certain activities, products or conduct within the scope of the Financial Services and Markets Act 2000.

The PRA and FCA monitor authorised institutions through ongoing supervision and the review of routine and ad hoc reports relating to financial, prudential, conduct of business and financial crime matters. They may also obtain independent reports from a Skilled Person on the adequacy of procedures and systems covering internal control and

governing records and accounting. The PRA meets the Group's senior executives regularly to discuss our adherence to its prudential requirements. In addition, both the PRA and FCA regularly discuss with relevant management fundamental matters relating to our business in the UK and internationally, including areas such as strategic and operating plans, risk control, loan portfolio composition, organisational changes, succession planning and recovery and resolution arrangements.

Hong Kong regulation and supervision

The Banking Ordinance provides the legal framework for banking supervision in Hong Kong. Section 7(1) of the Ordinance provides that the principal function of the Hong Kong Monetary Authority ('HKMA') is to 'promote the general stability and effective working of the banking system'. The HKMA seeks to establish a regulatory framework in line with international standards, in particular those issued by the Basel Committee on Banking Supervision ('BCBS') and the Financial Stability Board ('FSB'). The objective is to maintain a prudential supervisory system that underpins the general stability and effective working of the banking system, while at the same time providing sufficient flexibility for authorised institutions to take commercial decisions. Under the Banking Ordinance, the HKMA is the licensing authority responsible for the authorisation, suspension, and revocation of authorised institutions. To provide checks and balances, the HKMA is required under the Ordinance to consult with the Financial Secretary on important authorisation decisions, such as suspension and involuntary revocation.

The Hongkong and Shanghai Banking Corporation Limited and its overseas branches and subsidiaries are licensed under the Banking Ordinance and hence subject to the supervision, regulation, and examination of the HKMA.

The HKMA follows international practices as recommended by the BCBS to supervise authorised institutions. Under the Banking Ordinance, the HKMA imposes capital requirements on authorised institutions through the Banking (Capital) Rules, liquidity requirements through the Banking (Liquidity) Rules and large exposure limits through the Banking (Exposure Limits) Rules. These rules take into account the latest standards set by the BCBS. In November 2023, the HKMA announced that they plan to implement the Basel 3.1 standards for capitalisation in January 2025, with a reporting only requirement for market risk and credit valuation adjustment RWAs starting in July 2024.

As outlined in the HKMA Supervisory Policy Manual SA-1 – Risk based Supervisory Approach, the HKMA adopts a risk-based supervisory approach which consists of a structured methodology designed to establish a forward-looking view on the risk profile of authorised institutions. During the process, the HKMA assesses eight inherent risks, namely, credit, market, interest rate, liquidity, operational, legal, reputation and strategic risks. In the assessment of these risks, the HKMA will also consider any new risk types that may emerge from time to time, for example climate risk. The HKMA also follows a policy of 'continuous supervision' through on-site examinations, off-site reviews, prudential meetings, cooperation with external auditors and sharing information with other supervisors as a part of its risk-based supervisory methodology.

The HKMA aims to ensure that the standards for regulatory disclosure in Hong Kong remain in line with those of other leading financial centres.

The Banking (Disclosure) Rules take into account the latest disclosure standards released by the BCBS, which prescribe quarterly, semi-annual, and annual disclosure of specified items, including in the form of standard templates and tables, in order to promote user-relevance and the consistency and comparability of regulatory disclosure among banks and across jurisdictions.

The Banking Ordinance empowers the HKMA to collect prudential data from authorised institutions on a routine or ad hoc basis and to require any holding company or subsidiary or sister company of an authorised institution to submit such information as may be required for the exercise of the HKMA's functions under the Ordinance. The HKMA has the power to serve a notice of objection on persons if they are no longer deemed to be fit and proper to be controllers of the authorised institution, if they may otherwise threaten the interests of

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depositors or potential depositors, or if they have contravened any conditions specified by the HKMA. The HKMA may revoke authorisation in the event of an institution's non-compliance with the provisions of the Banking Ordinance. These provisions require, among other things, the furnishing of accurate reports.

The HKMA is the relevant authority under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance for supervising authorised institutions' compliance with the legal and supervisory requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and the Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (for Authorised Institutions). The HKMA requires authorised institutions in Hong Kong and its overseas branches and subsidiaries to establish effective systems and controls to prevent and detect money laundering and terrorist financing. It works closely with other stakeholders within both the government and the industry to ensure that the banking sector is able to play its gatekeeper role in Hong Kong's anti-money laundering and counter-financing of terrorism regime.

To enhance the exchange of supervisory information and cooperation, the HKMA has entered into Memoranda of Understanding ('MoU') or other formal arrangements with a number of banking supervisory authorities within and outside Hong Kong.

The marketing of, dealing in and provision of advice and asset management services in relation to securities and futures in Hong Kong are subject to the provisions of the Securities and Futures Ordinance of Hong Kong. Entities engaging in activities regulated by the Ordinance (including The Hongkong and Shanghai Banking Corporation Limited) are required to be licensed or registered with the Securities and Futures Commission ('SFC'). The HKMA is the front-line regulator for banks involved in the securities and futures business.

The HKMA and the SFC work very closely to ensure that there is an open market with a level playing field for all intermediaries in the securities industry of Hong Kong.

Among other functions, the Securities and Futures Ordinance vests the SFC with powers to set and enforce market regulations, including investigating breaches of rules and market misconduct and taking appropriate enforcement action.

The SFC is responsible for licensing and supervising intermediaries conducting SFC-regulated activities, such as investment advisers, fund managers, brokers, trustees, and custodians. Additionally, the SFC sets standards for the authorisation and regulation of investment products, and it reviews and authorises offering documents of retail investment products to be marketed to the public.

To promote proper conduct and increase awareness of individual responsibility and accountability, the SFC introduced and implemented the Manager-In-Charge ('MIC') regime in Hong Kong. The MIC regime applies to senior individuals of licensed corporations responsible for managing core functions within financial services businesses supervised by the SFC. The regime required SFC licensed corporations to review their organisational structure and the roles of senior management and their responsible officers in light of the SFC's classification of core functions within licensed corporations and its guidelines on identifying Managers-In-Charge of Core Functions. The regime also imposes reporting requirements on SFC licensed corporations.

Similar to the SFC, the HKMA launched its Management Accountability Initiative which aimed at increasing the accountability of the senior management of Hong Kong registered institutions ('RIs') i.e. Hong Kong banks registered to carry on one or more regulated activities under the SFO. The Management Accountability Initiative clarified the HKMA's expectations on the responsibility and accountability of RIs' senior management and enhanced its information gathering on RIs' regulated activities, while requiring RIs to better identify lines of responsibility and accountability for their regulated activities.

In order to support capacity building and talent development, the HKMA has been working with the banking industry and relevant professional bodies to implement an industry-wide enhanced competency framework for banking practitioners. Currently, the enhanced competency framework for banking practitioners covers ten

professional work streams: anti-money laundering and counter-financing of terrorism; cybersecurity; treasury management; retail wealth management; credit risk management; operational risk management; Fintech; private wealth management; green and sustainable finance; and compliance.

Relevant to the Group's insurance business in Hong Kong, the HKMA and the Hong Kong Insurance Authority ('IA') have signed an 'MoU' to enhance the cooperation, exchange of information and mutual assistance between the two authorities. This MoU sets out the framework between the HKMA and the IA for strengthening co-operation in respect of regulation and supervision of entities or financial groups in which the two authorities have a common regulatory interest. Pursuant to the statutory regulatory regime for insurance intermediaries under the Insurance Ordinance, the IA has delegated its inspection and investigation powers to the HKMA in relation to insurance related businesses of authorised institutions in Hong Kong, which aims to improve efficiency and minimise possible regulatory overlap.

Under the statutory regime for the regulation of Mandatory Provident Fund ('MPF') intermediaries, the Mandatory Provident Fund Schemes Authority is the lead regulator in respect of regulation of MPF intermediaries whereas the HKMA, the IA and the SFC are the front-line regulators of the MPF intermediaries.

The Financial Institutions (Resolution) Ordinance established the legal basis for a cross-sector resolution regime in Hong Kong under which the HKMA is the resolution authority for banking sector entities, including all authorised institutions. The HKMA is also designated as the lead resolution authority for the cross-sectoral groups in Hong Kong that include banking sector entities within the scope of the Financial Institutions (Resolution) Ordinance ('FIRO'). The HKMA's function as a resolution authority is supported by the Resolution Office within the HKMA. The Resolution Office is operationally independent and has a direct reporting line to the chief executive of the HKMA.

The Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') were made by the HKMA under section 19(1) of the FIRO. The LAC Rules enable the HKMA to designate entities within Hong Kong as resolution entities or material subsidiaries and require them to issue Loss Absorbing Capacity ('LAC') instruments, in accordance with the FSB's standard 'Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution – Total Loss-absorbing Capacity ('TLAC') Term Sheet'. The LAC Rules also incorporate the BCBS's disclosure standards on TLAC.

The HKMA finalised the Operational Continuity in Resolution ('OCIR') Chapter within their Financial Institution (Resolution) Ordinance ('FIRO'), publishing a Code of Practice ('CoP') that provides further guidance on OCIR. These are compliant with international resolution standards defined by the FSB Key Attributes. The HKMA expects an Authorised Institution ('AI') to be able to demonstrate that it has assessed the risks to OCIR and that appropriate arrangements are in place to support the preferred resolution strategy.

The HKMA has also recently issued LFIR-1 'Resolution Planning – Liquidity and Funding in Resolution', a new chapter of the code of practice pursuant to section 196 of the FIRO. The chapter sets out the HKMA's expectations as to the capabilities and arrangements that an AI should have in place, in business as usual, in order to address the potential impediment to orderly resolution that would arise if an AI were unable to assess its liquidity and funding needs and access funding in resolution.

US regulation and supervision

The Group is subject to federal and state supervision and regulation in the US. Banking laws and regulations of the Federal Reserve Board (the 'FRB'), the Office of the Comptroller of the Currency (the 'OCC') and the Federal Deposit Insurance Corporation (the 'FDIC') (collectively, the 'US banking regulators') govern all aspects of our US business. HSBC Bank USA, N.A. ('HSBC Bank USA') is subject to direct supervision and regulation by the Consumer Financial Protection Bureau ('CFPB'), which has the authority to examine and take enforcement action related to compliance with US federal consumer financial laws and regulations. The Group's US securities

broker/dealer and investment banking operations are also subject to ongoing supervision and regulation by the Securities and Exchange Commission ('SEC'), the Financial Industry Regulatory Authority and other government agencies and self-regulatory organisations under US federal and state securities laws. Similarly, the Group's US commodity futures, commodity options and swaps-related and client clearing operations are subject to ongoing supervision and regulation by the Commodity Futures Trading Commission ('CFTC'), the National Futures Association and other self-regulatory organisations under US federal commodities laws. Furthermore, since we have substantial operations outside the US that conduct many of their day-to-day transactions with the US, HSBC entities' operations outside the US are also subject to the extraterritorial effects of US regulation in many respects.

HSBC Holdings and its US operations are subject to supervision, regulation and examination by the FRB because HSBC Holdings is a 'bank holding company' ('BHC') under the US Bank Holding Company Act of 1956, as a result of its control of HSBC Bank USA and HSBC Trust Company (Delaware), N.A., Wilmington, Delaware ('HTCD'). HSBC North America Holdings ('HNAH') and HSBC USA Inc., are each a 'bank holding company' and HNAH is also an intermediate holding company ('IHC') regulated by the FRB. HSBC Holdings, HNAH and HSBC USA Inc. have elected to be financial holding companies pursuant to the provisions of the Gramm-Leach-Bliley Act and, accordingly, may affiliate with securities firms and insurance companies, and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature.

Under regulations implemented by the FRB, if any financial holding company, or any depository institution controlled by a financial holding company, ceases to meet certain capital or management standards, the FRB may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the FRB may require divestiture of the holding company's depository institutions or its affiliates engaged in broader financial activities in reliance on the Gramm-Leach-Bliley Act if the deficiencies persist.

The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act of 1977, the FRB must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies.

The two US banks, HSBC Bank USA and HTCD, are subject to regulation and examination primarily by the OCC. HSBC Bank USA and HTCD are subject to additional regulation and supervision by the FDIC, the Consumer Financial Protection Bureau and the FRB. Banking laws and regulations restrict many aspects of their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, payment of dividends and numerous other matters.

In 2019, the FRB and the other US banking regulators jointly finalised rules that tailor the application of the enhanced prudential standards for large US banking organisations and the US operations of certain foreign banking organisations (the 'Tailoring Rules'). The Tailoring Rules assign each BHC and US IHC with \$50bn or more in total US assets to one of five buckets (Categories I, II, III, IV, and 'Other Firms') based on their relative size and complexity and assessed on asset size, cross-jurisdictional activity, reliance on short-term wholesale funding, non-bank asset size, and off-balance sheet exposures. As of 1 January 2024, HNAH continues to be classified as a Category IV firm per the criteria set forth in the Tailoring Rules. As a Category IV banking organization, HNAH will continue to be subject to specific enhanced prudential standards applicable to banking organisations assigned to Category IV. As the depository institution subsidiary of HNAH, HSBC Bank USA is also subject to the regulatory capital requirements applicable to Category IV firms.

HNAH, HSBC USA Inc. and HSBC Bank USA are required to maintain minimum capital ratios (exclusive of any capital buffers), including a minimum Tier 1 leverage ratio of 4%, and a minimum total risk-based

capital ratio of at least 8%. HNAH, HSBC USA Inc. and HSBC Bank USA each calculate their risk-based capital requirements as Non-Advanced Approaches banks in accordance with the Basel III rule as adopted by US banking regulators. Over and above the minimum risk-based requirements, HNAH is subject to a Stress Capital Buffer ('SCB'), which is floored at 2.5% and is recalibrated every other year unless HNAH opts to be subject to supervisory stress testing by the FRB during an "off year". HSBC USA Inc. and HSBC Bank USA continue to be subject to the static 2.5% capital conservation buffer ('CCB'). Compliance with the SCB/CCB does not represent minimum requirements per se, but rather a necessary condition to allow capital distributions and discretionary bonus payments.

In July 2023, the US banking regulators proposed changes to the regulatory capital rules applicable to US banks, BHCs and IHCs, including HNAH, HSBC USA Inc. and HSBC Bank USA. These changes are intended to be broadly consistent with the Basel III standards issued by the Basel Committee on Banking Supervision ('BCBS') in 2017. The US proposal would end the use of internal models for credit risk, credit valuation adjustments, and operational risk, eliminate the accumulated other comprehensive income opt-out for Category IV banking organizations, create an expanded risk-based credit capital approach in addition to retaining a modified version of the current standardised approach and make changes to the market risk framework. If finalised as proposed, these changes would not be effective until 1 July 2025 at the earliest, and certain elements would be subject to a three-year phase-in period. In August 2023, US banking regulators also released a proposal that would require certain US banks, BHCs and IHCs to issue and maintain long-term debt ('LTD') to improve resolvability. If adopted as proposed, HSBC Bank USA and HTCD would be required to issue minimum levels of internal LTD to either HSBC USA Inc. or HNAH, phased-in over a three-year period. HNAH is already subject to LTD and TLAC requirements as an IHC of a non-US G-SIB.

Under FRB regulations, HNAH is subject to supervisory stress testing requirements (on an every other year basis, with the next FRB supervisory stress test expected to take place in 2024) that are designed to evaluate whether a BHC has sufficient capital on a total consolidated basis to absorb losses and support operations under severely adverse economic conditions. As part of the Comprehensive Capital Analysis and Review ('CCAR'), the FRB uses pro-forma capital positions and ratios under such stress scenarios to determine the size of the SCB for each CCAR participating firm.

As part of CCAR, HNAH is required to submit an annual capital plan to the FRB on or before 5 April of each year. Category IV firms may opt into CCAR supervisory stress testing in an "off year" in order to recalibrate their SCB based on their most recent supervisory stress test. The SCB equals (i) a firm's projected decline in common equity tier 1 under the supervisory severely adverse stress testing scenario plus (ii) one year of planned common stock dividends. In July 2023, the FRB announced a new SCB for each CCAR firm based on its most recent CCAR stress tests and planned common stock distributions, which took effect on 1 October 2023. HNAH's SCB requirement remained the same in 2023 as in 2022, as HNAH did not opt into the 2023 stress test.

HNAH already utilises an internal capital assessment approach that is analogous to the SCB and continues to review the composition of its capital structures and capital buffers in light of these developments.

Under the Tailoring Rules, certain US banking organisations are subject to heightened liquidity and risk management requirements, including the US LCR and NSFR. Category IV firms, including HNAH, are subject to a less stringent US LCR and NSFR modified regulatory requirement so long as HNAH's weighted short-term wholesale funding equals or exceeds \$50 billion. As a result, under the modified US LCR rule, a LCR of 100 percent or higher reflects an unencumbered HQLA balance that is equal to or exceeds 70 percent of the firm's liquidity needs for a 30 calendar day liquidity stress scenario.

Under the modified US NSFR rule as applied to HNAH, a NSFR of 100 percent or more reflects an available stable funding balance from liabilities and capital over the next 12 months that is equal to or exceeds 70 percent of the firm's required stable funding amount for assets and off-balance sheet exposures. As a Category IV firm, HNAH

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is also subject to liquidity risk management and liquidity buffer requirements as well as liquidity stress testing on a quarterly basis.

Under the FRB and FDIC rule implementing the resolution planning requirements for depository institution holding companies (the "SIFI Plan") in the Dodd-Frank Act, HSBC Holdings is required to file a SIFI Plan every three years. HSBC Holdings' last SIFI Plan was a targeted resolution plan submitted in December 2021. The FRB and FDIC provided feedback on this targeted plan in December 2022. The FRB and FDIC did not identify any shortcomings or deficiencies as a result of this review in HSBC Holdings' 2021 targeted plan but noted areas where further progress will help improve HSBC Holdings' preparation for a rapid and orderly resolution of its US subsidiaries and operations that may be addressed in HSBC Holdings' next plan submission. As the combined US operations of HSBC Holdings moved from Category III to Category IV shortly after its last submission, it is now a triennial reduced filer, which requires the submission of reduced plans every three years. The next SIFI Plan submission is due on 1 July 2025. Under the FDIC's separate resolution plan requirements for insured depository institutions (the 'IDI Plan') banks with \$100 billion or more in total consolidated assets, including HSBC Bank USA, are required to submit an IDI Plan every three years. HSBC Bank USA submitted its latest IDI plan in December 2022. In August 2023, the FDIC issued a proposal that would increase the frequency of, and substantive requirements applicable to, IDI Plans. If finalised as proposed, HSBC Bank USA would be required to submit an IDI Plan every two years (with an informational supplement in the off years) and would become subject to increased content requirements and an emphasis on capabilities testing and engagement with the FDIC. The FRB has separately established a framework for recovery plans, although HSBC is not currently required to submit a recovery plan to US regulators unless specifically requested to do so.

The FRB limits credit exposures to single counterparties for large BHCs and IHCs. As a Category IV firm, HNAH is not directly subject to these single counterparty credit limits. Independent of HNAH's classification as a Category IV firm, HNAH, together with its subsidiaries, could become subject to limits on its exposures to unaffiliated counterparties if its parent, HSBC, cannot certify its compliance with a large exposure regime in the UK that is consistent with the Basel large exposure framework.

Pursuant to Title VII of the Dodd-Frank Act ('Title VII'), the SEC and CFTC have adopted extensive requirements to regulate over-the-counter ('OTC') derivatives, including, among other requirements, registration for swap dealers, major swap participants, security-based swap ('SBS') dealer and major SBS participants, mandatory clearing and trade execution of certain OTC derivatives, position limits for certain physical positions and economically equivalent swaps, real-time public and regulatory trade reporting, business conduct, enhanced documentation, supervision, recordkeeping, and financial reporting requirements.

HSBC Bank USA and HSBC Bank plc are registered as swap dealers with the CFTC and registered as SBS dealers with the SEC. Because it is a non-US dealer, HSBC Bank plc is only subject to certain of CFTC's requirements in respect of swap transactions with US persons and certain persons guaranteed by or affiliated with US persons, and only subject to certain of the SEC's requirements in respect of SBS transactions with US persons or which are arranged, negotiated, or executed by US personnel. HSBC Bank plc is also permitted to satisfy certain CFTC requirements and SEC requirements through 'substituted compliance' pursuant to relevant determinations and related relief issued by the SEC and the CFTC.

Pursuant to Title VII, the US prudential regulators adopted margin requirements for non-cleared swaps and SBS for prudentially regulated swap dealers and SBS dealers such as HSBC Bank USA and HSBC Bank plc. Subject to certain exceptions, the margin rules require HSBC Bank USA and HSBC Bank plc to collect and post initial and variation margin for non-cleared swaps and SBS entered into with other swap dealers and certain financial end-users. The prudential regulators' margin requirements, the parallel margin rules adopted by the CFTC and the SEC and certain non-US regulators, as well as other regulations of OTC derivatives under Title VII, have increased the costs associated with trading OTC derivatives and may adversely affect our business in such products.

Dodd-Frank also expands the extra-territorial jurisdiction of US courts over actions brought by the SEC or the US with respect to violations of the anti-fraud provisions in the Securities Act, the Securities Exchange Act of 1934 and the Investment Advisers Act of 1940.

In addition, regulations which the FSOC, the CFPB or other regulators may adopt could affect the nature of the activities that our FDIC-insured depository institution subsidiaries may conduct, and may impose restrictions and limitations on the conduct of such activities. The implementation of the remaining Dodd-Frank provisions could result in additional costs or limit or restrict the way we conduct our business in the US.

In September 2017, HSBC Holdings and HNAH entered into a consent order with the FRB in connection with its investigation into HSBC's historical foreign exchange activities ('FX/DMA Order'), which required HSBC Holdings and HNAH to undertake certain remedial steps. On 18 August 2023, the FX/DMA Order was terminated by the FRB after it was determined by the Federal Reserve Bank of Chicago that HSBC was in full compliance with the order.

EU Regulation and supervision

EU law applies to HSBC's EU subsidiaries.

EU Directive 2019/878 (CRD V) introduced an obligation to appoint an Intermediate Parent Undertaking ('IPU') for third-country (i.e. non-EU headquartered) groups that consist of two or more banks in the EU (Article 21b). HSBC Continental Europe ('HBCE'), headquartered in Paris, France, has been designated as the IPU for HSBC's European subgroup. As a result of these changes: (i) HBCE will be the main contact point with regulators of the EU and the Banking Union, and will centralise all coordination and requests to the unique Joint Supervisory Team ('JST') and the unique Internal Resolution Team ('IRT'), made up respectively of the European Central Bank ('ECB') and the EU member states' national supervisory authorities on one hand, and the European Single Resolution Board ('SRB') and the EU member states' national resolution authorities on the other; and (ii) reporting to the relevant authorities will consecutively be simplified. In particular, HBCE will have to submit consolidated reports for the European subgroup directly onto the portal of the French resolution authority (ACPR), as the host authority of HBCE.

At the end of 2023, HBCE operated 10 branches in the following jurisdictions: Belgium, Czech Republic, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain and Sweden. In 2022, HBCE went through further transformation to support its role as the Group's EU IPU by completing the acquisitions of HSBC Bank Malta plc ('HBMT'), and HSBC Trinkaus & Burkhardt GmbH ('HTDE') in Germany in November 2022. HTDE's operations were transferred into a new German branch of HBCE in Q2 2023 and the final stage of HBCE's conversion into the Group's EU IPU was completed in November 2023 with the acquisition of HSBC Private Bank (Luxembourg) SA ('PBLU').

Under the EU's Single Supervisory Mechanism ('SSM') and the CRD V requirement on IPUs, the ECB has direct supervisory responsibility for HBCE as a 'significant supervised entity' at the EU consolidated level. An ECB JST supervises HBCE, including its branches, and its subsidiaries, including HBMT and PBLU, for the purposes of the EU's SSM Regulation. Under the SSM, the ECB increasingly engages with the relevant 'national competent authorities' in relation to HSBC's businesses in eurozone countries and more widely with HSBC's other regulators.

The SRB and the EU member states' national resolution authorities have developed their views and standards on resolution, culminating in the creation of the Expectations for Banks ('EFB'), published in March 2020. The overarching aim of the EFB is to ensure that European banks demonstrate that they could be resolved in an orderly way and are accountable for ensuring they are prepared for resolution. The EFB brought together new and existing rules and policies regarding resolution planning into seven dimensions to apply for both home and host banks by the end of 2023.

The UK and the EU have entered into a Trade and Cooperation Agreement and have made certain declarations relating to financial services. For further details, see 'The UK's trading relationship with

the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results'.

Global and regional prudential and other regulatory developments

The Group is subject to regulation and supervision by a large number of regulatory bodies and other agencies. In addition to regulatory changes being introduced at a country level, changes are often driven by global bodies such as the G20, the FSB and the Basel Committee on Banking Supervision, which are then implemented at country level or (in the case of the EU), regionally, sometimes with modifications and with separate additional measures.

Of principal importance from a prudential perspective are the changes that relate to Basel 3.1.

The PRA is responsible for implementing Basel 3.1 in the UK under powers granted in the Financial Services Act 2021 ('Financial Services Act'). The Financial Services Act enables the PRA to introduce reforms to update the UK's prudential regime. At present, the UK CRR, which is retained EU legislation that takes the status of primary legislation in the UK, contains many of the existing prudential rules. The Financial Services Act enables HM Treasury to delegate responsibility to the PRA for making the firm-facing rules required to implement Basel's standards. The Act ensures that public policy considerations including sustainable growth, the relative standing of the UK, and Basel's standards themselves, are considered by the PRA when making these rules. This does not require that the PRA implement rules that replicate Basel 3.1; instead, the PRA has been given the discretion to decide the substance of the rules, having regards to the likely effect of the rules on the relative standing of the UK as a place for internationally active banks to be based or to carry on activities.

The UK implemented the first tranche of Basel 3.1 in January 2022. These include the changes in relation to counterparty risk, equity investments in funds and market risk RWAs and the leverage ratio. The remainder of Basel 3.1, including the changes to credit risk, operational risk, market risk and credit valuation adjustment RWAs, and the implementation of an RWA output floor, is currently scheduled for implementation in the UK in July 2025. The PRA issued a consultation on the implementation of the remainder of Basel 3.1 in November 2022.

The PRA subsequently published a policy statement in December 2023 setting out certain near-final rules implementing Basel 3.1, including those relating to operational risk, market risk, credit valuation adjustment RWAs. A second policy statement is expected to be published in Q2 2024, which is due to set out the remaining near-final rules including those relating to credit risk and the output floor.

We are also subject to regulatory stress testing in many jurisdictions. These have increased both in frequency and in the granularity of information required by supervisors. They include the programmes of the BoE, the FRB (as explained in the 'US regulation and supervision' section), the OCC, the EBA, the ECB, the HKMA and other regulators. For further details, see 'Stress testing' on page 161. On prudential changes, further details can be found in the 'Regulatory developments' section on page 6 of the Pillar 3 Disclosures as at 31 December 2023.

Recovery and resolution

The HSBC Group is subject to recovery and resolution requirements in many of the jurisdictions in which it operates. Some of these requirements have been described above. In Europe, the Bank Recovery and Resolution Directive (BRRD) establishes a framework for the recovery and resolution of EU credit institutions and investment firms. This framework applies to HSBC's operating banks in the European region, including France and Malta. In Hong Kong, the Banking Ordinance and Financial Institutions (Resolution) Ordinance sets out requirements for recovery and resolution planning. In general, each respective part of the HSBC Group is responsible for ensuring that it meets local recovery and resolution requirements where they exist, which are mainly applicable only to those regulated

entities in a particular jurisdiction. The PRA and BoE, however, are the lead "home" regulators from a recovery and resolution perspective for the consolidated HSBC Group.

HSBC maintains recovery plans designed to outline credible management actions that the HSBC Group could implement in the event of severe stress in order to restore its business to a stable and sustainable condition. The HSBC Group submits a Group recovery plan on a biennial basis to the PRA. In addition, certain HSBC entities also submit local recovery plans to host regulators, where local recovery planning requirements are in place. HSBC's recovery plans are frequently re-appraised to reflect HSBC's Group structure as well as meet regulatory and internal feedback, including through regular stress testing and 'fire drill' simulations.

In general terms, resolution refers to the exercise of statutory powers where a financial institution and/or its parent or other group company is deemed by its regulators to be failing, or likely to fail and it is not reasonably likely that any action taken would result in the institution recovering.

In view of the HSBC Group's corporate structure, which comprises a group of locally regulated operating banks, the preferred resolution strategy for the HSBC Group, as confirmed by its regulators, is a multiple point of entry ('MPE') bail-in strategy. This provides flexibility for HSBC to be resolved either (i) through a bail-in at the HSBC Holdings level, which enables the recapitalisation of operating bank subsidiaries in the HSBC Group (as required) while restructuring actions are undertaken, with the HSBC Group remaining together; or (ii) at a local subsidiary level pursuant to the application of statutory resolution powers by local resolution authorities.

In the event of a resolution of the HSBC Group, it is anticipated that the MREL issued externally by HSBC Holdings plc would be written down or converted to equity by the BoE using its statutory powers. This would enable subsidiaries of the HSBC Group to be recapitalised, as needed, to support the resolution objectives and maintain the provision of critical functions locally. Recapitalisation of operating bank subsidiaries could be achieved through the write-down, or conversion to equity, of internally issued MREL, Total Loss Absorbing Capacity ('TLAC') or Loss Absorbing Capacity ('LAC'). It is anticipated that this approach to recapitalising the HSBC Group's operating bank subsidiaries would allow the Group to stay together in order to ensure an effective stabilisation of the whole Group whilst also facilitating an orderly restructuring process post resolution. Any resolution of HSBC as a group would be coordinated by the BoE.

Given the geographical footprint of the HSBC Group, resolution authorities have determined that HSBC has three resolution groups that together account for 93% of total HSBC Group RWAs: The Asia resolution group, the European resolution group and the US resolution group. As a result, HSBC is overseen by various regulators and resolution authorities including its lead global regulators and resolution authority, the BoE and the PRA and a number of host regulators and resolution authorities. Examples include the European SRB, the HKMA, FRB, FDIC and OCC. These host resolution authorities have statutory resolution group powers which could be applied to subsidiaries of the HSBC Group in their jurisdictions. The application of these local statutory resolution powers may result in one or more individual resolution authorities leading to a local resolution of the subsidiaries within their jurisdiction.

This may or may not result in such subsidiaries ceasing to be part of the HSBC Group, depending on the drivers of failure and the resolution powers exercised by the relevant resolution authority.

HSBC considers that a bail-in at the HSBC Holdings plc level that enables subsidiaries in the HSBC Group to be recapitalised, (as required), and the subsequent implementation of restructuring actions while the HSBC Group remains together, is the strategy most likely to deliver the optimal resolution outcome for all of HSBC's stakeholders.

In July 2019, the BoE and PRA published final policies on the Resolvability Assessment Framework ('RAF'), which places the onus on firms to demonstrate their own resolvability and is designed to increase transparency and accountability for resolution planning. In order to be considered resolvable, HSBC must meet three outcomes: (i) have adequate resources in resolution; (ii) be able to continue

Other information

business through resolution and restructuring; and (iii) be able to co-ordinate its resolution and communicate effectively with stakeholders.

The RAF requires HSBC to prepare a report on the HSBC Group's assessment of its resolvability, which must be submitted to the BoE on a biennial basis. HSBC submitted its first report to the BoE in October 2021. HSBC Group's June 2022 public disclosure on its resolvability summarised the key findings from the first RAF Self-assessment report. HSBC Group submitted its second report to the BoE in October 2023. In June 2024, HSBC will make its second public disclosure on its resolvability, which will summarise the key findings from the second RAF Self-assessment. In line with the previous BoE RAF cycle, alongside HSBC's disclosure, the BoE will be disclosing its own assessment of UK banks' resolvability, including HSBC, against expectations set out in the RAF.

Regular engagement with the BoE and PRA continues as HSBC prepares for the public disclosure of the second RAF cycle.

HSBC continues to engage with the BoE, PRA and its global regulators in other jurisdictions to help ensure that it meets current and future recovery and resolution requirements.

Financial crime regulation

HSBC has built a financial crime risk management framework that is applicable across all global businesses and functions, and all countries and territories in which it operates. We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We remain committed to conducting our activities in accordance with all applicable financial crime laws and regulations and applying a consistently high financial crime standard globally.

HSBC has an established global financial crime programme designed to enable the bank to detect, prevent and manage the fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing risks that we may face.

HSBC continues to develop its anti-money laundering programme in light of emerging risks and new legislation. Technical and digital innovation in the financial sector continues at pace and we are actively monitoring developments, defining risk appetite and developing appropriate controls to manage the risks associated with the increasing use of alternate (including digitised) payment methods and digital assets and currencies. HSBC has enhanced its control framework to detect, deter and disrupt terrorist financing and proliferation financing more effectively and has expanded the use of intelligence-led technologies to monitor customer activities. HSBC has continued to embed procedures designed to prevent tax evasion and tax evasion facilitation risks, as well as bribery and corruption risks associated with the activities of its customers, third parties and staff, which may expose HSBC to corporate criminal liability. HSBC seeks to comply with all applicable anti-bribery and corruption laws in every market and jurisdiction in which it operates whilst focussing on the spirit of relevant laws and regulations to demonstrate HSBC's commitment to ethical behaviours and conduct as part of our environmental, social and corporate governance. HSBC provides annual mandatory training on the prevention of money laundering, bribery and corruption and tax evasion to all staff and carries out regular risk assessments, monitoring and testing of its programmes incorporating applicable findings within the annual policy refresh. HSBC also maintains clear whistleblowing policies and processes, to ensure that individuals can confidentially report concerns.

HSBC continues to develop its fraud controls in conjunction with areas such as cyber risk, to protect the bank and our customers; investing in capabilities to fight financial crime through the application of new technologies such as behavioural biometrics, advanced analytics and artificial intelligence. HSBC strengthened its fraud framework, reviewed and published an updated policy and streamlined the associated control library. Investment has been sustained to develop fraud prevention and detection tooling with leading vendors. Enhanced metrics have been introduced to assist with control performance monitoring and support ongoing optimisation of fraud defences.

HSBC's sanctions programme seeks to apply a globally consistent standard to manage sanctions compliance and export control risk effectively across all HSBC legal entities in all jurisdictions in which HSBC operates. The external sanctions environment remains dynamic, and sanctions regimes are increasingly complex and less predictable as geopolitical tensions continue to rise. Russia has continued to be the target of various trade and financial sanctions in 2023, with greater focus on enforcing sanctions and limiting methods of sanctions evasion. The US-China relationship remains complex, with both sides imposing sanctions and export restrictions. The US continues to enhance semiconductor restrictions and issued an Executive Order signalling an intent to curb US person investment in China related to certain national security technologies and products.

China has retaliated by imposing export restrictions on germanium, gallium, and graphite - key elements in electric vehicle battery production and other "green" technologies - which the US requires to fulfil its environmental objectives. Other material sanctions regulatory developments include the US providing conditional sanctions relief related to the Venezuela sanctions programme. HSBC continues to monitor regulatory developments and their impact on HSBC's global financial crime policy and risk appetite. HSBC does not consider that its business activities with counterparties with whom transactions are restricted under applicable sanctions are material to its business for the year ended 31 December 2023.

Disclosures pursuant to Section 13(r) of the Securities Exchange Act

Section 13(r) of the Securities Exchange Act requires each issuer registered with the SEC to disclose in its annual or quarterly reports whether it or any of its affiliates have knowingly engaged in specified activities or transactions with persons or entities targeted by U.S. sanctions programs relating to Iran, terrorism, or the proliferation of weapons of mass destruction, even if those activities are not prohibited by U.S. law and are conducted outside the U.S. by non-U.S. affiliates in compliance with local laws and regulations.

To comply with this requirement, HSBC Holdings plc (together with its affiliates, "HSBC") has requested relevant information from its affiliates globally. The following activities conducted by HSBC are disclosed in response to Section 13(r):

Legacy contractual obligations related to guarantees

Between 1996 and 2007, we provided guarantees to a number of our non-Iranian customers in Europe and the Middle East for various business activities in Iran. In a number of cases, we issued counter indemnities involving Iranian banks as the Iranian beneficiaries of the guarantees required that they be backed directly by Iranian banks. The Iranian banks to which we provided counter indemnities included Bank Tejarat, Bank Mellī, and the Bank of Industry and Mine.

There was no measurable gross revenue in 2023 under those guarantees and counter indemnities. We do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure. We are seeking to cancel all relevant guarantees and counter indemnities, and do not currently intend to provide any new guarantees or counter indemnities involving Iran. No guarantees were cancelled in 2023, and approximately 14 remain outstanding.

Other relationships with Iranian banks

Activity related to U.S.-sanctioned Iranian banks not covered elsewhere in this disclosure includes the following:

- We act as the trustee and administrator for a pension scheme involving eight employees of a U.S.-sanctioned Iranian bank in Asia. Under the rules of this scheme, we accept contributions from the Iranian bank each month and allocate the funds into the pension accounts of the Iranian bank's employees. We run and operate this pension scheme in accordance with applicable laws and regulations. Estimated gross revenue, which includes fees and/or commissions, generated by this pension scheme during 2023, was approximately \$2,012.

For the Iranian bank-related activity discussed above, we do not allocate direct costs to fees and commissions and, therefore, have not disclosed a separate net profit measure.

We have been holding a safe custody box for the Central Bank of Iran. For a number of years, the box has not been accessed by the Central Bank of Iran, and no fees have been charged to the Central Bank of Iran.

We currently intend to continue to wind down the above activities, to the extent legally permissible, and not enter into any new such activity.

Activity related to U.S. Executive Order 13224

During 2023, four individual customers in the Middle East received bonus shares pursuant to legacy holdings in an entity designated under Executive Order 13224 in 2022. We processed these corporate actions on our customers' investment accounts.

For these activities, there was no measurable gross revenue or net profit to HSBC during 2023.

Activity related to U.S. Executive Order 13382

Two corporate customers in Asia became designated under Executive Order 13382 in 2023. These customers' accounts are restricted and the relationships are being exited. Immediately following their designations, and prior to the accounts being restricted, we processed a low value credit of interest to a local currency account held by one of the corporate customers and two domestic transactions through a local payment system for the other corporate customer.

For this activity, there was no measurable gross revenue or net profit to HSBC during 2023.

Other activity

We have a non-Iranian insurance company customer in the Middle East that, during 2023, made local currency domestic payments for the reimbursement of medical treatment to a hospital located outside Iran that is owned by the Government of Iran. We processed these payments from our customer to the hospital.

We have one corporate customer in the Middle East that, during 2023, received a local currency cheque from a hospital located outside Iran that is owned by the Government of Iran. We processed the cheque from the hospital to our customer.

We have six customers in the Middle East that, during 2023, received local currency cheques from an insurance company located outside Iran that is owned by the Government of Iran. We processed these cheques from the insurance company to our customers.

We have individual and corporate customers in Asia and Europe that, during 2023, made small local currency domestic payments to, or received such payments from, Iranian embassies. These customers are engaged in activities that require consular services provided by the embassies or provide goods and services that support the conduct of the official business of the embassies. We processed these payments between our customers and the Iranian embassies.

We have four corporate customers in Europe that, during 2023, received local currency payments from a bank owned by the Government of Iran in relation to management charges for property owned by the bank, service charges, and training fees for staff at the bank. HSBC processed these payments to our customers.

We have individual customers in Europe that are employed by a bank located outside Iran that is owned by the Government of Iran. During 2023, we processed local currency salary payments received via banks that are not owned by the Government of Iran to our customers.

For these activities, there was no measurable gross revenue or net profit to HSBC during 2023.

Frozen accounts and transactions

We maintain several accounts that are frozen as a result of relevant sanctions programmes, and safekeeping boxes and other similar custodial relationships, for which no activity, except as licensed, authorised, or otherwise related to the maintenance of such accounts as consistent with applicable law, took place during 2023. There was no measurable gross revenue or net profit to HSBC during 2023 relating to these frozen accounts.

Risk review

Our risk review outlines our approach to risk management, how we identify and monitor top and emerging risks, and the actions we take to mitigate them. In addition, it explains our material banking risks, including how we manage capital.

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Our approach to risk

Our risk appetite

We recognise the importance of a strong culture, which refers to our shared attitudes, beliefs, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with ultimate supervisory oversight residing with the Board. Our risk appetite defines the level and types of risk that we are willing to take, while informing the financial planning process and guiding strategic decision making.

The following principles guide the Group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

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

Operating model

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

Business practice

- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any Group business.
- We are committed to managing the climate risks that have an impact on our financial position and delivering on our net zero ambition.
- We consider and, where appropriate, mitigate reputational risk that may arise from our business activities and decisions.
- We monitor non-financial risk exposure against risk appetite, including exposure related to inadequate or failed internal processes, people and systems, or events that impact our customers or can lead to sub-optimal returns to shareholders, censure, or reputational damage.

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving our strategy or objectives as the result of failed internal processes, people and systems, or from external events.

Our risk appetite is expressed in both quantitative and qualitative terms and applied at the global business and regional levels, and to material operating entities. Every three years, the Group Risk and Compliance function commissions an external independent firm to review the Group's approach to risk appetite and to help ensure that it remains in line with market best practice and regulatory expectations. This review was last carried out in 2021 and confirmed the Group's risk appetite statement ('RAS') remains aligned to best practices, regulatory expectations and strategic goals. Our risk appetite continues to evolve and expand its scope as part of our regular review process.

The Board reviews and approves the Group's risk appetite regularly to make sure it remains fit for purpose. The Group's risk appetite is considered, developed and enhanced through:

- an alignment with our strategy, purpose, values and customer needs;

- trends highlighted in other Group risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our capital, liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our RAS. Setting out our risk appetite helps ensure that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS is applied to the development of business line strategies, strategic and business planning, and remuneration. At a Group level, performance against the RAS is reported to the Group Risk Management Meeting alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and any associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Each global business, region and material operating entity is required to have its own RAS, which is monitored to help ensure it remains aligned with the Group's RAS. Each RAS and business activity is guided and underpinned by qualitative principles and/or quantitative metrics.

Risk management

We recognise that the primary role of risk management is to help protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model described on page 161.

The implementation of our business strategy remains a key focus. As we implement change initiatives, we actively manage the execution risks. We also perform periodic risk assessments, including against strategies, to help ensure retention of key personnel for our continued safe operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. The framework fosters continuous monitoring, promotes risk awareness and encourages a sound operational and strategic decision-making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities. We actively review and enhance our risk management framework and our approach to managing risk, through our activities with regard to: people and capabilities; governance; reporting and management information; credit risk management models; and data.

Group Risk and Compliance is independent from the global businesses, including our sales and trading functions. It provides challenge, oversight and appropriate balance in risk/return decisions.

Our risk management framework

The following diagram and descriptions summarise key aspects of the risk management framework, including governance, structure, risk management tools and our culture, which together help align employee behaviour with risk appetite.

Key components of our risk management framework

HSBC values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the Group's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Group Risk Committee (see page 290).
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Group (see pages 161 and 181).
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Group Risk and Compliance function helps ensure the necessary balance in risk/return decisions (see page 161).
Processes and tools	Risk appetite	The Group has processes in place to identify, assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The Group has systems and processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The Board has ultimate supervisory responsibility for the effective management of risk and approves our risk appetite.

The Group Chief Risk and Compliance Officer, supported by members of the Group Risk Management Meeting, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework.

The Group Chief Risk and Compliance Officer is also responsible for the oversight of reputational risk, with the support of the Group Reputational Risk Committee. The Group Reputational Risk Committee considers matters arising from customers, transactions and third parties that either present a serious potential reputational risk to the Group or merit a Group-led decision to ensure a consistent risk management approach across the regions, global businesses and

global functions. Further details can be found under the 'Reputational risk' section of www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All our people have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures, including regulatory compliance and financial crime, as described in the following commentary, 'Our responsibilities'.

We use a defined executive risk governance structure to help ensure there is appropriate oversight and accountability of risk, which facilitates reporting and escalation to the Group Risk Management Meeting. This structure is summarised in the following table.

Governance structure for the management of risk and compliance

Authority	Membership	Responsibilities include:
Group Risk Management Meeting	Group Chief Risk and Compliance Officer	– Supporting the Group Chief Risk and Compliance Officer in exercising Board-delegated risk management authority
	Group Chief Legal Officer	– Overseeing the implementation of risk appetite and the risk management framework
	Group Chief Executive	– Forward-looking assessment of the risk environment, analysing possible risk impacts and taking appropriate action
	Group Chief Financial Officer	– Monitoring all categories of risk and determining appropriate mitigating action
	Group Head of Financial Crime and Group Money Laundering Reporting Officer	– Promoting a supportive Group culture in relation to risk management and conduct
	All other Group Executive Committee members	

Governance structure for the management of risk and compliance (continued)

Authority	Membership	Responsibilities include:
Group Risk and Compliance Executive Committee	Group Chief Risk and Compliance Officer Chief risk and compliance officers of HSBC's global businesses Regional chief risk and compliance officers and chief risk officers Heads of Global Risk and Compliance sub-functions	- Supporting the Group Chief Risk and Compliance Officer in providing strategic direction for the Group Risk and Compliance function, setting priorities and providing oversight - Overseeing a consistent approach to accountability for, and mitigation of, risk and compliance across the Group
Global business/regional risk management meetings	Global business/regional chief risk and compliance officers and chief risk officers Global business/regional chief executive officers Global business/regional chief financial officers Global business/regional heads of global functions	- Supporting the Group Chief Risk and Compliance Officer in exercising Board-delegated risk management authority - Forward-looking assessment of the risk environment - Implementation of risk appetite and the risk management framework - Monitoring all categories of risk and overseeing appropriate mitigating actions - Embedding a supportive culture in relation to risk management and controls

The Board committees with responsibility for oversight of risk-related matters are set out on page 288.

Treasury risks are the responsibility of the Group Executive Committee and the Group Risk Committee. Global Treasury actively manages these risks, supported by the Holdings Asset and Liability Management Committee ('ALCO') and local ALCOs, overseen by Treasury Risk Management and the Group Risk Management Meeting. Further details on treasury risk management are set out on page 239.

Our responsibilities

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

Three lines of defence

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

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

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice, guidance and assurance of the first line of defence to ensure it is managing risk effectively.
- The third line of defence is our Global Internal Audit function, which provides independent assurance as to whether our risk management approach and processes are designed and operating effectively.

Group Risk and Compliance function

Our Group Risk and Compliance function is responsible for the Group's risk management framework. This responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk. Group Risk and Compliance is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the Group Risk and Compliance function is independent from the global businesses, including sales and trading functions. It provides challenge, appropriate oversight and balance in risk/return decisions.

Responsibility for minimising both financial and non-financial risk, including regulatory compliance and financial crime, lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. We maintain adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by our chief risk and compliance officers.

We have continued to strengthen the control environment and our approach to the management of risk, as set out in our risk management framework. Our ongoing focus is on helping to ensure more effective oversight and better end-to-end identification and management of financial and non-financial risks. This is overseen by the Enterprise Risk Management function, headed by the Global Head of Enterprise Risk Management.

Stress testing and recovery planning

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks, and forms part of our risk management and capital and liquidity planning. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests in order to understand the nature and level of material risks, quantify the impact of such risks and develop plausible mitigating actions. The outcome of a stress test provides management with key insights into the impact of severely adverse events on the Group and provides an indication of resilience to regulators on the Group's financial stability.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical, climate and operational risk events, as well as other potential events that are specific to HSBC.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the Group is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

During 2023, we completed a Group-wide internal stress test alongside testing of the Group's strategy, otherwise known as the corporate plan, to test and inform our strategy and assumptions. The stress scenario explored the potential impact of interest rate shocks and a deep recession. Under this scenario, inflation re-intensifies as accentuated geopolitical tensions lead to severe global supply chain disruptions and a rise in energy prices.

In addition to the Group-wide stress testing scenarios, each major subsidiary conducts regular macroeconomic and event-driven scenario analysis specific to its region. They also participate, as required, in the regulatory stress testing programmes of the jurisdictions in which they operate, such as stress tests required by the Bank of England

('BoE') in the UK, the Federal Reserve Board ('FRB') in the US, and the Hong Kong Monetary Authority ('HKMA') in Hong Kong. Global functions and businesses also perform bespoke stress testing to inform their assessment of risks to potential scenarios.

We also conduct reverse stress tests each year at Group level and, where required, at subsidiary entity level to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

Recovery and resolution plans

Recovery and resolution plans form part of the integral framework safeguarding the Group's financial stability. The Group recovery plan, together with stress testing, help us understand the likely outcomes of adverse business or economic conditions and in the identification of appropriate risk mitigating actions. The Group is committed to further developing its recovery and resolution capabilities, including in relation to the Resolvability Assessment Framework.

Ibor transition

Interbank offered rates ('Ibors') were previously used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking.

The publication of sterling, Swiss franc, euro, Japanese yen and US dollar Libor interest rate benchmarks, as well as the Euro Overnight Index Average ('Eonia') and other local interbank interest rates globally, has ceased following regulatory announcements and industry initiatives. To support any remaining contracts referencing sterling and US dollar Libor benchmarks, the UK's Financial Conduct Authority ('FCA') has compelled the ICE Benchmark Administration Limited to publish the three-month sterling Libor setting using an alternative 'synthetic' methodology until 31 March 2024, and the one-month, three-month and six-month US dollar Libor settings until 30 September 2024. We continue to support our customers in the transition of the limited number of outstanding contracts relying on 'synthetic' Libor benchmarks in line with these dates.

There are approximately 90 of these contracts remaining, which are predominantly syndicated lending contracts, where Commercial Banking and Global Banking customers have required additional time to enable refinancing or restructuring, with transition expected to be completed prior to 30 September 2024. Additionally, there are a small number of Group-issued MREL and capital securities and client retail mortgages that are contingent on demised Ibors after the end of their fixed interest rate periods. HSBC remains committed to seeking to remediate and/or mitigate relevant risks relating to Ibor-demise, as appropriate, for these contracts. HSBC expects to be able to remediate and/or mitigate these risks by the relevant interest rate calculation dates, which may occur post-cessation of the relevant Ibor. All other contracts referencing benchmarks that are no longer published have been transitioned in line with client and investor discussions.

Although we continue to track the transition of remaining contracts to alternative interest rate benchmarks, overall, our regulatory compliance, conduct and legal risks have materially diminished. We will continue to monitor until all contracts are fully transitioned.

Key developments in 2023

In 2023, we actively managed the risks related to macroeconomic and geopolitical uncertainties, as well as other key risks described in this section. In addition, we sought to enhance our risk management in the following areas:

- We enhanced our model risk frameworks and controls as we seek to manage the increasing numbers of climate risk, artificial intelligence ('AI') and machine learning models being embedded in business processes. Focus is also on generative AI due to the pace of technological changes and regulatory and wider interest in adoption and usage.
- We implemented two revised risk appetite frameworks to better manage and strengthen our controls with respect to concentration risks. These relate to concentration risks arising from exposures to countries and territories, and to single customer groups.
- We enhanced our processes, framework and capabilities to seek to improve the control and oversight of our material third parties, and to help maintain our operational resilience and meet new and evolving regulatory requirements.
- We continued to make progress with our comprehensive regulatory reporting programme in seeking to strengthen our global processes, improve consistency and enhance controls across regulatory reports.
- Through our climate risk programme, we continued to embed climate considerations throughout the organisation, including through risk policy updates and the completion of our annual climate risk materiality assessment. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis.
- We deployed industry-leading technology and advanced analytics capabilities into new markets to improve our ability to identify suspicious activities and prevent financial crime.
- We continued to develop and enhance our electronic communication policies and standards to help ensure that we act on the most substantive issues. A Group-wide approach to providing corporate device access is being implemented to meet regulatory expectations.
- We are embedding our suite of regulatory management systems following the Group-wide roll-out of regulatory horizon scanning capabilities, and enhanced regulation mapping tooling.
- We continued to stabilise our net interest income, despite the fluctuations in interest rate expectations, driven by central bank rate increases and a reassessment of the trajectory of inflation in major economies.

Top and emerging risks

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

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

Our current top and emerging risks are as follows.

Externally driven

Geopolitical and macroeconomic risks

HSBC faces elevated geopolitical risks, with the Russia-Ukraine war continuing to have global economic and political implications, and the Israel-Hamas war increasing tensions in the Middle East, leading to recent attacks on shipping in the Red Sea and countermeasures, which have begun to disrupt supply chains. HSBC is monitoring and assessing the impacts of these wars.

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

Our business in Russia principally serves multinational corporate clients headquartered in other countries, is not accepting new business or customers and is consequently on a declining trend. Following a strategic review, HSBC Europe BV (a wholly-owned subsidiary of HSBC Bank plc) has entered into an agreement to sell its wholly-owned subsidiary HSBC Bank (RR) (Limited Liability Company), subject to regulatory and governmental approvals. The planned sale of our business in Russia became less certain and remains subject to regulatory approval.

The US-China relationship remains complex. To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies, and the countries' respective approaches to strategic competition with China continue to develop. Although sanctions and trade restrictions are difficult to predict, increases in diplomatic tensions between China and the US and other countries could result in further sanctions and trade restrictions that could negatively impact the Group, its customers and the markets in which the Group operates. For example, there is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology, and other issues, and this could create a more complex operating environment for the Group and its customers.

China, in turn, imposed a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals and companies as well as certain goods such as rare earth minerals and metals, and technology and services. These, as well as certain law enforcement measures, have been imposed against certain countries, Western consulting and data intelligence firms, defence companies and public officials associated with the implementation of foreign sanctions against China.

Further sanctions, counter-sanctions and trade restrictions may adversely affect the Group, its customers and the markets in which the Group operates, by creating regulatory, reputational and market risks.

Economic and financial risks also remain significant, and we continue to monitor our risk profile closely in the context of uncertainty over global macroeconomic policies.

A fall in global energy and food prices from the highs of 2022 facilitated a process of disinflation across key economies during 2023. To date, the Israel-Hamas war has not materially disrupted energy supply, and non-OPEC producers, including the US, increased output in the fourth quarter of 2023. Similarly, geopolitical developments in the Middle East have not to date led to a sustained increase in energy prices, but disruption and further price volatility continue to be a risk. The escalation or a broadening of either the Russia-Ukraine war or the Israel-Hamas war could aggravate supply chain disruptions and drive inflation higher and may pose challenges for our customers and our business.

Following the reduction in global inflation rates, central banks in most developed markets are expected to have concluded monetary policy tightening in the second half of 2023. A further fall in inflation is expected to enable reductions in interest rates throughout 2024, although forecasts still assume that they remain materially higher than in recent years. Higher financing costs will raise interest payment burdens for many counterparties.

Fiscal deficits are also expected to remain large in both developed and emerging markets, as public spending on items including social welfare, defence and climate transition initiatives is expected to remain high. In many countries, the fiscal response to the Covid-19 pandemic has also left a very high public debt burden. Against a backdrop of slower economic growth and high interest rates, a rise in borrowing costs could increase the financial strains on highly indebted sovereigns.

Political changes may also have implications for policy. Many countries are expected to hold elections in 2024. This may result in continuity in some markets, but significant political and policy change in others. Political change could bring uncertainty to the political and legal frameworks in markets where the Group operates.

Sector-specific risks are also closely monitored. Mainland China commercial real estate conditions remain distressed as offshore financing conditions and buyer demand remain subdued. Signs of a material or sustained recovery are yet to emerge, with market data still reflecting reduced investment and weak sentiment. The Chinese government is expected to expand fiscal and monetary support to the economy to boost growth and lending in 2024, including specific measures to support developers and stimulate housing demand. However, the risk of a slow and protracted recovery remains significant. The business and financial performance of corporates operating in this market has been weak, and refinancing risks are likely to continue in 2024. State-owned enterprises continue to outperform privately-owned enterprises in general, with above market average sales performance, market share gains and greater access to funding. The challenges in this sector could create further pressure on our customers. We continue to closely monitor and take actions to proactively risk manage our portfolio.

Macroeconomic, financial and geopolitical risks have all impacted our macroeconomic risk scenarios. Our Central scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' calculations of ECL, assumes that GDP growth rates in our main markets will slow down in 2024, followed by a moderate recovery in

2025. It is anticipated that inflation will converge towards central banks' target rates by early 2025. Similarly, interest rates are expected to decline but remain materially higher than in recent years. We also consider scenarios where commodity prices are materially higher, inflation and interest rates rise and a global recession follows, although we assign these scenarios a lower probability of occurring.

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

Despite these risks, forecast stability and reduced forecast dispersion in our main markets ensured that the Central scenario for impairment was assigned the same likelihood of occurrence across our key markets.

For further details of our Central and other scenarios, see 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 192.

Global tensions over trade, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. We maintain dialogue with our regulators in various jurisdictions on the impact of legal and regulatory obligations on our business and customers.

The financial impact on the Group of geopolitical risks in Asia is heightened due to the region's relatively high contribution to the Group's profitability, particularly in Hong Kong.

While it is the Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical tensions, and potential ambiguities in the Group's compliance obligations, will continue to present challenges and risks for the Group and could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, strategy and reputation, as well as on the Group's customers.

Mitigating actions

- We closely monitor geopolitical and economic developments in key markets and sectors, and undertake scenario analysis where appropriate. This helps us to take actions to manage our portfolios where necessary, including through enhanced monitoring, amending our risk appetite and/or reducing limits and exposures.
- We stress test portfolios of particular concern to identify sensitivity to loss under a range of scenarios, with management actions being taken to rebalance exposures and manage risk appetite where necessary.
- We regularly review key portfolios – including our commercial real estate portfolio – to help ensure that individual customer or portfolio risks are understood and that our ability to manage the level of facilities offered through any downturn is appropriate.
- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.
- We have taken steps, where necessary, to enhance physical security in geographical areas deemed to be at high risk from terrorism and military conflicts.

Technology and cybersecurity risk

Like other organisations, we operate in an extensive and complex technology landscape. We need to remain resilient in order to support customers, our colleagues and financial markets globally. Risks arise where, for example, technology is not understood, maintained or developed appropriately. We also continue to operate in an increasingly complex cyber threat environment globally. These threats include potential unauthorised access to customer accounts and attacks on systems, whether ours or our third-party suppliers'. These threats require ongoing investment in business and technical controls to defend against them.

Mitigating actions

- We continue to upgrade many of our IT systems and are transforming how software solutions are developed, delivered, maintained and tested as part of our investment in the Group's operational resilience capabilities to seek to meet the expectations of our customers and regulators and to help prevent disruptions to our services.
- Our cyber intelligence and threat analysis team continually evaluate threat levels for the most prevalent cyber-attack types and their potential outcomes (see page 98), and we continue to seek to strengthen our controls to help reduce the likelihood and impact of advanced malware, data leakage, exposure through third parties and security vulnerabilities.
- We continue to seek to enhance our cybersecurity capabilities, including Cloud security, identity and access management, metrics and data analytics, and third-party security reviews and to invest in mitigating the potential threats of emerging technologies.
- We regularly report and review cyber risk and control effectiveness at executive level across global businesses, functions and regions, as well as at non-executive Board level to help ensure there is appropriate visibility and governance of the risk and its mitigating actions.
- We participate globally in industry bodies and working groups to collaborate on tactics employed by cyber-crime groups and to work together to seek to prevent, detect and defend against cyber-attacks on financial organisations globally.
- We respond to attempts to compromise our cybersecurity in accordance with our cybersecurity framework, which adheres to applicable laws, rules and regulations. To date, none of these attacks have had a material impact on our business or operations.

Environmental, social and governance ('ESG') risk

We are subject to financial and non-financial risks associated with ESG-related matters. Our current areas of focus include climate risk, nature-related risks and human rights risks. These can impact us both directly and indirectly through our business activities and relationships. For details of how we govern ESG, see page 88.

Our assessment of climate risks covers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050. These time periods are aligned to the Climate Action 100+ framework v1.2.

We may face credit losses if our customers' business models fail to align to a net zero economy or if our customers face disruption to their operations or deterioration to their assets as a result of extreme weather.

We may face trading losses if climate change results in changes to macroeconomic and financial variables that negatively impact our trading book exposures.

We may face impacts from physical risk on our own operations and premises, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect our ability to conduct our day-to-day operations.

We may face increased reputational, legal, and regulatory compliance risks if we fail to make sufficient progress towards our net zero ambition, and ESG-related targets, commitments and ambitions, if we fail to meet evolving regulatory expectations and requirements on the management of climate risk and broader ESG risks, or if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to our stakeholders.

Requirements, policy objectives, expectations or views may vary by jurisdiction and stakeholder in relation to ESG-related matters. We may be subject to potentially conflicting approaches to ESG matters in certain jurisdictions, which may impact our ability to conduct certain business within those jurisdictions or result in additional regulatory compliance, reputational, political or litigation risks. These risks may also arise from divergence in the implementation of ESG, climate policy and financial regulation in the many regions in which we operate, including initiatives to apply and enforce policy and regulation with extraterritorial effect.

We may face financial reporting risk in relation to our climate-related and broader ESG disclosures, as any data, methodologies, scenarios and reporting standards we have used may evolve over time in line with market practice, regulation or developments in science. We may also face the risk of making reporting errors due to issues relating to the availability, accuracy and verifiability of data, and system, process and control challenges. Any changes and reporting errors could result in revisions to our internal frameworks and reported data and could mean that reported figures are not reconcilable or comparable year on year. We may also have to re-evaluate our progress towards our climate-related targets in the future.

We may face model risk, as the uncertain and evolving impacts of climate change and data and methodology limitations present challenges to creating reliable and accurate model outputs.

We may face climate and broader ESG-related litigation and regulatory enforcement risks, either directly if stakeholders think that we are not adequately managing climate and broader ESG-related risks, or indirectly if our clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client assets.

We may also be exposed to nature-related risks beyond climate change. These risks arise when the provision of ecosystem services, such as water availability, air quality and soil quality, is compromised by human activity. Nature risk can manifest through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC and our customers.

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

Mitigating actions

- A dedicated Environmental Risk Oversight Forum is responsible for shaping and overseeing our approach and providing support in managing climate and sustainability risk. For further details of the Group's ESG governance structure, see page 88.
- Our climate risk programme continues to support the development of our climate risk management capabilities across four key pillars: governance and risk appetite, risk management, stress testing and scenario analysis, and disclosures. We continue to enhance our approach and mitigation of the risk of greenwashing.
- In January 2024, we updated our energy policy covering the broader energy system including upstream oil and gas, oil and gas power generation, coal, hydrogen, renewables and hydropower, nuclear, biomass and energy from waste. We also updated our thermal coal phase-out policy, which aims to drive thermal coal phase-out aligned to science-based timeframes. We take a risk-based approach in the way that we identify transactions and clients to which our energy and thermal coal phase-out policies apply, and report on relevant exposures, adopting approaches proportionate to risk and materiality. For further details of our sustainability risk policies, see page 67.

- In 2023, we conducted pilot exercises to assess nature risk exposures, focusing on our continental Europe portfolios in line with regulatory expectations.
- In 2023, we provided practical guidance and training, where relevant, to our colleagues across the Group on how to identify and manage human rights risk. For further details, see page 89.
- We have expanded the scope of financial reporting risk to explicitly include oversight over accuracy and completeness of climate-related and broader ESG disclosures. In 2023, we updated the risk appetite statement to reference our ESG and climate-related disclosures. We also updated our internal controls to incorporate requirements for addressing the risk of misstatement in climate-related and broader ESG disclosures. To support this, we have developed a framework to guide control implementation over climate-related and broader ESG disclosures, which includes areas such as process and data governance, and risk assessment.
- We continue to engage with our customers, investors and regulators proactively on the management of climate-related and broader ESG risks. We also engage with initiatives, including the Climate Financial Risk Forum, Equator Principles, Task Force on Climate-related Financial Disclosures and CDP (formerly the Carbon Disclosure Project) to help drive best practice for climate risk management.

For further details of our approach to climate risk management, see 'Climate risk' on page 257.

For further details of ESG risk management, see 'Financial crime risk' on page 267 and 'Regulatory compliance risk' on page 267.

Our ESG review can be found on page 42.

Financial crime risk

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

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

The digitisation of financial services continues to have an impact on the payments ecosystem, with an increasing number of new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as banks. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus on the financial crimes linked to these types of assets.

Expectations continue to increase with respect to the intersection of ESG issues and financial crime, as our organisation, customers and suppliers transition to net zero. These are particularly focused on potential 'greenwashing', human rights issues and environmental crimes. In addition, climate change itself could heighten risks linked to vulnerable migrant populations in countries where financial crime is already more prevalent.

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

Mitigating actions

- We continue to seek to manage sanctions and trade restrictions through the use of reasonably designed policies, procedures and controls, which are subject to ongoing testing, auditing and enhancements.
- We continue to develop our fraud controls and invest in capabilities to fight financial crime through the application of

advanced analytics and AI, while monitoring technological developments and engaging with third parties.

- We are looking at the impact of a rapidly changing payments ecosystem, as well as risks associated with direct and indirect exposure to digital assets and currencies, in an effort to maintain appropriate financial crime controls.
- We regularly review our existing policies and control framework so that developments relating to ESG are considered and the financial crime risks are mitigated to the extent possible.
- We engage with regulators, policymakers and relevant international bodies, seeking to address data privacy challenges through international standards, guidance and legislation.

Digitalisation and technological advances risk

Developments in technology and changes to regulations are enabling new entrants to the industry, particularly with respect to payments. This challenges us to continue innovating to address evolving customer requirements, drive efficiency and adapt our products to attract and retain customers. As a result, we may need to increase our investment in our business to adapt or develop products and services to respond to our customers' evolving needs. We also need to ensure that new digital capabilities do not weaken our resilience or wider risk management capabilities.

New technologies such as generative AI, large language models, blockchain and quantum computing offer both business opportunities and potential risks for HSBC. As with the use of all technologies, we aim to maximise their potential while seeking to ensure a robust control environment is in place to help manage the inherent risks, such as the impact on encryption algorithms.

Mitigating actions:

- We continue to monitor this emerging risk and advances in technology, as well as changes in customer behaviours, to understand how these may impact our business.
- We assess new technologies to help develop appropriate controls and maintain resilience.
- We closely monitor and assess financial crime risk and the impact on payment transparency and architecture.

Evolving regulatory environment risk

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

The competitive landscape in which the Group operates may be impacted by future regulatory changes and government intervention.

Mitigating actions

- We monitor regulatory developments to understand the evolving regulatory landscape, and seek to respond with changes in a timely manner.
- We engage with governments and regulators, and respond to consultations with a view to help shape regulations that can be implemented effectively.
- We hold regular meetings with relevant authorities to discuss strategic contingency plans, including those arising from geopolitical issues.
- Our purpose-led conduct approach aligns to our purpose and values, in particular the value 'we take responsibility'.

Internally driven

Data risk

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

Mitigating actions

- Through our global data management framework, we monitor the quality, availability and security of data that supports our customers and internal processes. We work towards resolving any identified data issues in a timely manner.
- We continue to make improvements to our data policies and to our control framework – which includes trusted sources, data flows and data quality – in order to enhance the end-to-end management of data risk.
- We have established a global data management utility and continue to simplify and unify data management activities across the Group.
- We seek to protect customer data through our data privacy framework, which establishes practices, design principles and guidelines that enable us to demonstrate compliance with data privacy laws and regulations.
- We continue to modernise our data and analytics infrastructure through investments in Cloud technology, data visualisation, machine learning and AI.
- We continue to educate our employees on data risk and data management. We have delivered regular mandatory training globally on how to protect and manage data appropriately.

Risks arising from the receipt of services from third parties

We use third parties to provide a range of goods and services. It is critical that we ensure we have appropriate risk management policies, processes and practices over the selection, governance and oversight of third parties and their supply chain, particularly for key activities that could affect our operational resilience. Any deficiency in the management of risks associated with our third parties could affect our ability to support our customers and meet regulatory expectations.

Mitigating actions

- We continue to monitor the effectiveness of the controls operated by our third-party providers and request third-party control reports, where required.
- We continue to enhance the effective management of our intra-Group arrangements using the same control standards as we have for external third-party arrangements.
- We have strengthened the way third-party risk is overseen and managed across all non-financial risks, and have enhanced our processes, framework and reporting capabilities to help improve the visibility of risk and enable more robust management of our material third parties by our global businesses, functions and regions.
- We are implementing the changes required by new regulations as set by our regulators.

Model risk

Model risk arises whenever business decision making includes reliance on models. We use models in both financial and non-financial contexts, as well as in a range of business applications such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Assessing model performance is a continuous undertaking. Models can need redevelopment as market conditions change. Significant increases in global inflation and interest rates have impacted the reliability and accuracy of both credit and market risk models.

We continued to prioritise the redevelopment of internal ratings-based ('IRB') and internal model methods ('IMM') models, in relation to counterparty credit, as part of the IRB repair and Basel III programmes, with a key focus on enhancing the quality of data used as model inputs. Some models have been approved and a number are pending approval decisions from the UK's Prudential Regulation Authority ('PRA') and other key regulators. Some IMM and internal model approach ('IMA') models have been approved for use, and feedback has been received for some IRB models. Climate risk modelling is a key focus for the Group as HSBC's commitment to ESG has become a key part of the Group's strategy. Focus is also on AI and machine learning where the pace of technological advances is driving significant changes in modelling techniques.

Model risk remains a key area of focus given the regulatory scrutiny in this area, with local regulatory exams taking place in many jurisdictions and the PRA's publication of supervisory statement 1/23 (SS1/23) which provided revised principles on how model risk should be managed, as well as further developments in policy expected from other regulators.

Mitigating actions

- We have continued to embed the enhanced monitoring, review and challenge of expected credit loss model performance through our Model Risk Management function as part of a broader quarterly process to determine loss levels. The Model Risk Management team aims to provide effective review and challenge of any future redevelopment of these models.
- A programme of work is in progress to address the requirements of the new PRA guidance for managing model risk.
- Model Risk Governance committees at the Group, business and functional levels continue to provide oversight of model risk.
- A full review of the Group's model landscape is being undertaken across the organisation to ensure models are being deployed in line with global business strategy.
- Model Risk Management works closely with businesses to ensure that IRB/IMM/IMA models in development meet risk management, pricing and capital management needs. Global Internal Audit provides assurance over the risk management framework for models.
- Additional assurance work is performed by the model risk governance teams, which act as second lines of defence. The teams test whether controls implemented by model users comply with model risk policy and if model risk standards are adequate.
- Models using AI or generative AI techniques are validated and monitored to help ensure that risks that are determined by the algorithms have adequate oversight and review. A framework to manage the range of risks that are generated by these advanced techniques, and to recognise the multidisciplinary nature of these risks, is being developed.

Change execution risk

The needs of our customers are evolving faster than ever, particularly with regard to technological advancements and the global transition to a low-carbon economy. The resulting scale, complexity and pace of strategic and regulatory change have elevated the level of risk for executing such changes safely and efficiently.

Mitigating actions

- Change execution risk is part of our risk taxonomy and control library so that it is defined, assessed, managed, reported and overseen in the same way as our other material risks.
- Our change framework provides colleagues across all levels of the Group who deliver on strategic and organisational initiatives with a common and consistent understanding of their role in achieving value and outcomes.
- The Change Prioritisation and Oversight Committee oversees the prioritisation, strategic alignment and management of execution risk for all strategic change portfolios and initiatives.

Risks associated with workforce capability, capacity and environmental factors with potential impact on growth

Our global businesses and functions in all of our markets are exposed to risks associated with workforce capacity challenges, including challenges to retain, develop and attract high-performing employees in key labour markets, and compliance with employment laws and regulations. Failure to manage these risks may have an impact on the delivery of our strategic objectives. It could also result in poor customer outcomes or a breach of employment laws and regulations, which may lead to regulatory sanctions or legal claims.

Mitigating actions

- We seek to promote a diverse and inclusive workforce and provide health and well-being support. We continue to build our speak-up culture through active campaigns.
- We monitor hiring activities and levels of employee attrition, with each business and function putting in place plans to help ensure they have effective workforce forecasting to meet business demands.
- We monitor people risks that could arise due to organisational restructuring, helping to ensure we manage redundancies sensitively and support impacted employees. We encourage our people leaders to focus on talent retention at all levels, with an empathetic mindset and approach, while ensuring the whole proposition of working at HSBC is well understood.
- Our Future Skills curriculum helps provides skills that will help to enable employees and HSBC to be successful in the future.
- We develop succession plans for key management roles, with oversight from the Group Executive Committee.

Risk factors

We have identified a suite of risk factors that cover a broad range of risks to which our businesses are exposed. These risks have the potential to have a material adverse effect on our business, financial condition, results of operations, prospects, capital position, strategy, reputation and/or customers.

They may not necessarily be deemed as top or emerging risks; however, they inform the ongoing assessment of our top and emerging risks that may result in our risk appetite being revised.

The risk factors are set out below.

Macroeconomic and geopolitical risk

Current economic and market conditions may adversely affect our results

Our earnings are affected by global and local economic and market conditions. Uncertain economic conditions and volatile markets can create a challenging operating environment for financial institutions such as HSBC.

In particular, we have faced and may continue to face the following challenges to our operations and operating model:

- Economic uncertainty: Current economic forecasts suggest growth will be weaker in 2024, relative to 2023. Consumer and business confidence remains low and major economies continue to face the risk of a more severe downturn, or recession. Interest rates are forecast to fall throughout 2024, but forecasts still assume that they remain materially higher than in recent years. Economic weaknesses and higher interest rates could (among other things) cause asset prices and payment patterns to be adversely affected, leading to greater than expected increases in delinquencies, default rates and expected credit losses and other credit impairment charges ('ECL').
- Mainland China commercial real estate: Mainland China commercial real estate conditions remain distressed as offshore financing conditions and buyer demand remain subdued. Signs of a material or sustained recovery are yet to emerge, with market data still reflecting reduced investment and weak sentiment. The Chinese government is expected to expand fiscal and monetary support to the economy to boost growth and lending in 2024, including specific measures to support developers and stimulate housing demand. However, the risk of a slow and protracted recovery remains significant. The business and financial performance of corporates operating in this market has been weak, and refinancing risks are likely to continue in 2024. State-owned enterprises continue to outperform privately-owned enterprises in general, with above market average sales performance, market share gains and greater access to funding. The challenges in this sector could create further pressure on our customers.
- Geopolitical risks: Geopolitical risks remain elevated. Economic forecasts are assumed to reflect the impact from the Russia-Ukraine and Israel-Hamas wars, but there is significant uncertainty around the duration and possible escalation of these wars. Additionally, recent attacks on shipping in the Red Sea and the resulting countermeasures taken have begun to disrupt supply chains. The escalation or a broadening of the Russia-Ukraine war, or the Israel-Hamas war could aggravate supply chain disruptions and drive inflation higher and may pose challenges for our customers and our business (see 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results' for further discussion);
- Credit demand: The demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- Market conditions: Our ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and

- Other economic factors: High inflation, higher interest rates and the impact of geopolitical risks have significantly changed the operating environment for many companies and sectors. While impairment estimates attempt to capture the effects of these in the aggregate, credit losses on specific exposures, with specific idiosyncratic features may not be fully captured in ECL estimates.

The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results

Significant geopolitical developments, such as the Russia-Ukraine and Israel-Hamas wars, continue to affect the global economy and have the potential to further influence the global macroeconomic outlook.

Global commodity markets were impacted by heightened geopolitical risks in 2023 – including the Russia-Ukraine and Israel-Hamas wars – which sustained concerns about supply chain disruptions.

A fall in global energy and food prices from the highs of 2022 facilitated a process of disinflation across key economies during 2023. Following the reduction in global inflation rates, central banks in most developed markets are expected to have concluded monetary policy tightening in the second half of 2023.

Disinflationary trends are now visible across most major economies. Markets expect a reduction in monetary policy rates over the next year if conditions in labour markets ease further and inflation returns closer to central banks' target rates. However, the possibility of further supply shocks led by geopolitical risks could cause an increase in prices of commodities and manufactured goods and lead to inflation effects on wages. Higher inflation could prompt central banks to raise interest rates further.

The effects of higher inflation and interest rates in many countries may have material impacts on capital and liquidity. In particular, the pressure of sustained higher inflation and higher interest rates may affect the credit rating of our customers and their ability to repay debt. In turn, this could negatively impact the Group's risk-weighted assets ('RWAs') and capital position, increase ECL and lead to potential liquidity stress due to, among other factors, increased customer drawdowns. There could be further adverse impacts on the Group's income due to lower lending volumes and lower wealth and insurance revenue, due to market volatility.

Our Central scenario, which has the highest probability weighting in our IFRS 9 'Financial Instruments' ('IFRS 9') calculations of ECL, assumes that GDP growth in many of our main markets will slow down in 2024 followed by a moderate recovery in 2025. It is anticipated that inflation will converge towards central banks' target rates by early 2025. Similarly, interest rates are expected to decline but remain materially higher than in recent years. However, forecasts remain uncertain, and changing economic conditions and the materialisation of key risks could reduce the accuracy of the Central scenario forecast. In particular, forecasts in recent years have been sensitive to commodity price changes, changing supply chain conditions, monetary policy adjustments and inflation expectations. Uncertainty remains with respect to the relationship between economic factors and historical loss experience, which has required adjustments to modelled ECLs in cases where we determined that the model was unable to capture the material underlying risks.

There could also be adverse impacts on other assets, goodwill and other intangible assets.

Fiscal deficits are expected to remain large in both developed and emerging markets as public spending on items including social welfare, defence and climate transition initiatives is expected to remain high. In many countries, the fiscal response to the Covid-19 pandemic has also left a very high public debt burden. Against a

backdrop of slower economic growth and high interest rates, a rise in borrowing costs could increase the financial strains on highly indebted sovereigns.

While the average maturity of sovereign debt in developed markets has lengthened, higher borrowing costs than in recent years could reduce the affordability of debt and may in some countries eventually bring its sustainability into question. Among emerging markets and some developed markets, those that need to refinance maturing US dollar-denominated debt, in the context of a historically strong US dollar, may face increasing difficulties. Where HSBC has exposures to such sovereigns and/or related parties, it could incur losses.

Political changes may also have implications for policy. Many countries are expected to hold elections in 2024. This may result in continuity in some markets, but significant political and policy change in others. Political change could bring uncertainty to the political and legal frameworks in markets where the Group operates.

Our financial models have been impacted by the effects of higher inflation and significant increases in interest rates in many countries. These include retail and wholesale credit models such as IFRS loss models, as well as capital models, traded risk models and models used in the asset/liability management process. This continues to require enhanced monitoring of model outputs and the use of model overlays, including management judgmental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of higher rates on critical model inputs. See 'We could incur losses or be required to hold additional capital as a result of model limitations or failure'.

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

Significant uncertainties remain in assessing the duration and impact of the Russia-Ukraine and Israel-Hamas wars. There is a risk that the resulting impact on economic activity may last for a prolonged period and this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

We are subject to political, social and other risks in the countries in which we operate

We operate through an international network of subsidiaries and affiliates across countries and territories around the world. Our global operations are subject to potentially unfavourable political, social, environmental and economic developments in such jurisdictions,

which may include:

- coups, armed conflicts or acts of terrorism;
- political and/or social instability;
- geopolitical tensions;
- epidemics and pandemics (such as Covid-19);
- climate change, acts of God and natural disasters (such as floods and hurricanes); and
- infrastructure issues, such as transportation and power failures.

Each of the above could impact RWAs, and the financial losses caused by any of these risk events or developments could impair asset values and the creditworthiness of customers.

These risk events or developments may also give rise to disruption to the Group's services and some may result in physical damage to our operations and/or risks to the safety of our personnel and customers.

Geopolitical tensions could have significant ramifications for the Group and its customers. In particular:

- Uncertainty about the scope, duration and potential for further escalation of the Israel and Hamas war presents global economic and political implications. (For further details, see 'Current economic and market conditions may adversely affect our results' and 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results');
- The Russia-Ukraine war along with related financial sanctions, trade restrictions and Russian countermeasures, has had global economic and political implications. For further details, see 'Current economic and market conditions may adversely affect our results' and 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results';
- Global tensions over trade, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, presenting long-term strategic challenges for multinational businesses;
- Diplomatic tensions between China and the US, which may extend to and involve the UK, the EU, India and other countries, and developments in Hong Kong, Taiwan and the surrounding maritime region, may affect the Group, creating regulatory, reputational and market risks;
- To date, the US, the UK, the EU and other countries have imposed various sanctions and trade restrictions on Chinese persons and companies, and the countries' respective approaches to strategic competition with China continue to develop;
- Although sanctions and trade restrictions are difficult to predict, increases in diplomatic tensions between China and the US and other countries could result in further sanctions and trade restrictions that could negatively impact the Group, its customers and the markets in which the Group operates. For example, there is a continued risk of additional sanctions and trade restrictions being imposed by the US and other governments in relation to human rights, technology and other issues with China, and this could create a more complex operating environment for the Group and its customers.
- China, in turn, imposed a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies as well as certain goods such as rare earth minerals and metals, and technology and services. These, as well as certain law enforcement measures, have been imposed against certain countries, Western consulting and data intelligence firms, defence companies and public officials associated with the implementation of foreign sanctions against China; and
- Further sanctions, counter-sanctions and trade restrictions may adversely affect the Group, its customers and the markets in which the Group operates by creating regulatory, reputational and market risks.

As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations in one jurisdiction may be seen as supporting the law or policy objectives of

that jurisdiction over another, creating additional compliance, reputational and political risks for the Group. The financial impact on the Group of geopolitical risks in Asia is heightened due to the region's relative high contribution to the Group's profitability, particularly in Hong Kong.

While it is the Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical tensions, and potential ambiguities in the Group's compliance obligations, will continue to present challenges and risks for the Group and could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, strategy and reputation, as well as on the Group's customers.

We are likely to be affected by global geopolitical trends, including the risk of government intervention

While economic globalisation appears to remain deeply embedded in the international system, it is increasingly challenged by nationalism and protectionism. Consequently, international institutions may be less capable of adapting to this trend. A dispersion of global economic power from the US and the EU towards China and emerging markets appears to be occurring, providing a backdrop for greater US-China competition.

A rise in nationalism and protectionism, including trade barriers, may be driven by populist sentiment and structural challenges facing developed and developing economies. Similarly, if capital flows are disrupted, some emerging markets may impose protectionist measures that could affect financial institutions and their clients, and other emerging, as well as developed, markets, may be tempted to follow suit. This rise could contribute to weaker global trade, potentially affecting HSBC's business.

The broad geographic footprint and coverage of HSBC may make us and our customers susceptible to protectionist measures taken by national governments and authorities, including imposition of trade tariffs, restrictions on market access, restrictions on the ability to transact on a cross-border basis, expropriation, restrictions on international ownership, interest rate caps, limits on dividend flows and increases in taxation.

There may be uncertainty as to the conflicting nature of such measures, their duration, the potential for escalation, and their potential impact on global economies. Whether these emerging trends are cyclical or permanent is hard to determine, and their causes are likely to be difficult to address. The occurrence of any of these events or circumstances could have a material adverse effect on our business, financial condition, results of operations and prospects.

We are subject to financial and non-financial risks associated with Environmental, Social and Governance ('ESG') related matters, such as climate change, nature-related and human rights issues

ESG related matters such as climate change, society's impact on nature and human rights issues bring risks to our business, our customers and wider society. If we fail to meet evolving regulatory expectations or requirements relating to these matters, this could have regulatory compliance and reputational impacts.

Climate change could have both financial and non-financial impacts on HSBC either directly or indirectly through our customers. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding and chronic shifts in weather patterns, which could affect our ability to conduct our day-to-day operations.

We currently expect that the following are the most likely ways in which climate risk may materialise for the Group:

- credit risk for our corporate customers may increase if climate-related regulatory, legislative or technological developments impact customers' business models or if extreme weather events disrupt customers' operations, resulting in financial difficulty for customers and/or stranded assets. Our customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather;
- trading losses if climate change results in changes to macroeconomic and financial variables which negatively impact our trading book exposures;
- residential real estate may be affected by changes to the climate, the increase in the frequency and severity of extreme weather events and chronic shifts in weather patterns, which could impact both property values and the ability of borrowers to afford their mortgage payments;
- HSBC may see an increase in operational risk if extreme weather events impact critical operations and premises;
- regulatory compliance risk may result from the increasing pace, breadth and depth of climate-related regulatory expectations, including on the management of climate risk, and variations in climate-related reporting standards, requiring implementation in short timeframes across multiple jurisdictions;
- conduct risks could develop in association with the increasing demand for 'green' products where there are differing and developing standards or taxonomies; and
- reputational risks may arise from how we decide to support our customers in high-emitting sectors in their transition to net zero, and if we make insufficient progress in achieving our climate-related ambitions, targets and commitments.

We also face increased reputational, legal and regulatory risks as we make progress towards our net zero ambition and other ESG-related ambitions, targets and commitments, with stakeholders likely to place greater focus on our actions, such as the development of climate and broader ESG-related policies, our disclosures and financing and investment decisions relating to our net zero ambition and other ESG-related ambitions, targets and commitments. We will face additional risks if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to our stakeholders.

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

We may be exposed to climate and broader ESG-related litigation and regulatory enforcement risks, either directly if stakeholders think that we are not adequately managing climate and broader ESG risks or indirectly if our clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client assets.

Requirements, policy objectives, expectations or views may vary by jurisdiction and stakeholder in relation to ESG related matters. We may be subject to potentially conflicting approaches to ESG matters in certain jurisdictions, which may impact our ability to conduct certain business within those jurisdictions or result in additional regulatory compliance, reputational, political or litigation risks. These risks may also arise from divergence in the implementation of ESG, climate policy and financial regulation in the many regions in which we operate, including initiatives to apply and enforce policy and regulation with extraterritorial effect.

In addition, there is increasing evidence that nature-related risks beyond climate change - which include risks that can be represented more broadly by impact and dependency on nature - can and will have significant economic impact. These risks arise when the provision of ecosystem services, such as water availability, air quality, and soil quality is compromised by overpopulation, urban development, natural habitat and ecosystem loss, ecosystem degradation arising from the economic activity and other environmental stresses beyond climate change. They can manifest themselves in a variety of ways, including through macroeconomic,

market, credit, reputational, legal and regulatory risks, for both HSBC and its customers.

In 2022, we identified human rights issues that are salient for HSBC, which are the human rights at risk of the most severe negative impact through our business activities and relationships. These issues include the right to decent work, including freedom from slavery and forced labour and the right to equality and freedom from discrimination, amongst others. Our analysis focused on the risk to people, while recognising that where this risk is at its highest, it often converges with material risk to our business, specifically, in HSBC's role as employer, buyer, investor, and provider of products and services to personal and business clients. Failure to manage this risk may negatively impact people and communities, which in turn may have reputational, legal, regulatory and financial consequences for HSBC.

In respect of all ESG-related risks, we also need to ensure that our strategy and business model, including the products and services we provide to customers and risk management processes (including processes to measure and manage the various financial and non-financial risks the Group faces as a result of ESG-related matters) adapt to meet regulatory requirements and stakeholder and market expectations, which continue to evolve significantly and at pace. Achieving our strategy with respect to ESG matters, including any ESG-related ambitions, commitments and targets that we may set, will depend on a number of different factors outside of the Group's control, such as advancements in technologies and supportive public policies in the markets where we operate. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group may fail to achieve its ESG-related ambitions, commitments and targets.

In order to track and report on our progress against our ESG-related ambitions, targets and commitments, we rely on internal and, where appropriate and available, external data sources, guided by certain industry standards and our own ability to collect and process such data. While ESG-related reporting has improved over time, data remains of limited quality and consistency exposing us to the risk of using incomplete and inaccurate data and models which could result in sub-optimal decision making. Methodologies, data, scenarios and industry standards that we have used may develop over time in line with market practice, regulation and developments in science, where applicable. Any such developments in methodologies and scenarios, and changes in the availability, accuracy and verifiability of data over time and our ability to collect and process such data, exposes us to financial reporting risk in relation to our climate-related and broader ESG disclosures and could result in revisions to our internal measurement frameworks as well as reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year.

This could also result in the Group having to re-evaluate its progress towards its ESG-related ambitions, commitments and targets in the future and this could result in reputational, legal and regulatory risks.

If any of the above risks materialise, this could have financial and non-financial impacts for HSBC which could, in turn, have a material adverse effect on our business, financial condition, results of operations, reputation, prospects and strategy.

The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results

The EU and the UK agreed a Trade and Cooperation Agreement on 31 December 2020, following the UK's withdrawal from the EU. The agreement mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fisheries, transport, data and security. A Memorandum of Understanding ('MoU') was signed on 27 June 2023, setting out a framework for voluntary regulatory cooperation in financial services between the UK and the EU, including through the establishment of a Joint UK-EU Financial Regulatory Forum. This is expected to provide a platform on which both parties will be able to discuss financial services-related issues, including future equivalence determinations.

Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol concluded in February 2023, and in January 2024, the UK Government published further details of how the Protocol would operate in practice in a document titled "Safeguarding the Union". As the financial passporting arrangement that existed prior to, and during, the transition period expired, we put in place new arrangements for the provision of cross-border banking and investment services to customers and counterparties in the European Economic Area ('EEA').

Notwithstanding the progress made in ensuring that we were prepared for the end of the transition period, there remain risks, many of them linked to the uncertain outcome of ongoing negotiations relating to potential developments in the financial services trading relationship between the UK and EU, including the rules under which financial services may be provided on a cross-border basis into the EU and its member states.

The EU law making bodies are understood to have reached agreement on a new requirement ('the EU branch requirement') under which non-EU banks and significant investment firms would have to establish a branch in each EU member state in which they carry out 'core banking activities', defined as deposit taking, lending and guarantees, and commitments. The EU branch requirement, which will be subject to certain exclusions and exemptions, is being introduced through revisions to the EU Capital Requirements Directive ('CRDVI'). CRDVI is expected to be published in the EU Official Journal in 2024, and the compliance date for the EU branch requirement is currently expected to be 12 months after the date of the transposition into the law of the relevant member state, with such transposition expected by late 2025. However, grandfathering of existing contracts will be available.

The Financial Services and Markets Act ('FSMA') 2023 became law in June 2023 and provides for a number of changes to the regulatory architecture in the UK. It contains provisions that would allow for specified 'on shored' EU legislation, also known as 'retained EU law' or 'REUL' (and known as "assimilated law" after 1 January 2024), to be revoked and replaced by legislation or rules made by HM Treasury or the regulators. FSMA 2023 allows for the eventual repeal of assimilated law related to financial services and enables the government and regulators to replace it in line with the FSMA model. Each piece of assimilated law related to financial services is now within a "transitional period," lasting until its repeal is individually commenced by HM Treasury in a phased and sequenced manner. Furthermore, as of 1 January 2024, certain legal effects previously associated with REUL (now referred to as assimilated law) no longer apply, including the supremacy of REUL over other types of conflicting domestic UK law, general principles of EU law (which informed REUL's interpretation and application) and directly effective EU rights.

Uncertainty remains as to the extent to which EU and UK laws will diverge in the future, as a result of the future repeal of assimilated law under FSMA 2023 or further development of the EU's own regulatory regime. Any changes to the current rules in this respect, the EU branch requirement and any further divergences in the legal regimes could require modifications to our UK and EU operating models, with resulting impacts to our clients and employees. The precise impacts on our clients will depend on the nature of any developments and their individual circumstances and could include disruption to the provision of products and services, and this could in turn increase operational complexity and/or costs for the Group.

More generally, over the medium to long term, the UK's withdrawal from the EU and the operation of the Trade and Cooperation Agreement (and any complexities that may result therefrom), may lead to increased market volatility and economic risk, particularly in the UK, which could adversely impact our profitability and prospects for growth in this market.

In addition, the UK's future trading relationship with the EU and the rest of the world will likely take a number of years to fully stabilise. This may result in a prolonged period of uncertainty, unstable economic conditions and market volatility. This could include reduced international trade flows and loss of export market shares, as well as currency fluctuations.

We operate in markets that are highly competitive

We compete with other financial institutions in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reform, as well as increased public scrutiny and a continued challenging macroeconomic environment.

We target internationally mobile clients who need sophisticated global financial solutions. We generally compete on the basis of the quality of our customer service, the wide variety of products and services that we can offer our customers, the ability of our products and services to satisfy our customers' needs, the extensive distribution channels available for our customers, our innovation, and our reputation. Continued and increased competition in any one or all of these areas may negatively affect our market share and/or cause us to increase our capital investment in our businesses in order to remain competitive. Additionally, our products and services may not be accepted by our targeted clients.

In many markets, there is increased competitive pressure to provide products and services at current or lower prices.

Consequently, our ability to reposition or reprice our products and services from time to time may be limited, and could be influenced significantly by the actions of our competitors who may or may not charge similar fees for their products and services. Any changes in the types of products and services that we offer our customers, and/or the pricing for those products and services, could result in a loss of customers and market share.

Developments in technology and changes to regulations are enabling new entrants to the industry. This challenges HSBC to continue innovating and taking advantage of new digital capabilities so that we improve how we serve our customers, drive efficiency and adapt our products to attract and retain customers. As a result, we may need to increase our investment in our business to adapt or develop products and services to respond to our customers' evolving needs. We also need to ensure that new digital capabilities do not weaken our resilience. If HSBC fails to develop and adapt its products and services to take advantage of new digital capabilities this could have an adverse impact on our business.

The digitisation of financial services continues to have an impact on the payment services ecosystem, including new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as financial institutions. This presents ongoing challenges in terms of maintaining required levels of payment transparency, notably where financial institutions serve as intermediaries. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus.

Any of these factors could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Changes in foreign currency exchange rates may affect our results

We prepare our accounts in US dollars because the US dollar and currencies linked to it form the major currency bloc in which we transact and fund our business. However, a substantial portion of our assets, liabilities, assets under management, revenues and expenses are denominated in other currencies. Changes in foreign exchange rates, including those that may result from a currency becoming de-pegged from the US dollar, may have an effect on our accounting standards, reported income, cash flows and shareholders' equity.

Unfavourable changes in foreign exchange rates could have a material adverse effect on our business, financial condition, results of operations, capital position and prospects.

Market fluctuations may reduce our income or the value of our portfolios

Our businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that our customers act in a manner inconsistent with our business, pricing and hedging assumptions.

Market pricing can be volatile and ongoing market movements could significantly affect us in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. The potential for future volatility and margin changes remains. See 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results' above regarding the impact of these on the interest rate environment.

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict our ability to change interest rates applying to customers in response to changes in official and wholesale market rates. Our pension scheme assets include equity and debt securities, the cash flows of which change as equity prices and interest rates vary.

Our insurance businesses are exposed to the risk that market fluctuations may cause mismatches to occur between product liabilities and the investment assets that back them. Market risks can affect our insurance products in a number of ways depending upon the product and the associated contract. For example, mismatches between assets and liability yields and maturities give rise to interest rate risk. Some of these risks are borne directly by the customer and some are borne by the insurance businesses, with their excess capital invested in the markets. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance businesses could bear some of the cost of such guarantees and options. The performance of the investment markets could thus have a direct effect upon the value embedded in the insurance and investment contracts and our operating results, financial condition and prospects.

It is difficult to predict with any degree of accuracy changes in market conditions, and such changes could have a material adverse effect on our business, financial condition, results of operations, capital position and prospects.

Liquidity, or ready access to funds, is essential to our businesses

Our ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the Group or the banking sector, including our perceived or actual creditworthiness.

Current accounts and savings deposits payable on demand or at short notice form a significant part of our funding, and we place considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in our capital strength and liquidity, and on comparable and transparent pricing.

We also access wholesale markets in order to provide funding for entities that do not accept deposits, to align asset and liability maturities and currencies, and to maintain a presence in local markets. In 2023, we issued the equivalent of \$23bn of senior debt securities in the public capital markets in a range of currencies and maturities from a number of Group entities, including \$17.2bn of senior securities issued by HSBC Holdings.

An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have a material adverse effect on our liquidity.

Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase our funding costs or challenge our ability to raise funds to support or expand our businesses.

If we are unable to raise funds through deposits and/or in the capital markets, our liquidity position could be adversely affected, and we might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet our obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses.

We may need to liquidate unencumbered assets to meet our liabilities. In a time of reduced liquidity, we may be unable to sell some of our assets, or we may need to sell assets at reduced prices, which in either case could materially adversely affect our business, financial condition, results of operations, capital position and prospects.

Macro-prudential, regulatory and legal risks to our business model

We are subject to numerous new and existing legislative and regulatory requirements, and to the risk of failure to comply with applicable regulations

Our businesses are subject to ongoing regulation, policies, voluntary codes of practice and interpretations in the various markets in which we operate. A number of regulatory changes affecting our business have effects beyond the country in which they are enacted.

In recent years, regulators and governments have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. The measures taken include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes and changes in compensation practices. With regard to conduct, there is a focus on customers and markets, payments and e-money, ESG including governance, and operational resilience. This is all set against increased geopolitical tensions which may limit the development of consistent regulatory requirements, and the evolving regulatory response to the 'banking turmoil' in 2023.

Specific areas where regulatory changes and increased supervisory expectations could have a material effect on our business, financial condition, results of operations, prospects, capital position, reputation and strategy include, but are not limited to those listed below.

Prudential and related issues

- the implementation of the Basel Committee on Banking Supervision's reforms to the prudential framework, known in the UK as Basel 3.1, which include changes to the RWA approaches to credit risk, market risk, operational risk, counterparty risk and credit valuation adjustments and the application of RWA floors;
- the increased supervisory expectations arising from expanding and increasingly complex regulatory reporting obligations, including expectations on data integrity and associated governance and controls;
- the possible impacts on some of our regulatory ratios, such as the CET1 ratio, LCR and NSFR, arising from the programme initiated to strengthen our global processes, improve consistency (through data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process) and enhance controls across regulatory reports;
- any changes to the prudential framework following the bank failures in 2023, for example in relation to liquidity or interest rate risk in the banking book or rules concerning depositor protection (such as those related to the operation of the Financial Services Compensation Scheme in the UK);
- HM Treasury's work on improving the operation of the UK's ring-fencing regime, which includes proposals that may affect HSBC's operations;
- requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities that may have different effects in different countries;
- the financial effects of climate risk and other ESG-related changes being incorporated within the global prudential framework, including physical risks from climate change and the transition risks resulting from a shift to a low carbon economy;
- the increasing regulatory expectations and requirements (for example, the EU's Digital Operational Resilience Act) relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
- reviews of regulatory frameworks applicable to the wholesale financial markets, in particular the reforms and other changes to the securitisation requirements.

Non-prudential and related issues

- the increasing focus by regulators, international bodies and other policy makers, heightened by cost-of-living pressures, on how we conduct business, particularly around the delivery of fair outcomes for customers (for example, the UK Consumer Duty), promoting effective competition and ensuring the orderly and transparent operation of global financial markets;
- the supervisory and regulatory change focus globally on technology adoption and digital delivery, underpinned by customer protection, including the use of digital assets and currencies and wider financial technology risks, for example, the EU's Markets in Crypto-Assets Regulation, which introduces a framework for regulating crypto-assets, will begin to apply in 2024, and Hong Kong, Singapore, and the UK are each introducing new regulations aimed at cryptoassets related activities;
- increasing regulatory expectations and requirements around the use of artificial intelligence ('AI') for example, the EU's proposed AI law;
- continuing supervisory and regulatory change focus globally on payment services and related infrastructure, including 'Open Banking' and 'Open Finance' initiatives in the UK and the EU and changes concerning operational resilience and cybersecurity;
- ongoing expectations with respect to managing emerging financial crime risks, specifically as they relate to digital assets, an evolving payments infrastructure, national data privacy requirements, and fraud, and managing conflicting laws and approaches to legal and regulatory regimes and implementing increasingly complex and less predictable sanctions and trade restrictions;
- the demise of certain interbank offered rate ('Ibor') reference rates and the transition to new replacement rates (as discussed further under 'We may not manage risks associated with the replacement of benchmark rates and indices effectively');
- the continued evolution of the UK's regulatory framework following the UK's withdrawal from the EU, including changes introduced through the FSMA 2023, the review of EU retained legislation, government proposals known in the UK as the 'Edinburgh Reforms/Smarter Regulatory Framework', and changes regarding the access of UK and other non-EU financial institutions to EU markets. For further details, see 'The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect our operating model and financial results';
- the implementation of conduct and other measures as a result of regulators' focus on organisational culture, employee behaviour, whistleblowing and diversity and inclusion;
- requirements regarding remuneration arrangements and senior management accountability more generally within the Group (for example, the requirements of the Senior Managers and Certification Regime in the UK and similar regimes in Hong Kong, Singapore, Australia, Ireland, and elsewhere that are either in effect or under consideration/implementation);
- changes in national or supra-national requirements regarding the ability to outsource the provision of services and resources offshore or to transfer material risk to financial institutions located

- in other countries, which may impact our ability to implement globally consistent and efficient operating models;
- increasing regulatory expectations of firms in relation to ESG-related governance, risk management and disclosure frameworks (for example the UK Sustainability Disclosure Requirements and the EU Corporate Sustainability Reporting Directive), particularly relating to climate change, transition plans, greenwashing and supply chain due diligence; and
- the regulatory focus on policies and controls related to the unauthorised use by employees of electronic communications on non-business platforms.

We may not manage risks associated with the replacement of benchmark rates and indices effectively

Libors were previously used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking.

Key benchmark rates and indices, including Libors such as the London interbank offered rate ('Libor'), have been the subject of both national and international regulatory scrutiny and reform for many years. This resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of replacement near risk free rates ('RFRs') and the proposed discontinuation of certain reference rates (including Libor). From the end of December 2021, the European Money Markets Institute ('EMMI') ceased publication of the Euro Overnight Index average ('Eonia') and ICE Benchmark Administration Limited ('IBA') ceased publication of all sterling, Euro, Swiss franc and Japanese yen settings, and the one-week and two-month US dollar Libor settings, RFRs have been adopted in their place. All remaining US dollar Libor settings ceased to be published on 30 June 2023. Following the demise of the one- and six- month sterling Libor settings on 31 March 2023, the only remaining synthetic rates available are the three- month sterling setting, which is expected to cease to be published at the end of March 2024, and the one-, three- and six- month US dollar Libor settings, which will cease to be published on 30 September 2024.

The continued existence of a small number of legacy contracts in benchmark rates that have demised (so called 'tough legacy contracts') and contracts referencing other Libors that are expected to demise at a later date, results in several risks for HSBC, its clients and the financial services industry more widely. These include but are not limited to:

- Regulatory compliance, legal and conduct risks, which arise from the transition of legacy contracts to RFRs or alternative rates and from the sales of products referencing RFRs, could lead to unintended or unfavourable outcomes for clients and market participants. These risks could be heightened if HSBC's sales processes and procedures are not appropriately adapted or executed to detail the risks and complexity of the RFR market conventions;
- Legal risks are associated with legacy contracts that HSBC is unable to transition, including those contracts that rely on the use of legislative solutions and/or 'synthetic' Libor. If HSBC is unable to transition legacy contracts, this could lead to reliance on fallback provisions which do not contemplate the permanent cessation of the relevant Libor, and there is a risk that these fallback provisions will not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. While legislative solutions have in some circumstances assisted market participants and investors with transitioning legacy contracts and mitigating risks associated with 'tough legacy' contracts, there remains some uncertainty around the operation, application and enforceability of such solutions. For legacy contracts that utilise 'synthetic' Libor there is a risk that we are unable to transition such contracts to a new RFR or alternative rate before the relevant 'synthetic' Libor is discontinued. This could lead to reliance on the above-mentioned fallback provisions. Each of these issues could result in unintended or unfavourable outcomes for clients and market participants and this could potentially increase the risk of disputes;

- Resilience and operational risks, resulting from changes to manual and automated processes, made in support of new RFR methodologies, and the transition of large volumes of Libor contracts may lead to operational issues. In particular, there is a risk that our systems, processes and controls have not been appropriately adapted to account for new RFR methodology changes or fallback provisions, which may lead to complaints and disputes; and
- Model risk resulting from changes to our models, to replace Libor-related data, which could adversely affect the accuracy of model outputs

If any of these risks materialise, this could have a material adverse effect on our business, financial condition, results of operations, prospects and customers.

We are subject to the risk of current and future legal, regulatory or administrative actions and investigations, the outcomes of which are inherently difficult to predict

We face significant risks in our business relating to legal, regulatory or administrative actions and investigations. The amount of damages claimed in litigation, regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions are increasing for many reasons. These include a substantial increase in the number of regulatory changes taking place globally, increasing focus from regulators, investors and other stakeholders on ESG disclosures, including in relation to the measurement and reporting of such matters as both local and international standards in this area continue to significantly evolve and develop, increased media attention and higher expectations from regulators and the public. In addition, criminal prosecutions of financial institutions for, among other things, alleged conduct breaches, breaches of anti-money laundering, anti-bribery and corruption and sanctions regulations, antitrust violations, market manipulation, aiding and abetting tax evasion, and providing unlicensed cross-border banking services, have become more commonplace and may increase in frequency due to increased media attention and higher expectations from regulators and the public.

Any such legal, regulatory or administrative action or investigation against HSBC Holdings or one or more of our subsidiaries could result in, among other things, substantial fines, civil penalties, criminal penalties, cease and desist orders, forfeitures, the suspension or revocation of key licences, requirements to exit certain businesses, other disciplinary actions and/or withdrawal of funding from depositors and other stakeholders. Any threatened or actual litigation, regulatory proceeding, administrative action, investigation, or other adversarial proceedings against HSBC Holdings or one or more of our subsidiaries could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation. Additionally, the Group's financial statements reflect provisioning for legal proceedings, regulatory and customer remediation matters. Provisions for legal proceedings, regulatory and customer remediation matters, typically require a higher degree of judgement than other types of provisions, and the actual costs resulting from such proceedings and matters may exceed existing provisioning.

Additionally, as described in Note 36 on the Financial Statements, we continue to be subject to a number of material legal proceedings, regulatory actions and investigations, the outcomes of which are inherently difficult to predict, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. Moreover, we may face additional legal proceedings, investigations, or regulatory actions in the future, including in other jurisdictions and/or with respect to matters similar to, or broader than, the existing legal proceedings, investigations or regulatory actions. An unfavourable result in one or more of these proceedings could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We may fail to meet the requirements of regulatory stress tests

We are subject to supervisory stress tests in many jurisdictions, which are described on page 240. These exercises are designed to assess the resilience of banks to potential adverse economic developments or operational failure to inform mitigation actions and ensure that they have robust, forward looking capital planning processes that account for the risks associated with their business profile. Assessment by supervisors is both on a quantitative and qualitative basis, the latter focusing on our data provision, stress testing capability and internal management processes and controls.

Failure to meet quantitative or qualitative requirements of regulatory stress tests, or the failure by supervisors to approve our stress test results and capital plans, could result in the Group being required to enhance its capital position, and this could, in turn, have a material adverse effect on our business, financial returns, capital position, operational capabilities and reputation.

HSBC and its UK subsidiaries may become subject to stabilisation provisions under the Banking Act, in certain significant stress situations

Under the Banking Act's special resolution regime (the 'SRR'), HM Treasury, the BoE/PRA and the FCA (together, the 'Authorities') are granted substantial powers to implement the following stabilisation options: (i) transfer of all of the business of a relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly owned by the BoE; (iii) transfer of part of the assets, rights or liabilities of the relevant entity to one or more asset management vehicles for management of the transferor's assets, rights or liabilities; (iv) the write-down, conversion, transfer, modification, or suspension of the relevant entity's equity, capital instruments and liabilities (the so-called "bail-in power"); and (v) temporary public ownership of the relevant entity.

The SRR also provides for modified insolvency and administration procedures for relevant entities, and confers ancillary powers on the Authorities, including the power to modify or override certain contractual arrangements in certain circumstances.

The Banking Act gives power to HM Treasury to make further amendments to the law for the purpose of enabling it to use the SRR powers effectively, potentially with retrospective effect.

These stabilisation options and powers may also be applied to a UK bank or investment firm or to certain of their affiliates (which, in respect of HSBC, could include HSBC Holdings) where certain conditions are met.

In view of the HSBC Group's corporate structure, which comprises a group of locally regulated operating banks, the preferred resolution strategy for the HSBC Group, as confirmed by its regulators, is a multiple point of entry ('MPE') bail-in strategy. This provides flexibility for HSBC to be resolved either (i) through a bail-in at the HSBC Holdings level (using the above-mentioned bail-in power), which enables the recapitalisation of operating bank subsidiaries in the HSBC Group (as required) while restructuring actions are undertaken, with the HSBC Group remaining together; or (ii) at a local subsidiary level pursuant to the application of statutory resolution powers by local resolution authorities. Further details on HSBC's resolution strategy can be found in the section entitled 'Recovery and resolution' on page 155.

In addition to the stabilisation options, the relevant Authority may, in certain circumstances, require the permanent write-down or conversion into equity of any outstanding tier 1 capital instruments and tier 2 capital instruments prior to the exercise of any stabilisation option (including the bail-in power), which may lead to the cancellation, transfer or dilution of HSBC Holdings' ordinary share capital.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the UK. The Banking Act includes, in certain circumstances, and with respect to the exercise of certain powers provided for by the Banking Act, provisions related to compensation in respect of transfer instruments and orders made under it. This includes a 'no creditor worse off' safeguard, which requires that no shareholder or creditor must be left worse off from the use of resolution powers than they would have been had the entity entered insolvency rather than resolution.

However, if we are at or approaching the point where we may be deemed by our regulators to be failing, or likely to fail, such as to require regulatory intervention, any exercise of the above mentioned powers by the Authorities may result in holders of our ordinary shares, or other instruments that may fall within the scope of the 'bail in' or other write-down and conversion powers granted under the Banking Act, being materially adversely affected, including by the cancellation of shares, the write-down or conversion into shares of other instruments, the transfer of shares to a third party appointed by the BoE, the loss of rights associated with shares or other instruments (including rights to dividends or interest payments), the dilution of their percentage ownership of our share capital, and any corresponding material adverse effect on the market price of our ordinary shares and other instruments.

We are subject to tax-related risks in the countries in which we operate

We are subject to the substance and interpretation of tax laws in all countries in which we operate and are subject to routine review and audit by tax authorities in relation thereto. Our interpretation or application of these tax laws may differ from those of the relevant tax authorities and we provide for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters.

In addition, potential changes to tax legislation, the approach taken by tax authorities in audits, and tax rates in the countries and territories in which we operate, in particular, those arising as a consequence of the OECD's Base Erosion and Profit Shifting project, could increase our effective tax rate in the future and have a material adverse effect on our business, financial condition, results of operations, prospects and capital position.

Risks related to our operations

Our operations are highly dependent on our information technology systems

We operate in an extensive and complex technology landscape, which must remain resilient in order to support customers, the Group and markets globally. Risks arise where technology is not understood, maintained, or developed appropriately.

The reliability and security of the HSBC Group's information technology infrastructure is crucial to HSBC Group's provision of financial services to our customers and protecting the HSBC brand.

The effective functioning of our payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between our branches and main data processing centres, are important to our operations.

Critical system failure, prolonged service unavailability or a material breach of data security, particularly of confidential customer data, could compromise HSBC Group's ability to serve its customers. This could breach regulations and could cause long-term damage to HSBC Group's business and brand that could have a material adverse effect on our financial condition, results of operations, prospects and reputation.

We remain susceptible to a wide range of cyber risks that impact and/or are facilitated by technology

The threat of cyber-attacks remains a concern for HSBC, as it does across the entire financial sector. As cyber-attacks continue to evolve, failure to protect our operations may result in disruption for customers, manipulation of data or financial loss. This could adversely impact both us and our customers.

Adversaries attempt to achieve their objectives by compromising HSBC or related third-party systems. They use techniques that include malware (such as ransomware), exploitation of both known and unpublished (zero-day) vulnerabilities in software, phishing emails, distributed denial of service, as well as potentially physical compromise of premises, or coercion of staff. Our customers may also be subject to these constantly evolving cyber-attack techniques. The Group, like other financial institutions, experiences numerous attempts to compromise its cybersecurity. We expect to continue to be the target of such attacks in the future.

Cybersecurity risks will continue to increase, due to continued increase of services delivered over the internet; increasing reliance on internet-based products, applications and data storage; and an increased use of hybrid working models by HSBC's employees, contractors, third party service providers and their sub-contractors.

To date, we have not been materially affected by cybersecurity threats. However, our business strategy, results of operations and financial condition could be materially affected by cybersecurity risks and any future material incidents.

A failure to adhere to HSBC's cybersecurity policies, procedures or controls, employee wrongdoing, or human, governance or technological error could also compromise HSBC's ability to defend against cyber-attacks. Should any of these cybersecurity risks materialise, they could have a material adverse effect on our customers, business, financial condition, results of operations, prospects and reputation.

We could incur losses or be required to hold additional capital as a result of model limitations or failure

HSBC uses models for a range of purposes in managing its business, including regulatory capital calculations, stress testing, credit approvals, calculation of ECLs on an IFRS 9 basis, financial crime and fraud risk management and financial reporting.

HSBC could face adverse consequences as a result of decisions that may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood, or the use of modelled information for purposes which it was not designed for, or by inherent limitations arising from the uncertainty inherent in predicting or estimating future outcomes. Regulatory scrutiny and supervisory concerns over banks' use of models are considerable, particularly the internal models and assumptions used by banks in the calculation of regulatory capital. If regulatory approval for key capital models is not achieved in a timely manner or if those models are subject to negative feedback from regulators HSBC could be required to hold additional capital. Evolving regulatory requirements have resulted in changes to HSBC's approach to model risk management, which poses execution challenges. The adoption of more sophisticated modelling approaches including artificial intelligence related risks and technology by both HSBC and the financial services industry could also lead to increased model risk. HSBC's commitment to changes to business activities due to climate and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate-related risks. Challenges such as uncertainty of the long dated impacts of climate change and lack of robust and high quality climate related data present challenges to creating reliable and accurate model outputs for these models.

Model risk remains a key area of focus given the regulatory scrutiny in this area with local regulatory examinations taking place in many jurisdictions and revised principles on model risk published by the PRA which come into force in 2024 and further developments in policy expected from other regulators.

Risks arising from the use of models could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Our operations use third-party suppliers and service providers

HSBC relies on third-party suppliers and service providers to supply goods and services. The use of third-party suppliers and service providers by financial institutions is of particular focus to global regulators. This includes how outsourcing decisions are made, how key relationships are managed and our understanding of third-party dependencies and their impact on service provision.

The inadequate management of third-party risk could impact our ability to meet strategic, regulatory and customer expectations.

This may lead to a range of impacts, including regulatory censure, penalties or damage both to shareholder value and to our reputation. This could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Risks related to our governance and internal controls

Our data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations

As the HSBC Group becomes more data-driven and our business processes move to digital channels, the volume of data that we rely on has increased. As a result, management of data (including data retention and deletion, data quality, data privacy and data architecture) from creation to destruction must be robust and designed to identify quality and availability issues. Inadequate data management could result in negative impacts to customer service, business processes, or require manual intervention to reduce the risk of errors in reporting to senior management, executives or regulators.

Expanding data privacy, national security and cybersecurity laws in a number of markets could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, which may affect our ability to manage financial crime risks across markets.

In addition, failure to comply with data privacy laws and other legislation in the jurisdictions in which we operate may result in regulatory sanctions. Any of these failures could have a material adverse effect on our business, financial condition, results of operations, prospects, and reputation.

Third parties may use us as a conduit for illegal activities without our knowledge

We are required to comply with applicable financial crime laws and regulations, and have adopted various policies, procedures and controls aimed at preventing the exploitation of HSBC's products and services for criminal activity. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing (see 'Regulation and supervision - Financial crime regulation'). There are instances, as permitted by regulation, where we may rely upon counterparties to undertake certain financial crime risk management activities on our behalf. While permitted by regulation, such reliance or other controls may not prevent third parties from using us (and our relevant counterparties) as a conduit for financial crime, without our knowledge (and that of those counterparties).

Becoming a party to, associated with, or even accused of being associated with, financial crime could damage our reputation and could make us subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We are subject to the risk of financial crime

We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity (see also 'Third parties may use us as a conduit for illegal activities without our knowledge') and, as such, we face increasing regulatory expectations. In 2023, financial crime risk was exacerbated by increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud, scams and other criminal activities. Our ability to manage financial crime risk is dependent on the use and effectiveness of our financial crime risk assessments, systems and controls. Weak or ineffective financial crime processes and controls may risk HSBC inadvertently facilitating financial crime which may result in regulatory investigation, sanction, litigation, fines and reputational damage.

In addition, HSBC Bank USA, as the primary US dollar correspondent bank for the Group, is subject to heightened financial crime risk arising from business conducted on behalf of its non-US HSBC affiliates.

HSBC Bank USA has implemented policies, procedures and controls reasonably designed to comply with financial crime legal and regulatory requirements and mitigate financial crime risk from its affiliates. Nevertheless, in the event that these controls are ineffective, this could lead to a breach of these requirements resulting in a potential enforcement action by the US Department of the Treasury or other US agencies that may include substantial fines or penalties. Any such action against HSBC Bank USA could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

We may suffer losses due to employee misconduct

Our businesses are exposed to risk from potential non-compliance with Group policies, including the HSBC Values, and related behaviours and employee misconduct such as fraud, negligence or non-financial misconduct, all of which could result in regulatory sanctions and/or reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of rogue employees. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective.

Misconduct risks could be increased if our prevent-and-detect measures are less effective because of remote and home working.

Employee misconduct or regulatory sanctions if a regulator deems HSBC's actions to deter such activity to be insufficient, could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

The delivery of our strategic actions is subject to execution risk and we may not achieve all of the expected benefits for strategic initiatives

Effective management of transformation projects is required to effectively deliver the Group's strategic priorities, involving delivering both on externally driven programmes and key business initiatives to deliver growth, operational resilience and efficiency outcomes. The scale, complexity and, at times, concurrent demands of the projects required to meet these can result in heightened execution risk.

The Group's strategy (see pages 11 to 13) set out in February 2022, and refined subsequently, was supported by global trends – the continued economic development in Emerging Markets, growth of

international trade and capital flows, and wealth creation, particularly in faster-growing markets. We took into consideration global trends along with our strategic advantages to help us better deploy capital. The development and implementation of our strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in various parts of the world. We may fail to correctly identify the relevant factors in making decisions as to capital deployment and cost reduction. We may also encounter unpredictable changes in the external environment that are unfavourable to our strategy.

Our ability to execute strategic change may be limited by our operational capacity, effectiveness of our change management controls, challenges in integrating any newly acquired businesses into the Group's business and instituting and maintaining appropriate transitional arrangements and the potential for unforeseen changes in the market and/or regulatory environment in which we operate. The global economic outlook continues to remain uncertain, particularly with regard to the impact of economic recession, heightened inflation, changes in legislation and geopolitical tensions. Therefore, there remains a risk that, in the absence of an improvement in economic conditions, our cost and investment actions may not be sufficient to achieve the expected benefits.

The failure to successfully deliver or achieve the expected benefits of the Group's key strategic initiatives could have a material adverse effect on our customers, business, financial condition, results of operations, prospects, operational resilience and reputation.

Our risk management measures may not be successful

The management of risk is an integral part of all our activities. Risk constitutes our exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including retail and wholesale credit risk, market risk, non-traded market risk, operational risk, insurance risk, concentration risk, capital risk, liquidity and funding risk, litigation risk, conduct risk, reputational risk, strategic risk, pension risk and regulatory risk.

While we employ a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position, strategy and reputation.

Risks related to our business

Our business has inherent reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. Stakeholder expectations constantly evolve, and so reputational risk is dynamic and varies between geographical regions, groups and individuals. In addition, our business faces increasing scrutiny in respect of ESG-related matters. If we fail to act responsibly, or to achieve our announced targets, commitments, goals or ambitions, in a number of areas, such as diversity and inclusion, climate, sustainability, workplace conduct, human rights, and support for local communities, our reputation and the value of our brand may be negatively affected.

Social media and other broadcasting channels that facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the distribution and effect of damaging information and allegations. Reputational risk could also arise from negative public opinion about the actual, or perceived, manner in which we conduct our business activities, or our financial performance, as well as actual or perceived practices in banking and the financial services industry generally.

Negative public opinion may adversely affect our ability to retain and attract customers, in particular, corporate and retail depositors, and to retain and motivate staff, and could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Non-Financial risks are inherent in our business

We are exposed to many types of non-financial risks that are inherent in our operations. Non-financial risk can be defined as the risk to HSBC of achieving its strategy or objectives as a result of inadequate or failed internal processes, people and systems, or from external events. It includes: breakdowns in processes or procedures, breaches of regulations or law, financial crime, financial reporting and tax errors, external events and systems failure or non-availability. These risks are also present when we rely on outside suppliers or vendors to provide services to us and our customers.

These non-financial risks may result in financial losses to the Group and our customers, an adverse customer experience, reputational damage and potential litigation, regulatory proceeding, administrative action or other adversarial proceeding in any jurisdiction in which we operate, depending on the circumstances of the event.

They could have a material adverse effect on our business, financial condition, results of operations, prospects, strategy and reputation.

We rely on recruiting, retaining and developing appropriate senior management and skilled personnel

Meeting the demand to recruit, retain and develop appropriate senior management and skilled personnel remains subject to a number of challenges. These include rapidly changing skill requirements and ways of working, the evolving regulatory landscape plus increased requirements and expectations regarding nationalisation and diversity in some jurisdictions.

Ongoing talent shortages in key markets and capabilities, particularly where those with the scarce capabilities are globally mobile, add to the complexity of our supply challenge.

Our continued success and implementation of our growth strategy depend in part on the retention of key members of our management team and wider employee base, the availability of skilled management in each of our global businesses and global functions, and the ability to continue to attract, train, motivate and retain highly qualified professionals, each of which may depend on factors beyond our control, including economic, market and regulatory conditions. In addition, the Group announced ambitions in relation to increasing the representation of women and Black heritage employees in senior leadership roles by 2025. If the Group fails to achieve these goals, its ability to attract and retain qualified professionals may be negatively affected.

When we acquire or dispose of a Group operation, we need to ensure that we comply with any employment requirements, provide support to affected employees, and integrate new employees into HSBC's Values, culture and ways of working.

If global businesses or global functions fail to staff their operations appropriately or lose one or more of their key senior executives and fail to successfully replace them in a satisfactory and timely manner, or fail to implement successfully the organisational changes required to support the Group's strategy, our business, financial condition, results of operations, prospects and reputation, including control and operational risks, could be materially adversely affected.

We have significant exposure to counterparty risk

We are exposed to counterparties that are involved in virtually all major industries, and we routinely execute transactions with counterparties in financial services, including brokers and dealers, central clearing counterparties, commercial banks, investment banks, mutual and hedge funds, and other institutional clients.

Many of these transactions expose us to credit risk in the event of default by our counterparty or client.

Our ability to engage in routine transactions to fund our operations and manage our risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. As a consequence, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.

Mandatory central clearing of OTC derivatives poses risks to the Group. As a clearing member, we are required to underwrite losses incurred at a central counterparty by the default of other clearing members and their clients. Increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that we believe may increase rather than reduce our exposure to systemic risk. At the same time, our ability to manage such risk ourselves will be reduced because control has been largely outsourced to central counterparties, and it is unclear at present how, at a time of stress, regulators and resolution authorities will intervene.

Where bilateral counterparty risk has been mitigated by taking collateral, our credit risk may remain high if the collateral we hold cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of our loan or derivative exposure.

There is a risk that collateral cannot be realised, including situations where this arises by change of law, or the imposition of sanctions that may influence our ability to foreclose on collateral or otherwise enforce contractual rights.

The Group also has credit exposure arising from mitigants, such as credit default swaps, and other credit derivatives, each of which is carried at fair value. The risk of default by counterparties to credit default swaps and other credit derivatives used as mitigants affects the fair value of these instruments depending on the valuation and the perceived credit risk of the underlying instrument against which protection has been purchased. Any such adjustments or fair value changes could have a material adverse effect on our business, financial condition, results of operations, prospects, capital position and reputation.

Any reduction in the credit rating assigned to HSBC Holdings, any subsidiaries of HSBC Holdings or any of their respective debt securities could increase the cost or decrease the availability of our funding and materially adversely affect our liquidity position and/or net interest margin

Credit ratings affect the cost and other terms upon which we are able to obtain market funding. Rating agencies regularly evaluate HSBC Holdings and certain of its subsidiaries, as well as their respective debt securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of the Group or of the relevant subsidiary, as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain HSBC Holdings' or the relevant subsidiary's current ratings or outlook, particularly given the rating agencies' current review of their bank rating methodologies and the potential impact on HSBC Holdings' or its subsidiaries' ratings.

Any reductions in these current ratings or the outlook could increase the cost of our funding, limit access to capital markets and require additional collateral to be placed and, consequently, materially adversely affect our interest margins and our liquidity position.

Risks concerning borrower credit quality are inherent in our businesses

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties (for example, reinsurers and counterparties in derivative transactions) are inherent in a wide range of our businesses. Adverse changes in the credit quality of our borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems, including uncertainties caused by the Russia-Ukraine and Israel-Hamas wars could reduce the recoverability and value of our assets, and require an increase in our ECLs. Additionally, recent attacks on shipping in the Red Sea and the resulting countermeasures taken have begun to disrupt supply chains (see 'The macroeconomic and market impact of major geopolitical developments may affect our financial condition and results').

We estimate and recognise ECLs in our credit exposure. This process, which is critical to our results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how the economic and geopolitical conditions, including the impact of sanctions, and sector specific risks, might impair the ability of our borrowers to repay their loans and the ability of other counterparties to meet their obligations. This assessment considers multiple alternative forward-looking economic conditions (including GDP estimates) and incorporates this into the ECL estimates to meet the measurement objective of IFRS 9. As is the case with any such assessments, we may fail to estimate accurately the effect of factors that we identify or fail to identify relevant factors. Further, the information we use to assess the creditworthiness of our counterparties may be inaccurate or incorrect. Any failure by us to accurately estimate the ability of our counterparties to meet their obligations could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our insurance businesses are subject to risks relating to insurance claim rates and changes in insurance customer behaviour

We provide various insurance products for customers, including several types of life insurance products. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity rates, lapse and surrender rates and, if the policy has a savings element, the performance of assets to support the liabilities. Adverse developments in any of these factors could materially adversely affect our business, financial condition, results of operations capital position, prospects and reputation.

HSBC Holdings is a holding company and, as a result, is dependent on loan/instrument payments and dividends from its subsidiaries to meet its obligations, including obligations with respect to its debt securities, and to provide profits for payment of future dividends to shareholders

HSBC Holdings is a non-operating holding company and, as such, its principal source of income is from operating subsidiaries that hold the principal assets of the Group. As a separate legal entity, HSBC Holdings relies on remittance of its subsidiaries' loan/instrument interest payments and dividends in order to be able to pay obligations to debt holders as they fall due, and to pay dividends to its shareholders. The ability of HSBC Holdings' subsidiaries and affiliates to pay remittances and dividends to HSBC Holdings is subject to such subsidiaries' and affiliates' financial performance and could also be restricted by applicable laws, regulations, exchange controls and other requirements.

We may be required to make substantial contributions to our pension plans

We operate a number of pension plans throughout the world for our personnel, including defined benefit pension plans. Pension scheme obligations fluctuate with changes in long-term interest rates, inflation, salary levels and the longevity of scheme members. They can also be affected by operational and legal risks. The level of contributions we make to our pension plans has a direct effect on our cash flow. To the extent plan assets are insufficient to cover existing liabilities, higher levels of contributions may be required. As a result, deficits in those pension plans could have a material adverse effect on our business, financial condition, results of operations, prospects and reputation.

Risk related to our financial statements and accounts

Our financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty

The preparation of financial information requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods could differ from those on which management's estimates are based. Judgements, estimates, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. The impacts of revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Accounting policies deemed critical to our results and financial position are those that involve a high degree of uncertainty and have a material impact on the financial statements. In 2023 these included ECLs for amortised cost financial assets and financial assets measured at FVOCI, impairment of goodwill and non-financial assets, valuation of financial instruments, deferred tax assets, provisions, impairment of interests in associates, post-employment benefit plans, impairment in investments in subsidiaries, and non-current assets and disposal groups held for sale, which are discussed in detail in 'Critical estimates and judgements' on page 101.

The measurement of ECLs requires the selection and calibration of complex models and the use of estimates and assumptions to incorporate relevant information about past events, current conditions and forecasts of economic conditions. Additionally, significant judgement is involved in determining what is considered to be significant increases in credit risk and what the point of initial recognition is for revolving facilities.

The assessment of whether goodwill and non-financial assets are impaired, and the measurement of any impairment, involves the application of judgement in determining key assumptions, including discount rates, estimated cash flows for the periods for which detailed cash flows are available and projecting the long-term pattern of sustainable cash flows thereafter. The recognition and measurement of deferred tax assets involves significant judgement regarding the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

The recognition and measurement of provisions involve significant judgements due to the high degree of uncertainty in determining whether a present obligation exists, and in estimating the probability and amount of any outflows that may arise. The valuation of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs.

The assessment of interests in associates for impairment involves significant judgements in determining the value in use, in particular estimating the present values of cash flows expected to arise from

continuing to hold the investment, based on a number of management assumptions.

At 31 December 2023, we performed an impairment review of our investment in BoCom and concluded on an impairment charge taken in the fourth quarter of 2023. The impairment review included consideration of the potential impact of BoCom's designation as a globally systemically important bank in November 2023. The impairment reviews are complex and require significant judgments, such as the appropriateness of projected future cash flows, discount rate and regulatory capital assumptions.

The calculation of the defined benefit pension obligation involves the determination of key assumptions, including discount rate, inflation rate, pension payments and deferred pension and pay and mortality. Given the uncertainty and subjectivity associated with the above critical accounting judgements and estimates, future outcomes may differ materially from those assumed using information available at the reporting date.

The assessment of interests in subsidiaries for impairment involves significant judgements in determining the value in use, in particular estimating the present values of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions.

The assessment of the held for sale criteria involves significant judgements with regards to classifying a sale as highly probable and the anticipated timing for the sale to complete.

The calculation of the fair value less cost to sell involves valuations techniques with observable and unobservable market data, and the calculation of any related impairment loss is subject to accounting estimates.

These judgements and estimates could have a material adverse effect on the future financial position of the Group, results of operations, capital position, prospects and reputation. For further details, see 'Critical estimates and judgements' on page 101.

Changes in accounting standards may have a material impact on how we report our financial results and financial condition

We prepare our consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB') ('IFRS Accounting Standards'), including interpretations ('IFRICs') issued by the IFRS Interpretations Committee.

From time to time, the IASB or the IFRS Interpretations Committee may issue new accounting standards or interpretations that could materially impact how we calculate, report and disclose our financial results and financial condition, and which may affect our capital ratios, including the CET1 ratio. For example, on 1 January 2023, the Group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. IFRS 17 sets the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. Upon transition to IFRS 17, the Group's total equity reduced by \$10,459m. We could also be required to apply new or revised standards retrospectively, resulting in our restating prior period financial statements in material amounts. This could have a material adverse effect on our business, financial condition, results of operations and capital position.

Our material banking risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables:

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk (see page 183) Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and derivatives.	Credit risk is: – measured as the amount that could be lost if a customer or counterparty fails to make repayments; – monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and – managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers; and by setting limits and appetite across geographical markets, portfolios or sectors.
Treasury risk (see page 239) Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.	Treasury risk is: – measured through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; – monitored and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and – managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.
Market risk (see page 254) Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.	Market risk arises from both trading portfolios and non-trading portfolios. Market risk for non-trading portfolios is discussed in the Treasury risk section on page 251. Market risk exposures arising from our insurance operations are discussed on page 271.	Market risk is: – measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using value at risk, stress testing and other measures; and – managed using risk limits approved by the Group Risk Management Meeting and the risk management meetings in various global businesses.
Climate risk (see page 257) Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk can materialise through: – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – net zero alignment risk, which arises from failing to meet our net zero commitments or to meet external expectations related to net zero because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and – the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders.	Climate risk is: – measured using risk metrics and stress testing; – monitored against risk appetite statements; and – managed through adherence to risk appetite thresholds, through specific policies, and through enhancements to processes and development of tools including the development of product market controls to manage the risk of greenwashing and the development of portfolio steering capabilities to manage our net zero targets.
Resilience risk (see page 266) Resilience risk is the risk of sustained and significant business disruption from execution, delivery, physical security or safety events, causing the inability to provide critical services to our customers, affiliates, and counterparties.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events.	Resilience risk is: – measured using a range of metrics with defined maximum acceptable impact tolerances, and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Regulatory compliance risk (see page 267)		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk (see page 267)		
Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of, and assessment by, our compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model risk (see page 268)		
Model risk is the risk of the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent validations completed by the model risk management team, feedback from internal and external audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

Our insurance manufacturing subsidiaries are regulated separately from our banking operations. Risks in our insurance entities are managed using methodologies and processes that are subject to Group oversight. Our insurance operations are also subject to many of

the same risks as our banking operations, and these are covered by the Group's risk management processes. However, there are specific risks inherent to the insurance operations as noted below.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risk (see page 271)		
For insurance entities, financial risk includes the risk of not being able to effectively match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible.	Exposure to financial risk arises from: – market risk affecting the fair values of financial assets or their future cash flows; – credit risk; and – liquidity risk of entities being unable to make payments to policyholders as they fall due.	Financial risk is: – measured for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and for liquidity risk, in terms of internal metrics including stressed operational cash flow projections; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance. This includes using product design, asset liability matching and bonus rates.
Insurance risk (see page 273)		
Insurance risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance risk is: – measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit risk

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Overview

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

Credit risk management

Key developments in 2023

There were no material changes to the policies and practices for the management of credit risk in 2023. We continued to apply the requirements of IFRS 9 'Financial Instruments' within the Credit Risk sub-function. For our wholesale portfolios, we introduced new policies for the management of country risk, subordinated debt assessments, and a revised risk appetite framework. Implementation of these changes did not have a material impact on our wholesale portfolios.

We actively managed the risks related to macroeconomic uncertainties, including interest rates, inflation, fiscal and monetary policy, broader geopolitical uncertainties and conflicts.

For further details, see 'Top and emerging risks' on page 163.

Governance and structure

We have established Group-wide credit risk management and related IFRS 9 processes. We continue to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating actions, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit Risk sub-function

(Audited)

Credit approval authorities are delegated by the Board to the Group Chief Executive together with the authority to sub-delegate them. The Credit Risk sub-function in Group Risk and Compliance is responsible for the key policies and processes for managing credit risk, which include formulating Group credit policies and risk rating frameworks, guiding the Group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

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

Key risk management processes

IFRS 9 'Financial Instruments' process

The IFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

Modelling, data and forward economic guidance

We have established IFRS 9 modelling and data processes in various geographies, which are subject to internal model risk governance including independent review of significant model developments.

We have a centralised process for generating unbiased and independent global economic scenarios. Scenarios are subject to a process of review and challenge by a dedicated central team and individually for each region. Each quarter, the scenarios and probability weights are reviewed and checked for consistency with the economic conjuncture and current economic and financial risks. These are subject to final review and approval by senior management in a Forward Economic Guidance Global Business Impairment Committee.

Implementation

A centralised impairment engine performs the expected credit losses calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner.

Governance

Regional management review forums are established in key sites and regions in order to review and approve the impairment results. Regional management review forums have representatives from Credit Risk and Finance. The key site and regional approvals are reported up to the relevant global business impairment committee for final approval of the Group's ECL for the period. Required members of the committee are the Wholesale Global Chief Corporate Credit Officer and Chief Risk and Compliance Officer for Wealth and Personal Banking Risk, as well as the relevant global business's Chief Financial Officer and the Global Financial Controller.

Concentration of exposure

(Audited)

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Credit quality of financial instruments

(Audited)

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support the calculation of our minimum credit regulatory capital requirement. The five credit quality classifications encompass a range of granular internal credit rating grades assigned to wholesale and retail customers, and the external ratings attributed by external agencies to debt securities.

Risk review

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

Wholesale lending

The CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10- or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	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	BBB and above	A- and above	CRR 1 to CRR 2	0–0.169	Band 1 and 2	0.000–0.500
Good	BBB- to BB	BBB+ to BBB-	CRR 3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB- to B and unrated	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	B- to C	CRR 6 to CRR 8	4.915–99.999	Band 6	20.001–99.999
Credit impaired	Default	Default	CRR 9 to CRR 10	100	Band 7	100

1 Customer risk rating ('CRR').

2 12-month point-in-time probability-weighted probability of default ('PD').

Quality classification definitions

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

Forborne loans and advances

(Audited)

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

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

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

Credit quality of forborne loans

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

Wholesale and retail lending forborne loans are classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Any forborne loans not considered credit impaired will

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

Retail lending

Retail lending credit quality is based on a 12-month point-in-time probability-weighted PD.

remain forborne for a minimum of two years from the date that credit impairment no longer applies. For wholesale and retail lending, any forbearance measures granted on a loan already classed as forborne results in the customer being classed as credit impaired.

Forborne loans and recognition of expected credit losses

(Audited)

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in stage 2 and stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

Impairment assessment

(Audited)

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

Write-off of loans and advances

(Audited)

Under IFRS 9, write-off should occur when there is no reasonable expectation of recovering further cash flows from the financial asset.

This principle does not prohibit early write-off, which is defined in local policies to ensure effectiveness in the management of customers in the collections process.

Unsecured personal facilities, including credit cards, are generally written off at between 150 and 210 days past due. The standard

period runs until the end of the month in which the account becomes 180 days contractually delinquent. However, in exceptional circumstances, to avoid unfair customer outcomes, deliver customer duty or meet regulatory expectations, the period may be extended further.

For secured facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued. Where these assets are maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default, the prospect of recovery is reassessed.

Recovery activity, on both secured and unsecured assets, may continue after write-off.

Any unsecured exposures that are not written off at 180 days past due, and any secured exposures that are in 'default' status for 60 months or greater but are not written off, are subject to additional monitoring via the appropriate governance forums.

Credit risk in 2023

At 31 December 2023, gross loans and advances to customers and banks of \$1,063bn increased by \$23.1bn, compared with 31 December 2022. This included favourable foreign exchange movements of \$17.7bn.

Excluding foreign exchange movements, the underlying increase of \$5.4bn was driven by a \$21.1bn rise in personal loans and advances to customers and a \$8.9bn rise in loans and advances to banks. These were partly offset by a \$24.6bn decrease in wholesale loans and advances to customers.

The underlying increase in personal loans and advances to customers was mainly driven by an increase in France (up \$7.8bn) due to the retention of a portfolio of home loans and other loans previously classified as assets held for sale. It also comprised increases in the UK (up \$6.6bn), in Hong Kong (up \$5.8bn), in Mexico (up \$2.3bn) and in Australia (up \$1.4bn) driven by mortgage growth. These were partly offset by a decrease of \$1.2bn due to the merger of our business in Oman and a decrease of \$1.0bn due to the disposal of our retail mortgage loan portfolio in New Zealand.

The underlying increase in loans and advances to banks was driven by central bank balances and money market lending growth in Singapore (up \$6.5bn), Hong Kong (up \$5.1bn) and the UK (up \$2.8bn). These were partly offset by decreases in mainland China (down \$2.6bn), Malaysia (down \$1.6bn) and Switzerland (down \$1.4bn).

The underlying decrease in wholesale loans and advances to customers was driven by a \$31.5bn reduction in corporate and commercial balances, of which \$13.7bn in stage 1 and \$16.8bn in stage 2. The decrease was observed mainly in Hong Kong (down \$18.6bn), in the UK (down \$5.4bn) and in mainland China (down \$2.2bn), driven by repayments and deleveraging, as well as de-risking measures on mainland China commercial real estate exposures. It also comprised a decrease in Oman (down \$2.1bn) due to the merger of our operations in the country. This was partly offset by an increase in balances with non-bank financial institutions (up \$6.8bn) mainly in stage 1 in HSBC UK (up \$5.2bn) due to the acquisition of SVB UK.

At 31 December 2023, the allowance for ECL of \$12.0bn decreased by \$0.6bn compared with 31 December 2022, including adverse foreign exchange movements of \$0.2bn. The \$12.0bn allowance comprised \$11.5bn in respect of assets held at amortised cost, \$0.4bn in respect of loan commitments and financial guarantees, and \$0.1bn in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

Excluding foreign exchange movements, the allowance for ECL in relation to loans and advances to customers decreased by \$0.6bn from 31 December 2022. This was attributable to:

- a \$0.5bn decrease in wholesale loans and advances to customers driven by stages 1 and 2; and
- a \$0.1bn decrease in personal loans and advances to customers driven by stages 1 and 2.

Stage 3 balances and allowances for ECL at 31 December 2023 remained broadly stable compared with 31 December 2022, as write-offs and repayments offset new and additional allowances.

In wholesale lending, mainland China's commercial real estate sector continued to deteriorate in 2023, resulting in new and additional stage 3 charges during the year.

The ECL charge for 2023 was \$3.4bn, inclusive of recoveries. This was driven by net stage 3 charges, including \$1.0bn in the mainland China commercial real estate sector, as well as the impact of continued economic uncertainty in other markets, rising interest rates and inflationary pressures.

The ECL charge comprised: \$2.3bn in respect of wholesale lending, of which the stage 3 charge was \$2.2bn; \$1.0bn in respect of personal lending, of which \$0.7bn were in stage 3; and \$0.1bn in respect of debt instruments measured at FVOCI.

Income statement movements are analysed further on page 103.

While credit risk arises across most of our balance sheet, ECL have typically been recognised on loans and advances to customers and banks, in addition to securitisation exposures and other structured products. As a result, our disclosures focus primarily on these two areas. For further details of:

- maximum exposure to credit risk, see page 191;
- measurement uncertainty and sensitivity analysis of ECL estimates, see page 192;
- reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees, see page 204;
- credit quality, see page 208;
- total wholesale lending for loans and advances to banks and customers by stage distribution, see page 213;
- wholesale lending collateral, see page 223;
- total personal lending for loans and advances to customers at amortised cost by stage distribution, see page 227; and
- personal lending collateral, see page 233.

Summary of credit risk

We have adopted the recommendations of the Taskforce on Disclosures about Expected Credit Losses ('DECL') to provide disclosures that help investors and other stakeholders better understand the risks we manage.

The DECL Taskforce, which was jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulation Authority, was created to help guide ECL disclosure practice and to encourage consistency and comparability across financial institutions.

The following sections of this report include new and redesigned disclosures addressing the taskforce's recommendations from its third report, which was published in September 2022. For further details of:

- stage 2 decomposition for loans and advances to banks and personal lending products, see page 189;
- residual average life for personal and wholesale lending by product, see page 189;
- alignment of management judgemental adjustments to the DECL definition with additional qualitative and quantitative granularity, see page 199;
- reconciliation of management judgemental adjustments to reported ECL, see page 199;
- enhanced wholesale ECL sensitivity to future economic conditions, see page 201;
- enhanced retail ECL sensitivity to future economic conditions, see page 202;
- reconciliation from reported exposure and ECL to sensitised exposure and weighted ECL, see page 204;
- reconciliation of changes in gross carrying amount and allowances for loans and advances to banks and customers, see page 207;
- reconciliation of changes in nominal amount and allowances for loan commitments and financial guarantees, see page 207;

Risk review

- wholesale lending – credit risk profile by obligor grade for loan and other credit-related commitments and financial guarantees, see page 218;
- first lien residential mortgages – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees, see page 230;
- credit cards – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees, see page 231;
- other personal lending – reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to customers including loan commitments and financial guarantees, see page 231;
- enhanced personal lending – credit risk profile by internal PD band for loans and advances to customers at amortised cost, see page 232; and

- Personal lending – credit risk profile by internal PD band for loan and other credit-related commitments and financial guarantees, see page 233.

Comparative information for the prior period has not been presented in this *Form 20-F* for the majority of the new disclosures as we recognised and prioritised the importance of increasing the comparability of our external disclosures within the timeline recommended by the DECL Taskforce. While prior period information can be valuable in certain contexts, at 31 December 2023 we believed the prospective expansion of the level of disclosures outweighed the benefits of presenting data from prior years. Comparative information is expected to be disclosed from the *Annual Report and Accounts 2024*.

The following disclosure 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.

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

(Audited)

	31 Dec 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	949,609	(11,074)	935,008	(11,447)
Loans and advances to banks at amortised cost	112,917	(15)	104,544	(69)
Other financial assets measured at amortised cost	960,271	(422)	954,934	(493)
– cash and balances at central banks	285,868	—	327,005	(3)
– items in the course of collection from other banks	6,342	—	7,297	—
– Hong Kong Government certificates of indebtedness	42,024	—	43,787	—
– reverse repurchase agreements – non-trading	252,217	—	253,754	—
– financial investments	148,346	(20)	109,086	(20)
– assets held for sale ²	103,186	(324)	102,556	(415)
– prepayments, accrued income and other assets ³	122,288	(78)	111,449	(55)
Total gross carrying amount on-balance sheet	2,022,797	(11,511)	1,994,486	(12,009)
Loans and other credit-related commitments	661,015	(367)	618,788	(386)
Financial guarantees	17,009	(39)	18,783	(52)
Total nominal amount off-balance sheet⁴	678,024	(406)	637,571	(438)
	2,700,821	(11,917)	2,632,057	(12,447)

	Memorandum allowance for ECL ⁵		Memorandum allowance for ECL ⁵	
	Fair value		Fair value	
	\$m	\$m	\$m	\$m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	302,348	(97)	265,147	(126)

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

2 For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 190. At 31 December 2023, the gross carrying amount comprised \$84,074m of loans and advances to customers and banks (2022: \$81,221m) and \$19,112m of other financial assets at amortised cost (2022: \$21,334m). The corresponding allowance for ECL comprised \$303m of loans and advances to customers and banks (2022: \$392m) and \$21m of other financial assets at amortised cost (2022: \$23m).

3 Includes only those financial instruments that are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 358 comprises both financial and non-financial assets, including cash collateral and settlement accounts.

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

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

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

- Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.
- POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

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

(Audited)

	Gross carrying/nominal amount ¹					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI ²	Total	Stage 1	Stage 2	Stage 3	POCI ²	Total	Stage 1	Stage 2	Stage 3	POCI ²	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%	%
Loans and advances to customers at amortised cost	809,384	120,871	19,273	81	949,609	(1,130)	(2,964)	(6,950)	(30)	(11,074)	0.1	2.5	36.1	37.0	1.2
– personal	396,534	47,483	3,505	—	447,522	(579)	(1,434)	(854)	—	(2,867)	0.1	3.0	24.4	—	0.6
– corporate and commercial	342,878	69,738	14,958	81	427,655	(499)	(1,500)	(5,774)	(30)	(7,803)	0.1	2.2	38.6	37.0	1.8
– non-bank financial institutions	69,972	3,650	810	—	74,432	(52)	(30)	(322)	—	(404)	0.1	0.8	39.8	—	0.5
Loans and advances to banks at amortised cost	111,479	1,436	2	—	112,917	(10)	(3)	(2)	—	(15)	—	0.2	100.0	—	—
Other financial assets measured at amortised cost	946,873	12,734	664	—	960,271	(109)	(132)	(181)	—	(422)	—	1.0	27.3	—	—
Loan and other credit-related commitments	630,949	28,922	1,140	4	661,015	(153)	(128)	(86)	—	(367)	—	0.4	7.5	—	0.1
– personal	253,183	3,459	355	—	256,997	(23)	—	(2)	—	(25)	—	—	0.6	—	—
– corporate and commercial	246,210	20,928	736	4	267,878	(120)	(119)	(83)	—	(322)	—	0.6	11.3	—	0.1
– financial	131,556	4,535	49	—	136,140	(10)	(9)	(1)	—	(20)	—	0.2	2.0	—	—
Financial guarantees	14,746	1,879	384	—	17,009	(7)	(7)	(25)	—	(39)	—	0.4	6.5	—	0.2
– personal	1,106	13	—	—	1,119	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	10,157	1,290	330	—	11,777	(6)	(6)	(24)	—	(36)	0.1	0.5	7.3	—	0.3
– financial	3,483	576	54	—	4,113	(1)	(1)	(1)	—	(3)	—	0.2	1.9	—	0.1
At 31 Dec 2023	2,513,431	165,842	21,463	85	2,700,821	(1,409)	(3,234)	(7,244)	(30)	(11,917)	0.1	2.0	33.8	35.3	0.4

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

² Purchased or originated credit-impaired ('POCI').

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The following disclosure presents the ageing of stage 2

financial assets by those less than 30 DPD and greater than 30 DPD and therefore presents those financial assets classified as stage 2 due to ageing (30 DPD) and those identified at an earlier stage (less than 30 DPD).

Stage 2 days past due analysis at 31 December 2023

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Loans and advances to customers at amortised cost	120,871	116,320	2,571	1,980	(2,964)	(2,458)	(245)	(261)	2.5	2.1	9.5	13.2
– personal	47,483	44,634	1,785	1,064	(1,434)	(974)	(214)	(246)	3.0	2.2	12.0	23.1
– corporate and commercial	69,738	68,446	697	595	(1,500)	(1,454)	(31)	(15)	2.2	2.1	4.4	2.5
– non-bank financial institutions	3,650	3,240	89	321	(30)	(30)	—	—	0.8	0.9	—	—
Loans and advances to banks at amortised cost	1,436	1,424	—	12	(3)	(3)	—	—	0.2	0.2	—	—
Other financial assets measured at amortised cost	12,734	12,417	171	146	(132)	(113)	(9)	(10)	1.0	0.9	5.3	6.8

¹ The days past due amounts presented above are on a contractual basis.

Risk review

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

(Audited)

	Gross carrying/nominal amount ¹					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI ²	Total	Stage 1	Stage 2	Stage 3	POCI ²	Total	Stage 1	Stage 2	Stage 3	POCI ²	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%	%
Loans and advances to customers at amortised cost	776,299	139,076	19,504	129	935,008	(1,092)	(3,488)	(6,829)	(38)	(11,447)	0.1	2.5	35.0	29.5	1.2
– personal	362,677	48,866	3,339	—	414,882	(561)	(1,504)	(805)	—	(2,870)	0.2	3.1	24.1	—	0.7
– corporate and commercial	351,885	85,492	15,696	129	453,202	(488)	(1,907)	(5,887)	(38)	(8,320)	0.1	2.2	37.5	29.5	1.8
– non-bank financial institutions	61,737	4,718	469	—	66,924	(43)	(77)	(137)	—	(257)	0.1	1.6	29.2	—	0.4
Loans and advances to banks at amortised cost	102,723	1,739	82	—	104,544	(18)	(29)	(22)	—	(69)	—	1.7	26.8	—	0.1
Other financial assets measured at amortised cost	938,798	15,339	797	—	954,934	(95)	(165)	(233)	—	(493)	—	1.1	29.2	—	0.1
Loan and other credit-related commitments	583,383	34,033	1,372	—	618,788	(141)	(180)	(65)	—	(386)	—	0.5	4.7	—	0.1
– personal	239,521	3,686	799	—	244,006	(26)	(1)	—	—	(27)	—	—	—	—	—
– corporate and commercial	241,313	27,323	551	—	269,187	(111)	(166)	(63)	—	(340)	—	0.6	11.4	—	0.1
– financial	102,549	3,024	22	—	105,595	(4)	(13)	(2)	—	(19)	—	0.4	9.1	—	—
Financial guarantees	16,071	2,463	249	—	18,783	(6)	(13)	(33)	—	(52)	—	0.5	13.3	—	0.3
– personal	1,123	11	1	—	1,135	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	11,547	1,793	247	—	13,587	(5)	(12)	(33)	—	(50)	—	0.7	13.4	—	0.4
– financial	3,401	659	1	—	4,061	(1)	(1)	—	—	(2)	—	0.2	—	—	—
At 31 Dec 2022	2,417,274	192,650	22,004	129	2,632,057	(1,352)	(3,875)	(7,182)	(38)	(12,447)	0.1	2.0	32.6	29.5	0.5

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

² Purchased or originated credit-impaired ('POCI').

Stage 2 days past due analysis at 31 December 2022

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹	Stage 2	Up-to-date	1 to 29 DPD ¹	30 and > DPD ¹
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Loans and advances to customers at amortised cost	139,076	134,680	2,410	1,986	(3,488)	(3,017)	(234)	(237)	2.5	2.2	9.7	11.9
– personal	48,866	46,378	1,682	806	(1,504)	(1,080)	(214)	(210)	3.1	2.3	12.7	26.1
– corporate and commercial	85,492	83,976	712	804	(1,907)	(1,860)	(20)	(27)	2.2	2.2	2.8	3.4
– non-bank financial institutions	4,718	4,326	16	376	(77)	(77)	—	—	1.6	1.8	—	—
Loans and advances to banks at amortised cost	1,739	1,729	—	10	(29)	(29)	—	—	1.7	1.7	—	—
Other financial assets measured at amortised cost	15,339	15,103	140	96	(165)	(141)	(8)	(16)	1.1	0.9	5.7	16.7

¹ The days past due amounts presented above are on a contractual basis.

Stage 2 decomposition

The following table presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers and banks. It also sets out the reasons why an exposure is classified as stage 2 and therefore presented as a significant increase in credit risk at 31 December 2023.

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

retail and wholesale exposures, as set out in Note 1.2 'Summary of material accounting policies', on page 375.

The qualitative classification primarily accounts for customer risk rating ('CRR') deterioration, watch-and-worry and retail management judgemental adjustments.

A summary of our current policies and practices for the significant increase in credit risk is set out in 'Summary of material accounting policies' on page 375.

Loans and advances to customers and banks^{1,2}

	At 31 Dec 2023							Total stage 2
	Loans and advances to customers						Loans and advances to banks at amortised cost	
	of which:				Corporate and commercial	Non-bank financial institutions		
	Personal	first lien mortgage	credit cards ³	other personal lending ³				
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Quantitative	35,742	31,178	1,940	2,624	53,034	2,955	781	92,512
Qualitative	11,678	7,077	2,477	2,124	16,241	653	642	29,214
of which: forbearance	171	69	34	68	982	2	—	1,155
30 DPD backstop ⁴	63	32	2	29	463	42	13	581
Total gross carrying amount	47,483	38,287	4,419	4,777	69,738	3,650	1,436	122,307
Quantitative	(1,103)	(149)	(554)	(400)	(1,225)	(24)	(1)	(2,353)
Qualitative	(324)	(50)	(142)	(132)	(270)	(6)	(2)	(602)
of which: forbearance	(4)	—	(1)	(3)	(11)	—	—	(15)
30 DPD backstop ⁴	(7)	(1)	(1)	(5)	(5)	—	—	(12)
Total allowance for ECL	(1,434)	(200)	(697)	(537)	(1,500)	(30)	(3)	(2,967)
ECL coverage %	3.0	0.5	15.8	11.2	2.2	0.8	0.2	2.4
Residual average life⁵ (in years)	16.0	19.3	<1.0	4.1	2.5	1.2	<1.0	

Loans and advances to customers¹

At 31 Dec 2022									
	Gross carrying amount				Allowance for ECL				ECL coverage
	Corporate and non-bank financial institutions		Total	Total	Corporate and non-bank financial institutions		Total	Total	
	Personal	commercial			Personal	commercial			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%
Quantitative	41,610	66,421	3,679	111,710	(1,302)	(1,642)	(66)	(3,010)	2.7
Qualitative	7,209	18,555	878	26,642	(200)	(262)	(11)	(473)	1.8
30 DPD backstop ⁴	47	516	161	724	(2)	(3)	—	(5)	0.7
Total stage 2	48,866	85,492	4,718	139,076	(1,504)	(1,907)	(77)	(3,488)	2.5

¹ Where balances satisfy more than one of the above three criteria for determining a significant increase in credit risk, the corresponding gross exposure and ECL have been assigned in order of categories presented.

² Stage 2 decomposition for loans and advances to banks and personal lending products have been reported for the first time at 31 December 2023 following the adoption of the recommendations of the DECL Taskforce's third report.

³ The higher relative contribution of qualitative stage 2 for credit cards and other personal lending is due to management judgemental adjustments, primarily affordability.

⁴ Days past due ('DPD').

⁵ Calculated as the difference between final contractual maturities and the reporting date, weighted based on the contribution of the instrument to the stage 2 total gross carrying amount of the corresponding product or sector.

Assets held for sale

(Audited)

At 31 December 2023, the most material balances held for sale arose from our banking business in Canada and our retail banking operations in France.

Disclosures relating to assets held for sale are provided in the following credit risk tables, primarily where the disclosure is relevant to the measurement of these financial assets:

- ‘Maximum exposure to credit risk’ (page 191); and
- ‘Distribution of financial instruments by credit quality at 31 December’ (page 208);

Although there was a reclassification on the balance sheet, there was no separate income statement reclassification. As a result, charges for changes in expected credit losses and other credit impairment charges shown in the credit risk disclosures include charges relating to financial assets classified as ‘assets held for sale’.

‘Loans and other credit-related commitments’ and ‘financial guarantees’, as reported in credit disclosures, also include exposures and allowances relating to financial assets classified as ‘assets held for sale’.

Loans and advances to customers and banks measured at amortised cost

(Audited)

	2023		2022	
	Total gross loans and advances \$m	Allowance for ECL \$m	Total gross loans and advances \$m	Allowance for ECL \$m
As reported	1,062,526	(11,089)	1,039,552	(11,516)
Reported in ‘Assets held for sale’	84,075	(303)	81,221	(392)
At 31 December	1,146,601	(11,392)	1,120,773	(11,908)

At 31 December 2023, gross loans and advances of our banking business in Canada were \$56.5bn, and the related allowance for ECL was \$0.2bn. Gross loans of our retail banking operations in France were \$27.3bn, and the related allowance for ECL was \$0.1bn.

Lending balances held for sale continue to be measured at amortised cost less allowances for impairment and, therefore, such carrying amounts may differ from fair value.

These lending balances are part of associated disposal groups that are measured in their entirety at the lower of carrying amount and fair value less costs to sell. Any difference between the carrying amount of these assets and their sales price is part of the overall gain or loss on the associated disposal group as a whole.

For further details of the carrying amount and the fair value at 31 December 2023 of loans and advances to banks and customers classified as held for sale, see Note 23 on the financial statements.

Gross loans and allowance for ECL on loans and advances to customers and banks reported in ‘Assets held for sale’

(Audited)

	Banking business in Canada		Retail banking operations in France		Other		Total	
	Gross carrying amount \$m	Allowance for ECL \$m	Gross carrying amount \$m	Allowance for ECL \$m	Gross carrying amount \$m	Allowance for ECL \$m	Gross carrying amount \$m	Allowance for ECL \$m
Loans and advances to customers at amortised cost	56,349	(220)	16,984	(82)	255	(1)	73,588	(303)
– personal	27,071	(95)	13,920	(79)	140	(1)	41,131	(175)
– corporate and commercial	27,789	(120)	3,012	(3)	—	—	30,801	(123)
– non-bank financial institutions	1,489	(5)	52	—	115	—	1,656	(5)
Loans and advances to banks at amortised cost	154	—	10,333	—	—	—	10,487	—
At 31 December 2023	56,503	(220)	27,317	(82)	255	(1)	84,075	(303)
Loans and advances to customers at amortised cost	55,431	(234)	25,121	(92)	412	(62)	80,964	(388)
– personal	26,637	(75)	22,691	(88)	305	(47)	49,633	(210)
– corporate and commercial	27,128	(154)	2,379	(4)	107	(15)	29,614	(173)
– non-bank financial institutions	1,666	(5)	51	—	—	—	1,717	(5)
Loans and advances to banks at amortised cost	100	—	—	—	157	(4)	257	(4)
At 31 December 2022	55,531	(234)	25,121	(92)	569	(66)	81,221	(392)

The table below analyses the amount of ECL (charges)/releases arising from assets held for sale. The charges during the period primarily relate to our business in Canada.

Changes in expected credit losses and other credit impairment

(Audited)

	2023 \$m	2022 \$m
ECL (charges)/releases arising from:		
– assets held for sale	(49)	(5)
– assets not held for sale	(3,398)	(3,579)
Year ended 31 December	(3,447)	(3,584)

Credit exposure

Maximum exposure to credit risk

(Audited)

This section provides information on balance sheet items and their offsets as well as loan and other credit-related commitments. Commentary on consolidated balance sheet movements in 2023 is provided on page 110. The offset of derivatives remains in line with the movements in maximum exposure amounts.

'Maximum exposure to credit risk' table

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements).

The table excludes trading assets, financial assets designated and otherwise mandatorily measured at fair value through profit or loss, and financial investments measured at fair value through other comprehensive income as their carrying amount best represents the net exposure to credit risk. Equity securities are also excluded as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount and is net of the allowance for ECL. For financial guarantees and other guarantees granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

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

Other credit risk mitigants

While not disclosed as an offset in the following 'Maximum exposure to credit risk' table, other arrangements are in place that reduce our maximum exposure to credit risk. These include a charge over collateral on borrowers' specific assets, such as residential properties, collateral held in the form of financial instruments that are not held on the balance sheet and short positions in securities. In addition, for financial assets held as part of linked insurance/investment contracts the credit risk is predominantly borne by the policyholder. See page 374 and Note 31 on the financial statements for further details of collateral in respect of certain loans and advances and derivatives.

Collateral available to mitigate credit risk is disclosed in the 'Collateral' section on page 223.

Maximum exposure to credit risk

(Audited)

	2023			2022		
	Maximum exposure \$m	Offset \$m	Net \$m	Maximum exposure \$m	Offset \$m	Net \$m
Loans and advances to customers held at amortised cost	938,535	(22,607)	915,928	923,561	(20,315)	903,246
– personal	444,655	(2,470)	442,185	412,012	(2,575)	409,437
– corporate and commercial	419,852	(18,771)	401,081	444,882	(16,262)	428,620
– non-bank financial institutions	74,028	(1,366)	72,662	66,667	(1,478)	65,189
Loans and advances to banks at amortised cost	112,902	–	112,902	104,475	–	104,475
Other financial assets held at amortised cost	973,316	(13,919)	959,397	970,119	(8,969)	961,150
– cash and balances at central banks	285,868	–	285,868	327,002	–	327,002
– items in the course of collection from other banks	6,342	–	6,342	7,297	–	7,297
– Hong Kong Government certificates of indebtedness	42,024	–	42,024	43,787	–	43,787
– reverse repurchase agreements – non-trading	252,217	(13,919)	238,298	253,754	(8,969)	244,785
– financial investments	148,326	–	148,326	109,066	–	109,066
– assets held for sale	114,134	–	114,134	115,919	–	115,919
– prepayments, accrued income and other assets	124,405	–	124,405	113,294	–	113,294
Derivatives	229,714	(222,059)	7,655	284,159	(273,497)	10,662
Total on-balance sheet exposure to credit risk	2,254,467	(258,585)	1,995,882	2,282,314	(302,781)	1,979,533
Total off-balance sheet	1,007,885	–	1,007,885	934,329	–	934,329
– financial and other guarantees	111,102	–	111,102	106,861	–	106,861
– loan and other credit-related commitments	896,783	–	896,783	827,468	–	827,468
At 31 Dec	3,262,352	(258,585)	3,003,767	3,216,643	(302,781)	2,913,862

Concentration of exposure

We have a number of global businesses with a broad range of products. We operate in a number of geographical markets with the majority of our exposures in Asia and Europe.

For an analysis of:

- financial investments, see Note 16 on the financial statements;
- trading assets, see Note 11 on the financial statements;
- derivatives, see page 226 and Note 15 on the financial statements; and
- loans and advances by industry sector and by the location of the principal operations of the lending subsidiary (or, in the case of the

operations of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, HSBC Bank Middle East Limited and HSBC Bank USA, by the location of the lending branch), see page 212 for wholesale lending and page 226 for personal lending.

Credit deterioration of financial instruments

(Audited)

A summary of our current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2, stage 3 (credit impaired) and POCI financial instruments can be found in Note 1.2 on the financial statements.

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

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

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

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

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

At 31 December 2023, there was an overall reduction in management judgemental adjustments compared with 31 December 2022, as modelled outcomes better reflected the key risks at 31 December 2023.

Methodology

At 31 December 2023, four scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter.

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

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

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

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

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

In the fourth quarter of 2023, the weights were consistent with the calibrated scenario probabilities, as key risk metrics implied a decline in the uncertainty attached to the Central scenario, compared with the fourth quarter of 2022. Economic forecasts for the Central scenario remained stable, and the dispersion within consensus forecast panels remained low, even as the Israel-Hamas war escalated. Risks, including the economic consequences of a broader war in the Middle East, were reflected in the Downside scenarios.

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

Description of economic scenarios

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

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

In our key markets, Central scenario forecasts remained broadly stable in the fourth quarter of 2023, compared with the third quarter of 2023. The key exception was with regard to monetary policy, where expectations for interest rate cuts were brought forward. There continue to be expectations that 2024 will be a period of below trend growth, with inflation remaining above central bank targets.

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

The scenarios used to calculate ECL in this *Form 20-F* are described below.

The consensus Central scenario

HSBC's Central scenario reflects expectations for a low growth and high interest rate environment across many of our key markets, where GDP growth is expected to be lower in 2024 than in the previous year.

Expectations of lower GDP growth in many markets in 2024 are driven by the assumed lagged effects of higher interest rates and inflation in North America and Europe. In the scenario, household discretionary income remains under pressure and business margins deteriorate amid higher refinancing costs. Growth only returns to its long-term expected trend in later years, once inflation reverts back towards central bank targets and interest rates stabilise at lower levels.

In mainland China and Hong Kong, growth is also expected to be moderately slower in 2024 relative to 2023. The economic boost from post-pandemic reopening has faded, and slower global growth and low trade volumes are expected to moderate activity. In mainland China, the continued fall in investment in the property sector is expected to act as a further brake on the economy, while in Hong Kong, higher interest rates are expected to drive a further decline in property valuations. Despite these headwinds, a steeper downturn is expected to be avoided as the authorities in mainland China increase fiscal and monetary support to the economy. Substantial fiscal expansion is anticipated for 2024, alongside additional credit easing.

Global GDP is expected to grow by 2.2% in 2024 in the Central scenario, and the average rate of global GDP growth is forecast to be 2.6% over the five-year forecast period. This is below the average growth rate over the five-year period prior to the onset of the pandemic of 2.9%.

The key features of our Central scenario are:

- GDP growth rates in our main markets are expected to slow down in 2024, followed by a moderate recovery in 2025. The slowdown in the UK is particularly notable in this scenario, with growth close to zero through much of 2024. In the scenario, weaker growth is caused by high interest rates, which act to deter consumption and investment.
- In most markets, unemployment is expected to rise moderately as economic activity slows, although it remains low by historical standards.

- Inflation is expected to continue to fall as commodity prices decline, supply disruptions abate, and wage growth moderates. It is anticipated that inflation converges towards central banks' target rates by early 2025. In mainland China, weak consumption and excess supply has caused inflation to drop sharply but, in the scenario, deflation is not projected to persist.
- Weak conditions in housing markets are expected to persist through 2024 and 2025 in many of our main markets, including the UK, Hong Kong and mainland China, as higher interest rates and, in many cases, declining prices, depress activity.
- Challenging conditions are also forecast to continue in the commercial property sector in a number of our key markets. Structural changes to demand in the office segment in particular have driven lower valuations.

- Policy interest rates in key markets are forecast to have peaked and are projected to decline in 2024. In the longer term, they are expected to remain at a higher level than in recent years.
- The Brent crude oil price is forecast to average around \$75 per barrel over the projection period.

The Central scenario was created with forecasts available in late November, and reviewed continually until the end of December 2023. In accordance with HSBC's scenario framework, a probability weight of 75% has been assigned to the Central scenario across all major markets.

The following tables describe key macroeconomic variables in the consensus Central scenario.

Consensus Central scenario 2024–2028 (as at 4Q23)

	UK	US	Hong Kong	Mainland China	Canada	France	UAE	Mexico
GDP (annual average growth rate, %)								
2024	0.3	1.0	2.6	4.5	0.8	0.8	3.7	1.9
2025	1.2	1.8	2.7	4.4	2.0	1.5	4.0	2.2
2026	1.7	2.1	2.6	4.3	2.0	1.6	3.8	2.3
2027	1.6	2.0	2.6	3.8	2.0	1.5	3.4	2.4
2028	1.6	2.0	2.6	3.9	2.0	1.5	3.4	2.4
5-year average ¹	1.3	1.8	2.6	4.2	1.7	1.4	3.6	2.2
Unemployment rate (%)								
2024	4.7	4.3	3.0	5.2	6.2	7.5	2.6	2.9
2025	4.6	4.2	3.0	5.1	5.9	7.3	2.6	2.9
2026	4.3	4.0	3.2	5.1	5.7	7.0	2.6	2.9
2027	4.2	4.0	3.2	5.1	5.7	6.8	2.6	2.9
2028	4.2	4.0	3.2	5.1	5.7	6.8	2.6	2.9
5-year average ¹	4.4	4.1	3.1	5.1	5.8	7.1	2.6	2.9
House prices (annual average growth rate, %)								
2024	(5.5)	2.9	(6.6)	(0.6)	(4.8)	(1.0)	12.6	6.5
2025	0.1	2.7	(0.7)	1.1	2.2	2.4	7.7	4.2
2026	3.5	3.1	2.6	2.6	2.8	4.0	4.4	4.2
2027	3.0	2.7	2.8	4.0	2.4	4.4	2.6	4.0
2028	3.0	2.1	3.0	4.5	2.8	4.0	2.3	4.0
5-year average ¹	0.8	2.7	0.2	2.3	1.1	2.8	5.9	4.6
Inflation (annual average growth rate, %)								
2024	3.2	2.7	2.1	1.8	2.6	2.7	2.3	4.2
2025	2.2	2.2	2.1	2.0	2.1	1.8	2.2	3.6
2026	2.2	2.3	2.2	2.1	2.1	1.7	2.1	3.5
2027	2.3	2.2	2.4	2.0	2.1	1.9	2.1	3.5
2028	2.3	2.2	2.4	2.0	2.1	2.1	2.1	3.5
5-year average	2.4	2.3	2.2	2.0	2.2	2.0	2.1	3.7
Central bank policy rate (annual average, %)								
2024	5.0	5.0	5.4	4.1	4.7	3.6	5.1	10.4
2025	4.3	4.0	4.4	4.2	3.9	2.8	4.1	8.6
2026	3.9	3.7	4.1	4.4	3.4	2.6	3.7	7.9
2027	3.8	3.7	4.1	4.6	3.2	2.6	3.7	7.9
2028	3.7	3.8	4.1	4.8	3.3	2.7	3.8	8.1
5-year average ¹	4.1	4.1	4.4	4.4	3.7	2.9	4.1	8.6

¹ The five-year average is calculated over a projected period of 20 quarters from 1Q24 to 4Q28.

Risk review

Consensus Central scenario 2023–2027 (as at 4Q22)

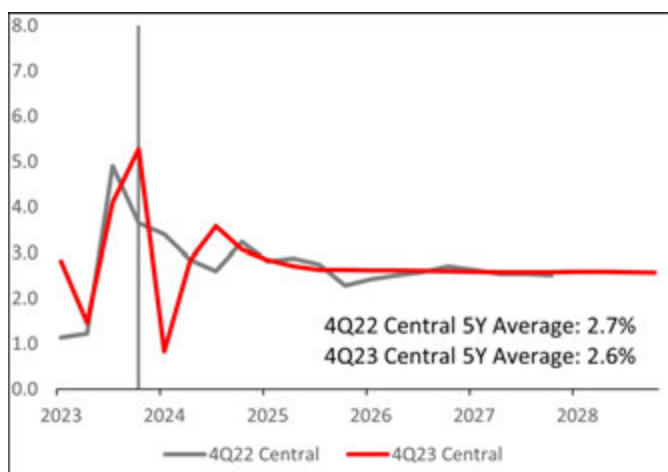
	UK	US	Hong Kong	Mainland China	Canada	France	UAE ²	Mexico
GDP (annual average growth rate, %)								
2023	(0.8)	0.2	2.7	4.6	0.6	0.2	3.7	1.2
2024	1.3	1.5	3.0	4.8	1.9	1.6	3.7	2.0
2025	1.7	2.0	2.7	4.7	2.0	1.5	3.1	2.3
2026	1.7	2.0	2.6	4.4	1.8	1.4	2.8	2.0
2027	1.7	2.0	2.6	4.4	1.8	1.4	2.9	2.0
5-year average ¹	1.1	1.5	2.7	4.6	1.6	1.2	3.2	1.9
Unemployment rate (%)								
2023	4.4	4.3	3.7	5.2	6.1	7.6	2.9	3.7
2024	4.6	4.5	3.5	5.1	5.9	7.5	2.8	3.7
2025	4.3	4.2	3.4	5.0	6.0	7.3	2.8	3.5
2026	4.1	3.9	3.3	4.9	5.9	7.2	2.8	3.5
2027	4.1	4.0	3.3	4.8	5.9	7.2	2.8	3.5
5-year average ¹	4.3	4.2	3.4	5.0	5.9	7.3	2.8	3.6
House prices (annual average growth rate, %)								
2023	0.2	(2.5)	(10.0)	(0.1)	(15.6)	1.8	5.9	7.9
2024	(3.8)	(3.2)	(3.0)	2.9	(1.2)	2.0	5.2	5.2
2025	0.7	(1.0)	1.7	3.5	4.0	3.1	4.5	4.2
2026	2.1	0.7	2.8	4.1	4.1	3.5	3.3	4.1
2027	2.7	2.5	3.4	4.3	3.0	3.6	2.9	3.9
5-year average ¹	0.4	(0.7)	(1.0)	2.9	(1.1)	2.8	4.4	5.1
Inflation (annual average growth rate, %)								
2023	6.9	4.1	2.1	2.4	3.5	4.6	3.2	5.7
2024	2.5	2.5	2.1	2.2	2.2	2.0	2.2	4.1
2025	2.1	2.2	2.0	2.2	2.1	1.8	2.1	3.7
2026	2.0	2.3	2.1	2.1	2.0	1.7	2.1	3.7
2027	2.0	2.3	2.1	2.1	2.0	1.7	2.1	3.7
5-year average ¹	3.1	2.7	2.1	2.2	2.4	2.4	2.3	4.2
Central bank policy rate (annual average, %)								
2023	4.4	4.7	5.2	4.6	4.3	2.7	6.1	10.3
2024	4.2	3.8	4.3	4.9	3.9	2.7	5.2	8.1
2025	3.7	3.0	3.5	5.1	3.4	2.4	4.4	7.2
2026	3.4	2.9	3.3	5.3	3.1	2.3	4.3	7.3
2027	3.1	2.9	3.3	5.5	3.2	2.3	4.3	7.8
5-year average ¹	3.8	3.5	3.9	5.1	3.6	2.5	4.9	8.1

¹ The five-year average is calculated over a projected period of 20 quarters from 1Q23 to 4Q27.

The graphs compare the Central scenario at the year end 2022 with economic expectations at the end of 2023.

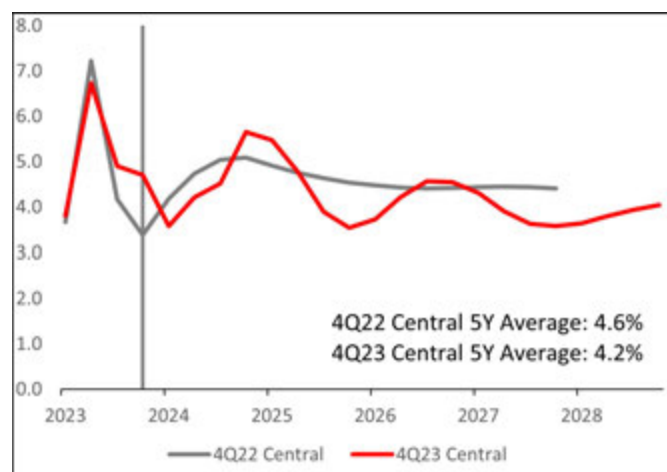
GDP growth: Comparison of Central scenarios

Hong Kong



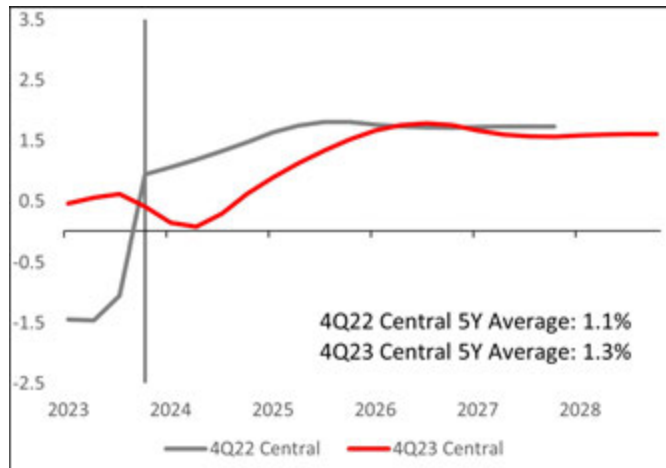
Note: Real GDP shown as year-on-year percentage change.

Mainland China



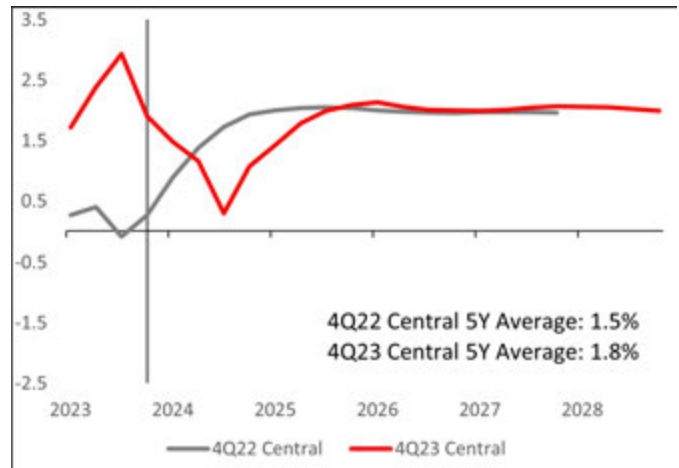
Note: Real GDP shown as year-on-year percentage change.

UK



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

US



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

The consensus Upside scenario

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

The scenario is consistent with a number of key upside risk themes.

These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly, an easing in financial conditions, and a de-escalation in geopolitical tensions as the Israel-Hamas and Russia-Ukraine wars move towards conclusions, and the US-China relationship improves.

The following tables describe key macroeconomic variables in the consensus Upside scenario.

Consensus Upside scenario 2024–2028 (as at 4Q23)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (% , start-to-peak) ¹	10.8	(4Q28)	14.3	(4Q28)	21.8	(4Q28)	30.4	(4Q28)	14.9	(4Q28)	10.4	(4Q28)	30.7	(4Q28)	17.8	(4Q28)
Unemployment rate (% , min) ²	3.1	(4Q24)	3.1	(2Q25)	2.4	(3Q24)	4.8	(4Q25)	5.1	(4Q25)	6.2	(4Q25)	2.0	(4Q25)	2.4	(3Q24)
House price index (% , start-to-peak) ¹	13.0	(4Q28)	21.9	(4Q28)	17.9	(4Q28)	19.7	(4Q28)	21.0	(4Q28)	19.6	(4Q28)	34.2	(4Q28)	30.6	(4Q28)
Inflation rate (YoY % change, min) ³	1.3	(2Q25)	1.4	(1Q25)	0.3	(4Q24)	0.6	(3Q24)	1.1	(1Q25)	1.5	(3Q24)	1.4	(1Q25)	2.7	(1Q25)
Central bank policy rate (% , min) ²	3.7	(3Q28)	3.7	(2Q27)	4.1	(1Q27)	4.0	(2Q24)	3.2	(2Q27)	2.6	(2Q26)	3.7	(1Q27)	7.8	(2Q25)

¹ Cumulative change to the highest level of the series during the 20-quarter projection.

² Lowest projected unemployment or policy interest rate in the scenario.

³ Lowest projected year-on-year percentage change in inflation in the scenario.

Consensus Upside scenario 2023–2027 (as at 4Q22)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (% , start-to-peak) ¹	14.6	(4Q27)	13.6	(4Q27)	23.3	(4Q27)	31.5	(4Q27)	14.0	(4Q27)	10.2	(4Q27)	26.4	(4Q27)	16.4	(4Q27)
Unemployment rate (% , min) ²	3.5	(4Q23)	3.1	(3Q23)	3.0	(4Q23)	4.7	(3Q24)	5.2	(3Q24)	6.5	(4Q24)	2.2	(3Q24)	3.1	(3Q23)
House price index (% , start-to-peak) ¹	7.8	(4Q27)	3.9	(4Q27)	8.6	(4Q27)	26.3	(4Q27)	12.3	(4Q27)	17.0	(4Q27)	30.6	(4Q27)	33.0	(4Q27)
Inflation rate (YoY % change, min) ³	0.7	(1Q24)	1.6	(1Q24)	(0.1)	(4Q23)	0.8	(4Q23)	1.0	(1Q24)	0.8	(4Q23)	1.5	(3Q24)	3.2	(1Q24)
Central bank policy rate (% , min) ²	3.1	(4Q27)	2.9	(1Q27)	3.3	(1Q27)	4.4	(1Q23)	3.1	(3Q26)	2.3	(3Q26)	4.3	(1Q27)	7.1	(3Q25)

¹ Cumulative change to the highest level of the series during the 20-quarter projection.

² Lowest projected unemployment or policy interest rate in the scenario.

³ Lowest projected year-on-year percentage change in inflation in the scenario.

Downside scenarios

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

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

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

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

The following tables describe key macroeconomic variables in the consensus Downside scenario.

Consensus Downside scenario 2024–2028 (as at 4Q23)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (%, start-to-trough) ¹	(1.0)	(2Q25)	(1.4)	(3Q24)	(1.6)	(3Q25)	(1.5)	(1Q24)	(1.7)	(3Q24)	(0.3)	(2Q24)	1.4	(1Q24)	(0.3)	(4Q24)
Unemployment rate (%, max) ²	6.4	(1Q25)	5.6	(4Q24)	4.7	(4Q25)	6.9	(4Q25)	7.4	(3Q24)	8.5	(4Q24)	3.7	(4Q25)	3.5	(4Q25)
House price index (%, start-to-trough) ¹	(12.0)	(2Q25)	(1.3)	(3Q24)	(9.6)	(4Q24)	(7.1)	(3Q25)	(12.0)	(3Q25)	(1.2)	(3Q24)	0.3	(1Q24)	1.2	(1Q24)
Inflation rate (YoY % change, max) ³	4.1	(1Q24)	3.5	(4Q24)	3.8	(3Q24)	3.5	(4Q24)	3.4	(2Q24)	3.8	(2Q24)	3.0	(1Q24)	6.5	(4Q24)
Central bank policy rate (%, max) ²	5.7	(1Q24)	5.6	(1Q24)	6.0	(1Q24)	4.1	(3Q24)	5.6	(1Q24)	4.2	(1Q24)	5.7	(1Q24)	12.0	(3Q24)

1 Cumulative change to the lowest level of the series during the 20-quarter projection.

2 The highest projected unemployment or policy interest rate in the scenario.

3 The highest projected year-on-year percentage change in inflation in the scenario.

Consensus Downside scenario 2023–2027 (as at 4Q22)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (%, start-to-trough) ¹	(3.0)	(1Q25)	(4.0)	(4Q24)	(2.3)	(3Q24)	(1.7)	(2Q23)	(3.9)	(4Q23)	(0.9)	(2Q23)	0.1	(1Q23)	(2.8)	(4Q24)
Unemployment rate (%, max) ²	5.8	(2Q24)	5.9	(1Q24)	5.2	(3Q24)	5.9	(4Q23)	7.6	(3Q23)	8.8	(4Q23)	4.1	(3Q23)	4.4	(1Q23)
House price index (%, start-to-trough) ¹	(15.0)	(4Q24)	(11.6)	(4Q25)	(11.9)	(1Q24)	(1.0)	(4Q23)	(20.1)	(4Q24)	(0.7)	(3Q23)	(4.0)	(3Q23)	1.2	(1Q23)
Inflation rate (YoY % change, max) ³	10.8	(1Q23)	6.2	(1Q23)	3.7	(4Q23)	4.0	(4Q23)	6.0	(1Q23)	7.2	(1Q23)	4.5	(1Q23)	7.9	(1Q23)
Central bank policy rate (%, max) ²	5.1	(3Q23)	5.2	(3Q23)	5.7	(3Q23)	5.2	(4Q23)	5.6	(3Q23)	3.4	(4Q23)	6.6	(3Q23)	12.1	(3Q23)

1 Cumulative change to the lowest level of the series during the 20-quarter projection.

2 The highest projected unemployment or policy interest rate in the scenario.

3 The highest projected year-on-year percentage change in inflation in the scenario.

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets.

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

The consensus Downside scenario

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

In the scenario, as inflation surges and central banks tighten monetary policy further, confidence evaporates. However, this impulse is assumed to prove short lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall.

The following tables describe key macroeconomic variables in the Downside 2 scenario.

Downside 2 scenario 2024–2028 (as at 4Q23)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (%, start-to-trough) ¹	(8.8)	(2Q25)	(4.6)	(1Q25)	(8.2)	(1Q25)	(6.4)	(1Q25)	(4.8)	(1Q25)	(6.6)	(1Q25)	(4.9)	(2Q25)	(8.1)	(2Q25)
Unemployment rate (%, max) ²	8.4	(2Q25)	9.3	(2Q25)	6.4	(4Q24)	7.0	(4Q25)	11.9	(1Q25)	10.2	(4Q25)	4.3	(3Q24)	4.9	(2Q25)
House price index (%, start-to-trough) ¹	(30.2)	(4Q25)	(14.7)	(4Q24)	(32.8)	(3Q26)	(25.5)	(4Q25)	(42.7)	(2Q25)	(14.5)	(2Q26)	(2.9)	(4Q25)	1.2	(1Q24)
Inflation rate (YoY % change, max) ³	10.1	(2Q24)	4.8	(2Q24)	4.1	(3Q24)	4.1	(4Q24)	5.4	(2Q24)	8.6	(2Q24)	3.5	(2Q24)	7.0	(4Q24)
Central bank policy rate (%, max) ²	6.0	(1Q24)	6.1	(1Q24)	6.4	(1Q24)	4.8	(3Q24)	5.8	(1Q24)	5.2	(1Q24)	6.1	(1Q24)	12.7	(3Q24)

1 Cumulative change to the lowest level of the series during the 20-quarter projection.

2 The highest projected unemployment or policy interest rate in the scenario.

3 The highest projected year-on-year percentage change in inflation in the scenario.

Downside 2 scenario 2023–2027 (as at 4Q22)

	UK		US		Hong Kong		Mainland China		Canada		France		UAE		Mexico	
GDP level (%, start-to-trough) ¹	(7.5)	(2Q24)	(5.2)	(2Q24)	(10.1)	(2Q24)	(6.9)	(1Q24)	(7.1)	(4Q24)	(7.4)	(2Q24)	(4.3)	(2Q24)	(8.2)	(2Q24)
Unemployment rate (%, max) ²	8.7	(2Q24)	9.5	(4Q24)	5.8	(1Q24)	6.8	(4Q24)	11.6	(2Q24)	10.3	(4Q24)	4.6	(2Q24)	5.6	(2Q24)
House price index (%, start-to-trough) ¹	(32.9)	(1Q25)	(21.6)	(1Q24)	(26.6)	(2Q26)	(23.2)	(4Q24)	(41.2)	(3Q24)	(11.4)	(2Q25)	(4.8)	(2Q24)	1.1	(1Q23)
Inflation rate (YoY % change, max) ³	13.5	(2Q23)	6.3	(1Q23)	4.3	(4Q23)	4.6	(4Q23)	6.5	(1Q23)	10.4	(2Q23)	4.8	(1Q23)	7.9	(1Q23)
Central bank policy rate (%, max) ²	5.6	(4Q23)	5.5	(3Q23)	5.9	(3Q23)	5.1	(3Q23)	6.1	(3Q23)	4.1	(4Q23)	6.8	(3Q23)	12.3	(3Q23)

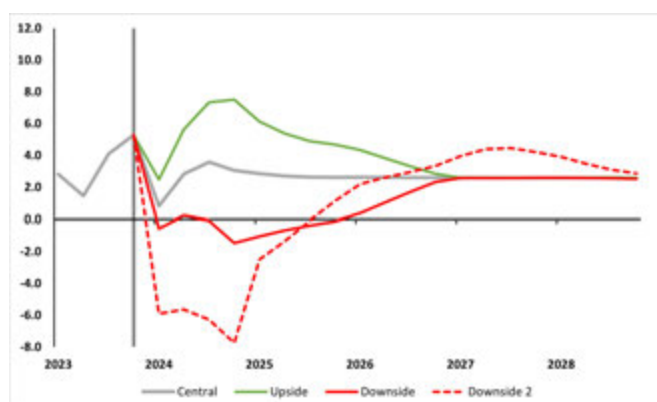
1 Cumulative change to the lowest level of the series during the 20-quarter projection.

2 The highest projected unemployment or policy interest rate in the scenario.

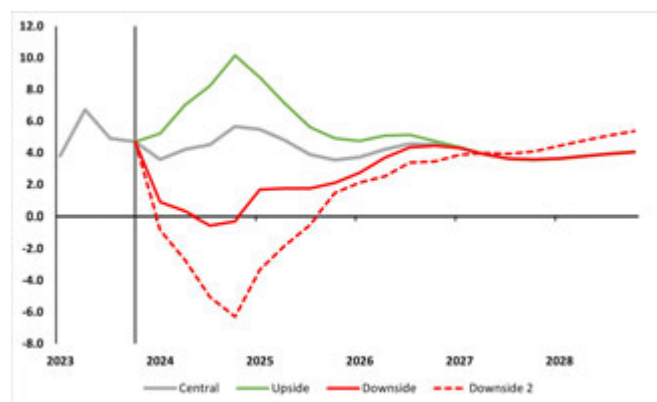
3 The highest projected year-on-year percentage change in inflation in the scenario.

The following graphs show the historical and forecasted GDP growth rate for the various economic scenarios in our four largest markets.

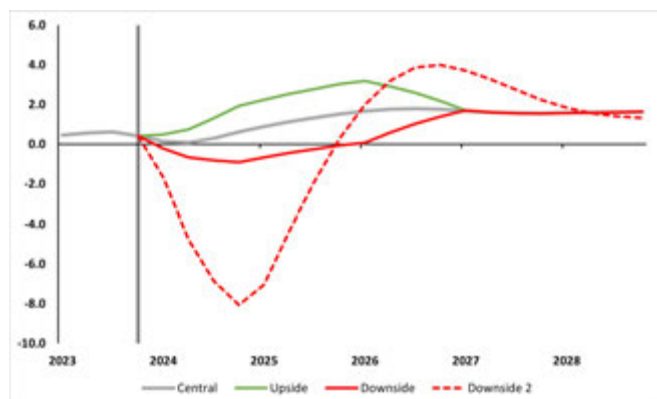
Hong Kong



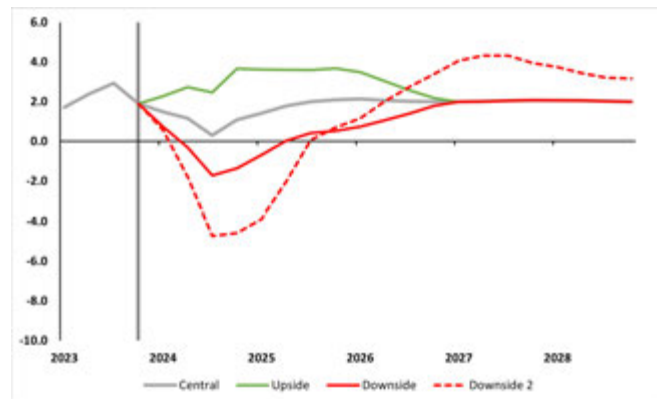
Mainland China



UK



US



Scenario weighting

In reviewing the economic environment, the level of risk and uncertainty, management has considered both global and country-specific factors.

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

- the risk that the Israel-Hamas war escalates and affects economic expectations;
- the lagged impact of elevated interest rates on household finances and businesses, and the implications of recent changes to monetary policy expectations on growth and employment; and
- the outlook for real estate in our key markets, particularly in the US, UK, Hong Kong and mainland China.

Although these risk factors remain significant, management assessed that they were adequately reflected in the scenarios at their calibrated probability. It was noted that despite the escalation of geopolitical risk in the Middle East, economic forecasts had remained stable, and dispersion of forecasts around the consensus were either stable, or have moved lower. Financial market measures of volatility also remained low through the fourth quarter of 2023.

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

In support of the decision, it was noted that in mainland China recent policy announcements suggest fiscal and monetary stimulus will

The following tables describe the probabilities assigned in each scenario.

Scenario weightings, %

	Standard weights	UK	US	Hong Kong	Mainland China	Canada	France	UAE	Mexico
4Q23									
Upside scenario	10	10	10	10	10	10	10	10	10
Central scenario	75	75	75	75	75	75	75	75	75
Downside scenario	10	10	10	10	10	10	10	10	10
Downside 2 scenario	5	5	5	5	5	5	5	5	5
4Q22									
Upside scenario	10	5	5	20	20	5	5	5	5
Central scenario	75	60	70	55	55	70	60	70	70
Downside scenario	10	25	20	20	20	15	25	20	20
Downside 2 scenario	5	10	5	5	5	10	10	5	5

At 31 December 2023, the consensus Upside and Central scenarios for all markets had a combined weighting of 85%. At 31 December 2022, mainland China, Hong Kong and the US each had a combined weighting of 75% for the consensus Upside and Central scenarios. The UK had a combined weighting of 65%.

Critical estimates and judgements

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

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

increase significantly through 2024. This suggests that there will be increased official support to current economic headwinds, which would reduce the uncertainty attached to current forecasts.

In the UK, the Central scenario reflects a weak growth environment in which recession risks remain high. Similarly, in the US, the Central scenario reflects expectations for a weaker growth environment in 2024 as the economy adjusts to the higher rates environment.

For the UAE, it was agreed that there has been an increase in geopolitical uncertainty since the outbreak of the Israel-Hamas war, with the potential for regional escalation remaining a risk. However, economic and market impacts have been limited and oil production remains unaffected.

Management concluded that consensus expectations for Mexico, France and Canada were also consistent with its view of the economic outlook, while assessments of uncertainty were also aligned to historical averages.

In the fourth quarter of 2022, management varied the applied scenario weights to reflect greater uncertainty around the inflation and interest rate outlook, amid supply disruption to energy and food commodity markets due to the Ukraine-Russia war. In Hong Kong and mainland China, uncertainty assessments focused on the upside and downside risks of post-pandemic reopening.

Those factors were reflected in the measures of risk and uncertainty used to inform judgements around the Central scenario. In particular, large forecast changes were observed, alongside wide dispersion of forecasts around consensus estimates and heightened financial market volatility.

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2023, and management judgemental adjustments were still required to support modelled outcomes.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2023.

For our wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, allowance for ECL estimates are derived based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual borrower circumstances (see page 375). Probability-weighted outcomes are applied, and depending on materiality and status of the borrower, the number of scenarios considered will change. Where relevant for the case being assessed, forward economic guidance is incorporated as part of these scenarios. LGD-driven proxy and modelled estimates are used for certain less material cases.

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

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

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

Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are typically short-term increases or decreases to the modelled allowance for ECL at either a customer, segment or portfolio level where management believes allowances do not sufficiently reflect the credit risk/expected credit losses at the reporting date. These can relate to risks or uncertainties that are not reflected in the models and/or to any late-breaking events with significant uncertainty, subject to management review and challenge.

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

The effects of management judgemental adjustments are considered for both balances and allowance for ECL when determining whether or not a significant increase in credit risk has occurred and is allocated to a stage where appropriate. This is in accordance with the internal adjustments framework.

Management judgemental adjustments are reviewed under the governance process for IFRS 9 (as detailed in the section 'Credit risk management' on page 183). Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

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

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

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

At 31 December 2023, there was a \$0.2bn reduction in management judgemental adjustments compared with 31 December 2022. For the wholesale portfolio, this was due to modelled outcomes better reflecting the key risks at 31 December 2023. For the retail portfolio, there was an increase in other credit judgements due to the potential delayed impact of economic scenarios on unsecured portfolio defaults, primarily within the UK.

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

Management judgemental adjustments to ECL at 31 December 2023¹

	Retail \$bn	Wholesale ² \$bn	Total \$bn
Modelled ECL (A)³	2.6	2.4	5.0
Banks, sovereigns, government entities and low-risk counterparties		0.0	0.0
Corporate lending adjustments		0.1	0.1
Inflation related adjustments	0.1		0.1
Other credit judgements	0.5		0.5
Total management judgemental adjustments (B)⁴	0.6	0.1	0.7
Other adjustments (C)⁵	0.0	0.0	0.0
Final ECL (A + B + C)⁶	3.2	2.5	5.7

Management judgemental adjustments to ECL at 31 December 2022¹ (continued)

	Retail \$bn	Wholesale ² \$bn	Total \$bn
Modelled ECL (A) ³	3.0	2.6	5.6
Banks, sovereigns, government entities and low-risk counterparties		0.1	0.1
Corporate lending adjustments		0.5	0.5
Inflation-related adjustments	0.1		0.1
Other credit judgements	0.2		0.2
Total management judgemental adjustments (B) ⁴	0.3	0.6	0.9
Other adjustments (C) ⁵	0.0	(0.1)	(0.1)
Final ECL (A + B + C) ⁶	3.3	3.1	6.4

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

² The wholesale portfolio corresponds to adjustments to the performing portfolio (stage 1 and stage 2).

³ (A) refers to probability-weighted allowance for ECL before any adjustments are applied.

⁴ (B) refers to adjustments that are applied where management believes allowance for ECL does not sufficiently reflect the credit risk/expected credit losses of any given portfolio at the reporting date. These can relate to risks or uncertainties that are not reflected in the model and/or to any late-breaking events.

⁵ (C) refers to adjustments to allowance for ECL made to address process limitations and data/model deficiencies.

⁶ As presented within our internal credit risk governance (see page 183).

Management judgemental adjustments at 31 December 2023 were an increase to allowance for ECL of \$0.1bn for the wholesale portfolio and an increase to ECL of \$0.6bn for the retail portfolio.

At 31 December 2023, wholesale management judgemental adjustments were an increase to allowance for ECL of \$0.1bn (31 December 2022: \$0.6bn increase).

- Management judgemental adjustments to corporate exposures increased allowance for ECL by \$0.1bn at 31 December 2023 (31 December 2022: \$0.5bn increase), mostly due to management judgements to reflect heightened uncertainty in specific sectors and geographies, including adjustments to exposures to the real estate sectors in mainland China, the UK and the US. The decrease in adjustments to allowances compared with 31 December 2022 is attributed to a crystallisation of existing risks at that date through downgrades, and an improved reflection of emerging risks in macroeconomic scenarios and modelled outcomes.

At 31 December 2023, retail management judgemental adjustments were an increase to allowance for ECL of \$0.6bn (31 December 2022: \$0.3bn increase). The increase in adjustments to allowance for ECL compared with 31 December 2022 was primarily due to the increase in management judgemental adjustments in other credit judgements (detailed below).

- Management judgemental adjustments in relation to inflation increased allowance for ECL by \$0.1bn (31 December 2022: \$0.1bn). These adjustments addressed where increasing inflation and interest rates result in affordability risks that were not fully captured by the modelled output.
- Management judgemental adjustments in relation to other credit judgements increased allowance for ECL by \$0.5bn (31 December 2022: \$0.2bn). These adjustments were primarily to capture the potential delayed impact of economic scenarios on unsecured portfolio defaults in the UK.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the allowance for 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 allowances.

The allowance for 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 allowances for loans at the balance sheet date.

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

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

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

Wholesale and retail sensitivity

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

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

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

Wholesale analysis

IFRS 9 ECL sensitivity to future economic conditions^{1,2,3}

	Reported Gross carrying amount ⁴	Reported allowance for ECL	Consensus Central scenario allowance for ECL	Consensus Upside scenario allowance for ECL	Consensus Downside scenario allowance for ECL	Downside 2 scenario allowance for ECL
By geography at 31 Dec 2023	\$m	\$m	\$m	\$m	\$m	\$m
UK	426,427	820	754	599	1,041	2,487
US	191,104	215	199	189	268	441
Hong Kong	447,480	609	566	433	807	1,393
Mainland China	129,945	258	217	142	414	945
Canada ⁵	84,092	89	75	56	107	487
Mexico	30,159	60	56	46	73	226
UAE	52,074	32	32	30	34	40
France	178,827	98	102	90	124	141
Other geographies ⁶	450,271	325	298	245	410	882
Total	1,990,378	2,507	2,301	1,829	3,278	7,043
of which:						
Stage 1	1,820,843	754	702	553	860	854
Stage 2	169,535	1,753	1,599	1,276	2,418	6,189
By geography at 31 Dec 2022						
UK	421,685	769	624	484	833	2,240
US	190,858	277	241	227	337	801
Hong Kong	415,875	925	819	592	1,315	2,161
Mainland China	125,466	295	242	144	415	1,227
Canada ⁵	83,274	126	80	60	148	579
Mexico	26,096	88	80	67	116	313
UAE	45,064	45	41	30	55	93
France	173,146	110	102	90	121	145
Other geographies ⁶	445,758	447	384	304	527	1,054
Total	1,927,222	3,083	2,612	2,000	3,866	8,612

1 Allowance for ECL sensitivity includes off-balance sheet financial instruments. These are subject to significant measurement uncertainty.

2 Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying amounts but low ECL under all the above scenarios.

3 Excludes defaulted obligors. For a detailed breakdown of performing and non-performing wholesale portfolio exposures, see page 212.

4 Staging refers only to probability-weighted/reported gross carrying amount. Stage allocation of gross exposures varies by scenario, with higher allocation to stage 2 under the Downside 2 scenario.

5 Classified as held for sale at 31 December 2023 and 31 December 2022.

6 Includes small portfolios that use less complex modelling approaches and are not sensitive to macroeconomic changes.

At 31 December 2023, the highest level of 100% scenario-weighted allowance for ECL was observed in the UK and Hong Kong. This higher ECL impact was largely driven by significant exposure in these regions.

Compared with 31 December 2022, the Downside 2 allowance for ECL was lower in Hong Kong and mainland China, mostly due to the crystallisation of defaults for certain high-risk exposures and a decrease of the associated downside uncertainty.

In the wholesale portfolio, off-balance sheet financial instruments have a lower likelihood to be fully converted to a funded exposure at the point of default, and consequently the sensitivity of the allowance for ECL is lower in relation to its nominal amount, when compared with an on-balance sheet exposure with a similar risk profile.

Retail analysis

IFRS 9 ECL sensitivity to future economic conditions¹

	Reported gross carrying amount	Reported allowance for ECL	Consensus Central scenario allowance for ECL	Consensus Upside scenario allowance for ECL	Consensus Downside scenario allowance for ECL	Downside 2 scenario allowance for ECL
By geography at 31 December 2023	\$m	\$m	\$m	\$m	\$m	\$m
UK						
Mortgages	161,127	189	180	172	201	334
Credit cards	7,582	344	340	302	353	486
Other	8,183	341	333	273	383	515
Mexico						
Mortgages	8,666	188	180	150	235	363
Credit cards	2,445	295	286	206	376	489
Other	4,529	513	503	426	600	731
Hong Kong						
Mortgages	106,136	2	2	1	3	5
Credit cards	9,128	287	239	214	395	887
Other	6,269	109	100	88	124	256
UAE						
Mortgages	2,001	25	25	25	25	25
Credit cards	471	24	24	22	25	32
Other	721	20	20	19	21	28
France³						
Mortgages	20,589	50	50	50	51	51
Other	1,328	44	44	43	45	48
US						
Mortgages	14,385	8	4	3	4	10
Credit cards	204	15	15	10	15	16
Canada²						
Mortgages	25,464	67	65	64	70	99
Credit cards	338	13	13	12	16	15
Other	1,368	13	13	12	14	33
Other geographies						
Mortgages	55,368	152	149	144	158	198
Credit cards	3,655	173	166	151	202	291
Other	2,416	91	86	83	95	137
Total	442,373	2,962	2,835	2,471	3,411	5,049
of which: mortgages						
Stage 1	347,874	101	92	77	145	303
Stage 2	43,451	264	249	225	280	429
Stage 3	2,412	316	314	307	322	352
of which: credit cards						
Stage 1	18,557	249	232	180	329	604
Stage 2	4,953	707	657	546	859	1,415
Stage 3	312	193	193	192	194	197
of which: others						
Stage 1	19,551	218	151	205	272	501
Stage 2	4,542	540	423	519	636	868
Stage 3	722	373	370	373	375	379

IFRS 9 ECL sensitivity to future economic conditions¹ (continued)

By geography at 31 December 2022	Reported gross carrying amount \$m	Reported allowance for ECL \$m	Consensus Central scenario allowance for ECL \$m	Consensus Upside scenario allowance for ECL \$m	Consensus Downside scenario allowance for ECL \$m	Downside 2 scenario allowance for ECL \$m
UK						
Mortgages	147,306	204	188	183	189	399
Credit cards	6,518	455	434	396	442	719
Other	7,486	368	333	274	383	605
Mexico						
Mortgages	6,319	152	127	102	183	270
Credit cards	1,616	198	162	97	233	289
Other	3,447	438	400	318	503	618
Hong Kong						
Mortgages	100,107	1	1	—	1	1
Credit cards	8,003	261	227	180	417	648
Other	5,899	85	81	74	100	123
UAE						
Mortgages	2,170	37	37	36	38	38
Credit cards	441	41	37	21	68	86
Other	718	17	17	15	19	22
France						
Mortgages	21,440	51	50	50	51	52
Other	1,433	54	53	52	55	59
US						
Mortgages	13,489	7	6	6	8	15
Credit cards	219	26	25	23	27	36
Canada						
Mortgages	25,163	45	44	43	46	58
Credit cards	299	10	9	8	11	11
Other	1,399	16	14	13	17	36
Other geographies						
Mortgages	56,383	199	190	183	205	253
Credit cards	3,871	192	176	150	219	324
Other	3,630	115	111	107	119	159
Total	417,356	2,972	2,722	2,331	3,334	4,821

¹ Allowance for ECL sensitivities exclude portfolios utilising less complex modelling approaches.

² Classified as 'assets held for sale' at 31 December 2023.

³ Includes balances and allowance for ECL, which have been reclassified from 'loans and advances to customers' to 'assets held for sale' in the balance sheet at 31 December 2023. This also includes any balances and allowance for ECL, which continue to be reported as personal lending in 'loans and advances to customers' that are in accordance with the basis of inclusion for retail sensitivity analysis.

At 31 December 2023, the most significant level of allowance for ECL sensitivity was observed in the UK, Mexico and Hong Kong. Mortgages reflected the lowest level of allowance for ECL sensitivity across most markets given the significant levels of collateral relative to the exposure values. Credit cards and other unsecured lending across stage 1 and 2 are more sensitive to economic forecasts and therefore reflected the highest level of allowance for ECL sensitivity during 2023.

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

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

Group ECL sensitivity results

The allowance for ECL of the scenarios and management judgemental adjustments is highly sensitive to movements in economic forecasts. Based upon the sensitivity tables presented above, if the Group allowance for ECL balance was estimated solely on the basis of the Central scenario, Downside scenario or the Downside 2 scenario at 31 December 2023, it would increase/ (decrease) as presented in the below table.

	Retail ¹ \$bn	Wholesale ¹ \$bn
Total Group ECL at 31 December 2023		
Reported allowance for ECL	3.0	2.5
Scenarios		
100% Consensus Central scenario	(0.1)	(0.2)
100% Consensus Upside scenario	(0.5)	(0.7)
100% Consensus Downside scenario	0.4	0.8
100% Downside 2 scenario	2.1	4.5
Total Group ECL at 31 December 2022		
Reported allowance for ECL	3.0	3.1
Scenarios		
100% Consensus Central scenario	(0.2)	(0.5)
100% Consensus Upside scenario	(0.6)	(1.1)
100% Consensus Downside scenario	0.4	0.8
100% Downside 2 scenario	1.8	5.5

¹ On the same basis as retail and wholesale sensitivity analysis.

Risk review

At 31 December 2023, the Group allowance for ECL remained unchanged in the retail portfolio and decreased by \$0.6bn in the wholesale portfolio, compared with 31 December 2022.

The decrease in the Downside 2 scenario sensitivity within the wholesale portfolio since 31 December 2022 has been mostly driven by the crystallisation of defaults of higher risk exposures to the mainland China real estate sector and a reduction of related uncertainty. Within the retail portfolio, the increase in the Downside 2

scenario sensitivity was due to portfolio growth in Mexico and scenario forecast deterioration in Hong Kong.

At 31 December 2023, the sensitivity of the allowance for ECL to the consensus Central and consensus Upside scenarios decreased for both retail and wholesale portfolios due to lower macroeconomic forecast uncertainty, and the return to standardised weighting for the probability-weighted reported allowance.

Reconciliation from reported exposure and ECL to sensitised exposure and weighted ECL

	Wholesale		Retail		Total	
	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
Included in sensitivity analysis	1,990,378	(2,507)	442,373	(2,962)	2,432,751	(5,469)
– Exclusions from sensitivity as described in the section above ¹	17,024	(6,237)	308,569	(93)	325,593	(6,330)
– Debt instruments measured at fair value through other comprehensive income ²	(302,348)	97	—	—	(302,348)	97
– Performance guarantees ²	(93,312)	35	—	—	(93,312)	35
– Other financial assets at amortised cost not presented as wholesale or personal lending, including held for sale ²	(579,534)	93	(41,129)	174	(620,663)	267
– Other ³	2,704	(84)	(4,175)	(11)	(1,471)	(95)
As reported in the Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2023	1,034,912	(8,603)	705,638	(2,892)	1,740,550	(11,495)
Other financial assets at amortised cost					960,271	(422)
Total reported in the Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2023					2,700,821	(11,917)

¹ Comprises wholesale defaulted obligors, retail portfolios utilising less complex modelling approaches, private banking and insurance.

² The sensitivity analysis includes certain items reported in Other assets at amortised cost, which are not allocated to an industry in the credit tables. It also includes FVOCI and performance guarantees, which are presented separately in the credit tables.

³ Includes FX and other operational variances.

Reconciliations 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.

In addition, a reconciliation by stage of the Group's gross carrying amount and allowances for loans and advances to banks and customers and a reconciliation by stage of the Group's nominal amount and allowances for loan commitments and financial guarantees were included in this section following the adoption of the recommendations of the DECL Taskforce's third report.

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 represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

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

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

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

(Audited)

Added)

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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	1,433,643	(1,257)	177,223	(3,710)	21,207	(6,949)	129	(38)	1,632,202	(11,954)
Transfers of financial instruments:	(18,948)	(1,048)	10,286	2,228	8,662	(1,180)	—	—	—	—
– transfers from stage 1 to stage 2	(150,728)	442	150,728	(442)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	133,079	(1,467)	(133,079)	1,467	—	—	—	—	—	—
– transfers to stage 3	(1,986)	23	(8,600)	1,379	10,586	(1,402)	—	—	—	—
– transfers from stage 3	687	(46)	1,237	(176)	(1,924)	222	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	917	—	(973)	—	(124)	—	—	—	(180)
Net new and further lending/repayments	77,693	(185)	(36,795)	661	(4,956)	1,117	(36)	3	35,906	1,596
Changes to risk parameters – credit quality	—	307	—	(1,262)	—	(3,896)	—	21	—	(4,830)
Changes to models used for ECL calculation	—	(22)	—	46	—	7	—	—	—	31
Assets written off	—	—	—	—	(3,922)	3,922	—	—	(3,922)	3,922
Credit-related modifications that resulted in derecognition	—	—	—	—	(119)	95	—	—	(119)	95
Foreign exchange and others ¹	4,417	(12)	2,370	(92)	(73)	(55)	(8)	(16)	6,706	(175)
At 31 Dec 2023	1,496,805	(1,300)	153,084	(3,102)	20,799	(7,063)	85	(30)	1,670,773	(11,495)
ECL income statement change for the period		1,017		(1,528)		(2,896)		24		(3,383)
Recoveries										268
Others										(195)
Total ECL income statement change for the period										(3,310)

1 Total includes \$7.7bn of gross carrying loans and advances to customers and banks, which were classified to assets held for sale, and a corresponding allowance for ECL of \$70m, reflecting business disposals as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

	At 31 Dec 2023		12 months ended 31 Dec 2023
	Gross carrying/nominal amount	Allowance for ECL	ECL charge
	\$m	\$m	\$m
As above	1,670,773	(11,495)	(3,310)
Other financial assets measured at amortised cost	960,271	(422)	(35)
Non-trading reverse purchase agreement commitments	69,777	—	—
Performance and other guarantees not considered for IFRS 9	—	—	(44)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	2,700,821	(11,917)	(3,389)
Debt instruments measured at FVOCI	302,348	(97)	(58)
Total allowance for ECL/total income statement ECL change for the period	n/a	(12,014)	(3,447)

As shown in the previous table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees decreased \$459m during the period from \$11,954m at 31 December 2022 to \$11,495m at 31 December 2023.

This decrease was driven by:

- \$3,922m of assets written off;
- \$1,596m relating to volume movements, which included the allowance for ECL associated with new originations, assets derecognised and further lending/repayment;

- \$95m relating to credit-related modifications, which resulted in derecognition; and
- \$31m of changes to models used for ECL calculation.

These were partly offset by:

- \$4,830m relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages;
- \$180m relating to the net remeasurement impact of stage transfers; and
- foreign exchange and other movements of \$175m.

Risk review

The ECL charge for the period of \$3,383m presented in the previous table consisted of \$4,830m relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages and \$180m relating to the net remeasurement impact of stage transfers.

This was partly offset by \$1,596m relating to underlying net book volume movement and \$31m in changes to models used for ECL calculation.

Summary views of the movement in wholesale and personal lending are presented on pages 215 and 228.

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

(Audited)

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Gross exposure	Allowance/provision for ECL	Gross exposure	Allowance/provision for ECL	Gross exposure	Allowance/provision for ECL	Gross exposure	Allowance/provision for ECL	Gross exposure	Allowance/provision for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2022	1,575,808	(1,552)	155,654	(3,323)	19,796	(6,928)	275	(64)	1,751,533	(11,867)
Transfers of financial instruments:	(98,940)	(794)	88,974	1,616	9,966	(822)	—	—	—	—
– transfers from stage 1 to stage 2	(225,458)	469	225,458	(469)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	128,170	(1,211)	(128,170)	1,211	—	—	—	—	—	—
– transfers to stage 3	(2,392)	9	(10,083)	1,132	12,475	(1,141)	—	—	—	—
– transfers from stage 3	740	(61)	1,769	(258)	(2,509)	319	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	735	—	(948)	—	(148)	—	—	—	(361)
Net new and further lending/ repayments	99,253	(175)	(44,877)	435	(3,399)	674	(133)	3	50,844	937
Changes to risk parameters – credit quality	—	400	—	(1,671)	—	(3,019)	—	32	—	(4,258)
Changes to models used for ECL calculation	—	4	—	(151)	—	13	—	—	—	(134)
Assets written off	—	—	—	—	(2,791)	2,791	(10)	10	(2,801)	2,801
Credit-related modifications that resulted in derecognition	—	—	—	—	(32)	9	—	—	(32)	9
Foreign exchange and others ¹	(142,478)	125	(22,528)	332	(2,333)	481	(3)	(19)	(167,342)	919
At 31 Dec 2022	1,433,643	(1,257)	177,223	(3,710)	21,207	(6,949)	129	(38)	1,632,202	(11,954)
ECL income statement change for the period	—	964	—	(2,335)	0	(2,480)	—	35	—	(3,816)
Recoveries	—	—	—	—	—	—	—	—	—	316
Others	—	—	—	—	—	—	—	—	—	(28)
Total ECL income statement change for the period	—	—	—	—	—	—	—	—	—	(3,528)

¹ Total includes \$82.7bn of gross carrying loans and advances to customers and banks, which were classified to assets held for sale, and a corresponding allowance for ECL of \$426m, reflecting business disposals as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

	At 31 Dec 2022		12 months ended 31 Dec 2022
	Gross carrying/ nominal amount \$m	Allowance for ECL \$m	ECL charge \$m
As above	1,632,202	(11,954)	(3,528)
Other financial assets measured at amortised cost	954,934	(493)	(38)
Non-trading reverse purchase agreement commitments	44,921	—	—
Performance and other guarantees not considered for IFRS 9	—	—	39
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	2,632,057	(12,447)	(3,527)
Debt instruments measured at FVOCI	265,147	(126)	(57)
Total allowance for ECL/total income statement ECL change for the period	n/a	(12,573)	(3,584)

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	879,023	(1,109)	140,816	(3,518)	19,586	(6,851)	129	(38)	1,039,554	(11,516)
Transfers of financial instruments:	(19,276)	(980)	11,250	2,154	8,026	(1,174)	—	—	—	—
– transfers from stage 1 to stage 2	(108,758)	423	108,758	(423)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	90,655	(1,382)	(90,655)	1,382	—	—	—	—	—	—
– transfers to stage 3	(1,692)	22	(7,975)	1,367	9,667	(1,389)	—	—	—	—
– transfers from stage 3	519	(43)	1,122	(172)	(1,641)	215	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	859	—	(934)	—	(118)	—	—	—	(193)
Net new and further lending/ repayments	55,024	(210)	(32,069)	685	(4,233)	1,026	(40)	3	18,682	1,504
Changes to risk parameters – credit quality	—	311	—	(1,292)	—	(3,804)	—	21	—	(4,764)
Changes to models used for ECL calculation	—	(17)	—	28	—	7	—	—	—	18
Assets written off	—	—	—	—	(3,922)	3,922	—	—	(3,922)	3,922
Credit-related modifications that resulted in derecognition	—	—	—	—	(119)	95	—	—	(119)	95
Foreign exchange and others ¹	6,092	6	2,310	(90)	(63)	(55)	(8)	(16)	8,331	(155)
At 31 Dec 2023	920,863	(1,140)	122,307	(2,967)	19,275	(6,952)	81	(30)	1,062,526	(11,089)
ECL income statement change for the period		943		(1,513)		(2,889)		24		(3,435)
Recoveries										268
Others										(203)
Total ECL income statement change for the period										(3,370)

¹ Total includes \$7.7bn of gross carrying loans and advances to customers and banks, which were classified to assets held for sale, and a corresponding allowance for ECL of \$70m, reflecting business disposals as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

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

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Nominal amount	Allowance for ECL	Nominal amount	Allowance for ECL	Nominal amount	Allowance for ECL	Nominal amount	Allowance for ECL	Nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	554,620	(148)	36,407	(192)	1,621	(98)	—	—	592,648	(438)
Transfers of financial instruments:	328	(68)	(964)	74	636	(6)	—	—	—	—
– transfers from stage 1 to stage 2	(41,970)	19	41,970	(19)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	42,424	(85)	(42,424)	85	—	—	—	—	—	—
– transfers to stage 3	(294)	1	(625)	12	919	(13)	—	—	—	—
– transfers from stage 3	168	(3)	115	(4)	(283)	7	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	58	—	(39)	—	(6)	—	—	—	13
Net new and further lending/ repayments	22,669	25	(4,726)	(24)	(723)	91	4	—	17,224	92
Changes to risk parameters – credit quality	—	(4)	—	30	—	(92)	—	—	—	(66)
Changes to models used for ECL calculation	—	(5)	—	18	—	—	—	—	—	13
Foreign exchange and others	(1,675)	(18)	60	(2)	(10)	—	—	—	(1,625)	(20)
At 31 Dec 2023	575,942	(160)	30,777	(135)	1,524	(111)	4	—	608,247	(406)
ECL income statement change for the period		74		(15)		(7)		—		52
Recoveries										—
Others										8
Total ECL income statement change for the period										60

Credit quality

Credit quality of financial instruments

(Audited)

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

typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications provided below each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 184.

Distribution of financial instruments by credit quality at 31 December 2023

(Audited)

	Gross carrying/notional amount						Allowance for ECL/ other credit provisions	Net
	Strong \$m	Good \$m	Satisfactory \$m	Sub- standard \$m	Credit impaired \$m	Total \$m		
In-scope for IFRS 9 ECL								
Loans and advances to customers held at amortised cost	497,665	206,476	197,582	28,532	19,354	949,609	(11,074)	938,535
– personal	346,562	62,656	32,314	2,485	3,505	447,522	(2,867)	444,655
– corporate and commercial	118,123	123,713	145,249	25,531	15,039	427,655	(7,803)	419,852
– non-bank financial institutions	32,980	20,107	20,019	516	810	74,432	(404)	74,028
Loans and advances to banks held at amortised cost	101,057	4,640	6,363	855	2	112,917	(15)	112,902
Cash and balances at central banks	284,723	1,068	77	—	—	285,868	—	285,868
Items in the course of collection from other banks	6,327	15	—	—	—	6,342	—	6,342
Hong Kong Government certificates of indebtedness	42,024	—	—	—	—	42,024	—	42,024
Reverse repurchase agreements – non-trading	170,494	46,884	34,206	633	—	252,217	—	252,217
Financial investments	143,333	3,814	1,137	62	—	148,346	(20)	148,326
Assets held for sale	68,501	16,403	14,812	2,939	531	103,186	(324)	102,862
Other assets	99,857	11,967	9,965	366	133	122,288	(78)	122,210
– endorsements and acceptances	2,405	2,666	2,707	161	18	7,957	(18)	7,939
– accrued income and other	97,452	9,301	7,258	205	115	114,331	(60)	114,271
Debt instruments measured at fair value through other comprehensive income ¹	288,959	12,037	7,897	805	5	309,703	(97)	309,606
Out-of-scope for IFRS 9 ECL								
Trading assets	122,695	20,595	20,746	1,326	135	165,497	—	165,497
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	52,649	11,517	4,733	84	6	68,989	—	68,989
Derivatives	196,098	27,377	6,041	187	11	229,714	—	229,714
Assets held for sale	12,495	—	—	—	—	12,495	—	12,495
Total gross carrying amount on balance sheet	2,086,877	362,793	303,559	35,789	20,177	2,809,195	(11,608)	2,797,587
Percentage of total credit quality (%)	74.3	12.9	10.8	1.3	0.7	100		
Loan and other credit-related commitments	436,359	142,500	73,230	7,782	1,144	661,015	(367)	660,648
Financial guarantees	7,700	4,146	4,080	699	384	17,009	(39)	16,970
In-scope: Irrevocable loan commitments and financial guarantees	444,059	146,646	77,310	8,481	1,528	678,024	(406)	677,618
Loan and other credit-related commitments	92,509	77,891	61,462	3,896	377	236,135	—	236,135
Performance and other guarantees	39,784	32,231	19,445	1,853	964	94,277	(145)	94,132
Out-of-scope: Revocable loan commitments and non-financial guarantees	132,293	110,122	80,907	5,749	1,341	330,412	(145)	330,267

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

Distribution of financial instruments by credit quality at 31 December 2022 (continued)

(Audited)

	Gross carrying/notional amount						Allowance for ECL/other credit provisions	Net
	Strong \$m	Good \$m	Satisfactory \$m	Sub- standard \$m	Credit impaired \$m	Total \$m	\$m	\$m
In-scope for IFRS 9 ECL								
Loans and advances to customers held at amortised cost	492,711	196,735	196,486	29,443	19,633	935,008	(11,447)	923,561
– personal	333,839	45,590	28,918	3,196	3,339	414,882	(2,870)	412,012
– corporate and commercial	126,521	132,128	153,841	24,887	15,825	453,202	(8,320)	444,882
– non-bank financial institutions	32,351	19,017	13,727	1,360	469	66,924	(257)	66,667
Loans and advances to banks held at amortised cost	92,675	4,833	5,643	1,311	82	104,544	(69)	104,475
Cash and balances at central banks	325,119	1,296	590	—	—	327,005	(3)	327,002
Items in the course of collection from other banks	7,280	12	5	—	—	7,297	—	7,297
Hong Kong Government certificates of indebtedness	43,787	—	—	—	—	43,787	—	43,787
Reverse repurchase agreements								
– non-trading	170,386	41,659	41,686	20	3	253,754	—	253,754
Financial investments	103,379	3,212	2,334	161	—	109,086	(20)	109,066
Assets held for sale	67,616	17,993	13,972	2,333	642	102,556	(415)	102,141
Other assets	91,006	11,126	8,875	290	152	111,449	(55)	111,394
– endorsements and acceptances	2,350	3,059	2,815	175	25	8,424	(17)	8,407
– accrued income and other	88,656	8,067	6,060	115	127	103,025	(38)	102,987
Debt instruments measured at fair value through other comprehensive income ¹	260,654	9,957	5,730	1,910	7	278,258	(126)	278,132
Out-of-scope for IFRS 9 ECL								
Trading assets	91,330	14,371	23,414	820	133	130,068	—	130,068
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	49,602	11,116	3,145	187	—	64,050	—	64,050
Derivatives	241,918	34,181	7,843	181	36	284,159	—	284,159
Assets held for sale	15,254	—	—	—	—	15,254	—	15,254
Total gross carrying amount on balance sheet	2,052,717	346,491	309,723	36,656	20,688	2,766,275	(12,135)	2,754,140
Percentage of total credit quality (%)	74.2	12.6	11.2	1.3	0.7	100	—	—
Loan and other credit-related commitments	402,972	132,402	74,410	7,632	1,372	618,788	(386)	618,402
Financial guarantees	8,281	4,669	4,571	1,013	249	18,783	(52)	18,731
In-scope: Irrevocable loan commitments and financial guarantees	411,253	137,071	78,981	8,645	1,621	637,571	(438)	637,133
Loan and other credit-related commitments	76,098	69,667	59,452	3,360	489	209,066	—	209,066
Performance and other guarantees	37,943	30,029	17,732	2,137	399	88,240	(110)	88,130
Out-of-scope: Revocable loan commitments and non-financial guarantees	114,041	99,696	77,184	5,497	888	297,306	(110)	297,196

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

Risk review

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

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong \$m	Good \$m	Satisfactory \$m	Sub- standard \$m	Credit impaired \$m	Total \$m		
Loans and advances to customers at amortised cost	497,665	206,476	197,582	28,532	19,354	949,609	(11,074)	938,535
– stage 1	478,422	177,410	147,940	5,612	—	809,384	(1,130)	808,254
– stage 2	19,243	29,066	49,642	22,920	—	120,871	(2,964)	117,907
– stage 3	—	—	—	—	19,273	19,273	(6,950)	12,323
– POCI	—	—	—	—	81	81	(30)	51
Loans and advances to banks at amortised cost	101,057	4,640	6,363	855	2	112,917	(15)	112,902
– stage 1	101,011	4,631	5,550	287	—	111,479	(10)	111,469
– stage 2	46	9	813	568	—	1,436	(3)	1,433
– stage 3	—	—	—	—	2	2	(2)	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	815,259	80,151	60,197	4,000	664	960,271	(422)	959,849
– stage 1	814,776	78,486	53,095	516	—	946,873	(109)	946,764
– stage 2	483	1,665	7,102	3,484	—	12,734	(132)	12,602
– stage 3	—	—	—	—	664	664	(181)	483
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	436,359	142,500	73,230	7,782	1,144	661,015	(367)	660,648
– stage 1	432,017	135,192	61,213	2,527	—	630,949	(153)	630,796
– stage 2	4,342	7,308	12,017	5,255	—	28,922	(128)	28,794
– stage 3	—	—	—	—	1,140	1,140	(86)	1,054
– POCI	—	—	—	—	4	4	—	4
Financial guarantees	7,700	4,146	4,080	699	384	17,009	(39)	16,970
– stage 1	7,497	3,943	3,204	102	—	14,746	(7)	14,739
– stage 2	203	203	876	597	—	1,879	(7)	1,872
– stage 3	—	—	—	—	384	384	(25)	359
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	1,858,040	437,913	341,452	41,868	21,548	2,700,821	(11,917)	2,688,904
Debt instruments at FVOCI ¹								
– stage 1	288,909	12,037	7,579	—	—	308,525	(37)	308,488
– stage 2	50	—	318	805	—	1,173	(59)	1,114
– stage 3	—	—	—	—	5	5	(1)	4
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	288,959	12,037	7,897	805	5	309,703	(97)	309,606
Loans and advances to customers at amortised cost	492,711	196,735	196,486	29,443	19,633	935,008	(11,447)	923,561
– stage 1	458,706	170,055	142,408	5,130	—	776,299	(1,092)	775,207
– stage 2	34,005	26,680	54,078	24,313	—	139,076	(3,488)	135,588
– stage 3	—	—	—	—	19,504	19,504	(6,829)	12,675
– POCI	—	—	—	—	129	129	(38)	91
Loans and advances to banks at amortised cost	92,675	4,833	5,643	1,311	82	104,544	(69)	104,475
– stage 1	92,377	4,465	5,466	415	—	102,723	(18)	102,705
– stage 2	298	368	177	896	—	1,739	(29)	1,710
– stage 3	—	—	—	—	82	82	(22)	60
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	808,573	75,298	67,462	2,804	797	954,934	(493)	954,441
– stage 1	807,893	70,794	59,887	224	—	938,798	(95)	938,703
– stage 2	680	4,504	7,575	2,580	—	15,339	(165)	15,174
– stage 3	—	—	—	—	797	797	(233)	564
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	402,972	132,402	74,410	7,632	1,372	618,788	(386)	618,402
– stage 1	398,120	121,581	60,990	2,692	—	583,383	(141)	583,242
– stage 2	4,852	10,821	13,420	4,940	—	34,033	(180)	33,853
– stage 3	—	—	—	—	1,372	1,372	(65)	1,307
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	8,281	4,669	4,571	1,013	249	18,783	(52)	18,731
– stage 1	8,189	4,245	3,488	149	—	16,071	(6)	16,065
– stage 2	92	424	1,083	864	—	2,463	(13)	2,450
– stage 3	—	—	—	—	249	249	(33)	216
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	1,805,212	413,937	348,572	42,203	22,133	2,632,057	(12,447)	2,619,610
Debt instruments at FVOCI ¹								
– stage 1	260,411	9,852	5,446	—	—	275,709	(67)	275,642
– stage 2	243	105	284	1,910	—	2,542	(58)	2,484
– stage 3	—	—	—	—	5	5	(1)	4
– POCI	—	—	—	—	2	2	—	2
At 31 Dec 2022	260,654	9,957	5,730	1,910	7	278,258	(126)	278,132

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

Credit-impaired loans

(Audited)

We determine that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikelihood to pay is not identified at an earlier stage, it is deemed

to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Forbearance

The following table shows the gross carrying amounts and allowances for ECL of the Group's holdings of forbore loans and advances to customers by industry sector and by stages.

A summary of our current policies and practices for forbearance is set out in 'Credit risk management' on page 183.

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

	Performing forbore	Non-performing forbore	Total forbore
	Stage 2	Stage 3	POCI
	\$m	\$m	\$m
Gross carrying amount			
Personal	816	1,282	2,098
– first lien residential mortgages	530	815	1,345
– second lien residential mortgages	1	8	9
– guaranteed loans in respect of residential property	24	20	44
– other personal lending which is secured	1	6	7
– credit cards	96	83	179
– other personal lending which is unsecured	155	349	504
– motor vehicle finance	9	1	10
Wholesale	5,848	5,505	11,421
– corporate and commercial	5,778	5,459	11,305
– non-bank financial institutions	70	46	116
At 31 Dec 2023	6,664	6,787	68
Allowance for ECL			
Personal	(113)	(307)	(420)
– first lien residential mortgages	(50)	(113)	(163)
– second lien residential mortgages	–	(3)	(3)
– guaranteed loans in respect of residential property	–	(2)	(2)
– other personal lending which is secured	–	(1)	(1)
– credit cards	(17)	(46)	(63)
– other personal lending which is unsecured	(43)	(142)	(185)
– motor vehicle finance	(3)	–	(3)
Wholesale	(259)	(1,932)	(2,219)
– corporate and commercial	(257)	(1,920)	(2,205)
– non-bank financial institutions	(2)	(12)	(14)
At 31 Dec 2023	(372)	(2,239)	(28)
Gross carrying amount			
Personal	651	1,171	1,822
– first lien residential mortgages	369	738	1,107
– second lien residential mortgages	–	7	7
– guaranteed loans in respect of residential property	–	4	4
– other personal lending which is secured	5	13	18
– credit cards	93	75	168
– other personal lending which is unsecured	179	334	513
– motor vehicle finance	5	–	5
Wholesale	4,873	4,576	9,556
– corporate and commercial	4,859	4,562	9,528
– non-bank financial institutions	14	14	28
At 31 Dec 2022	5,524	5,747	107
Allowance for ECL			
Personal	(124)	(302)	(426)
– first lien residential mortgages	(49)	(118)	(167)
– second lien residential mortgages	–	(3)	(3)
– guaranteed loans in respect of residential property	–	(3)	(3)
– other personal lending which is secured	–	(2)	(2)
– credit cards	(19)	(44)	(63)
– other personal lending which is unsecured	(54)	(132)	(186)
– motor vehicle finance	(2)	–	(2)
Wholesale	(152)	(1,497)	(25)
– corporate and commercial	(151)	(1,490)	(25)
– non-bank financial institutions	(1)	(7)	(8)
At 31 Dec 2022	(276)	(1,799)	(25)

Forborne loans and advances to customers by legal entities

	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Total \$m
Gross carrying amount								
Performing forborne	1,478	2,081	1,574	31	954	503	43	6,664
Non-performing forborne	1,936	1,199	2,250	471	430	233	336	6,855
At 31 Dec 2023	3,414	3,280	3,824	502	1,384	736	379	13,519
Allowance for ECL								
Performing forborne	(75)	(25)	(142)	(1)	(43)	(84)	(2)	(372)
Non-performing forborne	(289)	(400)	(986)	(225)	(74)	(126)	(167)	(2,267)
At 31 Dec 2023	(364)	(425)	(1,128)	(226)	(117)	(210)	(169)	(2,639)
Gross carrying amount								
Performing forborne	899	2,222	276	435	997	530	165	5,524
Non-performing forborne	1,723	913	1,562	554	209	195	698	5,854
At 31 Dec 2022	2,622	3,135	1,838	989	1,206	725	863	11,378
Allowance for ECL								
Performing forborne	(63)	(31)	(21)	(7)	(50)	(79)	(25)	(276)
Non-performing forborne	(257)	(310)	(525)	(356)	(21)	(111)	(244)	(1,824)
At 31 Dec 2022	(320)	(341)	(546)	(363)	(71)	(190)	(269)	(2,100)

Wholesale lending

This section provides further details on the major legal entities, countries, territories and products comprising wholesale loans and advances to customers and banks. Product granularity is also provided by stage with legal entity data presented for loans and advances to customers, banks, other credit commitments, financial guarantees and similar contracts. Additionally, this section provides a reconciliation of the opening 1 January 2023 to 31 December 2023 closing gross carrying/nominal amounts and the associated allowance for ECL.

At 31 December 2023, wholesale lending for loans and advances to banks and customers of \$615bn decreased by \$9.6bn compared with 31 December 2022. This included favourable foreign exchange movements of \$6.1bn. Excluding foreign exchange movements, the total loans and advances to customers decrease of \$24.6bn was driven by a \$31.5bn decrease in corporate and commercial balances, partly offset by a \$6.9bn increase in balances from non-bank financial institutions. In addition, there was a \$8.9bn increase in loans and advances to banks.

The underlying reduction in corporate and commercial lending was mainly driven by decreases in Hong Kong (down \$18.6bn), in the UK (down \$5.4bn), in mainland China (down \$2.2bn), in France (down \$1.6bn), in the US (down \$1.3bn). These were partly offset by increased lending in India (up \$1.8bn). There was a \$2.1bn decrease from the merger of our business in Oman.

The underlying decrease in loans advances to corporate and commercial customers within stage 2 included repayments within our commercial real estate portfolio in Hong Kong, together with de-risking measures in our mainland China commercial real estate portfolio. In addition, there was a further decrease in the wholesale and retail trade portfolio in the UK largely from repayments and improvements in the economic outlook that led to upgrades to stage 1.

The underlying growth in loans and advances to non-bank financial institutions was mainly driven by the formation of HSBC Innovation Banking, following the acquisition of SVB UK, in the UK (up \$6.4bn). In addition, increases in France (up \$1.4bn) were partly offset by decreases in mainland China (down \$0.9bn).

The underlying growth in loans and advances to banks was mainly driven by central bank balances and money market lending growth in Singapore (up \$6.5bn), Hong Kong (up \$5.1bn), the UK (up \$2.8bn) and Egypt (up \$1.5bn). These were partly offset by reductions in mainland China (down \$2.6bn), Malaysia (down \$1.6bn), Switzerland (down \$1.4bn) and the UAE (down \$1.2bn). There was also a \$0.6bn decrease from the merger of our business in Oman.

Loan commitments and financial guarantees increased by \$27.5bn since 31 December 2022 to \$419.9bn at 31 December 2023. Excluding favourable foreign exchange movements of \$8.7bn, loan commitments and financial guarantees grew by \$18.8bn. This can be mainly attributed to a \$23.2bn increase in unsettled reverse repurchase agreements, partly offset by a decrease of \$6.3bn in loan commitments with corporate and commercial customers.

The allowance for ECL attributable to loans and advances to banks and customers of \$8.2bn at 31 December 2023 decreased from \$8.6bn at 31 December 2022. This included adverse foreign exchange movements of \$0.1bn.

Excluding foreign exchange movements, the total decrease in the wholesale allowance for ECL attributable to loans and advances to customers and banks was mostly driven by a \$0.6bn decrease in corporate and commercial balances, partly offset by a \$0.1bn increase in loans to non-bank financial institutions and banks.

The allowance for ECL attributable to loan commitments and financial guarantees at 31 December 2023 remained stable at \$0.4bn compared with 31 December 2022.

The table below provides a breakdown by industry sector and stage of the Group's gross carrying amount and allowances for ECL for wholesale loans and advances to banks and customers. Counterparties or exposures are classified when presenting comparable economic characteristics, or engaged in similar activities so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. Therefore, the industry classification does not adhere to Nomenclature des Activités Économiques dans la Communauté Européenne ('NACE'), which is applicable to other financial regulatory reporting.

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

	Gross carrying amount					Allowance for ECL				
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m
Corporate and commercial	342,878	69,738	14,958	81	427,655	(499)	(1,500)	(5,774)	(30)	(7,803)
– agriculture, forestry and fishing	5,207	1,662	312	–	7,181	(13)	(53)	(64)	–	(130)
– mining and quarrying	6,260	638	325	–	7,223	(7)	(11)	(83)	–	(101)
– manufacturing	69,690	13,744	1,877	22	85,333	(89)	(194)	(839)	(21)	(1,143)
– electricity, gas, steam and air-conditioning supply	12,817	1,283	255	–	14,355	(14)	(17)	(88)	–	(119)
– water supply, sewerage, waste management and remediation	2,753	407	102	–	3,262	(5)	(7)	(51)	–	(63)
– real estate and construction	73,701	21,871	5,835	48	101,455	(96)	(629)	(2,554)	(7)	(3,286)
– of which: commercial real estate	59,883	19,107	4,552	47	83,589	(73)	(603)	(2,091)	(7)	(2,774)
– wholesale and retail trade, repair of motor vehicles and motorcycles	66,083	10,676	2,358	4	79,121	(80)	(127)	(1,132)	(2)	(1,341)
– transportation and storage	17,117	3,894	445	–	21,456	(18)	(52)	(160)	–	(230)
– accommodation and food	9,681	5,135	1,058	–	15,874	(27)	(118)	(112)	–	(257)
– publishing, audiovisual and broadcasting	17,455	2,066	210	–	19,731	(42)	(81)	(50)	–	(173)
– professional, scientific and technical activities	22,686	3,327	733	7	26,753	(32)	(63)	(306)	–	(401)
– administrative and support services	19,055	2,551	597	–	22,203	(31)	(63)	(174)	–	(268)
– public administration and defence, compulsory social security	1,037	5	–	–	1,042	–	–	–	–	–
– education	1,137	277	46	–	1,460	(3)	(8)	(4)	–	(15)
– health and care	3,245	808	183	–	4,236	(9)	(21)	(26)	–	(56)
– arts, entertainment and recreation	1,666	196	99	–	1,961	(5)	(6)	(31)	–	(42)
– other services	7,065	972	318	–	8,355	(26)	(37)	(90)	–	(153)
– activities of households	684	10	–	–	694	–	–	–	–	–
– extra-territorial organisations and bodies activities	100	1	–	–	101	–	–	–	–	–
– government	5,420	202	205	–	5,827	(2)	–	(10)	–	(12)
– asset-backed securities	19	13	–	–	32	–	(13)	–	–	(13)
Non-bank financial institutions	69,972	3,650	810	–	74,432	(52)	(30)	(322)	–	(404)
Loans and advances to banks	111,479	1,436	2	–	112,917	(10)	(3)	(2)	–	(15)
At 31 Dec 2023	524,329	74,824	15,770	81	615,004	(561)	(1,533)	(6,098)	(30)	(8,222)
By legal entity										
HSBC UK Bank plc	76,793	18,735	3,769	–	99,297	(213)	(474)	(593)	–	(1,280)
HSBC Bank plc	82,025	8,452	2,673	40	93,190	(69)	(138)	(1,035)	(7)	(1,249)
The Hongkong and Shanghai Banking Corporation Limited	287,876	37,402	7,077	38	332,393	(185)	(696)	(3,349)	(21)	(4,251)
HSBC Bank Middle East Limited	21,927	1,598	894	3	24,422	(17)	(11)	(571)	(2)	(601)
HSBC North America Holdings Inc.	30,797	5,712	583	–	37,092	(24)	(145)	(127)	–	(296)
Grupo Financiero HSBC, S.A. de C.V.	13,714	1,186	382	–	15,282	(39)	(56)	(231)	–	(326)
Other trading entities	11,164	1,739	392	–	13,295	(14)	(13)	(192)	–	(219)
Holding companies, shared service centres and intra-Group eliminations	33	–	–	–	33	–	–	–	–	–
At 31 Dec 2023	524,329	74,824	15,770	81	615,004	(561)	(1,533)	(6,098)	(30)	(8,222)

Total wholesale lending for loans and other credit-related commitments and financial guarantees to banks and customers by stage distribution¹

	Nominal amount					Allowance for ECL				
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m
Corporate and commercial	256,367	22,218	1,066	4	279,655	(126)	(125)	(107)	–	(358)
Financial	135,039	5,111	103	–	140,253	(11)	(10)	(2)	–	(23)
At 31 Dec 2023	391,406	27,329	1,169	4	419,908	(137)	(135)	(109)	–	(381)
By legal entity										
HSBC UK Bank plc	31,982	5,760	350	–	38,092	(31)	(32)	(56)	–	(119)
HSBC Bank plc	148,980	9,466	310	4	158,760	(20)	(27)	(27)	–	(74)
The Hongkong and Shanghai Banking Corporation Limited	70,436	3,975	79	–	74,490	(59)	(39)	(16)	–	(114)
HSBC Bank Middle East Limited	6,944	323	56	–	7,323	(4)	(1)	(3)	–	(8)
HSBC North America Holdings Inc.	101,067	5,103	248	–	106,418	(14)	(27)	(1)	–	(42)
HSBC Bank Canada	28,156	2,461	66	–	30,683	(8)	(8)	(3)	–	(19)
Grupo Financiero HSBC, S.A. de C.V.	2,092	34	–	–	2,126	(1)	–	–	–	(1)
Other trading entities	1,749	207	60	–	2,016	–	(1)	(3)	–	(4)
At 31 Dec 2023	391,406	27,329	1,169	4	419,908	(137)	(135)	(109)	–	(381)

¹ Included in loans and other credit-related commitments and financial guarantees is \$70bn relating to unsettled reverse repurchase agreements, which once drawn are classified as 'Reverse repurchase agreements – non-trading'.

Risk review

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

	Gross carrying amount					Allowance for ECL				
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m
Corporate and commercial	351,885	85,492	15,696	129	453,202	(488)	(1,907)	(5,887)	(38)	(8,320)
– agriculture, forestry and fishing	4,805	1,505	261	—	6,571	(10)	(44)	(68)	—	(122)
– mining and quarrying	6,424	1,463	232	1	8,120	(5)	(21)	(145)	(1)	(172)
– manufacturing	70,144	15,251	2,016	49	87,460	(93)	(164)	(867)	(29)	(1,153)
– electricity, gas, steam and air-conditioning supply	14,402	1,799	277	—	16,478	(10)	(31)	(67)	—	(108)
– water supply, sewerage, waste management and remediation	2,690	277	26	—	2,993	(3)	(5)	(13)	—	(21)
– real estate and construction	81,830	27,104	5,625	26	114,585	(107)	(954)	(2,229)	(3)	(3,293)
– of which: commercial real estate	68,120	23,608	4,648	19	96,395	(82)	(865)	(1,799)	—	(2,746)
– wholesale and retail trade, repair of motor vehicles and motorcycles	63,752	15,867	2,805	5	82,429	(97)	(225)	(1,341)	(3)	(1,666)
– transportation and storage	19,068	5,062	556	—	24,686	(30)	(65)	(153)	—	(248)
– accommodation and food	9,862	6,523	787	2	17,174	(23)	(139)	(81)	(1)	(244)
– publishing, audiovisual and broadcasting	16,574	1,537	249	28	18,388	(22)	(36)	(58)	(1)	(117)
– professional, scientific and technical activities	15,164	2,229	542	—	17,935	(21)	(51)	(200)	—	(272)
– administrative and support services	20,592	3,505	962	18	25,077	(25)	(90)	(293)	—	(408)
– public administration and defence, compulsory social security	1,166	14	—	—	1,180	—	(1)	—	—	(1)
– education	1,325	181	87	—	1,593	(4)	(5)	(22)	—	(31)
– health and care	2,993	643	266	—	3,902	(6)	(17)	(67)	—	(90)
– arts, entertainment and recreation	1,264	452	146	—	1,862	(4)	(16)	(57)	—	(77)
– other services	10,335	1,547	589	—	12,471	(25)	(30)	(219)	—	(274)
– activities of households	730	14	—	—	744	—	—	—	—	—
– extra-territorial organisations and bodies activities	47	—	—	—	47	—	—	—	—	—
– government	8,699	506	270	—	9,475	(3)	—	(7)	—	(10)
– asset-backed securities	19	13	—	—	32	—	(13)	—	—	(13)
Non-bank financial institutions	61,737	4,718	469	—	66,924	(43)	(77)	(137)	—	(257)
Loans and advances to banks	102,723	1,739	82	—	104,544	(18)	(29)	(22)	—	(69)
At 31 Dec 2022	516,345	91,949	16,247	129	624,670	(549)	(2,013)	(6,046)	(38)	(8,646)
By legal entity										
HSBC UK Bank plc	64,930	18,856	4,439	28	88,253	(165)	(445)	(643)	(1)	(1,254)
HSBC Bank plc	83,174	9,175	2,631	3	94,983	(56)	(181)	(1,075)	—	(1,312)
The Hongkong and Shanghai Banking Corporation Limited	292,022	50,708	6,934	80	349,744	(216)	(1,074)	(3,125)	(24)	(4,439)
HSBC Bank Middle East Limited	21,922	1,777	946	4	24,649	(11)	(21)	(684)	(3)	(719)
HSBC North America Holdings Inc.	30,816	6,861	211	—	37,888	(24)	(194)	(22)	—	(240)
Grupo Financiero HSBC, S.A. de C.V.	9,969	1,979	399	—	12,347	(48)	(62)	(225)	—	(335)
Other trading entities	13,512	2,593	687	14	16,806	(29)	(36)	(272)	(10)	(347)
Holding companies, shared service centres and intra-Group eliminations	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2022	516,345	91,949	16,247	129	624,670	(549)	(2,013)	(6,046)	(38)	(8,646)

Total wholesale lending for loans and other credit-related commitments and financial guarantees by stage distribution¹ (continued)

	Nominal amount					Allowance for ECL				
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m
Corporate and commercial	252,860	29,116	798	—	282,774	(116)	(178)	(96)	—	(390)
Financial	105,950	3,683	23	—	109,656	(5)	(14)	(2)	—	(21)
At 31 Dec 2022	358,810	32,799	821	—	392,430	(121)	(192)	(98)	—	(411)
By legal entity										
HSBC UK Bank plc	26,036	5,527	208	—	31,771	(24)	(45)	(38)	—	(107)
HSBC Bank plc	142,100	11,710	291	—	154,101	(16)	(41)	(47)	—	(104)
The Hongkong and Shanghai Banking Corporation Limited	67,473	6,081	114	—	73,668	(54)	(53)	(9)	—	(116)
HSBC Bank Middle East Limited	6,683	231	14	—	6,928	(2)	(2)	—	—	(4)
HSBC North America Holdings Inc.	88,039	3,959	87	—	92,085	(13)	(32)	(2)	—	(47)
HSBC Bank Canada	24,395	4,671	84	—	29,150	(8)	(15)	—	—	(23)
Grupo Financiero HSBC, S.A. de C.V.	2,468	240	3	—	2,711	(1)	—	—	—	(1)
Other trading entities	1,616	380	20	—	2,016	(3)	(4)	(2)	—	(9)
At 31 Dec 2022	358,810	32,799	821	—	392,430	(121)	(192)	(98)	—	(411)

¹ Included in loans and other credit-related commitments and financial guarantees is \$45bn relating to unsettled reverse repurchase agreements, which once drawn are classified as 'Reverse repurchase agreements – non-trading'.

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

(Audited)

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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	830,322	(670)	124,660	(2,205)	17,068	(6,144)	129	(38)	972,179	(9,057)
Transfers of financial instruments:	(16,804)	(429)	10,247	1,141	6,557	(712)	—	—	—	—
– transfers from stage 1 to stage 2	(93,511)	172	93,511	(172)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	77,772	(605)	(77,772)	605	—	—	—	—	—	—
– transfers to stage 3	(1,444)	20	(6,255)	765	7,699	(785)	—	—	—	—
– transfers from stage 3	379	(16)	763	(57)	(1,142)	73	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	354	—	(294)	—	(45)	—	—	—	15
Net new and further lending/repayments	43,282	(138)	(32,082)	311	(3,787)	973	(36)	3	7,377	1,149
Change to risk parameters – credit quality	—	203	—	(621)	—	(2,941)	—	21	—	(3,338)
Changes to models used for ECL calculation	—	(9)	—	25	—	—	—	—	—	16
Assets written off	—	—	—	—	(2,596)	2,596	—	—	(2,596)	2,596
Credit-related modifications that resulted in derecognition	—	—	—	—	(119)	95	—	—	(119)	95
Foreign exchange and others ¹	(10,818)	(9)	(696)	(25)	(184)	(29)	(8)	(16)	(11,706)	(79)
At 31 Dec 2023	845,982	(698)	102,129	(1,668)	16,939	(6,207)	85	(30)	965,135	(8,603)
ECL income statement change for the period		410		(579)		(2,013)		24		(2,158)
Recoveries										42
Others										(203)
Total ECL income statement change for the period										(2,319)

1 Total includes \$13.5bn of gross carrying loans and advances to customers and banks, which were classified to assets held for sale during the year, and a corresponding allowance for ECL of \$61m, reflecting business disposals as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

As shown in the above table, the allowance for ECL for loans and advances to customers and banks and relevant loan commitments and financial guarantees decreased by \$454m during the period from \$9,057m at 31 December 2022 to \$8,603m at 31 December 2023.

This decrease was driven by:

- \$2,596m of assets written off;
- \$1,149m relating to volume movements, which included the allowance for ECL associated with new originations, assets derecognised and further lending/repayments;
- \$95m relating to credit-related modification, which resulted in derecognition;
- \$16m relating to changes to models used for ECL calculation; and
- \$15m relating to the net remeasurement impact of stage transfers.

These were partly offset by:

- \$3,338m of changes to models used for ECL calculation; and
- foreign exchange and other movements of \$79m.

The ECL charge for the period of \$2,158m presented in the previous table consisted of \$3,338m relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages. This was partly offset by \$1,149m relating to underlying net book volume movement, \$16m in changes to models used for ECL calculation and \$15m relating to the net remeasurement impact of stage transfers.

During the period, there was a net transfer to stage 2 of \$15,739m gross carrying/nominal amounts. It was primarily driven by \$8,792m in Hong Kong, mainly due to deterioration in the real estate and construction sectors, and \$6,273m in the UK, mainly driven by increased interest rates affecting the corporate and commercial portfolio.

Risk review

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

(Audited)

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	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	880,181	(860)	137,493	(2,103)	14,685	(5,702)	275	(64)	1,032,634	(8,729)
Transfers of financial instruments:	(58,104)	(298)	49,485	942	8,619	(644)	—	—	—	—
– transfers from stage 1 to stage 2	(157,443)	202	157,443	(202)	—	—	—	—	—	—
– transfers from stage 2 to stage 1										
– transfers to stage 3										
– transfers from stage 3										
	100,810	(484)	(100,810)	484	—	—	—	—	—	—
	(1,829)	8	(8,101)	770	9,930	(778)	—	—	—	—
	358	(24)	953	(110)	(1,311)	134	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	240	—	(369)	—	(63)	—	—	—	(192)
Net new and further lending/ repayments	68,616	(158)	(45,336)	201	(3,253)	583	(133)	3	19,894	629
Changes to risk parameters – credit quality	—	318	—	(995)	—	(2,196)	—	32	—	(2,841)
Changes to models used for ECL calculation	—	6	—	(56)	—	—	—	—	—	(50)
Assets written off	—	—	—	—	(1,579)	1,579	(10)	10	(1,589)	1,589
Credit-related modifications that resulted in derecognition	—	—	—	—	(32)	9	—	—	(32)	9
Foreign exchange and others ¹	(60,371)	82	(16,982)	175	(1,372)	290	(3)	(19)	(78,728)	528
At 31 Dec 2022	830,322	(670)	124,660	(2,205)	17,068	(6,144)	129	(38)	972,179	(9,057)
ECL income statement change for the period		406		(1,219)		(1,676)		35		(2,454)
Recoveries										33
Others	—	—	—	—	—	—	—	—	—	(25)
Total ECL income statement change for the period										(2,446)

¹ Total includes \$33.1bn of gross carrying loans and advances to customers and banks, which were classified to assets held for sale during the year, and a corresponding allowance for ECL of \$204m, reflecting business disposals as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

Wholesale lending – distribution of financial instruments to which the impairment requirements of IFRS 9 are applied by credit quality

	Gross carrying amount						Allowance for ECL \$m	Net \$m
	Strong \$m	Good \$m	Satisfactory \$m	Sub-standard \$m	Credit impaired \$m	Total \$m		
By legal entity								
HSBC UK Bank plc	20,777	30,245	36,206	8,300	3,769	99,297	(1,280)	98,017
HSBC Bank plc	41,149	20,962	24,164	4,202	2,713	93,190	(1,249)	91,941
The Hongkong and Shanghai Banking Corporation Limited	165,255	72,683	78,566	8,774	7,115	332,393	(4,251)	328,142
HSBC Bank Middle East Limited	13,660	3,082	6,270	513	897	24,422	(601)	23,821
HSBC North America Holdings Inc.	6,244	13,668	13,094	3,503	583	37,092	(296)	36,796
Grupo Financiero HSBC, S.A. de C.V.	1,853	6,543	5,882	622	382	15,282	(326)	14,956
Other trading entities	3,189	1,277	7,449	988	392	13,295	(219)	13,076
Holding companies, shared service centres and intra-Group eliminations	33	—	—	—	—	33	—	33
At 31 Dec 2023	252,160	148,460	171,631	26,902	15,851	615,004	(8,222)	606,782
Percentage of total credit quality (%)	41.0	24.1	27.9	4.4	2.6	100.0		
By legal entity								
HSBC UK Bank plc	17,533	28,685	32,388	5,180	4,467	88,253	(1,254)	86,999
HSBC Bank plc	41,687	21,058	24,560	5,044	2,634	94,983	(1,312)	93,671
The Hongkong and Shanghai Banking Corporation Limited	167,209	81,128	84,661	9,732	7,014	349,744	(4,439)	345,305
HSBC Bank Middle East Limited	13,023	4,119	5,879	678	950	24,649	(719)	23,930
HSBC North America Holdings Inc.	7,226	13,220	12,673	4,558	211	37,888	(240)	37,648
Grupo Financiero HSBC, S.A. de C.V.	1,024	5,540	4,612	772	399	12,347	(335)	12,012
Other trading entities	3,845	2,228	8,438	1,594	701	16,806	(347)	16,459
At 31 Dec 2022	251,547	155,978	173,211	27,558	16,376	624,670	(8,646)	616,024
Percentage of total credit quality (%)	40.3	25.0	27.7	4.4	2.6	100.0		

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support calculation of our minimum credit regulatory capital requirement. The credit quality classifications can be found on page 184.

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

	Basel one-year PD range %	Gross carrying amount					Allowance for ECL					ECL coverage %	Mapped external rating
		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		342,878	69,738	14,958	81	427,655	(499)	(1,500)	(5,774)	(30)	(7,803)	1.8	
– CRR 1	0.000 to 0.053	34,097	715	—	—	34,812	(4)	(3)	—	—	(7)	—	AA- and above
– CRR 2	0.054 to 0.169	81,131	2,180	—	—	83,311	(23)	(14)	—	—	(37)	—	A+ to A-
– CRR 3	0.170 to 0.740	112,322	11,391	—	—	123,713	(106)	(87)	—	—	(193)	0.2	BBB+ to BBB-
– CRR 4	0.741 to 1.927	72,654	16,904	—	—	89,558	(156)	(130)	—	—	(286)	0.3	BB+ to BB-
– CRR 5	1.928 to 4.914	37,631	18,060	—	—	55,691	(169)	(240)	—	—	(409)	0.7	BB- to B
– CRR 6	4.915 to 8.860	2,675	7,341	—	—	10,016	(24)	(176)	—	—	(200)	2.0	B-
– CRR 7	8.861 to 15.000	1,031	6,319	—	—	7,350	(10)	(246)	—	—	(256)	3.5	CCC+
– CRR 8 ¹	15.001 to 99.999	1,337	6,828	—	—	8,165	(7)	(604)	—	—	(611)	7.5	CCC to C
– CRR 9/10	100.000	—	—	14,958	81	15,039	—	—	(5,774)	(30)	(5,804)	38.6	D
Non-bank financial institutions		69,972	3,650	810	—	74,432	(52)	(30)	(322)	—	(404)	0.5	
– CRR 1	0.000 to 0.053	15,475	211	—	—	15,686	(2)	—	—	—	(2)	—	AA- and above
– CRR 2	0.054 to 0.169	16,920	374	—	—	17,294	(6)	(2)	—	—	(8)	—	A+ to A-
– CRR 3	0.170 to 0.740	19,195	912	—	—	20,107	(10)	(4)	—	—	(14)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	11,480	1,032	—	—	12,512	(19)	(5)	—	—	(24)	0.2	BB+ to BB-
– CRR 5	1.928 to 4.914	6,635	872	—	—	7,507	(9)	(15)	—	—	(24)	0.3	BB- to B
– CRR 6	4.915 to 8.860	232	116	—	—	348	(6)	(1)	—	—	(7)	2.0	B-
– CRR 7	8.861 to 15.000	25	93	—	—	118	—	(2)	—	—	(2)	1.7	CCC+
– CRR 8	15.001 to 99.999	10	40	—	—	50	—	(1)	—	—	(1)	2.0	CCC to C
– CRR 9/10	100.000	—	—	810	—	810	—	—	(322)	—	(322)	39.8	D
Banks		111,479	1,436	2	—	112,917	(10)	(3)	(2)	—	(15)	—	
– CRR 1	0.000 to 0.053	89,112	10	—	—	89,122	(4)	—	—	—	(4)	—	AA- and above
– CRR 2	0.054 to 0.169	11,899	36	—	—	11,935	(2)	—	—	—	(2)	—	A+ to A-
– CRR 3	0.170 to 0.740	4,631	9	—	—	4,640	(1)	—	—	—	(1)	—	BBB+ to BBB-
– CRR 4	0.741 to 1.927	2,488	58	—	—	2,546	(1)	—	—	—	(1)	—	BB+ to BB-
– CRR 5	1.928 to 4.914	3,062	755	—	—	3,817	(2)	(1)	—	—	(3)	0.1	BB- to B
– CRR 6	4.915 to 8.860	22	20	—	—	42	—	—	—	—	—	—	B-
– CRR 7	8.861 to 15.000	1	—	—	—	1	—	—	—	—	—	—	CCC+
– CRR 8	15.001 to 99.999	264	548	—	—	812	—	(2)	—	—	(2)	0.2	CCC to C
– CRR 9/10	100.000	—	—	2	—	2	—	—	(2)	—	(2)	100.0	D
At 31 Dec 2023		524,329	74,824	15,770	81	615,004	(561)	(1,533)	(6,098)	(30)	(8,222)	1.3	

¹ Corporate and commercial lending reported in CRR 8 for stage 1 includes \$782m related to the UK Bounce Back Loan Scheme with immaterial allowances for ECL.

Risk review

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

	Basel one-year PD range %	Gross carrying amount					Allowance for ECL					ECL coverage %	Mapped external rating
		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		351,885	85,492	15,696	129	453,202	(488)	(1,907)	(5,887)	(38)	(8,320)	1.8	
– CRR 1	0.000 to 0.053	35,574	330	—	—	35,904	(6)	(1)	—	—	(7)	—	AA- and above
– CRR 2	0.054 to 0.169	87,383	3,234	—	—	90,617	(28)	(15)	—	—	(43)	0.1	A+ to A-
– CRR 3	0.170 to 0.740	114,403	17,725	—	—	132,128	(128)	(122)	—	—	(250)	0.2	BBB+ to BBB-
– CRR 4	0.741 to 1.927	74,100	21,550	—	—	95,650	(155)	(210)	—	—	(365)	0.4	BB+ to BB-
– CRR 5	1.928 to 4.914	36,563	21,628	—	—	58,191	(145)	(361)	—	—	(506)	0.9	BB- to B
– CRR 6	4.915 to 8.860	2,512	9,171	—	—	11,683	(16)	(236)	—	—	(252)	2.2	B-
– CRR 7	8.861 to 15.000	1,164	5,477	—	—	6,641	(8)	(336)	—	—	(344)	5.2	CCC+
– CRR 8	15.001 to 99.999	186	6,377	—	—	6,563	(2)	(626)	—	—	(628)	9.6	CCC to C
– CRR 9/10	100.000	—	—	15,696	129	15,825	—	—	(5,887)	(38)	(5,925)	37.4	D
Non-bank financial institutions		61,737	4,718	469	—	66,924	(43)	(77)	(137)	—	(257)	0.4	
– CRR 1	0.000 to 0.053	15,082	421	—	—	15,503	(2)	(1)	—	—	(3)	—	AA- and above
– CRR 2	0.054 to 0.169	16,351	497	—	—	16,848	(3)	(1)	—	—	(4)	—	A+ to A-
– CRR 3	0.170 to 0.740	17,253	1,764	—	—	19,017	(9)	(13)	—	—	(22)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	7,059	717	—	—	7,776	(19)	(4)	—	—	(23)	0.3	BB+ to BB-
– CRR 5	1.928 to 4.914	5,215	736	—	—	5,951	(10)	(10)	—	—	(20)	0.3	BB- to B
– CRR 6	4.915 to 8.860	716	90	—	—	806	—	(4)	—	—	(4)	0.5	B-
– CRR 7	8.861 to 15.000	46	32	—	—	78	—	(3)	—	—	(3)	3.9	CCC+
– CRR 8	15.001 to 99.999	15	461	—	—	476	—	(41)	—	—	(41)	8.6	CCC to C
– CRR 9/10	100.000	—	—	469	—	469	—	—	(137)	—	(137)	29.2	D
Banks		102,723	1,739	82	—	104,544	(18)	(29)	(22)	—	(69)	0.1	
– CRR 1	0.000 to 0.053	79,217	120	—	—	79,337	(8)	—	—	—	(8)	—	AA- and above
– CRR 2	0.054 to 0.169	13,160	178	—	—	13,338	(2)	—	—	—	(2)	—	A+ to A-
– CRR 3	0.170 to 0.740	4,465	368	—	—	4,833	(3)	—	—	—	(3)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	2,154	5	—	—	2,159	(1)	—	—	—	(1)	0.1	BB+ to BB-
– CRR 5	1.928 to 4.914	3,312	172	—	—	3,484	(4)	(1)	—	—	(5)	0.1	BB- to B
– CRR 6	4.915 to 8.860	—	5	—	—	5	—	—	—	—	—	—	B-
– CRR 7	8.861 to 15.000	1	861	—	—	862	—	(27)	—	—	(27)	3.1	CCC+
– CRR 8	15.001 to 99.999	414	30	—	—	444	—	(1)	—	—	(1)	0.2	CCC to C
– CRR 9/10	100.000	—	—	82	—	82	—	—	(22)	—	(22)	26.8	D
At 31 Dec 2022		516,345	91,949	16,247	129	624,670	(549)	(2,013)	(6,046)	(38)	(8,646)	1.4	

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

	Basel one-year PD range %	Nominal amount					Allowance for ECL					ECL coverage %	Mapped external rating
		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		
Loan and other credit-related commitments		377,766	25,463	785	4	404,018	(130)	(128)	(84)	—	(342)	0.1	
– CRR 1	0.000 to 0.053	65,730	1,676	—	—	67,406	(5)	(1)	—	—	(6)	—	AA- and above
– CRR 2	0.054 to 0.169	152,224	2,490	—	—	154,714	(13)	(6)	—	—	(19)	—	A+ to A-
– CRR 3	0.170 to 0.740	105,569	6,044	—	—	111,613	(46)	(24)	—	—	(70)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	38,102	4,751	—	—	42,853	(33)	(20)	—	—	(53)	0.1	BB+ to BB-
– CRR 5	1.928 to 4.914	14,054	5,367	—	—	19,421	(28)	(31)	—	—	(59)	0.3	BB- to B
– CRR 6	4.915 to 8.860	1,170	2,453	—	—	3,623	(4)	(15)	—	—	(19)	0.5	B-
– CRR 7	8.861 to 15.000	780	848	—	—	1,628	(1)	(10)	—	—	(11)	0.7	CCC+
– CRR 8	15.001 to 99.999	137	1,834	—	—	1,971	—	(21)	—	—	(21)	1.1	CCC to C
– CRR 9/10	100.000	—	—	785	4	789	—	—	(84)	—	(84)	10.6	D
Financial guarantees		13,640	1,866	384	—	15,890	(7)	(7)	(25)	—	(39)	0.2	
– CRR 1	0.000 to 0.053	2,553	1	—	—	2,554	—	—	—	—	—	—	AA- and above
– CRR 2	0.054 to 0.169	4,212	202	—	—	4,414	(1)	—	—	—	(1)	—	A+ to A-
– CRR 3	0.170 to 0.740	3,584	202	—	—	3,786	(2)	—	—	—	(2)	0.1	BBB+ to BBB-
– CRR 4	0.741 to 1.927	1,932	407	—	—	2,339	(2)	(1)	—	—	(3)	0.1	BB+ to BB-
– CRR 5	1.928 to 4.914	1,266	455	—	—	1,721	(2)	(2)	—	—	(4)	0.2	BB- to B
– CRR 6	4.915 to 8.860	91	387	—	—	478	—	(1)	—	—	(1)	0.2	B-
– CRR 7	8.861 to 15.000	1	76	—	—	77	—	—	—	—	—	—	CCC+
– CRR 8	15.001 to 99.999	1	136	—	—	137	—	(3)	—	—	(3)	2.2	CCC to C
– CRR 9/10	100.000	—	—	384	—	384	—	—	(25)	—	(25)	6.5	D
At 31 Dec 2023		391,406	27,329	1,169	4	419,908	(137)	(135)	(109)	—	(381)	0.1	

Commercial real estate

Commercial real estate lending includes the financing of corporate, institutional and high net worth customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development. The portfolio has larger concentrations in Hong Kong, the UK, mainland China and the US.

Our global exposure is centred largely on cities with economic, political or cultural significance. In more developed markets, our exposure mainly comprises the financing of investment assets, the redevelopment of existing stock and the augmentation of both commercial and residential markets to support economic and population growth. In less developed commercial real estate markets, our exposures comprise lending for development assets on relatively

short tenors with a particular focus on supporting larger, better capitalised developers involved in residential construction or assets supporting economic expansion.

Excluding favourable foreign exchange movements of \$1.1bn, commercial real estate lending decreased by \$13.8bn, mainly from \$7.4bn in Hong Kong due to loan repayments. The decrease included loan sales of \$0.5bn in the US as part of an initiative to reduce the portfolio exposure.

Despite the lower exposure, allowance for ECL remained at \$2.8bn, reflecting the challenging conditions in the commercial property sector, including the impact of lower valuations in the office segment.

Commercial real estate lending to customers

								of which:		
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. ¹ \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Total \$m	UK \$m	Hong Kong \$m
Gross loans and advances										
Stage 1	10,304	4,218	41,307	1,126	1,803	685	440	59,883	10,790	28,846
Stage 2	3,262	400	13,229	189	1,956	70	1	19,107	3,294	10,375
Stage 3	444	184	3,570	145	166	25	18	4,552	470	3,226
POCI	—	32	15	—	—	—	—	47	32	15
At 31 Dec 2023	14,010	4,834	58,121	1,460	3,925	780	459	83,589	14,586	42,462
– of which: forborne loans	461	69	2,454	126	433	52	—	3,595	519	2,227
Allowance for ECL	(148)	(49)	(2,399)	(55)	(98)	(15)	(10)	(2,774)	(172)	(2,149)
Gross loans and advances										
Stage 1	11,409	5,083	46,700	1,094	2,096	832	906	68,120	12,209	35,905
Stage 2	2,763	828	16,311	323	3,249	43	91	23,608	3,008	11,068
Stage 3	702	277	3,320	264	—	28	57	4,648	827	3,029
POCI	—	—	19	—	—	—	—	19	—	19
At 31 Dec 2022	14,874	6,188	66,350	1,681	5,345	903	1,054	96,395	16,044	50,021
– of which: forborne loans	215	143	763	449	428	47	23	2,068	336	654
Allowance for ECL	(216)	(153)	(2,094)	(153)	(93)	(24)	(13)	(2,746)	(323)	(1,878)

1 During 1Q23, we aligned the classification of commercial real estate across the Group and re-presented commercial real estate exposure in HSBC North America Holdings Inc. at 31 December 2022 as \$5.3bn, which had a corresponding ECL charge of \$0.1bn.

Commercial real estate lending to customers by global business

								of which:		
	HSBC UK Bank plc \$m	HSBC Bank plc \$m	The Hongkong and Shanghai Banking Corporation Limited \$m	HSBC Bank Middle East Limited \$m	HSBC North America Holdings Inc. \$m	Grupo Financiero HSBC, S.A. de C.V. \$m	Other trading entities \$m	Total \$m	UK \$m	Hong Kong \$m
Wealth and Personal Banking	409	377	66	—	2	—	423	1,277	409	66
Commercial Banking	13,601	3,322	37,826	733	3,923	780	36	60,221	13,686	27,811
Global Banking and Markets	—	1,135	20,066	727	—	—	—	21,928	491	14,444
Corporate Centre	—	—	163	—	—	—	—	163	—	141
At 31 Dec 2023	14,010	4,834	58,121	1,460	3,925	780	459	83,589	14,586	42,462

Risk review

Commercial real estate lending to customers by global business (continued)

								of which:		
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Total	UK	Hong Kong
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Wealth and Personal Banking	532	2	70	—	4	—	826	1,434	534	70
Commercial Banking	14,342	4,390	42,803	951	5,341	903	205	68,935	14,638	33,123
Global Banking and Markets	—	1,796	23,333	730	—	—	23	25,882	872	16,684
Corporate Centre	—	—	144	—	—	—	—	144	—	144
At 31 Dec 2022	14,874	6,188	66,350	1,681	5,345	903	1,054	96,395	16,044	50,021

Commercial real estate lending to customers by credit quality

								of which:		
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc.	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Total	UK	Hong Kong
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Strong	3,940	740	12,394	255	25	65	16	17,435	4,191	6,527
Good	2,555	2,054	17,777	246	781	130	18	23,561	2,592	12,004
Satisfactory	6,370	1,642	19,509	634	1,691	500	407	30,753	6,575	16,290
Sub-standard	701	182	4,856	180	1,262	60	—	7,241	726	4,400
Credit impaired	444	216	3,585	145	166	25	18	4,599	502	3,241
At 31 Dec 2023	14,010	4,834	58,121	1,460	3,925	780	459	83,589	14,586	42,462
Strong	3,951	1,444	16,063	303	352	29	72	22,214	4,681	10,061
Good	3,094	1,448	20,692	359	864	190	4	26,651	3,244	15,209
Satisfactory	6,819	2,647	20,930	539	2,397	616	881	34,829	6,959	16,775
Sub-standard	308	372	5,326	216	1,732	40	40	8,034	333	4,928
Credit impaired	702	277	3,339	264	—	28	57	4,667	827	3,048
At 31 Dec 2022	14,874	6,188	66,350	1,681	5,345	903	1,054	96,395	16,044	50,021

Refinance risk in commercial real estate

Commercial real estate lending tends to require the repayment of a significant proportion of the principal at maturity. Typically, a customer will arrange repayment through the acquisition of a new loan to settle the existing debt. Refinance risk is the risk that a customer, being

unable to repay the debt on maturity, fails to refinance it at commercial terms. We monitor our commercial real estate portfolio closely, assessing indicators for signs of potential issues with refinancing.

Commercial real estate gross loans and advances to customers maturity analysis

								of which:		
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc. ¹	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Total	UK	Hong Kong
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
< 1 year	3,553	1,496	25,427	396	1,472	619	437	33,400	3,950	19,887
1–2 years	4,514	474	14,144	175	623	60	2	19,992	4,571	10,923
2–5 years	5,411	2,149	16,052	441	1,814	71	3	25,941	5,520	9,885
> 5 years	532	715	2,498	448	16	30	17	4,256	545	1,767
At 31 Dec 2023	14,010	4,834	58,121	1,460	3,925	780	459	83,589	14,586	42,462
< 1 year	8,315	2,059	23,468	423	1,883	241	703	37,092	9,211	18,675
1–2 years	3,518	1,503	18,007	218	810	115	228	24,399	3,678	13,873
2–5 years	2,385	1,644	21,804	664	2,624	449	60	29,630	2,472	14,963
> 5 years	656	982	3,071	376	28	98	63	5,274	683	2,510
At 31 Dec 2022	14,874	6,188	66,350	1,681	5,345	903	1,054	96,395	16,044	50,021

¹ During 1Q23, we aligned the classification of commercial real estate across the Group and re-presented commercial real estate exposure in HSBC North America Holdings Inc. at 31 December 2022 as \$5.3bn, which had a corresponding ECL charge of \$0.1bn.

The following table presents the Group's exposure to borrowers classified in the commercial real estate sector where the ultimate parent is based in mainland China, as well as all commercial real estate exposures booked on mainland China balance sheets.

The exposures at 31 December 2023 are split by country/territory and credit quality including allowances for ECL by stage.

Mainland China commercial real estate

(Audited)

	Hong Kong \$m	Mainland China \$m	Rest of the Group \$m	Total \$m
Loans and advances to customers ¹	6,033	4,917	839	11,789
Guarantees issued and others ²	255	66	37	358
Total mainland China commercial real estate exposure at 31 Dec 2023	6,288	4,983	876	12,147
Distribution of mainland China commercial real estate exposure by credit quality				
Strong	781	1,723	6	2,510
Good	604	953	421	1,978
Satisfactory	679	1,704	261	2,644
Sub-standard	1,298	327	188	1,813
Credit impaired	2,926	276	—	3,202
At 31 Dec 2023	6,288	4,983	876	12,147
Allowance for ECL by credit quality				
Strong	—	(3)	—	(3)
Good	—	(5)	(1)	(6)
Satisfactory	(3)	(27)	—	(30)
Sub-standard	(66)	(87)	(16)	(169)
Credit impaired	(1,726)	(125)	—	(1,851)
At 31 Dec 2023	(1,795)	(247)	(17)	(2,059)
Allowance for ECL by stage distribution				
Stage 1	—	(10)	—	(10)
Stage 2	(69)	(112)	(17)	(198)
Stage 3	(1,726)	(125)	—	(1,851)
At 31 Dec 2023	(1,795)	(247)	(17)	(2,059)
ECL coverage %	28.5	5.0	1.9	17.0

¹ Amounts represent gross carrying amount.

² Amounts represent nominal amount for guarantees and other contingent liabilities.

Mainland China commercial real estate (continued)

	Hong Kong (audited) ¹ \$m	Mainland China (audited) ² \$m	Rest of the Group (unaudited) ¹ \$m	Total (unaudited) ² \$m
Loans and advances to customers ²	9,129	5,752	860	15,741
Guarantees issued and others ³	249	755	18	1,022
Total mainland China commercial real estate exposure at 31 Dec 2022	9,378	6,507	878	16,763
Distribution of mainland China commercial real estate exposure by credit quality				
Strong	1,425	2,118	220	3,763
Good	697	1,087	370	2,154
Satisfactory	1,269	2,248	77	3,594
Sub-standard	2,887	779	193	3,859
Credit impaired	3,100	275	18	3,393
At 31 Dec 2022	9,378	6,507	878	16,763
Allowance for ECL by credit quality				
Strong	—	(5)	—	(5)
Good	—	(8)	(1)	(9)
Satisfactory	(20)	(81)	—	(101)
Sub-standard	(458)	(42)	(3)	(503)
Credit impaired	(1,268)	(105)	—	(1,373)
At 31 Dec 2022	(1,746)	(241)	(4)	(1,991)
Allowance for ECL by stage distribution				
Stage 1	(1)	(9)	(1)	(11)
Stage 2	(477)	(127)	(3)	(607)
Stage 3	(1,268)	(105)	—	(1,373)
At 31 Dec 2022	(1,746)	(241)	(4)	(1,991)
ECL coverage %	18.6	3.7	0.5	11.9

¹ Disclosures in respect of mainland China commercial real estate exposures in Hong Kong and mainland China form part of the scope of the audit of the Group's Annual Report and Accounts 2022. Amounts disclosed for mainland China commercial real estate exposures elsewhere in the Group have not been audited but are provided for completeness.

² Amounts represent gross carrying amount.

³ Amounts represent nominal amount for guarantees and other contingent liabilities.

(Unaudited)

Commercial real estate financing refers to lending that focuses on commercial development and investment in real estate and covers commercial, residential and industrial assets. The exposures in the table are related to companies whose primary activities are focused on these activities. Lending is generally focused on tier 1 and 2 cities. The table also includes financing provided to a corporate or financial entity for the purchase or financing of a property that supports the overall operations of the business. Such exposures are outside of our normal definition of commercial real estate, as applied elsewhere in this report, but are provided here for a more comprehensive view of our mainland China property exposure.

The table above shows 59% (\$7.1bn) of total exposure with a credit quality of 'satisfactory' or above, which was slightly higher in proportion compared with 31 December 2022 (57%, \$9.5bn). Total 'credit impaired' exposures increased to 26% (\$3.2bn) (31 December 2022: 20%, \$3.4bn), reflecting sustained stress in the China commercial real estate market, including weakness in both property market fundamentals and financing conditions for borrowers operating in this sector.

Allowances for ECL are substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal, reflecting the nature and value of the security held.

Facilities booked in Hong Kong continued to represent the largest proportion of mainland China commercial real estate exposures, although total exposures reduced to \$6.3bn, down \$3.1bn since 31 December 2022, as a result of de-risking measures, repayments

and write-offs. This portfolio remains relatively higher risk, with 33% (31 December 2022: 36%) of exposure booked with a credit quality of 'satisfactory' or above and 47% 'credit impaired' (31 December 2022: 33%).

At 31 December 2023, the Group had allowances for ECL of \$1.8bn (31 December 2022: \$1.7bn) held against mainland China commercial real estate exposures booked in Hong Kong. ECL coverage increased to 28.5% (31 December 2022: 18.6%), reflecting a further credit deterioration during the year.

Approximately half of the unimpaired exposure in the Hong Kong portfolio is lending to state-owned enterprises and relatively strong private-owned enterprises. This is reflected in the relatively low allowance for ECL in this part of the portfolio.

Market conditions are likely to remain subdued with a protracted recovery as sentiment and domestic residential demand remain weak, with ongoing refinancing and liquidity risk for corporates operating in this market. The divergence between privately-owned enterprises and state-owned enterprises is likely to continue, with state-owned enterprises achieving above-market sales performance, and benefiting from market share gains and better access to funding.

The Group has additional exposures to mainland China commercial real estate as a result of lending to multinational corporates booked outside of mainland China, which is not incorporated in the table above.

Collateral and other credit enhancements

(Audited)

Although collateral can be an important mitigant of credit risk, it is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Group may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low.

Mitigants may include a charge on borrowers' specific assets, such as real estate or financial instruments. Other credit risk mitigants include short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominantly borne by the policyholder. Additionally, risk may be managed by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees. Guarantees are normally taken from corporates and export credit agencies. Corporates would normally provide guarantees as part of a parent/subsidiary relationship and span a number of credit grades. The export credit agencies will normally be investment grade.

Certain credit mitigants are used strategically in portfolio management activities. While single name concentrations arise in portfolios managed by Global Banking and Corporate Banking, it is only in Global Banking that their size requires the use of portfolio level credit mitigants. Across Global Banking, risk limits and utilisations, maturity profiles and risk quality are monitored and managed proactively. This process is key to the setting of risk appetite for these larger, more complex, geographically distributed customer groups. While the principal form of risk management continues to be at the point of exposure origination, through the lending decision-making process, Global Banking also utilises loan sales and credit default swap ('CDS') hedges to manage concentrations and reduce risk.

These transactions are the responsibility of a dedicated Global Banking portfolio management team. Hedging activity is carried out within agreed credit parameters, and is subject to market risk limits and a robust governance structure. Where applicable, CDSs are entered into directly with a central clearing house counterparty. Otherwise, the Group's exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

CDS mitigants are held at portfolio level and are not included in the expected credit loss calculations. CDS mitigants are not reported in the following tables.

Collateral on loans and advances

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

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

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

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

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 375.

Commercial real estate loans and advances

The value of commercial real estate collateral is determined by using a combination of external and internal valuations and physical inspections. For commercial real estate, where the facility exceeds regulatory threshold requirements, Group policy requires an independent review of the valuation at least every three years, or more frequently as the need arises.

In Hong Kong, market practice is typically for lending to major property companies to be either secured by guarantees or unsecured. In Europe, facilities of a working capital nature are generally not secured by a first fixed charge, and are therefore disclosed as not collateralised.

Risk review

Wholesale lending – commercial real estate loans and advances to customers including loan commitments by level of collateral for key countries/territories (by stage)

(Audited)

	Gross carrying/nominal amount					ECL coverage				
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	POCI \$m	Total \$m	Stage 1 %	Stage 2 %	Stage 3 %	POCI %	Total %
Not collateralised	36,754	5,128	2,543	—	44,425	0.1	3.9	72.4	—	4.7
Fully collateralised by LTV ratio	46,212	15,177	1,963	—	63,352	0.1	2.5	12.0	—	1.0
– less than 50%	24,391	7,413	574	—	32,378	0.1	1.9	13.1	—	0.7
– 51% to 75%	16,086	5,240	657	—	21,983	0.1	3.1	9.3	—	1.1
– 76% to 90%	3,140	1,437	454	—	5,031	0.1	3.5	11.8	—	2.1
– 91% to 100%	2,595	1,087	278	—	3,960	0.2	2.3	16.6	—	1.9
Partially collateralised (A): LTV > 100%	7,075	1,487	156	50	8,768	0.1	1.8	30.2	14.5	1.0
– collateral value on A	4,004	1,061	115	26	5,206					
Total at 31 Dec 2023	90,041	21,792	4,662	50	116,545	0.1	2.8	45.6	14.5	2.4
of which: UK										
Not collateralised	4,644	1,288	97	—	6,029	0.4	2.0	12.4	—	0.9
Fully collateralised by LTV ratio	9,762	2,512	295	—	12,569	0.1	1.3	13.9	—	0.7
– less than 50%	3,514	507	51	—	4,072	0.1	1.9	21.6	—	0.6
– 51% to 75%	4,826	1,418	103	—	6,347	0.1	1.1	16.4	—	0.6
– 76% to 90%	749	292	80	—	1,121	0.1	1.3	14.9	—	1.5
– 91% to 100%	673	295	61	—	1,029	0.1	1.6	1.9	—	0.6
Partially collateralised (B): LTV > 100%	1,580	239	82	35	1,936	0.1	1.1	34.2	20.7	2.0
– collateral value on B	524	171	62	17	774					
Total UK at 31 Dec 2023	15,986	4,039	474	35	20,534	0.2	1.5	17.1	20.7	0.9
of which: Hong Kong										
Not collateralised	16,889	2,323	2,215	—	21,427	—	6.5	78.7	—	8.8
Fully collateralised by LTV ratio	20,783	8,447	989	—	30,219	—	2.1	5.0	—	0.8
– less than 50%	15,425	5,604	294	—	21,323	—	1.5	1.4	—	0.5
– 51% to 75%	4,102	2,140	312	—	6,554	0.1	3.8	2.1	—	1.4
– 76% to 90%	657	619	315	—	1,591	0.1	1.8	8.0	—	2.3
– 91% to 100%	599	84	68	—	751	—	0.1	20.5	—	1.9
Partially collateralised (C): LTV > 100%	1,770	616	52	15	2,453	—	0.8	24.5	—	0.7
– collateral value on C	1,569	535	39	8	2,151					
Total Hong Kong at 31 Dec 2023	39,442	11,386	3,256	15	54,099	—	2.9	55.5	—	4.0
Not collateralised	43,987	9,779	2,612	—	56,378	0.1	5.7	53.7	—	3.6
Fully collateralised by LTV ratio	54,003	17,619	1,617	—	73,239	0.1	1.8	10.9	—	0.7
– less than 50%	29,635	6,523	544	—	36,702	0.1	1.9	16.5	—	0.7
– 51% to 75%	18,664	8,312	594	—	27,570	0.1	1.3	4.4	—	0.5
– 76% to 90%	3,220	911	315	—	4,446	0.1	2.1	4.1	—	0.8
– 91% to 100%	2,484	1,873	164	—	4,521	0.2	3.5	28.7	—	2.6
Partially collateralised (A): LTV > 100%	4,965	1,924	513	19	7,421	0.1	2.2	54.2	—	4.4
– collateral value on A	2,804	1,192	293	8	4,297					
Total at 31 Dec 2022¹	102,955	29,322	4,742	19	137,038	0.1	3.1	39.1	—	2.1
of which: UK										
Not collateralised	5,960	2,511	295	—	8,766	0.3	1.5	35.3	—	1.8
Fully collateralised by LTV ratio	10,293	2,025	372	—	12,690	0.1	0.9	6.5	—	0.4
– less than 50%	2,900	664	53	—	3,617	0.2	0.9	3.8	—	0.4
– 51% to 75%	6,361	1,197	291	—	7,849	0.1	0.9	2.1	—	0.3
– 76% to 90%	556	140	11	—	707	0.2	1.4	18.2	—	0.7
– 91% to 100%	476	24	17	—	517	0.2	0.4	76.5	—	2.8
Partially collateralised (B): LTV > 100%	1,920	179	176	—	2,275	0.2	1.1	68.8	—	5.5
– collateral value on B	1,113	144	72	—	1,329					
Total UK at 31 Dec 2022	18,173	4,715	843	—	23,731	0.2	1.3	29.5	—	1.5
of which: Hong Kong										
Not collateralised	20,263	4,648	2,123	—	27,034	—	10.6	56.9	—	6.3
Fully collateralised by LTV ratio	27,892	7,457	864	—	36,213	—	1.1	5.2	—	0.4
– less than 50%	21,185	3,539	318	—	25,042	—	1.4	2.2	—	0.3
– 51% to 75%	5,365	3,536	205	—	9,106	0.1	1.0	3.4	—	0.5
– 76% to 90%	995	134	264	—	1,393	—	0.1	1.9	—	0.4
– 91% to 100%	347	248	77	—	672	—	0.2	32.5	—	3.9
Partially collateralised (C): LTV > 100%	804	390	73	19	1,286	—	2.8	61.6	—	4.4
– collateral value on C	584	249	39	8	880					
Total Hong Kong at 31 Dec 2022	48,959	12,495	3,060	19	64,533	—	4.7	42.5	—	2.9

¹ During 1Q23, we aligned the classification of commercial real estate across the Group and re-presented commercial real estate exposure in HSBC North America Holdings Inc. at 31 December 2022 as \$5.3bn, which had a corresponding ECL charge of \$0.1bn.

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

Other corporate, commercial and financial (non-bank) loans are analysed separately in the following table, which focuses on the countries/territories containing the majority of our loans and advances balances. For financing activities in other corporate and commercial lending, collateral value is not strongly correlated to principal repayment performance.

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

Wholesale lending – other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral for key countries/territories (by stage)

(Audited)

	Gross carrying/nominal amount					ECL coverage				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	\$m	\$m	\$m	\$m	\$m	%	%	%	%	%
Not collateralised	672,142	76,261	7,702	8	756,113	0.1	0.9	40.0	6.8	0.6
Fully collateralised by LTV ratio	113,339	19,747	2,629	23	135,738	0.1	1.4	10.7	89.8	0.5
– less than 50%	42,953	7,069	1,168	—	51,190	0.1	1.5	11.8	—	0.5
– 51% to 75%	24,011	8,222	887	—	33,120	0.1	1.3	6.4	—	0.6
– 76% to 90%	10,194	2,531	421	23	13,169	0.1	1.6	10.3	90.6	0.9
– 91% to 100%	36,181	1,925	153	—	38,259	—	1.1	27.6	—	0.2
Partially collateralised (A): LTV > 100%	53,686	9,019	2,233	3	64,941	0.1	0.7	32.2	38.4	1.3
– collateral value on A	24,505	4,266	993	1	29,765					
Total at 31 Dec 2023	839,167	105,027	12,564	34	956,792	0.1	1.0	32.5	67.1	0.6
of which: UK										
Not collateralised	117,824	20,401	3,423	—	141,648	0.2	1.9	23.2	—	1.0
Fully collateralised by LTV ratio	22,217	5,912	1,162	—	29,291	0.1	1.7	3.7	—	0.6
– less than 50%	7,385	2,340	601	—	10,326	0.1	1.2	1.3	—	0.5
– 51% to 75%	6,966	2,292	434	—	9,692	0.1	1.7	3.6	—	0.7
– 76% to 90%	2,256	809	106	—	3,171	0.2	2.5	15.8	—	1.3
– 91% to 100%	5,610	471	21	—	6,102	0.1	2.1	14.5	—	0.3
Partially collateralised (B): LTV > 100%	6,335	1,732	299	—	8,366	0.2	1.8	18.4	—	1.2
– collateral value on B	3,508	1,080	175	—	4,763					
Total UK at 31 Dec 2023	146,376	28,045	4,884	—	179,305	0.2	1.8	18.3	—	0.9
of which: Hong Kong										
Not collateralised	114,025	7,523	906	—	122,454	—	0.4	57.5	—	0.5
Fully collateralised by LTV ratio	32,857	8,918	877	22	42,674	0.1	1.3	6.6	94.7	0.5
– less than 50%	16,175	2,898	230	—	19,303	0.1	1.4	11.8	—	0.4
– 51% to 75%	9,461	4,515	336	—	14,312	0.1	1.2	3.1	—	0.5
– 76% to 90%	4,245	863	253	22	5,383	0.1	1.8	2.0	94.7	0.9
– 91% to 100%	2,976	642	58	—	3,676	—	0.4	27.0	—	0.5
Partially collateralised (C): LTV > 100%	16,152	2,887	704	—	19,743	—	0.6	30.2	—	1.2
– collateral value on C	6,619	1,306	318	—	8,243					
Total Hong Kong at 31 Dec 2023	163,034	19,328	2,487	22	184,871	0.1	0.8	31.8	94.7	0.6
Not collateralised	632,889	79,009	8,278	64	720,240	0.1	1.1	38.4	18.8	0.6
Fully collateralised by LTV ratio	94,789	27,422	1,948	24	124,183	0.1	1.1	13.7	91.7	0.5
– less than 50%	36,747	10,643	678	—	48,068	0.1	1.1	18.6	—	0.6
– 51% to 75%	29,108	10,457	503	1	40,069	0.1	1.2	11.3	—	0.5
– 76% to 90%	9,643	2,987	402	23	13,055	0.1	1.0	4.7	95.7	0.6
– 91% to 100%	19,291	3,335	365	—	22,991	0.1	0.8	17.5	—	0.4
Partially collateralised (A): LTV > 100%	54,794	12,830	2,120	22	69,766	0.1	0.9	37.3	18.2	1.4
– collateral value on A	27,775	6,289	1,133	16	35,213	—	—	—	—	—
Total at 31 Dec 2022	782,472	119,261	12,346	110	914,189	0.1	1.0	34.3	34.6	0.7
of which: UK										
Not collateralised	105,126	16,886	3,783	28	125,823	0.1	2.2	17.8	3.6	0.9
Fully collateralised by LTV ratio	21,192	6,511	699	—	28,402	0.1	1.3	4.6	—	0.5
– less than 50%	6,928	2,872	175	—	9,975	0.1	1.0	3.4	—	0.5
– 51% to 75%	7,611	2,656	336	—	10,603	0.1	1.5	6.5	—	0.6
– 76% to 90%	1,889	578	102	—	2,569	0.1	1.9	1.0	—	0.5
– 91% to 100%	4,764	405	86	—	5,255	—	1.2	3.5	—	0.2
Partially collateralised (B): LTV > 100%	6,480	2,288	308	—	9,076	0.1	1.2	25.6	—	1.2
– collateral value on B	3,470	1,197	158	—	4,825	—	—	—	—	—
Total UK at 31 Dec 2022	132,798	25,685	4,790	28	163,301	0.1	1.9	16.4	3.6	0.9
of which: Hong Kong										
Not collateralised	109,919	9,901	939	—	120,759	—	0.7	56.0	—	0.5
Fully collateralised by LTV ratio	38,083	12,693	665	24	51,465	0.1	1.0	3.8	91.7	0.4
– less than 50%	15,695	4,577	175	—	20,447	0.1	0.9	1.7	—	0.3
– 51% to 75%	13,893	5,413	115	1	19,422	0.1	1.2	7.8	—	0.5
– 76% to 90%	4,964	1,479	268	23	6,734	0.1	0.7	0.4	95.7	0.6
– 91% to 100%	3,531	1,224	107	—	4,862	0.1	0.3	10.3	—	0.3
Partially collateralised (C): LTV > 100%	17,704	3,379	777	14	21,874	0.1	0.6	30.9	—	1.2
– collateral value on C	7,737	1,524	397	13	9,671	—	—	—	—	—
Total Hong Kong at 31 Dec 2022	165,706	25,973	2,381	38	194,098	0.1	0.8	33.2	57.9	0.6

Other credit risk exposures

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

- Some securities issued by governments, banks and other financial institutions benefit from additional credit enhancements provided by government guarantees that cover the assets.
- Debt securities issued by banks and financial institutions include asset-backed securities ('ABSs') and similar instruments, which are supported by underlying pools of financial assets. Credit risk associated with ABSs is reduced through the purchase of credit default swap ('CDS') protection.
- Trading loans and advances mainly pledged against cash collateral are posted to satisfy margin requirements. There is limited credit risk on cash collateral posted since in the event of default of the counterparty this would be set off against the related liability. Reverse repos and stock borrowing are by their nature collateralised.

Collateral accepted as security that the Group is permitted to sell or repledge under these arrangements is described on page 417 of the financial statements.

The following table reflects by risk type the fair values and gross notional contract amounts of derivatives cleared through an exchange, central counterparty or non-central counterparty.

Notional contract amounts and fair values of derivatives

	2023			2022 ¹		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	\$m	\$m	\$m	\$m	\$m	\$m
Total OTC derivatives	24,551,539	337,066	343,098	23,649,591	421,324	423,909
– total OTC derivatives cleared by central counterparties	11,130,785	116,520	118,796	11,360,730	149,193	154,167
– total OTC derivatives not cleared by central counterparties	13,420,754	220,546	224,302	12,288,861	272,131	269,742
Total exchange traded derivatives	1,111,247	9,134	8,159	1,146,426	3,822	2,840
Gross	25,662,786	346,200	351,258	24,796,017	425,146	426,749
Offset		(116,486)	(116,486)		(140,987)	(140,987)
At 31 Dec		229,714	234,772		284,159	285,762

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

The purposes for which HSBC uses derivatives are described in Note 15 on the financial statements.

The International Swaps and Derivatives Association ('ISDA') master agreement is our preferred agreement for documenting derivatives activity. It is common, and our preferred practice, for the parties involved in a derivative transaction to execute a credit support annex ('CSA') in conjunction with the ISDA master agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients.

We manage the counterparty exposure on our OTC derivative contracts by using collateral agreements with counterparties and netting agreements. Currently, we do not actively manage our general OTC derivative counterparty exposure in the credit markets, although we may manage individual exposures in certain circumstances.

We place strict policy restrictions on collateral types and as a consequence the types of collateral received and pledged are, by value, highly liquid and of a strong quality, being predominantly cash.

Where a collateral type is required to be approved outside the collateral policy, approval is required from a committee of senior representatives from Markets, Legal and Risk.

See Note 31 on the financial statements for details regarding legally enforceable right of offset in the event of counterparty default and collateral received in respect of derivatives.

The Group's maximum exposure to credit risk includes financial guarantees and similar contracts granted, as well as loan and other credit-related commitments. Depending on the terms of the arrangement, we may use additional credit mitigation if a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

For further information on these arrangements, see Note 33 on the financial statements.

Derivatives

We participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to a market factor such as an interest rate, exchange rate or asset price.

The counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit valuation adjustment ('CVA').

For an analysis of CVAs, see Note 12 on the financial statements.

Personal lending

This section presents further disclosures related to personal lending. It provides details of the major legal entities, countries and products that are driving the change observed in personal loans and advances to customers, with the impact of foreign exchange separately identified. Additionally, Hong Kong and UK mortgage book LTV data is provided.

This section also provides reconciliations of the opening 1 January 2023 to 31 December 2023 closing gross carrying/nominal amounts and associated allowance for ECL by product. Further product granularity is also provided by stage, with data for major legal entities presented for loans and advances to customers, loan and other credit-related commitments and financial guarantees.

At 31 December 2023, total personal lending for loans and advances to customers of \$447.5bn increased by \$32.6bn compared with 31 December 2022. This increase included favourable foreign exchange movements of \$11.5bn. Excluding foreign exchange movements, the increase of \$21.1bn was mainly driven by growth in the UK (up \$6.6bn), in Hong Kong (up \$5.8bn), in Mexico (up \$2.3bn) and in Australia (up \$1.4bn). Additionally, France increased by \$7.8bn due to the retention of the home loan portfolio, which is no longer classified as assets held for sale.

The increase was partly offset by a \$1.2bn decrease from the merger of our business in Oman and a \$1.0bn decrease from the sale of our retail mortgage loan portfolio in New Zealand.

The allowance for ECL attributable to personal lending, excluding off-balance sheet loan commitments and guarantees, remained broadly stable at \$2.9bn at 31 December 2023, as net releases were offset by adverse foreign exchange movements of \$0.1bn.

Excluding foreign exchange movements and reclassifications to held for sale, mortgage lending balances increased by \$15.5bn to \$360.9bn at 31 December 2023, mainly in Hong Kong (up \$5.9bn), in the UK (up \$4.9bn), in Mexico (up \$1.7bn), in the US (up \$1.5bn) and in Australia (up \$1.4bn). The allowance for ECL attributable to mortgages remained broadly stable at \$0.6bn when compared with 31 December 2022.

Total personal lending gross carrying amounts in stage 2 decreased by \$1.4bn compared with 31 December 2022. Excluding favourable foreign exchange movements of \$2.3bn, the decrease of \$3.7bn was driven by favourable economic conditions and the model updates for interest-only and offset mortgages at a portfolio level in the UK.

The quality of both our Hong Kong and UK mortgage books remained strong, with low levels of impairment allowances. The average LTV ratio on new mortgage lending in Hong Kong was 64%, compared with an estimated 60% for the overall mortgage portfolio. The average LTV ratio on new lending in the UK was 65%, compared with an estimated 53% for the overall mortgage portfolio.

Excluding foreign exchange movements and reclassifications to held for sale, other personal lending balances at 31 December 2023 increased by \$7.8bn compared with 31 December 2022. This was mainly from the retained home loan portfolio in France (up \$7.4bn), which is no longer classified as assets held for sale. In addition, our credit card portfolio in Mexico increased by \$0.6bn.

The allowance for ECL, excluding foreign exchange movements, attributable to other personal lending of \$2.3bn remained unchanged from 31 December 2022. The allowance for ECL attributable to credit cards decreased by \$0.1bn, offset by adverse foreign exchange movements of \$0.1bn in other personal lending.

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

	Gross carrying amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
By portfolio								
First lien residential mortgages	320,410	38,287	2,212	360,909	(102)	(200)	(269)	(571)
– of which: interest-only (including offset)	21,895	2,923	139	24,957	(4)	(27)	(31)	(62)
– affordability (including US adjustable rate mortgages)	14,380	381	291	15,052	(3)	(1)	(10)	(14)
Other personal lending	76,124	9,196	1,293	86,613	(477)	(1,234)	(585)	(2,296)
– second lien residential mortgages	317	58	21	396	–	(3)	(5)	(8)
– guaranteed loans in respect of residential property	8,001	502	90	8,593	(1)	(5)	(14)	(20)
– other personal lending which is secured	28,900	424	157	29,481	(13)	(5)	(24)	(42)
– credit cards	19,909	4,419	352	24,680	(236)	(697)	(203)	(1,136)
– other personal lending which is unsecured	17,010	3,582	659	21,251	(212)	(505)	(331)	(1,048)
– motor vehicle finance	1,987	211	14	2,212	(15)	(19)	(8)	(42)
At 31 Dec 2023	396,534	47,483	3,505	447,522	(579)	(1,434)	(854)	(2,867)
By legal entity								
HSBC UK Bank plc	146,354	35,190	1,218	182,762	(152)	(490)	(255)	(897)
HSBC Bank plc	14,598	1,747	273	16,618	(24)	(22)	(91)	(137)
The Hongkong and Shanghai Banking Corporation Limited	191,382	7,741	948	200,071	(165)	(402)	(162)	(729)
HSBC Bank Middle East Limited	3,335	397	47	3,779	(19)	(33)	(36)	(88)
HSBC North America Holdings Inc.	18,096	553	364	19,013	(5)	(14)	(16)	(35)
Grupo Financiero HSBC, S.A. de C.V.	12,717	1,740	536	14,993	(197)	(463)	(273)	(933)
Other trading entities	10,052	115	119	10,286	(17)	(10)	(21)	(48)
At 31 Dec 2023	396,534	47,483	3,505	447,522	(579)	(1,434)	(854)	(2,867)

Total personal lending for loans and other credit-related commitments and financial guarantees by stage distribution

	Nominal amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
HSBC UK Bank plc	52,093	734	88	52,915	(11)	–	(2)	(13)
HSBC Bank plc	1,630	36	4	1,670	–	–	–	–
The Hongkong and Shanghai Banking Corporation Limited	181,967	2,479	223	184,669	(3)	–	–	(3)
HSBC Bank Middle East Limited	1,978	7	1	1,986	–	–	–	–
HSBC North America Holdings Inc.	3,695	72	8	3,775	–	–	–	–
HSBC Bank Canada	6,610	113	30	6,753	–	–	–	–
Grupo Financiero HSBC, S.A. de C.V.	4,308	–	–	4,308	(8)	–	–	(8)
Other trading entities	2,008	31	1	2,040	(1)	–	–	(1)
At 31 Dec 2023	254,289	3,472	355	258,116	(23)	–	(2)	(25)

Risk review

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

	Gross carrying amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
By portfolio								
First lien residential mortgages	294,919	39,860	2,042	336,821	(74)	(231)	(270)	(575)
– of which: interest-only (including offset)	19,636	4,485	169	24,290	(3)	(46)	(41)	(90)
– affordability (including US adjustable rate mortgages)	14,773	369	240	15,382	(5)	(3)	(4)	(12)
Other personal lending	67,758	9,006	1,297	78,061	(487)	(1,273)	(535)	(2,295)
– second lien residential mortgages	353	20	6	379	(1)	(2)	(3)	(6)
– guaranteed loans in respect of residential property	1,121	121	125	1,367	(1)	(3)	(30)	(34)
– other personal lending which is secured	31,306	594	206	32,106	(15)	(10)	(30)	(55)
– credit cards	16,705	4,423	260	21,388	(225)	(776)	(160)	(1,161)
– other personal lending which is unsecured	16,512	3,681	687	20,880	(234)	(469)	(305)	(1,008)
– motor vehicle finance	1,761	167	13	1,941	(11)	(13)	(7)	(31)
At 31 Dec 2022	362,677	48,866	3,339	414,882	(561)	(1,504)	(805)	(2,870)
By legal entity								
HSBC UK Bank plc	128,590	37,394	1,012	166,996	(135)	(688)	(227)	(1,050)
HSBC Bank plc	6,377	740	127	7,244	(10)	(18)	(38)	(66)
The Hongkong and Shanghai Banking Corporation Limited	185,723	8,698	1,117	195,538	(138)	(362)	(187)	(687)
HSBC Bank Middle East Limited	3,657	184	86	3,927	(26)	(37)	(52)	(115)
HSBC North America Holdings Inc.	16,906	375	270	17,551	(12)	(23)	(6)	(41)
Grupo Financiero HSBC, S.A. de C.V.	9,542	1,099	377	11,018	(213)	(331)	(194)	(738)
Other trading entities	11,882	376	350	12,608	(27)	(45)	(101)	(173)
At 31 Dec 2022	362,677	48,866	3,339	414,882	(561)	(1,504)	(805)	(2,870)

Total personal lending for loans and other credit-related commitments and financial guarantees by stage distribution (continued)

	Nominal amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
HSBC UK Bank plc	50,535	439	104	51,078	(11)	(1)	—	(12)
HSBC Bank plc	2,440	131	7	2,578	—	—	—	—
The Hongkong and Shanghai Banking Corporation Limited	170,104	2,916	634	173,654	(2)	—	—	(2)
HSBC Bank Middle East Limited	1,717	8	1	1,726	(1)	—	—	(1)
HSBC North America Holdings Inc.	3,914	24	17	3,955	(1)	—	—	(1)
HSBC Bank Canada	6,346	115	30	6,491	—	—	—	—
Grupo Financiero HSBC, S.A. de C.V.	3,198	—	—	3,198	(9)	—	—	(9)
Other trading entities	2,390	64	7	2,461	(2)	—	—	(2)
At 31 Dec 2022	240,644	3,697	800	245,141	(26)	(1)	—	(27)

Exposure to UK interest-only mortgage loans

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

At the end of 2023, the average LTV ratio of the interest-only mortgage loans was 44% (2022: 41%), and 97% (2022: 99%) had an LTV ratio of 75% or less.

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

At 31 December 2023, interest-only mortgage loan exposures were \$15.2bn (2022: \$14.4bn) and the maturity profile was as follows:

UK interest-only mortgage loans

	\$m
Expired interest-only mortgage loans	141
Interest-only mortgage loans by maturity	
– 2024	141
– 2025	242
– 2026	315
– 2027	436
– 2028–2032	2,919
– post-2032	11,010
At 31 Dec 2023	15,204

UK interest-only mortgage loans (continued)

	\$m
Expired interest-only mortgage loans	134
Interest-only mortgage loans by maturity	
– 2023	219
– 2024	215
– 2025	300
– 2026	383
– 2027–2031	2,951
– post-2031	10,248
At 31 Dec 2022	14,450

Exposure to offset mortgage in first direct

The offset mortgage in first direct is a flexible way for our customers to take control of their finances. It works by grouping together the customer's mortgage, savings and current accounts to offset their credit and debit balances against their mortgage exposure. At 31 December 2023, exposures were worth a total \$5.0bn with an average LTV ratio of 29% (2022: \$5.5bn exposure and 32% LTV ratio).

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

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

In addition, three reconciliations by stage of the Group's gross carrying/nominal amount and allowances for first lien mortgages, credit cards and other personal lending, including loan commitments and financial guarantees were added at 31 December 2023 following the adoption of the recommendations of the DECL Taskforce's third report.

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

(Audited)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	603,321	(587)	52,563	(1,505)	4,139	(805)	660,023	(2,897)
Transfers of financial instruments:								
– transfers from stage 1 to stage 2	(2,144)	(619)	39	1,087	2,105	(468)	–	–
– transfers from stage 2 to stage 1	55,307	(862)	(55,307)	862	–	–	–	–
– transfers to stage 3	(542)	3	(2,345)	614	2,887	(617)	–	–
– transfers from stage 3	308	(30)	474	(119)	(782)	149	–	–
Net remeasurement of ECL arising from transfer of stage	–	563	–	(679)	–	(79)	–	(195)
Net new and further lending/repayments	34,411	(47)	(4,713)	350	(1,169)	144	28,529	447
Change to risk parameters – credit quality	–	104	–	(641)	–	(955)	–	(1,492)
Changes to models used for ECL calculation	–	(13)	–	21	–	7	–	15
Assets written off	–	–	–	–	(1,326)	1,326	(1,326)	1,326
Foreign exchange and others ^{1,2}	15,235	(3)	3,066	(67)	111	(26)	18,412	(96)
At 31 Dec 2023	650,823	(602)	50,955	(1,434)	3,860	(856)	705,638	(2,892)
ECL income statement change for the period		607		(949)		(883)		(1,225)
Recoveries								226
Others								8
Total ECL income statement change for the period								(991)

1 Total includes \$7.8bn of gross carrying loans and advances and a corresponding allowance for ECL of \$11m, due to the retention of certain balances previously classified as assets held for sale of our retail banking operations in France. For further details, see Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

2 Total includes \$2.0bn of gross carrying loans and advances to customers, which were classified to assets held for sale, and a corresponding allowance for ECL of \$20m, reflecting business disposals, as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

As shown in the above table, the allowance for ECL for loans and advances to customers and relevant loan commitments and financial guarantees decreased by \$5m during the period from \$2,897m at 31 December 2022 to \$2,892m at 31 December 2023.

This decrease was driven by:

- \$1,326m of assets written off;
- \$447m relating to volume movements, which included the allowance for ECL associated with new originations, assets derecognised and further lending/repayment; and
- \$15m of changes to models used for ECL calculation.

Risk review

These were partly offset by:

- \$1,492m relating to underlying credit quality changes, including the credit quality impact of financial instruments transferring between stages;
- \$195m relating to the net remeasurement impact of stage transfers; and
- foreign exchange and other movements of \$96m.

The ECL charge for the period of \$1,225m presented in the above table consisted of \$1,492m relating to underlying credit quality

changes, including the credit quality impact of financial instruments transferring between stages, and \$195m relating to the net remeasurement impact of stage transfers. This was partly offset by \$447m relating to underlying net book volume movements and \$15m in changes to models used for the calculation of ECL.

During the period, there was a net transfer to stage 2 of \$1,910m gross carrying/nominal amounts. This increase was mainly driven by \$1,550m in Mexico, due to slight deterioration in the unsecured portfolio.

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

(Audited)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2022	695,627	(692)	18,161	(1,220)	5,111	(1,226)	718,899	(3,138)
Transfers of financial instruments:	(40,836)	(496)	39,489	674	1,347	(178)	—	—
– transfers from stage 1 to stage 2	(68,016)	268	68,016	(268)	—	—	—	—
– transfers from stage 2 to stage 1	27,359	(730)	(27,359)	730	—	—	—	—
– transfers to stage 3	(561)	2	(1,983)	361	2,544	(363)	—	—
– transfers from stage 3	382	(36)	815	(149)	(1,197)	185	—	—
Net remeasurement of ECL arising from transfer of stage	—	495	—	(579)	—	(85)	—	(169)
Net new and further lending/repayments	30,637	(17)	459	234	(146)	91	30,950	308
Change to risk parameters – credit quality	—	82	—	(676)	—	(823)	—	(1,417)
Changes to models used for ECL calculation	—	(2)	—	(95)	—	13	—	(84)
Assets written off	—	—	—	—	(1,212)	1,212	(1,212)	1,212
Foreign exchange and others ¹	(82,107)	43	(5,546)	157	(961)	191	(88,614)	391
At 31 Dec 2022	603,321	(587)	52,563	(1,505)	4,139	(805)	660,023	(2,897)
ECL income statement change for the period		558		(1,116)		(804)		(1,362)
Recoveries								283
Others								(3)
Total ECL income statement change for the period								(1,082)

¹ Total includes \$49.6bn of gross carrying loans and advances to customers, which were classified to assets held for sale, and a corresponding allowance for ECL of \$221m, reflecting business disposals, as disclosed in Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

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

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	317,666	(74)	40,048	(231)	2,230	(270)	359,944	(575)
Transfers of financial instruments:	(1,182)	(109)	421	138	761	(29)	—	—
– transfers from stage 1 to stage 2	(41,207)	28	41,207	(28)	—	—	—	—
– transfers from stage 2 to stage 1	40,164	(117)	(40,164)	117	—	—	—	—
– transfers to stage 3	(354)	1	(958)	100	1,312	(101)	—	—
– transfers from stage 3	215	(21)	336	(51)	(551)	72	—	—
Net remeasurement of ECL arising from transfer of stage	—	72	—	(79)	—	(67)	—	(74)
Net new and further lending/repayments	15,447	(3)	(3,939)	22	(751)	322	10,757	341
Change to risk parameters – credit quality	—	16	—	(67)	—	(269)	—	(320)
Changes to models used for ECL calculation	—	(2)	—	28	—	—	—	26
Assets written off	—	—	—	—	(53)	53	(53)	53
Foreign exchange and others	8,833	(9)	1,983	(13)	71	(4)	10,887	(26)
At 31 Dec 2023	340,764	(109)	38,513	(202)	2,258	(264)	381,535	(575)
ECL income statement change for the period		83		(96)		(14)		(27)
Recoveries								10
Others								13
Total ECL income statement change for the period								(4)

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

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	140,519	(244)	6,747	(777)	353	(160)	147,619	(1,181)
Transfers of financial instruments:	199	(292)	(848)	496	649	(204)	—	—
– transfers from stage 1 to stage 2	(7,855)	102	7,855	(102)	—	—	—	—
– transfers from stage 2 to stage 1	8,124	(391)	(8,124)	391	—	—	—	—
– transfers to stage 3	(82)	1	(621)	227	703	(228)	—	—
– transfers from stage 3	12	(4)	42	(20)	(54)	24	—	—
Net remeasurement of ECL arising from transfer of stage	—	185	—	(301)	—	(5)	—	(121)
Net new and further lending/repayments	13,206	27	621	169	12	(41)	13,839	155
Change to risk parameters – credit quality	—	82	—	(281)	—	(301)	—	(500)
Changes to models used for ECL calculation	—	(9)	—	15	—	1	—	7
Assets written off	—	—	—	—	(571)	571	(571)	571
Foreign exchange and others	(632)	(2)	27	(19)	7	(5)	(598)	(26)
At 31 Dec 2023	153,292	(253)	6,547	(698)	450	(144)	160,289	(1,095)
ECL income statement change for the period		285		(398)		(346)		(459)
Recoveries								108
Others								(200)
Total ECL income statement change for the period								(551)

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

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	145,136	(269)	5,768	(497)	1,556	(375)	152,460	(1,141)
Transfers of financial instruments:	(1,161)	(218)	466	453	695	(235)	—	—
– transfers from stage 1 to stage 2	(8,155)	140	8,155	(140)	—	—	—	—
– transfers from stage 2 to stage 1	7,019	(354)	(7,019)	354	—	—	—	—
– transfers to stage 3	(106)	1	(766)	287	872	(288)	—	—
– transfers from stage 3	81	(5)	96	(48)	(177)	53	—	—
Net remeasurement of ECL arising from transfer of stage	—	306	—	(299)	—	(7)	—	—
Net new and further lending/repayments	5,758	(71)	(1,395)	159	(430)	(137)	3,933	(49)
Change to risk parameters – credit quality	—	6	—	(293)	—	(385)	—	(672)
Changes to models used for ECL calculation	—	(2)	—	(22)	—	6	—	(18)
Assets written off	—	—	—	—	(702)	702	(702)	702
Foreign exchange and others ¹	7,034	8	1,056	(35)	33	(17)	8,123	(44)
At 31 Dec 2023	156,767	(240)	5,895	(534)	1,152	(448)	163,814	(1,222)
ECL income statement change for the period		239		(455)		(523)		(739)
Recoveries								108
Others								195
Total ECL income statement change for the period								(436)

¹ Total includes \$7.2bn of gross carrying loans and advances and a corresponding allowance for ECL of \$10m, due to the retention of certain balances previously classified as assets held for sale of our retail banking operations in France. For further details, see Note 23 'Assets held for sale and liabilities of disposal groups held for sale' on page 428.

Risk review

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

	Gross carrying amount					Allowance for ECL				ECL coverage %
	PD range ¹ %	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	
First lien residential mortgages²		320,410	38,287	2,212	360,909	(102)	(200)	(269)	(571)	0.2
– Band 1	0.000 to 0.250	229,188	3,174	—	232,362	(16)	(14)	—	(30)	—
– Band 2	0.251 to 0.500	54,891	12,266	—	67,157	(11)	(17)	—	(28)	—
– Band 3	0.501 to 1.500	28,159	16,140	—	44,299	(22)	(49)	—	(71)	0.2
– Band 4	1.501 to 5.000	7,451	4,559	—	12,010	(52)	(30)	—	(82)	0.7
– Band 5	5.001 to 20.000	599	1,097	—	1,696	—	(11)	—	(11)	0.6
– Band 6	20.001 to 99.999	122	1,051	—	1,173	(1)	(79)	—	(80)	6.8
– Band 7	100.000	—	—	2,212	2,212	—	—	(269)	(269)	12.2
Credit cards		19,909	4,419	352	24,680	(236)	(697)	(203)	(1,136)	4.6
– Band 1	0.000 to 0.250	9,490	1	—	9,491	(32)	—	—	(32)	0.3
– Band 2	0.251 to 0.500	2,481	6	—	2,487	(21)	(1)	—	(22)	0.9
– Band 3	0.501 to 1.500	4,799	294	—	5,093	(56)	(17)	—	(73)	1.4
– Band 4	1.501 to 5.000	2,787	2,291	—	5,078	(93)	(158)	—	(251)	4.9
– Band 5	5.001 to 20.000	352	1,374	—	1,726	(34)	(258)	—	(292)	16.9
– Band 6	20.001 to 99.999	—	453	—	453	—	(263)	—	(263)	58.1
– Band 7	100.000	—	—	352	352	—	—	(203)	(203)	57.7
Other personal lending (excluding credit cards)		56,215	4,777	941	61,933	(241)	(537)	(382)	(1,160)	1.9
– Band 1	0.000 to 0.250	28,115	30	—	28,145	(34)	(1)	—	(35)	0.1
– Band 2	0.251 to 0.500	6,634	286	—	6,920	(11)	(1)	—	(12)	0.2
– Band 3	0.501 to 1.500	12,935	329	—	13,264	(61)	(9)	—	(70)	0.5
– Band 4	1.501 to 5.000	7,215	1,447	—	8,662	(79)	(46)	—	(125)	1.4
– Band 5	5.001 to 20.000	1,137	2,005	—	3,142	(55)	(199)	—	(254)	8.1
– Band 6	20.001 to 99.999	179	680	—	859	(1)	(281)	—	(282)	32.8
– Band 7	100.000	—	—	941	941	—	—	(382)	(382)	40.6
At 31 Dec 2023		396,534	47,483	3,505	447,522	(579)	(1,434)	(854)	(2,867)	0.6
First lien residential mortgages ²		294,919	39,860	2,042	336,821	(74)	(231)	(270)	(575)	0.2
– Band 1	0.000 to 0.250	247,330	21,220	—	268,550	(13)	(4)	—	(17)	—
– Band 2	0.251 to 0.500	19,615	7,900	—	27,515	(4)	(3)	—	(7)	—
– Band 3	0.501 to 1.500	21,323	5,691	—	27,014	(18)	(7)	—	(25)	0.1
– Band 4	1.501 to 5.000	6,594	2,694	—	9,288	(39)	(24)	—	(63)	0.7
– Band 5	5.001 to 20.000	34	1,024	—	1,058	—	(40)	—	(40)	3.8
– Band 6	20.001 to 99.999	23	1,331	—	1,354	—	(153)	—	(153)	11.3
– Band 7	100.000	—	—	2,042	2,042	—	—	(270)	(270)	13.2
Other personal lending		67,758	9,006	1,297	78,061	(487)	(1,273)	(535)	(2,295)	2.9
– Band 1	0.000 to 0.250	30,150	153	—	30,303	(54)	(13)	—	(67)	0.2
– Band 2	0.251 to 0.500	7,219	251	—	7,470	(26)	(1)	—	(27)	0.4
– Band 3	0.501 to 1.500	17,077	1,499	—	18,576	(82)	(44)	—	(126)	0.7
– Band 4	1.501 to 5.000	10,344	2,036	—	12,380	(170)	(103)	—	(273)	2.2
– Band 5	5.001 to 20.000	2,501	3,692	—	6,193	(154)	(520)	—	(674)	10.9
– Band 6	20.001 to 99.999	467	1,375	—	1,842	(1)	(592)	—	(593)	32.2
– Band 7	100.000	—	—	1,297	1,297	—	—	(535)	(535)	41.2
At 31 Dec 2022		362,677	48,866	3,339	414,882	(561)	(1,504)	(805)	(2,870)	0.7

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

2 PD bands do not consider the impact of any management judgemental adjustments on stage or allowances for ECL including the impact of new models not yet formally implemented. For a list of management judgemental adjustments see page 199.

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

	PD range ¹ %	Nominal amount				Allowance for ECL				ECL coverage %
		Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	
Loan and other credit-related commitments		253,183	3,459	355	256,997	(23)	—	(2)	(25)	—
– Band 1	0.000 to 0.250	196,201	114	—	196,315	(15)	—	—	(15)	—
– Band 2	0.251 to 0.500	17,861	63	—	17,924	(1)	—	—	(1)	—
– Band 3	0.501 to 1.500	29,623	1,262	—	30,885	(1)	—	—	(1)	—
– Band 4	1.501 to 5.000	8,550	1,334	—	9,884	(4)	—	—	(4)	—
– Band 5	5.001 to 20.000	508	564	—	1,072	(2)	—	—	(2)	0.2
– Band 6	20.001 to 99.999	440	122	—	562	—	—	—	—	—
– Band 7	100.000	—	—	355	355	—	—	(2)	(2)	0.6
Financial guarantees		1,106	13	—	1,119	—	—	—	—	—
– Band 1	0.000 to 0.250	348	—	—	348	—	—	—	—	—
– Band 2	0.251 to 0.500	386	—	—	386	—	—	—	—	—
– Band 3	0.501 to 1.500	359	1	—	360	—	—	—	—	—
– Band 4	1.501 to 5.000	3	—	—	3	—	—	—	—	—
– Band 5	5.001 to 20.000	2	12	—	14	—	—	—	—	—
– Band 6	20.001 to 99.999	8	—	—	8	—	—	—	—	—
– Band 7	100.000	—	—	—	—	—	—	—	—	—
At 31 Dec 2023		254,289	3,472	355	258,116	(23)	—	(2)	(25)	—

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

Collateral on loans and advances

(Audited)

The following table provides a quantification of the value of fixed charges we hold over specific assets where we have a history of enforcing, and are able to enforce, collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and where the collateral is cash or can be realised by sale in an

established market. The collateral valuation excludes any adjustments for obtaining and selling the collateral and, in particular, loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants.

Personal lending – residential mortgage loans including loan commitments by level of collateral for key countries/territories by stage

(Audited)

	Gross carrying/nominal amount				ECL coverage			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Fully collateralised by LTV ratio	331,279	38,378	2,129	371,786	—	0.5	10.1	0.1
– less than 50%	140,992	19,715	1,165	161,872	—	0.3	7.1	0.1
– 51% to 70%	113,043	12,636	568	126,247	—	0.6	10.9	0.1
– 71% to 80%	37,866	4,111	229	42,206	—	0.9	15.2	0.2
– 81% to 90%	23,278	1,499	109	24,886	—	1.2	17.3	0.2
– 91% to 100%	16,100	417	58	16,575	—	1.6	28.9	0.2
Partially collateralised (A): LTV > 100%	9,529	136	129	9,794	—	3.4	42.0	0.6
– collateral value on A	8,968	123	104	9,195	—	—	—	—
Total at 31 Dec 2023	340,808	38,514	2,258	381,580	—	0.5	11.9	0.1
of which: UK								
Fully collateralised by LTV ratio	146,739	33,597	759	181,095	—	0.3	9.7	0.1
– less than 50%	60,403	17,629	458	78,490	—	0.2	7.9	0.1
– 51% to 70%	49,945	11,248	207	61,400	—	0.4	9.4	0.1
– 71% to 80%	20,293	3,275	61	23,629	—	0.6	13.4	0.1
– 81% to 90%	12,946	1,161	18	14,125	—	0.8	17.5	0.1
– 91% to 100%	3,152	284	15	3,451	—	1.0	41.6	0.3
Partially collateralised (B): LTV > 100%	317	19	27	363	0.1	1.7	17.5	1.4
– collateral value on B	244	15	22	281	—	—	—	—
Total UK at 31 Dec 2023	147,056	33,616	786	181,458	—	0.3	9.9	0.1
of which: Hong Kong								
Fully collateralised	97,414	1,354	93	98,861	—	—	0.3	—
– less than 50%	41,903	831	66	42,800	—	—	0.1	—
– 51% to 70%	29,762	330	15	30,107	—	—	0.5	—
– 71% to 80%	5,260	48	2	5,310	—	0.1	0.4	—
– 81% to 90%	8,161	61	4	8,226	—	0.1	1.9	—
– 91% to 100%	12,328	84	6	12,418	—	0.3	1.8	—
Partially collateralised (C): LTV > 100%	8,973	86	4	9,063	—	0.9	7.8	—
– collateral value on C	8,535	81	4	8,620	—	—	—	—
Total Hong Kong at 31 Dec 2023	106,387	1,440	97	107,924	—	0.1	0.7	—

Risk review

Personal lending – residential mortgage loans including loan commitments by level of collateral for key countries/territories by stage (continued)

(Audited)

	Gross carrying/nominal amount				ECL coverage			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Fully collateralised by LTV ratio	310,705	39,906	2,097	352,708	—	0.6	9.9	0.1
– less than 50%	154,337	12,250	1,077	167,664	—	0.7	7.2	0.1
– 51% to 70%	102,191	16,989	537	119,717	—	0.5	9.5	0.1
– 71% to 80%	25,458	6,770	212	32,440	—	0.5	14.7	0.2
– 81% to 90%	17,106	3,388	147	20,641	—	0.5	17.8	0.2
– 91% to 100%	11,613	509	124	12,246	—	1.1	18.1	0.3
Partially collateralised (A): LTV > 100%	6,964	143	133	7,240	—	6.9	46.9	1.0
– collateral value on A	6,521	123	79	6,723				
Total at 31 Dec 2022	317,669	40,049	2,230	359,948	—	0.6	12.1	0.2
of which: UK								
Fully collateralised by LTV ratio	134,044	34,541	676	169,261	—	0.4	11.1	0.1
– less than 50%	70,936	10,387	448	81,771	—	0.6	9.4	0.1
– 51% to 70%	43,617	14,943	158	58,718	—	0.4	11.6	0.1
– 71% to 80%	12,849	5,922	33	18,804	—	0.3	19.7	0.1
– 81% to 90%	5,922	2,918	10	8,850	—	0.2	24.5	0.1
– 91% to 100%	720	371	27	1,118	—	0.2	22.5	0.6
Partially collateralised (B): LTV > 100%	329	49	12	390	—	0.3	9.8	0.3
– collateral value on B	237	38	4	279				
Total UK at 31 Dec 2022	134,373	34,590	688	169,651	—	0.4	11.1	0.1
of which: Hong Kong								
Fully collateralised by LTV ratio	94,949	981	237	96,167	—	—	0.1	—
– less than 50%	44,740	577	105	45,422	—	—	—	—
– 51% to 70%	28,123	256	37	28,416	—	—	0.3	—
– 71% to 80%	4,167	37	25	4,229	—	—	0.1	—
– 81% to 90%	7,883	51	27	7,961	—	0.1	—	—
– 91% to 100%	10,036	60	43	10,139	—	0.2	—	—
Partially collateralised (C): LTV > 100%	6,441	47	1	6,489	—	0.2	0.3	—
– collateral value on C	6,146	44	1	6,191				
Total Hong Kong at 31 Dec 2022	101,390	1,028	238	102,656	—	—	0.1	—

Supplementary information

Wholesale lending – loans and advances to customers at amortised cost by country/territory

	Gross carrying amount				Allowance for ECL			
	Corporate and commercial \$m	of which: real estate and construction ¹ \$m	Non-bank financial institutions \$m	Total \$m	Corporate and commercial \$m	of which: real estate and construction ¹ \$m	Non-bank financial institutions \$m	Total \$m
UK	105,536	17,852	18,343	123,879	(1,451)	(246)	(231)	(1,682)
– of which: HSBC UK Bank plc (ring-fenced bank)	80,248	17,060	9,372	89,620	(1,212)	(212)	(66)	(1,278)
– of which: HSBC Bank plc (non-ring-fenced bank)	24,791	792	8,971	33,762	(240)	(34)	(165)	(405)
– of which: Other trading entities	497	—	—	497	1	—	—	1
France	27,017	4,796	5,701	32,718	(636)	(53)	(18)	(654)
Germany	6,667	240	632	7,299	(74)	—	—	(74)
Switzerland	1,168	423	378	1,546	(12)	(1)	—	(12)
Hong Kong	125,340	48,594	19,319	144,659	(3,099)	(2,147)	(57)	(3,156)
Australia	12,685	4,443	1,564	14,249	(49)	(1)	—	(49)
India	10,856	2,083	5,315	16,171	(47)	(7)	(4)	(51)
Indonesia	3,100	162	411	3,511	(136)	(58)	—	(136)
Mainland China	28,655	6,709	7,775	36,430	(313)	(212)	(11)	(324)
Malaysia	5,797	1,137	258	6,055	(69)	(15)	—	(69)
Singapore	15,845	3,458	948	16,793	(321)	(40)	(1)	(322)
Taiwan	4,512	30	81	4,593	—	—	—	—
Egypt	899	45	86	985	(128)	(10)	(1)	(129)
UAE	13,740	1,979	823	14,563	(543)	(296)	—	(543)
US	26,993	5,143	9,155	36,148	(239)	(101)	(58)	(297)
Mexico	11,326	865	1,349	12,675	(320)	(19)	(5)	(325)
Other	27,519	3,496	2,294	29,813	(366)	(80)	(18)	(384)
At 31 Dec 2023	427,655	101,455	74,432	502,087	(7,803)	(3,286)	(404)	(8,207)

Wholesale lending – loans and advances to customers at amortised cost by country/territory (continued)

	Gross carrying amount				Allowance for ECL			
	Corporate and commercial	of which: real estate and construction	Non-bank financial institutions	Total	Corporate and commercial	of which: real estate and construction	Non-bank financial institutions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK	104,775	18,747	12,662	117,437	(1,522)	(420)	(131)	(1,653)
– of which: HSBC UK Bank plc (ring-fenced bank)	78,249	17,121	2,980	81,229	(1,247)	(279)	(6)	(1,253)
– of which: HSBC Bank plc (non-ring-fenced bank)	26,526	1,625	9,682	36,208	(275)	(141)	(125)	(400)
France	27,571	4,607	4,152	31,723	(621)	(49)	(4)	(625)
Germany	6,603	252	713	7,316	(154)	—	(3)	(157)
Switzerland	988	635	298	1,286	(8)	—	—	(8)
Hong Kong	144,256	58,531	20,798	165,054	(2,997)	(1,980)	(35)	(3,032)
Australia	11,641	3,339	1,157	12,798	(97)	(1)	—	(97)
India	9,052	1,901	4,267	13,319	(80)	(26)	(10)	(90)
Indonesia	3,214	206	226	3,440	(187)	(5)	—	(187)
Mainland China	31,790	7,499	8,908	40,698	(327)	(174)	(30)	(357)
Malaysia	5,986	1,351	180	6,166	(133)	(38)	—	(133)
Singapore	15,905	4,031	1,192	17,097	(387)	(44)	(1)	(388)
Taiwan	4,701	36	65	4,766	(1)	—	—	(1)
Egypt	1,262	111	101	1,363	(117)	(6)	(1)	(118)
UAE	13,503	2,091	149	13,652	(674)	(342)	—	(674)
US	28,249	6,491	8,640	36,889	(214)	(95)	(26)	(240)
Mexico	9,784	1,081	717	10,501	(334)	(34)	(1)	(335)
Other	33,922	3,676	2,699	36,621	(467)	(79)	(15)	(482)
At 31 Dec 2022	453,202	114,585	66,924	520,126	(8,320)	(3,293)	(257)	(8,577)

1 Real estate lending within this disclosure corresponds solely to the industry of the borrower. Commercial real estate on page 219 includes borrowers in multiple industries investing in income-producing assets and, to a lesser extent, their construction and development.

Personal lending – loans and advances to customers at amortised cost by country/territory

	Gross carrying amount				Allowance for ECL			
	First lien residential mortgages	Other personal	of which: credit cards	Total	First lien residential mortgages	Other personal	of which: credit cards	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK	168,469	19,503	8,056	187,972	(209)	(697)	(339)	(906)
– of which: HSBC UK Bank plc (ring-fenced bank)	164,878	17,884	7,975	182,762	(205)	(692)	(336)	(897)
– of which: HSBC Bank plc (non-ring-fenced bank)	3,226	141	81	3,367	(3)	(5)	(2)	(8)
– of which: Other trading entities	365	1,478	—	1,843	(1)	—	(1)	(1)
France ¹	436	7,476	1	7,912	(13)	(8)	—	(21)
Germany	—	165	—	165	—	—	—	—
Switzerland	1,770	5,466	—	7,236	(1)	(20)	—	(21)
Hong Kong	107,182	31,248	9,663	138,430	(2)	(417)	(286)	(419)
Australia	23,001	446	396	23,447	(5)	(19)	(18)	(24)
India	1,537	680	185	2,217	(4)	(16)	(12)	(20)
Indonesia	58	288	137	346	(2)	(11)	(7)	(13)
Mainland China	7,503	754	287	8,257	(3)	(49)	(39)	(52)
Malaysia	2,313	2,115	882	4,428	(23)	(87)	(36)	(110)
Singapore	8,151	5,589	521	13,740	—	(38)	(17)	(38)
Taiwan	5,607	1,370	309	6,977	—	(17)	(4)	(17)
Egypt	—	341	89	341	—	(1)	(1)	(1)
UAE	1,957	1,325	440	3,282	(10)	(62)	(24)	(72)
US	18,340	673	199	19,013	(15)	(19)	(14)	(34)
Mexico	8,778	6,215	2,465	14,993	(176)	(757)	(297)	(933)
Other	5,807	2,959	1,050	8,766	(108)	(78)	(42)	(186)
At 31 Dec 2023	360,909	86,613	24,680	447,522	(571)	(2,296)	(1,136)	(2,867)

Risk review

Personal lending – loans and advances to customers at amortised costs by country/territory (continued)

	Gross carrying amount				Allowance for ECL			
	First lien residential mortgages	Other personal	of which: credit cards	Total	First lien residential mortgages	Other personal	of which: credit cards	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
UK	154,519	16,793	6,622	171,312	(227)	(838)	(449)	(1,065)
– of which: HSBC UK Bank plc (ring-fenced bank)	151,188	15,808	6,556	166,996	(222)	(828)	(447)	(1,050)
– of which: HSBC Bank plc (non-ring-fenced bank)	3,331	985	66	4,316	(5)	(10)	(2)	(15)
France ¹	30	76	9	106	(14)	(8)	—	(22)
Germany	—	234	—	234	—	—	—	—
Switzerland	1,378	5,096	—	6,474	—	(20)	—	(20)
Hong Kong	101,478	31,409	8,644	132,887	(1)	(352)	(258)	(353)
Australia	21,372	456	396	21,828	(11)	(18)	(18)	(29)
India	1,078	590	162	1,668	(4)	(18)	(13)	(22)
Indonesia	70	278	141	348	(1)	(17)	(12)	(18)
Mainland China	9,305	921	378	10,226	(3)	(61)	(49)	(64)
Malaysia	2,292	2,437	843	4,729	(27)	(92)	(31)	(119)
Singapore	7,501	6,264	422	13,765	—	(35)	(14)	(35)
Taiwan	5,428	1,189	284	6,617	—	(18)	(5)	(18)
Egypt	—	310	83	310	—	(2)	(1)	(2)
UAE	2,104	1,339	426	3,443	(14)	(84)	(41)	(98)
US	16,847	704	213	17,551	(10)	(31)	(23)	(41)
Mexico	6,124	4,894	1,615	11,018	(145)	(593)	(196)	(738)
Other	7,295	5,071	1,150	12,366	(118)	(108)	(51)	(226)
At 31 Dec 2022	336,821	78,061	21,388	414,882	(575)	(2,295)	(1,161)	(2,870)

¹ Included in other personal lending at 31 December 2023 is \$7,424m (31 December 2022: nil) guaranteed by Crédit Logement.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied – by global business

	Gross carrying/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
– WPB	630,661	54,069	4,233	—	688,963	(621)	(1,551)	(977)	—	(3,149)
– CMB	464,893	66,688	12,698	49	544,328	(508)	(1,336)	(4,995)	(23)	(6,862)
– GBM	696,377	14,247	3,002	32	713,658	(119)	(199)	(1,161)	(7)	(1,486)
– Corporate Centre	75,805	37	6	—	75,848	(1)	(13)	—	—	(14)
Total gross carrying amount on-balance sheet at 31 Dec 2023	1,867,736	135,041	19,939	81	2,022,797	(1,249)	(3,099)	(7,133)	(30)	(11,511)
– WPB	253,333	3,811	333	—	257,477	(22)	—	(2)	—	(24)
– CMB	142,206	16,238	877	—	159,321	(100)	(101)	(102)	—	(303)
– GBM	250,007	10,752	314	4	261,077	(38)	(34)	(7)	—	(79)
– Corporate Centre	149	—	—	—	149	—	—	—	—	—
Total nominal amount off-balance sheet at 31 Dec 2023	645,695	30,801	1,524	4	678,024	(160)	(135)	(111)	—	(406)
– WPB	124,747	406	—	—	125,153	(14)	(17)	—	—	(31)
– CMB	86,021	405	—	—	86,426	(9)	(18)	—	—	(27)
– GBM	88,229	173	1	—	88,403	(13)	(6)	(1)	—	(20)
– Corporate Centre	2,201	165	—	—	2,366	(1)	(18)	—	—	(19)
Debt instruments measured at FVOCI at 31 Dec 2023	301,198	1,149	1	—	302,348	(37)	(59)	(1)	—	(97)
– WPB	593,424	53,302	3,959	—	650,685	(602)	(1,586)	(980)	—	(3,168)
– CMB	440,638	82,087	13,072	112	535,909	(484)	(1,620)	(4,988)	(38)	(7,130)
– GBM	700,267	20,577	3,344	17	724,205	(116)	(463)	(1,116)	—	(1,695)
– Corporate Centre	83,491	188	8	—	83,687	(3)	(13)	—	—	(16)
Total gross carrying amount on-balance sheet at 31 Dec 2022	1,817,820	156,154	20,383	129	1,994,486	(1,205)	(3,682)	(7,084)	(38)	(12,009)
– WPB	239,357	4,388	770	—	244,515	(25)	(1)	—	—	(26)
– CMB	130,342	20,048	642	—	151,032	(83)	(136)	(81)	—	(300)
– GBM	229,507	12,059	209	—	241,775	(39)	(56)	(17)	—	(112)
– Corporate Centre	248	1	—	—	249	—	—	—	—	—
Total nominal amount off-balance sheet at 31 Dec 2022	599,454	36,496	1,621	—	637,571	(147)	(193)	(98)	—	(438)
– WPB	112,591	1,066	—	1	113,658	(17)	(17)	—	—	(34)
– CMB	71,445	735	—	—	72,180	(9)	(14)	—	—	(23)
– GBM	75,228	434	—	1	75,663	(10)	(8)	—	—	(18)
– Corporate Centre	3,347	299	—	—	3,646	(31)	(19)	(1)	—	(51)
Debt instruments measured at FVOCI at 31 Dec 2022	262,611	2,534	—	2	265,147	(67)	(58)	(1)	—	(126)

Loans and advances to customers and banks – other supplementary information

	Gross carrying amount	of which: stage 3 and POCI	Allowance for ECL	of which: stage 3 and POCI	Change in ECL	Write-offs	Recoveries
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
First lien residential mortgages	360,909	2,212	(571)	(269)	(10)	(53)	10
– second lien residential mortgages	396	21	(8)	(5)	(1)	(1)	2
– guaranteed loans in respect of residential property	8,593	90	(20)	(14)	2	(8)	2
– other personal lending which is secured	29,481	157	(42)	(24)	8	(2)	2
– credit cards	24,680	352	(1,136)	(203)	(577)	(571)	108
– other personal lending which is unsecured	21,251	659	(1,048)	(331)	(380)	(663)	99
– motor vehicle finance	2,212	14	(42)	(8)	(61)	(28)	3
Other personal lending	86,613	1,293	(2,296)	(585)	(1,009)	(1,273)	216
Personal lending	447,522	3,505	(2,867)	(854)	(1,019)	(1,326)	226
– agriculture, forestry and fishing	7,181	312	(130)	(64)	(21)	(9)	–
– mining and quarrying	7,223	325	(101)	(83)	27	(49)	–
– manufacturing	85,333	1,899	(1,143)	(860)	(355)	(273)	11
– electricity, gas, steam and air-conditioning supply	14,355	255	(119)	(88)	(26)	(10)	–
– water supply, sewerage, waste management and remediation	3,262	102	(63)	(51)	(44)	(2)	–
– real estate and construction	101,455	5,883	(3,286)	(2,561)	(1,358)	(1,191)	6
– wholesale and retail trade, repair of motor vehicles and motorcycles	79,121	2,362	(1,341)	(1,134)	(124)	(447)	12
– transportation and storage	21,456	445	(230)	(160)	(87)	(42)	–
– accommodation and food	15,874	1,058	(257)	(112)	(33)	(26)	–
– publishing, audiovisual and broadcasting	19,731	210	(173)	(50)	(106)	(73)	–
– professional, scientific and technical activities	26,753	740	(401)	(306)	(262)	(110)	1
– administrative and support services	22,203	597	(268)	(174)	39	(137)	–
– public administration and defence, compulsory social security	1,042	–	–	–	–	–	–
– education	1,460	46	(15)	(4)	(1)	(22)	–
– health and care	4,236	183	(56)	(26)	40	(7)	–
– arts, entertainment and recreation	1,961	99	(42)	(31)	15	(8)	–
– other services	8,355	318	(153)	(90)	22	(181)	12
– activities of households	694	–	–	–	–	–	–
– extra-territorial organisations and bodies activities	101	–	–	–	–	–	–
– government	5,827	205	(12)	(10)	(15)	–	–
– asset-backed securities	32	–	(13)	–	–	–	–
Corporate and commercial	427,655	15,039	(7,803)	(5,804)	(2,289)	(2,587)	42
Non-bank financial institutions	74,432	810	(404)	(322)	(168)	(9)	–
Wholesale lending	502,087	15,849	(8,207)	(6,126)	(2,457)	(2,596)	42
Loans and advances to customers	949,609	19,354	(11,074)	(6,980)	(3,476)	(3,922)	268
Loans and advances to banks	112,917	2	(15)	(2)	53	–	–
At 31 Dec 2023	1,062,526	19,356	(11,089)	(6,982)	(3,423)	(3,922)	268

Risk review

Loans and advances to customers and banks – other supplementary information (continued)

	Gross carrying amount	of which: stage 3 and POCI	Allowance for ECL	of which: stage 3 and POCI	Change in ECL	Write-offs	Recoveries
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
First lien residential mortgages	336,821	2,042	(575)	(270)	180	(48)	26
– second lien residential mortgages	379	6	(6)	(3)	9	(1)	4
– guaranteed loans in respect of residential property	1,367	125	(34)	(30)	(11)	(9)	2
– other personal lending which is secured	32,106	206	(55)	(30)	(16)	(5)	1
– credit cards	21,388	260	(1,161)	(160)	(638)	(471)	126
– other personal lending which is unsecured	20,880	687	(1,008)	(305)	(655)	(660)	119
– motor vehicle finance	1,941	13	(31)	(7)	39	(18)	5
Other personal lending	78,061	1,297	(2,295)	(535)	(1,272)	(1,164)	257
Personal lending	414,882	3,339	(2,870)	(805)	(1,092)	(1,212)	283
– agriculture, forestry and fishing	6,571	261	(122)	(68)	(32)	(42)	—
– mining and quarrying	8,120	233	(172)	(146)	(24)	(46)	—
– manufacturing	87,460	2,065	(1,153)	(896)	(191)	(171)	3
– electricity, gas, steam and air-conditioning supply	16,478	277	(108)	(67)	(75)	(16)	—
– water supply, sewerage, waste management and remediation	2,993	26	(21)	(13)	3	(1)	—
– real estate and construction	114,585	5,651	(3,293)	(2,232)	(1,630)	(310)	8
– wholesale and retail trade, repair of motor vehicles and motorcycles	82,429	2,810	(1,666)	(1,344)	(344)	(667)	8
– transportation and storage	24,686	556	(248)	(153)	(13)	(82)	1
– accommodation and food	17,174	789	(244)	(82)	103	(29)	—
– publishing, audiovisual and broadcasting	18,388	277	(117)	(59)	9	(47)	1
– professional, scientific and technical activities	17,935	542	(272)	(200)	(81)	(31)	1
– administrative and support services	25,077	980	(408)	(293)	(27)	(27)	1
– public administration and defence, compulsory social security	1,180	—	(1)	—	5	—	—
– education	1,593	87	(31)	(22)	1	(3)	—
– health and care	3,902	266	(90)	(67)	(30)	(7)	1
– arts, entertainment and recreation	1,862	146	(77)	(57)	1	(17)	—
– other services	12,471	589	(274)	(219)	120	(92)	7
– activities of households	744	—	—	—	—	—	—
– extra-territorial organisations and bodies activities	47	—	—	—	1	—	1
– government	9,475	270	(10)	(7)	(5)	—	—
– asset-backed securities	32	—	(13)	—	(4)	—	—
Corporate and commercial	453,202	15,825	(8,320)	(5,925)	(2,213)	(1,588)	32
Non-bank financial institutions	66,924	469	(257)	(137)	(165)	(1)	1
Wholesale lending	520,126	16,294	(8,577)	(6,062)	(2,378)	(1,589)	33
Loans and advances to customers	935,008	19,633	(11,447)	(6,867)	(3,470)	(2,801)	316
Loans and advances to banks	104,544	82	(69)	(22)	(53)	—	—
At 31 Dec 2022	1,039,552	19,715	(11,516)	(6,889)	(3,523)	(2,801)	316

HSBC Holdings

(Audited)

Risk in HSBC Holdings is overseen by the HSBC Holdings Asset and Liability Management Committee. The major risks faced by HSBC Holdings are credit risk, liquidity risk and market risk (in the form of interest rate risk and foreign exchange risk).

Credit risk in HSBC Holdings primarily arises from transactions with Group subsidiaries.

In HSBC Holdings, the maximum exposure to credit risk arises from two components:

- financial assets on the balance sheet, where maximum exposure equals the carrying amount (see page 365); and
- financial guarantees and other guarantees, where the maximum exposure is the maximum that we would have to pay if the guarantees were called upon (see Note 34).

In the case of our derivative asset balances (see page 365), there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. These offsets also include collateral received in cash and other financial assets.

The total offset relating to our derivative asset balances was \$3.0bn at 31 December 2023 (2022: \$3.1bn).

The credit quality of loans and advances and financial investments, both of which consist of intra-Group lending and US Treasury bills and bonds, is assessed as ‘strong’, with 100% of the exposure being neither past due nor impaired (2022: 100%). For further details of credit quality classification, see page 184.

Treasury risk

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Overview

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

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

Approach and policy

(Audited)

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

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

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

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

Treasury risk management

Key developments in 2023

- Following high-profile banking failures in the first quarter of 2023, we reviewed our liquidity monitoring and metric assumptions as part of our internal liquidity adequacy assessment process cycle to ensure they continued to cover observed and emerging risks.
- In 2023, we reverted to a policy of paying quarterly dividends, with the Board approving three interim dividends of \$0.10 per share. We announced \$7bn of share buy-backs during 2023.
- Effective July 2023, the Bank of England's Financial Policy Committee doubled the UK countercyclical capital buffer rate from 1% to 2%, in line with the usual 12-month implementation lag. This change increased our CET1 requirement by 0.2 percentage points.
- We further stabilised our net interest income against a backdrop of fluctuating interest rate expectations as the trajectory of inflation for major economies was reassessed.
- Following the acquisition of SVB UK in the first quarter of 2023, we launched HSBC Innovation Banking in June, which combined the expertise of SVB UK with the reach of our international network. We are in the process of integrating HSBC Innovation

Banking into the Group. The acquisition was funded from existing resources, and the impacts on our Group LCR and CET1 ratio were minimal.

- In the fourth quarter of 2023, we reclassified our retail banking operations in France as held for sale, recognising a \$2.0bn loss. In the first quarter, we had recognised a \$2.1bn partial reversal of impairment for this business. The net result for the year was a favourable \$0.1bn impact. On 1 January 2024, we completed the sale of this business with no material incremental impact on CET1.
- Having entered into an agreement to sell our banking business in Canada in 2022, the transaction is expected to complete at the end of the first quarter of 2024. The associated gain on sale is expected to add approximately 1.2 percentage points to the CET1 ratio as it stood at 31 December 2023.

For quantitative disclosures on capital ratios, own funds and risk-weighted assets ('RWAs'), see pages 242 to 243. For quantitative disclosures on liquidity and funding metrics, see pages 246 to 247. For quantitative disclosures on interest rate risk in the banking book, see pages 250 to 252.

Governance and structure

The Global Head of Traded and Treasury Risk Management and Risk Analytics is the accountable risk steward for all treasury risks. The Group Treasurer is the risk owner for all treasury risks, with the exception of pension risk and insurance risk. The Group Treasurer co-owns pension risk with the Group Head of Performance, Reward and Employee Relations. Insurance risk is owned by the Chief Executive Officer for Global Insurance.

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

Pension risk is overseen by a network of local and regional pension risk management meetings. The Global Pensions Risk Management Meeting provides oversight of all pension plans sponsored by HSBC globally, and is chaired by the accountable risk steward. Insurance risk is overseen by the Global Insurance Risk Management Meeting, chaired by the Chief Risk and Compliance Officer for Global Insurance.

Capital, liquidity and funding risk management processes

Assessment and risk appetite

Our capital management policy is supported by a global capital management framework. The framework sets out our approach to determining key capital risk appetites including CET1, total capital, minimum requirements for own funds and eligible liabilities ('MREL'), the leverage ratio and double leverage. Our internal capital adequacy assessment process ('ICAAP') is an assessment of the Group's capital position, outlining both regulatory and internal capital resources and requirements resulting from HSBC'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. The Group's ICAAP supports the determination of the consolidated capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators. Subsidiaries prepare ICAAPs in line with global guidance, while considering their local regulatory regimes to determine their own risk appetites and ratios.

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

HSBC Holdings seeks to maintain a prudent balance between the composition of its capital and its investments in subsidiaries.

As a matter of long-standing policy, the holding company group retains a substantial holdings capital buffer comprising cash and other high-quality liquid assets, which at 31 December 2023 was in excess of \$27bn, within risk appetite.

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 internal liquidity adequacy assessment process ('ILAAP'), which ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day. The ILAAP informs the validation of risk tolerance and the setting of risk appetite. It also assesses the capability to manage liquidity and funding effectively 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 form part of the annual financial resource plan that is approved by the Board. Capital and RWA forecasts are submitted to the Group Executive Committee on a monthly basis, and capital and RWAs are monitored and managed against the plan. The responsibility for global capital allocation principles rests with the Group Chief Financial Officer, supported by the Group Capital Management Meeting. This is a specialist forum addressing capital management, reporting into Holdings ALCO.

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

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

Risks to capital and liquidity

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs, capital and/or liquidity position. Downside and Upside scenarios are assessed against our management objectives, and mitigating actions are assigned as necessary. We closely monitor future regulatory developments and continue to evaluate the impact of these upon our capital and liquidity requirements, particularly those related to the UK's implementation of

the outstanding measures to be implemented from the Basel III reforms ('Basel 3.1').

Regulatory developments

Future changes to our ratios will occur with the implementation of Basel 3.1. The Prudential Regulation Authority ('PRA') has published its consultation paper on the UK's implementation, with a proposed implementation date of 1 July 2025. The PRA has also published a set of near-final rules in relation to some Basel 3.1 elements. We are currently assessing the impact of implementation.

The RWA output floor under Basel 3.1 is proposed to be subject to a four-and-a-half year transitional provision. Any impact from the output floor is expected to be towards the end of the transition period.

Regulatory reporting processes and controls

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

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

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

Stress testing and recovery and resolution planning

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

In addition to a range of internal stress tests, we are subject to supervisory stress testing in many jurisdictions. These include the programmes of the Bank of England ('BoE'), the US Federal Reserve Board, the European Banking Authority, the European Central Bank and the Hong Kong Monetary Authority. The results of regulatory stress testing and our internal stress tests are used when assessing our internal capital and liquidity requirements through the ICAAP and ILAAP. The outcomes of stress testing exercises carried out by the PRA and other regulators feed into the setting of regulatory minimum ratios and buffers.

We maintain recovery plans for the Group and material entities, which set out potential options management could take in a range of stress scenarios that could result in a breach of capital or liquidity buffers.

The Group recovery plan sets out the framework and governance arrangements to support restoring HSBC to a stable and viable position, and so lowering the probability of failure from either idiosyncratic company-specific stress or systemic market-wide issues. Our material entities' recovery plans provide detailed actions that management would consider taking in a stress scenario should their positions deteriorate and threaten to breach risk appetite and regulatory minimum levels. This is to help ensure that HSBC entities can stabilise their financial position and recover from financial losses in a stress environment.

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

to HSBC's progress against the Resolvability Assessment Framework will be made in June 2024.

Overall, HSBC's recovery and resolution planning helps safeguard the Group's financial and operational stability. The Group is committed to further developing its recovery and resolution capabilities, including in relation to the 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 in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to Global Treasury. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Global Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

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

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

Net interest income and banking net interest income sensitivity

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

NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure, except for certain mortgage products where balances are impacted by interest rate sensitive prepayments. These sensitivity calculations do not incorporate actions that would be taken by Global 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.

During 2023, we introduced an additional metric to measure and manage the sensitivity of our NII to interest rate shocks. In addition to NII sensitivity, we now also monitor banking NII sensitivity. HSBC has a significant quantity of trading book assets that are funded by banking book liabilities, and the NII sensitivity measure does not include the sensitivity of the internal transfer income from this funding. Banking NII sensitivity includes an adjustment on top of NII sensitivity to reflect this. Going forwards, this will be our primary metric for monitoring and management of interest rate risk in the banking book.

Economic value of equity sensitivity

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

Further details of HSBC's risk management of interest rate risk in the banking book can be found in the Group's Pillar 3 Disclosures at 31 December 2023.

Other Group risks

Non-trading book foreign exchange exposures

Structural foreign exchange exposures

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

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). We use the US dollar as our presentation currency in our consolidated financial statements because the US dollar and currencies linked to it form the major currency bloc in which we transact and fund our business. Therefore, our consolidated balance sheet is affected by exchange differences between the US dollar and all the non-US dollar functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. We hedge structural foreign exchange positions where it is capital efficient to do so, and subject to approved limits. This is achieved through a combination of net investment hedges and economic hedges. Hedging positions are monitored and rebalanced periodically to manage RWA or downside risks associated with HSBC's foreign currency investments.

For further details of our structural foreign exchange exposures, see page 249.

Transactional foreign exchange exposures

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

HSBC Holdings risk management

As a financial services holding company, HSBC Holdings has limited market risk activities. Its activities predominantly involve maintaining sufficient capital resources to support the Group's diverse activities; allocating these capital resources across the Group's businesses; earning dividend and interest income on its investments in the businesses; payment of operating expenses; providing dividend payments to its equity shareholders and interest payments to providers of debt capital; and maintaining a supply of short-term liquid assets for deployment under extraordinary circumstances.

The main market risks to which HSBC Holdings is exposed are banking book interest rate risk and foreign currency risk. Exposure to these risks arises from short-term cash balances, funding positions held, loans to subsidiaries, investments in long-term financial assets, financial liabilities including debt capital issued, and structural foreign exchange hedges. The objective of HSBC Holdings' market risk management strategy is to manage volatility in capital resources, cash flows and distributable reserves that could be caused by movements in market parameters. Market risk for HSBC Holdings is monitored by Holdings ALCO in accordance with its risk appetite statement.

Risk review

HSBC Holdings uses interest rate swaps and cross-currency interest rate swaps to manage the interest rate risk and foreign currency risk arising from its long-term debt issues. It also uses forward foreign exchange contracts to manage its structural foreign exchange exposures.

For quantitative disclosures on interest rate risk in the banking book, see pages 250 to 252.

Pension risk management processes

Our global pensions strategy is to move from defined benefit to defined contribution plans, where local law allows and it is considered competitive to do so. Our most material defined benefit plans have been closed to new entrants for many years, and the majority (including the largest plan in the UK) are also closed to future accrual.

In defined contribution pension plans, the contributions that HSBC is required to make are known, while the ultimate pension benefit will vary, typically with investment returns achieved by investment choices made by the employee. While the market risk to HSBC of defined contribution plans is low, the Group is still exposed to operational and reputational risk.

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

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

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

To fund the benefits associated with defined benefit plans, sponsoring Group companies, and in some instances employees, make regular contributions in accordance with advice from actuaries and in consultation with the plan's fiduciaries where relevant. These contributions are normally set to ensure that there are sufficient funds to meet the cost of the accruing benefits for the future service of active members. However, higher contributions are required when plan assets are considered insufficient to cover the existing pension liabilities. Contribution rates are typically revised annually or once every three years, depending on the plan.

The defined benefit plans invest contributions in a range of investments designed to limit the risk of assets failing to meet a plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation is established between asset classes of the defined benefit plan. In addition, each permitted asset class has its own benchmarks, such as stock-market or property valuation indices or liability characteristics. The benchmarks are reviewed at least once every three to five years and more frequently if required by local legislation or circumstances. The process generally involves an extensive asset and liability review.

In addition, some of the Group's pension plans hold longevity swap contracts. These arrangements provide long-term protection to the relevant plans against costs resulting from pensioners or their dependants living longer than initially expected. The most sizeable plan to do this is the HSBC Bank (UK) Pension Scheme, which holds longevity swaps covering approximately 50% of the plan's pensioner liabilities.

Capital risk in 2023

Capital overview

Capital adequacy metrics

	At	
	31 Dec 2023	31 Dec 2022
Risk-weighted assets ('RWAs') (\$bn)		
Credit risk	683.9	679.1
Counterparty credit risk	35.5	37.1
Market risk	37.5	37.6
Operational risk	97.2	85.9
Total RWAs	854.1	839.7
Capital on a transitional basis (\$bn)		
Common equity tier 1 ('CET1') capital	126.5	119.3
Tier 1 capital	144.2	139.1
Total capital	171.2	162.4
Capital ratios on a transitional basis (%)		
Common equity tier 1 ratio	14.8	14.2
Tier 1 ratio	16.9	16.6
Total capital ratio	20.0	19.3
Capital on an end point basis (\$bn)		
Common equity tier 1 ('CET1') capital	126.5	119.3
Tier 1 capital	144.2	139.1
Total capital	167.1	157.2
Capital ratios on an end point basis (%)		
Common equity tier 1 ratio	14.8	14.2
Tier 1 ratio	16.9	16.6
Total capital ratio	19.6	18.7
Liquidity coverage ratio ('LCR')		
Total high-quality liquid assets (\$bn)	647.5	647.0
Total net cash outflow (\$bn)	477.1	490.8
LCR (%)	136	132
Net stable funding ratio ('NSFR')		
Total available stable funding (\$bn)	1,601.9	1,552.0
Total required stable funding (\$bn)	1,202.4	1,138.4
NSFR (%)	133	136

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.

Capital figures and ratios in the previous table are calculated in accordance with the regulatory requirements of the Capital Requirements Regulation and Directive, the CRR II regulation and the PRA Rulebook ('CRR II'). The table presents them under the

transitional arrangements in CRR II for capital instruments and after their expiry, known as the end point.

The liquidity coverage ratio is based on the average month-end value over the preceding 12 months. The net stable funding ratio is the average of the preceding four quarters.

Regulatory numbers and ratios are as presented at the date of reporting. Small changes may exist between these numbers and ratios and those submitted in regulatory filings. Where differences are significant, we may restate in subsequent periods.

Own funds disclosure

(Audited)

Ref*		At	
		31 Dec 2023	31 Dec 2022
		\$m	\$m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	22,964	23,406
	– ordinary shares	22,964	23,406
2,3	Retained earnings, accumulated other comprehensive income (and other reserves) ¹	128,419	121,609
5	Minority interests (amount allowed in consolidated CET1)	3,917	4,444
5a	Independently reviewed net profits net of any foreseeable charge or dividend	10,568	8,633
6	Common equity tier 1 capital before regulatory adjustments¹	165,868	158,092
28	Total regulatory adjustments to common equity tier ¹	(39,367)	(38,801)
29	Common equity tier 1 capital	126,501	119,291
36	Additional tier 1 capital before regulatory adjustments	17,732	19,836
43	Total regulatory adjustments to additional tier 1 capital	(70)	(60)
44	Additional tier 1 capital	17,662	19,776
45	Tier 1 capital	144,163	139,067
51	Tier 2 capital before regulatory adjustments	28,148	24,779
57	Total regulatory adjustments to tier 2 capital	(1,107)	(1,423)
58	Tier 2 capital	27,041	23,356
59	Total capital	171,204	162,423

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

1 On adoption of IFRS 17 'Insurance Contracts', comparative data previously published under IFRS 4 'Insurance Contracts' have been restated for 2022, with no impact on CET1 and total capital.

At 31 December 2023, our CET1 capital ratio increased to 14.8% from 14.2% at 31 December 2022, reflecting an increase in CET1 capital of \$7.2bn, partly offset by an increase in RWAs of \$14.4bn. The key drivers of the overall rise in our CET1 ratio during the year were:

- a 1.0 percentage point increase from capital generation, mainly through profits less dividends and share buy-backs;
- a 0.3 percentage point reduction due to an increase in regulatory deductions, primarily for expected excess loss and intangible assets; and
- a 0.1 percentage point decrease from the adverse impact of foreign exchange fluctuations and the increase in the underlying RWAs.

The impairment of BoCom had an insignificant impact on our capital and CET1 ratio. This is because the impairment charge had a partially offsetting reduction in threshold deductions from regulatory capital. For regulatory capital purposes, our share of BoCom's profits is not capital accretive, although the dividends we receive from BoCom are capital accretive.

Our Pillar 2A requirement at 31 December 2023, as per the PRA's Individual Capital Requirement based on a point-in-time assessment, was equivalent to 2.6% of RWAs, of which 1.5% was required to be met by CET1. Throughout 2023, we complied with the PRA's regulatory capital adequacy requirements.

Risk-weighted assets

RWAs by global business

	WPB	CMB ¹	GBM ¹	Corporate Centre	Total RWAs
	\$bn	\$bn	\$bn	\$bn	\$bn
Credit risk	155.3	319.1	131.5	78.0	683.9
Counterparty credit risk	1.9	1.5	32.0	0.1	35.5
Market risk	1.3	1.0	22.2	13.0	37.5
Operational risk	34.4	32.9	32.8	(2.9)	97.2
At 31 Dec 2023	192.9	354.5	218.5	88.2	854.1
At 31 Dec 2022	182.9	342.4	225.9	88.5	839.7

1 In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

Risk review

RWAs by legal entities¹

	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Holding companies, shared service centres and intra-Group eliminations	Total RWAs
	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
Credit risk	110.7	73.4	314.0	17.1	59.3	27.1	25.9	48.0	8.4	683.9
Counterparty credit risk	0.3	17.8	8.7	0.7	3.1	0.5	0.7	3.7	—	35.5
Market risk ²	0.2	22.7	27.4	2.8	2.6	0.8	0.7	1.6	9.3	37.5
Operational risk	18.0	17.6	46.6	3.7	7.2	3.5	5.3	6.3	(11.0)	97.2
At 31 Dec 2023	129.2	131.5	396.7	24.3	72.2	31.9	32.6	59.6	6.7	854.1
At 31 Dec 2022	110.9	127.0	407.0	22.5	72.5	31.9	26.7	60.3	8.1	839.7

¹ Balances are on a third-party Group consolidated basis.

² Market risk RWAs are non-additive across the legal entities due to diversification effects within the Group.

RWA movement by global business by key driver

	Credit risk, counterparty credit risk and operational risk						Total RWAs
	WPB	CMB ¹	GBM ¹	Corporate Centre	Market risk		
	\$bn	\$bn	\$bn	\$bn	\$bn		\$bn
RWAs at 1 Jan 2023	181.2	341.3	202.3	77.3	37.6		839.7
Asset size ²	15.6	3.2	3.2	2.6	1.6		26.2
Asset quality	2.8	1.5	(0.6)	(1.2)	—		2.5
Model updates	(1.3)	(0.1)	(0.3)	—	(0.9)		(2.6)
Methodology and policy	(6.2)	(1.8)	(7.5)	(3.5)	(0.9)		(19.9)
Acquisitions and disposals	(1.3)	8.0	(0.7)	0.1	0.1		6.2
Foreign exchange movements ³	0.8	1.4	(0.1)	(0.1)	—		2.0
Total RWA movement	10.4	12.2	(6.0)	(2.1)	(0.1)		14.4
RWAs at 31 Dec 2023	191.6	353.5	196.3	75.2	37.5		854.1

¹ In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

² The movements in asset size include the increase in operational risk RWAs, which was driven by revenue.

³ Credit risk foreign exchange movements in this disclosure are computed by retranslating the RWAs into US dollars based on the underlying transactional currencies.

RWA movement by legal entities by key driver¹

	Credit risk, counterparty credit risk and operational risk										Total RWAs
	HSBC UK Bank plc	HSBC Bank plc	The Hongkong and Shanghai Banking Corporation Limited	HSBC Bank Middle East Limited	HSBC North America Holdings Inc	HSBC Bank Canada	Grupo Financiero HSBC, S.A. de C.V.	Other trading entities	Holding companies, shared service centres and intra-Group eliminations	Market risk	
	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn	\$bn
RWAs at 1 Jan 2023	110.8	106.5	378.4	20.8	69.5	31.1	26.2	58.0	0.8	37.6	839.7
Asset size ²	5.1	0.2	5.8	1.8	0.4	(0.2)	2.9	12.1	(3.5)	1.6	26.2
Asset quality	2.3	(0.9)	(1.9)	(1.0)	0.8	0.3	(0.5)	3.3	0.1	—	2.5
Model updates	(1.0)	(0.3)	(0.4)	0.1	—	—	—	(0.1)	—	(0.9)	(2.6)
Methodology and policy	(4.0)	0.8	(11.2)	(0.3)	(1.1)	(0.7)	0.2	(2.5)	(0.2)	(0.9)	(19.9)
Acquisitions and disposals	9.5	(0.2)	(0.1)	—	—	—	—	(3.2)	0.1	0.1	6.2
Foreign exchange movements ³	6.3	2.7	(1.3)	0.1	—	0.6	3.1	(9.6)	0.1	—	2.0
Total RWA movement	18.2	2.3	(9.1)	0.7	0.1	—	5.7	—	(3.4)	(0.1)	14.4
RWAs at 31 Dec 2023	129.0	108.8	369.3	21.5	69.6	31.1	31.9	58.0	(2.6)	37.5	854.1

¹ Balances are on a third-party Group consolidated basis.

² The movements in asset size include the increase in operational risk RWAs, which was driven by revenue.

³ Credit risk foreign exchange movements in this disclosure are computed by retranslating the RWAs into US dollars based on the underlying transactional currencies.

Risk-weighted assets ('RWAs') rose by \$14.4bn during the year, driven by an increase of \$34.4bn from increased lending, higher operational risk RWAs, business acquisitions and foreign exchange movements. These were partly offset by a reduction of \$19.9bn due to methodology and policy changes.

Asset size

Asset size RWAs increased by \$26.2bn, including a \$10.4bn rise in operational risk RWAs driven by growth in NII.

WPB RWAs increased by \$15.6bn, notably due to an expansion of retail lending in Asia, the UK and Mexico, additional sovereign exposures in Asia and other trading entities, including a \$2.9bn rise in operational risk RWAs.

CMB RWAs increased by \$3.2bn, reflecting an increase in operational risk RWAs of \$5.2bn and additional sovereign exposures across various entities. This was partly offset by a net decrease in corporate lending in Asia, the US and Europe.

GBM RWAs increased by \$3.2bn, mainly from the \$4.0bn rise in operational risk RWAs and additional sovereign exposures across various entities. This was partly offset by a fall in lending in Asia and Europe.

Corporate Centre RWAs rose by \$2.6bn, primarily due to an increase in corporate exposures in Saudi Awwal Bank ('SAB').

Leverage ratio¹

	At	
	31 Dec 2023	31 Dec 2022
	\$bn	\$bn
Tier 1 capital (leverage)	144.2	139.1
Total leverage ratio exposure	2,574.8	2,417.2
	%	%
Leverage ratio	5.6	5.8

¹ Leverage ratio calculation is in line with the PRA's UK leverage rules. This includes IFRS 9 transitional arrangement and excludes central bank claims.

Our leverage ratio was 5.6% at 31 December 2023, down from 5.8% at 31 December 2022. The increase in the leverage exposure was primarily due to growth in the balance sheet, which led to a fall of 0.4 percentage points in the leverage ratio. This was partly offset by a rise of 0.2 percentage points due to an increase in tier 1 capital.

At 31 December 2023, our UK minimum leverage ratio requirement of 3.25% was supplemented by a leverage ratio buffer of 0.9%, which consists of an additional leverage ratio buffer of 0.7% and a countercyclical leverage ratio buffer of 0.2%. These buffers translated into capital values of \$18.0bn and \$5.1bn respectively.

Regulatory and other developments

In September 2023, the PRA announced changes to the UK implementation of Basel 3.1 with a new proposed implementation date of 1 July 2025. For further details related to the November 2022 consultation, see page 6 of our *Pillar 3 Disclosures at 31 December 2022*. We are currently assessing the impact of the consultation paper and the associated implementation challenges (including data provision) on our RWAs upon initial implementation. The RWA output floor under Basel 3.1 is now proposed to be subject to a four-and-a-half year transitional provision. Any impact from the output floor is expected to be towards the end of the transition period.

Asset quality

Asset quality contributed to an RWA increase of \$2.5bn due to credit risk rating migrations and portfolio mix changes, notably in Asia, the US and Europe.

Model updates

Model updates decreased RWAs by \$2.6bn, mainly due to a change in our risk approach to multilateral development banks' exposures, following approval for change from the PRA, the implementation of the exposure at default mortgage model in the UK, and changes to the incremental risk charge model.

Methodology and policy

The decrease of RWAs from methodology and policy of \$19.9bn was mainly driven by a decline of \$7.7bn from regulatory changes related to the risk-weighting of residential mortgages in Hong Kong, and credit risk parameter refinements mainly in Asia and Europe.

Acquisitions and disposals

The increase in RWAs from acquisitions and disposals of \$6.2bn was primarily due to a rise of \$9.6bn from the acquisition of SVB UK. This was partly offset by a decline of \$3.2bn from the disposal of our business in Oman.

Foreign currency movements increased total RWAs by \$2.0bn.

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements of the Capital Requirements Regulation 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 throughout the tables in this section, including the end point figures.

Pillar 3 disclosure requirements

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management.

For further details, see our Pillar 3 Disclosures at 31 December 2023, which is expected to be published on or around 21 February 2024 at www.hsbc.com/investors.

Liquidity and funding risk in 2023

Liquidity metrics

At 31 December 2023, all of the Group's material operating entities were above the required regulatory minimum liquidity and funding levels.

Each entity maintains sufficient unencumbered liquid assets to comply with local and regulatory requirements.

Each entity maintains a sufficient stable funding profile and is assessed using the NSFR or other appropriate metrics.

In addition to regulatory metrics, we use a wide set of measures to manage our liquidity and funding profile.

The Group liquidity and funding position on an average basis is analysed in the following sections.

Operating entities' liquidity¹

	At 31 December 2023			
	LCR %	HQLA \$bn	Net outflows \$bn	NSFR %
HSBC UK Bank plc (ring-fenced bank) ²	201	118	59	158
HSBC Bank plc (non-ring-fenced bank) ³	148	132	89	116
The Hongkong and Shanghai Banking Corporation – Hong Kong branch ⁴	192	147	77	127
HSBC Singapore ⁵	292	26	9	174
Hang Seng Bank	254	52	21	163
HSBC Bank China	170	24	14	139
HSBC Bank USA	172	82	48	131
HSBC Continental Europe ^{6,7}	158	83	52	137
HSBC Bank Middle East Ltd – UAE branch	281	13	5	163
HSBC Canada	164	21	13	129
HSBC Mexico	149	8	5	124

At 31 December 2022				
HSBC UK Bank plc (ring-fenced bank) ²	226	136	60	164
HSBC Bank plc (non-ring-fenced bank) ³	143	128	90	115
The Hongkong and Shanghai Banking Corporation – Hong Kong branch ⁴	179	147	82	130
HSBC Singapore ⁵	247	21	9	173
Hang Seng Bank	228	50	22	156
HSBC Bank China	183	23	13	132
HSBC Bank USA	164	85	52	131
HSBC Continental Europe ⁶	151	55	37	132
HSBC Bank Middle East Ltd – UAE branch	239	12	5	158
HSBC Canada	149	22	15	122
HSBC Mexico	155	8	5	129

- 1 The LCR and NSFR ratios presented in the above table are based on average values. The LCR is the average of the preceding 12 months. The NSFR is the average of the preceding four quarters.
- 2 HSBC UK Bank plc refers to the HSBC UK liquidity group, which comprises five legal entities: HSBC UK Bank plc, Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Ltd, HSBC Innovation Bank Limited and HSBC Trust Company (UK) Limited, managed as a single operating entity, in line with the application of UK liquidity regulation as agreed with the PRA.
- 3 HSBC Bank plc includes overseas branches and special purpose entities consolidated by HSBC for financial statements purposes.
- 4 The Hongkong and Shanghai Banking Corporation – Hong Kong branch represents the material activities of The Hongkong and Shanghai Banking Corporation Limited. It is monitored and controlled for liquidity and funding risk purposes as a stand-alone operating entity.
- 5 HSBC Singapore includes HSBC Bank Singapore Limited and The Hongkong and Shanghai Banking Corporation – Singapore branch. Liquidity and funding risk is monitored and controlled at country level in line with the local regulator's approval.
- 6 In response to the requirement for an intermediate parent undertaking in line with the EU Capital Requirements Directive ('CRD V'), HSBC Continental Europe acquired control of HSBC Germany and HSBC Bank Malta on 30 November 2022. The averages for LCR and NSFR include the impact of the inclusion of the two entities from November 2022.
- 7 HSBC Continental Europe NSFR includes the impact of the sale of our retail banking operations in France.

Consolidated liquidity metrics

Net stable funding ratio

We manage funding risk based on the PRA's NSFR rules. The Group's NSFR at 31 December 2023, calculated from the average of the four preceding quarters average, was 133%.

	At ¹		
	31 Dec 2023 \$bn	30 Jun 2023 \$bn	31 Dec 2022 \$bn
Total available stable funding (\$bn)	1,602	1,575	1,552
Total required stable funding (\$bn)	1,202	1,172	1,138
NSFR ratio (%)	133	134	136

- 1 Group NSFR numbers above are based on average values. The NSFR number is the average of the preceding four quarters.

Liquidity coverage ratio

At 31 December 2023, the average high-quality liquid assets ('HQLA') held at entity level amounted to \$795bn (31 December 2022: \$812bn). The Group consolidation methodology includes a deduction to reflect the impact of limitations in the transferability of entity liquidity around the Group. That resulted in an adjustment of \$147bn to LCR HQLA and \$7bn to LCR inflows on an average basis. Furthermore, this methodology was enhanced in 2023 to consider more accurately non-convertible currencies.

	At ¹		
	31 Dec 2023 \$bn	30 Jun 2023 \$bn	31 Dec 2022 \$bn
High-quality liquid assets (in entities)	795	796	812
EC Delegated Act adjustment for transfer restrictions ²	(154)	(172)	(174)
Group LCR HQLA	648	631	647
Net outflows	477	478	491
Liquidity coverage ratio (%)	136	132	132

1 Group LCR numbers above are based on average values. The LCR is the average of the preceding 12 months.

2 This includes adjustments made to high-quality liquid assets and inflows in entities to reflect liquidity transfer restrictions.

Liquid assets

After the \$147bn deduction, the average Group LCR HQLA of \$648bn (31 December 2022: \$647bn) was held in a range of asset classes and currencies. Of these, 97% were eligible as level 1 (31 December 2022: 97%).

The following tables reflect the composition of the average liquidity pool by asset type and currency at 31 December 2023.

Liquidity pool by asset type¹

	Liquidity pool \$bn	Cash \$bn	Level 1 ² \$bn	Level 2 ² \$bn
Cash and balance at central bank	310	310	—	—
Central and local government bonds	319	—	303	16
Regional government public sector entities	2	—	2	—
International organisation and multilateral developments banks	10	—	10	—
Covered bonds	6	—	2	4
Other	1	—	—	1
Total at 31 Dec 2023	648	310	317	21
Total at 31 Dec 2022	647	344	284	19

1 Group liquid assets numbers are based on average values.

2 As defined in EU regulations, level 1 assets means 'assets of extremely high liquidity and credit quality', and level 2 assets means 'assets of high liquidity and credit quality'.

Liquidity pool by currency¹

	\$ \$bn	£ \$bn	€ \$bn	HK\$ \$bn	Other \$bn	Total \$bn
Liquidity pool at 31 Dec 2023	184	173	112	51	128	648
Liquidity pool at 31 Dec 2022	167	191	98	54	137	647

1 Group liquid assets numbers are based on average values.

Sources of funding

Our primary sources of funding are customer current accounts and savings deposits payable on demand or at short notice. We issue secured and unsecured wholesale securities to supplement customer deposits, meet regulatory obligations and to change the currency mix, maturity profile or location of our liabilities.

The following 'Funding sources' and 'Funding uses' tables provide a view of how our consolidated balance sheet is funded. In practice, all the principal operating entities are required to manage liquidity and funding risk on a stand-alone basis.

The tables analyse our consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented at a net balancing source or deployment of funds.

Funding sources

(Audited)

	2023 \$m	2022 ¹ \$m
Customer accounts	1,611,647	1,570,303
Deposits by banks	73,163	66,722
Repurchase agreements – non-trading	172,100	127,747
Debt securities in issue	93,917	78,149
Cash collateral, margin and settlement accounts	85,255	88,476
Liabilities of disposal groups held for sale ²	108,406	114,597
Subordinated liabilities	24,954	22,290
Financial liabilities designated at fair value	141,426	127,321
Insurance contract liabilities	120,851	108,816
Trading liabilities	73,150	72,353
– repos	12,198	16,254
– stock lending	3,322	3,541
– other trading liabilities	57,630	52,558
Total equity	192,610	185,197
Other balance sheet liabilities	341,198	387,315
At 31 Dec	3,038,677	2,949,286

Funding uses

(Audited)

	2023 \$m	2022 ¹ \$m
Loans and advances to customers	938,535	923,561
Loans and advances to banks	112,902	104,475
Reverse repurchase agreements – non-trading	252,217	253,754
Cash collateral, margin and settlement accounts	89,911	82,984
Assets held for sale ²	114,134	115,919
Trading assets	289,159	218,093
– reverse repos	16,575	14,798
– stock borrowing	14,609	10,706
– other trading assets	257,975	192,589
Financial investments	442,763	364,726
Cash and balances with central banks	285,868	327,002
Other balance sheet assets	513,188	558,772
At 31 Dec	3,038,677	2,949,286

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

2 'Liabilities of disposal groups held for sale' includes \$82bn and 'Assets held for sale' includes \$88bn in respect of the planned sale of our banking business in Canada. 'Liabilities of disposal groups held for sale' includes \$26bn and 'Assets of disposal groups held for sale' includes \$28bn in respect of the sale of our retail banking operations in France.

Wholesale term debt maturity profile

The maturity profile of our wholesale term debt obligations is set out in the following table. The balances in the table are not directly comparable with those in the consolidated balance sheet because the

table presents gross cash flows relating to principal payments and not the balance sheet carrying value, which includes debt securities and subordinated liabilities measured at fair value.

Wholesale funding cash flows payable by HSBC under financial liabilities by remaining contractual maturities¹

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Debt securities issued	17,620	9,798	14,284	13,226	12,226	20,882	64,010	50,045	202,091
– unsecured CDs and CP	6,400	6,777	7,601	6,429	6,513	1,179	1,073	925	36,897
– unsecured senior MTNs	8,190	1,160	4,365	3,627	3,267	12,903	54,984	41,007	129,503
– unsecured senior structured notes	2,307	1,491	1,617	2,513	1,978	2,924	2,793	5,910	21,533
– secured covered bonds	—	—	—	—	—	—	1,275	—	1,275
– secured asset-backed commercial paper	426	—	—	—	—	—	—	—	426
– secured ABS	22	44	62	58	55	188	861	539	1,829
– others	275	326	639	599	413	3,688	3,024	1,664	10,628
Subordinated liabilities	—	2,013	—	—	—	3,358	4,282	27,234	36,887
– subordinated debt securities	—	2,000	—	—	—	3,358	4,282	25,441	35,081
– preferred securities	—	13	—	—	—	—	—	1,793	1,806
At 31 Dec 2023	17,620	11,811	14,284	13,226	12,226	24,240	68,292	77,279	238,978
Debt securities issued	11,959	11,266	12,532	8,225	8,212	26,669	52,435	52,952	184,250
– unsecured CDs and CP	3,821	6,017	7,088	4,137	3,123	1,264	707	1,004	27,161
– unsecured senior MTNs	5,973	2,351	3,534	1,363	3,238	19,229	44,023	44,021	123,732
– unsecured senior structured notes	1,264	1,421	1,247	1,850	1,627	4,463	2,609	5,990	20,471
– secured covered bonds	—	—	—	—	—	—	602	—	602
– secured asset-backed commercial paper	690	—	—	—	—	—	—	—	690
– secured ABS	15	28	40	38	36	123	656	220	1,156
– others	196	1,449	623	837	188	1,590	3,838	1,717	10,438
Subordinated liabilities	—	—	11	160	—	2,000	5,581	25,189	32,941
– subordinated debt securities	—	—	11	160	—	2,000	5,581	23,446	31,198
– preferred securities	—	—	—	—	—	—	—	1,743	1,743
At 31 Dec 2022	11,959	11,266	12,543	8,385	8,212	28,669	58,016	78,141	217,191

¹ Excludes financial liabilities of disposal groups.

Structural foreign exchange risk in 2023

Structural foreign exchange exposures represent net assets or capital investments in subsidiaries, branches, joint arrangements or associates, together with any associated hedges, the functional currencies of which are currencies other than the US dollar. Exchange differences on structural exposures are usually recognised in 'other comprehensive income'.

Net structural foreign exchange exposures

Currency of structural exposure	2023					
	Net investment in foreign operations (excl non-controlling interest)	Net investment hedges	Structural foreign exchange exposures (pre-economic hedges)	Economic hedges – structural FX hedges ¹	Economic hedges – equity securities (AT1) ²	Net structural foreign exchange exposures
	\$m	\$m	\$m	\$m	\$m	\$m
Hong Kong dollars	39,014	(5,792)	33,222	(7,979)	—	25,243
Pounds sterling	46,661	(16,415)	30,246	—	(1,275)	28,971
Chinese renminbi	33,809	(3,299)	30,510	(1,066)	—	29,444
Euros	15,673	(515)	15,158	—	(1,384)	13,774
Canadian dollars	5,418	(1,076)	4,342	—	—	4,342
Indian rupees	6,286	(2,110)	4,176	—	—	4,176
Mexican pesos	4,883	—	4,883	—	—	4,883
Saudi riyals	4,312	—	4,312	—	—	4,312
UAE dirhams	4,995	(613)	4,382	(2,761)	—	1,621
Malaysian ringgit	2,754	—	2,754	—	—	2,754
Singapore dollars	2,345	(224)	2,121	—	—	2,121
Australian dollars	2,362	—	2,362	—	—	2,362
Taiwanese dollars	2,212	(1,127)	1,085	—	—	1,085
Indonesian rupiah	1,535	(512)	1,023	—	—	1,023
Swiss francs	1,191	(526)	665	—	—	665
Korean won	1,354	(864)	490	—	—	490
Thai baht	1,022	—	1,022	—	—	1,022
Egyptian pound	959	—	959	—	—	959
Qatari rial	834	(215)	619	(299)	—	320
Argentinian peso	794	—	794	—	—	794
Vietnamese dong	872	—	872	—	—	872
Others, each less than \$700m	4,386	(487)	3,899	—	—	3,899
At 31 Dec	183,671	(33,775)	149,896	(12,105)	(2,659)	135,132
2022 ³						
Hong Kong dollars	39,191	(4,597)	34,594	(8,363)	—	26,231
Pounds sterling	39,298	(14,000)	25,298	—	(1,205)	24,093
Chinese renminbi	35,712	(3,532)	32,180	(994)	—	31,186
Euros	14,436	(777)	13,659	—	(2,402)	11,257
Canadian dollars	4,402	(811)	3,591	—	—	3,591
Indian rupees	4,967	(1,380)	3,587	—	—	3,587
Mexican pesos	3,932	—	3,932	—	—	3,932
Saudi riyals	4,182	(109)	4,073	—	—	4,073
UAE dirhams	4,534	(731)	3,803	(2,285)	—	1,518
Malaysian ringgit	2,715	—	2,715	—	—	2,715
Singapore dollars	2,517	(358)	2,159	—	(559)	1,600
Australian dollars	2,264	—	2,264	—	—	2,264
Taiwanese dollars	2,058	(1,140)	918	—	—	918
Indonesian rupiah	1,453	(469)	984	—	—	984
Swiss francs	1,233	(727)	506	—	—	506
Korean won	1,283	(817)	466	—	—	466
Thai baht	908	—	908	—	—	908
Egyptian pound	746	—	746	—	—	746
Qatari rial	785	(200)	585	(277)	—	308
Argentinian peso	1,010	—	1,010	—	—	1,010
Vietnamese dong	665	—	665	—	—	665
Others, each less than \$700m	4,470	(495)	3,975	(36)	—	3,939
At 31 Dec	172,761	(30,143)	142,618	(11,955)	(4,166)	126,497

¹ Represents hedges that do not qualify as net investment hedges for accounting purposes.

² Represents foreign currency-denominated preference share and AT1 instruments. These are accounted for at historical cost under IFRS Accounting Standards and do not qualify as net investment hedges for accounting purposes. The gain or loss arising from changes in the US dollar value of these instruments is recognised on redemption in retained earnings.

³ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly.

For a definition of structural foreign exchange exposures, see page 241.

Interest rate risk in the banking book in 2023

Net interest income and banking net interest income

We have introduced a new metric to analyse sensitivity of our income to interest rate shocks. In addition to NII sensitivity, we are also disclosing banking NII sensitivity. HSBC has trading book assets that are funded by banking book liabilities and the NII sensitivity measure does not include the sensitivity of the internal transfer income from this funding. Banking NII sensitivity includes an adjustment on top of NII sensitivity to reflect this. The currency split of banking NII sensitivities includes the impact of vanilla foreign exchange swaps to optimise cash management across the Group.

In this disclosure we present the banking NII sensitivity alongside the NII sensitivity. Over time we expect to phase out NII sensitivity once the appropriate prior period comparables are available for banking NII sensitivity.

The following tables set out the assessed impact to a hypothetical base case projection of our NII and banking NII under an immediate shock of 100bps to the current market-implied path of interest rates across all currencies on 1 January 2024 (effects in the first, second and third years). For example, Year 3 shows the impact of an immediate rate shock on the NII and banking NII projected for the third year.

The sensitivities shown represent a hypothetical simulation of the base case income, assuming a static balance sheet (specifically no assumed migration from current account to term deposits), and no management actions from Global Treasury. This also incorporates the effect of interest rate behaviouralisation, hypothetical managed rate product pricing assumptions, prepayment of mortgages and deposit stability. The sensitivity calculations exclude pensions, insurance, and interests in associates.

The sensitivity analysis performed in the case of a down-shock does not include floors to market rates, and it does not include floors on some wholesale assets and liabilities. However, floors have been maintained for deposits and loans to customers where this is contractual or where negative rates would not be applied.

As market and policy rates move, the degree to which these changes are passed on to customers will vary based on a number of factors, including the absolute level of market rates, regulatory and contractual frameworks, and competitive dynamics. To aid comparability between markets, we have simplified the basis of preparation for our disclosure and have used a 50% pass-on assumption for major entities on certain interest-bearing deposits. Our pass-through asset assumptions are largely in line with our contractual agreements or established market practice, which typically results in a significant portion of interest rate changes being passed on.

An immediate interest rate rise of 100bps would increase projected NII for the 12 months to 31 December 2024 by \$1.1bn and banking NII by \$2.8bn. An immediate interest rate fall of 100bps would decrease projected NII for the 12 months to 31 December 2024 by \$1.6bn and banking NII by \$3.4bn.

The sensitivity of NII for 12 months as at 31 December 2023 decreased by \$2.5bn in the plus 100bps parallel shock and by \$2.4bn in the minus 100bps parallel shock, when compared with 31 December 2022. The key drivers of the reduction in NII sensitivity are the increase in stabilisation activities in line with our strategy, as well as deposit migration.

For further details of measurement of interest rate risk in the banking book, see page 241.

NII sensitivity to an instantaneous change in yield curves (12 months) – Year 1 sensitivity by currency

	Currency					Total \$m
	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	
Change in Jan 2024 to Dec 2024 (based on balance sheet at 31 December 2023)						
+100bps parallel	(1,155)	148	325	503	1,232	1,053
-100bps parallel	1,004	(230)	(432)	(522)	(1,391)	(1,571)
Change in Jan 2023 to Dec 2023 (based on balance sheet at 31 December 2022)						
+100bps parallel	(267)	413	1,026	674	1,689	3,535
-100bps parallel	236	(476)	(1,177)	(765)	(1,787)	(3,969)

NII sensitivity to an instantaneous down 100bps parallel change in yield curves – Year 2 and Year 3 sensitivity by currency

	Currency					Total \$m
	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	
Change in NII (based on balance sheet at 31 December 2023)						
Year 2 (Jan 2025 to Dec 2025)	488	(431)	(768)	(552)	(1,733)	(2,996)
Year 3 (Jan 2026 to Dec 2026)	213	(499)	(1,269)	(624)	(1,861)	(4,040)
Change in NII (based on balance sheet at 31 December 2022)						
Year 2 (Jan 2024 to Dec 2024)	(43)	(532)	(1,580)	(810)	(1,979)	(4,944)
Year 3 (Jan 2025 to Dec 2025)	(404)	(636)	(1,954)	(839)	(2,092)	(5,925)

Banking NII sensitivity to an instantaneous change in yield curves (12 months) – Year 1 sensitivity by currency

	Currency					Total \$m
	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	
Change in Jan 2024 to Dec 2024 (based on balance sheet at 31 December 2023)						
+100bps parallel	343	411	496	285	1,297	2,832
-100bps parallel	(494)	(493)	(602)	(304)	(1,460)	(3,353)

Banking NII sensitivity to an instantaneous down 100bps parallel change in yield curves – Year 2 and Year 3 sensitivity by currency

	Currency					Total
	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	
Change in banking NII (based on balance sheet at 31 December 2023)						
Year 2 (Jan 2025 to Dec 2025)	(1,015)	(693)	(938)	(333)	(1,798)	(4,777)
Year 3 (Jan 2026 to Dec 2026)	(1,289)	(761)	(1,439)	(405)	(1,926)	(5,820)

Non-trading value at risk

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

Value at risk of non-trading portfolios

Value at risk ('VaR') is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into the market risk management of non-trading portfolios to have a complete picture of risk, complementing risk sensitivity analysis.

Our models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to interest rates, credit spreads and the associated volatilities;
- potential market movements that are calculated with reference to data from the past two years; and
- calculations to a 99% confidence level and using a one-day holding period.

Although a valuable guide to risk, VaR is used for non-trading portfolios with awareness of its limitations. For example:

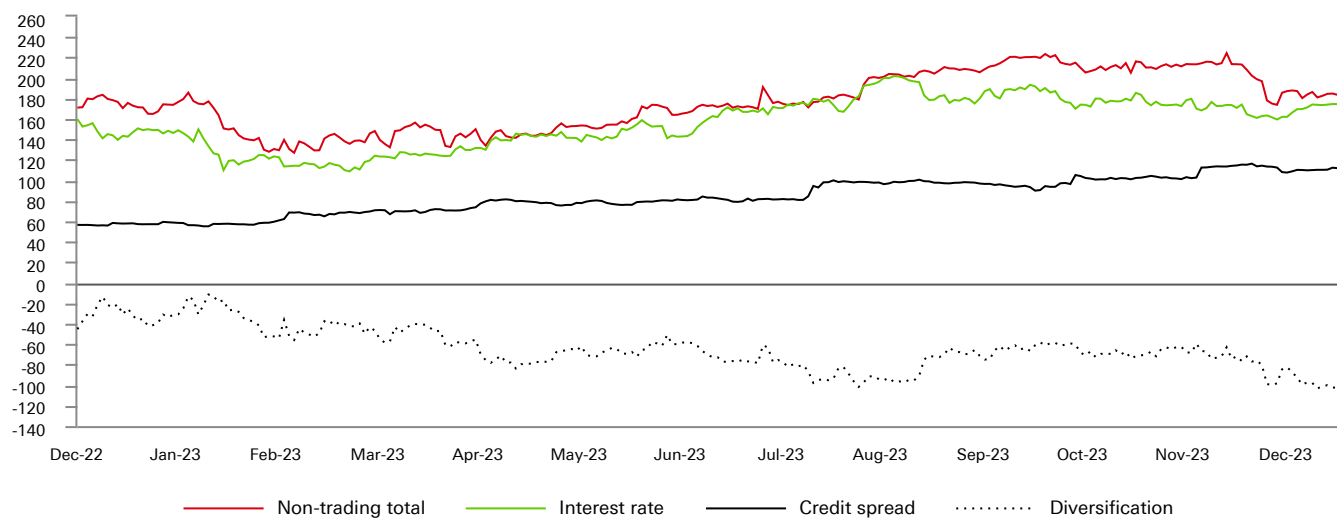
- The use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime.
- The use of a one-day holding period for risk management purposes of non-trading books is only an indication of exposure and not indicative of the time period required to hedge or liquidate positions.
- The use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence.

The interest rate risk on the fixed-rate securities issued by HSBC Holdings is not included in the Group non-trading VaR. The management of this risk is described on page 253.

Non-trading VaR also excludes the equity risk on securities held at fair value and non-trading book foreign exchange risk.

The daily levels of total non-trading VaR in 2023 are set out in the graph below.

Daily VaR (non-trading portfolios), 99% 1 day (\$m)



The Group non-trading VaR for 2023 is shown in the table below.

Non-trading VaR, 99% 1 day

(Audited)

	Interest rate \$m	Credit spread \$m	Portfolio diversification ¹ \$m	Total ² \$m
Balance at 31 Dec 2023	173.8	112.8	(104.2)	182.4
Average	156.2	84.2	(63.7)	176.6
Maximum	201.9	116.4		224.3
Minimum	108.8	55.2		127.0

Risk review

Non-trading VaR, 99% 1 day (continued)

(Audited)

	Interest rate	Credit spread	Portfolio diversification ¹	Total ²
	\$m	\$m	\$m	\$m
Balance at 31 Dec 2022	159.8	56.6	(45.3)	171.1
Average	134.6	56.9	(35.9)	155.6
Maximum	225.5	84.7		265.3
Minimum	98.3	43.4		106.3

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

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

The VaR for non-trading activity increased by \$11m from \$171m at 31 December 2022 to \$182m at 31 December 2023 due to relatively small changes in risk profile over the year. The average portfolio diversification effect between interest rate and credit spread exposure increased during the year, with the offset increasing to \$104m from \$45m.

Sensitivity of capital and reserves

Global Treasury maintains a portfolio of high-quality liquid assets for contingent liquidity and NII stabilisation purposes, which is in part accounted for under a hold-to-collect-and-sell business model. This

hold-to-collect-and-sell portfolio, together with any associated derivatives in designated hedge accounting relationships, is accounted for at fair value through other comprehensive income and has an impact on CET1. The portfolio represents the vast majority of our hold-to-collect-and-sell capital risk and is risk managed with a variety of tools, including risk sensitivities and value at risk measures.

The table below measures the sensitivity of the value of this portfolio to an instantaneous 100 basis point increase in interest rates, based on the risk sensitivity of a shift in value for a 1 basis point ('bps') parallel movement in interest rates.

Sensitivity of hold-to-collect-and-sell reserves to interest rate movements

	\$m
At 31 Dec 2023	
+100 basis point parallel move in all yield curves	(2,264)
As a percentage of total shareholders' equity	(1.22)%
At 31 Dec 2022	
+100 basis point parallel move in all yield curves	(1,199)
As a percentage of total shareholders' equity	(0.64)%

The increase in the sensitivity of the portfolio during 2023 was mainly driven by an increase in NII stabilisation in line with our strategy. The figures in the table above do not take into account the effects of interest rate convexity. The portfolio mostly comprises vanilla sovereign bonds in a variety of currencies, and the primary risk is interest rate duration risk, although the portfolio also generates asset swap, credit spread and asset spread risks that are managed within appetite as part of our risk management framework. A minus 100bps shock would lead to an approximately symmetrical gain.

Alongside our monitoring of the hold-to-collect-and-sell reserve sensitivity, we also monitor the sensitivity of reported cash flow hedging reserves to interest rate movements on a yearly basis by assessing the expected reduction in valuation of cash flow hedges due to parallel movements of plus or minus 100bps in all yield curves.

The following table describes the sensitivity of our cash flow hedging reserves to the stipulated movements in yield curves at the

year end. The sensitivities are indicative and based on simplified scenarios. These particular exposures form only a part of our overall interest rate exposure. We apply flooring on negative rates in the minus 100bps scenario in this assessment. Due to increases in interest rates in most markets, the effect of this flooring is immaterial at the end of 2023.

Comparing 31 December 2023 with 31 December 2022, the sensitivity of the cash flow hedging reserve increased by \$1,537m in the plus 100bps scenario and increased by \$1,562m in the minus 100bps scenario. The increase in the sensitivity of this reserve was mainly driven by an increase in our NII stabilisation. Our exposure to fixed rate pound sterling hedges continued to be the largest in size and in terms of year-on-year increase. Hong Kong dollar and euro hedges contributed to the majority of the rest of the increase in exposure, partly offset by a reduction in the size of US dollar hedges.

Sensitivity of cash flow hedging reported reserves to interest rate movements

	\$m
At 31 Dec 2023	
+100 basis point parallel move in all yield curves	(3,436)
As a percentage of total shareholders' equity	(1.85)%
-100 basis point parallel move in all yield curves	3,474
As a percentage of total shareholders' equity	1.87%
At 31 Dec 2022	
+100 basis point parallel move in all yield curves	(1,899)
As a percentage of total shareholders' equity	(1.01)%
-100 basis point parallel move in all yield curves	1,912
As a percentage of total shareholders' equity	1.02%

Third-party assets in Markets Treasury

Third-party assets in Markets Treasury increased by 5% compared with 31 December 2022. The net increase of \$38bn is partly reflective of higher commercial surpluses during the year, with the

increase of \$76bn in 'Financial Investments' and the decrease of \$39bn in 'Cash and balances at central banks' largely driven by NII stabilisation activity.

Third-party assets in Markets Treasury

	2023 \$m	2022 \$m
Cash and balances at central banks	278,289	317,479
Trading assets	238	498
Loans and advances:		
– to banks	78,667	67,612
– to customers	1,083	2,102
Reverse repurchase agreements	45,419	53,016
Financial investments	396,259	319,852
Other	34,651	36,192
At 31 Dec	834,606	796,751

Defined benefit pension plans

Market risk arises within our defined benefit pension plans to the extent that the obligations of the plans are not fully matched by assets with determinable cash flows.

For details of our defined benefit plans, including asset allocation, see Note 5 on the financial statements, and for pension risk management, see page 242.

Additional market risk measures applicable only to the parent company

HSBC Holdings monitors and manages foreign exchange risk and interest rate risk. In order to manage interest rate risk, HSBC Holdings uses the projected sensitivity of its NII to future changes in yield curves.

Foreign exchange risk

HSBC Holdings' foreign exchange exposures derive almost entirely from the execution of structural foreign exchange hedges on behalf of the Group. At 31 December 2023, HSBC Holdings had forward foreign exchange contracts of \$33.8bn (2022: \$30.1bn) to manage the Group's structural foreign exchange exposures.

For further details of our structural foreign exchange exposures, see page 249.

Sensitivity of net interest income

HSBC Holdings monitors NII sensitivity in the first, second and third years, reflecting the longer-term perspective on interest rate risk management appropriate to a financial services holding company. These sensitivities assume that any issuance where HSBC Holdings has an option to redeem at a future call date is called at this date.

The tables below set out the effect on HSBC Holdings' future NII of an immediate shock of +/-100bps to the current market-implied path of interest rates across all currencies on 1 January 2024.

The NII sensitivities shown are indicative and based on simplified scenarios. An immediate interest rate rise of 100bps would decrease projected NII for the 12 months to 31 December 2024 by \$233m. Conversely, an immediate fall of 100bps would increase projected NII for the 12 months to 31 December 2024 \$233m.

Overall the NII sensitivity is mainly driven by floating liabilities funding equity (non-interest bearing) investments in subsidiaries.

During 2023, HSBC Holdings hedged \$3.6bn of previously unhedged issuances, which increased the negative NII sensitivity to positive parallel shifts in interest rates. In year 1, that impact is offset by a shorter repricing profile of assets.

As of the *Annual Report and Accounts 2023*, HSBC Holdings is no longer disclosing the interest rate repricing gap table, as the sensitivity of net interest income table captures HSBC Holdings' exposure to interest rate risk and is aligned to the way we disclose interest rate risk internally to key management.

NII sensitivity to an instantaneous change in yield curves (12 months) – Year 1 sensitivity by currency

	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	Total \$m
Change in Jan 2024 to Dec 2024 (based on balance sheet at 31 December 2023)						
+100bps parallel	(258)	—	12	5	8	(233)
-100bps parallel	258	—	(12)	(5)	(8)	233
Change in Jan 2023 to Dec 2023 (based on balance sheet at 31 December 2022)						
+100bps parallel	(265)	—	16	9	—	(240)
-100bps parallel	265	—	(16)	(9)	—	240

NII sensitivity to an instantaneous down 100bps parallel change in yield curves – Year 2 and Year 3 sensitivity by currency

	\$ \$m	HK\$ \$m	£ \$m	€ \$m	Other \$m	Total \$m
Change in NII (based on balance sheet at 31 December 2023)						
Year 2 (Jan 2025 to Dec 2025)	219	—	(12)	1	(9)	199
Year 3 (Jan 2026 to Dec 2026)	218	—	(12)	—	(10)	196
Change in NII (based on balance sheet at 31 December 2022)						
Year 2 (Jan 2024 to Dec 2024)	182	—	(12)	(8)	—	162
Year 3 (Jan 2025 to Dec 2025)	160	—	(10)	(7)	—	143

The figures represent hypothetical movements in NII based on our projected yield curve scenarios, HSBC Holdings' current interest rate risk profile and assumed changes to that profile during the next three years. The sensitivities represent our assessment of the change to a

hypothetical base case based on a static balance sheet assumption, and do not take into account the effect of actions that could be taken to mitigate this interest rate risk.

Market risk

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Overview

Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads. Market risk arises from both trading portfolios and non-trading portfolios.

For further details of market risk in non-trading portfolios, see page 251 of the Annual Report and Accounts 2023.

Market risk management

Key developments in 2023

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

Governance and structure

The following diagram summarises the main business areas where trading market risks reside and the market risk measures used to monitor and limit exposures.

Risk types	Trading risk
	- Foreign exchange and commodities - Interest rates - Credit spreads - Equities
Global business	GBM
Risk measure	Value at risk Sensitivity Stress testing

The objective of our risk management policies and measurement techniques is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our established risk appetite.

Market risk is managed and controlled through limits approved by the Group Chief Risk and Compliance Officer for HSBC Holdings. These limits are allocated across business lines and to the Group’s legal entities. Each major operating entity has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Each operating entity is required to assess the market risks arising in its business and to transfer them either to its local Markets and Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the local ALCO. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to only those offices with appropriate levels of product expertise and control systems.

Key risk management processes

Monitoring and limiting market risk exposures

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, VaR and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of movements in individual market factors on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices. We use sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

Value at risk

(Audited)

VaR is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading positions regardless of how we capitalise them. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the ‘Stress testing’ section below.

Our models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements that are calculated with reference to data from the past two years; and
- calculations to a 99% confidence level and using a one-day holding period.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR is used with awareness of its limitations. For example:

- The use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime.
- The use of a one-day holding period for risk management purposes of trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- The use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

Risk not in VaR framework

The risks not in VaR (‘RNIV’) framework captures and capitalises material market risks that are not adequately covered in the VaR model.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR models, where possible, or quantified through either the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements. The outcome of the VaR-based RNIV approach is included in the overall VaR calculation but excluded from the VaR measure used for regulatory back-testing.

Stress-type RNIVs include a deal contingent derivatives capital charge to capture risk for these transactions and a de-peg risk measure to capture risk to pegged and heavily managed currencies.

Stress testing

Stress testing is an important procedure that is integrated into our market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling. Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR.

Stress testing is implemented at legal entity, regional and overall Group levels. A set of scenarios is used consistently across all regions within the Group. Market risk stress testing incorporates both historical and hypothetical events. Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature and complement the systematic top-down stress testing.

The risk appetite around potential stress losses for the Group is set and monitored against limits.

Trading portfolios

Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

Back-testing

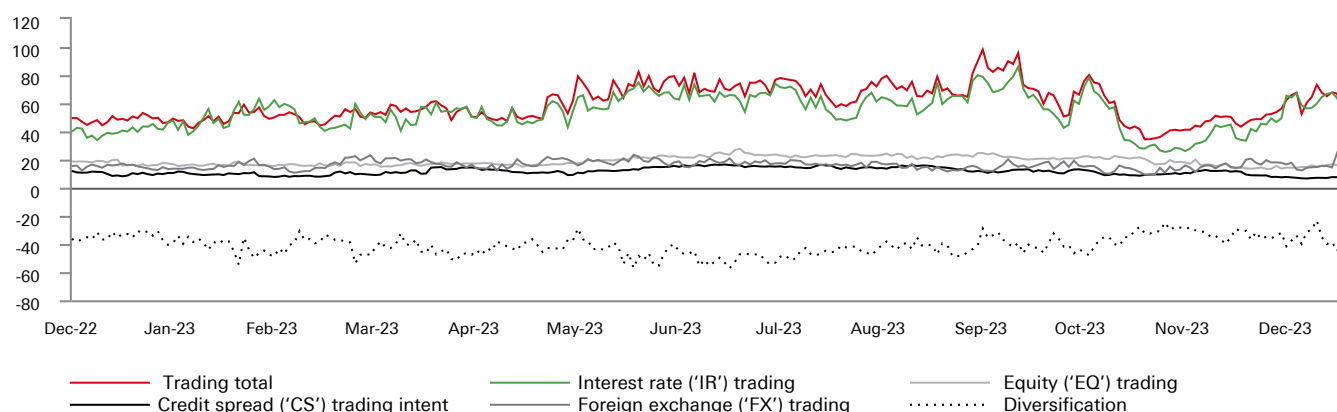
We routinely validate the accuracy of our VaR models by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions.

The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business.

The number of hypothetical loss back-testing exceptions, together with a number of other indicators, is used to assess model performance and to consider whether enhanced internal monitoring of a VaR model is required. We back-test our VaR at set levels of our Group entity hierarchy.

The daily levels of total trading VaR during 2023 are set out in the graph below.

Daily VaR (trading portfolios), 99% 1 day (\$m)



Market risk in 2023

During 2023, global financial markets were mainly driven by the inflation outlook, interest rate expectations and recession risks, coupled with banking failures in March, and rising geopolitical tensions in the Middle East from October. Major central banks maintained restrictive monetary policies, and bond markets experienced a volatile year. After rising significantly in the second and third quarters of 2023, US treasury bond yields fell during the fourth quarter, as lower inflation pressures led markets to expect that key rates would be cut in 2024. The interest rate outlook was also a major driver of performance in global equity markets, alongside resilient corporate earnings and positive sentiment in the technology sector. Equities in developed markets advanced significantly amid low volatility, while performance in emerging markets was more subdued. In foreign exchange markets, the US dollar fluctuated against other major currencies, mostly in line with US Federal Reserve policy and bond yields expectations. Investor sentiment remained resilient in credit markets. High-yield and investment-grade credit spreads narrowed, in general, as fears of contagion in the banking sector in the first quarter of 2023 abated, and economic growth remained resilient throughout the year.

We continued to manage market risk prudently during 2023. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress testing and scenario analysis.

Trading portfolios

Value at risk of the trading portfolios

Trading VaR was predominantly generated by the Markets and Securities Services business.

Trading VaR as at 31 December 2023 increased by \$3.3m compared with 31 December 2022. Interest rate risk factors were the major contributors to VaR at the end of December 2023. The VaR increase during 2023 peaked in September, and was mainly driven by:

- interest rate risk exposures in currencies held across the Fixed Income and Foreign Exchange business lines to facilitate client-driven activity; and
- the effects of relatively large short-term interest rate shocks for key currencies, which are captured in the VaR scenario window.

These factors were partly offset by lower losses from equity risks and interest rate risks that were captured within the RNIV framework.

Risk review

The Group trading VaR for the year is shown in the table below.

Trading VaR, 99% 1 day¹

(Audited)

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification ²	Total ³
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at 31 Dec 2023	13.4	55.9	15.2	7.2	(38.9)	52.8
Average	16.2	53.9	19.0	11.6	(40.8)	59.8
Maximum	24.6	86.0	27.8	16.5		98.2
Minimum	9.3	25.5	13.4	6.6		34.4
Balance at 31 Dec 2022	15.4	40.0	18.6	11.9	(36.4)	49.5
Average	13.6	29.6	16.1	16.8	(34.0)	42.1
Maximum	29.2	73.3	24.8	27.9		78.3
Minimum	5.7	20.2	11.5	9.1		29.1

1 Trading portfolios comprise positions arising from the market-making and warehousing of customer-derived positions.

2 Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types – such as interest rate, equity and foreign exchange – together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occurs on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.

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

The table below shows trading VaR at a 99% confidence level compared with trading VaR at a 95% confidence level at 31 December 2023. This comparison facilitates the benchmarking of the trading VaR, which can be stated at different confidence levels, with financial institution peers. The 95% VaR is unaudited.

Comparison of trading VaR, 99% 1 day vs trading VaR, 95% 1 day

	Trading VaR, 99% 1 day \$m	Trading VaR, 95% 1 day \$m
Balance at 31 Dec 2023	52.8	35.3
Average	59.8	36.8
Maximum	98.2	53.3
Minimum	34.4	21.0
Balance at 31 Dec 2022	49.5	31.7
Average	42.1	24.6
Maximum	78.3	49.0
Minimum	29.1	17.5

Back-testing

During 2023, the Group experienced no back-testing exceptions on losses against actual or hypothetical profit and losses.

Market risk balance sheet linkages

The following balance sheet lines in the Group's consolidated position are subject to market risk:

Trading assets and liabilities

The Group's trading assets and liabilities are in almost all cases originated by GBM. Other than a limited number of exceptions, these assets and liabilities are treated as traded risk for the purposes of market risk management. The exceptions primarily arise in Global Banking where the short-term acquisition and disposal of assets are linked to other non-trading-related activities such as loan origination.

Derivative assets and liabilities

We undertake derivative activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, and to manage and hedge our own risks. Most of our derivative exposures arise from sales and trading activities within GBM. The assets and liabilities included in trading VaR give rise to a large proportion of the income included in net income from financial instruments held for trading or managed on a fair value basis. Adjustments to trading income such as valuation adjustments are not measured by the trading VaR model.

For information on the accounting policies applied to financial instruments at fair value, see Note 1 on the financial statements.

Climate risk TCFD

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Overview

Our climate risk approach is aligned to the framework outlined by the Taskforce on Climate-related Financial Disclosures ('TCFD'), which identifies two primary drivers of climate risk:

- physical risk, which arises from the increased frequency and severity of extreme weather events, such as hurricanes and floods, or chronic gradual shifts in weather patterns or rises in the sea level; and
- transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction.

In addition to these primary drivers of climate risk, we have also identified the following thematic issues related to climate risk, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks:

- net zero alignment risk, which arises from the risk of HSBC failing to meet its net zero commitments or failing to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and
- the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to our stakeholders.

The tables below provide an overview of the climate risk drivers and thematic issues considered within HSBC's climate risk approach.

Climate risk – risk drivers		Details	Potential impacts	Time horizons
Physical	Acute	Increased frequency and severity of weather events causing disruption to business operations		
	Chronic	Longer-term shifts in climate patterns (e.g. sustained higher temperatures, sea level rise, shifting monsoons or chronic heat waves)	– Decreased real estate values or stranded assets	
Transition	Policy and legal	Mandates on, and regulation of products and services and/or policy support for low-carbon alternatives. Litigation from parties who have suffered loss and damage from climate impacts	– Decreased household income and wealth – Increased costs of legal and compliance	Short term
	Technology	Replacement of existing products with lower emissions options	– Increased public scrutiny – Decreased profitability	Medium term
	End-demand (market)	Changing consumer demand from individuals and corporates	– Lower asset performance	Long term
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction		

Approach

We recognise that the physical impacts of climate change and the transition to a net zero economy can create significant financial risks for companies, investors and the financial system. HSBC may be affected by climate risks either directly or indirectly through our relationships with our customers, which could result in both financial and non-financial impacts.

Our climate risk approach aims to effectively manage the material climate risks that could impact our operations, financial performance and stability, and reputation. It is informed by the evolving expectations of our regulators.

We are developing our climate risk capabilities across our businesses, by prioritising sectors, portfolios and counterparties with the highest impacts.

We continue to make progress in enhancing our climate risk capabilities, and recognise it is a long-term iterative process.

We aim to regularly review our approach to increase coverage and incorporate maturing data, climate analytics capabilities, frameworks and tools, as well as respond to emerging industry best practice and climate risk regulations.

This includes updating our approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how we embed climate risk factors into strategic planning, transactions and decision making across our businesses.

Our climate risk approach is aligned to our Group-wide risk management framework and three lines of defence model, which sets out how we identify, assess and manage our risks. For further details of the three lines of defence framework, see page 161.

Climate risk – thematic issues		
Net zero alignment risk	Net zero ambition risk	Failing to set or adapt our net zero ambition and broader business strategy in alignment with key stakeholder expectations, latest scientific understanding and commercial objectives.
	Net zero execution risk	Failing to meet our net zero targets due to taking insufficient or ineffective actions, or due to the actions of clients, suppliers and other stakeholders.
	Net zero reporting risk	Failing to report emissions baselines and targets, and performance against these accurately due to data, methodology and model limitations.
Risk of greenwashing	Firm	Making inaccurate, unclear, misleading, or unsubstantiated claims in relation to our sustainability commitments and targets, as well as the reporting of our performance towards them.
	Product	Making inaccurate, unclear, misleading or unsubstantiated claims in relation to products or services offered to clients that have stated sustainability objectives, characteristics, impacts or features.
	Client	Making inaccurate, unclear, misleading or unsubstantiated claims as a consequence of our relationships with clients or transactions we undertake with them, where their sustainability commitments or related performance are misrepresented or are not aligned to our own commitments.

In 2023, we updated our climate risk materiality assessment, to understand how climate risk may impact across HSBC's risk taxonomy. The assessment focused on a 12-month time horizon, as well as time horizons for the short-term, medium-term and long-term periods. We define short term as time periods up to 2025; medium term as between 2026 and 2035; and long term as between 2036 and 2050. These time periods align to the Climate Action 100+ disclosure framework v1.2. The table below provides a summary of how climate risk may impact a subset of HSBC's principal risks.

The assessment is refreshed annually, and the results may change as our understanding of climate risk and how it impacts HSBC evolve (for further details, see 'Impact on reporting and financial statements' on page 44).

In addition to this assessment, we also consider climate risk in our emerging risk reporting and scenario analysis (for further details, see 'Top and emerging risks' on page 38).

Climate risk drivers	Credit risk	Traded risk	Reputational risk ¹	Regulatory compliance risk ¹	Resilience risk	Other financial and non-financial risk types
Physical risk	●	●	●		●	●
Transition risk	●	●	●	●	●	●

¹ Our climate risk approach identifies thematic issues such as HSBC net zero alignment risk and the risk of greenwashing, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks.

Climate risk management

Key developments in 2023

Our climate risk programme continues to support the development of our climate risk management capabilities. The following outlines key developments in 2023:

- We updated our climate risk management approach to incorporate net zero alignment risk and developed guidance on how climate risk should be managed for non-financial risk types.
- We enhanced our climate risk materiality assessment to consider longer time horizons.
- We enhanced our approach to assessing the impact of climate change on capital, focusing on credit and market risks.
- We further developed our risk metrics to monitor our performance against our net zero targets for both financed emissions and own operations.
- We enhanced our internal climate scenario analysis, including through improvements to our use of customer transition plan data. For further details of scenario analysis, see page 65.
- We have updated our merger and acquisition process to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC.

While we have made progress in enhancing our climate risk framework, further work remains. This includes the need to develop additional metrics and tools to measure our exposure to climate-related risks, and to incorporate these tools within decision making.

Governance and structure

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

The ESG Committee supports the development and delivery of our ESG strategy, key policies and material commitments by providing oversight, coordination and management of ESG commitments and initiatives. It is co-chaired by the Group Chief Sustainability Officer and the Group Chief Financial Officer.

The Sustainability Execution Committee has oversight of the environmental strategy, including the commercial execution and operationalisation through the sustainability execution programme, which is a Group-wide programme established to enable the delivery of our sustainability agenda.

The Group Reputational Risk Committee considers climate-related matters arising from customers, transactions and third parties that either present a serious potential reputational risk to the Group or merit a Group-led decision to ensure a consistent approach to reputational risk management across the regions, global businesses and global functions.

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

The Group Chief Risk and Compliance Officer is the senior manager responsible for the management of climate risk under the UK Senior Managers Regime, which involves holding overall accountability for the Group's climate risk programme.

The Environmental Risk Oversight Forum (formerly the Climate Risk Oversight Forum) oversees risk activities relating to climate and sustainability risk management, including the transition and physical risks from climate change. Equivalent forums have been established at a regional level.

For further details of the Group's ESG governance structure, see page 88.

Risk appetite

Our climate risk appetite forms part of the Group's risk appetite statement and supports the business in delivering our net zero ambition effectively and sustainably.

Our climate risk appetite statement is approved and overseen by the Board. It is supported by risk appetite metrics and tolerance thresholds. We have also defined additional key management information metrics. Both the risk appetite statement and key management information metrics are reported on a quarterly basis for oversight by the Group Risk Management Meeting and the Group Risk Committee.

Embedding our climate risk approach

The table below provides further details of how we have embedded the management of climate risk across key risk types. For further details of our internal scenario analysis, see 'Insights from climate scenario analysis' on page 261.

Risk type

Our approach

Wholesale credit risk

We have metrics in place to monitor the exposure of our wholesale corporate lending portfolio to six high transition risk sectors, as shown in the below table. As at 31 December 2023, the overall exposure to six high transition risk sectors was \$112bn. The sector classifications are based on internal HSBC definitions and can be judgemental in nature. The sector classifications are subject to the remediation of ongoing data quality challenges. This data will be enhanced and refined in future years.

Our relationship managers engage with our key wholesale customers through a transition engagement questionnaire (formerly the transition and physical risk questionnaire) to gather information and assess the alignment of our wholesale customers’ business models to net zero and their exposure to physical and transition risks. We use the responses to the questionnaire to create a climate risk score for our key wholesale customers.

Our credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. Our credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating.

Key developments to our framework in 2023 include expanding the scope of our transition engagement questionnaire to capture new countries, territories and sectors.

Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts to our wholesale customers.

Wholesale loan exposure to high transition risk sectors at 31 December 2023¹

	Units	Automotive	Chemicals	Construction and building materials	Metals and mining	Oil and gas	Power and utilities	Total 2023
Exposure to sector ^{1, 2, 3, 4}	\$bn	21	17	20	14	18	22	112
Sector weight as a proportion of high transition risk sectors	%	18	16	18	13	16	19	100

1 Amounts shown in the table also include green and other sustainable finance loans, which support the transition to the net zero economy. The methodology for quantifying our exposure to high transition risk sectors and the transition risk metrics will evolve over time as more data becomes available and is incorporated in our risk management systems and processes.

2 Counterparties are allocated to the high transition risk sectors via a two-step approach. Firstly, where the main business of a group of connected counterparties is in a high transition risk sector, all lending to the group is included in one high transition risk sector irrespective of the sector of each individual obligor within the group. Secondly, where the main business of a group of connected counterparties is not in a high transition risk sector, only lending to individual obligors in the high transition risk sectors is included. The main business of a group of connected counterparties is identified by the industry that generates the majority of revenue within a group. Customer revenue data utilised during this allocation process is the most recent readily available and will not align to our own reporting period.

3 These disclosures cover the whole of the value chain of the sector. For details of financed emissions coverage, please refer to page 53.

4 The six high transition risk sectors make up 17.4% of total wholesale loans and advances to customer and banks of \$644bn. Amounts include assets held for sale.

Policies, processes and controls

We continue to integrate climate risk into policies, processes and controls across many areas of our organisation, and we will continue to update these as our climate risk management capabilities mature over time. For further details of how we manage climate risk across our global businesses, see page 65.

Risk type	Our approach										
Retail credit risk	We have implemented policies and tools to manage climate risk across our retail mortgage markets. Our retail credit risk management policy requires each mortgage market to conduct an annual review of their climate risk management procedures, including perils and data sources, to ensure they remain fit for purpose. In 2023 we introduced a global 'soft trigger' monitoring and review process for physical risk exposure where a market reaches or exceeds a set threshold, as this ensures markets are actively considering their balance sheet risk exposure to peril events. Within our mortgage portfolios, properties or areas with potentially heightened physical risk are identified and assessed locally and potential exposure is monitored through quarterly metrics. We have also set risk appetite metrics for physical risk in our largest mortgage markets, the UK and Hong Kong, as well as those with local regulatory requirements, including Singapore. The UK is our largest mortgage market, which as at September 2023 made up 40.0% of our global mortgage portfolio. We estimate that 0.2% of our UK retail mortgage portfolio is at very high risk of flooding and 3.5% is at high risk. This is based on approximately 94.2% climate risk data coverage by value of our UK portfolio as at September 2023. In the UK we also monitor the energy performance certificate ('EPC') ratings of individual properties in our mortgage portfolio. As at September 2023, approximately 64.5% of properties within the portfolio by value had a valid EPC dated within the last 10 years. Of these, 40.0% of properties had a current rating of A to C, and 97.0% had the potential to reach these rating bands, if appropriate energy efficiency improvement measures are taken. For both flood risk and EPC data, we disclose the end of September 2023 position. This is due to the time required for the data to be processed and our reliance on the government's public EPC data, which usually lags one month behind. The table below outlines the UK retail mortgage portfolio tenor as at the end of December 2023 (by balance split by remaining term). This table shows that the majority of our portfolio tenor is greater than five years, and that the average remaining loan term in the UK is 21.5 years. Residential mortgages tenor (remaining mortgage term by balance \$m)¹ <table> <tr> <th>Tenor</th><th>Remaining mortgage balance (\$m)</th></tr> <tr> <td><1 years</td><td>382</td></tr> <tr> <td>1 to 5 years</td><td>3,469</td></tr> <tr> <td>>5 years</td><td>157,643</td></tr> <tr> <td>Weighted average of remaining mortgage term (years)</td><td>21.50</td></tr> </table> The average term for new mortgages in the UK is 25 years, although the average life of a loan is approximately five years due to refinancing. Despite this, our strategic approach to climate risk considers present day and long-term risk given customers may remain over the whole loan term. For further details of flood risk and the EPC breakdown of our UK retail mortgage portfolio, see our <i>ESG Data Pack</i> at www.hsbc.com/esg. ¹ The table includes instances where individual properties have multiple associated accounts and balances. These are aggregated to a property level and the longest term remaining is taken as the tenor.	Tenor	Remaining mortgage balance (\$m)	<1 years	382	1 to 5 years	3,469	>5 years	157,643	Weighted average of remaining mortgage term (years)	21.50
Tenor	Remaining mortgage balance (\$m)										
<1 years	382										
1 to 5 years	3,469										
>5 years	157,643										
Weighted average of remaining mortgage term (years)	21.50										
Treasury risk	As part of our ICAAP in 2023, we enhanced our approach for assessing the impact of climate change on capital, focusing on credit and market risks. As part of our ILAAP, we conducted an initial analysis to identify the potential climate risk exposures across key liquidity risk drivers. We updated our treasury risk policies to ensure that the impact of climate risk is considered when assessing applicable treasury risks. We regularly discuss climate-related topics that may impact Global Treasury through climate-relevant governance forums, including the Treasury Risk Management Climate Risk Oversight Forum and the Group Treasury Sustainability Committee. Treasury portfolios are also included within the scope of the internal climate scenario analysis and the Hong Kong Monetary Authority's climate risk stress test, with potential quantitative impacts on relevant hold-to-collect-and-sell positions estimated. Pensions risk We conduct an annual exercise to monitor the exposure of our largest pension plans to climate risk. Our pension policies have also been updated to explicitly reflect climate considerations. Insurance risk We have an evolving programme to support the identification and management of climate risk. In 2023, we updated our sustainability procedures to align with the Group's updated energy and thermal coal-phase out policy.										
Traded risk	We have implemented metrics and thresholds to monitor exposure to high physical and transition risk sectors for the different asset classes in the Markets and Securities Services ('MSS') business. The metrics use a risk taxonomy that categorises countries/territories and sectors into high, medium and low risk, for which we have set corresponding thresholds. We have implemented these metrics for key entities. In addition, we have identified key regions and business lines that contribute the most to the total MSS high-climate sensitive exposures and developed reports to monitor trends and pockets of risks. We have developed tools to provide a better understanding of key profit and loss drivers under different climate scenarios along different dimensions such as risk factors and business lines. These reports are available to traded risk managers to help monitor and understand how climate-sensitive exposures are impacted under different scenarios. Stress testing results have been presented to senior management for visibility during dedicated review and challenge sessions to provide awareness on the impact to the MSS portfolio and underlying business lines.										
Reputational risk	We manage the reputational impact of climate risk through our broader reputational risk framework, supported by our sustainability risk policies and metrics. Our sustainability risk policies set out our appetite for financing activities in certain sectors. Our thermal coal phase-out and energy policies aim to drive down greenhouse gas emissions while supporting a just transition. Our global network of sustainability risk managers provides local policy guidance to relationship managers for the oversight of policy compliance and in support of implementation across our wholesale banking activities. For further details of our sustainability risk policies, see the <i>ESG review</i> on page 42. We have developed risk appetite metrics to monitor our performance against our financed emissions targets. For further details of our targets, see page 57.										

Risk type	Our approach
Regulatory compliance risk	Our policies set the Group-wide standards that are required to manage the risk of breaches of our regulatory duty to customers, including those related to climate risk, ensuring fair customer outcomes are achieved. To make sure our responsibilities are met in this regard, our policies are subject to continuous review and enhancement. We are also focused on the ongoing development and improvement of our monitoring capabilities, ensuring appropriate alignment to the broader focus on regulatory compliance risks. Regulatory Compliance is particularly focused on mitigating climate risks inherent to the product lifecycle. To support this, we have enhanced a number of processes including: – ensuring Regulatory Compliance provides risk oversight and review of new product marketing materials with any reference to climate, sustainability and ESG; – developing our product marketing controls to ensure climate claims are robustly evidenced and substantiated within product marketing materials; and – clarifying and improving product marketing framework, procedures and associated guidance, to ensure product-related marketing materials comply with both internal and external standards, and are subject to robust governance. Regulatory Compliance operates an ESG and Climate Risk Working Group to track and monitor the integration and embedding of climate risk management into the functions' activities, while monitoring regulatory and legislative changes across the ESG and climate risk agenda. Regulatory Compliance also continues to be an active member of the Group's Environmental Risk Oversight Forums.
Resilience risk	Our Enterprise Risk Management function is responsible for overseeing the identification and assessment of physical and transition climate risks that may impact on the organisation's operational and resilience capabilities. We have developed metrics to assess how physical risk may impact our critical properties. In 2023, we also developed an energy and travel risk appetite metric for our own operations to establish and monitor progress against our net zero ambitions. Our resilience risk policies are subject to continuous improvement to remain relevant to evolving climate risks. New developments relevant to our own operations are reviewed to ensure climate risk considerations are effectively captured.
Model risk	The impact of climate risk on model risk is driven by the increasing number of climate risk models and the expanding model use cases. Review and challenge of models mitigates some risk but given the nascent nature of climate modelling and the lack of benchmarks, the validation of model assumptions and results remains a key challenge. Model Risk has published a new climate risk and ESG model category standard, which sets out minimum control requirements for identifying, measuring and managing model risk for climate-related models. We completed independent model validation for a number of models used for financed emissions calculations and climate scenario analysis using both qualitative and quantitative assessments of modelling decisions and outputs.
Financial reporting risk	We have expanded the scope of financial reporting risk to explicitly include oversight over accuracy and completeness of ESG and climate reporting. In 2023, we updated the risk appetite statement to reference our ESG and climate-related disclosures. We also updated our internal controls to incorporate requirements for addressing the risk of misstatement in ESG and climate reporting. To support this, we have developed a framework to guide control implementation over ESG and climate reporting disclosures, which includes areas such as process and data governance, and risk assessment. As the landscape for ESG and climate-related disclosures develops, we continue to focus on horizon scanning and interpretation of relevant external reporting requirements, to ensure a timely response for producing the required disclosures. As the volume and nature of these requirements continue to evolve, the level of risk is heightened. Part of our response to this heightened risk includes undertaking a range of assurance procedures over these disclosures.

Challenges

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

- the diverse range of internal and external data sources and data structures needed for climate-related reporting, which introduces data accuracy and reliability risks;
- data limitations on customer assets and supply chains, and methodology gaps, which hinder our ability to assess physical risks accurately;
- industry-wide data gaps on customer emissions and transition plan and methodology gaps, which limit our ability to assess transition risks accurately; and
- limitations in our management of net zero alignment risk is due to known and unknown factors, including the limited accuracy and reliability of data, merging methodologies, and the need to develop new tools to better inform decision making.

Insights from climate scenario analysis

Scenario analysis supports our strategy by assessing our potential exposures to risks and vulnerabilities under a range of climate scenarios. It helps to build our awareness of climate change, plan for the future and meet our growing regulatory requirements.

In 2023, we enhanced our internal climate scenario analysis exercise by focusing our efforts on generating more granular insights for key sectors and regions to support core decision-making processes, and to respond to our regulatory requirements. We also produced several climate stress tests for regulators around the world, including the Hong Kong Monetary Authority ('HKMA') and the Central Bank of the United Arab Emirates.

We continue to enhance our climate scenario analysis exercises so that we can have a more comprehensive understanding of climate headwinds, risks and opportunities to support our strategic planning and actions.

In climate scenario analysis, we consider, jointly, both physical risks and transition risks. For further details about these risks, see 'Climate risk' on page 257.

We also analyse how these climate risks impact principal risk types within our organisation, including credit and traded market risks, non-financial risks, and pension risk.

Our climate scenarios

In our 2023 climate scenario analysis exercises, we explored five scenarios that were created to examine the potential impacts from climate change for the Group and its entities.

The analysis considered the key regions in which we operate, and assessed the impact on our balance sheet across three distinct timeframes: short term up to 2025; medium term from 2026 to 2035; and long term from 2036 to 2050. The time horizons are aligned to the Climate Action 100+ framework v1.2.

We created our internal scenarios using external publicly available climate scenarios as a reference, including those produced by the Network for Greening the Financial System ('NGFS'), the Intergovernmental Panel on Climate Change ('IPCC') and the International Energy Agency. Using these external scenarios as a template, we adapted them by incorporating the unique climate risks and vulnerabilities to which our organisation and customers across different business sectors and regions are exposed. This helped us produce the scenarios, which vary by severity to analyse how climate risks will impact our portfolios.

Risk review

Our scenarios were:

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

- the Near Term scenario, which assumes both a sharp increase in policies that drive a disorderly transition towards net zero and a sharp increase in extreme climate events over a five-year period until 2027. This scenario focused on our business in Asia.

We have chosen these scenarios to provide a holistic view that will supplement the Group's current and future strategic thinking. They reflect inputs from our key stakeholders and experts across the Group, and have been reviewed through internal governance.

Our scenarios reflect different levels of physical and transition risks over a variety of time periods. The scenario assumptions include varying levels of governmental climate policy changes, macroeconomic factors and technological developments. However, these scenarios rely on the development of technologies that are still unproven, such as global hydrogen production to decarbonise aviation and shipping.

The nature of the scenarios, our developing capabilities, and limitations of the analysis lead to outcomes that are indicative of climate change headwinds, although they are not a direct forecast.

Developments in climate science, data, methodology and scenario analysis techniques will help us shape our approach further. We therefore expect this view to change over time.

Characteristics of our scenarios

		Scenarios										
		Net zero		Current Commitments		Delayed Transition Risk		Downside Physical Risk		Near Term		
Scenario outcomes	Rise in global temperatures by 2100 (vs pre-industrial levels)	1.5°c		2.4°c		1.6°c		4.2°c		1.4°c		
Underlying assumptions based on global averages	Focus horizon	Medium term		Short/medium term		Medium/long term		Medium/long term		Short/medium term		
	Assumed variation in global climate policies	Low		Medium		High		Low		High		
	Assumed pace of technology change and adoption	Fast		Gradual		Accelerates from 2030		None		Based on existing technology		
	Assumed socioeconomic impact	High		Moderate		Very high		Very high (in long term)		Very high		
		2030	2050	2030	2050	2030	2050	2030	2050	2027		
	Assumed carbon price (\$/tCO ₂)	161	623	34	91	34	558	6	6	193		
	Assumed change in energy consumption (% change after 2022)	(10)%	(16)%	12%	17%	12%	(11)%	5%	24%	(14)%		
	Assumed change in CO ₂ emissions (% change after 2022)	(37)%	(100)%	(7)%	(33)%	(7)%	(89)%	3%	11%	(34)%		
Scenario risk characteristics	Climate risk	Physical		Lower		Moderate		Lower		Higher		Higher
		Transition		Higher		Moderate		Higher		Lower		Higher

Our methodology

For our scenario analysis, we used models to assess how transition and physical risks may impact our portfolios under different scenarios. Our models incorporate a range of climate-specific metrics that will have an impact on our customers, including expected production volumes, revenue, costs and capital expenditure.

We assess how these metrics interplay with economic factors such as carbon prices, which represent the cost effect of climate-related policies that aim to discourage carbon-emitting activities and encourage low-carbon solutions. The expected result of higher carbon prices is a reduction in emissions as high-emission activities become uneconomical. We also assume carbon prices will vary from country to country.

The models for our wholesale corporate lending portfolio consider our customers' individual climate transition plans where available, while we refine and deepen our assessment of these plans. These results feed into the calculation of our risk-weighted assets and expected credit loss ('ECL') projections. For our real estate portfolio models, we focus on physical risk factors, including property locations, perils and insurance coverage when assessing the overall credit risk impact to the portfolio. The results are reviewed by our sector specialists who, subject to our governance procedures, make

bespoke adjustments to our results based on their expert judgement where relevant.

Our models support the calculation of outputs that inform us about the level of climate-related ECL provisions required under IFRS 9, and also support the shaping of our climate-related capital approach under ICAAP. In 2023, in addition to incorporating our customers' transition plans, we enhanced our credit risk models for the wholesale portfolio by updating our assumptions regarding how we expect state-supported companies to be impacted, and improved how we model the impact of emissions on company financial forecasts.

Modelling limitations

We continue to look for ways of enhancing our methodology to improve the effectiveness of our climate scenario analyses. There are industry-wide limitations, particularly on data availability, although our models are designed to produce outputs that can support our assessment of the level of our climate resilience.

Climate scenario analysis requires considerable amounts of data, although data is only available for a subset of our counterparties. As a result, we have to extrapolate the results observed in the subset to the wider population or dataset. We do not capture the second order

impacts of climate risk exposures within our modelling approach, such as impacts on our counterparties from their supply chains.

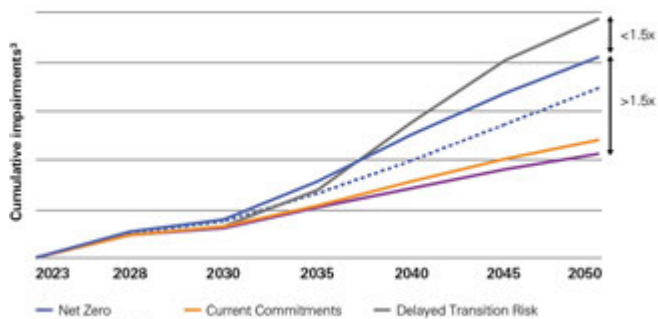
We continue to enhance our capabilities by incorporating lessons learnt from previous exercises and feedback from key stakeholders, including regulators.

For a broad overview of the models that we use for our climate scenario analysis, as well as graphs that show how global carbon prices and carbon emissions will differ under our climate scenarios, see our ESG Data Pack at www.hsbc.com/esg.

Analysing the outputs of climate scenario analysis

Climate scenario analysis allows us to model how different potential climate pathways may affect and impact the resilience of our customers and our portfolios, particularly in respect of credit losses. As the following chart shows, losses are influenced by their exposure to a variety of climate risks under different climate scenarios.

How credit losses from climate risks have been modelled under different transition scenarios



- 1 The counterfactual scenario is modelled on a scenario where there would be no losses due to climate change.
- 2 The dotted line in the chart shows the impact of modelled expected credit losses following our strategic responses to reduce the effect of climate risks under the Net Zero scenario.
- 3 The projections shown in this chart were modelled during 2023 and are not intended to reflect the final 31 December 2023 position that is disclosed elsewhere in this Form 20-F.

While climate-related losses are expected to remain minimal in the short term, they are likely to increase compared with the counterfactual scenario in the medium and longer term, driven by the transition to a net zero economy.

These losses are lower in the Net Zero orderly transition scenario, than in the Delayed Transition Risk scenario where climate action begins later and is more rapid and disruptive as our customers will have less time to restructure their business models and reduce their carbon emissions. As the dotted line in the graph shows, losses in these scenarios can be mitigated through active management approaches, which include identifying new climate-related business opportunities and adapting our portfolios to reduce exposure to climate risks and losses.

By building a more climate-resilient balance sheet, we can reduce impairment risks and improve longer-term stability.

Under the Current Commitments scenario, we expect lower levels of losses relating to transition risks, although we would expect an increase in the effects of climate-related physical risks over the longer term. If the world does not align with a net zero path, physical risks in the medium to long term are expected to continue to rise due to the increasing frequency of extreme weather events.

The Near Term scenario

Our Near Term scenario allowed us to explore the combined impacts of a disorderly transition towards net zero and extreme acute physical events occurring simultaneously. The scenario was designed to meet HKMA regulatory requirements and will help us to improve how we assess short-term impacts across the Group. As part of the HKMA exercise, our initial analysis was focused on our portfolio in Asia.

The exercise allowed us to understand the extent to which a stressed scenario exhibiting both high physical and transition risks in the near term could immediately impact our customers across all our sectors.

In the following sections, we assess the impacts to our banking portfolios under different climate scenarios.

How climate change is impacting our wholesale lending portfolio

In our internal climate scenario analysis, we assessed the impact of climate-related risks on our corporate counterparties under different climate scenarios, which we measured by reviewing the modelled effect on our ECL.

The climate scenario analysis exercise for the wholesale lending portfolio was designed to examine our climate risks and vulnerabilities, primarily in the short and medium term. We focused on the Current Commitment scenario, believing it to be the scenario most likely to unfold in this timeframe, and the Net Zero scenario, which allows us to assess the resilience of our strategy and to identify specific climate-related opportunities.

Within our wholesale lending portfolio, customers in higher emitting sectors continue to be most exposed to larger climate-related losses.

For each sector in both scenarios, we calculated the projected ECL increase as at 2035, where we compared the increase in ECL under the scenario against a counterfactual scenario that incorporates no climate change.

We use the sector's exposure at default ('EAD'), which represents the size of our exposure to potential losses from customer defaults. This helps to identify which sectors are the most material to us in terms of the impact of climate change.

The table below shows the relative size of exposures at default in 2023 and the increase in cumulative ECL under each scenario compared with a counterfactual scenario by 2035 (expressed as a multiple).

Impact on wholesale lending portfolios

Wholesale sectors	Exposure at default (2023)	ECL increase ¹	
		Current Commitments	Net Zero
Conglomerates and industrials	●	<1.1x	<2.75x
Construction and building materials	●	<1.25x	<2.25x
Chemicals	●	<1.1x	<1.75x
Power and utilities	●	<1.1x	<1.75x
Oil and gas	●	<1.1x	<1.25x
Automotive	●	<1.25x	<1.75x
Land transport and logistics	●	<1.1x	<2.75x
Agriculture & soft commodities	●	<1.1x	<2.5x
Metals and mining	●	<1.1x	>3x
Aviation	●	<1.1x	<1.5x
Marine	●	<1.1x	<1.5x

¹ Increase in cumulative ECL compared with counterfactual by 2035 expressed as a multiple.

We have continued to incorporate information from our customers' transition plans to consider more detailed information on how they and their sector will be impacted under different climate scenarios.

The levels of ECL observed across our wholesale lending portfolio are driven by: our customers' carbon emissions; the presence of realistic transition plans; the amount of capital investment required to support their transition; and the degree to which their competitive environment impacts their ability to pass on carbon costs.

In 2022, we used scenario analysis to assess the impacts on our corporate counterparties across the sectors that are most affected by climate-related risks.

In 2023, we enhanced our approach in some key high-emitting sectors, which includes the construction and building materials, power and utilities, and oil and gas sectors. The analysis below provides a more detailed view of the anticipated impacts on these portfolios and our customers, improving our understanding of climate risks and potential opportunities.

The construction and building materials sector faces an increase in losses because it includes companies with high emissions from manufacturing processes, such as steel or cement, or from their supply chains, which will increase cost pressures due to carbon taxes. The sector also has a high proportion of customers without transition plans.

Although our scenario analysis showed that companies with transition plans performed better on average, their plans typically fall short of requirements needed to meet net zero targets. Overall, we believe there are significant lending opportunities for us to help support our customers as they transition to a lower carbon economy while meeting their growing business demands.

These opportunities include the exploration of less carbon-intensive fuel sources, electrification, the integration of carbon capture and storage, and the adoption of new technologies in the search to reduce emissions.

In the power and utilities sector, our analysis showed that rising costs from increased carbon prices and the capital expenditure required to support transition requirements, infrastructure improvements and decommissioning costs, alongside greater downstream energy demands, will potentially lead to higher debt levels and worsening counterparty risk ratings for customers.

As technologies mature, the capital cost of some renewables infrastructure is expected to fall, becoming cheaper than non-renewable sources due to improved efficiencies. This will reduce the required expenditure for companies.

In the oil and gas sector, customers that commit to renewable energy should benefit from the additional greener revenue streams, which will help mitigate the impact of reduced profitability from fossil fuels and heightened carbon prices, enabling them to sustain their gross margins. This sector has relatively lower projected losses as a large proportion of customers provided transition plans with granular information about their climate-related impacts.

We have the opportunity to ease potential negative impacts as transition risks increase by supporting our customers to diversify into more renewable and greener revenue streams, and invest in emission-reducing technologies.

How climate change is impacting our retail mortgage portfolio

As part of our 2023 internal climate scenario analysis, we completed a detailed climate risk assessment for the UK, Hong Kong, mainland China and Australia, which together represent 75% of the balances in our global retail mortgage portfolio.

Our analysis shows that over the longer term, we expect minimal losses to materialise when considering the Current Commitments scenario. Although the severity of climate perils is expected to worsen over time, our overall losses also remain low under a Downside Physical Risk scenario.

In 2023, we widened the scope of our climate modelling to include new markets, such as mainland China, and increased the peril coverage within markets already covered.

In our analysis of the retail mortgage portfolio, we reassessed the physical perils that could impact the value of properties, which include flooding, wildfire and windstorms. The underlying peril data we use has been enhanced to include updated and higher resolution flood maps where available. We have also worked with external vendors to improve outputs from peril projections and to increase the granularity of data to provide more detailed insights into the impact of climate risks across our portfolio of properties, in particular the impact of wildfires.

Our scenario analysis methodology was enriched further in 2023 by combining the impacts of physical risk with transition risks, including rising energy costs and impacts from direct government legislation such as homeowner energy efficiency upgrades in the UK. We have enhanced our modelling by considering customers' affordability incorporating increased debt servicing costs and the impacts on property valuations. As insurance remains a key mitigator against climate losses, we further refined our assumptions including the assessment of insurance availability for properties that experience frequent climate events.

Projected peril risk

Flooding has the potential to drive significant impacts at an aggregate level but this is localised to specific areas that are close to water sources such as rivers or the coast, or areas that are located in valleys where surface water can 'pool'.

The 'Exposure to flooding' table below shows that the majority of properties located in four of our largest markets are predicted to experience zero to low risk of flooding, with flood depths of less than 0.5 metres, under a 1-in-100-year event in each of the scenarios.

Flood depths outlined here do not consider building type and property floor level, which would potentially further mitigate the impacts. However, they are considered within our climate risk modelling and loss projections.

The table below sets out the proportion of properties with projected flood depths in a 1-in-100-year severity flood event, under the Current Commitments and Downside Physical Risk scenarios.

Exposure to flooding (%)¹

Number of properties ²	Flood depth (metres)	Scenarios		
		Baseline flood risk 2023 ³ (%)	Current Commitments 2050 (%)	Downside Physical Risk 2050 (%)
	0-0.5	97.4	97.4	96.9
	0.5-1.5	2.4	2.5	2.8
	>1.5	0.2	0.2	0.3
	0-0.5	85.3	81.4	79.5
	0.5-1.5	14.6	18.4	20.4
	>1.5	0.1	0.1	0.1
	0-0.5	95.7	95.4	95.3
	0.5-1.5	2.9	3.0	3.1
	>1.5	1.5	1.5	1.5
	0-0.5	88.0	86.5	84.7
	0.5-1.5	11.1	12.5	12.7
	>1.5	0.9	1.0	2.7

1 Severe flood events include river and surface flooding and coastal inundation. The table compares 2050 snapshots under the Current Commitments and Downside Physical Risk scenarios with a baseline view in 2023. We do expect to see changes to our flood depth distributions as climate risk data is refreshed.

2 The size of the bubbles represents the size of the portfolios, in terms of number of properties where exposure to flooding data is available, relative to one another.

3 Baseline flood risk is the flood risk for a 1 in 100 year event, based on current peril data.

How climate change is impacting our commercial real estate portfolios

We assessed our commercial real estate customers' vulnerability to various perils, including flooding and windstorms. Our commercial real estate portfolio is globally diversified with larger concentrations in Hong Kong, the UK and the US.

Geographical location is a key determinant in our exposure to potential physical risk events, which can lead to higher ECL due to the cost of repairing damage as well as impact property valuations in areas where physical risk events are increasing in frequency.

The 'Exposure to peril' table below shows the proportion of our commercial real estate portfolio exposed to specific physical perils in our key markets.

Exposure to peril (%)¹

	Exposure at default ²	Coastal inundation (%)	Cyclone wind (%)	Surface water flooding (%)	Riverine flooding (%)
Hong Kong		2.0	94.8	19.0	10.0
UK		15.8	0.0	16.5	7.1
US		10.1	81.5	11.4	28.6

¹ Proportion of our commercial real estate portfolio exposed to specific physical perils in the Downside Physical scenario.

² The size of the bubbles represents the size of the portfolios, in terms of EAD, relative to one another.

Overall, and in line with our 2022 disclosure, our commercial real estate portfolio remains resilient to climate risk, with the more severe impacts mitigated by insurance coverage.

Our most significant credit exposure is in Hong Kong, a region with material physical risk exposures to wind and flooding due to strong tropical cyclones. The impact on prospective credit losses remains low, due to stringent building standards and existing measures in place against flooding and storm surges.

Our largest exposure to transition risk is within our UK portfolio. Under the Net Zero scenario, we assessed the impacts of the UK government consultation on non-domestic rental properties being required to hold an energy performance certificate rating of at least 'B' by 2030. To meet these proposed minimum standards, more than 80% of the properties in our portfolio would potentially need to be retrofitted, which would increase impairments and lead to a small uplift in ECL for this portfolio.

In 2023, as part of the scenario analysis exercise for the Central Bank of the United Arab Emirates, we also assessed in more detail the climate risk impacts on our UAE portfolio. Our findings showed that many properties could become chronically exposed to permanent inundation over time due to their relatively low elevation above sea level.

How we assess climate risk impacts on other risk types

We use climate scenario analysis to assess the impacts on other risks beyond credit risk. These include traded market risks, non-financial risks and pension risk.

Traded market risk

In 2023, we explored the potential impacts of climate risks on our trading and banking portfolio under the Delayed Transition Risk and Downside Physical Risk scenarios.

The analysis considered all relevant asset classes including interest rates, exchange rates, corporate and sovereign bonds and equities. The analysis applied shocks reflecting the impact of abrupt increases in carbon prices or physical risk perils resulting in structural economic impacts that affect the productivity of high-risk sectors at a country level.

We have developed tools to provide us with a more granular understanding of the key profit and loss drivers under different climate scenarios. These can be viewed by risk factor, business line or at trading desk level to help traded risk managers to monitor and understand how climate sensitive exposures are impacted.

Sovereign credit risk

We assessed the impacts of climate risks on sovereign debt under the different climate scenarios. In particular, our models considered the impacts of climate change on a country's GDP, the amount of headroom sovereign nations have in terms of their fiscal and external reserves, and their dependency and exposure to particular corporate sectors.

Pension risk

We modelled balance sheet and income statement projections for the main pension plans. Our modelling capability has been enhanced to incorporate climate-specific modelling over a longer timeframe, with the initial exercise being focused on assessing the impacts of a disruptive transition to net zero using the Delayed Transition scenario.

Non-financial risk

We assessed the potential impacts of errors in sustainable lending volumes contained within our ESG disclosures as part of our financial reporting risks. To understand our regulatory compliance risks we assessed any misrepresentations within the marketing of our ESG funds.

Use of climate scenario analysis outputs

Climate scenario analysis plays a crucial role helping us to identify and understand the impact of climate-related risks and potential opportunities as we navigate the transition to net zero.

Scenario analysis results have been used to support the Group's ICAAP. This is an internal assessment of the capital the Group needs to hold to meet the risks identified on a current and projected basis, including climate risk.

In addition, scenario analysis informs our risk appetite statement metrics. As an example, it supports the calibration of physical risk metrics for our retail mortgage portfolios and it is used to consider climate impact in our IFRS 9 assessment.

From a financial planning perspective, internal climate scenario analysis results are used to assess whether additional short-term climate-specific ECL are required within our financial plan.

Next steps

We plan to continue to enhance our capabilities for climate scenario analysis including addressing model limitations and data gaps and developing our assessment of liquidity, resilience and insurance risks. We also plan to use the results for decision making, particularly in:

- client engagement, by identifying climate opportunities and vulnerabilities in specific regions and sectors such as renewables, carbon capture technologies and electric vehicles, and using this information to engage and support clients in their transition to net zero;
- portfolio steering, by using scenario analysis outputs to inform how to reallocate our portfolio to maximise returns and mitigate risk while achieving our net zero targets; and
- looking beyond climate change by building capabilities to assess our resilience to wider environmental risks.

Understanding the resilience of our critical properties

Climate change poses a physical risk to the buildings that we occupy as an organisation, including our offices, retail branches and data centres, both in terms of loss and damage, and business interruption.

We measure the impacts of climate and weather events to our buildings on an ongoing basis using historical, current and scenario modelled forecast data. In 2023, there were 27 major storms that had a minor impact on five premises with no impact on the availability of our buildings.

We use stress testing to evaluate the potential for impact on our owned or leased premises. Our scenario stress test, conducted in 2023, analysed how eight climate change-related hazards could impact 1,000 of our critical and important buildings. These hazards were coastal inundation, extreme heat, extreme winds, wildfires, riverine flooding, pluvial flooding, soil movement due to drought, and surface water flooding.

The 2023 stress test modelled climate change with IPCC's Taking the Highway scenario (SSP5-8.5), which projects that the rise in global temperatures will likely exceed 4°C by 2100. It also modelled a less severe IPCC Middle of the Road scenario (SSP2-4.5), which projects that global warming will likely be limited to 2°C.

Key findings from the Taking the Highway scenario included that by 2050, 20 of our 1,000 critical and important buildings will have a high potential for impact due to climate change, with insurance-related losses estimated to be in excess of 10% of the insured value of the buildings.

These include 16 retail properties primarily impacted by extreme temperatures and four data centres, where three face the risk of water stress and one faces extreme temperatures and water stress. This could lead to failure of mechanical cooling equipment or soil movement resulting from drought.

A further 248 properties have the potential to be impacted by climate change, albeit to a lesser extent, with insurance-related losses estimated at between 5% and 10% of the insured value of our buildings. The principal risks are temperature extremes and water stress.

A key finding from the Middle of the Road scenario showed that the total number of buildings at risk reduced from 20 to 13. The highlighted facilities are still at risk from the same perils of extreme temperature and water stress by 2050.

This forward-looking data along with historical data helps inform real estate planning. We will continue to enhance our understanding of how extreme weather events impact our building portfolio as climate risk assessment tools improve and evolve. We buy insurance for property damage and business interruption and consider insurance as a loss mitigation strategy depending on its availability and price.

We regularly review and enhance our building selection process and global engineering standards and will continue to assess historical claims data to help ensure our building selection and design standards address the potential impacts of climate change.

Resilience risk

Overview

Resilience risk is the risk of sustained and significant business disruption from execution, delivery, physical security or safety events, causing the inability to provide critical services to our customers, affiliates and counterparties. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience risk management

Key developments in 2023

During the year, we carried out several initiatives to keep pace with geopolitical, regulatory and technology changes, and strengthened the management of resilience risk:

- We focused on enhancing our understanding of our risk and control environment, by updating our risk taxonomy and control libraries, and refreshing risk and control assessments.
- We continued to recognise that our customers are impacted by service disruptions, and responded to these urgently and aimed to recover with minimum delay. We continued to initiate post-incident review processes to prevent recurrence. Where we identify that investment is required to further enhance the Group's operational resilience capabilities, findings are fed into the Group's financial planning, helping to ensure we continue to meet the expectations of our customers and our regulators.
- We continued to monitor markets affected by the Russia-Ukraine and Israel-Hamas wars, as well as other geopolitical events, for any potential impact they may have on our colleagues and operations.
- We strengthened the way third-party risk is overseen and managed across all non-financial risks, and enhanced the processes, framework and reporting capabilities used by our global businesses, functions and regions.
- We provided analysis and easy-to-access risk and control information and metrics to enable management to focus on non-financial risks in their decision making and appetite setting.
- We further strengthened our non-financial risk governance and senior leadership, and improved our coverage and risk steward oversight for data risk and change execution.

We prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need. We also remotely provide oversight and stewardship, including support of chief risk officers, in territories where we have no physical presence.

Governance and structure

The Enterprise Risk Management target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure.

We view resilience risk across seven sub-risk types related to: third-party risk; technology and cybersecurity risk; transaction processing risk; business interruption and incident risk; data risk; change execution risk; and facilities availability, safety and security risk.

Risk appetite and key escalations for resilience risk are reported to the Non-Financial Risk Management Board, chaired by the Group Chief Risk and Compliance Officer, with an escalation path to the Group Risk Management Meeting and Group Risk Committee.

Key risk management processes

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

Business operations continuity

We continue to monitor the Russia-Ukraine and Israel-Hamas wars, and remain ready to take measures to ensure business continuity in affected markets should the situations require. There have been no significant disruptions to our services, although businesses and functions in nearby markets continually review their plans and responses to minimise any potential impacts.

Regulatory compliance risk

Overview

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

Regulatory compliance risk management

Key developments in 2023

The dedicated programme to embed our updated purpose-led conduct approach has concluded. Work to map applicable regulations to our risks and controls continued in 2023, alongside the adoption of new tooling to support enterprise-wide horizon scanning for new regulatory obligations and supporting wider work on regulatory reporting enhancements. Climate risk has been integrated into regulatory compliance policies and processes, with enhancements made to the product governance framework and controls to ensure the effective consideration of climate – and in particular the risk of greenwashing – risks.

Governance and structure

The Compliance function has now been restructured and integrated into a combined Risk and Compliance function with the appointment of a Group Head of Regulatory Compliance reporting directly into the

Group Chief Risk and Compliance Officer. Regulatory Compliance and Financial Crime teams work together and with relevant stakeholders to achieve good conduct outcomes, and provide enterprise-wide support on the compliance risk agenda in close collaboration with colleagues from the Group Risk and Compliance function.

Key risk management processes

The Global Regulatory Compliance capability is responsible for setting global policies, standards and risk appetite to guide the Group's management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. The Group capability provides oversight, review and challenge of the global market, regional and line of business teams to help them identify, assess and mitigate regulatory compliance risks, where required. The Group's regulatory compliance risk policies are regularly reviewed. Global policies and procedures require the identification and escalation of any actual or potential regulatory breaches, and relevant events and issues are escalated to the Group's Non-Financial Risk Management Board, the Group Risk Management Meeting and the Group Risk Committee, as appropriate. The Group Head of Regulatory Compliance reports to the Group Chief Risk and Compliance Officer, and attends the Risk and Compliance Executive Committee, the Group Risk Management Meeting and the Group Risk Committee.

Financial crime risk

Overview

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

Financial crime risk management

Key developments in 2023

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

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

- We deployed our intelligence-led, dynamic risk assessment capability for customer account monitoring in additional entities and global businesses, including in the UK, the Channel Islands and the Isle of Man, Hong Kong and the UAE.
- We deployed a next generation capability to increase our monitoring coverage on correspondent banking activity.
- We successfully introduced the required changes to our transaction screening capability to accommodate the global change to payment systems formatting under ISO 20022 requirements.
- We made enhancements in response to the rapidly evolving and complex global payments landscape and refined our digital assets and currencies strategy.

Governance and structure

The structure of the Financial Crime function remained substantively unchanged in 2023, although we continued to review the effectiveness of our governance framework to manage financial crime risk. The Group Head of Financial Crime and Group Money Laundering Reporting Officer continues to report to the Group Chief Risk and Compliance Officer, while the Group Risk Committee retains oversight of matters relating to financial crime.

Key risk management processes

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

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

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

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

taxonomy and control libraries and our monitoring capabilities through technology deployments. We developed more targeted metrics, and continued to seek to enhance our governance and reporting. We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk and we participate in numerous public-private partnerships and information sharing initiatives around the world. In 2023, our focus remained on measures to improve the overall effectiveness of the global financial crime framework, notably by providing input into legislative and regulatory reform activities. We did this by contributing to the

development of responses to consultation papers focused on how financial crime risk management frameworks can deliver more effective outcomes in detecting and deterring criminal activity. Through our work with the Wolfsberg Group and the Institute of International Finance, we supported the efforts of the global standard setter, the Financial Action Task Force. In addition, we participated in a number of public events related to enhancing public-private partnerships, payment transparency, asset recovery, tackling forestry crimes, wildlife trafficking and human trafficking.

Model risk

Overview

Model risk is the risk of the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

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

Key developments in 2023

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

Initiatives during the year included:

- Following regulatory feedback on a number of our model submissions for our internal ratings-based ('IRB') approach for credit risk, internal model method ('IMM') for counterparty credit risk and internal model approach ('IMA') for market risk, we implemented approved models for IMM and IMA alongside an approved IRB model for UK mortgages. We began a programme of work to address feedback from the PRA and other regulators on the IRB models for wholesale credit.
- We made changes to our VaR model in response to multiple breaches that had been observed from market volatility resulting from changes in monetary policy in major markets.
- We introduced a new procedure to ensure any new tool developed using generative AI would require validation by Model Risk Management before its use.
- We enhanced our frameworks and controls as climate risk and AI and machine learning models become more embedded in business processes.
- Following the publication of Supervisory Statement 1/23 – the PRA's guiding principles for how model risks should be managed across the industry – we began a programme of work to seek to meet the enhanced model risk management requirements, with representation from all global businesses and key functions, including Internal Audit.

Governance and structure

Model risk governance committees at the Group, business and functional levels provide oversight of model risk. The committees include senior leaders from the three global businesses and the Group Risk and Compliance function, and focus on model-related concerns and are supported by key model risk metrics. We also have Model Risk Committees in our geographical regions focused on local delivery and requirements. The Group-level Model Risk Committee is chaired by the Group Chief Risk and Compliance Officer, and the heads of key businesses participate in these meetings.

Key risk management processes

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Global responsibility for managing model risk is delegated from the Board to the Group Chief Risk and Compliance Officer, who authorises the Group Model Risk Committee. This committee regularly reviews our model risk management policies and procedures, and requires the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management. Model Risk Management also reports on model risk to senior management and the Group Risk Committee on a regular basis through the use of the risk map, risk appetite metrics and top and emerging risks.

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

Insurance manufacturing operations risk

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Overview

The key risks for our insurance manufacturing operations are market risk, in particular interest rate and equity, credit risk and insurance underwriting risk. These have a direct impact on the financial results and capital positions of the insurance operations. Liquidity risk, while significant in other parts of the Group, is less material for our insurance operations.

HSBC's insurance business

We sell insurance products through a range of channels including our branches, insurance sales forces, direct channels and third-party distributors. The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship, although the proportion of sales through other sources such as independent financial advisers, tied agents and digital platforms is increasing.

For the insurance products we manufacture, the majority of sales are savings, universal life and protection contracts.

We choose to manufacture these insurance products in HSBC subsidiaries based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the Group.

We have life insurance manufacturing subsidiaries in eight markets, which are Hong Kong, Singapore, mainland China, France, UK, Malta, Mexico and Argentina. In addition, we have: an interest in a life insurance manufacturing associate in India; a captive insurance entity in Bermuda that insures the non-financial risks of the wider Group; and a reinsurance entity in Bermuda.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a small number of leading external insurance companies in order to provide insurance products to our customers. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits. We distribute insurance products in all of our geographical regions.

This section focuses only on the risks relating to the insurance products we manufacture.

Insurance manufacturing operations risk management

Key developments in 2023

The insurance manufacturing subsidiaries follow the Group's risk management framework. In addition, there are specific policies and practices relating to the risk management of insurance contracts, which did not change materially over 2023. During the year, there was continued market volatility observed across interest rates, equity and credit markets and foreign exchange rates. This was predominantly driven by geopolitical factors and wider inflationary concerns. One key area of risk management focus during 2023 was the implementation of the new accounting standard, IFRS 17

'Insurance Contracts', which became effective on 1 January 2023. Given the fundamental change the new accounting standard represented in insurance accounting, and the complexity of the new standard, this presented additional financial reporting and model risks for the Group, which were managed via the IFRS 17 implementation project. Other areas of focus were the ongoing integration of the insurance business that was acquired through AXA Singapore in 2022 into the Group's risk management framework, the establishment of a reinsurance entity in Bermuda and controls supporting IFRS 17 implementation.

Governance and structure

(Audited)

Insurance manufacturing risks are managed to a defined risk appetite, which is aligned to the Group's risk appetite and risk management framework, including its three lines of defence model. For details of the Group's governance framework, see page 160. The Global Insurance Risk Management Meeting oversees the control framework globally and is accountable to the WPB Risk Management Meeting on risk matters relating to the insurance business.

The monitoring of the risks within our insurance operations is carried out by Insurance Risk teams. The Group's risk stewardship functions support the Insurance Risk teams in their respective areas of expertise.

Stress and scenario testing

(Audited)

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and Group-wide regulatory stress tests, as well as internally developed stress and scenario tests, including Group internal stress test exercises.

The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in the Group's ICAAP and the entities' regulatory Own Risk and Solvency Assessments, which are produced by all material entities.

Key risk management processes

Market risk

(Audited)

All our insurance manufacturing subsidiaries have market risk mandates and limits that specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk that they may retain. They manage market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- We are able to adjust bonus rates to manage the liabilities to policyholders for products with participating features. The effect is that a significant proportion of the market risk is borne by the policyholder.
- We use asset and liability matching where asset portfolios are structured to support projected liability cash flows. The Group manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. We use models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and ALCOs employ the outcomes in determining how best to structure asset holdings to support liabilities.
- We use derivatives and other financial instruments to protect against adverse market movements.
- We design new products to mitigate market risk, such as changing the investment return sharing proportion between policyholders and the shareholder.

Risk review

Credit risk

(Audited)

Our insurance manufacturing subsidiaries also have credit risk mandates and limits within which they are permitted to operate, which consider the credit risk exposure, quality and performance of their investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Stress testing is performed on investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report containing a watch-list of investments with current credit concerns, primarily investments that may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly.

Capital and liquidity risk

(Audited)

Capital risk for our insurance manufacturing subsidiaries is assessed in the Group's ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the Group's economic capital basis, and the relevant local insurance regulatory basis.

Risk appetite buffers are set to ensure that the operations are able to remain solvent, allowing for business-as-usual volatility and extreme but plausible stress events.

Liquidity risk is less material for the insurance business. It is managed by cash flow matching and maintaining sufficient cash resources,

investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance manufacturing subsidiaries complete quarterly liquidity risk reports and an annual review of the liquidity risks to which they are exposed.

Insurance underwriting risk

Our insurance manufacturing subsidiaries primarily use the following frameworks and processes to manage and mitigate insurance underwriting risks:

- a formal approval process for launching new products or making changes to products;
- a product pricing and profitability framework, which requires initial and ongoing assessment of the adequacy of premiums charged on new insurance contracts to meet the risks associated with them;
- a framework for customer underwriting;
- reinsurance, which cedes risks to third-party reinsurers to keep risks within risk appetite, reduce volatility and improve capital efficiency; and
- oversight by financial reporting committees in each of our entities of the methodology and assumptions that underpin IFRS 17 reporting.

Insurance manufacturing operations risk in 2023

Measurement

The following tables show the composition of the fair value of underlying items of the Group's participating contracts at the reporting date.

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	Life direct participating and investment DPF contracts ¹	Life other contracts ²	Other contracts ³	Shareholder assets and liabilities	Total
	\$m	\$m	\$m	\$m	\$m
At 31 Dec 2023					
Financial assets	113,605	3,753	5,812	7,696	130,866
– trading assets	—	—	—	—	—
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	100,427	3,593	4,177	1,166	109,363
– derivatives	258	10	—	6	274
– financial investments – at amortised cost	1,351	67	1,157	4,772	7,347
– financial assets at fair value through other comprehensive income	8,859	—	5	693	9,557
– other financial assets	2,710	83	473	1,059	4,325
Insurance contract assets	13	213	—	—	226
Reinsurance contract assets	—	4,871	—	—	4,871
Other assets and investment properties	2,782	164	35	1,636	4,617
Total assets at 31 Dec 2023	116,400	9,001	5,847	9,332	140,580
Liabilities under investment contracts designated at fair value	—	—	5,103	—	5,103
Insurance contract liabilities	116,389	3,961	—	—	120,350
Reinsurance contract liabilities	—	819	—	—	819
Deferred tax	—	1	—	3	4
Other liabilities	—	—	—	6,573	6,573
Total liabilities	116,389	4,781	5,103	6,576	132,849
Total equity	—	—	—	7,731	7,731
Total liabilities and equity at 31 Dec 2023	116,389	4,781	5,103	14,307	140,580

Balance sheet of insurance manufacturing subsidiaries by type of contract (continued)

(Audited)

	Life direct participating and investment DPF contracts ¹	Life other contracts ²	Other contracts ³	Shareholder assets and liabilities	Total
At 31 Dec 2022 ⁴	\$m	\$m	\$m	\$m	\$m
Financial assets	102,539	4,398	6,543	7,109	120,589
– trading assets	—	—	—	—	—
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	89,671	3,749	4,916	1,088	99,424
– derivatives	432	9	21	15	477
– financial investments – at amortised cost	981	165	1,221	4,660	7,027
– financial assets at fair value through other comprehensive income	9,030	—	—	569	9,599
– other financial assets	2,425	475	385	777	4,062
Insurance contract assets	4	130	—	—	134
Reinsurance contract assets	—	4,413	—	—	4,413
Other assets and investment properties	2,443	60	30	1,666	4,199
Total assets at 31 Dec 2022 ⁴	104,986	9,001	6,573	8,775	129,335
Liabilities under investment contracts designated at fair value	—	—	5,374	—	5,374
Insurance contract liabilities	104,662	3,766	—	—	108,428
Reinsurance contract liabilities	—	748	—	—	748
Deferred tax	23	—	—	2	25
Other liabilities	—	—	—	7,524	7,524
Total liabilities	104,685	4,514	5,374	7,526	122,099
Total equity	—	—	—	7,236	7,236
Total liabilities and equity at 31 Dec 2022 ⁴	104,685	4,514	5,374	14,762	129,335

1 'Life direct participating and investment DPF contracts' are substantially measured under the variable fee approach measurement model.

2 'Life other contracts' are measured under the general measurement model and mainly includes protection insurance contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating and investment discretionary participation feature ('DPF') contracts.

3 'Other contracts' includes investment contracts for which HSBC does not bear significant insurance risk.

4 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

Key risk types

Market risk

(Audited)

Description and exposure

Market risk is the risk of changes in market factors affecting HSBC's capital or profit. Market factors include interest rates, equity and growth assets, credit spreads and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are contracts with participating features. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in fixed interest, with a proportion allocated to other asset classes to provide customers with the potential for enhanced returns.

Participating products expose HSBC to the risk of variation in asset returns, which will impact our participation in the investment performance.

In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by HSBC. Amounts are held against the cost of such guarantees, calculated by stochastic modelling in the larger entities.

The cost of such guarantees are generally not material and are absorbed by the insurance fulfilment cash flows.

For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains, as fees earned are related to the market value of the linked assets.

Sensitivities

(Audited)

The following table provides the impacts on the CSM, profit after tax and equity of our insurance manufacturing subsidiaries from reasonably possible effects of changes in selected interest rate, credit spread, equity price, growth assets and foreign exchange rate scenarios for the year. These sensitivities are prepared in accordance with current IFRS Accounting Standards and are based on changing one assumption at a time with other variables being held constant, which in practice could be correlated.

Due in part to the impact of the cost of guarantees and hedging strategies, which may be in place, the relationship between the CSM, profit after tax and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside. The sensitivities are stated before allowance for management actions, which may mitigate the effect of changes in the market environment.

The method used for deriving sensitivity information and significant market risk factors remain consistent between 2022 and 2023. In 2022, due to a lower CSM level, some portfolios generated onerous contracts in the 100bps up scenarios for interest rate and credit spread sensitivities, generating income statement losses and equity reductions in those scenarios. This was less prevalent in 2023 as the base CSMs were higher from changing market conditions and changes in lapse rate assumptions.

Risk review

Sensitivity of HSBC's insurance manufacturing subsidiaries to market risk factors¹

(Audited)

	2023			2022 ²		
	Effect on profit after tax	Effect on CSM	Effect on total equity	Effect on profit after tax	Effect on CSM	Effect on total equity
	\$m	\$m	\$m	\$m	\$m	\$m
+100 basis point parallel shift in yield curves	66	(92)	32	(210)	(82)	(240)
– Insurance and reinsurance contracts	69	(92)	69	(214)	(82)	(214)
– Financial instruments	(3)	—	(37)	4	—	(26)
-100 basis point parallel shift in yield curves	(137)	(390)	(103)	(49)	(57)	(19)
– Insurance and reinsurance contracts	(133)	(390)	(133)	(41)	(57)	(41)
– Financial instruments	(4)	—	30	(8)	—	22
+100 basis point shift in credit spreads	(11)	(884)	(45)	(324)	(843)	(354)
– Insurance and reinsurance contracts	(9)	(884)	(9)	(322)	(843)	(322)
– Financial Instruments	(2)	—	(36)	(2)	—	(32)
-100 basis point shift in credit spreads	104	806	138	119	1,133	149
– Insurance and reinsurance contracts	102	806	102	117	1,133	117
– Financial instruments	2	—	36	2	—	32
10% increase in growth assets ³	78	436	78	68	400	68
– Insurance and reinsurance contracts	43	436	43	38	400	38
– Financial instruments	35	—	35	30	—	30
10% decrease in growth assets ³	(85)	(507)	(86)	(81)	(560)	(81)
– Insurance and reinsurance contracts	(49)	(507)	(49)	(49)	(560)	(49)
– Financial instruments	(36)	—	(36)	(32)	—	(32)
10% appreciation in US dollar exchange rate against local functional currency	117	390	117	95	272	95
– Insurance and reinsurance contracts	27	390	27	20	272	20
– Financial instruments	90	—	90	75	—	75
10% depreciation in US dollar exchange rate against local functional currency	(117)	(390)	(117)	(95)	(272)	(95)
– Insurance and reinsurance contracts	(27)	(390)	(27)	(20)	(272)	(20)
– Financial instruments	(90)	—	(90)	(75)	—	(75)

- ¹ Sensitivities presented for 'Insurance and reinsurance Contracts' includes the impact of the sensitivity stress on underlying assets held to support insurance and reinsurance contracts. Sensitivities presented for 'Financial instruments' includes the impact of the sensitivity stress on other financial instruments, primarily shareholder assets.
- ² From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.
- ³ 'Growth assets' primarily comprise equity securities and investment properties. Variability in growth asset fair value constitutes a market risk to HSBC insurance manufacturing subsidiaries.

Credit risk

(Audited)

Description and exposure

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturers:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 270.

The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'satisfactory' or higher (as defined on page 184), with 100% of the exposure being neither past due nor impaired (2022: 100%).

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholders. Therefore, our exposure is primarily

related to liabilities under non-linked insurance and investment contracts and shareholders' funds. The credit quality of insurance financial assets is included in the table on page 208.

The risk associated with credit spread volatility is to a large extent mitigated by holding debt securities to maturity, and sharing a degree of credit spread experience with policyholders.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to be shared with policyholders for products with participating features.

The remaining maturity of insurance contract liabilities is included in Note 4 on page 389.

The amounts of insurance contract liabilities that are payable on demand are set out by the product grouping below:

Amounts payable on demand

(Audited)

	2023		2022 ¹	
	Amounts payable on demand	Carrying amount for these contracts	Amounts payable on demand	Carrying amount for these contracts
	\$m	\$m	\$m	\$m
Life direct participating and investment DPF contracts	107,287	116,389	100,273	104,669
Life other contracts	2,765	3,961	2,813	3,759
At 31 Dec	110,052	120,350	103,086	108,428

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

Insurance underwriting risk

Description and exposure

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapse and expense rates. Lapse risk exposure on products with premium financing increased over the year as rising interest rates led to an increase in the cost of financing for customers.

The principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The tables on pages 270 analyse our life insurance underwriting risk exposures by composition of the fair value of the underlying items.

The insurance underwriting risk profile and related exposures remain largely consistent with those observed at 31 December 2022.

Sensitivities

(Audited)

The following table shows the sensitivity of the CSM, profit and total equity to reasonably foreseeable changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

These sensitivities are prepared in accordance with current IFRS Accounting Standards, which have changed following the adoption of IFRS 17 'Insurance Contracts', effective from 1 January 2023. Further information about the adoption of IFRS 17 is provided on page 369.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on CSM (and therefore expected future profits) due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits. This risk is generally greatest for our smaller entities.

The impact of changing insurance underwriting risk factors is primarily absorbed within the CSM, unless contracts are onerous in which case the impact is directly to profits. The impact of changes to the CSM is released to profits over the expected coverage periods of the related insurance contracts.

Sensitivity of HSBC's insurance manufacturing subsidiaries to insurance underwriting risk factors

(Audited)

	Effect on CSM (gross) ¹	Effect on profit after tax (gross) ¹	Effect on profit after tax (net) ²	Effect on total equity (gross) ¹	Effect on total equity (net) ²
	\$m	\$m	\$m	\$m	\$m
At 31 Dec 2023					
10% increase in mortality and/or morbidity rates	(392)	(49)	(24)	(49)	(24)
10% decrease in mortality and/or morbidity rates	440	22	30	22	30
10% increase in lapse rates	(316)	(33)	(24)	(33)	(24)
10% decrease in lapse rates	348	22	29	22	29
10% increase in expense rates	(68)	(9)	(6)	(9)	(6)
10% decrease in expense rates	69	8	11	8	11
At 31 Dec 2022³					
10% increase in mortality and/or morbidity rates	(354)	(23)	(21)	(23)	(21)
10% decrease in mortality and/or morbidity rates	374	16	18	16	18
10% increase in lapse rates	(225)	(23)	(23)	(23)	(23)
10% decrease in lapse rates	232	22	22	22	22
10% increase in expense rates	(59)	(7)	(7)	(7)	(7)
10% decrease in expense rates	60	4	5	4	5

1 The 'gross' sensitivities impacts are provided before considering the impacts of reinsurance contracts held as risk mitigation.

2 The 'net' sensitivities impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.

3 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.



Corporate governance report

HSBC continues to enhance its corporate governance practices and procedures to support the Board's ambition of world-class governance.

The corporate governance report contains the Report of the Directors and gives details of our Board of Directors, senior management, and Board committees. It outlines key aspects of our approach to corporate governance, including internal control.

It also includes the Directors' remuneration report, which explains our policies on remuneration and their application.

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290	Board matters considered and shareholder engagement
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343	Share capital and other related governance disclosures
348	Internal control
350	Employees
352	Statement of compliance

We have a comprehensive range of policies and systems in place designed to help ensure that the Group is well managed, with effective oversight and control.

The Board

The Board, which seeks to promote the Group's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate, comprises diverse, high-calibre members who have experience in our global markets.

Chairman and executive Directors



Mark E Tucker (66)

N

Group Chairman

*Appointed to the Board: September 2017
Group Chairman since: October 2017*

Skills and experience: With over 35 years of experience in financial services in Asia, Africa, the US, the EU and the UK, including 30 years living and working in Hong Kong, Mark has a deep understanding of the industry and markets in which we operate.

Career: Mark was previously Chairman, Group Chief Executive and President of AIA Group Limited ('AIA'), and prior to AIA he was Group Chief Executive of Prudential plc. Mark previously served as a non-executive Director of the Court of the Bank of England and as an independent non-executive Director of Goldman Sachs Group.

External appointments:

- Non-executive Chairman of Discovery Limited
- Supporting Chair of Chapter Zero
- Member of the UK Investment Council
- Member of the Advisory Group on Trade Finance to the International Chamber of Commerce
- Member of the Trade Advisory Group on Financial Services to the UK Government's Department for International Trade
- Member of the Asia Business Council
- Member of Hong Kong's Chief Executive's Advisory Council on Economic Development
- Member of the Investment Advisory Council of the Supreme National Investment Committee of the Kingdom of Saudi Arabia
- Chairman of the Multinational Chairman's Group
- Director, Peterson Institute for International Economics
- Director, Institute of International Finance
- Asia Society Global Board of Trustees
- International Advisory Council of the China National Financial Regulatory Administration
- Hong Kong Academy of Finance International Council of Advisors
- Member of the Asia Global Institute
- International Business Leaders' Advisory Council to the Mayor of Beijing – Adviser to the Mayor
- International Business Leaders' Advisory Council to the Mayor of Shanghai – Adviser to the Mayor



Noel Quinn (62)

Group Chief Executive

*Appointed to the Board: August 2019
Group Chief Executive since: March 2020*

Skills and experience: Having qualified as an accountant in 1987, Noel has more than 30 years of banking and financial services experience, both in the UK and Asia.

Career: Noel was appointed Group Chief Executive in March 2020, having held the role on an interim basis since August 2019. Since joining HSBC and its constituent companies in 1987, Noel has held a variety of roles including Chief Executive Officer, Global Commercial Banking; Regional Head of Commercial Banking for Asia-Pacific; Head of Commercial Banking UK; and Head of Commercial Finance Europe.

External appointments:

- Independent non-executive Director of Sustainable Markets Initiative Limited and Chair of the Financial Services Task Force
- Principal member of the Glasgow Financial Alliance for Net Zero
- Member of the World Economic Forum's International Business Council
- Member of the World Bank Private Sector Investment Lab
- Member of the Advisory Board of the China Children Development Fund
- Founding member of CNBC ESG Council
- Member of the British Infrastructure Council



Georges Elhedery (49)

Group Chief Financial Officer

Appointed to the Board: January 2023

Skills and experience: Georges has over 25 years of experience in the banking industry across Europe, the Middle East and Asia, and has held a number of executive roles at both a regional and global business level.

Career: Georges was appointed Group Chief Financial Officer and executive Director with effect from 1 January 2023. He is also responsible for the oversight of the Group's transformation initiatives, strategy and corporate development activities. Georges was previously co-Chief Executive Officer, Global Banking and Markets and also Head of the Markets and Securities Services division of the business. Georges joined HSBC in 2005 with extensive trading experience in London, Paris and Tokyo. He has since held a number of senior leadership roles, including Head of Global Banking and Markets, Middle East and North Africa; Chief Executive Officer for HSBC, Middle East, North Africa and Türkiye; and Global Head of Markets based in London.

Board committee membership key

- Committee Chair
- A Group Audit Committee
- Ri Group Risk Committee
- R Group Remuneration Committee
- N Nomination & Corporate Governance Committee

► For full biographical details of our Board members, see www.hsbc.com/who-we-are/leadership-and-governance.

Independent non-executive Directors



Geraldine Buckingham (46)



Independent non-executive Director
Appointed to the Board: May 2022

Skills and experience: Geraldine is an experienced executive within the global financial services industry, with significant leadership experience in Asia.

Career: Geraldine is the former Chair and Head of Asia-Pacific at BlackRock, where she was responsible for all business activities across Hong Kong, mainland China, Japan, Australia, Singapore, India and Korea. After stepping down from this role, she acted as senior adviser to the Chairman and Chief Executive Officer of BlackRock. She earlier served as BlackRock's Global Head of Corporate Strategy, and previously was a partner within McKinsey & Company's financial services practice.

External appointments:

- Independent non-executive Director of Brunswick Group Partnership Ltd
- Independent non-executive Director of H.R.L. Morrison & Co Limited
- Member of the Advisory Board of ClimateWorks Centre Australia
- Member of the Advisory Board of the McKinsey Health Institute



Rachel Duan (53)



Independent non-executive Director
Appointed to the Board: September 2021

Skills and experience: Rachel is an experienced business leader with exceptional international experience in the US, Japan, mainland China and Hong Kong.

Career: Rachel spent 24 years at General Electric ('GE'), where she held positions including Senior Vice President of GE, and President and Chief Executive Officer of GE's Global Markets where she was responsible for driving GE's growth in Asia-Pacific, the Middle East, Africa, Latin America, Russia and the Commonwealth of Independent States. She also previously served as President and Chief Executive Officer of GE Advanced Materials China and then of the Asia-Pacific; President and CEO of GE Healthcare China; and President and CEO of GE China.

External appointments:

- Independent non-executive Director of Sanofi S.A.
- Independent non-executive Director of AXA S.A.
- Independent non-executive Director of the Adecco Group AG



Dame Carolyn Fairbairn (63)



Independent non-executive Director
Appointed to the Board: September 2021

Skills and experience: Carolyn has significant experience across the media, government and finance sectors, and a deep understanding of the macroeconomic, regulatory, and political environment.

Career: An economist by training, Carolyn has served as a partner at McKinsey & Company, a member of the UK prime minister John Major's Number 10 Policy Unit, and as Director-General of the Confederation of British Industry, and held senior executive positions at the BBC and ITV plc. She has extensive board experience, having previously served as non-executive Director of Lloyds Banking Group plc, The Vitec Group plc, Capita plc and BAE Systems plc. She has also served as a non-executive Director of the UK Competition and Markets Authority and the Financial Services Authority.

External appointments:

- Independent non-executive Director of Tesco plc
- Chair of Royal Mencap Society
- Honorary Fellow of Gonville and Caius College, Cambridge



James Forese (60)



Independent non-executive Director
Appointed to the Board: May 2020

Skills and experience: Jamie has over 30 years of international business and management experience in the finance industry working in areas including global markets, investment and private banking.

Career: Jamie formerly served as President of Citigroup. He began his career in securities trading with Salomon Brothers, one of Citigroup's predecessor companies, in 1985. In addition to his most recent role as Citigroup's President, he was Chief Executive Officer of Citigroup's Institutional Clients Group. He has held the positions of Chief Executive of its Securities and Banking division and Head of its Global Markets business.

External appointments:

- Non-executive Chair of HSBC North America Holdings Inc
- Non-executive Chairman of Global Bamboo Technologies



Ann Godbehere (68)



Independent non-executive Director
Appointed to the Board: September 2023

Skills and experience: Ann brings deep financial acumen and extensive financial services experience over a 30-year career spanning insurance, retail and private banking, and wealth management. She also provides global perspectives, drawing upon experiences and insights gained from a long career in international business.

Career: After joining Swiss Re in 1996, Ann served as the company's Chief Financial Officer from 2003 to 2007. She was also Interim Chief Financial Officer of Northern Rock Bank from 2008 to 2009 in the period immediately after its nationalisation. Ann also has extensive board experience, including with FTSE 100 companies, having previously served as non-executive Director of Prudential plc, British American Tobacco plc, UBS AG, UBS Group AG and as Senior Independent non-executive Director of Rio Tinto plc and Rio Tinto Limited.

External appointments:

- Non-executive Director and Chair of the Audit Committee of Stellantis N.V.
- Non-executive Director and Chair of the Audit Committee of Shell plc



Steven Guggenheimer (58)



Independent non-executive Director
Appointed to the Board: May 2020

Skills and experience: Steven brings extensive insight into technologies ranging from artificial intelligence to Cloud computing, through his experience advising businesses on digital transformation.

Career: Steven has more than 25 years of experience at Microsoft, including more than a decade as Corporate Vice President, where he led teams focused on original equipment manufacturers, developers and independent software vendors and artificial intelligence solutions.

External appointments:

- Independent non-executive Director of BT Group plc
- Independent non-executive Director of Leupold & Stevens, Inc
- Independent non-executive Director of Forrit Holdings Limited



Dr José Antonio Meade Kuribreña (54)

R N

Independent non-executive Director
Appointed to the Board: March 2019
Workforce engagement non-executive Director since: June 2022

Skills and experience: José has extensive experience in public administration, banking and financial policy.

Career: José has held Cabinet-level positions in the federal government of Mexico, including as Secretary of Finance and Public Credit, Secretary of Social Development, Secretary of Foreign Affairs and Secretary of Energy. Prior to his appointment to the Cabinet, he served as Undersecretary and as Chief of Staff in the Ministry of Finance and Public Credit. José is also a former Director General of Banking and Savings at the Ministry of Finance and Public Credit, and served as Chief Executive Officer of the National Bank for Rural Credit.

External appointments:

- Independent non-executive Director of Alfa S.A.B. de C.V.
- Independent non-executive Director of Grupo Comercial Chedraui, S.A.B. de C.V.
- Board member of the Global Center on Adaptation
- Member of the Advisory Board of the University of California, Centre for US Mexican Studies
- Member of the UNICEF Mexico Advisory Board



Kalpana Morparia (74)

Ri N

Independent non-executive Director
Appointed to the Board: March 2023

Skills and experience: Kalpana is a skilled business leader with significant experience gained through a 45-year career in banking across Asia, primarily in India.

Career: Kalpana's most recent executive role was as Chair of J.P. Morgan, South and Southeast Asia and a member of J.P. Morgan's Asia executive committee, which she held until her retirement in 2021. Before J.P. Morgan, she was the Joint Managing Director of ICICI Bank, India's second-largest bank, from 2001 to 2007.

External appointments:

- Independent non-executive Director of Hindustan Unilever Limited
- Independent non-executive Director of Dr. Reddy's Laboratories Ltd.
- Independent non-executive Director of Philip Morris International Inc
- Governing board member of the Bharti Foundation
- Governing board member of Foundation for Audit Quality
- Governing board member of the Generation India Foundation
- Governing council member of Krea University



Eileen Murray (65)

A R N

Independent non-executive Director
Appointed to the Board: July 2020

Skills and experience: Eileen has extensive knowledge in financial services, technology and corporate strategy from a career spanning more than 40 years.

Career: Eileen previously served as co-Chief Executive Officer of Bridgewater Associates, LP. Before this, she was Chief Executive Officer for Investment Risk Management LLC, and President and co-Chief Executive Officer of Duff Capital Advisors. Eileen started her professional career at Morgan Stanley, where she held positions including Controller, Treasurer, and Global Head of Technology and Operations, as well as Chief Operating Officer for its Institutional Securities Group. She was also Head of Global Technology, Operations and Product Control at Credit Suisse.

External appointments:

- Independent non-executive Director of Guardian Life Insurance Company of America
- Independent non-executive Director of Broadridge Financial Solutions, Inc
- Member of the Advisory Board of Mobilize Capital Partners



Brendan Nelson (74)

A Ri N

Independent non-executive Director

Appointed to the Board: September 2023

Skills and experience: Brendan brings UK and international financial and auditing expertise, and significant experience in auditing and as audit committee chair of UK-listed companies.

Career: Brendan spent over 25 years as a partner at KPMG LLP, served on the board from 2000 and as Vice Chairman from 2006, until his retirement in 2010. Internationally, he held various senior positions including Global Chairman of the financial services practice. Subsequently, Brendan joined the boards of bp plc and NatWest Group plc where he also served as Chairman of both companies' audit committees. During his career, Brendan was President of the Institute of Chartered Accountants of Scotland, a member of the Financial Reporting Review Panel and a member of the Financial Services Authority's Practitioner Panel. As current Chairman of the Board of BP Pension Fund Trustees Ltd, Brendan has received training in ESG considerations for investment decisions and helped set an ambition to be net zero in terms of greenhouse gas emissions from investments by 2050.

External appointments:

- Chairman of BP Pension Trustees Ltd



David Nish (63)

A Ri N

Independent non-executive Director

*Appointed to the Board: May 2016
Senior Independent non-executive Director since: February 2020*

Skills and experience: David has international experience in financial services, corporate governance, strategy, financial reporting, and operational transformation.

Career: David served as Group Chief Executive Officer of Standard Life plc between 2010 and 2015, having joined the company in 2006 as Group Finance Director. He is also a former Group Finance Director of Scottish Power plc and was a partner at Price Waterhouse. David has also previously served as a non-executive Director of HDFC Life (India), Northern Foods plc, Thus plc, London Stock Exchange Group plc, the UK Green Investment Bank plc and Zurich Insurance Group.

External appointments:

- Senior Independent non-executive Director of Vodafone Group plc and Chairman of the Audit and Risk Committee
- Honorary Professor of University of Dundee Business School



Swee Lian Teo (64)

Ri N

Independent non-executive Director

Appointed to the Board: October 2023

Skills and experience: Swee Lian brings extensive experience within the international financial services industry, having previously spent over 27 years with the Monetary Authority of Singapore ('MAS').

Career: During Swee Lian's time at the MAS, she worked in foreign reserves management, financial sector development, strategic planning and financial supervision, before she became the Deputy Managing Director for Financial Supervision. She retired from the MAS in 2015 after serving as Special Advisor, focused on MAS's role in the international regulatory framework, in the Managing Director's office. Swee Lian previously served as a non-executive Director on the boards of AIA Group Limited and the Dubai Financial Services Authority.

External appointments:

- Non-executive Director of Singapore Telecommunications Limited and Chair of the Risk Committee
- Non-executive Director of Avanda Investment Management Pte Ltd
- Director of Clifford Capital Pte Ltd
- Director of Clifford Capital Holdings Pte Ltd
- Chair of CapitaLand Integrated Commercial Trust Management Limited.



Aileen Taylor (51)

Group Company Secretary and Chief Governance Officer

Appointed: November 2019

Skills and experience: Aileen is a solicitor with significant governance and regulatory experience across various roles in the banking industry. She is a member of the European Corporate Governance Council, the GC100 and the Financial Conduct Authority's Listing Authority Advisory Panel.

Career: Prior to joining HSBC, Aileen spent 19 years at the Royal Bank of Scotland Group, holding various legal, risk and compliance roles. She was appointed Group Secretary in 2010 and subsequently Chief Governance Officer and Board Counsel.

Former Directors who served during the year

Jackson Tai

Jackson Tai retired from the Board on 5 May 2023

For full biographical details of our Board members, see www.hsbc.com/who-we-are/leadership-and-governance.

Senior management

Senior management, which includes the Group Executive Committee, supports the Group Chief Executive in the day-to-day management of the business and the implementation of strategy.



Elaine Arden (55)
Group Chief Human Resources Officer

Elaine joined HSBC as Group Chief Human Resources Officer in June 2017. Prior to joining HSBC, she was Group Human Resources Director at the Royal Bank of Scotland Group for six years in the aftermath of the global financial crisis. She has held a number of human resources roles throughout her career in financial services, including Head of Human Resources for Direct Line Group. Elaine is a member of the Chartered Institute of Personnel and Development, and a Fellow of the Chartered Institute of Banking in Scotland.



Colin Bell (56)
Chief Executive Officer, HSBC Bank plc and HSBC Europe

Colin joined HSBC in July 2016 and was appointed Chief Executive Officer, HSBC Bank plc and HSBC Europe in February 2021, having previously held the role of Group Chief Compliance Officer. He is also a Director of HSBC Bank (Singapore) Limited. Colin worked at UBS as Global Head of Compliance and Operational Risk Control. He served for 16 years in the British Army, where he held a variety of command and staff positions, including operational tours of Iraq and Northern Ireland, and roles in the Ministry of Defence and NATO.



Jonathan Calvert-Davies (55)
Group Head of Internal Audit

Jonathan is a standing attendee of the Group Executive Committee, having joined HSBC as Group Head of Internal Audit in October 2019. He has over 30 years of experience providing assurance, audit and advisory services to the banking and securities industries in the UK, the US and Europe. Jonathan's previous roles included leading KPMG UK's financial services internal audit services practice and PwC's UK internal audit services practice. He also previously served as interim Group Head of Internal Audit at the Royal Bank of Scotland Group.



Greg Guyett (60)
Chief Executive Officer, Global Banking and Markets

Greg joined HSBC in October 2018 as Head of Global Banking and became co-Chief Executive Officer of Global Banking and Markets in March 2020, before assuming sole responsibility in October 2022. Before joining HSBC, he was President and Chief Operating Officer of East West Bank. Greg began his career as an investment banker at J.P. Morgan, where positions included: Chief Executive Officer for Greater China; Chief Executive Officer, Global Corporate Bank; Head of Investment Banking for Asia-Pacific; and Co-Head of Banking for Asia-Pacific.



Dr Celine Herweijer (46)
Group Chief Sustainability Officer

Celine joined HSBC as Group Chief Sustainability Officer in July 2021, and is responsible for the Group's execution of its sustainability strategy. She was previously a partner at PwC for over a decade, where she held global leadership roles including acting as its global innovation and sustainability leader. Before joining PwC in 2009, Celine worked as Director of Climate Change and Consulting for Risk Management Solutions. She is a World Economic Forum Young Global Leader, a co-chair of the We Mean Business Coalition, a PhD climate scientist and NASA Fellow.



John Hinshaw (53)
Group Chief Operating Officer

John became Group Chief Operating Officer in February 2020, having joined HSBC in December 2019. He is Chairman of HSBC Global Services Limited and a Director of HSBC Innovation Bank Limited. John was previously Executive Vice President of Technology and Operations and Chief Customer Officer at Hewlett Packard and Hewlett Packard Enterprise, and has held senior executive positions at Verizon and Boeing. John serves on the boards of Sysco Corporation and Illumio, Inc., and has previously served on the boards of BNY Mellon, DocuSign and the National Academy Foundation.



Bob Hoyt (59)
Group Chief Legal Officer

Bob joined HSBC as Group Chief Legal Officer in January 2021. He was previously Group General Counsel at Barclays from 2013 to 2020. Prior to that, he was General Counsel and Chief Regulatory Affairs Officer for PNC Financial Services Group. Bob has served as General Counsel and Senior Policy Adviser to the US Department of the Treasury under Secretary Henry M. Paulson Jr, and as Special Assistant and Associate Counsel to the White House under President George W. Bush.



Steve John (50)
Group Chief Communications and Brand Officer

Steve joined HSBC in December 2019 and was appointed to the Group Executive Committee in April 2021. He has a wealth of senior communications, public policy and leadership experience acquired across a number of multinational and charitable organisations. Steve was previously a partner and Global Director of Communications at McKinsey & Company from 2014 to 2019. He has also held roles with Bupa as Global Director of Corporate Affairs and PepsiCo as Director of Corporate Affairs for their UK and Ireland franchises.



Pam Kaur (60)
Group Chief Risk and Compliance Officer

Pam was appointed Group Chief Risk and Compliance Officer in 2021, having been Group Chief Risk Officer since 2020. She is a Director of the Hongkong and Shanghai Banking Corporation Limited. Since joining HSBC in 2013, her roles included Group Head of Internal Audit and Head of Wholesale Market and Credit Risk. Since qualifying as a chartered accountant with Ernst & Young, Pam held various senior audit, compliance, finance and operations roles with Deutsche Bank, the Royal Bank of Scotland Group, Lloyds TSB and Citigroup. She serves as a non-executive Director of abrdn plc.



David Liao (51)
Co-Chief Executive, The Hongkong and Shanghai Banking Corporation Limited

David was appointed Co-Chief Executive of the Asia-Pacific region in 2021. He is also a Director of the Bank of Communications Co., Limited, and Hang Seng Bank Limited. David joined HSBC in 1997, with previous roles including: Head of Global Banking Coverage for Asia-Pacific; President and Chief Executive of HSBC China; Head of Global Banking and Markets, HSBC China; and Treasurer and Head of Global Markets, HSBC China.



Nuno Matos (56)
Chief Executive Officer,
Wealth and Personal Banking

Nuno was appointed Chief Executive Officer of Wealth and Personal Banking in 2021. Since joining HSBC in 2015 from Santander Group, he has held various roles, most recently as Chief Executive Officer of HSBC Bank plc and HSBC Europe. He has also held the positions of Chief Executive Officer of HSBC Mexico and Regional Head of Retail Banking and Wealth Management for Latin America. He is currently the Chairman of MP Payments Group Limited.



Stephen Moss (57)
Regional Chief Executive Officer,
Middle East, North Africa
and Türkiye

Stephen was appointed Regional Chief Executive Officer for the Middle East, North Africa and Türkiye in 2021. He has held a series of roles in Asia, the UK and the Middle East since joining HSBC in 1992, including as Chief of Staff to the Group Chief Executive and overseeing the Group's mergers and acquisitions, and strategy and planning activities. Stephen is a Director of HSBC Bank Middle East Limited, HSBC Middle East Holdings B.V, HSBC Bank Egypt S.A.E., HSBC Saudi Arabia and Saudi Awwal Bank.



Barry O'Byrne (48)
Chief Executive Officer,
Global Commercial Banking

Barry was appointed Chief Executive Officer of Global Commercial Banking in 2020, having served in the role on an interim basis since August 2019. He joined HSBC in 2017 as Chief Operating Officer for Commercial Banking. Before joining HSBC, Barry worked at GE Capital for 19 years where he held a number of senior leadership roles, including Chief Executive Officer and Chief Operating Officer for GE Capital International.

**Additional members of the
Group Executive Committee**

Noel Quinn

Georges Elhedery

Aileen Taylor

Biographies are provided on
pages 275 and 279.



Michael Roberts (63)
Chief Executive Officer,
HSBC USA and Americas

Michael was appointed Chief Executive Officer of HSBC USA when he joined HSBC in 2019. He became Chief Executive Officer of the Americas with oversight responsibility for Canada and Latin America in 2021. He is a Director of HSBC Bank Canada; Director, President and Chief Executive Officer of HSBC North America Holdings Inc.; and Chairman of HSBC Bank USA, N.A., HSBC USA Inc and HSBC Latin America Holdings (UK) Limited. Previously, Michael spent over 30 years at Citigroup in a number of senior leadership roles, most recently as Global Head of Corporate Banking and Capital Management and Chief Lending Officer.



Surendra Rosha (55)
Co-Chief Executive,
The Hongkong and Shanghai Banking
Corporation Limited

Surendra was appointed Co-Chief Executive of the Asia-Pacific region in 2021. He is a Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC Global Asset Management Limited and HSBC Bank Malaysia Berhad. Surendra joined HSBC in 1991 and has held several senior positions within Global Banking and Markets, including Head of Global Markets in Indonesia and Head of Institutional Sales, Asia-Pacific. He previously held the position of Chief Executive for HSBC India and Head of HSBC's financial institutions group for Asia-Pacific.



John David Stuart
(known as Ian Stuart) (60)
Chief Executive Officer,
HSBC UK Bank plc

Ian has been Chief Executive Officer of HSBC UK Bank plc since 2017, having joined HSBC as Head of Commercial Banking in the UK and Europe in 2014. He has worked in financial services for over 40 years, previously holding roles at the Royal Bank of Scotland Group and Barclays. Ian holds an Honorary Masters and Honorary Doctorate degree for his services to the banking sector. He is a member of the UK Finance Board, the UK Investment Council and a business ambassador for Meningitis Now.

Board and senior management diversity

We value difference

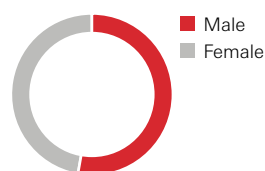
Diversity and inclusion are embedded within the culture of HSBC. The Board remains committed to having an inclusive culture that recognises the importance of gender, social and ethnic diversity, and the benefits gained from different perspectives.

This section outlines the key diversity and inclusion metrics for Board members and executive management as at 31 December 2023. This includes tenure, age, skills and experience, as well as gender and ethnic representation.

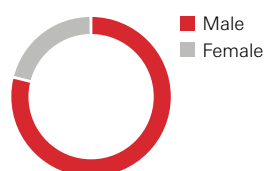
Gender and ethnic diversity

The Financial Conduct Authority requires all listed companies to publish in their *Annual Report and Accounts* information on female and ethnic heritage representation on the Board and in senior management. The tables below outline the current gender and ethnic diversity of the HSBC Holdings Board and executive management reflecting data gathered through self-identification.

Gender Board

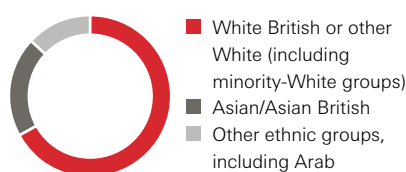


Executive management

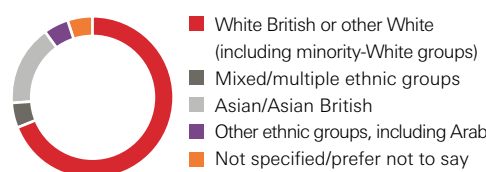


	Board members		Number of senior positions ¹	Executive management ²	
	Number	%		Number	%
Male	8	53	4	15	79
Female	7	47	0	4	21
Other	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Ethnic diversity Board



Executive management



	Board members		Number of senior positions ¹	Executive management ²	
	Number	%		Number	%
White British or other White (including minority-White groups)	10	67	4	13	69
Mixed/multiple ethnic groups	–	–	–	1	5
Asian/Asian British	3	20	–	3	16
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic groups, including Arab	2	13	–	1	5
Not specified/prefer not to say	–	–	–	1	5

¹ Senior positions on the Board comprise the Group Chairman, Group Chief Executive, Group Chief Financial Officer and Senior Independent non-executive Director.

² Executive management comprises the Group Chief Executive, his direct reports, and the Group Company Secretary and Chief Governance Officer.

Board composition, tenure and age

2

Executive Directors

13

Non-executive Directors

Tenure¹



Age



¹ Tenure of a non-executive Director is calculated by reference to the date of their election by shareholders following their appointment.

Skills and experience

The summary below provides an overview of the skills and experiences held by the non-executive Directors on the Board. This is based on the current skills matrix, which is reviewed annually by the Nomination & Corporate Governance Committee to ensure that the Board has the skills and experience required to effectively discharge its duties and to support succession planning discussions. The skills and experiences of the newly appointed non-executive Directors are also included in the below extract.

Banking	12
Finance	10
Risk	10
Customer	7
Digital technology	4
Corporate social responsibility/ESG	5
Direct Asia market experience	6
Global business experience	10

How we are governed

We are committed to high standards of corporate governance. The Group has a comprehensive range of policies and procedures in place designed to help ensure that it is well managed, with effective oversight and controls.

Board and executive governance

The Board, led by the Group Chairman, is responsible among other matters for:

- promoting the Group's long-term success and delivering sustainable value to shareholders;
- establishing and approving the Group's strategy and objectives, and monitoring the alignment of the Group's purpose, strategy and values with the desired culture and standards;
- setting the Group's risk appetite and monitoring the Group's risk profile;
- approving and monitoring capital and financial resource plans for achieving strategic objectives, including material transactions;
- considering and approving the Group's technology and environmental, social and governance strategies;
- ensuring effective engagement with, and encouraging participation from, shareholders and other key stakeholders;
- approving the appointment and remuneration of Directors, including Board roles;
- reviewing the Group's overall corporate governance arrangements; and
- providing entrepreneurial leadership of the Group within a framework of prudent and effective controls.

The Board's responsibilities are set out in a schedule of matters reserved within its terms of reference, which are available on our website at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities. The Board's powers are subject to relevant laws, regulations and HSBC's articles of association.

The role of the independent non-executive Directors is to support the development of strategy, oversee risk, hold management to account and ensure the executive Directors are discharging their responsibilities properly, while creating the right culture to encourage constructive challenge. Further details on the independence of the Board can be found in the Nomination & Corporate Governance

Committee report on page 298. Non-executive Directors also review the performance of management in meeting agreed goals and objectives. The Group Chairman meets with the non-executive Directors without the executive Directors in attendance after Board meetings and otherwise, as necessary.

The roles of Group Chairman and Group Chief Executive are separate. There is a clear division of responsibilities between the leadership of the Board by the Group Chairman, and the executive responsibility for day-to-day management of HSBC's business, which is undertaken by the Group Chief Executive.

The majority of Board members are independent non-executive Directors. At 31 December 2023, the Board comprised the Group Chairman, 12 non-executive Directors, and two executive Directors who are the Group Chief Executive and the Group Chief Financial Officer. As previously announced, David Nish will not stand for re-election at the Annual General Meeting ('AGM') on 3 May 2024.

For further details of Board members' career backgrounds, skills, experience and external appointments, see their biographies on page 275, and for a breakdown of the diversity and skills of the Board and senior management, see page 283.

Operation of the Board

The Board is ordinarily scheduled to meet nine times a year. In 2023, the Board held 11 meetings. For further details on attendance at those meetings, see page 285. The Board agenda is agreed by the Group Chairman, working with both the Group Chief Executive and the Group Company Secretary and Chief Governance Officer. For further information, see 'Board matters considered and shareholder engagement' on page 290.

The Group Company Secretary and Chief Governance Officer, the Group Chief Risk and Compliance Officer and the Group Chief Legal Officer are regular attendees at Board meetings. The non-executive Chairman of The Hongkong and Shanghai Banking Corporation Limited is also a regular attendee at most Board meetings. The chief executive officers of the three global businesses attend Board strategy discussions, and other senior executives attend Board meetings for specific items as required.

In addition, as agreed by the Board, the Board Oversight Sub-Group is called on an ad hoc basis where necessary. Such meetings are an informal mechanism for a smaller group of Board members and management to discuss emerging issues and upcoming Board matters. The Board Oversight Sub-Group was not convened in 2023.

Board roles, responsibilities and meeting attendance

The table below sets out the Board members' respective roles, responsibilities and attendance at Board meetings and the AGM in 2023. For a full description of key Board members' responsibilities, see www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

Roles	Board attendance in 2023 ¹	Responsibilities
Group Chairman Mark E Tucker ^{2,3}	12/12	- Provides effective leadership of the Board and promotes the highest standards of corporate governance practices. - Leads the Board in providing strong strategic oversight and setting the Board's agenda, culture and values. - Leads the Board in challenging management's thinking and proposals, and fosters open and constructive debate among Directors. - Maintains internal and external relationships with key stakeholders, and communicates investors' views to the Board. - Organises periodic monitoring and evaluation, including externally facilitated evaluation, of the performance of the Board, its committees and individual Directors. - Leads on succession planning for the Board and its committees, ensuring appointments reflect diverse cultures, skills and experiences.
Executive Director Group Chief Executive Noel Quinn ³	12/12	- Leads and directs the implementation of the Group's business strategy, embedding the organisation's culture and values. - Leads the Group Executive Committee with responsibility for the day-to-day operations of the Group, under authority delegated to him from the Board. - Maintains relationships with key internal and external stakeholders including the Group Chairman, the Board, customers, regulators, governments and investors. - Maintains responsibility and accountability for the Group's and its employees' compliance with applicable laws, codes, rules and regulations, good market practice and HSBC's own standards.
Executive Director Group Chief Financial Officer Georges Elhedery ^{3,4}	12/12	- Supports the Group Chief Executive in developing and implementing the Group strategy, and recommends the annual budget and long-term strategic and financial resource plan. - Leads the Finance function and is responsible for effective financial and regulatory reporting, including the effectiveness of the processes and controls, to ensure the financial control framework is robust and fit for purpose. - Maintains relationships with key stakeholders including shareholders.
Non-executive Director Senior Independent Director David Nish ^{3,5,6}	10/12	- Supports the Group Chairman, acting as intermediary for non-executive Directors when necessary. - Leads the non-executive Directors in the oversight of the Group Chairman, supporting the clear division of responsibility between the Group Chairman and the Group Chief Executive. - Listens to shareholders' views if they have concerns that cannot be resolved through the normal channels.
Non-executive Directors		
Geraldine Buckingham ^{3,5}	12/12	- Develop and approve the Group strategy. - Challenge and oversee the performance of management in achieving agreed corporate goals and objectives.
Rachel Duan ^{3,5}	12/12	Approve the Group's risk appetite and review risk profile and performance.
Dame Carolyn Fairbairn ^{3,5,6}	10/12	Contribute to the assessment and monitoring of culture.
James Forese ^{3,5}	12/12	Maintain internal and external relationships with the Group's key stakeholders.
Ann Godbehere ^{4,5}	3/3	
Steven Guggenheimer ^{3,5,6}	11/12	
Dr José Antonio Meade Kuribreña ^{3,5,7}	12/12	
Kalpana Morparia ^{3,4,5}	10/10	
Eileen Murray ^{3,5,6}	11/12	
Brendan Nelson ^{4,5}	3/3	
Jackson Tai ^{3,5,6,8}	6/7	
Swee Lian Teo ^{4,5}	2/2	
Group Company Secretary and Chief Governance Officer Aileen Taylor		- Maintains strong and consistent governance practices at Board level and throughout the Group. - Supports the Group Chairman in ensuring effective functioning of the Board and its committees, and transparent engagement between senior management and non-executive Directors. - Facilitates induction and professional development of non-executive Directors. - Advises and supports the Board and management in ensuring effective end-to-end governance and decision making across the Group.

¹ The total number of meetings comprised nine scheduled meetings, two ad hoc meetings and the AGM.

² The non-executive Group Chairman was considered to be independent on appointment.

³ Attended the AGM on 5 May 2023.

⁴ Georges Elhedery joined the Board effective 1 January 2023. Kalpana Morparia joined the Board effective 1 March 2023. Ann Godbehere and Brendan Nelson joined the Board effective 1 September 2023. Swee Lian Teo joined the Board effective 1 October 2023.

⁵ Independent non-executive Director. All of the non-executive Directors are considered to be independent of HSBC. There are no relationships or circumstances that are likely to affect any individual non-executive Director's judgement. All non-executive Directors have confirmed their independence during the year.

⁶ Meetings held on 9 March 2023, 16 March 2023 and 8 November 2023 were called at short notice. Due to prior commitments Dame Carolyn Fairbairn was unable to attend on 9 March 2023, David Nish, Jackson Tai and Dame Carolyn Fairbairn were unable to attend on 16 March 2023, and David Nish and Steven Guggenheimer were unable to attend on 8 November 2023. Due to prior commitments Eileen Murray was unable to attend the Board meeting in September 2023.

⁷ Dr José Antonio Meade Kuribreña was appointed as the independent non-executive Director with responsibility for workforce engagement on 1 June 2022. Further information can be found on page 293.

⁸ Jackson Tai retired from the Board on 5 May 2023.

Relationship between the Board and senior management

The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. The Group Chief Executive is supported in his management of the Group by recommendations and advice from the Group Executive Committee ('GEC'), an executive forum comprising members of senior management that include chief executive officers of the global businesses and regions, as well as functional heads. For further details of the senior management team, see page 280.

All Directors are encouraged to have contact with management at all levels, and have full access to all relevant information. Visits to local business operations and meetings with local management are arranged for the non-executive Directors when they attend Board meetings in different locations, and when travelling for other reasons. Senior management often attend alongside Directors' stakeholder engagements (see 'Board decision making and engagement with stakeholders' on page 20). The workforce engagement non-executive Director attends the GEC on occasion to provide senior management with updates on workforce engagements carried out by the Board, including relevant Board observations. For further details, see 'Board stakeholder and workforce engagement' on page 293.

Executive governance

The GEC promotes the tone from the top, set by the Board, across the organisation. This helps to ensure that our colleagues follow our values, and foster a culture that delivers against our purpose of opening up a world of opportunity. At its meetings, the GEC dedicates time to reflect on our purpose and values and how they are demonstrated in the day-to-day course of business.

During 2023, the GEC undertook an extensive review of the Group's strategy with a view to building upon its unique strengths. For further details of our strategy, see page 11.

The GEC has led and overseen the delivery of a number of strategic projects to simplify how we get things done, by identifying operating efficiencies, reducing complexity and optimising costs. The GEC will continue to focus on simplification throughout 2024.

The GEC's operating rhythm helps to facilitate end-to-end governance between senior leadership and the Board.

The operating rhythm has the following three pillars:

- regular check-in meetings to review and discuss current and emerging trends and issues;
- a monthly meeting to review the performance of each of the global businesses in principal geographical areas and legal entities, supported by the development and introduction of a new key performance indicators architecture in 2023; and
- a strategy- and governance-focused meeting, which is generally held two weeks in advance of each Board meeting.

Separate committees have been established to provide specialist oversight for matters delegated to the Group Chief Executive and senior management. For further details of these committees, see page 288.

To further support our senior management, we have dedicated corporate governance officers who support and advise legal entities, global businesses and global functions on our corporate governance practices. These corporate governance officers serve to strengthen the consistency and effectiveness of our end-to-end governance arrangements, and support connectivity and information sharing.

Subsidiary governance

We are committed to maintaining high standards of corporate governance throughout the Group. All subsidiary boards and their respective businesses are required to have in place effective governance arrangements with regard to the businesses' nature, size, location and the sectors in which they operate.

The subsidiary accountability framework

The subsidiary accountability framework aims to balance appropriate governance oversight by the Group with each subsidiary's local legal and regulatory duties. The framework supports the Group in promoting effective governance arrangements across its subsidiaries by:

- setting out high level principles to enhance communications and connectivity; and
- ensuring a shared and consistent understanding of the Group's strategic objectives, culture and values.

The subsidiary accountability framework also focuses on ensuring that each subsidiary is led by an effective board with an appropriate balance of skills, diversity, experience and knowledge, having regard to the nature of the subsidiary's business and local legal and regulatory requirements. Board composition of the Group's subsidiaries is kept under review as part of succession planning.

The framework is subject to periodic review by the Board and/or the Nomination & Corporate Governance Committee and updated as required to ensure it is aligned to best practice.

The role of principal subsidiaries

Certain subsidiaries are designated formally by the Board as principal subsidiaries. In addition to their obligations under their respective local laws and regulations, principal subsidiaries, supported by regional company secretaries, perform a critical role in ensuring effective and high standards of governance across the Group and in overseeing the implementation of the subsidiary accountability framework in the regions for which they are responsible.

Representatives from principal subsidiaries attend the Board and its committee meetings for relevant topics, including when the Board holds meetings outside of the UK. Chairs of the principal subsidiary risk and audit committees also regularly attend respective Group Risk Committee and Group Audit Committee meetings. Attendance and participation at these committees enhance the subsidiary directors' understanding of the challenges facing the Group and help to identify common challenges and share lessons learned. Such committee participation supplements the regular reports, certifications and escalations from principal subsidiaries' boards and their committees to the Board and relevant committee(s) of the Board.

The Group Chairman also interacts regularly with the chairs of the principal subsidiaries, including through the Chairman's Forum. The Chairman's Forum comprises the chairs of the principal subsidiaries and the chairs of the Group's audit, risk and remuneration committees, and where relevant, the Group Chief Executive, other non-executive Directors and relevant executive management, advisers and/or external experts. In 2023, the Chairman's Forum covered topics such as strategic business considerations, geopolitical issues, resolvability assessment requirements and separability, shareholder engagements, Group-wide connectivity of non-executive Directors, key regulatory themes, ESG insights, employee engagement and financial performance.

The Group Remuneration Committee Chair also hosted dedicated forums with chairs of principal subsidiaries to share key priorities for 2023 and the future. These sessions also provide an opportunity for review and input on proposed pay outcomes and allocation, before approval by the Group Remuneration Committee.

The principal subsidiaries are:

Principal subsidiary	Oversight responsibility
The Hongkong and Shanghai Banking Corporation Limited	Asia-Pacific
HSBC Bank plc	Europe, Bermuda (excluding Switzerland and UK ring-fenced activities)
HSBC UK Bank plc	UK ring-fenced bank and its subsidiaries
HSBC Middle East Holdings BV	Middle East, North Africa and Türkiye
HSBC North America Holdings Inc.	US
HSBC Latin America Holdings (UK) Limited	Mexico and Latin America
HSBC Bank Canada ¹	Canada

¹ On 29 November 2022, HSBC announced the sale of HSBC Bank Canada to Royal Bank of Canada, subject to regulatory and governmental approvals. On 21 December 2023, the Canadian Federal Government's Minister of Finance approved the sale, and the transaction is expected to close in the first quarter of 2024.

Subsidiary director development

The Group is dedicated to supporting the continuing professional development of its subsidiary directors. In May 2023, a two-day non-executive director summit was held in Hong Kong, which brought together over 100 non-executive directors from across the Group. Connectivity was a key theme and attendees were reminded of the importance of the subsidiary accountability framework in driving consistent governance standards and ensuring connectivity and engagement across our non-executive director community. The agenda included sessions on strategy and financial performance; Asia-Pacific; subsidiary governance; the macroeconomic environment; diversity and inclusion; sustainability; technology; finance; and risk.

The Bank Director Programme, launched in 2022, continues to support subsidiaries with succession planning by developing and equipping internal talent to undertake internal non-executive director roles on subsidiary boards.

Following the success of the Bank Director Programme, a Bank Chair Programme is being developed to ensure existing and prospective chairs of subsidiary boards and board committees have the requisite knowledge, skills and behaviours to be effective chairs.

Board and Group Executive committees and working groups

The Board delegates oversight of certain audit, risk, remuneration, nomination and governance matters to its committees. Each standing Board committee is chaired by a non-executive Director and has a remit to cover specific topics in accordance with their respective terms of reference. Only the Group Chairman and the independent non-executive Directors are members of Board committees. Details of the work carried out by each of the Board committees can be found in the respective committee reports from page 298.

The Chairman's Committee provides the Board with the opportunity to consider ad hoc and routine matters between scheduled Board meetings. All Board members are invited to attend Chairman's Committee meetings.

As part of its ongoing review of the effectiveness of the Group's governance arrangements, and in response to the findings from the Board evaluation in 2023, the Board has decided to establish a new Group Technology Committee to oversee the Group's technology strategy and alignment with the overall Group strategy. The committee, which will be in place from 1 March 2024, will have responsibility for areas where technology is fundamental to strategic delivery, including innovation, data and cyber risk frameworks. As a result, the Technology Governance Working Group, which was established to support oversight of technology strategy, governance

and emerging risks, will be demised from the same date. The terms of reference and membership of the Board committees are available at www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

The GEC has established a number of committees to support the Group Chief Executive and senior management in their running of the business, and provide specialist oversight for matters delegated to them, including capital and liquidity, risk management, disclosure and financial reporting, restructuring and investment considerations, transformation oversight, ESG matters and talent and development. These committees also help fulfil their responsibilities under the Senior Managers and Certification Regime.

During 2023, new committees were established including the Sustainability Execution Committee to provide greater oversight of ESG matters. In addition, the Transformation Oversight Executive Committee was demised and in its place the Change Prioritisation Oversight Committee was formed. The committee provides oversight of the Group's change portfolio, focusing on investment oversight and prioritisation, as well as delivery and execution of ongoing initiatives across the Group.

Board *Chair: Mark Tucker*

Chairman's Committee	Nomination & Corporate Governance Committee	Group Audit Committee	Group Risk Committee	Group Remuneration Committee	Informal governance Board Oversight Sub-Group
Chair: Mark Tucker	Chair: Mark Tucker <i>See page 298</i>	Chair: David Nish ¹ <i>See page 302</i>	Chair: James Forese <i>See page 310</i>	Chair: Dame Carolyn Fairbairn <i>See page 315</i>	Chair: Mark Tucker Technology Governance Working Group² Co-Chairs: Eileen Murray and Steven Guggenheimer Chairman's Forum Chair: Mark Tucker

¹ Brendan Nelson will be appointed as chair from 21 February 2024.

² The Technology Governance Working Group will be demised on 1 March 2024. The Group Technology Committee will be established on the same date.

Group Executive Committee *Chair: Noel Quinn*

Acquisitions and Disposals Committee	Group Disclosure and Controls Committee	Group People Committee	Group Risk Management Meeting	Holdings Asset and Liabilities Committee	Change Prioritisation and Oversight Committee	Environmental, Social and Governance Committee
Chair: Noel Quinn	Chair: Georges Elhedery	Chair: Elaine Arden	Chair: Pam Kaur	Chair: Georges Elhedery	Chair: Georges Elhedery	Co-Chairs: Celine Herweijer and Georges Elhedery Sustainability Execution Committee Co-Chairs: Celine Herweijer and Barry O'Byrne

Board induction and training

The Group Company Secretary and Chief Governance Officer works with the Group Chairman to ensure that all Board members receive appropriate training, both individually and collectively, throughout their time on the Board. On appointment, new Directors are provided with tailored and comprehensive induction programmes to fit with their individual experiences and needs, including the process for managing conflicts.

During 2023, Kalpana Morparia, Ann Godbehere, Brendan Nelson and Swee Lian Teo were welcomed to the Board as non-executive Directors. Biographies for each can be found from page 275.

The Group Company Secretary and Chief Governance Officer also helps to arrange and deliver the induction programme through formal briefings and introductory sessions with other Board members, senior management, legal counsel, auditors, tax advisers and regulators, as appropriate. Topics covered in the induction programme include, but are not limited to: purpose and values; culture and leadership; governance and stakeholder management; Directors' legal and regulatory duties; recovery and resolution planning; anti-money laundering and anti-bribery; technical and business briefings; and strategy.

The induction process is often initiated before appointment to allow each new Board member to contribute meaningfully from appointment, such as in February 2023 when Kalpana Morparia joined the Board meeting as an observer before she was appointed to the Board the following month. The structure of the induction supports good information flows within the Board and its committees, as well as between senior management and non-executive Directors, providing a clear understanding of our culture and way of operating.

In January 2023, the Nomination & Corporate Governance Committee agreed the proposed approach to Board training for the year. It was

agreed that the training programme would include key topics relevant to the Directors' respective roles and recent developments, in areas such as corporate governance, recovery and resolution, and technology. Where appropriate, the training sessions were facilitated by external presenters who were able to provide insights into geopolitical matters, macroeconomic issues and investor sentiment. The training sessions were held as part of scheduled Board meetings to allow for in-person interactions as much as possible.

Directors were also issued routine training modules that all colleagues must complete annually. During 2023, this training covered topics including risk management, cybersecurity, sustainability, health, safety and well-being, financial crime, and data.

Non-executive Directors also discussed individual development areas with the Group Chairman as part of their ongoing performance discussions with regard to their contributions on the Board. The Group Company Secretary and Chief Governance Officer makes appropriate arrangements for any additional training needs identified using internal resources, or otherwise, at HSBC's expense.

Members of Board committees receive relevant training as appropriate. Further details on any specific training commissioned by Board committees can be found in the respective committee reports. Directors may take independent professional advice at HSBC's expense.

Board Directors who serve on principal subsidiary boards receive training that is pertinent to circumstances and context relevant to those boards. Opportunities exist for the principal subsidiary committee chairs to share their understanding of specific areas with the Board Directors as part of the Chairman's Forum. For further details, see 'The role of principal subsidiaries' on page 286.

Directors' induction and ongoing development in 2023

Director	Induction ¹	Strategy and business briefings ²	Risk and control ³	Corporate governance, ESG and other reporting matters ⁴	Board global mandatory training ⁵
Geraldine Buckingham	○	●	●	●	●
Rachel Duan	○	●	●	●	●
Georges Elhedery	●	●	●	●	●
Dame Carolyn Fairbairn	○	●	●	●	●
James Forese	○	●	●	●	●
Ann Godbehere ⁶	●	●	●	●	●
Steven Guggenheimer	○	●	●	●	●
José Antonio Meade Kuribreña	○	●	●	●	●
Kalpana Morparia	●	●	●	●	●
Eileen Murray	○	●	●	●	●
Brendan Nelson ⁶	●	●	●	●	●
David Nish	○	●	●	●	●
Swee Lian Teo ⁶	●	●	●	●	●
Noel Quinn	○	●	●	●	●
Mark Tucker	○	●	●	●	●

● Matter considered

○ Matter not considered

- The induction programme was delivered through formal briefings and introductory sessions including topic-specific deep dives, with Board members, senior management, legal counsel, auditors, tax advisers and regulators, as appropriate. Topics covered included, but were not limited to: purpose and values; culture and leadership; governance and stakeholder management; Directors' legal and regulatory duties; recovery and resolution planning; anti-money laundering and anti-bribery; technical and business briefings; and strategy.
- Directors participated in business strategy, market development and business briefings, which are global, regional and/or market-specific. Examples of specific sessions held in 2023 included: 'Technology and the future of artificial intelligence', 'WPB customer-centricity improvement plan', and 'Investor sentiments'.
- Directors received risk and control training and briefings. Examples of specific sessions held in 2023 included: 'Recovery and resolution' and 'Capital management'.
- Directors received training in Board meetings on: 'Board stakeholder engagement and management' and various ESG development updates. Directors received additional training through their attendance at forums such as the Chairman's Forum, Remuneration Committee Chairs' Forum and the Non-Executive Director Summit.
- Global mandatory training, issued to all Directors, mirrored training undertaken by all employees, including senior management. This included: management of risk under the risk management framework; cybersecurity risk; health, safety and well-being; sustainability; financial crime, including understanding money laundering, terrorist financing, tax transparency, sanctions, fraud and bribery and corruption risks; our values, including workplace harassment; and data privacy and data literacy.
- Ann Godbehere and Brendan Nelson, who joined the Board effective 1 September 2023, and Swee Lian Teo, who joined the Board effective 1 October 2023, only participated in training modules that were available to them since their respective joining dates.

Board matters considered and shareholder engagement

During 2023, the Board remained focused on HSBC's strategic direction, overseeing performance, and risk. It considered performance against financial and other strategic objectives, key business challenges, emerging risks, business development, investor relations and the Group's relationships with its stakeholders. The end-to-end governance framework facilitated discussion on strategy and performance by each of the global businesses and across the principal geographical areas, which enabled the Board to support executive management with its delivery of the Group's strategy.

Key areas of focus

The Board's key areas of focus in 2023 are set out by theme below.

Strategy and business performance

The Group remains focused on building a sustainable platform for growth by increasing returns for investors, enhancing customer service, and creating capacity for future investment. The Board reviewed progress within the Group's global businesses and regions against its four strategic pillars: Focus, Digitise, Energise and Transition. At each Board meeting in 2023, the Board discussed the Group's strategic performance and opportunities to track strategic execution and delivery.

Environmental, social and governance

In 2020, the Group announced a climate ambition to align its financed emissions to net zero by 2050, and to become net zero in its own operations and supply chain by 2030. The Group aims to achieve this by supporting clients' transition to a net zero carbon economy and focusing on sustainable finance opportunities, as well as by reducing the carbon emissions in its own operations.

The Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. The Board considered whether to establish a Board committee dedicated to ESG issues, but instead decided that the best way to support the oversight and delivery of the Group's climate ambition and ESG strategy was to retain governance at Board level. The GEC further enhanced its governance model of ESG matters with the introduction of a new Sustainability Execution Committee and supporting forums. These support senior management in the operationalisation of the Group's sustainability strategy, through the oversight of the sustainability execution programme. For further details of the Sustainability Execution Committee and the sustainability execution programme, see page 88.

In 2023, the Board oversaw the implementation of ESG strategy through regular dashboard reports and detailed updates including: review and approval of the net zero transition plan, deep dives on the sustainability execution programme, reviews of net zero-aligned policies and climate-aligned financing initiatives.

Financial decisions

The Board and its dedicated committees approved key financial decisions throughout the year, including the *Annual Report and Accounts 2022*, the *Interim Report 2023* and the first quarter and the third quarter *Earnings Releases*.

At the end of 2022, the Board approved the 2023 financial resource plan. The Board monitored the Group's performance against the approved plan, as well as the plans of each of the global businesses. The Board also approved the renewal of the various debt issuance programmes. In January 2024, the Board approved the financial resource plan for 2024.

The Board adopted a dividend policy designed to provide sustainable cash dividends, while retaining the flexibility to invest and grow the business in the future, supplemented by additional shareholder distributions, if appropriate. For the financial year 2023, the Group

reverted to paying quarterly dividends, and achieved a dividend payout ratio of 50% of reported earnings per ordinary share ('EPS'), in line with our published target for 2023 and 2024. EPS for this purpose excludes material notable items and related impacts, including the sale of our retail banking operations in France, the planned sale of the banking business in Canada and the acquisition of SVB UK. In addition to dividend payments, HSBC announced share buy-backs of up to \$2bn each on 2 May 2023 and 1 August 2023, and a further share buy-back of up to \$3bn on 30 October 2023, bringing the total announced for 2023 to \$7bn.

On 21 February 2023, an interim dividend of \$0.23 per share for the 2022 full-year was announced, followed by interim dividends of \$0.10 each on 2 May 2023, 1 August 2023 and 30 October 2023. For further details of dividend payments, see page 462.

Risk, regulatory and legal considerations

The Board, advised by the Group Risk Committee, promotes a strong risk governance culture that shapes the Group's risk appetite and supports the maintenance of a strong risk management framework, giving consideration to the measurement, evaluation, acceptance and management of risks, including emerging risks.

The Board considered the Group's approach to risk including its regulatory obligations. A number of key frameworks, control documents, core processes and legal responsibilities were also reviewed and approved as required by the Board and/or its relevant committees. These included:

- the Group's risk appetite framework and risk appetite statement;
- the individual liquidity adequacy assessment process;
- the individual capital adequacy assessment process;
- the Group's obligations under the Modern Slavery Act and approval of the Modern Slavery and Human Trafficking Statement;
- review and approval of the self-assessment to address the BoE's Resolvability Assessment Framework;
- review and approval of the Group's risk data aggregation and risk reporting framework aligned to the Basel Committee on Banking Supervision 239 Principles;
- review of the latest PRA Operational Resilience self-assessment regulatory submission;
- annual review and approval of the internal controls framework; and
- the revised terms of reference for the Board and Board committees.

The Board also reviewed and monitored the implications of geopolitical and macroeconomic developments during the year, both directly and by way of updates from the Group Risk Committee, and received regular updates on the Group's risk profile, including in relation to financial crime risk.

Technology

Throughout the year, the Board received detailed updates on technology and innovation from the Group Chief Operating Officer, including on the implementation of the technology strategy and key strategic business initiatives.

Following a detailed update at the Board meeting in May 2023, at the Board's request, management engaged a third party professional services firm to review the technology strategy and provide industry and peer insights. The Board received a number of updates on the review during the second half of 2023, and recommendations were presented at the December 2023 Board meeting.

Members of the Board were also closely involved in the hiring process for the new Group Chief Information Officer, who will join the Group at the end of February 2024.

In addition, the Technology Governance Working Group continued to oversee the Group's governance of technology, and supported connectivity with the principal subsidiaries on key technology initiatives. From 1 March 2024, the Technology Governance Working Group will be demised and the Group Technology Committee will be established on the same date.

People and culture

The Board continued to dedicate time in its meetings to discuss people-related and culture-related issues, with these topics remaining an important part of its focus. Each scheduled Board meeting begins with a 'culture moment', which helps to ensure that the right cultural tone is set from the top, and sets the right cultural tone for Board discussion. To help raise its awareness of employee and other stakeholder perspectives, Board meetings and dedicated reports feature insights into behaviours within the Group, which demonstrate alignment to its purpose and values. Board papers highlight relevant stakeholder considerations, including in connection with employees. The Board also gains valuable cultural insights through its many personal interactions with the workforce and other stakeholders. For further details see 'Board decision making and engagement with stakeholders' on page 20.

The Board also learns of people and culture matters by way of presentations at the Chairman's Forum. The principal subsidiary chairs report on their respective approaches to workforce engagement as well as what they have learned from such engagements and other cultural insights. The Board also receives cultural insights from the all-employee Snapshot survey and broader reporting, which provide key data indicators, including on people's behaviours, sentiment and business outcomes. Through the work of the committees, the Board is also able to monitor how the Group's culture is working in practice by receiving people-related reports covering whistleblowing, conduct and investigations.

Board engagement with management and the wider workforce continued to remain a strong area of attention, particularly with the ongoing activities carried out by the dedicated workforce engagement non-executive Director. For further details of the work carried out by the workforce engagement non-executive Director, see page 293.

Governance

The Board continued to oversee the governance, smooth operation and oversight of the Group and its principal and material subsidiaries, including monitoring compliance with the UK Corporate Governance Code, the Hong Kong Corporate Governance Code and the Companies Act 2006. Governance featured prominently in the Board agendas for the year and helped to shape strategic direction and decision taking on key issues. To see how the Board considered principal decisions in relation to our strategy, see 'Principal strategic decisions' on pages 22 and 23.

The Board and senior management continued to support further improvements to various governance initiatives to encourage simplification and promote effective decision making in the business. Guidance and training for Board and committee paper templates took place across global businesses and functions throughout the course of the year to ensure a consistent approach for writing papers. In addition, to drive our simplification agenda, the Group-wide delegations of authority framework was reviewed and standardised, allowing for more efficient signing and execution of contracts and other documentation by directors and senior management across all entities.

In 2023, Jackson Tai retired as an independent non-executive Director. On 1 January 2023, Georges Elhedery joined the Board as Group Chief Financial Officer, and the following were appointed as independent non-executive Directors: Kalpana Morparia on 1 March 2023; Ann Godbehere and Brendan Nelson on 1 September 2023; and Swee Lian Teo on 1 October 2023. The Board, supported by the Nomination & Corporate Governance Committee, reviews the skills and experience of the Board on an ongoing basis. This ensures that the Board and its committees comprise the necessary skills, diversity, experience and competencies to discharge their responsibilities effectively. For further details of the review and changes to the Board, see the Nomination & Corporate Governance report on page 298. For further details of diversity of the Board, see page 283.

Board engagements with shareholders

In 2023, the Group Chairman and Group Chief Executive held a Q&A session with retail shareholders as part of the Informal Shareholders' Meeting in Hong Kong, and the Board held a Q&A session with shareholders as part of the 2023 AGM in the UK. Board members remained responsive to shareholder requests, and were particularly active following the 2023 AGM poll vote result. They continued to engage in constructive dialogue with top investors, including Ping An Asset Management Co. Ltd. The Group Chairman and the Senior Independent Director, often with the Group Company Secretary and Chief Governance Officer, engaged with a number of our large institutional investors in 16 meetings, including a large group gathering held with the members of The Investor Forum. The Group Chief Executive and the Group Chief Financial Officer, together and separately, attended over 100 meetings with investors. Key topics

included our financial performance, updates on strategy and market presence, geopolitical risks and the macroeconomic outlook in key geographies.

For further details of the Group Remuneration Committee Chair's engagements with key investors and proxy advisory firms, and how they were taken into account by the Group Remuneration Committee in its decision making, see the Directors' remuneration report on page 315.

For further details of how the Board engaged with shareholders during 2023, see 'Board decision making and engagement with stakeholders' on page 20.

Board matters considered in 2023

Main topic	Sub-topic	Meetings at which topics were discussed ¹									
		Jan	Feb	Mar	May	Jun	Jul	Sep	Nov	Dec	
Strategy	Group strategy	○	●	●	●	●	●	●	●	●	
	Regional strategy/global business strategy	●	●	●	●	●	●	●	●	●	
	Environmental, social, governance	○	●	●	●	●	●	●	●	●	
Business and financial performance	Region/global business	●	●	○	●	●	●	●	●	●	
	Financial performance	●	●	●	●	●	●	●	○	●	
Financial	Results and accounts	●	●	○	○	○	●	○	○	○	
	Dividends	●	●	○	○	○	●	○	○	○	
	Group financial resource planning	○	○	○	○	●	○	●	○	○	
Risk	Risk function	●	●	○	●	●	●	●	○	●	
	Risk appetite	●	○	○	○	○	○	○	○	○	
	Capital and liquidity adequacy	○	○	●	●	●	○	○	○	○	
Regulatory	Regulatory and legal matters ²	●	●	●	●	●	●	●	○	●	
	Regulatory matters with regulators in attendance ³	○	○	○	○	●	○	●	○	○	
External	External insights	○	○	○	○	●	○	●	○	○	
Technology	Strategic and operational	●	○	○	●	○	○	●	●	●	
People and culture	Purpose, values and engagement	●	●	○	●	●	●	●	○	●	
Governance	Policies and terms of reference	○	○	○	○	○	●	○	○	○	
	Board/committee effectiveness	●	○	○	○	○	●	○	○	●	
	Appointment and succession	○	●	●	○	○	●	●	○	●	
	Conflicts of interest	○	●	○	●	○	●	●	○	●	
	Stakeholder/workforce engagement	○	●	○	●	●	●	●	○	●	
	Delegation of authority	●	●	○	○	○	○	●	○	○	
	AGM and resolutions	●	●	●	●	○	○	●	○	○	
● Matter considered		○ Matter not considered									

● Matter considered

○ Matter not considered

¹ No Board meetings were held during April, August and October 2023.

² Includes recovery and resolution planning, modern slavery and human trafficking, UK regulatory activities, and listing authority renewals.

³ Meetings attended by members of the Prudential Regulation Authority and the Financial Conduct Authority.

Board stakeholder and workforce engagement

The Board is committed to engaging with colleagues, which takes place in a two-way dialogue in a variety of forums. This helps build the Board's understanding of key themes and topics that are important to the workforce.

Since his appointment as dedicated workforce engagement non-executive Director in 2022, and in line with the Board's expectation of the role, José Meade has helped deliver a progressive programme of engagements throughout 2023. Outcomes from these engagements have helped inform discussions and decision making in the Boardroom, by taking into account the employee voice on related key themes and topics.

His dedicated role does not preclude other Board members from engaging with the workforce. It remains the responsibility of all Directors to consider diverse stakeholder views, including employees, across the Group.

For more examples of how the Board has engaged with the workforce and other stakeholders, see 'Board decision making and engagement with stakeholders' on page 20.

Workforce engagement programme

A structured workforce engagement programme has been in place throughout 2023 with a focus on topics aligned to the Group's four strategic pillars. The programme was structured around the Board's priorities and agenda in 2023. These included in-person engagements when the Board travelled to different regions for Board meetings, which were highly valued by colleagues and Board members alike.

The engagements formed the bases of José Meade's reports to the Directors, aligned to key Board agenda items including those in the geographies in which the Board met. Further engagement events, town halls and meetings with the workforce were scheduled with Board members based on their locality or coincidental travel throughout the year.

The engagement events were held both at scale and through more targeted dialogue in smaller groups, to accommodate the breadth of experience, geographical spread and range of seniority of our colleagues. These engagements were designed to promote open dialogue and two-way discussions between the Board and employees, allowing the Board to gain valuable insight on employee perspectives, and in turn inform its deliberations in decision making.

	February	March	May	June	July	September	November	December
	Cost of living crisis support	International Women's Day	Pay, reward and performance	Strategy and performance	Branch visit	HSBC graduate insights	Mexico town hall	Hyderabad office event
	↓	↓	↓	↓	↓	↓	↓	↓
Audience	London-based colleagues	Group-wide colleagues	Group-wide colleagues	Managing Directors	Local branch colleagues	US-based graduates	Mexico and Latin America-based colleagues	Hyderabad and India-based colleagues
Location	London, UK	Various global and local events	Birmingham, UK, videoconference	Videoconference	Hong Kong	New York, US, and videoconference	Mexico City, Mexico, and videoconference	In person visit to Hyderabad, India office and videoconference

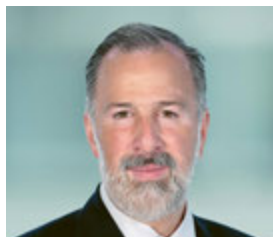
José Meade's connectivity with the employee resource groups formed part of the workforce engagement programme. He took part in the annual employee resource group summit in September to discuss his observations since taking on the workforce engagement role, and to hear feedback on how the Board could enhance support for employee resource groups. José also participated in meetings with the employee resource group to which he is aligned, UK Nurture. This helped him better understand their successes, the value of the network and agree how often and through which means he would connect with his employee resource group in 2024.

During the year, the Board acknowledged that relevant aspects of Board discussions on workforce engagement activities and matters, informed by the employee voice, needed to make their way back to management. In this way, relevant views could be taken into consideration when progressing workforce-related matters at the executive level. To facilitate this, José Meade committed to attending

the GEC and the Chairman's Forum to discuss the key themes and outcomes from the 2023 workforce engagements. Feedback gained from the GEC session attended in November 2023 re-emphasised the value colleagues put on the two-way dialogue with Board members. This feedback helped shape the 2024 workforce engagement programme.

The Board also regularly considers other forms of employee engagement to help be informed of initiatives and sentiment, and to plan for future engagement activities. The Chairman's Forum, held in December 2023, also discussed employee feedback gained through the Group's principal subsidiaries. José Meade presented to the Chairman's Forum an overview of workforce engagement over the course of 2023 and key themes arising. He will continue to discuss workforce engagement with the GEC and the Chairman's Forum during 2024.

Workforce engagement non-executive Director



"The value of Board-employee engagement is rooted in the Board's openness to challenge and ability to adopt new approaches in response."

Q&A with José Meade

Workforce engagement non-executive Director

Q: Since being appointed as the workforce engagement non-executive Director in 2022, what insights have you gained?

A: When I reflect on the Board's engagement with the workforce over the year, I am proud of the evolution of our approach since I took on the role. Having a dedicated programme aligned to Board priorities over the course of the year has enabled me to report to the Board on the most pertinent matters depending on our location and agenda. The year 2023 was a very productive year with respect to engaging with our workforce. I met with a large number of our colleagues on a regular basis during the year, and each event has provided me with different and equally valuable insights. I have learnt the value colleagues place on having two-way dialogue with the Board. Linked to this is our non-executive Director engagement with our employee resource groups. Each non-executive Director is aligned to one of our employee resource groups, and we listened to feedback that a more structured approach to non-executive Director engagement would be valuable during 2024. As a result, we held dedicated meetings for non-executive Directors to meet with their employee resource groups to agree the cadence for engagement and priorities in 2024.

Q: What are your reflections on the value of Board-employee engagement at HSBC?

A: Firstly, at every employee engagement event I attended during the year, I was able to hear directly from our colleagues – that is an irreplaceable and extremely valuable insight to gain as a non-executive Director. Having the employee voice in the Boardroom is crucial in equipping Directors with important context to better understand successes and challenges felt throughout the Group. It then helps empower the Board to make better recommendations and feedback to executive management with employee sentiment front-of-mind. At one of our branch visits, I was able to experience first-hand the level of care put into every single one of our clients, which was extraordinary. Following the visit, we got great feedback from the branch team that they were grateful for our time in recognising how our colleagues put customers at the centre of their work, and they said that our front-line staff were highly motivated by our kind words and encouragement.

The value of Board-employee engagement is rooted in the Board's openness to challenge and ability to adopt new approaches in response. The key outcomes we get from all our engagement events are discussed not only in the Boardroom, but with executive management and between our principal subsidiaries as well. It is this circular communication that is so important to make sure not only is the employee voice heard, but it forms a backdrop for Board and executive discussions and decisions. For instance, it was interesting to hear from graduates the importance of our hybrid working strategy to them, which was seen as a differentiator compared with competitors. Our Chairman's Forum discussed each of our regions' respective workforce engagement programmes in December, which was an invaluable session to understand regional differences in sentiment and where subsidiary Directors were focusing their time for 2024 activities.

Q: Where do you see opportunities for 2024?

A: We plan to build on the successes of 2023 and engage with more colleagues over the course of 2024. Our workforce engagement plan will continue to be guided by our Board priorities for the year and tightly aligned to our four strategic pillars. The plan incorporates, where possible, participation at colleague events already scheduled, which we will supplement with targeted engagement events. We also plan to enhance the visibility of management colleagues in critical roles or on executive committee succession plans to boards across the Group. Lastly, we will align Board member scheduled travel plans to workforce engagement activities in various regions, as well as work to identify how to engage with the workforce in geographies where Board travel is not envisaged.



Mexico Town Hall, Mexico City, November 2023

"The insight and reflections provided by the speakers was extremely useful as we had a mixture of local and global level input."

Workforce engagement non-executive Director activities during 2023

In 2023, José Meade undertook a variety of engagements in his role including:

Mexico

- Attended the annual Leones event in Quintana Roo, Mexico.
- Approximately 400 employees participated across businesses and functions.
- This event recognised our top performers in HSBC Mexico.

Hong Kong

- Visited employees at the HSBC Hong Kong flagship branch and the K11 Atelier Wealth Centre (which opened in October 2021 to provide high net worth wealth management services) to understand their perspective on working life.

UK

- Participated in an in-person meeting with a small group of local managers in London to discuss the cost of living crisis in the UK.
- The group discussed the support that HSBC had provided to its employees in response, and considered ideas for further support.

US

- Met with US-based graduates both in-person and virtually to hear the perceptions of the next generation of talent at HSBC.
- Views were sought on topics such as expectation versus the reality of what it is like to work at HSBC, personal development opportunities and hybrid working successes and challenges.

Türkiye

- Participated in an in-person meeting with a diverse group of colleagues to share experiences and views on socio-economic challenges, career development, and pay and performance.

Global employee resource group summit

- Attended the virtual annual employee resource group summit and heard about the groups' leaders' successes, challenges and their respective look ahead for 2024.
- Connected with employee resource group representatives across multiple regions in the Group.

India

- Spent a day at our Hyderabad office learning about the history of our presence in India and the impact of our global service centres, as well as discussing the future of the workforce and how to create a supportive environment for professional growth.
- Also participated alongside nearly 5,000 colleagues in a 'Digitise' town hall, which discussed HSBC's digital strategy and the role played by colleagues in India.

Engagement highlights



Global Service Centre office visit, Hyderabad, December 2023

68

Virtual/physical sessions attended by non-executive Directors

9,571

Number of employees engaged virtually/physically

41

Virtual/physical sessions attended by workforce engagement non-executive Director

8,282

Number of employees engaged virtually/physically by workforce engagement non-executive Director

8

Countries of engagement

69%

Highest employee engagement survey response

Board and committee effectiveness, performance and accountability

The Board and its committees are committed to regular, independent evaluation of their effectiveness. In 2023, the Board performance review comprised an externally facilitated evaluation in accordance with the UK Corporate Governance Code.

During 2023, the Nomination & Corporate Governance Committee oversaw the process to appoint an independent service provider to evaluate the Board and its committees' effectiveness and performance. The Group Chairman led a formal tender process, with the support of the Group Company Secretary and Chief Governance Officer, which included a desktop review of proposals and a panel interview with prospective firms to discuss their approach to the evaluation. The panel interviews included the Group Chairman, three non-executive Directors, and the Group Company Secretary and Chief Governance Officer.

Following this process, and based on the recommendation of the panel, the Nomination & Corporate Governance Committee appointed Independent Board Evaluation ('IBE') to conduct the Board review in 2023. IBE is an independent external service provider with no other connection with the Group or any individual Directors.

Board and committee evaluation process

Board effectiveness review format

A comprehensive brief was provided to IBE by the Group Chairman and Company Secretary and Chief Governance Officer. The review took the form of detailed interviews with every Board member, regular attendees of the relevant meetings and key advisers. IBE also observed the Board and its committees at the September 2023 meetings and reviewed the meeting materials.

A report was compiled by IBE based on the information and views supplied by those interviewed and IBE's observations from the September 2023 Board and committee meetings.

The Board made good progress against all of the action points identified during the 2022 evaluation. In particular:

- Management developed a new key performance indicator architecture relating to performance, execution and risk management as well as other key value drivers.
- The Sustainability Execution Committee, a management forum, was established to provide greater focus and accountability for progress against the Group's ESG deliverables and milestones.
- An independent review of the Group's technology strategy was performed by a third party, with the outcomes, including lessons learned, and next steps discussed and agreed by the Board.
- The Board held focused sessions on prioritisation and simplification.
- Stakeholder engagement plans were structured around the Board's visits to Paris, Hong Kong, New York and India during the year, and broader non-executive Director travel. These plans provided the Board with the opportunity to engage with the full spectrum of stakeholder groups, including employees. Further details of the Board's engagement activities are detailed on page 21.
- Continued training and guidance was provided to key paper authors and contributors to reinforce the importance of timely, balanced and accurate reporting to the Board.

Findings and recommendations

Overall, the review concluded that the Board was performing well as an engaged, global governance body. The Group Chairman is regarded as an excellent leader of the Board, fostering a culture of openness, with encouragement for Board members to speak freely on any issue. In particular, the effectiveness review highlighted that the Board performed well in various areas including:

- Stakeholder accountability: The Board takes its responsibilities towards stakeholders seriously, positively and sincerely.
- Board culture: The culture of the Board is regarded as a key strength. Preserving and sustaining this has been a key factor in considering candidates for appointment to the Board. Communication is open and transparent.
- Relationship with senior management: Board members value the openness between, and access to, the senior management team.
- Committee chairs: Chairs of committees are well supported by the respective functional teams, including Risk, Finance, HR and Corporate Governance and Secretariat.
- Board resources and support: The Board appreciates the strategic advice and counsel it receives on governance issues from the Group Company Secretary and Chief Governance Officer and her team.

IBE presented its report to the December 2023 Board meeting, and was present for the Board's discussion, led by the Group Chairman, on the findings identified through IBE's review. Among other recommendations for consideration that could strengthen the end-to-end governance of the Board and its committees, the Board focused on the following three specific themes:

- Effecting change: A need for greater focus was identified in relation to the prioritisation of execution, with clearer and more timely progress reporting to the Board, in particular around challenges faced.
- Board information: Reporting to the Board requires more succinct narrative and relevant key performance indicators. It was reiterated that the Board would continue to hold the Group Chief Executive and members of the GEC accountable for the quality of reporting to the Board.
- Technology governance: Strengthened governance mechanisms were agreed to support the Board's review and challenge of technology-related deliverables and monitoring of delivery against the Group-wide technology strategy.

Further details of the findings and agreed actions to be taken can be found in the table below. Completion of these actions will be monitored by the Board throughout 2024.

The additional areas of feedback gathered from members of the Board and regular attendees will be taken forward at the discretion of the Group Chairman based on his determination of their impact on the overall effectiveness of the Board and its committees.

Similar discussions were led by each of the Board committee chairs in their respective January 2024 meetings. Progress against these actions will be included in the *Annual Report and Accounts 2024*.

Summary of 2023 Board effectiveness findings and recommendations for action:

	Findings from the evaluation	Agreed actions
Effecting change	– Although the Board is performing well, there are areas where, working with management, enhancements could be made to drive even greater value. – This would reinforce a clear understanding of priorities and enhanced clarity of management reporting, particularly in relation to areas of challenge in, or delay to, execution of those key deliverables. – Greater rigour was required in relation to the communication of, accountability for, and execution against the Board's feedback.	– Consideration will be given to the frequency and format of strategic updates to the Board. – The Group Company Secretary and Chief Governance Officer will support the Group Chairman and committee chairs to ensure that there is enhanced consolidation of related discussion and actions across Board and the committees, including clearer articulation of expected outcomes. – The Group Chief Executive will drive an increased focus in addressing the Board's feedback within the wider management team.
Board information	– The volume of information provided to the Board and to committee meetings during the year was a common area of discussion during the review. Enhanced, dynamic and well-timed reporting of information to the Board is required. – Although the Board welcomed the thoroughness of management's review of key performance indicators, these required to be refined for Board purposes to ensure better alignment with paper narrative to ensure a clear, consistent basis for Board reporting.	– The Board has commissioned a training programme, to be developed and delivered by the Group Company Secretary and Chief Governance Officer, to further support senior leaders and other subject matter experts on reporting to, and interactions with, the Board. – A condensed key performance indicators framework was approved by the Board at its meeting in January 2024 and will be cascaded throughout the Group by the Group Chief Executive, the Group Chief Financial Officer and the Group Company Secretary and Chief Governance Officer.
Technology governance	– Although the Board welcomed the important and valuable role of the Technology Governance Working Group, there is still more to do to develop a holistic oversight of technology at Board-level. – It was agreed that the future approach to oversight of technology-related matters needed to complement the existing responsibilities of the Board, Group Risk Committee, Group Audit Committee and subsidiary boards.	– A formal Board-level governance committee consisting of non-executive Directors – the Group Technology Committee – will be established to provide oversight of technology-related matters across the Group. This will be chaired by Eileen Murray and take effect from 1 March 2024. – The existing Technology Governance Working Group will be demised at that time.

Nomination & Corporate Governance Committee



"I am confident that the changes to the composition of the Board over the past year have further strengthened the Board's collective knowledge and experience required to oversee, challenge and support management."

Mark E Tucker

Chair

Nomination & Corporate Governance Committee

Membership

	Member since	Meeting attendance in 2023
Mark Tucker (Chair)	Oct 2017	9/9
Geraldine Buckingham	May 2022	9/9
Rachel Duan	Sep 2021	9/9
Dame Carolyn Fairbairn ¹	Sep 2021	8/9
James Forese	May 2020	9/9
Ann Godbehere ²	Sep 2023	2/2
Steven Guggenheimer	May 2020	9/9
José Antonio Meade Kuribreña	Apr 2019	9/9
Kalpana Morparia ³	Mar 2023	6/6
Eileen Murray ⁴	Jul 2020	8/9
Brendan Nelson ²	Sep 2023	2/2
David Nish	Apr 2018	9/9
Jackson Tai ⁵	Apr 2018	5/5
Swee Lian Teo ⁶	Oct 2023	1/1

- 1 Dame Carolyn Fairbairn was unable to attend the January meeting due to a prior commitment.
- 2 Ann Godbehere and Brendan Nelson joined the Committee on their appointments to the Board on 1 September 2023.
- 3 Kalpana Morparia joined the Committee on her appointment to the Board on 31 March 2023.
- 4 Eileen Murray was unable to attend the September meeting due to a prior commitment.
- 5 Jackson Tai retired from the Board on 5 May 2023.
- 6 Swee Lian Teo joined the Committee on her appointment to the Board on 1 October 2023.

Key responsibilities

The Committee's key responsibilities include:

- overseeing and monitoring the corporate governance framework of the Group and ensuring that this is consistent with best practice;
- overseeing succession planning and leading the process for identifying and nominating candidates for appointment to the Board and its committees; and
- overseeing succession planning and development for the Group Executive Committee and other senior executives.

I am pleased to present the Nomination & Corporate Governance Committee report, which provides an overview of the Committee's activities during 2023.

I signalled in last year's report that succession for key roles on the Board would be a priority for the Committee through 2023, and we announced in early December the successors for the roles of Senior Independent Director and Chair of the Group Audit Committee. This represented the culmination of considerable work by the Committee over a number of months.

As announced in December, David Nish confirmed his plans to retire from the Board at the conclusion of our AGM in May 2024. Brendan Nelson will succeed David as Chair of the Group Audit Committee with effect from 21 February 2024, and Ann Godbehere will succeed him as Senior Independent Director with effect from the conclusion of the 2024 AGM. On behalf of the Board, I want to take this opportunity to thank David for his significant commitment and contribution to HSBC, particularly in his role as Chair of the Group Audit Committee, and for the valuable counsel he has provided to the Board and to me personally. You can read more on the Committee's work on these appointments later in this report.

We also welcomed Kalpana Morparia and Swee Lian Teo and, together with Ann and Brendan's appointments, I am confident that the changes to the composition of the Board over the past year have further strengthened its collective knowledge and experience required to oversee, challenge and support management.

As a result of the changes to the Board during 2023, our year-end 2023 target of at least 40% female representation was achieved. We are committed to maintaining this at or above 40% going forward. More broadly, we remain committed to ensuring the compositions of the Board and senior management reflect the wider workforce and communities in which we operate, and you can read more on our efforts this year on page 350.

The annual review of the performance of the Board and its committees is a critical part of ensuring that our governance practices are aligned with best practice and are working effectively. Independent Board Evaluation conducted the 2023 review for the Board and its committees, and its findings and agreed actions can be found on pages 296 to 297.

These actions included the decision to establish the Group Technology Committee, which was discussed by the Committee. Further information on this new Board-level committee is set out on page 288. In addition, the Committee reviewed the approach to the Group's governance of developing areas such as ESG and AI, and will continue to focus on whether these remain appropriate and forward-looking as external standards and practices develop.

There have been numerous consultations issued over 2023, aimed at improving the effectiveness of the UK audit, governance and regulatory regimes. Given their potential impact, the Committee received updates on these and their potential implications on governance arrangements. The Committee also reviewed and provided input to the Group's responses to relevant consultations, including the Financial Reporting Council's ('FRC') consultation on proposed revisions to the UK Corporate Governance Code. The Committee continues to monitor potential future developments in the UK, Hong Kong and elsewhere to ensure that the impact of any proposed governance and regulatory changes on HSBC and its international operations is considered.

As we look ahead to the remainder of 2024, the Committee will look to oversee and enhance the succession pipeline at Board and senior management level, as well as efforts to deliver consistent standards of governance best practice across the Group.

Mark E Tucker
Group Chairman

Committee governance

The Group Chief Executive, the Group Chief Human Resources Officer, and the Group Head of Talent routinely and selectively attended Committee meetings. The Group Company Secretary and Chief Governance Officer attends all Committee meetings and supports the Group Chairman in ensuring that the Committee fulfils its governance responsibilities.

Russell Reynolds Associates supported the Committee and the management team in relation to Board succession planning and appointments. It also provides support to management in relation to senior management succession, development and recruitment. It regularly and selectively attended meetings during the year, and has no other connection with the Group or members of the Board.

Appointment and re-election of Directors

A rigorous selection process is followed for the appointment of Directors. Appointments are made on merit and candidates are considered against objective criteria, and with regard to the benefits of a diverse Board. Appointments are made in accordance with HSBC Holdings' Articles of Association.

The Board may at any time appoint any person as a Director or secretary, either to fill a vacancy or as an additional officer. The Board may appoint any Director or secretary to hold any employment or executive office and may revoke or terminate any such appointment.

Non-executive Directors are appointed for an initial three-year term and, subject to continued satisfactory performance based upon an assessment by the Group Chairman and the Committee, are proposed for re-election by shareholders at each AGM. They typically serve two three-year terms, with any individual's appointment beyond six years to be for a rolling one-year term and subject to thorough review and challenge with reference to the needs of the Board. Where non-executive Directors are appointed beyond six years, an explanation will be provided in the *Annual Report and Accounts*.

Shareholders vote at each AGM on whether to elect and re-elect individual Directors. All Directors that stood for election and re-election at the 2023 AGM were elected and re-elected by shareholders.

Non-executive Director commitments

The terms and conditions of the appointments of non-executive Directors are set out in a letter of appointment, which includes the expectations of them, and the estimated time required to perform their role. Letters of appointment of each non-executive Director are available for inspection at the registered office of HSBC Holdings.

Non-executive Directors serving on the Board and as a member of any committees are expected to serve up to 75 days per annum. The Senior Independent Director is expected to serve an additional 30 days per annum. Those Directors who also chair a large committee are expected to commit up to 100 days per annum, with the Group Risk Committee Chair expected to commit up to 150 days per annum. Any additional time commitment required of non-executive Directors in connection with Board and committee activities is confirmed to them separately.

Board approval is required for any non-executive Director's external commitments, with consideration given to their total time commitments, potential conflicts of interest, and regulatory and investor expectations.

Board composition and succession

During 2023, the compositions of the Board and its committees were reviewed, with assessments focused on the skills, knowledge and experience necessary to oversee, challenge and support management in the achievement of the Group's strategic and business objectives. The assessments were focused on the Board, both collectively and as individual members. The Committee discussed succession planning for key roles on the Board and committees, including the roles of Senior Independent Director and Chair of the Group Audit Committee. The recruitment process for the new Directors provided an opportunity to add significant executive experience in banking. It also provided an opportunity to add deep business and cultural expertise across Asia that the Board had previously identified as a priority, and to meet our target for a woman to hold at least one of the senior Board positions by the end of 2025. In line with these objectives, a list of potential candidates was identified and considered by the Committee. Members of the Board, including the Group Chief Executive and Group Chief Financial Officer, met with potential candidates and their feedback helped inform the Committee's discussions and recommendations to the Board. The Board then approved the Committee's recommendations to appoint Kalpana Morparia with effect from 1 March 2023, Ann Godbehere and Brendan Nelson with effect from 1 September 2023, and Swee Lian Teo with effect from 1 October 2023.

Kalpana Morparia and Swee Lian Teo each bring significant banking, risk and regulatory experience in Asia. Ann's deep financial acumen and extensive financial services experience gained over a 30-year career, as well as her extensive large, public-listed company board experience as a non-executive director, makes her the right successor for the role of Senior Independent Director. Brendan's UK and international financial expertise and significant experience as statutory audit partner, and as audit committee chair at UK-listed companies, as well as previously being President of the Institute of Chartered Accountants of Scotland, will be particularly valuable in the leadership of the Group Audit Committee given the evolving audit, regulatory and disclosure environment in which the Group operates. Their biographies can be found on pages 275 to 279.

Following the annual review of the Board skills matrix, the Committee remains focused on identifying candidates for future appointments with deep business and cultural expertise across Hong Kong and mainland China.

The Committee will continue to monitor the market during 2024 for potential candidates for appointment to the Board in both the short and medium term, to ensure that the Board has a pipeline of credible successors.

Neither Jackson Tai, who retired from the Board during the year, nor David Nish, who is not offering himself for re-election at the 2024 AGM, have raised concerns about the operation of the Board or the management of the company.

Committee composition

As part of the decision to establish the Group Technology Committee, when reviewing the Committee composition, it was agreed that Eileen Murray would be appointed as Chair, and Steven Guggenheimer, Kalpana Morparia, Swee Lian Teo and Brendan Nelson would be appointed as members of the Group Technology Committee with effect from 1 March 2024.

The Committee also reviewed the composition of the Board committees more broadly to ensure that these remained appropriate and diverse, with consideration of the Board diversity and inclusion policy while utilising the respective skills and expertise of the Board members as set out in the Board skills matrix on page 283. As a result, and in addition to the appointments of members to the Group Technology Committee, it was agreed that Ann Godbehere would be appointed to the Group Audit Committee with effect from 21 February 2024.

Board diversity

The Board recognises the importance of gender, social and ethnic diversity, and the benefits diversity brings to Board effectiveness. Diversity is taken into account when considering succession plans and appointments at both Board and senior management level, as well as more broadly across the Group. The Committee also considered the diversity and representation on Board committees when reviewing their composition.

At the end of 2023, the Board had 47% female representation, with seven female Board members out of 15, ahead of the year-end 2025 target set by the FTSE Women Leaders Review. Ann Godbehere's appointment as Senior Independent Director will mean the Board achieves the FTSE Women Leaders Review target that at least one of the senior Board positions of Chair, Chief Executive Officer, Senior Independent Director or Chief Financial Officer is held by a woman. In accordance with the UK Listing Rules, the Board is on track to be compliant with these diversity targets and will be fully compliant with effect from the conclusion of the 2024 AGM. Beyond gender, the Board continues to exceed the Parker Review target of having at least one Director of ethnic heritage. However, given the international nature of our business, including our heritage in Asia, the Board has set a target to maintain or improve the current representation of Directors from a diverse ethnic heritage.

The Board's diversity and inclusion policy was updated in December 2023. The policy confirms our commitment to, and also details the approach to achieving, our diversity ambitions. Further details on activities to improve diversity across senior management and the wider workforce, together with representation statistics, can be found from page 76. The Board's diversity and inclusion policy is available on www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities

Independence

Independence is a critical component of good corporate governance, and a principle that is applied consistently at both HSBC Holdings and subsidiary level. The Committee has delegated authority from the Board in relation to the assessment of the independence of non-executive Directors. In accordance with the UK and Hong Kong Corporate Governance Codes, the Committee has reviewed and confirmed that all non-executive Directors who have submitted themselves for election and re-election at the AGM are considered to be independent. This conclusion was reached after consideration of all relevant circumstances that are likely to impair, or could appear to impair, independence.

In line with the requirements of the Hong Kong Corporate Governance Code, the Committee also reviewed and considered the mechanisms in place to ensure independent views and input are available to the Board. These mechanisms include:

- having the appropriate Board and committee structure in place, including rules on the appointment and tenure of non-executive Directors;
- facilitating the option of having brokers and external industry experts in attendance at Board meetings during 2023, as well as having representatives from the Group's key regulators attend Board meetings in relation to specific regulatory items;
- ensuring non-executive Directors are entitled to obtain independent professional advice relating to their personal responsibilities as a Director at the Group's expense;
- having terms of reference for each committee and the Board provide authority to engage independent professional advisers; and
- holding annual Board and committee effectiveness reviews, with feedback sought from members on the quality of, and access to, independent external advice.

Senior executive succession and development

Following Georges Elhedery's appointment as Group Chief Financial Officer from 1 January 2023, the Committee monitored and received updates on his induction plan.

The succession plans for the Group Executive Committee members were approved by the Committee in December 2023. These reflect continued efforts to support the development and progression of diverse talent and promote the long-term success of the Group, with the gender diversity and proportion of Asian heritage successors improving year on year. The approval of succession plans included future internal and external succession options for the Group Chief Executive, to ensure that the Committee has a robust and actionable plan when required. The Committee also reviewed longer-term internal succession options for the Group Chief Executive to enable the Committee to interact more frequently with high potential and diverse talent in the Group.

The Committee continued to receive updates on the development of our talent programme within the Asia-Pacific region. Since its launch in 2020, significant progress has been made towards ensuring that we have a deeper and more diverse leadership bench-strength. Succession plans are more robust, with greater diversity and good succession fulfilment outcomes.

Committee evaluation

The annual review of the effectiveness of the Board and Board committees, including the Committee, was conducted externally by Independent Board Evaluation for 2023. It determined that the Committee continued to operate effectively, with no specific actions identified for the Committee. Positive feedback was received on the effectiveness of the recruitment processes of new Board members and the succession planning for senior management.

Further details of the annual review of the Board and committee effectiveness can be found on pages 296 to 297.

Subsidiary governance

In line with the subsidiary accountability framework, the Committee continued to oversee the corporate governance and succession arrangements across the principal and material subsidiary portfolio. The Committee also reviewed the succession plans for the principal subsidiary chairs to ensure future successors had the necessary skills and experience to effectively oversee and monitor delivery of the Group's strategic and business priorities within their territory, in accordance with the Group's governance expectations.

Where a subsidiary was unable to fully comply with the subsidiary accountability framework, the Committee endorsed exceptions, where appropriate, subject to strong rationale, including consideration of local laws and regulations and market practice. Endorsement requests were also subject to thorough review and consideration by the Group Company Secretary and Chief Governance Officer in advance of consideration by the Committee.

The Committee reviewed succession plans and oversaw compliance with the Group's governance expectations of principal and material subsidiaries. The overall quality of succession plans has improved markedly over the past three years, with plans demonstrating a clear focus on strengthening boards' overall diversity and experience, in line with strategic and business objectives.

The Committee continued to support and seek opportunities to enhance subsidiary connectivity, including through the Chairman's Forum and Remuneration Committee Chairs' Forum, which regularly brought together the chairs of the principal subsidiaries to discuss common issues, and the Non-Executive Director Summit which brought over 100 non-executive Directors together in Hong Kong in May 2023.

Subsidiaries also provided opportunities for internal talent to serve on their boards, following the training that they received through the HSBC Bank Director Programme. The Committee continues to support and look for opportunities to enhance subsidiary connectivity through Non-Executive Director Summits and other engagement forums.

Matters considered during 2023

	Jan	Feb	Mar	Apr	May	Jun	Jul	Sep	Dec
Board composition and succession									
Board composition, including succession planning and skills matrices	●	●	●	●	●	●	●	●	●
Approval of diversity and inclusion policy	○	○	○	○	○	○	○	○	●
Executive talent and development									
Senior executive succession	●	●	○	○	○	●	●	●	●
Approval of executive succession plans	○	○	○	○	○	○	○	○	●
Talent programmes	○	○	○	○	○	○	●	○	○
Governance									
Board and committee evaluation	●	○	●	○	○	○	●	○	○
Subsidiary governance	○	○	○	○	●	○	●	●	●
Subsidiary and executive appointments	●	●	○	○	●	○	●	○	●

● Matter considered

○ Matter not considered

Group Audit Committee



"Given the uncertain external environment, as well as HSBC's growth ambitions, the GAC will continue to play an important role in monitoring the effectiveness of the control environment."

David Nish

Chair

Group Audit Committee

Membership

	Member since	Meeting attendance in 2023 ¹
David Nish (Chair)	May 2016	10/10
Rachel Duan ²	Apr 2022	9/10
James Forese ³	May 2020	7/7
Eileen Murray ⁴	Jun 2022	8/10
Brendan Nelson ⁵	Sep 2023	4/4
Jackson Tai ⁶	Dec 2018	3/3

- ¹ These included two joint meetings with the Group Risk Committee ('GRC') and the Technology Governance Working Group.
- ² Rachel Duan was unable to join one meeting, a joint meeting with the GRC and Technology Governance Working Group, due to prior a commitment.
- ³ James Forese rejoined the GAC on 5 May 2023 following his appointment as GRC Chair.
- ⁴ Eileen Murray was unable to join two meetings due to prior commitments.
- ⁵ Brendan Nelson joined the GAC upon appointment to the Board with effect from 1 September 2023 and has been appointed GAC Chair with effect from 21 February 2024.
- ⁶ Jackson Tai retired from the GAC on 5 May 2023 upon his retirement from the Board.

Key responsibilities

The Committee's key responsibilities include:

- monitoring and assessing the integrity of the financial statements, formal announcements and regulatory information in relation to the Group's financial performance, as well as significant accounting judgements;
- reviewing the effectiveness of, and ensuring that management has appropriate internal controls over, financial reporting;
- reviewing management's arrangements for compliance with prudential regulatory financial reporting;
- reviewing and monitoring the relationship with the external auditor and overseeing its appointment, remuneration and independence;
- overseeing the Group's policies, procedures and arrangements for capturing and responding to whistleblower concerns and ensuring they are operating effectively; and
- overseeing the work of Global Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.

I am pleased to introduce the Group Audit Committee ('GAC') report setting out the key matters and issues considered in 2023.

As well as the GAC's usual obligations for financial reporting and the associated control environment, the GAC spent significant time on the oversight of the Group's ESG disclosures and improvement of the Group's regulatory reporting, specifically assurance of the Group's ESG disclosures for the *Annual Report and Accounts 2023* and the net zero transition plan and related policies, which were published in January 2024.

Internal financial control also remained a key area of focus for the GAC during 2023. This will continue to be a priority going ahead due to the need for a robust control environment given the ongoing the volume of regulatory- and strategy-driven change across the Group. This included oversight of regulatory and accounting deliverables, such as the enhancement of Finance systems and controls and the progress in the implementation of Basel III.

Significant time was also spent at GAC meetings on the positioning and forward-looking financial guidance provided to the market as part of our financial reporting for both the current and prior year, notably in relation to returns, costs and expected credit losses ('ECL'), including those associated with the Group's exposure to the China corporate real estate market.

Given the uncertain external environment, as well as HSBC's growth ambitions, the GAC will continue to play an important role in monitoring the effectiveness of the control environment in supporting sustainability of these ambitions.

The GAC continued to strengthen our relationships and understanding of issues at the local level through regular information sharing with the principal subsidiary audit committee chairs. This was supplemented with regular meetings with the chairs to discuss key issues, and through their periodic attendance at GAC meetings. I also joined a number of principal subsidiary audit committee meetings throughout the year, which supported connectivity and information flows across the Group.

The Group's whistleblowing arrangements continue to satisfy regulatory obligations. I regularly met the whistleblowing team to discuss material whistleblowing cases, and the progress made in enhancing the Group's whistleblowing arrangements.

The GAC's performance and effectiveness were reviewed as part of the Board effectiveness review undertaken during the year. I was pleased that the review concluded that the GAC continued to operate effectively, with no material areas for improvement identified.

Finally, as announced on 6 December, Brendan Nelson will succeed me as Chair of the GAC following the publication of HSBC's *Annual Report and Accounts 2023* on 21 February 2024. The Board has determined that Brendan's previous experience, notably as audit chair at NatWest and bp, makes him ideally suited to chair the GAC.

David Nish

Chair of the Group Audit Committee

Committee governance

The Committee operates under delegated authority from the Board, and advises the Board on matters concerning the Group's financial reporting requirements. The Committee Chair reports on the key matters and discussions at the subsequent Board meeting, and the Board also receives copies of the Committee agendas and minutes. This supports the Board's oversight of the work carried out by management, Global Internal Audit and PricewaterhouseCoopers LLP ('PwC'), as the Group's statutory auditor.

The Nomination & Corporate Governance Committee has confirmed that each member of the Committee is independent according to the criteria from the US Securities and Exchange Commission; and the Committee and individual members continue to possess competence relevant to the banking and broader financial services sector in which the Group operates. The Board has determined that David Nish, Brendan Nelson and Eileen Murray are the audit committee 'financial experts' for the purposes of section 407 of the Sarbanes-Oxley Act and have recent and relevant financial experience for the purposes of the UK and Hong Kong Corporate Governance Codes.

The Committee Chair continued to engage with various key stakeholders, including regulators such as the UK's PRA and the Financial Reporting Council, to understand their views, key themes and areas of focus within the broader financial services sector. These included trilateral meetings involving the Group's external auditor, PwC, and the PRA.

The Group Chief Executive, Group Chief Financial Officer, Global Financial Controller, Group Head of Internal Audit, Group Chief Risk and Compliance Officer, Group Company Secretary and Chief Governance Officer and other members of senior management routinely attended meetings of the GAC. The external auditor attended all meetings.

The Chair holds regular meetings with management, Global Internal Audit and PwC, as the external auditor, to discuss relevant items as they had arisen during the year outside the formal Committee process. The Committee also regularly meets with the internal and external auditors, without management present. Private discussions are also held with relevant members of senior management, including the Group Chief Financial Officer and Group Chief Risk and Compliance Officer.

Matters considered during 2023

	Jan	Feb	Apr	Jun	Jul	Sep	Oct	Dec
Reporting								
Financial reporting matters including:								
– review of financial statements, ensuring that disclosures are fair, balanced and understandable	●	●	●	●	●	●	●	●
– significant accounting judgements								
– going concern assumptions and viability statement								
– supplementary regulatory information								
ESG and climate reporting	●	●	●	●	●	●	●	●
Regulatory reporting-related matters including:								
– oversight of the Group's engagement with PRA-requested skilled person reviews								
– reports from the principal subsidiaries on progress and learnings in relation to their local remediation efforts	●	●	●	●	●	●	●	●
– adequacy of resources across Finance and other SME teams to deliver the Group-wide remediation programme								
Certificates from principal subsidiary audit committees	○	●	○	○	●	○	○	○
Control environment								
Control enhancement programmes	●	●	●	●	●	●	●	●
Group transformation	○	○	○	○	●	●	○	○
Review of deficiencies and effectiveness of internal financial controls	●	●	●	●	●	●	●	●
Internal audit								
Reports from Global Internal Audit	●	●	●	○	●	○	●	●
Audit plan updates, independence and effectiveness	●	●	●	○	●	○	●	●
External audit								
Reports from external audit, including external audit plan	●	●	●	●	●	●	●	●
Appointment, remuneration, non-audit services and effectiveness	●	●	●	●	○	●	●	●
Compliance								
Accounting standards and critical accounting policies	○	●	○	○	●	○	●	●
Corporate governance codes and listing rules	○	●	○	○	●	○	○	○
Whistleblowing								
Whistleblowing arrangements and effectiveness	○	●	○	○	○	●	○	●

● Matter considered ○ Matter not considered

How the Committee discharged its responsibilities

Financial, ESG and climate reporting

The GAC is responsible for reviewing the Group's financial reporting during the year, including the *Annual Report and Accounts*, *Interim Report*, quarterly earnings releases, analyst presentations and Pillar 3 disclosures.

Furthermore, as an area of expanded assurance, the GAC, supported by the executive-level ESG Committee, provided close oversight of the disclosure risks in relation to ESG and climate reporting, amid rising stakeholder expectations.

As part of its review, the GAC:

- reviewed the narrative commentary on our financial and non-financial performance to ensure it remained fair, balanced and understandable;

- challenged and evaluated management's application of critical accounting policies and material areas in which significant accounting judgements were applied;
- gave particular regard to the analysis and measurement of IFRS 9 ECL, including the key judgements and management adjustments made in relation to the forward economic guidance, underlying economic scenarios and reasonableness of the weightings, as well as modelling and adjustments;
- focused on preparation for disclosures to ensure these were consistent, appropriate and acceptable under the relevant financial and governance reporting requirements;

- tracked and monitored developments relating to the strategy and scope of ESG and climate disclosures, in particular the assurance related to the Group's net zero transition plan, which was published at the end of January 2024. The GAC also focused on internal and external assurance within ESG reporting in line with wider market developments to ensure ESG and climate disclosures were materially accurate and consistent;
- tracked and monitored the delivery against the external audit plan;
- provided advice to the Board on the form and basis underlying the long-term viability statement; and
- considered the key performance metrics related to strategic priorities, and ensured that the performance and outlook statements reflected the risks and uncertainties appropriately.

We also received independent third-party limited standalone assurance on the Group's climate reporting. Further details can be found in 'Assurance relating to ESG data' on page 43.

In conjunction with the GRC, the GAC considered the current position of the Group, along with the emerging and principal risks, and carried out a robust assessment of the Group's prospects. This assessment informed the GAC's recommendation to the Board on the Group's long-term viability. The GAC also undertook a detailed review before recommending to the Board that the Group continues to adopt the going concern basis in preparing the annual and interim financial statements. Further details can be found on page 40.

Fair, balanced and understandable

Following review and challenge of the disclosures, the Committee recommended to the Board that the *Annual Report and Accounts*, taken as a whole, were fair, balanced and understandable. These provided the shareholders with the necessary information to assess the Group's position and performance, business model, strategy and risks facing the business, including in relation to the increasingly important ESG considerations.

The Committee reviewed the draft *Annual Report and Accounts 2023* and results announcements to provide feedback and challenge to management. It was supported by the work of the Group Disclosure and Controls Committee, which also reviewed and assessed the *Annual Report and Accounts 2023* and investor communications.

This work enables the GAC to discharge its responsibilities and support the Board in making the statement required under the UK and Hong Kong Corporate Governance Codes.

Internal controls

Regular updates and confirmations are provided to the GAC on the action management takes to remediate any failings or weaknesses identified through the operation of the Group's framework of internal financial controls. This is supplemented by reviews of these controls by the second line of defence and internal audit, and the external auditors, who provided additional comfort to the Committee on the effectiveness of these controls. These reviews confirmed that there were no material weaknesses as at the year-end.

These updates included the Group's work on compliance with section 404 of the Sarbanes-Oxley Act. Based on this work, the GAC recommended that the Board support its assessment of the internal controls over financial reporting.

The GAC continues to focus on controls over the Group's insurance business following the implementation of the IFRS 17 'Insurance Contracts' accounting standards. This will remain a focus through 2024, with the GAC scheduled to receive further updates on the control environment for this business and in relation to the change programme more generally through the first half of 2024.

For further details of how the Board reviewed the effectiveness of key aspects of internal control, see page 348.

Regulatory reporting

Regulatory reporting has been a key priority for the Committee over recent years, and will continue to be a priority for 2024. The Committee is focused on monitoring the programme of work to address the quality and reliability of regulatory reporting to meet regulatory expectations.

The Committee approved the Integrity of Regulatory Reporting programme, management's strategy for remediation of deficiencies in relation to the Group's regulatory reporting governance, process and controls. The Committee also provided oversight of the Group's engagement with PRA-requested skilled-persons reviews including the initiation of a review of the sustainability of the Group's ongoing remediation efforts for regulatory reporting, which commenced in 2023 for an initial period to 31 December 2025. Regular updates will be provided to the Committee by the skilled person throughout the course of their review.

Management provided updates on the status of ongoing HSBC-specific external reviews, and discussed the issues and themes identified from the increased assurance work and focus on regulatory reporting. The GAC also discussed root cause themes, remediation of known issues and new issues identified through the increased assurance work and focus on regulatory reporting. The Committee challenged management on remediation plans, to ensure there was a sustainable reduction in issues and that dependencies with other key programmes were well understood.

The Committee Chair initiated a schedule under which certain principal subsidiary audit committee chairs, chief executive officers and chief financial officers attended GAC meetings to share progress and learnings in relation to their local remediation efforts.

Further details can be found in the 'Principal activities and significant issues considered during 2023' table on page 307.

Adequacy of resources

The Committee is responsible, under the Hong Kong Listing Rules, to annually assess the adequacy of resources of the accounting, internal audit, financial reporting and ESG performance and reporting functions. It also monitored the legal and regulatory environment relevant to its responsibilities.

The Committee determined that each of the functions provided thorough information with regards to people capacity and capability and endorsed the annual update to the Board.

In recognition that the enhancement of the Group's regulatory reporting processes and controls was a priority for both the Committee and the Group's regulators, the GAC also considered the adequacy of regulatory reporting resources as part of the year-end activities.

Connectivity with principal subsidiary audit committees

The Committee recognises the importance of strong connectivity and alignment with principal subsidiary audit committees. The mechanisms to support this are well established and continued to operate effectively during the year.

This included information sharing and targeted collaboration between audit committee chairs and management to ensure there was appropriate focus on the local implementation of programmes. During 2023 this included a particular focus on regulatory reporting, with the subsidiary audit committee chairs, chief executive officers and chief financial officers, attending Committee meetings to update on progress, share local challenges, and areas of focus with the Committee.

In addition to the Chair's regular meetings with the audit chairs of the Group's UK, European, US and Asian principal subsidiaries, and their attendance at Committee meetings for reference items, escalations were received by the Committee for its information and action.

On a half-year basis, principal subsidiary audit committees provided certifications to the GAC that regarded the preparation of their financial statements, adherence to Group policies and escalation of any issues that required the attention of the GAC. These certifications also included information regarding the governance, review and assurance activities undertaken by principal subsidiary audit committees in relation to prudential regulatory reporting.

External auditor

The GAC has the primary responsibility for overseeing the relationship with the Group's external auditor, PwC. The GAC undertook a formal competitive tender process for the Group's statutory audit during 2022 following PwC's appointment for the *Annual Report and*

Accounts 2015. This process concluded that PwC would remain as the statutory auditor, which was announced in January 2023. As part of the tender process, PwC committed to a number of initiatives to enhance the effectiveness and efficiency of the Group audit, and progress against these is reported to the Committee on a regular basis to allow these to be monitored.

PwC completed its ninth audit, providing robust challenge to management and sound independent advice to the Committee on specific financial reporting judgements and the control environment. The senior audit partner is Scott Berryman who has been in the role since 2019. It was announced during 2023 that Matthew Falconer would become the senior audit partner from 2024 as part of the rotation of auditors. The Committee reviewed the external auditor's approach and strategy for the annual audit and received regular updates on the audit, including observations on the control environment. Key audit matters discussed with PwC are set out in its report on page 354.

Following the publication of the Financial Reporting Council's ('FRC') Audit Committee and the External Audit: Minimum Standard ('the Standard') during 2023, the Committee confirmed that all requirements of the standard have been complied with.

External audit plan

The GAC reviewed the PwC external audit approach, including the materiality, risk assessment and scope of the audit. PwC highlighted the changes being made to its approach to enhance the quality and effectiveness of the audit. PwC's plan supports its, and the GAC's, focus on audit quality through standardisation, centralisation and the use of technology. The GAC has questioned PwC on its plans to utilise more digital solutions on the HSBC audit, and updates on this will be provided through 2024.

Effectiveness of external audit process

The GAC assessed the effectiveness of PwC as the Group's external auditor, using a questionnaire that focused on the overall audit process, its effectiveness and the quality of output.

In addition, the GAC Chair, certain principal subsidiary audit chairs and members of the Group Executive Committee met with the Senior Audit Partner to discuss findings from the questionnaire and provide in-depth feedback on the interaction with the PwC audit team.

PwC highlighted the actions being taken in response to the HSBC effectiveness review, including the development of audit quality indicators. These provide a balanced scorecard and transparent reporting to the GAC on the work of both HSBC teams and PwC during the course of the audit. These audit quality indicators focused on the following areas:

- findings from inspections across the Group and regulators on PwC as a firm;
- the hours of audit work delivered by senior PwC audit team members, the extent of specialist and expert involvement, delivery against agreed timetable and milestones and the use of technology;
- any new control deficiencies in Sarbanes-Oxley locations, proportion of management identified deficiencies and delivery of audit deliverables to agreed timelines; and
- matters occurring in PwC's global network that could be relevant to the audit of HSBC.

Specifically in 2023, PwC reported to the GAC on the recommended actions taken in response to the independent review of governance, culture and accountability that was undertaken by Dr Ziggy Switkowski AO, as well as further detail on audit quality controls across PwC's global operations.

The GAC receives regular updates from PwC and management on performance across the audit quality indicators, which provides wider visibility of ongoing and emerging issues. The GAC requested that these indicators included metrics in relation to PwC's IT security, reflecting the significant volume of information that is shared between HSBC and PwC as part of the audit activity.

There were no breaches of the policy on hiring employees or former employees of the external auditor during the year. The external auditor attended all Committee meetings and the GAC Chair maintains regular contact with the senior audit partner and his team throughout the year.

The FRC's Quality Review team routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related quality processes. PwC was reviewed on the audit of our financial reporting for the 2022 financial year. The Chair had discussions with the FRC as part of the process, and also discussed the outcome of the inspection with the Senior Audit Partner and the other members of the Committee. The Committee was pleased with the outcome of the inspection, which reported no key findings as well as a number of specific examples of good audit practice.

Independence and objectivity

The Committee assessed any potential threats to independence that were self-identified or reported by PwC. The GAC considered PwC to be independent and PwC, in accordance with professional ethical standards and applicable rules and regulations, provided the GAC with written confirmation of its independence for the duration of 2023.

The Committee confirms it has complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial statements.

Following the recommendation to reappoint PwC as the auditor, the associated resolutions concerning the reappointment and the audit fee for 2023 were approved at the 2023 AGM by the shareholders of the Group.

Non-audit services

The Committee is responsible for setting, reviewing and monitoring the appropriateness of the provision of non-audit services by the external auditor. It also applies the Group's policy on the award of non-audit services to the external auditor. The non-audit services are carried out in accordance with the external auditor independence policy to ensure that services do not create a conflict of interest. All non-audit services are either approved by the GAC, or by Group Finance when acting within delegated limits and criteria set by the GAC.

The non-audit services carried out by PwC included 64 engagements approved during the year where the fees were over \$100,000 but less than \$1m. Global Finance, as a delegate of the GAC, considered that it was in the best interests of the Group to use PwC for these services because they were:

- audit-related engagements that were largely carried out by members of the audit engagement team, with the work closely related to the work performed in the audit;
- engagements covered under other assurance services that require obtaining appropriate audit evidence to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information;
- other permitted services such as advisory attestation reports on internal controls of a service organisation primarily prepared for and used by third-party end users; or
- required or permitted by local regulators to be performed by the external auditor.

Eight engagements during the year were approved where the fees exceeded \$1m. These were mainly engagements required by the regulator and incremental fees related to previously approved engagements, including the provision of independent assurance reports on global controls for 2023.

Auditors' remuneration	2023 \$m	2022 \$m
Total fees payable	155.9	148.1
of which fees for non-audit services	46.1	50.5
Ratio of non-audit fees to audit fees ¹	42.0%	51.7%

¹ The calculation is on a simple ratio and is not based on FRC guidance on non-audit fees ratio thresholds.

Whistleblowing and speak-up culture

An important part of HSBC's values is speaking up when something does not feel right. HSBC remains committed to ensuring colleagues have confidence to speak up and acting when they do. A wide variety of channels are provided for colleagues to raise concerns, including the Group's whistleblowing channel, HSBC Confidential (see page 94 for further information).

The Board has delegated responsibility to the GAC to oversee the effectiveness of HSBC's whistleblowing procedures. The Chair of the GAC is a Group Senior Manager (SMF7), and has a prescribed responsibility as the whistleblowers' champion, to ensure integrity of HSBC's policies on whistleblowing and protecting those who report concerns. As part of his responsibility, the GAC Chair reports to the Board on the GAC's oversight of whistleblowing as part of his regular reporting updates.

The Group Head of Regulatory Compliance regularly updates the GAC on whistleblowing effectiveness, including controls assessments and internal audit findings. The Committee is briefed on culture and conduct risks from whistleblowing cases and actions taken.

In 2023, the GAC received updates on topics such as cultural insights from internal HR-led investigations relating to matters reported through HSBC Confidential. Reports were also provided on the actions taken to support different functional areas collaborate post-investigation. The Chair met with the Group Head of Conduct, Policy and Whistleblowing for briefings on significant whistleblowing matters. In 2024, the GAC will continue to receive briefings on these actions and the ongoing efficiency of the HSBC Confidential channel.

Global Internal Audit

The primary role of the Global Internal Audit function is to help the Board and management protect the assets, reputation and sustainability of the Group. Global Internal Audit does this by providing independent and objective assurance on the design and operating effectiveness of the Group's governance, risk management and control framework and processes, prioritising the greatest areas of risk. The independence of Global Internal Audit from day-to-day line management responsibility is critical to its ability to deliver objective audit coverage by maintaining an independent and objective stance. Global Internal Audit is free from interference by any element in the organisation, including on matters of audit selection, scope, procedures, frequency, timing, or internal audit report content. The Group Head of Internal Audit reports to, and meets frequently with, the Chair of the GAC. In addition, in 2023, there was more interaction between Global Internal Audit senior management and the members of the GAC, aimed at increasing knowledge and awareness of the audit universe and existing and emerging risks identified by Global Internal Audit. Global Internal Audit adheres to The Institute of Internal Auditors' mandatory guidance.

Consistent with previous years, the 2024 audit planning process includes assessing the inherent risks and strength of the control environment across the audit entities representing the Group. Results

of this assessment are combined with a top-down analysis of risk themes by risk category to ensure that themes identified are addressed in the annual plan. Audit coverage is achieved using a combination of business and functional audits of processes and controls, risk management frameworks and major change initiatives, as well as regulatory audits, investigations and special reviews. In addition to the ongoing importance of regulatory-focused work, key risk theme categories for 2024 audit coverage remain as: strategy, governance and culture; financial crime, conduct and compliance; financial resilience; and operational resilience. A quarterly continuous monitoring assessment of key risk themes will form the basis of thematic reporting and plan updates and will ultimately drive the 2025 planning process.

In 2024, Global Internal Audit's new or heightened areas of coverage are: transformation including regulatory change; people capacity and capability; ESG; material regulatory obligations; Consumer Duty implementation; retail and wholesale credit risk management; Basel III; regulatory reporting; treasury; operational resilience; enterprise-wide risk management; model risk management; machine learning and artificial intelligence; data management and technology. In addition, Global Internal Audit will continue its programme of culture audits to assess the extent that behaviours reflect HSBC's purpose, ambition, values and strategy, and expand its coverage of franchise audits for locally significant countries. The annual audit plan and material plan updates made in response to changes in the Group's structure and risk profile are approved by the GAC.

The results of audit work, together with an assessment of the Group's overall governance, risk management and control framework and processes are reported to the GAC, GRC and local audit and risk committees, as appropriate. This reporting highlights key themes identified through audit activity, and the output from continuous monitoring. This includes business and regulatory developments and an independent view of emerging and horizon risk, together with details of audit coverage and any required changes to the annual audit plan. Based on regular internal audit reporting to the GAC, private sessions with the Group Head of Internal Audit, the Global Professional Practices annual assessment and quarterly quality assurance updates, the GAC is satisfied with the effectiveness of the Global Internal Audit function and the appropriateness of its resources.

Executive management is accountable for addressing the matters raised by Global Internal Audit, which must be addressed within an appropriate and agreed timetable. Confirmation to this effect must be provided to Global Internal Audit, which validates closure on a risk basis.

Global Internal Audit maintains a close working relationship with HSBC's external auditor, PwC. The external auditor is kept informed of Global Internal Audit's activities and results, and is afforded free access to all internal audit reports and supporting records.

Principal activities and significant issues considered during 2023

Areas of focus	Key issues	Conclusions and actions
Financial and regulatory reporting	Environmental, social and governance ('ESG') reporting The Committee considered management's efforts to enhance ESG disclosures and associated verification and assurance activities, with a specific focus on the net zero transition plan and climate-related disclosures made in this Form 20-F.	The Committee considered ESG disclosures for the <i>Annual Report and Accounts 2023</i> in detail, to ensure these were fair and balanced, and were also transparent on the challenges faced and aligned with the Group's progress in the embedding of sustainable and climate-related policies across the business. The Committee also focused on the evolution of the control environment for ESG disclosures, particularly data sourcing and policy adherence. Management provided updates on additional assurance performed over these disclosures while the control environment matures and the progress of the sustainability enhancement programme (to upgrade our capabilities in this growing area).
	Regulatory reporting The GAC monitored the progress of the regulatory reporting assurance programme to enhance the Group's regulatory reporting, impact on the control environment and oversight of regulatory reviews and engagement.	The Committee reflected on the continued focus on the quality and reliability of regulatory reporting by the PRA and other regulators globally. The GAC reviewed management's proposals on remediation efforts, and endorsed the strategy for the remediation of the errors in the Group's reporting submissions to regulators globally. The chief executive officers, chief financial officers and audit committee chair of the US, UK ring-fenced bank, European and Asian subsidiaries attended Committee meetings during the year to report on the remediation activities and priorities with regards to regulatory reporting in their respective markets. We continue to keep the PRA and other relevant regulators informed of our progress.
Significant accounting judgements	Expected credit losses The measurement of expected credit losses involves significant judgements, particularly under current economic conditions. There remains uncertainty over ECL estimation due to sustained high inflation, a high interest rate environment and weaker economic growth in the Group's key operating markets.	The Committee reviewed economic scenarios for the key countries and territories in which the Group operates and challenged management's judgements on the weightings assigned to the scenarios. The Committee also challenged management's judgemental adjustments to account for uncertainty in specific sectors and geographies, including the controls underpinning the adjustments process and conditions under which the adjustments would be reduced or removed. The Committee continued to monitor management's updates on areas of particular focus, including downside risk on mainland China and Hong Kong commercial real estate.
	Tax-related judgements HSBC has recognised deferred tax assets to the extent that they are recoverable through expected future taxable profits. Significant judgement continues to be exercised in assessing the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and expected outcomes relating to uncertain tax treatments.	The Committee considered the recoverability of deferred tax assets, in particular in the US, the UK and France. The Committee also considered management's judgements relating to tax positions in respect of which the appropriate tax treatment is uncertain, open to interpretation or has been challenged by the tax authority.
	Valuation of defined benefit pension obligations The valuation of defined benefit pension obligations involves highly judgemental inputs and actuarial assumptions which includes rate, inflation rate, mortality rates and other demographic assumptions. Management considered these assumptions in consultation with actuarial experts to determine the valuation of the defined benefit obligations.	The GAC has considered the effect of changes in key assumptions on the HSBC UK Bank plc section of the HSBC Bank (UK) Pensions Scheme, which is the principal plan of HSBC Group. Details of key assumptions can be found on pages 393 to 395 of the 'Notes on the financial statements'.
	Valuation of financial instruments During 2023, management continuously refined its methodology and approach to valuing the Group's portfolio in relation to investments, trading assets and liabilities and derivatives.	The Committee considered the key valuation metrics and judgements involved in the determination of the fair value of financial instruments, and agreed with the judgements applied by management, which were validated through appropriate governance and control forums.
	Investment in subsidiaries Management has reviewed investments in subsidiaries for indicators of impairment and conducted impairment reviews where relevant. These involve exercising significant judgement to assess the recoverable amounts of subsidiaries, by reference to projected future cash flows, discount rates and regulatory capital assumptions.	The Committee reviewed the judgements in relation to the impairment review of HSBC Overseas Holdings (UK) Limited and the key inputs such as projected profits, underpinning the recoverable amounts of its subsidiaries.

Principal activities and significant issues considered during 2023 (continued)

Areas of focus	Key issues	Conclusions and actions
Significant accounting judgements	Investment in an associate – Bank of Communications Co., Limited During the year, management performed impairment reviews of HSBC's investment in Bank of Communications Co., Ltd ('BoCom'). This included consideration of the potential impact of BoCom's designation as a globally systemically important bank in November 2023. The impairment reviews are complex and require significant judgements, such as the appropriateness of projected future cash flows, discount rate, and regulatory capital assumptions.	The Committee reviewed and challenged management's judgements in relation to impairment reviews of HSBC's investment in BoCom, performed using a value-in-use methodology. The GAC reviewed the appropriateness of key assumptions such as projected future cash flows, with a particular focus on the loan growth and net interest margin outlook, and potential impacts of the recent designation of BoCom as a globally systemically important bank. The Committee held a dedicated meeting to challenge management on the impairment charge taken in the fourth quarter of 2023, considering sensitivity analysis of value-in-use to reasonably possible changes in key assumptions and consistency of judgements with prior impairment reviews, which we have disclosed previously.
	Interest rate management, including disposal of hold-to-collect-and-sell portfolio During 2023, management proposed a framework for the disposal of selected hold-to-collect-and-sell securities to improve risk management of hold-to-collect-and-sell positions and to stabilise and protect net interest income over the medium term.	The GAC received regular management updates on hedging strategy, including the repositioning of structural interest rate hedges. The Committee reviewed controls on, and financial outcomes of, disposals of hold-to-collect-and-sell securities.
	Impairment of goodwill and non-financial assets During the year, management tested for impairment goodwill and non-financial assets. Key judgements in this area relate to long-term growth rates, discount rates and projected future cash flows to include for each cash-generating unit tested, both in terms of compliance with the accounting standards and reasonableness of the forecasts.	The Committee reviewed and challenged management's approach and methodology used for the impairment testing of goodwill and non-financial assets, with a key focus on the projected cash flows included in the forecasts and discount rates used. The GAC also challenged management's key judgements and considered the reasonableness of the outcomes against business forecasts and strategic objectives of HSBC.
	Legal proceedings and regulatory matters Management has used judgement in relation to the recognition and measurement of provisions, as well as the existence of contingent liabilities for legal and regulatory matters.	The Committee reviewed reports from management on legal proceedings and regulatory matters, and challenged related accounting judgements and disclosures.
	Long-term viability and going concern statement The GAC has considered a wide range of information relating to present and future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the implications of: (i) the ongoing Russia-Ukraine and Middle East conflicts, and the consequential impacts on the supply chains globally; (ii) macroeconomic risks including inflationary risks, which were expected to remain heightened in most markets; and (iii) climate risk, operational resilience, and other top and emerging risks, and the related impact on profitability, capital and liquidity.	In accordance with the UK and Hong Kong Corporate Governance Codes, the Directors carried out a robust assessment of the principal risks of the Group and parent company. The GAC considered the statement to be made by the Directors and concluded that the Group and parent company will be able to continue in operation and meet liabilities as they fall due, and that it is appropriate that the long-term viability statement covers a period of three years.
	Impact of acquisitions and disposals HSBC engaged in a number of business acquisitions and disposals, notably in the UK, Canada, France, Greece, China, Oman and Russia. Significant judgement was involved in determining the timing of recognition of assets held-for-sale, gains or losses, and the measurement of assets and liabilities on acquisition or disposal.	The Committee reviewed management's judgements related to the planned sales of our banking business in Canada, our retail banking operations in France and our banking business in Russia, such as the timing of classification as held-for-sale and the remeasurement of assets. The Committee considered the financial and accounting impacts of the merger of HSBC Oman with Sohar International Bank of Oman, and the acquisitions of Silicon Valley Bank UK Limited, Silkroad Property Partners Pte Limited and Citi's retail wealth management portfolio in China.

Principal activities and significant issues considered during 2023 (continued)

Areas of focus	Key issues	Conclusions and actions
Control environment	Sustainable control environment The GAC will oversee the impact on the risk and control environment.	The Committee received regular updates on the control environment, and broader change framework, to review the impact on financial reporting and tax risk within the Group, with particular focus on the implementation of IFRS 17 in the year. In these updates the Committee monitored the assessment of the financial reporting risk, tax risk and progress made on remediation of Sarbanes Oxley significant deficiencies. This oversight helped the Committee to understand the progress being made by management to set out strategic actions to remediate identified issues and uplift the control environment to enable a sustainable reduction in risk. Management's updates were supplemented by further focus and assurance work from Global Internal Audit, including audits of significant programmes of activity during 2023.
Regulatory change	Basel III Reform The GAC considered the implementation of the Basel III Reform and the impact on the capital requirements and RWA assurance. This was considered in the context of the strategy and structure of the balance sheet.	The Committee received updates on the progress and impact of the Basel III programme on the Group. Management discussed the delayed implementation dates due to ongoing uncertainty over the final definition of the rules by regulators, and the work undertaken to mitigate delivery risks given the concentration of delivery during 2024. The discussion highlighted the dependencies of the Basel III programme with data and management. Management focus was on ensuring that the data required and evolving internal standards were delivered by the end of 2023 to allow for integrated testing in the first quarter of 2024. The Committee reviewed the ongoing management of risks, issues and dependencies and challenged management to prioritise deliverables across each jurisdiction in line with regulatory timelines. The Committee discussed focus on ensuring, in each case, solutions were delivered to the minimum required standards.
Committee connectivity	Collaboration with GAC/GRC/Technology Governance Working Group The GAC and GRC worked closely to ensure there were procedures to manage risk and oversee the internal control framework. The Chairs are members of both committees and engage on the agendas of each other's committees to further enhance connectivity, coordination and flow of information.	Given that all material remediation plans within the Group rely heavily on data, the committees held joint meetings to develop an understanding of the HSBC data strategy and execution plan. The joint meetings discussed: - the review undertaken of data within the Group and the associated baseline established as part of the review; - actions taken to prioritise execution to deliver key capabilities and remediate data quality, including pilots to provide clarity around scale, key milestones and expected execution timelines; and - the three-year Group data programme delivery roadmap including detailed plans to address data quality issues, improve the data control landscape, engage with colleagues to actively mature data culture, and build sustainable capabilities that meet a growing global trend towards localisation of data.

Committee evaluation and effectiveness

The annual review of the effectiveness of the Board committees, including the GAC, was conducted by IBE, Independent Board Evaluation during 2023. The review determined that the GAC continued to operate effectively.

Positive feedback was noted on the leadership of the Committee Chair, the composition of the Committee and the focus and balance of time dedicated to discussion at Committee meetings. The review highlighted the continued importance of strong interaction between the GAC, GRC, Technology Governance Working Group and the Board, on key issues including ESG.

Further details of the annual review of the Board and Committee effectiveness can be found on pages 296 to 297.

Committee priorities

At its meeting in December 2023, the Committee agreed a number of priorities for 2024. These included:

- Regulatory reporting: Given the criticality of accurate and timely regulatory reporting to the Group's licence to operate, the Committee will have a key focus on delivery of the Integrity of Regulatory Reporting programme during 2024.
- ESG: As competent authorities in the markets in which the Group operates launch market-specific disclosure requirements under new regulation, the Committee will continue to focus on the assurance of reporting and disclosure at both a Group and subsidiary level, as well as the effectiveness of the supporting control environment and governance.
- Data: The Committee plans to monitor and provide input into the data strategy, remediation, and controls for the purposes of financial and regulatory reporting, including that data management strategies are embedded across the Group.

Group Risk Committee



"The Committee takes continuous and active steps to safeguard the Group's capital and liquidity positions, keeping it secure in the face of macroeconomic headwinds, enabling it to effectively deploy capital dynamically to take advantage of opportunities"

James Forese

Chair

Group Risk Committee

Membership

	Member since	Meeting attendance in 2023 ¹
James Forese (Chair) ²	Jun 2022	10/10
Geraldine Buckingham	Jun 2022	10/10
Dame Carolyn Fairbairn ³	Sep 2021	7/10
Steven Guggenheimer ⁴	May 2020	9/10
Kalpana Morparia ⁵	Jul 2020	7/8
Brendan Nelson ⁶	Sep 2023	3/3
David Nish	Feb 2020	10/10
Jackson Tai ⁷	Sep 2016	4/4
Swee Lian Teo ⁸	Oct 2023	2/2

1 These included six scheduled meetings, three ad hoc meetings and one joint meeting with the Group Audit Committee and the Technology Governance Working Group.

2 James Forese was appointed Chair of the Committee on 5 May 2023.

3 Dame Carolyn Fairbairn was unable to attend three meetings due to prior commitments.

4 Steven Guggenheimer was unable to attend one meeting due to a prior commitment.

5 Kalpana Morparia joined the GRC on 1 March 2023. She was unable to attend one meeting due to a prior commitment.

6 Brendan Nelson joined the GRC on 1 September 2023.

7 Jackson Tai stepped down from the GRC on 5 May 2023.

8 Swee Lian Teo joined the GRC on 1 October 2023.

Key responsibilities

The GRC has overall non-executive responsibility for the oversight of risk-related matters and the risks impacting the Group. The GRC's key responsibilities include:

- overseeing and advising the Board on all risk-related matters, including financial and non-financial risks;
- advising the Board on risk appetite-related matters, and key regulatory submissions;
- reviewing the effectiveness of the Group's risk management framework and internal controls systems (other than internal financial controls overseen by the GAC);
- reviewing and challenging the Group's stress testing exercises; and
- overseeing the Group's approach to conduct, fairness and preventing financial crime.

I am pleased to present my first Group Risk Committee ('GRC') report, having taken over the role of Chair of the Committee in May 2023. I would like to take this opportunity to express my sincere gratitude to Jackson Tai for his service to GRC, and the Group more broadly, prior to stepping down as Committee Chair. I am also pleased to welcome Kalpana Morparia, Brendan Nelson and Swee Lian Teo, all of whom joined as members of the GRC during 2023, and each of whom brings unique skills and experience to the business of the Committee.

Geopolitical risks and the macroeconomic environment continued to dominate the landscape in 2023, with turmoil in the financial markets leading to the collapse of several banks in the US and Europe in the first half of the year. Commercial real estate in both the US and Asia also came under increasing pressure due to the high interest rate environment, inflationary trends and recessionary concerns. Central banks' efforts to lower inflation by rapidly raising interest rates also had a wide-ranging impact on retail borrowers as the cost of living increased globally. The GRC has closely monitored the Group's credit exposures, market risk and settlement limits in response to these events, and has endorsed management's proactive execution in reducing high risk exposures and accelerating portfolio transformation.

Oversight of financial risks has been critical against this external backdrop, and the GRC has paid close focus to the Group's ongoing treasury, capital and liquidity risk management activities, including early warning indicators, delivery of the interest rate risk in the

banking book strategy, prudential sensitivity analysis and capital and liquidity adequacy. Throughout the year, the GRC reviewed and challenged management on the Group's regulatory submissions, including the Bank of England's requirements for the Resolvability Assessment Framework, internal capital adequacy assessment process ('ICAAP') and internal liquidity adequacy assessment process ('ILAAP'). The GRC had primary non-executive responsibility for reviewing the outcomes of regulatory stress tests, including the 2023 annual cyclical scenario hybrid mortgage models update and the post-wind-down business restructuring analysis.

Non-financial risks were also a key focus of the GRC in 2023. The GRC carefully considered the Group's regulatory remediation and change programmes, and worked closely with management to better prioritise and understand where there are key interdependencies. In particular, the Committee reviewed and challenged the Group's data strategy and other key areas of regulatory focus, including oversight of the operational resilience enhancements, conduct and financial crime, technology and cyber risk. The GRC also provided oversight and support to risk transformation activities to develop stronger risk management capabilities and outcomes across the Group. Climate also continues to be a priority area of oversight with regular reports on areas of risk, such as greenwashing, compliance with regulatory requirements, and ESG policy changes.

Further details on these and other areas of GRC oversight during the year are set out below.

Committee governance

The Group Chief Risk and Compliance Officer, Group Chief Financial Officer, Group Chief Operating Officer, Group Company Secretary and Chief Governance Officer, Group Chief Legal Officer, and Group Head of Internal Audit are standing attendees at GRC meetings. The Chair and members of the GRC also hold private meetings with the Group Chief Risk and Compliance Officer, the Group Head of Internal Audit and the external auditor, PwC, following scheduled GRC meetings.

The participation of our senior business leaders, including the Group Chief Executive who attended five scheduled GRC meetings in 2023, and the chief executive officers of the three global businesses

reaffirmed the ownership and accountability of risks in the first line of defence.

The Chair meets regularly with the Group Chief Risk and Compliance Officer, and, where appropriate, members of senior management, to discuss priorities and track progress on key actions. The Chair also meets regularly with the GRC Secretary to ensure the GRC addresses its governance responsibilities. A summary of coverage is set out in the 'Matters considered during 2023' table.

Matters considered during 2023

	Jan	Feb	Mar	May	Jun	Jul	Sep	Dec
Holistic enterprise risk monitoring including Group risk profile ¹	●	●	●	●	●	●	●	●
Risk framework and policies	●	●	○	○	○	●	○	○
Treasury and traded risk	●	●	●	●	●	●	●	●
Wholesale/retail credit risk	●	●	○	●	●	●	●	○
Financial reporting risk	○	●	○	○	○	●	○	○
Resilience risk (including IT and operational risk)	○	○	○	●	●	○	●	●
Financial crime risk	●	●	●	●	●	●	●	●
People and conduct risk	○	○	○	●	●	○	●	●
Regulatory compliance risk	○	○	●	●	○	●	●	●
Legal risk	○	●	○	●	●	●	●	●
Model risk	○	○	○	○	○	●	○	●
Climate risk	○	●	○	●	●	○	●	●

● Matter considered ○ Matter not considered

¹ The GRC receives updates on all risk types through the Group risk profile, which is presented to the majority of meetings. The Committee also met with the Group Chief Risk and Compliance Officer and Risk and Compliance Executive Committee members in October 2023 to review matters relating to risk transformation, wholesale credit risk, treasury risk, model risk, operational risk, data and climate risk.

How the Committee discharged its responsibilities

Activities outside formal meetings

The GRC held a number of meetings outside its regular schedule to facilitate deeper and more effective oversight of the risks impacting the Group. Areas covered included capital management, stress testing, ICAAP and ILAAP preparations, as well as briefings on the Resolvability Assessment Framework. Further details of these sessions are included in the 'Principal activities and significant issues considered during 2023' table starting on page 312.

Connectivity with principal subsidiary risk committees

During 2023, the GRC continued to actively engage with principal subsidiary risk committees through the scheduled participation of principal subsidiary risk committee chairs at relevant GRC meetings, and through a quarterly connectivity meeting with the principal subsidiary risk committee chairs. This meeting is also attended by the Group Chief Risk and Compliance Officer. This participation and connectivity promoted the sharing of information and best practices between the GRC and principal subsidiary risk committees.

The GRC also received reports at its regular meetings on the key risks facing principal subsidiaries including escalations and certifications from the principal subsidiary risk committees. The certifications confirmed that the principal subsidiary risk committees had challenged management on the quality of the information provided, reviewed the actions proposed by management to address any emerging issues and that risk management and internal control systems had been operating effectively.

These interactions furthered the GRC's understanding of the risk profile of the principal subsidiaries, leading to more comprehensive review and challenge by the GRC.

Engagement with the Risk and Compliance Executive Committee

During 2023, the GRC met with the Risk and Compliance Executive Committee to promote information sharing, meet and assess the Group Risk and Compliance function leadership team, and encourage active engagement with executive management.

During the engagement meeting, the GRC developed a better understanding of the efforts to strengthen our capabilities across the Group Risk and Compliance function. There were also in-depth discussions on the progress and remediation of key regulatory concerns. The engagement promoted a healthy working relationship between GRC members and executive management.

Collaborative oversight by the GRC, GAC and Technology Governance Working Group

The GRC worked closely with the GAC and the Technology Governance Working Group to address any areas of significant overlap, and to oversee risk more comprehensively through inter-committee communications and joint meetings.

The GRC, GAC and the Technology Governance Working Group Chairs convened on two occasions to consider the Group's data strategy and ambitions. Further details of these sessions can be found under 'Collaboration with GAC/GRC/Technology Governance Working Group' in the GAC report on page 307.

The committees and working group worked closely to ensure appropriate alignment in the review, discussion, challenge and conclusions on topics including risk and control issues relating to digital assets and currencies, and the transition of core Finance capabilities to the Cloud. This ensured that the committees benefited from each other's expertise and challenge.

Coordination between the GRC, GAC and the Technology Governance Working Group is supported by cross-membership. The GRC and GAC Chairs are members of both committees, and this strengthened connectivity and the flow of information between the committees. Each of the co-chairs of the Technology Governance Working Group are members of the GRC and GAC, respectively.

Principal activities and significant issues considered during 2023

Risk areas	Key issues	Conclusions and actions
Holistic enterprise risk monitoring, including Group risk profile	Macroeconomic, geopolitical and other emerging risks have the potential to present significant challenges to revenue growth, operational resilience and our commitment to serve customers and local markets.	The GRC closely monitored geopolitical and macroeconomic risks that could impact the Group's strategy, business performance or operations. These risks were exacerbated by the ongoing Russia-Ukraine war and the developing Israel-Hamas war, as well as the expected 'higher for longer' interest rate environment, inflation and impacts on the commercial real estate portfolio. The GRC continued to track top and emerging risks, our risk appetite and other management information metrics, as well as other early warning measures to understand sensitivities and the likelihood of the potential impact to our operations, customers and stakeholders. The GRC provided oversight and challenge of a robust book of strategic management actions to respond to potential downside scenarios. Reflecting the Committee's ability to travel to different jurisdictions and regions more frequently, the GRC requested reports on the risk profile of key business areas in local geographies and invited principal subsidiary chairs and relevant management to attend and participate in discussions.
Risk framework and policies	Effective risk management policies, frameworks and thresholds, and oversight of these, are essential for HSBC to safely, consistently and sustainably support customers and deliver strategic aims.	The Group has a risk appetite statement to define risk appetite and tolerance thresholds, which forms the basis of the risk management procedures for the first and second lines of defence, the Group's capacity and capabilities to support customers, and the achievement of strategic goals. The GRC maintained oversight of the Group's risk management framework, reviewing changes to the Group's risk appetite statements and recommending these to the Board for approval. The agreed risk appetite statement then provided the basis for the Committee's interactive review of financial and non-financial risk management information at each scheduled GRC meeting. The GRC continued to promote the development of more dynamic and granular risk appetite statements that were both forward looking and dynamically responsive to emerging risk drivers, and linked to the Group's strategy, stress testing and financial resource plan. Changes were recommended by the GRC to the Group's risk appetite statement, including in the areas of interest rate risk in the banking book, wholesale credit risk, climate risk, model risk, digital assets and currencies, resilience risk, reputational risk and regulatory reporting risk.
Treasury risk	Capital and liquidity risk must be effectively monitored. It presents key risks to banks globally, as demonstrated in the first half of 2023 when there were a number of bank failures in the US and Europe. Similarly, developing action plans and guardrails to cover scenarios of recovery or resolution at a subsidiary or Group level is an essential part of HSBC's prudential management.	The Group takes continuous and active steps to safeguard its capital and liquidity positions. It performs internal and regulatory stress tests to measure resilience and performance against stress, and to consider strategic management actions that could be applied against anticipated stress events and headwinds. The GRC conducted its annual review and challenge of the Group's ICAAP and ILAAP, and provided recommendation to the Board for approval. The GRC continued to evaluate the Group's IRRBB strategy and progress made against the multi-year liquidity improvement programme. The GRC reviewed the Group's ongoing activities to identify, manage and mitigate treasury, capital and liquidity risks, including early warning indicators, sensitivity analysis, capital and liquidity reporting and adequacy. In relation to stress testing exercises, the GRC reviewed the Bank of England's 2023 annual cyclical scenario hybrid mortgage models update. The results were approved by the Committee in March 2023. The GRC also considered the 2024 financial resource plan and Group-wide internal stress test overview, scenarios and outputs, which contribute to the Group's commitment to regularly test the resilience of the balance sheet and profit and loss under multiple scenarios of varying severity. In addition to oversight of capital and liquidity risk, the GRC also reviewed and provided challenge to ongoing plans to improve balance sheet velocity across the Group through better distribution enabling further, targeted origination and ensuring effective use of capital to support revenue growth. As part of its regulatory obligations, the Group is required to show how its resolution strategy could be carried out in an orderly way and identify any risks to successful resolution. The GRC continued its oversight of the Group's progress in developing its capabilities towards the Bank of England's requirements for recovery and resolvability. In February 2023, the GRC reviewed the planned approach for 2023 post-wind-down business restructuring analysis, prior to submission to the PRA. The GRC reviewed and recommended the 2023 Resolvability Assessment Framework self-assessment to the Board for approval. The Chairs of the GRC and the GAC both received comprehensive briefings prior to the presentation of the framework.

Principal activities and significant issues considered during 2023 (continued)

Risk areas	Key issues	Conclusions and actions
Wholesale/ retail credit risk	HSBC faces risk from the possibility of losses resulting from the failure of a counterparty to meet its agreed obligations to pay the Group.	The GRC reviewed updates on the strategy and approach to managing credit risk and credit risk capabilities. The GRC received regular updates on the Group's expected credit losses and provisions, and the credit risk arising from the wholesale portfolio and mortgage books. Throughout the year, the GRC focused on oversight of management's enhancement objectives for wholesale credit risk management, in particular to improve the Group's approach to country and industry concentration risks. The GRC continued its emphasis on building even stronger credit capabilities for specialty sectors, the development of stronger portfolio management capabilities and further improving the Group's credit risk culture. A key focus area continued to be offering support to our retail customers experiencing financial difficulty, by maintaining appropriate tools and treatments and ensuring that conduct and good customer outcomes was a priority.
Financial reporting risk	HSBC is exposed to risks where controls supporting the reporting of its financial statements are not effective, resulting in material error or misstatement.	While the GAC maintains primary responsibility in relation to internal financial control systems, with further detail on pages 302 to 307, the GRC receives reports on entity level control assessments to enable the oversight of the effectiveness of such controls in support of the Group's financial reporting. The GRC also receives relevant audit reports that provide an assessment of control effectiveness for financial reporting risks.
Resilience risk (and operational risk)	Resilience risks could lead to a situation where we may be unable to provide our customers with critical business services due to significant disruption. Technology risks could cause unmanaged disruption to any IT system within HSBC, as a result of malicious acts, accidental actions or poor IT practice, or IT system failure.	The GRC continued its oversight of the Group's implementation of operational resilience capabilities in line with PRA and FCA policies. The GRC reviewed and challenged the operational resilience self-assessment against regulatory expectations, and worked with management to ensure that ownership and the delivery of resilience outcomes were embedded within the business and with function leaders. The GRC also received reports on system incidents and outages experienced across the Group, including reports on immediate actions being taken to enhance system continuity for, and communicate with customers, and measures being implemented to improve resilience-related controls to prevent reoccurrence. The GRC regularly reviewed reports on the Group's technology risk profile, as well as receiving bi-annual updates in relation to the risk and control environment, as well as the current threat landscape and emerging risks. The GRC (working with the newly-created Group Technology Committee as appropriate) will consider further the risks and opportunities inherent in the use of AI (generative and advanced) in 2024. The GRC maintained a strong focus on understanding the Group's data risk landscape, its data strategy and data management programme. The GRC collaborated with the GAC and the Technology Governance Working Group on data strategy, the execution plan and timeline for data remediation, the governance approach and the investment model. Further details on the joint meetings are included in the 'Collaboration with GAC/GRC/Technology Governance Working Group' section on page 311.
Financial crime risk	There is a risk that HSBC's products and services could be exploited for criminal activity, including fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.	The GRC reviewed the Group's approach to managing its financial crime risk across geographies and businesses. This included reviewing updates to the Group's financial crime policy, enhancing the approach to insider risk, and monitoring the fraud landscape and strategies for managing fraud risk. The ongoing Russia-Ukraine war has necessitated continued oversight of the ever-changing and increasingly complex international sanctions landscape in which the Group and its customers operate, as well as the Group's approach to managing its compliance with multiple and differing sanctions regimes globally.
People and conduct risk	People are central to everything HSBC does and it is essential to manage the risk of not having the right people with the right skills, and to ensure staff always have the customer's interest at the forefront.	The GRC monitored people risk and employee conduct, with support from the Group Chief Human Resources Officer and Group Chief Risk and Compliance Officer. The GRC considered people risk issues with a focus on the four 'c's': capacity, capability, culture and conduct. It also considered remuneration risks, and strategies to retain talent and acquire new capabilities in key areas. Of key importance, the GRC placed strong emphasis on policies and practices relating to conduct and fairness to customers, especially vulnerable customers given heightened macroeconomic pressures and stress on customers across markets. The GRC met in November to review the Group's risk and reward alignment framework to promote sound and effective risk management in meeting PRA and FCA remuneration rules and expectations.
Regulatory compliance risk	As a result of operating in multiple jurisdictions globally, HSBC is exposed to risks associated with inappropriate market conduct or breaching related financial services regulatory standards or expectations.	The GRC and its members actively engage with regulators and act on feedback. The Committee closely monitors the progress of any regulatory remediation activities, with support from the Group Chief Risk and Compliance Officer as well as principal subsidiary risk committee chairs. Throughout the year, the GRC had oversight over reports providing feedback from regulators, including a summary of regulatory deliverables to ensure HSBC remains in line with regulatory standards and expectations.

Principal activities and significant issues considered during 2023 (continued)

Risk areas	Key issues	Conclusions and actions
Legal risk	HSBC is exposed to the risk of financial loss, legal or regulatory action resulting from contractual risk, dispute management risk, breach of competition law or intellectual property risk.	The GRC oversees and receives regular updates on key legal developments and material legal issues from the Group Chief Legal Officer. The updates also cover material litigation and regulatory enforcement matters and an overview of the legal risk profile of HSBC.
Model risk	If models have been inadequately designed, implemented or used, or do not perform in line with expectations and predictions, then HSBC can face risks from inappropriate or incorrect business decisions arising from their use.	The GRC continued to oversee the Group's progress in managing model risk through the Group Chief Risk and Compliance Officer's Group risk profile report. The GRC oversaw the progress in achieving our model risk vision, strengthening our model risk management capabilities and addressing regulatory requirements across global jurisdictions. In particular, the GRC reviewed the PRA Supervisory Statement 1/23 and the impact on the Group. The GRC reviewed the new guidance, potential resource implications and the planned programme of changes across all three lines of defence. It also noted the enhanced governance expectations in relation to model oversight.
Climate risk	Environmental, social and governance risks present significant risks to organisations both in terms of their own operations and how they engage with stakeholders and communities.	The GRC remained focused on climate risk and greenwashing risk. The GRC received reports on climate risk management and energy policies, while maintaining oversight of delivery plans to ensure that the Group develops robust climate risk management capabilities. The GRC approved the 2023 internal climate scenario analysis and nature scenario analysis pilot in July 2023. The outcomes will be used to respond to multiple regional regulatory climate exercises as well as meeting regulatory expectations on incorporating climate change within the Group's strategic plans and ICAAP.

Committee evaluation

2022/2023

During 2023, the GRC implemented the recommendations of the 2022 committee evaluation conducted by Lintstock in consultation with the Group Company Secretary and Chief Governance Officer and Chief Risk and Compliance Officer. This included the need for continued focus on the quality of reporting, the importance of focusing limited agenda time to the most critical issues, and further clarity in roles and coordination between the GRC and other Board committees. The outcomes of the evaluation were reported to the Board, and progress was tracked by the GRC through the year.

2023/2024

During the year, the annual review of the effectiveness of the Board committees, including the GRC, was conducted externally by Independent Board Evaluation. The review determined that the GRC continued to operate effectively.

Areas for enhancement were identified, including the need for: increased focus on the most significant enterprise risks recognising the breadth of the risk agenda; continued close engagement with subsidiaries; and enhancement of induction programmes for new members given the complexity of much of the subject matter under discussion. A review of escalation parameters and filters will also be undertaken by the GRC in 2024.

The outcomes of the evaluation have been reported to the Board and the GRC will track progress in implementing recommendations during 2024.

Further details of the annual review of effectiveness can be found on pages 296 to 297.

The Committee will continue to monitor progress to deliver enhancements in response to feedback from the evaluations in 2024.

Focus of future activities

The GRC's focus for 2024 will include the following activities:

- oversee risk transformation activities to develop even stronger risk management capabilities, including the continued enhancement of the Group's risk appetite and risk management framework, especially in light of continued geopolitical and macroeconomic headwinds;
- continue to assess the Group's operational resilience capability and the implementation of enhancements to the operating model;
- continue to oversee treasury risk to strengthen our capital and liquidity management capabilities;
- monitor delivery against our climate ambitions and the development of appropriate data and model management tools and capabilities;
- continue the oversight of recovery and resolution planning activities to assess our resolvability capabilities if such situation arises;
- continue the oversight of the delivery of technology-related programmes including the data remediation programme, and enhancement of the Group's IT systems/platform;
- continue to oversee financial crime risk and the strengthening of the financial crime control framework, including proactive management by the business; and
- assess our strategic opportunities and risks including exposures to digital currencies or assets and use of timely application of technology such as machine learning or artificial intelligence.

Directors' remuneration report



"The Group's financial and strategic performance is reflected in the positive remuneration outcomes for our colleagues, and we remain committed to sharing the benefits of our performance with shareholders."

Dame Carolyn Fairbairn

Chair

Group Remuneration Committee

Membership¹

	Member since	Meeting attendance in 2023
Dame Carolyn Fairbairn (Chair)	Sep 2021	7/7
Geraldine Buckingham	May 2022	7/7
Rachel Duan	Sep 2021	7/7
James Forese ²	May 2020	3/3
Ann Godbehere ³	Sep 2023	2/2
José Antonio Meade Kuribreña	May 2021	7/7
Eileen Murray ⁴	May 2023	4/4

¹ All members of the Committee are independent non-executive Directors of HSBC Holdings plc.

² James Forese stepped down from the Committee on 5 May 2023.

³ Ann Godbehere joined the Committee on 1 September 2023.

⁴ Eileen Murray joined the Committee on 5 May 2023.

Key responsibilities

The Committee's key responsibilities include:

- making recommendations to the Board, for approval by shareholders, on the Group's remuneration policy;
- setting the overarching principles, parameters and governance framework of the Group's remuneration policy;
- approving the remuneration of executive Directors and other senior Group employees; and
- regularly reviewing the effectiveness of the remuneration policy of the Group and its subsidiaries in the context of consistent and effective risk management.

All disclosures in the Directors' remuneration report are unaudited unless otherwise stated. Disclosures marked as audited should be considered audited in the context of financial statements taken as a whole.

Dear Shareholder

I am delighted to present our 2023 Directors' remuneration report on behalf of the members of the Group Remuneration Committee.

I would like to thank Jamie Forese for the counsel he provided to us all as a member of the Group Remuneration Committee. We welcomed Eileen Murray and Ann Godbehere as members. They have already made valuable contributions since their respective appointments in 2023.

2023 was a year of good performance and positive progress for the Group. Our colleagues were critical to delivering those outcomes, remaining committed to serving our customers and clients around the world. Against that backdrop, the Committee's focus in 2023 was on ensuring we deliver an exceptional experience to colleagues. This is crucial to attract, retain and energise the people we need to sustain our performance and grow in markets that are highly competitive.

We also spent considerable time in 2023 thinking about executive Director remuneration, in the context of our strategy, performance and the removal of the 2:1 UK regulatory cap between variable and fixed pay. We have started to consider policy options ahead of the renewal of the Directors' remuneration policy in 2025.

The Committee reflected on feedback from investors following the vote on the implementation of our current policy at the Annual General Meeting ('AGM') in 2023, which received 79.75% of votes cast in favour.

We explained in our statements of 5 May 2023 and 3 November 2023 that our largest shareholder voted against the Board's recommendations on a number of resolutions including the Directors' remuneration report, which impacted the voting results on these resolutions. The Board was pleased that a large majority of shareholders voting at the AGM supported HSBC's approach. I have met with several of our large institutional investors and proxy advisory firms since the AGM, and there remains strong support for our current Directors' remuneration policy.

We will continue to engage with our major shareholders and listen to their views as we develop the Directors' remuneration policy next year.

Performance in 2023

Financial performance

Our financial performance in 2023 reflected the strength of our balance sheet in a higher interest rate environment and the good progress made executing our strategy over the last four years.

We delivered a reported profit before tax of \$30.3bn, which was up \$13.3bn compared with 2022. This included a favourable year-on-year impact of \$2.5bn relating to the sale of our retail banking operations in France and a provisional gain of \$1.6bn recognised on the acquisition of Silicon Valley Bank UK Limited ('SVB UK'), which were partly offset by the recognition of a \$3.0bn impairment charge relating to the investment in our associate, Bank of Communications Co., Limited ('BoCom').

Reported revenue of \$66.1bn grew by 30% or \$15.4bn compared with 2022, due to good performance by all three businesses reflecting higher net interest income from interest rate rises.

Reported costs fell by 2% to \$32.1bn, primarily due to the non-recurrence of restructuring and other related costs. On our cost target basis, 2023 costs grew by 6% versus our target of approximately 3% compared with 2022.

Our return on average tangible equity ('RoTE') for 2023 was 14.6%, compared with 10.0% in 2022. Excluding strategic transactions and the BoCom impairment, our RoTE was 15.6%.

This performance together with our 50% payout ratio commitment for 2023 (excluding material notable items and related impacts) enables us to approve a full year dividend of \$0.61 per share.

Strategic performance

In 2023, there was further good progress in executing our strategy across the four strategic pillars aligned to our purpose, values and ambition. The completion of the sale of our retail banking operations in France on 1 January 2024 was an important milestone in the turnaround of our business. However, the strategic focus has shifted to investing for growth. The acquisition of SVB UK, and subsequent launch of HSBC Innovation Banking, is a good example of this.

We continued to capitalise on our strengths, which are our two home markets of Hong Kong and the UK, as well as our international wholesale, transaction banking and wealth businesses. The digitisation of our services for personal and corporate customers helped to improve our net promoter scores in key markets and businesses. Meanwhile the growth of transaction banking revenue, fee income in Commercial Banking, and net new invested assets in Wealth all underlined our focus on improving our earnings sustainability, which remains a key priority.

Our colleagues are the driving force behind our performance and progress, with our 2023 employee Snapshot survey demonstrating that they are more engaged than ever. Our employee focus index, which gauges how colleagues feel about their day-to-day work, was 76%, which was an increase of four percentage points on 2022. Our employee engagement index is at an all time high of 77%, which was also an increase of three percentage points and meant we matched or exceeded the global financial services benchmark in all eight of our indices.

We also continued to support our customers in challenging economic times, particularly in the UK where we supported our personal and business customers by enhancing our range of digital resources and targeting those most in need.

Rewarding our colleagues

Our goal is to deliver a unique and exceptional experience to colleagues so that we sustain our performance in competitive markets. Our reward principles and commitments centre on rewarding colleagues responsibly, recognising their success and supporting them to grow.

Pay is a critical part of our proposition. We were encouraged by a nine percentage point improvement to 52% in colleagues' perceptions they are paid fairly because of actions we took through 2022. The Committee remains very focused on the need to improve this further. For 2024, we are putting more structure in place to improve transparency and clarity about how we make pay decisions.

Beyond pay we have a strong proposition of benefits, well-being support, flexible working options, and learning and career opportunities to support our colleagues.

In 2023, we saw the maturity of the 2020 three-year Sharesave plan, which had the highest take-up rate and contribution level in recent years. The share price at maturity was more than double the option price, meaning colleagues benefited from our share price growth at a time when they needed it most. Over 90% of colleagues have access to share ownership plans globally with 25% of our global population taking part.

For further details, see 'Our approach to workforce reward' on page 325.

Fixed pay

For the majority of our colleagues, fixed pay is the biggest part of their reward, and many continue to be impacted by the economic environment including inflation and cost of living challenges. Our focus is on ensuring that we provide financial security through fixed pay.

Fixed pay is primarily reviewed through our annual pay cycle. Fixed pay ranges were introduced for over 190,000 colleagues to improve clarity and transparency and simplify decision making for our people managers. Effective in 2024, we have awarded an overall fixed pay increase of 4.4%. The level of increases vary by market, depending on the economic situation and individual roles. The highest increases were made to lower paid colleagues, and then focused on middle management, so that we keep pace with wage inflation.

We have also established Living Wage benchmarks for every market and were certified as a global Living Wage employer by the Fair Wage Network for 2024. This is critical to give us further confidence in meeting our commitments to reward colleagues responsibly.

We continued to take tangible actions to address the most significant inflationary pressures for colleagues. For example, in Argentina and Türkiye, we adjusted fixed pay regularly through the year. In Egypt, we supported our colleagues with a one-off pay adjustment in response to high inflation.

Variable pay

In determining the 2023 variable pay pool, the Committee wanted to recognise our strong financial and strategic performance, and the contribution colleagues have made to that.

The Committee determined an overall variable pay pool of \$3,774m, 12% higher than \$3,359m in 2022. This was determined based on a review of our performance against financial and non-financial metrics set out in the Group risk framework. The Committee considered the strength of our financial performance in 2023, and the ratio between variable pay and pre-variable pay profit before tax. The Committee considered the impact of margins on interest rates in our results, and lowered the total pool in line with our countercyclical funding approach. We also considered our total compensation position compared with the market, and the broader economic outlook.

The Committee considered in respect of all its remuneration decisions for 2023 the Prudential Regulation Authority's ('PRA') 29 January 2024 Notice relating to HSBC Bank plc's and HSBC UK's compliance with the UK Financial Services Compensation Scheme ('FSCS') and related Depositor Protection rules. The PRA penalty was reflected in the calculation of profitability used to determine the pool. The Committee carefully considered input from the Group Risk Committee ('GRC') and determined that no further discretionary adjustment should be made to the overall variable pay pool. The circumstances leading to the penalty require a more detailed review internally to address potential responsibility of individuals, which will be completed by the Committee in 2024, with any remuneration adjustments applied once it is complete.

Total compensation across all our businesses increased relative to 2022, rewarding our colleagues for their contribution to our performance. The distribution of the pool by business considered relative performance against revenue, reported profit before tax and cost targets. Strong differentiation has meant our highest performers received the largest increases in variable pay compared with the previous year.

Key remuneration decisions for executive Directors

Annual incentive for 2023 performance

The Group's financial and strategic performance is reflected in the executive Directors' annual scorecards. The Committee believes this reflects their individual leadership and contribution to delivery of the Group's performance.

At the start of the year, the Committee set the scorecards to align with our reported financial performance. The Committee considered carefully the impact of strategic transactions and one-offs on the Group's financial performance in 2023, including the favourable year-on-year impact of \$4.1bn relating to the sale of our retail banking operations in France and the provisional gain on the acquisition of SVB UK, balanced with the \$3.0bn impairment charge relating to the investment in BoCom.

Consistent with the approach in prior years, the Committee judged that it was appropriate to assess financial performance for the purpose of the annual scorecard excluding these items, to ensure that out-turns were not impacted by one-offs. The assessment of RoTE and profit before tax measures therefore excluded strategic transactions and the BoCom impairment.

The Committee also considered the impact of interest rates on performance and noted that macroeconomic fluctuations remain a frequent driver of the Group's business outcomes for our executives to manage. In recent years these factors have not led to discretionary scorecard adjustments for our executive Directors, either positive or negative, which the Committee continues to believe is appropriate.

As part of its deliberations, the Committee reflected on the overall risk management in the year, and in respect of the PRA Notice: the nature of the failings identified; the regulator's finding that the breaches identified were not deliberate or reckless; fines levied; and the tenure and specific responsibilities of the executive Directors in relation to the issues covered.

Taking into account inputs from the GRC and the overall accountability of the Group Chief Executive for the performance and risk management of the Group in 2023, the Committee used its judgement and applied a downward adjustment of 7.50% to Noel Quinn's scorecard outcome.

This results in a final scorecard outcome of 70.24% of the maximum opportunity for Group Chief Executive Noel Quinn (2022: 75.35%) and an annual incentive of £2,018,000, which is 7% lower than £2,164,000 in 2022.

The scorecard for Group Chief Financial Officer Georges Elhedery was 76.75%, resulting in an annual incentive of £1,287,000.

The Committee considered that these final outcomes were a balanced and appropriate reflection of Group and individual performance delivered in 2023, and appropriate in the context of the pay decisions made for the wider workforce.

2021–2023 long-term incentive ('LTI') vesting

Noel Quinn and Ewen Stevenson (the former Group Chief Financial Officer) participated in the 2021–2023 LTI that will vest in March 2024. As disclosed in our 2020 Directors' remuneration report, the Committee considered windfall gains at the time of award and determined no adjustment was appropriate.

The maximum RoTE and relative total shareholder return ('TSR') targets were exceeded. The capital reallocation to Asia measure was not met and the environment and sustainability measures were assessed to be 100% met. Overall, 75.00% of the original award will vest on a pro-rata basis over the next five years. Ewen Stevenson's awards have been pro-rated for time in employment.

As this is the first LTI vesting for Noel Quinn, his single figure of remuneration for 2023 is materially changed. The 2023 single figure of remuneration for Noel Quinn is £10,641,000 (compared with £5,562,000 for 2022). The value of the LTI award reflects the Group's improvement in performance, shareholder returns and share price over 2021 to 2023, and Noel Quinn's leadership in reshaping the Group to deliver more sustainable returns to shareholders.

Noel Quinn's LTI vesting also means that the pay ratio measuring the total pay of the Group Chief Executive against the median pay of our UK employees has increased to 169:1 compared with 95:1 last year. Excluding the LTI vesting in respect of the year, the median ratio remained broadly in line with prior years at 86:1. This is consistent with the pay and progression policies for our UK workforce, considering the diverse mix of employees, the pay mix for various roles and the differences in pay structure compared with executive Directors.

2024–2026 LTI awards

We have reviewed the performance measures for LTI awards considering the next phase of our strategy over 2024 to 2026. We will retain Group RoTE, relative TSR and environment targets, reflecting our strategic commitments, and to measure relative performance compared with peers. The capital reallocation to Asia measure was previously included to retain focus on repositioning the Group's capital base through the transformation of the business. While our operations in Asia continue to be of significant strategic importance to the Group, it was the Committee's view that this measure no longer appropriately incentivises the delivery of sustainable returns achievable across wider markets in which HSBC operates. We are simplifying the 2024–2026 LTI by removing this metric and increasing the weighting of RoTE and relative TSR.

The relative TSR peer group was amended for 2023 to include more Asian peers to better reflect our growth and investment focus. We do not propose to make any changes for 2024 other than the removal of the Credit Suisse Group following its acquisition by UBS Group.

Noel Quinn and Georges Elhedery will each receive a 2024–2026 LTI award of 320% of base salary in respect of their performance for 2023 (Noel Quinn: £4,275,000; Georges Elhedery: £2,496,000). Subject to performance over the next three years, awards will vest over a further five years with a one-year retention period on vesting shares. Further details on our targets can be found on page 322.

Fixed pay for 2024

We have increased the base salary of our executive Directors by 3%, effective from 1 March 2024. The increase is lower than the overall fixed pay increase of 4.4% for our wider workforce.

Remuneration in 2024

The Committee welcomes the change announced by the PRA and the Financial Conduct Authority ('FCA') to remove the existing limits on the ratio between fixed and variable pay.

The announcement, together with the wider considerations on the overall competitiveness of the UK capital markets, provides us an opportunity to consider the competitiveness of our remuneration arrangements for our executive Directors and wider workforce.

At the 2024 AGM, we will seek shareholder approval to provide the Committee with discretion, where regulations allow, to set an appropriate variable to fixed pay ratio considering all relevant factors, including our business activities and associated prudential and conduct risks.

This will improve flexibility in the structure of remuneration to increase the amount of pay that is variable, subject to the delivery of performance. It will also strengthen our ability to recruit and retain people in competitive markets where many of our international competitors do not have similar restrictions.

We remain very supportive of the use of deferral mechanisms and the requirements to deliver a substantial portion of variable remuneration in shares to ensure alignment between shareholders, good risk management and individual reward.

For our executive Directors, we have started early engagement with institutional shareholders and proxy advisory bodies ahead of the renewal of our Directors' remuneration policy in 2025. Over several years, the Committee has expressed concerns around the competitiveness of the executive Director remuneration opportunity and indicated that our preference would be to operate a policy with a higher proportion of the package based on variable pay linked to performance. The Committee continues to believe in a more performance-based structure, and we will seek shareholder approval for a new Directors' remuneration policy at the 2025 AGM in line with the normal three-year cycle after engaging with shareholders through 2024.

Conclusion

On behalf of the Committee, I would like to thank our shareholders for the time taken to engage with us during the year. We welcome the feedback on our approach to remuneration and I look forward to engaging with you further in the year ahead as we continue our review of the Directors' remuneration policy, in advance of the 2025 AGM.

As Chair of the Committee, I hope you will support the 2023 Directors' remuneration report and the resolution to remove the 2:1 cap on variable pay for our Material Risk Takers at this year's AGM.

Dame Carolyn Fairbairn

Chair

Group Remuneration Committee

21 February 2024

Executive remuneration at a glance

This section sets out an overview of our performance, 2023 remuneration outcomes for executive Directors and a summary of the policy approved by shareholders at our 2022 AGM, including how we will implement the policy in 2024.

Our performance

Reported profit before tax \$30.3bn (2022: \$17.1bn)	Net new invested assets \$84bn (2022: \$80bn)	Operating expenses \$32.1bn (2022: \$32.7bn)	Return on average tangible equity 14.6% (2022: 10.0%)
Employee engagement index¹ 77% (2022: 74%)	Inclusion index 78% (2022: 76%)	Percentage of colleagues of Asian heritage in senior leadership roles 37.8% (2022: 34.0%)	Percentage of women in senior leadership roles² 34.1% (2022: 33.3%)

¹ The 2022 employee engagement index score has been recalculated to reflect a change in the composition of questions in the 2023 index to ensure comparisons remain valid. In 2022 the employee engagement index was reported as 73%.

² The percentage of women in senior leadership roles excluded the Canada business held for sale.

Remuneration outcomes for executive Directors

Summary remuneration outcomes for 2023 are set out below. Further details are set out in our annual report on Directors' remuneration on pages 320 to 322.

Noel Quinn

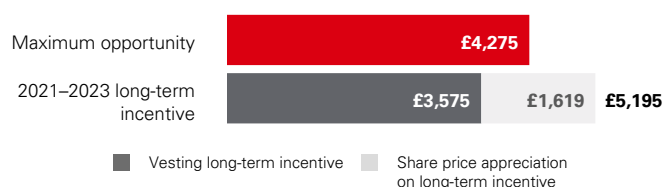
Annual incentive outcome (£000)



Georges Elhedery

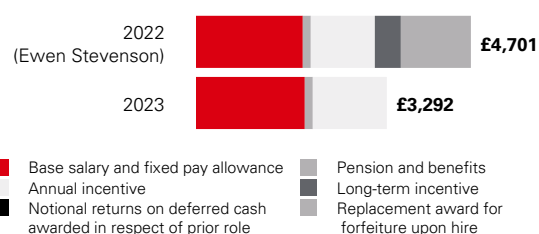
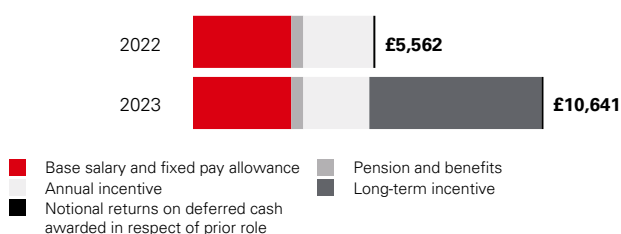


Long-term incentive outcome (£000)



Georges Elhedery did not participate in the 2021-2023 long-term incentive

Single figure of remuneration (£000)



Shareholding (% of base salary)



Remuneration policy summary – executive Directors

Our Directors' remuneration policy was approved at the AGM on 29 April 2022. The full policy can be found on pages 257 to 265 of our *Annual Report and Accounts 2021* and in the Directors' Remuneration Policy Supplement, which is available under Group results and reporting in the 'Investors' section of www.hsbc.com.

Elements and objectives	Operation	Implementation in 2024
Base salary	- Base salary is paid in cash on a monthly basis. - Other than in exceptional circumstances, the base salary for the current executive Directors will not increase by more than 15% above the level at the start of the policy period in total for the duration of the policy.	Base salary will increase by 3% for 2024 and will be: - Noel Quinn: £1,376,000 - Georges Elhedery: £803,000
Fixed pay allowance ('FPA')	- The FPA is granted in instalments of immediately vested shares. - On vesting, the net number of shares delivered (after those withheld to cover any income tax and social security) are subject to a retention period and released annually on a pro-rata basis over five years, starting from the March immediately following the end of the financial year for which the shares are granted. - Dividends are paid on the vested shares held during the retention period.	FPA will not be increased for 2024 and will remain: - Noel Quinn: £1,700,000 - Georges Elhedery: £1,085,000
Cash in lieu of pension	10% of base salary is paid on a monthly basis. - This allowance, as a percentage of salary, is aligned with the maximum contribution rate that HSBC could make for a majority of employees who are defined contribution members of the HSBC Bank (UK) Pension Scheme.	No change to percentage of base salary.
Annual incentive	- The maximum opportunity is up to 215% of base salary. - Performance is measured against an individual scorecard. - At least 50% of any award is delivered in shares, which are normally immediately vested. - On vesting, the net number of shares that have vested (after those sold to cover any income tax and social security payable) will be held for a retention period of up to one year, or such period as required by regulators. - Awards will be subject to clawback (i.e. repayment or recoupment of paid vested awards) for a period of seven years from the date of award, extending to 10 years in the event of an ongoing internal/regulatory investigation at the end of the seven-year period. Any unvested awards will be subject to malus (i.e. reduction and/or cancellation) during any applicable deferral period.	- No change to opportunity. - See page 324 for 2024 measures.
Long-term incentive ('LTI')	- The maximum opportunity is up to 320% of base salary. - The LTI award is granted if the Committee considers that there has been satisfactory performance over the prior year, and is subject to a forward-looking three-year performance period from the start of the financial year in which the awards are granted. - At the end of the performance period, awards will vest in five equal instalments, with the first vesting on or around the third anniversary of the grant date and the last instalment vesting on or around the seventh anniversary of the grant date. - On vesting, the net number of shares that have vested (after those sold to cover any income tax and social security payable) will be held for a retention period of up to one year, or such period as required by regulators. - Awards are subject to malus provisions prior to vesting. Vested shares are subject to clawback on the same terms as the annual incentive. - Awards may be entitled to dividend equivalents during the vesting period, paid on vesting. Where awards do not receive dividend equivalents, the number of shares awarded can be determined using the share price discounted for the expected dividend yield.	- No change to opportunity. - See page 323 for details of the 2024–2026 LTI awards.
Benefits	- Benefits include the provision of medical insurance, accommodation, car, club membership, independent legal advice in relation to a matter arising out of the performance of employment duties for HSBC, tax return assistance or preparation, and travel assistance (including any associated tax due, where applicable). - Additional benefits may also be provided when an executive is relocated or spends a substantial proportion of his/her time in more than one jurisdiction for business needs.	Benefits to be provided as per policy and details disclosed in the <i>Annual Report and Accounts 2024</i> single figure of remuneration table.
Shareholding guidelines	Executive Directors are expected to satisfy the following shareholding requirement as a percentage of base salary within five years from the date of their appointment: - Group Chief Executive: 400% - Group Chief Financial Officer: 300%	No change to percentage of base salary.
All-employee share plans	Executive Directors are eligible to participate in all-employee share plans, such as HSBC Sharesave, on the same basis as all other employees.	Participation will be disclosed in the respective <i>Annual Report and Accounts</i>, as required.

Annual report on Directors' remuneration

This section sets out how our approved Directors' remuneration policy was implemented during 2023.

Determining executive Directors' incentive outcomes

(Audited)

For any annual incentive award to be made, each executive Director must achieve a minimum standard of conduct and values-aligned behaviour. Both executive Directors met this requirement for 2023.

The award is determined by applying the outcome of their annual scorecard to the maximum opportunity, set at 215% of base salary.

The financial measures, weightings and targets were set at the start of the financial year to align with our reported financial performance and before significant changes in the interest rate environment. They considered the 2023 financial plan, data from 2022, external commitments, scenario testing of upside and downside risks in the plan, and analyst consensus where relevant.

The Committee considered carefully the wider context in which performance was delivered and the impact of strategic transactions and one-offs on the Group's financial performance in 2023, including the favourable year-on-year impact of \$4.1bn relating to the sale of our retail banking operations in France and the provisional gain on the acquisition of SVB UK, balanced with the \$3.0bn impairment charge relating to the investment in BoCom.

Consistent with the approach in prior years, the Committee judged that it was appropriate to assess financial performance for the purpose of the annual scorecard excluding these items, to ensure that out-turns were not impacted by one-offs. The assessment of RoTE and profit before tax measures therefore excluded strategic transactions and the BoCom impairment.

The Committee also considered the impact of interest rates on performance and noted that macroeconomic fluctuations remain a frequent driver of the Group's business outcomes for our executives to manage. In recent years these factors have not led to discretionary scorecard adjustments for our executive Directors, either positive or negative, which the Committee continues to believe is appropriate.

Performance was above the maximum targets for Group profit before tax, Group RoTE and Asia RoTE. On our cost target basis, growth was 6% versus our target of approximately 3% compared with 2022 and below the performance range.

For strategic measures, diversity representation targets were set based on a trajectory to meet our external commitments. Other

measures were set based on maintaining or improving when compared with 2022 performance and/or market benchmarks.

The Inclusion index in our employee Snapshot survey exceeded target, and was significantly above the financial services benchmark.

We met or exceeded our senior leadership diversity representation targets. Our customer net promoter score ('NPS') performance was largely positive relative to our competitors in most areas of our business.

The Committee considered that the scorecard outcome for personal measures for both Noel Quinn and Georges Elhedery was appropriate against the targets set at the start of the year.

Overall, this resulted in a formulaic scorecard outcome of 75.93% of the maximum for Noel Quinn and 76.75% for Georges Elhedery.

The Committee discussed at length whether the risk and compliance modifier should be applied for 2023 for the Group's performance against key risk metrics, including the historical failings identified by the PRA in its Notice of 29 January 2024.

As part of its deliberations, the Committee reflected on the overall risk management in the year, and in respect of the PRA Notice: the nature of the failings identified; the regulator's finding that the breaches identified were not deliberate or reckless; fines levied; and the tenure and specific responsibilities of the executive Directors in relation to the issues covered.

Taking into account inputs from the Group Risk Committee and Noel Quinn's overall accountability for the performance and risk management of the Group in 2023, the Committee used its judgement and applied a downward adjustment of 7.50% to his scorecard outcome.

This results in a final outcome of 70.24% of the maximum opportunity for Noel Quinn (2022: 75.35%) and an annual incentive of £2,018,000, which is 7% lower than £2,164,000 in 2022.

No risk and compliance modifier was applied for Georges Elhedery who was appointed as Group Chief Financial Officer on 1 January 2023, after all underlying issues identified by the PRA had been fully remediated. Georges Elhedery's scorecard outcome of 76.75% results in an annual incentive of £1,287,000.

Annual incentive scorecard assessment

(Audited)

Summary assessment

	Minimum (25.0% payout)	Maximum (100.0% payout)	Performance ²	Noel Quinn			Georges Elhedery			
				Weighting (%)	Assessment (%)	Outcome (%)	Weighting (%)	Assessment (%)	Outcome (%)	
Profit before tax ¹ (\$bn)	25.8	30.3	31.6	15.0	100.00	15.00	15.0	100.00	15.00	
Target basis operating expenses (\$bn)	31.0	30.5	31.6	15.0	—	—	15.0	—	—	
Group RoTE ¹	12.0%	14.5%	15.6%	15.0	100.00	15.00	15.0	100.00	15.00	
Asia RoTE ¹	12.8%	15.0%	16.8%	5.0	100.00	5.00	5.0	100.00	5.00	
Fee income (\$bn)	11.8	13.1	11.84	5.0	25.55	1.28	5.0	25.55	1.28	
Growth in net new invested assets (\$bn)	Total (ex Hong Kong)	36.6	56.8	55.1	2.5	93.73	2.34	2.5	93.73	2.34
	Total	58.8	79.0	84.3	2.5	100.00	2.50	2.5	100.00	2.50
Customer satisfaction	See following tables for commentary			15.0	91.67	13.75	15.0	91.67	13.75	
Employee experience				15.0	93.75	14.06	15.0	93.75	14.06	
Personal objectives				10.0		7.00	10.0		7.81	
				100.0		75.93	100.0		76.75	
Total										
Scorecard outcome (000)						£2,181	£1,287			
7.50% risk adjustment per Committee judgement (000)						£(163)	£0			
Annual incentive (000)						£2,018	£1,287			

Stakeholder measures for Noel Quinn and Georges Elhedery

	Measures	Weighting (%)	Assessment considerations by the Committee	Assessment (%)	Outcome (%)
Customer satisfaction	Maintain and improve NPS in the UK and Hong Kong, in digital markets, and in key growth markets	15.0%	- NPS is sourced from our strategic NPS surveys with results gathered through independent third-party research agencies. The assessment is against quantitative targets set based on the level of improvement from the prior year and in rank position. - In the UK and Hong Kong, we met our maximum NPS target and largely met the target in digital markets. Across other growth markets we met our maximum NPS target. - In WPB, our NPS increased in five of our six key markets (Hong Kong, mainland China, Mexico, India and Singapore). In the UK, the slight decline of our NPS was driven by mass affluent customers. We ranked among the top three banks in three of our six key markets. In Hong Kong, we remained in first place overall, leading the market with our mobile app performance. Our rank remained in the top three in mainland China, and rose to the top in India. - In CMB, we ranked among the top three banks in four of our six key markets. We were first place in Hong Kong and within the top three in mainland China, Singapore and Mexico. - In GBM, we ranked in first place globally for NPS and digital satisfaction.	91.67%	13.75%
Employee experience	Improve diversity and inclusion	15.0%	- The Inclusion index in our employee Snapshot survey increased by two percentage points and exceeded the maximum target of 77%. The score is seven points above the external financial services benchmark. - The percentage of Black heritage colleagues in senior leadership roles increased by 0.5 percentage points to 3.0%, meeting the maximum target and on track to meet our external commitment of 3.4% by 2025. - We made a 3.8 percentage point year-on-year net gain in senior leadership representation of colleagues with Asian heritage, against a 2022 year-end baseline of 34.0% - The percentage of women in senior leadership roles increased by 0.8 percentage points to 34.1%, meeting the target, and below the maximum. The targets excluded the Canada business held for sale. Including colleagues in HSBC Canada, gender representation in senior leadership is 34.2%.	93.75%	14.06%

Personal objectives for Noel Quinn and Georges Elhedery

For each executive Director, personal objectives were set at the start of the year and measured by the Committee against agreed targets and key performance indicators.

Noel Quinn	Weighting	Assessment	Performance achievement
Technology transformation	4.0%	50.00%	- Our Cloud adoption rate, which is the percentage of our technology services on the private or public Cloud, increased to 43% (2022: 35%). At the end of 2023, about 54% of our WPB customers were 'mobile active' users (2022: 49%) and the proportion of WPB sales completed digitally increased to 49% (2022: 43%). - The Committee's assessment balanced strong progress automating our organisation at scale against the targets set, and progress to deliver our wider multi-year technology strategy.
Progress on innovation programmes	4.0%	100.00%	- Several strategic investments were made in Asia including Meditrust, a unicorn start-up, which will support HSBC Life's Pinnacle proposition in mainland China. Investments were made in a joint venture with Tradeshift, an existing Ventures investment, which will support the trade finance business to deploy a range of technology solutions. - In 2023, Zing, our new international payments business aimed at non-HSBC customers, was launched, and a digital currency capability with eHKD was piloted in Hong Kong. We became the first bank to pioneer quantum protection for foreign exchange trading, and were one of the first international banks to participate in China's eCNY programme. - Progress was made on several generative AI use cases including developer productivity, knowledge management and content generation. Our first AI patent to be used to detect cyber threats, was filed.
Simplification of processes and organisation	2.0%	50.00%	- Strong progress was made with the completion of the exit from Greece, merger in Oman, and sale of the New Zealand WPB mortgage portfolio. - The sale of our retail banking portfolio in France was completed on 1 January 2024 and we remain on track to sell our retail banking operations in Canada in the first quarter of 2024. - The timing of our planned exit from our business in Russia was impacted by dependency on the regulatory and government approval process, which is outside of HSBC's control. - Exits from our WPB business in Mauritius and our hedge fund administration business were announced.
Total	7.00%	out of 10.00%	

Georges Elhedery	Weighting	Assessment	Performance achievement
Deliver activities relating to regulatory priorities	2.5%	58.33%	- The Integrity of Regulatory Reporting programme continues to remediate against known gaps to deliver improvements in quality of regulatory returns. - The Bank of England Resolvability Assessment Framework self-assessment was submitted, demonstrating an uplift in the Group's capabilities. - Certain climate considerations have been assessed and incorporated into the annual financial planning cycle. We also enhanced our climate scenario analysis capabilities in line with plan.
Deliver Finance change transformation and digitisation	2.5%	62.50%	- For the remediation of interest rate risk in the banking book, all 2023 targeted actions were completed from a first line of defence perspective, subject to second and third line of defence review and confirmation in early 2024 as planned. - Identified Finance change transformation activities have been deployed in line with plans.
More energised Finance workforce	2.5%	100.00%	- Global Finance employee engagement index increased to 79% (2022: 74%), exceeding the target set. - Global Finance career index increased to 69% (2022: 65%), exceeding the target set.
Drive liquidity and capital management across the Group	2.5%	91.67%	- The Group's CET1 capital ratio was delivered above our target operating range. - Planned liquidity optimisation outcomes were successfully met. - Targets relating to earnings stabilisation were assessed as met.
Total	7.81%	out of 10.00%	

Single figure of remuneration

(Audited)

The following table shows the single figure of remuneration of each executive Director for 2023, together with comparative figures. This is the first vesting LTI for Noel Quinn since his appointment as Group Chief Executive in 2020 and so materially changes the composition of his single figure of remuneration for 2023.

Single figure of remuneration

	Noel Quinn		Georges Elhedery ¹	
(£000)	2023	2022	2023	2022
Base salary	1,336	1,329	780	—
Fixed pay allowance ('FPA')	1,700	1,700	1,085	—
Cash in lieu of pension	134	133	78	—
Taxable benefits ²	127	119	4	—
Non-taxable benefits	89	86	52	—
Total fixed	3,386	3,367	1,999	—
Annual incentive ³	2,018	2,164	1,287	—
Notional returns ⁴	43	31	6	—
Replacement award	—	—	—	—
Long-term incentive ⁵	5,195	—	—	—
Total variable	7,256	2,195	1,293	—
Total fixed and variable	10,641	5,562	3,292	—

¹ Georges Elhedery was appointed Group Chief Financial Officer from 1 January 2023.

² Taxable benefits include the provision of medical insurance, car benefit, accommodation and tax return assistance (including any associated tax due, where applicable). Non-taxable benefits include the provision of life assurance and other insurance cover.

³ Annual incentive awards to the executive Directors are awarded 50% in cash and 50% in shares. The shares portion of the award vests immediately at grant and is subject to a retention period of one year and clawback provisions.

⁴ Deferred cash awards granted in prior years include a right to receive notional returns for the period between the grant and vesting date. This is determined by reference to a rate of return specified at the time of grant and paid annually, with the amount disclosed on a paid basis.

⁵ An LTI award over 1,118,554 shares was made in February 2021 (in respect of 2020) at a share price of £4.262 for which the performance period ended on 31 December 2023. The value has been computed based on a share price of £6.192, the average share price during the three-month period to 31 December 2023. The value attributable to share price appreciation is £1,619,106. See the following section for details of the assessment outcomes, which resulted in 75.00% vesting due to performance.

Benefits

The values of the significant benefits in the single figure table are set out in the following table. The insurance benefit for Noel Quinn has increased year on year because of the increase in premium at annual renewal. The car benefits for Georges Elhedery are not included in the table below as they were not deemed significant.

	Noel Quinn		Georges Elhedery	
(£000)	2023	2022	2023	2022
Insurance benefit (non-taxable)	84	82	49	—
Accommodation in Hong Kong (taxable)	67	39	—	—
Car and driver in UK and Hong Kong (taxable)	47	69	—	—

Long-term incentive ('LTI') awards

(Audited)

LTI awards over 2021 to 2023 performance period

The 2021–2023 LTI award was granted to Noel Quinn and Ewen Stevenson in February 2021. Georges Elhedery was in a different role at the time and did not receive the 2021–2023 LTI award.

The scorecard delivered an outcome of 75.00%, reflecting a significant improvement in shareholder returns across the performance period.

In line with the terms of his departure, Ewen Stevenson is a good leaver and his award has been pro-rated for time in employment. Based on the performance outcome, 838,915 shares will vest for Noel Quinn and 371,697 shares will vest for Ewen Stevenson. The awards will vest in five equal annual instalments commencing in March 2024.

The Committee is mindful of executives not experiencing 'windfall gains' through the granting of LTI awards when a share price is

particularly low. We introduced an upfront windfall gains check for the 2021–2023 LTI award such that if the LTI grant share price experienced a greater than 30% decline since the previous grant, then a downward adjustment would be made. The Committee determined that there were no windfall gains to consider for this award given the share price at grant (£4.26) was 24% below the share price at the previous LTI grant (£5.62).

The 2021–2023 LTI award is subject to a risk and compliance modifier. The Committee received input from the GRC who assessed that the performance targets were delivered with appropriate risk management. On this basis, the Committee considered that no adjustment for risk should be made to the 2021–2023 LTI award. The CET1 capital ratio underpin for the 2021–2023 LTI award was also met.

Assessment of the 2021–2023 LTI awards

Measures (weighting) ¹	Minimum (25.0% payout)	Target (50.0% payout)	Maximum (100.0% payout)	Actual	Assessment	Outcome
RoTE with CET1 capital ratio underpin² (25.0%)	8.0%	9.0%	10.0%	14.6%	100.0%	25.00%
Capital reallocation to Asia with CET1 capital ratio underpin³ (25.0%)	45.0%	47.0%	50.0%	43.4%	0.0%	0.00%
Transition to net zero⁴ (25.0%)	Carbon reduction (own emissions)	42.0%	48.0%	51.0%	57.3%	100.0%
	Sustainable finance and investment	\$200.0bn	\$240.0bn	\$260.0bn	\$294.0bn	100.0%
Relative TSR⁵ (25.0%)	At median of the peer group	Straight-line vesting between minimum and maximum	At upper quartile of the peer group	Above upper quartile	100.0%	25.00%
Total						75.00%

1 Awards vest on a straight-line basis for performance between the minimum, target and maximum levels of performance set out in this table.

2 Assessed based on RoTE in the 2023 financial year. The CET1 capital ratio underpin was met.

3 Assessed based on share of Group tangible equity (on a constant currency basis and excluding associates) allocated to Asia by 31 December 2023, which was not met.

4 Carbon reduction assessed on percentage reduction in total energy and travel emissions achieved by 31 December 2023 using 2019 as the baseline. Sustainable finance and investment assessed on cumulative financing provided over the performance period.

5 The peer group was: Bank of America, Barclays, BNP Paribas, Citigroup, DBS Group Holdings, Deutsche Bank, J.P. Morgan Chase & Co., Lloyds Banking Group, Morgan Stanley, Standard Chartered and UBS Group. Credit Suisse Group was removed from the peer group following its acquisition by UBS Group in June 2023.

LTI awards over 2024 to 2026 performance period

After taking into account performance for 2023, the Committee decided to grant Noel Quinn an LTI award of £4,275,000 and Georges Elhedery an LTI award of £2,496,000 (both 320% of base salary).

The awards will have a three-year performance period starting on 1 January 2024.

The Committee has reviewed the performance measures considering feedback from shareholders and the next phase of our strategy. We are simplifying and improving the focus on shareholder returns by assessing performance on three measures, including RoTE and relative TSR which are equally-weighted financial measures, and a third measure linked to our climate ambitions.

The capital reallocation to Asia measure was previously included to retain focus on repositioning the Group's capital base through the transformation of the business. While our operations in Asia continue to be of significant strategic importance to the Group, it was the Committee's view that this measure no longer appropriately incentivised the delivery of sustainable returns achievable across wider markets in which HSBC operates.

Targets have been set to balance stretch and achievability so that awards act as an effective incentive for management, and incentivise outperformance, aligned to our external strategic commitments.

- The minimum threshold for the RoTE measure is aligned to our external commitment of mid-teens RoTE over the medium term.
- The relative TSR peer group was amended for 2023 to include more Asian peers to better reflect our growth and investment focus. No changes have been made for 2024 other than the removal of the Credit Suisse Group following its acquisition by UBS Group.

- Our emissions reduction targets have been set based on meeting our commitments to procure 90% renewable energy by 2025 and halve energy consumption and travel emissions by 2030.
- Our sustainable finance and investments measure is based on our ambition announced in 2020 to provide \$750bn to \$1tn of financing and investment by 2030. Although the target range is lower than for the 2023–2025 LTI awards, we are on track to meet our 2030 ambition, with changing market conditions slightly impacting our year-on-year trajectory.

The LTI is subject to a risk and compliance modifier, which gives the Committee the discretion to ensure performance targets are delivered with appropriate risk management.

The RoTE measure is subject to a CET1 capital ratio underpin. If the CET1 capital ratio at the end of the performance period is below the CET1 risk tolerance level set in the risk appetite statement, then the assessment for this measure will be reduced to nil.

The number of shares to be awarded will be adjusted to reflect the expected dividend yield of the shares over the vesting period, as awards are not entitled to dividend equivalents in accordance with regulatory requirements.

To the extent performance conditions are satisfied at the end of the three-year performance period, the awards will vest in five equal annual instalments commencing from around the third anniversary of the grant date. On vesting, shares equivalent to the net number of shares that have vested (after those sold to cover any income tax and social security payable) will be held for a retention period of up to one year, or such period as required by regulators.

Performance conditions for the 2024–2026 LTI awards

Measures (weighting) ¹	Minimum (25.0% payout)	Target (50.0% payout)	Maximum (100.0% payout)
RoTE with CET1 capital ratio underpin² (37.5%)	14.0%	16.0%	17.0%
Environment³ (25.0%)	Carbon reduction (own emissions)	66.0%	70.0%
	Sustainable finance and investment	\$539.0bn	\$693.0bn
Relative TSR⁴ (37.5%)	At the median of the peer group	Straight-line vesting between minimum and maximum	At the upper quartile of the peer group
Subject to risk and compliance modifier			
The Group Remuneration Committee retains the discretion to revise down the formulaic outcome taking into account performance against risk and compliance factors during the performance period.			

- 1 Awards will vest on a straight-line basis for performance between the minimum, target and maximum levels of performance set in this table.
- 2 To be assessed based on RoTE at the end of the performance period, subject to the CET1 capital ratio underpin.
- 3 Carbon reduction will be measured based on percentage reduction in total energy and travel emissions achieved by 31 December 2026 using 2019 as the baseline. The sustainable finance and investment metric will assess the cumulative amount provided and facilitated over the period ending 31 December 2026.
- 4 The peer group for the 2023 award is: Bank of China (Hong Kong), Barclays, BNP Paribas, China Merchants Bank, Citigroup, DBS Group Holdings, J.P. Morgan Chase & Co., Lloyds Banking Group, OCBC Bank, Standard Chartered and UBS Group.

Annual incentive measures for 2024

The 2024 annual incentive scorecard measures for our executive Directors have been set to incentivise the delivery of the next phase of our strategy.

We have reduced the number of financial measures, reflecting feedback from shareholders to simplify our approach and ensure focus on our key strategic commitments. The weighting of Group RoTE has increased to 25% (from 15% in 2023). The overall weighting of financial measures remains at 60%.

Financial measures will be assessed on a reported basis excluding notable items so that the outcome reflects performance excluding the impact of one-off and items not controlled by management.

Our first net zero transition plan was launched in January 2024 setting out our approach to net zero and the actions we are taking. To support our ambition, a sustainability measure has been added to the annual scorecard, which will be assessed based on the execution of our sustainability commitments against Board approved plans.

Personal measures have been set to ensure meaningful weighting for the most critical objectives for each executive Director.

The Committee will continue to retain discretion to adjust the formulaic outcomes of scorecards, taking into account factors such as Group profits, wider business performance and stakeholder experience, to ensure executive reward is aligned with underlying Group performance and the broader stakeholder experience.

The weightings and performance measures for the 2024 annual incentive scorecard for executive Directors are in the adjacent table.

The targets have been set to reflect the Group's 2024 plan, while considering macroeconomic uncertainty, including the interest rate environment and inflation. The performance targets are commercially sensitive and it would be detrimental to the Group's interests to disclose them at the start of the financial year. Subject to commercial sensitivity, we will disclose the targets in the 2024 Directors' remuneration report.

2024 annual incentive performance measures	Weighting
Financial (all measures subject to CET1 capital ratio underpin, and excluding notable items)	60.0%
Profit before tax	15.0%
Operating expenses	15.0%
Group RoTE	25.0%
Asia RoTE	5.0%
Stakeholders	30.0%
Customer satisfaction	
Improvement in NPS scores/rank	15.0%
Employee experience	
Gender and ethnicity representation and Inclusion index score	10.0%
Execution of our sustainability commitments against Board approved plans	5.0%
Personal measures	
– Group Chief Executive: Technology transformation and enhanced Board information	
– Group Chief Financial Officer: Delivery of regulatory change programmes (including regulatory reporting), enhancement of external disclosures and robust liquidity and capital management	10.0%
Subject to risk and compliance modifier	
The Group Remuneration Committee retains the discretion to revise down the formulaic outcome taking into account performance against risk and compliance factors during the performance period.	

Our approach to workforce reward

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best. This is critical to strengthening our ability to attract, retain and motivate the people we need, in competitive markets where employee expectations continue to evolve.

Our approach is centred on our purpose and values, and our reward principles and commitments are:

- We will reward our colleagues responsibly through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity, and a more inclusive and sustainable benefits proposition over time.
- We will recognise colleagues' success through our performance culture and routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.

- We will support our colleagues to grow through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

Pay is an important part of our overall proposition. Our focus is improving transparency and clarity for colleagues so they understand better how we make pay decisions.

For 2024, we will introduce a new variable pay structure for over 150,000 junior and middle management colleagues, providing more clarity around the variable pay levels for on-target performance, while retaining flexibility to differentiate outcomes for performance.

We have been certified by the Fair Wage Network as a global Living Wage employer for 2024. This is an important commitment to give colleagues confidence that our fixed pay levels are sufficient to provide financial security.

The section below highlights some of our achievements in 2023.

We will reward you responsibly

78% ▲ up 5% from 2022

of colleagues say pay recommendations determined regardless of personal characteristics

52% ▲ up 9% from 2022

of colleagues say they are paid fairly for what they do

59% same as 2022

of colleagues say my benefits meet my (and my family's) needs well

Many of our colleagues found 2023 to be a challenging year. While inflation has fallen from levels seen in 2022, it remains high across many of our markets, which has resulted in continued pressures on the cost of living.

Fixed pay increases for 2024 were determined based on consistent principles to help address wage inflation in the markets where we operate. Across the Group, there was an overall increase in fixed pay of 4.4%. The level of increases varied by market, depending on the economic situation and individual roles. Increases were targeted towards more junior and middle management colleagues where fixed pay is a larger proportion of overall pay.

We continued to take action outside of our annual cycle to address inflation pressures for colleagues, where the local context required this. In Argentina and Türkiye, we gave our colleagues fixed pay increases throughout the year. In Egypt, we supported our colleagues with a one-off pay adjustment in response to high inflation.

We will recognise your success

81% ▲ up 7% from 2022

of colleagues say they receive feedback helping them improve performance

1.4 million recognitions

the highest since the At Our Best recognition platform was launched in 2015

Over 90% of colleagues have access to share ownership plans globally, with 25% of our global employee population taking part. In the UK, following the maturity of the three-year 2020 Sharesave plan with an option price of £2.627, colleagues benefited from significant share price growth at a time when they needed it most. The 2020 plan had the highest take up rate and contribution level in recent years.

We will support you to grow

78% ▲ up 20% from 2022

of colleagues work flexibly and split their time between home and the workplace

71% ▲ up 3% from 2022

our career index is higher than the financial services benchmark by 6%

Our approach to benefits and well-being balances local market practice with global minimum standards. More than 95% of colleagues have private medical insurance, a retirement plan and life insurance.

Our well-being programme focuses on mental, physical, financial and social well-being. In our employee Snapshot survey, 83% of colleagues said their mental health was positive. HSBC has been ranked top tier for mental health in the global CCLA Corporate Mental Health Benchmark.

We have prioritised supporting colleagues to work flexibly, balancing customer needs, social connection and individual flexibility. Flexible working remains one of the most cited reasons why colleagues would recommend HSBC as a place to work, and a third of new joiners say it is what attracted them to HSBC.

We have delivered a world-class talent marketplace and learning experience platform, providing learning pathways, projects and networking opportunities to more than 200,000 colleagues. An average of 23.9 hours of training was delivered per FTE in 2023.

Remuneration structure for employees

We set out below the key features of our remuneration framework, which applies on a Group-wide basis, subject to compliance with local laws:

Remuneration components and objectives	Application for Group employees	Approach for executive Directors
Fixed pay Attract and retain employees with market competitive pay for the role, skills and experience required.	- Fixed pay may include base salary, fixed pay allowance, cash in lieu of pension and other cash allowances in accordance with local market practice. - It is based on predetermined criteria, non-discretionary, transparent and not reduced based on performance. - It represents a higher proportion of total compensation for more junior colleagues. - Fixed pay may change to reflect an individual's position, role or grade, cost of living in the country, individual skills, capabilities and experience. - Fixed pay is generally delivered in cash on a monthly basis.	Consistent with approach for Group colleagues except fixed pay allowance paid in shares.
Benefits Support the physical, mental and financial health of a diverse workforce in accordance with local market practice.	Benefits may include, but are not limited to, the provision of a pension, medical insurance, life insurance, health assessment and relocation support.	Provision of medical insurance, life insurance, car and tax return assistance. Group Chief Executive is eligible to receive accommodation and a car benefit in Hong Kong.
Annual incentive Incentivise and reward performance based on annual financial and non-financial measures consistent with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.	- All employees are eligible to be considered for a discretionary variable pay award. Individual awards are determined against objectives for performance set at the start of the year. - Variable pay represent a higher proportion of total compensation for more senior colleagues and will be more closely aligned to Group and business performance as seniority increases. - Variable pay for Group employees identified as Material Risk Takers ('MRTs') under European Union Regulatory Technical Standard ('RTS') 2021/923 is limited to 200% of fixed pay, as approved by shareholders at the 2014 AGM held on 23 May 2014 (98% in favour). - Awards are generally paid in cash and shares. For MRTs, at least 50% of the awards are in shares and/or where required by regulations, in units linked to asset management funds.	- Annual incentive is determined based on the outcomes of annual scorecard of financial and non-financial measures. - Executive Directors and Group Executives are also eligible to be considered for a long-term incentive award, which is subject to three-year forward-looking performance measures.
Buy-out awards Support recruitment of key individuals.	- Buy-out awards may be offered if an individual holds any outstanding unvested awards that are forfeited on resignation from the previous employer. - The terms of the buy-out awards will not be more generous than the terms attached to the awards forfeited on cessation of employment with the previous employer.	For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.
New hire indicative variable pay Support recruitment of key individuals.	- New hire indicative variable pay is awarded in exceptional circumstances, and is limited to an individual's first year of employment only, and is subject to a number of factors (such as the respective performance of the Group, business unit and individual), and the final value paid remains at the full discretion of HSBC. - The exceptional circumstances would typically involve a critical new hire and depend on factors such as the seniority of the individual, whether the new hire candidate is forfeiting any awards and the timing of the hire during the performance year.	For new hires, the approach is consistent with the approach taken for employees and policy approved by shareholders.

Remuneration components and objectives (continued)	Application for Group employees	Approach for executive Directors
Deferral Align employee interests with the medium- to long-term strategy, stakeholder interests and values-aligned behaviours.	– A Group-wide deferral approach is applicable to all employees. A portion of annual incentive awards above a specified threshold is deferred in shares vesting annually over a three-year period (33% vesting on the first and second anniversaries of grant and 34% on the third). – For MRTs, awards are generally subject to a minimum 40% deferral (60% for awards of £500,000 or more) over a minimum period of four years. – A deferral period of five years is applied for senior management and individuals in specified roles with managerial responsibilities as prescribed under the PRA and FCA remuneration rules and seven years for individuals in PRA-designated senior management functions. – In line with the PRA and FCA remuneration rules, and in compliance with local regulations, the deferral requirement for MRTs is not applied to individuals where their total variable pay is £44,000 or less and variable pay is not more than one-third of total compensation. For these individuals, the Group standard deferral applies. – Individuals based outside the UK and identified as MRTs under local regulations, would be subject to local requirements where necessary. – All deferred awards are subject to malus provisions, subject to compliance with local laws. Awards granted to MRTs on or after 1 January 2015 and awards granted to non-MRTs on or after 1 January 2022 are subject to clawback. – HSBC operates an anti-hedging policy for all employees, which prohibits employees from entering into any personal hedging strategies in respect of HSBC securities. – For all Group MRTs and the majority of local MRTs, excluding executive Directors, a minimum 50% of the deferred awards is in HSBC shares and the rest into deferred cash. Local regulatory requirements would also apply where necessary. – For some employees in our asset management business, where required by the relevant regulations, at least 50% of the deferred award is linked to fund units reflective of funds managed by those entities, with the remaining portion in deferred cash awards. – Variable pay awards made in HSBC shares or linked to relevant fund units granted to MRTs are generally subject to a one-year retention period post-vesting. – MRTs who are subject to a five-year deferral period, except senior management or individuals in PRA- and FCA-designated senior management functions, have a six-month retention period applied to their awards. – Where an employee is subject to more than one regulation, the requirement specific to the sector and/or country in which the individual is working is applied.	– All of the LTI award, or at least 60% of the total variable award (including LTI), is deferred. The deferred awards will vest in five equal annual instalments, with the first vesting on or around the third anniversary of the grant date and the last instalment vesting on or around the seventh anniversary of the grant date. – All deferred awards are in HSBC shares and subject to a post-vesting retention period of one year.
Severance payments Adhere to contractual agreements with involuntary leavers.	– Where an individual's employment is terminated involuntarily for gross misconduct then, subject to compliance with local laws, the Group's policy is not to make any severance payment and all outstanding unvested awards are forfeited. – For other cases of involuntary termination of employment, the determination of any severance will take into consideration the performance of the individual, contractual notice period, applicable local laws and circumstances of the case. – Generally, for good leavers, all outstanding unvested awards will normally continue to vest in line with the applicable vesting dates. Where relevant, any performance conditions attached to the awards, and malus and clawback provisions, will remain applicable to those awards. – Severance amounts awarded to MRTs are not considered as variable pay for the purpose of application of the deferral and variable pay cap rules under the PRA and FCA remuneration rules where such amounts include: (i) payments of fixed remuneration that would have been payable during the notice and/or consultation period; (ii) statutory severance payments; (iii) payments determined in accordance with any approach applicable in the relevant jurisdictions; and (iv) payments made to settle a potential or actual dispute.	– Any payments will be in line with the policy on loss of office.

Payments on loss of office

The table below sets out the basis on which payments on loss of office may be made. Other than as set out in the table, there are no further obligations which could give rise to remuneration payments or payments for loss of office.

Payments on loss of office

Component of remuneration	Approach taken
Fixed pay and benefits	Executive Directors may be entitled to payments in lieu of: – notice, which may consist of base salary, FPA, pension entitlements and other contractual benefits, or an amount in lieu of; and/or – accrued but untaken holiday entitlement. Payments may be made in instalments or a lump sum, and may be subject to mitigation, and subject to applicable tax and social security deductions.
Annual incentive and LTI	In exceptional circumstances, as determined by the Committee, an executive Director may be eligible for the grant of annual and/or long-term incentives under the HSBC Share Plan based on the time worked in the performance year and on the individual's contribution.
Unvested awards	All unvested awards will be forfeited when an executive Director ceases employment voluntarily and is not deemed a good leaver. An executive Director may be considered a good leaver, under the HSBC Share Plan, if their employment ceases in specified circumstances which includes: – ill health, injury or disability, as established to the satisfaction of the Committee; – retirement with the agreement and approval of the Committee; – the employee's employer ceasing to be a member of the Group; – redundancy with the agreement and approval of the Committee; or – any other reason at the discretion of the Committee. If an executive Director is considered a good leaver, unvested awards will normally continue to vest in line with the applicable vesting dates, subject to performance conditions, the share plan rules, and malus and clawback provisions. In the event of death, unvested awards will vest and will be released to the executive Director's estate as soon as practicable. In respect of outstanding unvested awards, the Committee may determine that good leaver status is contingent upon the Committee being satisfied that the executive has no current or future intention at the date of leaving HSBC of being employed by any competitor financial services firm. The Committee determines the list of competitor firms from time to time, and the length of time for which this restriction applies. If the Committee becomes aware of any evidence to the contrary before vesting, the award will lapse.
Post-departure benefits	Executive Directors can be provided certain benefits for up to a maximum of seven years from date of departure for those who depart under good leaver provisions under the HSBC Share Plan, in accordance with the terms of the policy. Benefits may include, but are not limited to, medical coverage, tax return preparation assistance and legal expenses. The Committee also has the discretion to extend the post-departure benefit of medical coverage to former executive Directors, up to a maximum of seven years from their date of departure.
Other	Where an executive Director has been relocated as part of their employment, the Committee retains the discretion to pay the repatriation costs. This may include, but is not restricted to, airfare, accommodation, shipment, storage, utilities, and any tax and social security that may be due in respect of such benefits. Except in the case of gross misconduct or resignation, an executive Director may also receive retirement gifts.
Legal claims	The Committee retains the discretion to make payments (including professional and outplacement fees) to mitigate against legal claims, subject to any such payments being made in accordance with the terms of an appropriate settlement agreement waiving all claims against the Group.
Change of control	In the event of a change of control, outstanding awards will be treated in line with the provisions set out in the respective plan rules.

Committee governance

The Group Chief Executive, the Group Chief Risk and Compliance Officer, the Group Company Secretary and Chief Governance Officer, the Group Chief Human Resources Officer, and the Group Head of Performance, Reward and Employee Relations routinely and selectively attend Committee meetings. As detailed below, the Chair of the Group Remuneration Committee held regular meetings with management, and Committee advisers to discuss specific issues as they arose during the year outside the formal Committee process.

The Committee Secretary regularly met with the Chair to ensure the Committee fulfilled its governance responsibilities, to consider input

from stakeholders when finalising meeting agendas and track progress on actions and Committee priorities. The Committee Secretary will continue to support the Chair in ensuring that the Committee has fulfilled its governance responsibilities.

A copy of the Committee's terms of reference can be found on our website at www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

Matters considered during 2023

	Jan	Feb	May	Jun	Jul	Sep	Dec
Remuneration framework and governance							
Group variable pay pool, workforce performance and pay matters, pay gap report, and employee insights	●	●	●	●	●	●	●
Directors' remuneration policy design	○	○	○	●	●	●	●
Executive Director remuneration policy implementation, scorecards and pay proposals	●	●	●	○	●	●	●
Remuneration for other senior executives of the Group	●	●	●	○	●	○	●
Directors' remuneration report	●	●	○	○	○	○	●
Regulatory, risk and governance							
Material risk and audit events, and performance and remuneration impacts for individuals involved	●	●	●	○	●	●	●
Regulatory updates, including approach and outcomes for the identification of Material Risk Takers	●	●	●	●	●	●	●
Governance matters	●	●	●	●	●	●	●
Principal subsidiaries							
Matters from subsidiary committees	●	○	●	●	○	●	●

● Matter considered

○ Matter not considered

Advisers

The Committee received input and advice from different advisers on specific topics during 2023. Deloitte provided independent advice to the Committee. Deloitte also provided tax compliance and other advisory services to the Group in 2023. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

The Committee also received advice from Willis Towers Watson on market data and remuneration trends. Willis Towers Watson also provides actuarial support to Global Finance, benchmarking data for the wider workforce and services related to benefits administration for our Group employees. The Committee was satisfied the advice provided by Deloitte and Willis Towers Watson was objective and independent in 2023.

For 2023, total fees of £292,800 and £51,492 were incurred in relation to remuneration advice provided by Deloitte and Willis Towers Watson, respectively. This was based on pre-agreed fees and a time-and-materials basis.

Attendees and interaction with other Board committees

During the year, Noel Quinn as the Group Chief Executive provided regular briefings to the Committee. In addition, the Committee engaged with, and received updates from, the following:

- Mark Tucker, Group Chairman;
- Elaine Arden, Group Chief Human Resources Officer;
- Georges Elhedery, Group Chief Financial Officer;
- Jenny Craik, Group Head of Performance, Reward and Employee Relations;
- Pam Kaur, Group Chief Risk and Compliance Officer;

- Bob Hoyt, Group Chief Legal Officer; and
- Aileen Taylor, Group Company Secretary and Chief Governance Officer.

The Committee also received feedback and input from the Group Risk Committee and Group Audit Committee on risk, conduct and compliance-related matters relevant to remuneration.

No Director is present at Committee meetings when their own remuneration is discussed.

In addition to the meetings above, the Chair took the opportunity to meet with the Chair of the Group Risk Committee and Group Audit Committee to consider the Group's risk and reward alignment framework, which is designed to promote sound and effective risk management in meeting PRA and FCA remuneration rules and expectations.

Committee effectiveness

In 2023, the annual review of the effectiveness of the Board committees, including the Group Remuneration Committee, was conducted externally by Ffion Hague, Independent Board Evaluation. The review determined that the Committee continued to operate effectively.

Areas for enhancement were identified, including continued focus on the relationship between the Group and its subsidiary entities, building on the efforts taken under the direction of the Committee Chair, which will be kept under review in 2024.

The outcomes of the evaluation have been reported to the Board, and the Committee will track the progress in implementing recommendations during 2024.

As highlighted in the Board effectiveness review disclosure on page 297, the Board considered that further improvement is required to ensure reporting is succinct and supported by relevant key performance indicators. Further details of the annual review of the Board effectiveness review can be found on pages 296 to 297.

Additional remuneration disclosures

This section provides further information and disclosure in relation to executive Director and wider workforce remuneration as required under the Directors' Remuneration Report Regulations, the UK Corporate Governance Code, Hong Kong Ordinances, Hong Kong Listing Rules and the Pillar 3 remuneration disclosures.

For the purpose of the Pillar 3 remuneration disclosures, executive Directors and non-executive Directors are considered to be members of the management body. Members of the Group Executive Committee other than the executive Directors are considered as senior management.

Policy alignment with UK Corporate Governance Code

The table below details how the Group Remuneration Committee addresses the principles set out in the UK Corporate Governance Code in respect of the Directors' remuneration policy:

Provision	Approach
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	– The Committee regularly engages and consults with major shareholders to take into account shareholder feedback and to ensure there is transparency on our policy and its implementation. – Details of our remuneration practices and our remuneration policy for Directors are published and available to all our employees.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	– Our Directors' remuneration policy has been designed so that it is easy to understand and transparent, while complying with the provisions set out in the UK Corporate Governance Code and the remuneration rules of the UK's PRA and FCA, as well as meeting the expectations of our shareholders. The objective of each remuneration element is explained and the amount paid in respect of each element is clearly set out.
Risk Remuneration structures should identify and mitigate against reputational and other risks from excessive rewards, as well as behavioural risks that can arise from target-based incentive plans.	– In line with regulatory requirements, our remuneration practices promote sound and effective risk management while supporting our business objectives. – The Group Chief Risk and Compliance Officer attends Committee meetings and updates the Committee on the overall risk profile of the Group. The Committee also seeks inputs from the Group Risk Committee when making remuneration decisions. – Risk and conduct considerations are taken into account in setting the variable pay pool, from which any executive Director variable pay is funded. – Executive Directors' annual incentive and LTI scorecards include a mix of financial and non-financial measures. Financial measures are subject to a CET1 underpin to ensure CET1 remains within risk tolerance levels while achieving financial targets. In addition, the overall scorecard outcome is subject to a risk and compliance modifier. – The deferred portion of any awards granted to executive Directors is subject to a seven-year deferral period during which our malus policy can be applied. All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing).
Predictability The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	– The charts set out in our shareholder approved policy report (available in our <i>Annual Report and Accounts 2021</i>) show how the total value of remuneration and its composition vary under different performance scenarios for executive Directors.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Group should be clear and outcomes should not reward poor performance.	– The annual incentive and LTI scorecards reward achievement of our financial and resource plan targets, as well as long-term financial and shareholder value creation targets. – The Committee retains the discretion to adjust the annual incentive and LTI payout based on the outcome of the relevant scorecards, if it considers that the payout determined does not appropriately reflect the overall position and performance of the Group during the performance period.
Alignment with culture Incentive schemes should drive behaviours consistent with the Group's purpose, values and strategy.	– In order for any annual incentive award to be made, each executive Director must achieve a required behaviour rating, which is assessed by reference to the HSBC Values. – Annual incentive and LTI scorecards contain non-financial measures linked to our wider social strategy. These include measures related to reducing the environmental impact of our operations, improving customer satisfaction, diversity and inclusion. – Each year senior employees participate in a 360 survey, which gathers feedback on values-aligned behaviours from peers, direct reports, skip level reports and managers.

Link between risk, performance and reward

Our remuneration practices promote sound and effective risk management to support our business objectives and the delivery of our strategy.

We set out below the key features of our framework, which enable us to align between risk, performance and reward, subject to compliance with local laws and regulations:

Framework elements	Application
Variable pay pool	– The Group variable pay pool is expected to reflect Group performance, based on a range of financial and non-financial factors. We use a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance. – The main quantitative and qualitative performance and risk metrics used for assessment of performance include: – Group and business unit financial performance, considering contextual factors driving performance, and capital requirements; – current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and – fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool. – In the event that the Group was unable to distribute dividends to shareholders for reasons such as capital adequacy, then the Group may determine that as a year of weak performance. In such a year, the Group may withhold some, or all, variable pay for employees including unvested share awards, using the metrics outlined above as a basis for that determination.
Individual performance	– Assessment of individual performance is made with reference to clear and relevant financial and non-financial objectives. Objectives for senior management take into account appropriate measures linked to sustainability risks, such as: reduction in carbon footprint; facilitating financing to help clients with their transition to net zero; employee diversity; and risk and compliance measures. – A mandatory global risk and compliance objective is included for all other employees. Employees receive a behaviour rating as well as a performance rating, which ensures performance is assessed not only on what is achieved but also on how it is achieved.
Control function staff	– Group policy is for control functions staff to report into their respective function. Remuneration decisions for senior functional roles are made by the global function head. – The performance and reward of individuals in control functions, including risk and compliance colleagues, are assessed according to a balanced scorecard of objectives specific to the functional role they undertake. – Their remuneration is determined independent of the performance of the business areas they oversee. – Remuneration is carefully benchmarked with the market and internally to ensure it is set at an appropriate level. – The Committee is responsible for approving the remuneration for the Group Chief Risk and Compliance Officer and Group Head of Internal Audit.
Variable pay adjustments and conduct recognition	– Variable pay awards may be adjusted downwards in circumstances including: – detrimental conduct, including conduct that brings HSBC into disrepute; – involvement in events resulting in significant operational losses, or events that have caused or have the potential to cause significant harm to HSBC; and – non-compliance with the values-aligned behaviours and other mandatory requirements or policies. – Rewarding positive conduct may take the form of use of our global recognition programme, At Our Best, or positive adjustments to variable pay awards.
Malus	– Malus can be applied to unvested deferred awards (up to 100% of awards) granted in prior years in circumstances including: – detrimental conduct, including conduct that brings the business into disrepute; – past performance being materially worse than originally reported; – restatement, correction or amendment of any financial statements; and – improper or inadequate risk management.
Clawback	– Clawback can be applied to vested or paid awards granted to MRTs on or after 1 January 2015 (and awards granted to non-MRTs on or after 1 January 2022) for a period of seven years, extended to 10 years for employees in PRA and FCA designated senior management functions in the event of ongoing internal/regulatory investigation at the end of the seven-year period. Clawback may be applied in circumstances including: – participation in, or responsibility for, conduct that results in significant losses; – failing to meet appropriate standards and propriety; – reasonable evidence of misconduct or material error that would justify, or would have justified, summary termination of a contract of employment; and – a material failure of risk management suffered by HSBC or a business unit in the context of Group risk-management standards, policies and procedures. – Clawback can also be applied to vested or paid awards granted to designated Executive Officers as defined by the US Securities and Exchange Commission ('SEC') for a period of three years in the event of an accounting restatement due to material non-compliance with any financial reporting requirement under the US securities laws.
Sales incentives	– We generally do not operate commission-based sales plans, unless aligned with local market practice and with appropriate safeguards to avoid incentivising inappropriate sales behaviours.
Identification of MRTs	– We identify individuals as MRTs based on qualitative and quantitative criteria set out in the PRA's and FCA's Remuneration Rules. Our identification process is underpinned by the following key principles: – MRTs are identified at Group, HSBC Bank (consolidated) and HSBC UK Bank level. – MRTs are also identified at other solo regulated entity level as required by the regulations. – When identifying an MRT, HSBC considers a colleague's role within its matrix management structure. The global business and function that an individual works within takes precedence, followed by the geographical location in which they work. – We also identify additional MRTs based on our own internal criteria, which include compensation thresholds and individuals in certain roles and grades who otherwise would not be identified as MRTs under the Remuneration Rules.

Pay ratio

The following table shows the ratio between the total pay of the Group Chief Executive and the lower quartile, median and upper quartile pay of our UK employees.

Total pay and benefits for the Group Chief Executive is the single figure of remuneration for Noel Quinn. The increase in median ratio is primarily driven by the vesting of the 2021–2023 long-term incentive ('LTI'), which is the first he has received as Group Chief Executive. Excluding the LTI vesting in respect of the year, the ratio remained broadly in line with prior years at 86:1 at median.

Total pay ratio

	Method	Lower quartile	Median	Upper quartile
2023	A	291:1	169:1	88:1
2022	A	167:1	95:1	49:1
2021	A	154:1	90:1	46:1
2020	A	139:1	85:1	43:1
2019	A	169:1	105:1	52:1

Total pay and benefits amounts used to calculate the ratio

	Method	Lower quartile		Median		Upper quartile	
		Total pay and benefits (£)	Total salary	Total pay and benefits (£)	Total salary	Total pay and benefits (£)	Total salary
2023	A	36,528	27,680	63,000	45,536	121,223	89,506
2022	A	33,284	24,615	58,257	41,000	113,778	95,000
2021	A	31,727	27,666	54,678	41,500	106,951	84,000
2020	A	29,833	23,264	48,703	36,972	96,386	75,000
2019	A	28,920	24,235	46,593	41,905	93,365	72,840

The total pay and benefits for the median employee for 2023 was £63,000, an 8.1% increase compared with 2022.

Our UK workforce comprises a diverse mix of colleagues across different businesses and levels of seniority, from junior cashiers in our retail branches to senior executives managing our global business units. We aim to deliver market-competitive pay for each role, taking into consideration the skills and experience required for the business.

Pay structure varies across roles in order to deliver an appropriate mix of fixed and variable pay. Junior colleagues have a greater portion of their pay delivered in a fixed component, which does not vary with performance and allows them to predictably meet their day-to-day needs. Our senior management, including executive Directors, generally have a higher portion of their total remuneration opportunity structured as variable pay and linked to the performance of the Group, given their role and ability to influence the strategy and performance of the Group. Executive Directors also have a higher proportion of their variable pay delivered in shares, which vest over a period of seven years with a post-vesting retention period of one year. During this deferral and retention period, the awards are linked to the share price so the value of award realised by them after the vesting and retention period will be aligned to the performance of the Group.

We are satisfied that the median pay ratio is consistent with the pay and progression policies for our UK workforce, taking into account the diverse mix of our UK employees, the pay mix applicable to each role and our objective of delivering market competitive pay for each role subject to Group, business and individual performance.

Our ratios have been calculated using the option 'A' methodology prescribed under the UK Companies (Miscellaneous Reporting) Regulations 2018. Under this option, the ratios are calculated using full-time equivalent pay and benefits of all employees providing services in the UK at 31 December 2023. We believe this approach provides accurate information and representation of the ratios. The

ratio has been computed taking into account the pay and benefits of nearly 33,000 UK employees, other than the Group Chief Executive. We calculated our pay quartiles and benefits information for our UK employees using:

- full-time equivalent annualised fixed pay, which includes base salary and allowances, at 31 December 2023;
- variable pay awards for 2023;
- return on deferred cash awards granted in prior years. The deferred cash portion of the annual incentive granted in prior years includes a right to receive notional returns for the period between the grant date and vesting date, which is determined by reference to a rate of return specified at the time of grant. A payment of notional return is made annually and the amount is disclosed on a paid basis in the year in which the payment is made;
- gains realised from exercising awards from taxable employee share plans; and
- full-time equivalent value of taxable benefits and pension contributions.

Full-time equivalent fixed pay and benefits for each employee have been calculated by using each employee's data as at 31 December 2023. Where an employee works part-time, fixed pay and benefits are grossed up, where appropriate, to full-time equivalent. One-off benefits have not been included in calculating the ratios as these are not permanent in nature and in some cases, depending on individual circumstances, may not truly reflect a benefit to the employee.

The reported ratios may not be comparable to our international and listed peers on the FTSE 100, given differences in business mix and size; employment and compensation practices; methodologies for computing pay ratios; and assumptions used by companies.

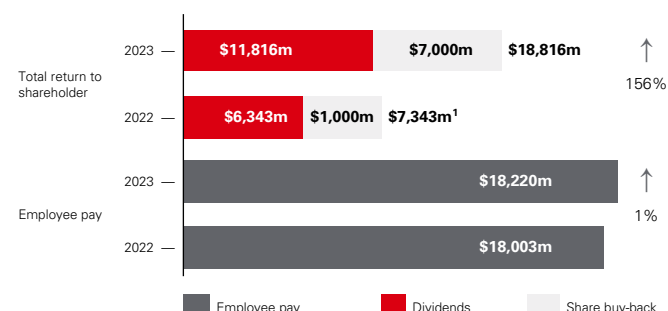
Relative importance of spend on pay

The following chart shows the change in:

- total employee pay between 2022 and 2023; and
- dividends and share buy-backs in respect of 2022 and 2023.

In 2023, total spend on pay was slightly higher than in 2022. The total return to shareholders increased by 156% compared with 2022, reflecting a higher dividend and \$7bn of capital return to shareholders through share buy-backs, which included the up to \$3bn buy-back announced at our third quarter of 2023 results. In addition, the Group has announced the intention to initiate a further up to \$2bn buy-back. Dividends include an approximation of the amount payable in April 2024 in relation to the fourth interim dividend of \$0.31 per ordinary share.

Relative importance of spend on pay



¹ In our Annual Report and Accounts 2022, we disclosed that the total return to shareholders was \$9,144m, of which \$8,144m related to dividends in 2022. This was an error and has been corrected in the chart above.

Comparison of Directors' and employees' pay

The following table compares the changes in each Director's base salary, taxable benefits and annual incentive between 2020 and 2023 with the percentage change in each of those elements of pay for UK-based employees of HSBC Group Management Services Limited, the employing entity of the executive Directors.

There were no changes to the fees or benefits of the non-executive Directors between 2020 and 2023. The year-on-year percentage change in fees noted in the table below is primarily driven by any pro-rated fees received by the non-executive Director for 2020, 2021, 2022 and 2023 based on time served by them on the Board and the relevant Board committees and any additional responsibilities taken

on by the non-executive Director during each year. The value of benefits received by the non-executive Directors reflect the taxable expense reimbursements claimed, and the associated gross-up tax, in relation to attending the Board meetings in each year. Page 338 provides the underlying single figure of remuneration for non-executive Directors used to calculate the figures above.

Non-executive Directors who joined after 1 January 2023 are not included, which includes Ann Godbehere, Kalpana Morparia, Brendan Nelson and Swee Lian Teo.

Annual percentage change in remuneration

Director/employees	Base salary/fees				Benefits				Annual incentive			
	2023	2022	2021	2020	2023	2022	2021	2020	2023	2022	2021	2020
Executive Directors												
Noel Quinn ^{1,2}	0.5	3.2	1.7	151.7	6.7	25.3	(48.9)	353.7	(6.7)	36.1	99.0	20.2
Georges Elhedery ³	—	—	—	—	—	—	—	—	—	—	—	—
Non-executive Directors												
Geraldine Buckingham ⁴	57.4	—	—	—	—	—	—	—	—	—	—	—
Rachel Duan ^{5,6}	8.4	235.8	—	—	(100.0)	—	—	—	—	—	—	—
Dame Carolyn Fairbairn ^{6,7}	5.3	231.1	—	—	(100.0)	—	—	—	—	—	—	—
James Forese ⁸	10.2	20.5	257.5	—	—	—	—	—	—	—	—	—
Steven Guggenheimer ⁹	0.8	4.8	86.6	—	(90.0)	—	—	—	—	—	—	—
José Antonio Meade Kuribreña ¹⁰	0.8	8.5	10.4	28.7	(71.4)	—	(100.0)	100.0	—	—	—	—
Eileen Murray ⁵	10.7	(1.5)	121.7	—	—	—	—	—	—	—	—	—
David Nish	0.4	(1.0)	0.4	108.7	(13.6)	120.0	25.0	(50.0)	—	—	—	—
Jackson Tai ^{10,11}	(65.0)	7.7	(1.4)	(10.8)	(24.0)	—	(100.0)	(78.9)	—	—	—	—
Mark Tucker	—	—	—	—	(54.9)	242.4	(36.5)	(77.5)	—	—	—	—
Employee group¹²	5.0	3.1	1.0	2.0	5.7	7.0	1.3	2.3	11.7	3.7	25.2	(20.0)

- Noel Quinn succeeded John Flint as interim Group Chief Executive with effect from 5 August 2019 and was appointed permanently into the role on 17 March 2020. The annual percentage change in 2020 for Noel Quinn is based on remuneration reported in his 2019 single figure of remuneration (for the period 5 August 2019 to 31 December 2019) and his 2020 single figure of remuneration (for the period 1 January 2020 to 31 December 2020). Based on his annualised 2019 compensation as an executive Director, his percentage change in salary, benefits and annual incentive was 2.1%, 85.2% and -50.9%, respectively for 2020.
- Noel Quinn voluntarily waived the cash portion of his 2020 annual incentive. The year-on-year percentage change between 2020 and 2021 would be -1% without this cash waiver.
- Georges Elhedery succeeded Ewen Stevenson as Group Chief Financial Officer with effect from 1 January 2023. Year-on-year comparison for Georges Elhedery will be available from 2024 onwards.
- Geraldine Buckingham joined the Board on 1 May 2022.
- Rachel Duan and Eileen Murray were appointed members of the Group Audit Committee on 1 June 2022.
- Rachel Duan and Dame Carolyn Fairbairn did not receive taxable benefits in 2023, resulting in a 100% reduction in benefits from the prior year.
- Dame Carolyn Fairbairn was appointed as Chair of the Group Remuneration Committee effective 29 April 2022.
- James Forese was appointed as non-executive Chair of HSBC North America Holdings, Inc in 2021. Fees for 2021 included fees in relation to this role.
- Steven Guggenheimer joined the Board on 1 May 2020 and therefore received fees for only part of 2020.
- José Antonio Meade Kuribreña and Jackson Tai did not receive taxable benefits in 2021, resulting in a 100% reduction in benefits from the prior year.
- Jackson Tai retired from the Board on 5 May 2023.
- Employee group consists of individuals employed by HSBC Group Management Services Ltd, the employing entity of the executive Directors, as no individuals are employed directly by HSBC Holdings.

Scheme interests awarded during 2023

(Audited)

The table below sets out the scheme interests granted to executive Directors during 2023 in respect of the 2022 performance year, as disclosed in the 2022 Directors' remuneration report. No non-executive Directors received scheme interests during the financial year. The below table includes details of immediate shares and fixed pay allowances in compliance with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Scheme awards in 2023

(Audited)

	Type of interest awarded	Basis on which award made	Date of award	Face value awarded £000	Percentage receivable for minimum performance	Number of shares awarded	End of performance period
Noel Quinn	LTI deferred shares ¹	% of base salary	27 February 2023	5,476	25	861,422	31 December 2025
	Immediate shares ²	% of base salary	27 February 2023	1,082	N/A	170,206	31 December 2022
			15 May 2023	300	N/A	50,080	N/A
	Fixed pay allowance ³	N/A	21 August 2023	300	N/A	51,435	N/A
			7 November 2023	300	N/A	49,291	N/A
Georges Elhedery	LTI deferred shares ¹	% of base salary	27 February 2023	1,599	25	251,474	31 December 2025
	Immediate shares ²	% of base salary	27 February 2023	716	N/A	112,568	31 December 2022
			15 May 2023	192	N/A	31,962	N/A
	Fixed pay allowance ³	N/A	21 August 2023	192	N/A	32,827	N/A
			7 November 2023	192	N/A	31,459	N/A

- In accordance with the remuneration policy approved by shareholders at the 2022 AGM, the LTI award was determined at 320% of base salary for Noel Quinn and 160% of base salary for Georges Elhedery. The number of shares to be granted was determined by taking HSBC's closing share price of £6.357 taken on 24 February 2023, and applying a discount based on HSBC's expected dividend yield of 5% per annum for the vesting period (£4.963). LTI awards are conditional share awards subject to a three-year forward-looking performance period and vest in five equal annual instalments, between the third and seventh anniversary of the award date, subject to performance achieved. Awards are subject to malus and clawback for a maximum period of 10 years from the date of the award and are not eligible for dividend equivalents.*
- Immediate share awards are granted based on the previous years' performance as part of the annual incentive and are not subject to forward-looking performance conditions. On vesting, awards will be subject to a one-year retention period. The face value of the immediate share awards have been computed using HSBC's closing share price of £6.357 taken on 24 February 2023. Awards are subject to clawback for a maximum period of 10 years from the date of the award.*
- Fixed pay allowance awards are granted in instalments in accordance with the remuneration policy approved by shareholders at the 2022 AGM, and are not subject to forward-looking performance conditions. Individual tax liabilities were satisfied in cash, therefore the face value awarded represents the net of tax value of the shares and the number of shares awarded reflects the net of tax number of shares. The fixed pay allowance awards have been computed using HSBC's closing share price of £5.997 taken on 12 May 2023, £5.839 taken on 18 August 2023 and £6.093 taken on 6 November 2023. These awards vest immediately and are subject to a retention period and released annually on pro-rata basis over five years, starting in March 2024.*

Performance conditions for the 2023–2025 LTI awards

(Audited)

Measures (weighting) ¹		Minimum (25% payout)	Target (50% payout)	Maximum (100% payout)
RoTE (with CET1 capital ratio underpin) ² (25.0%)		13.0%	14.3%	15.5%
Capital reallocation to Asia (with CET1 capital ratio underpin) ³ (25.0%)		49.0%	50.5%	52.0%
Environment and sustainability ⁴ (25.0%)	Carbon reduction	64.0%	68.0%	72.0%
	Sustainable finance and investment	\$588.0bn	\$700.0bn	\$756.0bn
Relative TSR ⁵ (25.0%)		At median of the peer group	Straight-line vesting between minimum and maximum	At upper quartile of peer group

- Awards will vest on a straight-line basis for performance between the minimum, target and maximum levels of performance set in this table.*
- To be assessed based on RoTE at the end of the performance period.*
- To be assessed based on share of Group tangible equity (on a constant currency basis and excluding associates) allocated to Asia by 31 December 2025.*
- Carbon reduction will be measured based on percentage reduction in total energy and travel emissions achieved by 31 December 2025 using 2019 as the baseline. The sustainable finance and investment metric will assess the cumulative amount provided and facilitated over the period ending 31 December 2025.*
- The peer group for the 2022 award is: Bank of China (Hong Kong), Barclays, BNP Paribas, China Merchants Bank, Citigroup, DBS Group Holdings, J.P. Morgan Chase & Co., Lloyds Banking Group, OCBC Bank, Standard Chartered and UBS Group.*

Executive Directors' interests in shares

(Audited)

The shareholdings of executive Directors in 2023, including the shareholdings of their connected persons, at 31 December 2023 (or the date they stepped down from the Board, if earlier) are set out below. The following table shows the comparison of shareholdings with the company shareholding guidelines. There have been no changes in the shareholdings of the executive Directors from 31 December 2023 to the date of this report.

Individuals have five years from their appointment date to build up the recommended levels of shareholding. In line with investor guidance, for executive Directors, unvested shares that are not subject to forward-looking performance conditions (on a net of tax basis) can count towards their shareholding requirement under the shareholder-approved policy.

The Committee reviews compliance with the shareholding requirement, taking into account shareholder expectations and guidelines. The Committee also has full discretion in determining any penalties for non-compliance.

With regard to post-employment shareholding arrangements, we believe that our remuneration structure achieves the objective of ensuring there is ongoing alignment of executive Directors' interests with shareholder experience post-cessation of their employment due to the following features of the policy:

- Shares delivered to executive Directors as part of the fixed pay allowance have a five-year retention period, which continues to apply following a departure of an executive Director.
- Shares delivered as part of an annual incentive award are subject to a one-year retention period, which continues to apply following a departure of an executive Director.
- LTI awards have a seven-year vesting period with a one-year post-vesting retention period, which is not accelerated on departure.

The weighted average holding period of an LTI award within HSBC is therefore six years, in excess of the five-year holding period typically implemented by FTSE-listed companies.

HSBC operates a policy under which individuals are not permitted to enter into any personal hedging strategies in relation to HSBC shares subject to a vesting and/or retention period.

Shares

(Audited)

	Shareholding guidelines (% of salary)	At 31 December 2023				
		Shareholding at 31 Dec 2023 ² (% of salary)	Share interests (number of shares)	Share options ³	Scheme interests	
					Shares awarded subject to deferral ¹ without performance conditions	with performance conditions ⁴
Executive Directors						
Noel Quinn ⁵	400%	797%	1,721,465	—	308,610	2,963,315
Georges Elhedery ⁵	300%	598%	753,467	—	714,008	475,463

- ¹ The gross number of shares is disclosed. A portion will be sold at vesting to cover any income tax and social security that falls due at the time of vesting.
- ² The value of the shareholding is calculated using an average of the daily closing share prices in the three months to 31 December 2023 (£6.192), and does not include any unvested interests.
- ³ At 31 December 2023, Noel Quinn and Georges Elhedery did not hold any options under the HSBC Holdings Savings-Related Share Option Plan (UK).
- ⁴ LTI awards granted in February 2022 and 2023 are subject to the performance conditions as set out in the preceding sections.
- ⁵ Executive Directors are expected to meet their shareholding guidelines within five years of the date of their appointment. Noel Quinn and Georges Elhedery were appointed on 5 August 2019 and 1 January 2023, respectively.

Service contracts

The service contracts of executive Directors do not have a fixed term. The notice periods of executive Directors are set at the discretion of the Committee, taking into account market practice, governance considerations, and the skills and experience of the particular candidate at that time.

Service agreements for each executive Director are available for inspection at HSBC Holdings' registered office. Consistent with the best interests of the Group, the Committee will seek to minimise termination payments. Directors may be eligible for a payment in relation to statutory rights.

	Contract date (rolling)	Notice period (Director and HSBC)
Noel Quinn	18 March 2020	12 months
Georges Elhedery	1 January 2023	12 months

Total pension entitlements

(Audited)

No employees who served as executive Directors during the year have a right to amounts under any HSBC final salary pension scheme for their services as executive Directors or are entitled to additional benefits in the event of early retirement. There is no retirement age set for Directors, but the normal retirement age for colleagues is 65.

Payments to past Directors

(Audited)

HSBC has received a formal request from the former employer of Ewen Stevenson to reduce the buy-out award granted to him in 2019 by £82,980, which will be offset against the next available vesting for this award. The reduction will be made in line with PRA regulations, acting on the decision made by Ewen Stevenson's former employer. We understand the reduction was part of a collective adjustment and there are no concerns over Ewen Stevenson's conduct or the discharge of his individual accountabilities.

Payments Ewen Stevenson received after he stepped down as an executive Director are set out in the following section.

In line with the terms of his departure disclosed in our *Annual Report and Accounts 2022*, Ewen Stevenson was granted good leaver status and is therefore eligible to receive vesting of the 2021–2023 LTI award, which was pro-rated for time in employment. Ewen's good leaver status is conditional upon satisfaction of non-compete provisions under which he cannot undertake a role with a defined list of competitor financial services firms for 12 months after his employment ceases with HSBC. Details of the 2021–2023 LTI outcome are outlined on page 322.

No other payments were made to, or in respect of, former Directors in the year in excess of the minimum threshold of £50,000 set for this purpose.

Payments for loss of office

(Audited)

Departure terms for Ewen Stevenson

Ewen Stevenson left the Group on 30 April 2023.

In accordance with the approved Directors' remuneration policy and contractual terms agreed for the period between 1 January 2023 and 25 October 2023, Ewen received payments totalling £703,519 in lieu of his base salary and pension allowance. Ewen also received his

fixed pay allowance in respect of the same period, which totalled £885,836 and was awarded in immediately vested shares, which are subject to a retention period. In accordance with the approved Directors' remuneration policy, Ewen received cash in lieu of unused holiday totalling £73,621 on expiry of his notice period.

External appointments

During 2023, executive Directors did not receive any fees from external appointments.

Directors' emoluments

The details of compensation paid to executive and non-executive Directors for the year ended 31 December 2023 are set out below:

Emoluments

	Noel Quinn		Georges Elhedery		Non-executive Directors ¹	
	2023	2022	2023	2022	2023	2022
	£000	£000	£000	£000	£000	£000
Directors' base salary, allowances and benefits in kind	3,386	3,367	1,999	—	—	—
Non-executive Directors' fees and benefits in kind	—	—	—	—	4,920	4,644
Pension contributions	—	—	—	—	—	—
Performance-related pay paid or receivable ²	6,293	6,439	3,783	—	—	—
Inducements to join paid or receivable	—	—	—	—	—	—
Compensation for loss of office	—	—	—	—	—	—
Notional return on deferred cash	43	31	6	—	—	—
Total	9,722	9,837	5,788	—	4,920	4,644
Total (\$000)	12,083	12,226	7,194	—	6,115	5,772

1 Fees and benefits in kind for 2022 reflects the population as per the single figure table for non-executive Directors, which excludes individuals who have stepped down from the Board during 2022.

2 Includes the value of the deferred and LTI awards at grant.

The aggregate amount of Directors' emoluments (including both executive Directors and non-executive Directors) for the year ended 31 December 2023 was \$25,391,977. As per our policy, benefits in kind may include, but are not limited to, the provision of medical insurance, income protection insurance, health assessment, life assurance, club membership, tax assistance, car benefit, travel assistance, provision of company owned-accommodation and relocation costs (including any tax due, where applicable).

Total benefits in kind of £25,304 (\$31,450) were provided to Ewen Stevenson until he left the Group. This included income protection benefits valued at £16,414 (\$20,401), life assurance benefits of £935 (\$1,162) and other non-taxable expenses of £7,955 (\$9,887).

Post-employment medical insurance benefits were provided to former Directors, including Douglas Flint valued at £6,721 (\$8,354), Stuart Gulliver valued at £6,721 (\$8,354), John Flint valued at £9,706 (\$12,064), Marc Moses valued at £15,886 (\$19,745) and Ewen Stevenson valued at £377 (\$469). Tax return support was also provided to John Flint valued at £5,441 (\$6,763), Marc Moses valued at £2,500 (\$3,107) and Ewen Stevenson valued at £1,320 (\$1,641).

The total aggregate value of benefits provided to former executive Directors was £73,976 (\$91,945). The aggregate value of Director retirement benefits for current Directors is nil. Amounts are converted into US dollars based on the average exchange rates for the year.

There were payments under retirement benefit arrangements with three former Directors of £1,381,674. The provision at 31 December 2023 in respect of unfunded pension obligations to two former Directors amounted to £340,208. This relates to unfunded unapproved retirement benefits schemes.

Emoluments of senior management and five highest paid employees

The following tables set out the emoluments paid to senior management, which in this case comprises executive Directors and members of the Group Executive Committee, for the year ended 31 December 2023, or for the period of appointment in 2023 as a Director or member of the Group Executive Committee. Details of the remuneration paid and share awards granted to the five highest paid employees, comprising one executive Director and four Group Executives for the year ended 31 December 2023, are also presented.

Five highest paid employees – share awards (HSBC Share Plan 2011)

			HSBC Holdings ordinary share awards					
Dates of award	Purchase price (£)	Usually vesting from to	At 1 Jan 2023	Granted in period	Vested in period ¹	Lapsed in period	Cancelled in period	At 31 Dec 2023
2013 to 2022	0	1 Mar 2023 30 Mar 2029	5,603,050	—	445,705	—	—	5,157,345
27 Feb 2023 ²	0	27 Feb 2023 30 Mar 2030	—	2,533,801	687,935	—	—	1,845,866
15 May 2023 ³	0	15 May 2023 15 May 2023	—	50,080	50,080	—	—	—
21 Aug 2023 ⁴	0	21 Aug 2023 21 Aug 2023	—	51,435	51,435	—	—	—
7 Nov 2023 ⁵	0	7 Nov 2023 7 Nov 2023	—	49,291	49,291	—	—	—
1 Jan to 31 Dec 2023 ⁶	0	1 Mar 2023 30 Mar 2024	—	3,345	982	—	—	2,363
			5,603,050	2,687,952	1,285,428	—	—	7,005,574

1 The weighted average closing price of the shares immediately before the dates on which the awards were vested was £5.9681.

2 The closing price on the day before the grant date was £6.3570. The fair values of the awards were calculated according to the IFRS 2 accounting standard. The fair values, which vary based on the length of the vesting period, range between £2.8390 and £6.3180. These awards include LTI awards and other awards which are subject to satisfaction of performance conditions. LTI awards are subject to a combination of financial and non-financial metrics that are detailed in the Directors' remuneration report in this Form 20-F.

3 The closing price on the day before the grant date was £5.9970. The fair values of the awards were calculated according to the IFRS 2 accounting standard. The fair value of the award was £6.1100.

4 The closing price on the day before the grant date was £5.8390. The fair values of the awards were calculated according to the IFRS 2 accounting standard. The fair value of the award was £5.8330.

5 The closing price on the day before the grant date was £6.093. The fair values of the awards were calculated according to the IFRS 2 accounting standard. The fair value of the award was £6.0830.

6 Relates to the allocation of dividend equivalent shares in relation to eligible awards.

Emoluments

£000s	Five highest paid employees	Senior management
Basic salaries, allowances and benefits in kind	13,357	38,960
Pension contributions	100	640
Performance-related pay paid or receivable ¹	24,259	59,286
Inducements to join paid or receivable	—	—
Compensation for loss of office	—	—
Total	37,716	98,886
Total (\$000)	46,877	122,906

1 Includes the value of deferred share awards at grant.

Emoluments by bands

Hong Kong dollars	US dollars	Number of highest paid employees	Number of senior management
\$19,000,001 – \$19,500,000	\$2,426,967 – \$2,490,834	—	1
\$22,500,001 – \$23,000,000	\$2,874,040 – \$2,937,907	—	1
\$25,000,001 – \$25,500,000	\$3,193,377 – \$3,257,245	—	1
\$38,000,001 – \$38,500,000	\$4,853,933 – \$4,917,801	—	1
\$41,000,001 – \$41,500,000	\$5,237,139 – \$5,301,006	—	1
\$42,000,001 – \$42,500,000	\$5,364,874 – \$5,428,741	—	1
\$42,500,001 – \$43,000,000	\$5,428,741 – \$5,492,609	—	2
\$48,000,001 – \$48,500,000	\$6,131,284 – \$6,195,152	—	1
\$49,000,001 – \$49,500,000	\$6,259,019 – \$6,322,887	—	1
\$51,000,001 – \$52,000,000	\$6,578,357 – \$6,642,224	—	1
\$56,000,001 – \$56,500,000	\$7,153,165 – \$7,217,032	—	2
\$59,000,001 – \$59,500,000	\$7,536,370 – \$7,600,238	—	1
\$61,000,001 – \$61,500,000	\$7,791,840 – \$7,855,708	1	1
\$63,500,001 – \$64,000,000	\$8,111,178 – \$8,175,046	1	1
\$72,500,001 – \$73,000,000	\$9,260,794 – \$9,324,661	1	1
\$75,000,001 – \$75,500,000	\$9,580,132 – \$9,643,999	1	1
\$94,000,001 – \$94,500,000	\$12,007,098 – \$12,070,966	1	1

Non-executive Directors

(Audited)

The following table shows the total fees and benefits of non-executive Directors for 2023, together with comparative figures for 2022.

Fees and benefits

(Audited)	Fees ¹		Benefits ²		Total	
(£000)	2023	2022	2023	2022	2023	2022
Geraldine Buckingham	244	155	5	—	249	155
Rachel Duan	244	225	—	5	244	230
Dame Carolyn Fairbairn	279	265	—	1	279	266
James Forese ³	759	689	1	—	760	689
Ann Godbehere ⁴	68	—	—	—	68	—
Steven Guggenheimer	264	262	1	10	265	272
José Antonio Meade Kuribreña	244	242	4	14	248	256
Kalpana Morparia ⁵	170	—	—	—	170	—
Eileen Murray ⁶	290	262	3	—	293	262
Brendan Nelson ⁷	81	—	12	—	93	—
David Nish	479	477	19	22	498	499
Jackson Tai ⁸	132	377	19	25	151	402
Swee Lian Teo ⁹	51	—	—	—	51	—
Mark Tucker	1,500	1,500	51	113	1,551	1,613
Total (£000)	4,805	4,454	115	190	4,920	4,644
Total (\$000)	5,972	5,536	143	236	6,115	5,772

- 1 Fees are in line with the Directors' remuneration policy that was approved at the 2022 AGM. Non-executive Directors receive a pro-rata payment of £4,000 travel allowance per annum.
- 2 Benefits include taxable expenses such as accommodation, travel and subsistence relating to attendance at Board and other meetings at HSBC Holdings' registered offices. Tax for non-executive Director benefits is met by HSBC, therefore amounts disclosed have been grossed up using a tax rate of 47%, where relevant.
- 3 Appointed as Chair of the Group Risk Committee on 5 May 2023. Stepped down as a member of the Group Remuneration Committee and joined the Group Audit Committee as a member on 5 May 2023. Includes fee of £443,000 (2022: £447,000) in relation to his role as Chair of HSBC North America Holdings, Inc.
- 4 Appointed to the Board, Nomination & Corporate Governance Committee and Group Remuneration Committee on 1 September 2023.
- 5 Appointed to the Board, Nomination & Corporate Governance Committee and Group Risk Committee on 1 March 2023.
- 6 Appointed as a member of the Group Remuneration Committee on 5 May 2023.
- 7 Appointed to the Board, Nomination & Corporate Governance Committee, Group Audit Committee and Group Risk Committee on 1 September 2023.
- 8 Retired from the Board and retired as Chair of the Group Risk Committee and member of the Group Audit Committee and member of the Nomination & Corporate Governance Committee on 5 May 2023.
- 9 Appointed to the Board, Nomination & Corporate Governance Committee and Group Risk Committee on 1 October 2023.

Non-executive Directors' interests in shares

(Audited)

The shareholdings of persons who were non-executive Directors in 2023, including the shareholdings of their connected persons, at 31 December 2023, or date of cessation as a Director if earlier, are set out below. There have been no changes in the shareholdings of the non-executive Directors from 31 December 2023 to the date of this report.

Non-executive Directors are expected to meet the shareholding guidelines of 15,000 shares within five years of the date of their appointment. All non-executive Directors who had been appointed for five years or more at 31 December 2023 met the guidelines.

Shares

	Shareholding guidelines (number of shares)	Share interests (number of shares)
Geraldine Buckingham	15,000	15,000
Rachel Duan	15,000	15,000
Dame Carolyn Fairbairn	15,000	15,000
James Forese	15,000	115,000
Ann Godbehere (appointed to the Board on 1 September 2023)	15,000	15,000
Steven Guggenheimer	15,000	15,000
José Antonio Meade Kuribreña	15,000	15,000
Kalpana Morparia (appointed to the Board on 1 March 2023)	15,000	15,000
Eileen Murray	15,000	75,000
Brendan Nelson (appointed to the Board on 1 September 2023)	15,000	—
David Nish	15,000	50,000
Jackson Tai (retired on 5 May 2023)	15,000	66,515
Swee Lian Teo (appointed to the Board on 1 October 2023)	15,000	15,200
Mark Tucker	15,000	307,352

2024 fees for non-executive Directors

Following a review of fees during 2023, and in accordance with the shareholder approved Directors' Remuneration Policy at the Company's 2022 Annual General Meeting, the Board approved increases to certain of the fees payable to the non-executive Directors and for roles on the Board Committees with effect from 1 January 2024. As a result, each non-executive Director receives a fee of £136,500 per annum. The separate travel allowance of £4,000 per annum has been incorporated within this fee – a separate travel allowance is no longer paid. The fees paid to non-executive Directors who are standing for election or re-election as members of Board Committees are set out in the table below (these Board Committees' fees and Board fees are pro-rated for part year service where relevant).

Position	2024 fees £
Non-executive Group Chairman ¹	1,500,000
Non-executive Director (base fee)	136,500
Senior Independent Director	200,000
Group Risk Committee	Chair 150,000
	Member 42,000
Group Audit Committee, Group Remuneration Committee and Group Technology Committee	Chair 78,750
	Member 42,000
Nomination & Corporate Governance Committee	Chair —
	Member 34,650
Designated workforce engagement non-executive Director	40,000

¹ The Group Chairman does not receive a base fee or any other fee in respect of chairing of the Nomination & Corporate Governance Committee.

Non-executive Director appointment and re-election

Non-executive Directors and the Chair are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by shareholders at AGMs. Non-executive Directors and the Chair do not have service contracts, but are bound by letters of appointment issued for and on

behalf of HSBC Holdings, which are available for inspection at HSBC Holdings' registered office. There are no obligations in the non-executive Directors' or Chair's letters of appointment that could give rise to remuneration payments or payments for loss of office.

2024 AGM	2025 AGM	2026 AGM
James Forese	Rachel Duan	Geraldine Buckingham
Ann Godbehere ¹	Dame Carolyn Fairbairn	Kalpana Morparia
Steven Guggenheimer	José Antonio Meade Kuribreña	
Eileen Murray		
Brendan Nelson ¹		
Swee Lian Teo ¹		

¹ Ann Godbehere, Brendan Nelson and Swee Lian Teo were appointed following the 2023 AGM and therefore their initial three-year appointment terms are subject to approval of their election by shareholders at the 2024 AGM. Their initial three-year term of appointment will end at the conclusion of the 2027 AGM, subject to annual re-election by shareholders at the relevant AGMs.

MRT remuneration disclosures

The following tables set out the remuneration disclosures for individuals identified as MRTs for HSBC Holdings.

Remuneration information for individuals who are only identified as MRTs at HSBC Bank plc, HSBC UK Bank plc or other solo-regulated entity levels is included, where relevant, in those entities' disclosures.

The 2023 variable pay information included in the following tables is based on the market value of awards. For share awards, the market value is based on HSBC Holdings' share price at the date of grant (unless indicated otherwise). For cash awards, it is the value of awards expected to be paid to the individual over the deferral period.

Remuneration awarded for the financial year (REM1)

		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	13.0	2.0	16.9	1,238.0
	Total fixed pay (\$m)	5.9	6.7	39.8	690.3
	– of which: cash-based (\$m) ¹	5.9	3.2	39.8	690.3
	– of which: shares or equivalent ownership interests (\$m) ²	–	3.5	–	–
	– of which: share-linked instruments or equivalent non-cash instruments (\$m)	–	–	–	–
	– of which: other instruments (\$m)	–	–	–	–
	– of which: other forms (\$m)	–	–	–	–
Variable remuneration ³	Number of identified staff	13.0	2.0	16.9	1,238.0
	Total variable remuneration (\$m)⁴	–	15.6	67.4	740.2
	– of which: cash-based (\$m)	–	2.1	30.5	371.2
	– of which: deferred (\$m)	–	–	18.3	174.5
	– of which: shares or equivalent ownership interests (\$m) ²	–	13.5	36.9	354.6
	– of which: deferred (\$m)	–	11.5	24.7	201.6
	– of which: share-linked instruments or equivalent non-cash instruments (\$m)	–	–	–	10.1
	– of which: deferred (\$m)	–	–	–	5.6
	– of which: other instruments (\$m)	–	–	–	–
	– of which: deferred (\$m)	–	–	–	–
	– of which: other forms (\$m)	–	–	–	4.3
	– of which: deferred (\$m)	–	–	–	2.7
Total remuneration (\$m)		5.9	22.3	107.2	1,430.5

1 Cash-based fixed remuneration is paid immediately.

2 Paid in HSBC shares. Vested shares are subject to a retention period of up to one year.

3 Variable pay awarded in respect of 2023. In accordance with shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration. HSBC has continued to use the discount rate previously published as PRA remuneration rule 15.13 for 17 individuals for the purpose of calculating the ratio between fixed and variable components of 2023 total remuneration.

4 26 identified staff members were exempt from the application of the remuneration structure requirements for MRTs under the PRA and FCA remuneration rules. Their total remuneration is \$6.2m, of which \$5.1m is fixed pay and \$1.1m is variable remuneration.

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

	Supervisory function	Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards¹				
Number of identified staff	–	–	–	–
Total amount (\$m)	–	–	–	–
– of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap (\$m)	–	–	–	–
Severance payments awarded in previous periods, that have been paid out during the financial year²				
Number of identified staff	–	–	–	–
Total amount (\$m)	–	–	–	–
Severance payments awarded during the financial year²				
Number of identified staff	–	–	–	59.8
Total amount (\$m)	–	–	–	37.0
– of which paid during the financial year (\$m)	–	–	–	32.8
– of which deferred (\$m)	–	–	–	–
– of which severance payments paid during the financial year, that are not taken into account in the bonus cap (\$m)	–	–	–	37.0
– of which highest payment that has been awarded to a single person (\$m)	–	–	–	3.4

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

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

Deferred remuneration at 31 December¹ (REM3)

\$m	Total amount of deferred remuneration awarded for previous performance periods	of which: due to vest in the financial year	of which: vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
Supervisory function	—	—	—	—	—	—	—	—
Cash-based	—	—	—	—	—	—	—	—
Shares	—	—	—	—	—	—	—	—
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Management function	52.4	12.0	40.4	-2.3	—	3.7	6.3	4.2
Cash-based	7.5	1.0	6.5	—	—	—	1.0	—
Shares	44.9	11.0	33.9	-2.3	—	3.7	5.3	4.2
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management	149.0	20.1	128.9	—	—	12.3	19.7	5.1
Cash-based	51.4	6.6	44.8	—	—	—	6.5	—
Shares	97.2	13.1	84.1	—	—	12.3	12.8	4.9
Share-linked instruments	0.4	0.4	—	—	—	—	0.4	0.2
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff	1,097.3	301.4	795.9	—	—	63.7	290.5	54.9
Cash-based	408.0	89.0	319.0	—	—	—	87.7	—
Shares	663.6	200.2	463.4	—	—	60.7	192.9	50.2
Share-linked instruments	15.3	7.9	7.4	—	—	2.0	7.7	3.5
Other instruments	—	—	—	—	—	—	—	—
Other forms	10.4	4.3	6.1	—	—	1.0	2.2	1.2
Total amount	1,298.7	333.5	965.2	-2.3	—	79.7	316.5	64.2

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

Identified staff - remuneration by band¹ (REM4)

	Identified staff that are high earners as set out in Article 450(i) CRR
€1,000,000 – 1,500,000	260
€1,500,000 – 2,000,000	125
€2,000,000 – 2,500,000	54
€2,500,000 – 3,000,000	20
€3,000,000 – 3,500,000	14
€3,500,000 – 4,000,000	6
€4,000,000 – 4,500,000	8
€4,500,000 – 5,000,000	7
€5,000,000 – 6,000,000	8
€6,000,000 – 7,000,000	3
€7,000,000 – 8,000,000	4
€8,000,000 – 9,000,000	—
€9,000,000 – 10,000,000	2
€10,000,000 – 11,000,000	—
€11,000,000 – 12,000,000	—
€12,000,000 – 13,000,000	1

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

Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (REM5)

	Management body			Business areas						Total
	Supervisory function	Management function	Total	Investment banking	Retail banking	Asset management	Corporate function	Independent internal control function	All other	
Total number of identified staff										1,269.9
– of which members of the Board	13.0	2.0	15.0							
– of which senior management				1.0	2.0	—	5.9	2.0	6.0	
– of which other identified staff				506.5	298.0	31.0	153.0	180.9	68.6	
Total remuneration of identified staff (\$m)	5.9	22.3	28.2	712.7	305.9	40.9	200.7	141.2	136.3	
– of which variable remuneration (\$m) ¹	—	15.6	15.6	392.0	155.6	21.6	100.5	63.8	74.1	
– of which fixed remuneration (\$m)	5.9	6.7	12.6	320.7	150.3	19.3	100.2	77.4	62.2	

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

Share plan matters considered by the Group Remuneration Committee

The Group Remuneration Committee and its delegates considered various matters relating to the HSBC share plans during the financial year.

The HSBC International Employee Share Purchase Plan ('ShareMatch') and The HSBC Holdings Savings-Related Share Option Plan (UK) ('Sharesave') were offered in 2023. ShareMatch was offered in the Philippines for the first time. The HSBC variable pay deferral approach for the 2023 performance year was approved, for which certain minor updates were made to comply with legal and regulatory requirements. The structure and quantum of LTI awards for the executive Directors and members of the Group Executive Committee were approved for the 2023 performance year. Other awards with performance conditions were approved for certain strategically important projects during 2023.

Certain awards were granted to executive Directors or senior managers with vesting periods of less than 12 months:

- Fixed pay allowance awards were granted to executive Directors in accordance with the approved Directors' remuneration policy, which vest immediately and are subject to a retention period. These awards are not subject to clawback on the basis that they form part of the executive Directors' fixed pay. The awards were granted under the HSBC Share Plan 2011.
- Immediate share awards were granted to executive Directors and senior managers in compliance with our regulatory requirements to deliver a portion of non-deferred variable pay in instruments. These awards vest immediately, and are subject to a retention period and clawback provisions.

Share capital and other related governance disclosures

Share buy-back programme

On 10 May 2023, HSBC Holdings commenced a share buy-back programme of its ordinary shares of \$0.50 each up to a maximum consideration of \$2.0bn. This programme concluded on 27 July 2023, with 129,000,963 ordinary shares repurchased for cancellation on UK trading venues and 128,774,800 ordinary shares repurchased for cancellation on The Stock Exchange of Hong Kong Limited ('HKEx').

On 3 August 2023, HSBC Holdings commenced a further share buy-back programme of its ordinary shares of \$0.50 each up to a maximum consideration of \$2.0bn. This programme concluded on 26 October 2023, with 129,814,790 ordinary shares repurchased for cancellation on UK trading venues and 129,109,200 ordinary shares repurchased for cancellation on HKEx.

On 1 November 2023, HSBC Holdings commenced a further share buy-back programme of its ordinary shares of \$0.50 each up to a maximum consideration of \$3.0bn.

As at 31 December 2023, 143,374,864 ordinary shares had been repurchased on UK trading venues and 100,547,200 ordinary shares were repurchased on HKEx.

The purpose of the buy-back programmes was to reduce HSBC's number of outstanding ordinary shares.

As at 31 December 2023, the total number of ordinary shares repurchased during the year was 760,621,817, representing a nominal value of \$380,310,908.50 and an aggregate consideration paid by HSBC of £2,470,004,997 on UK trading venues and HK\$21,646,177,512 on HKEx. The shares repurchased represent 3.95% of the shares in issue. Of the repurchased shares, 44,237,528 were awaiting cancellation as at 31 December 2023.

The table that follows outlines details of the shares repurchased and cancelled on a monthly basis during 2023.

	Number of shares repurchased and cancelled	Highest price paid per share £	Lowest price paid per share £	Average price paid per share £	Aggregate price paid £
First share buy-back on UK trading venues in 2023					
Month shares cancelled					
May 2023	31,169,005	6.2000	5.8710	6.0716	189,244,725
Jun 2023	52,376,598	6.1900	5.8810	6.0754	318,208,161
Jul 2023	45,455,360	6.4570	5.9840	6.2246	282,943,198
Total	129,000,963				790,396,084
	Number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Average price paid per share (HK\$)	Aggregate price paid (HK\$)
First share buy-back on HKEx in 2023					
Month shares repurchased					
May 2023	37,500,000	59.9500	57.2000	59.0377	2,213,913,666
Jun 2023	50,900,000	61.4500	57.1000	60.0303	3,055,542,282
Jul 2023	40,374,800	65.0000	60.3000	62.6018	2,527,536,243
Total	128,774,800				7,796,992,191
	Number of shares repurchased and cancelled	Highest price paid per share £	Lowest price paid per share £	Average price paid per share £	Aggregate price paid £
Second share buy-back on UK trading venues in 2023					
Month shares cancelled					
Aug 2023	41,102,164	6.4470	5.7940	6.0941	250,481,897
Sep 2023	48,597,672	6.4950	5.7690	6.1120	297,030,003
Oct 2023	40,114,954	6.5750	5.9550	6.3949	256,532,508
Total	129,814,790				804,044,408
	Number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Average price paid per share (HK\$)	Aggregate price paid (HK\$)
Second share buy-back on HKEx in 2023					
Month shares repurchased					
Aug 2023	46,350,400	64.6000	57.9500	60.7539	2,815,966,340
Sep 2023	51,388,400	62.2000	56.8500	59.7717	3,071,570,280
Oct 2023	31,370,400	63.6500	56.6500	61.7430	1,936,902,040
Total	129,109,200				7,824,438,660
	Number of shares repurchased and cancelled	Highest price paid per share £	Lowest price paid per share £	Average price paid per share £	Aggregate price paid £
Third share buy-back on UK trading venues in 2023					
Month shares repurchased/cancelled					
Nov 2023	70,595,556	6.2070	5.8910	6.0717	428,636,659
Dec 2023	72,779,308	6.3640	5.9000	6.1409	446,927,846
Total	143,374,864				875,564,505

	Number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Average price paid per share (HK\$)	Aggregate price paid (HK\$)
Third share buy-back on HKEx in 2023					
Month shares repurchased					
Nov 2023	51,083,600	60.5500	56.4500	59.0032	3,014,094,399
Dec 2023	49,463,600	63.2500	59.1500	60.8660	3,010,652,262
Total	100,547,200				6,024,746,661

Dividends

Dividends for 2023

First, second and third interim dividends for 2023, each of \$0.10 per ordinary share, were paid on 23 June 2023, 21 September 2023 and 21 December 2023. For further details of the dividends approved in 2023, see Note 8 on the financial statements.

On 21 February 2024, the Directors approved a fourth interim dividend for 2023 of \$0.31 per ordinary share, making a total of \$0.61 for the 2023 full-year. The fourth interim dividend for 2023 will be payable on 25 April 2024 in cash in US dollars, or in sterling or Hong Kong dollars at exchange rates to be determined on 15 April 2024. The fourth interim dividend for 2023 of \$1.55 per American Depositary Share, each of which represents five ordinary shares, will be payable by the depositary in US dollars. As the fourth interim dividend for 2023 was approved after 31 December 2023, it has not been included in the balance sheet of HSBC as a liability. The distributable reserves of HSBC Holdings at 31 December 2023 were \$30.9bn.

A quarterly dividend of £0.01 per Series A sterling preference share was paid on 15 March, 15 June, 15 September and 15 December 2023.

Dividends for 2024

The Group intends to pay quarterly dividends on its ordinary shares during 2024.

A quarterly dividend of £0.01 per Series A sterling preference share is payable on 15 March, 17 June, 16 September and 16 December 2024 for the quarter then ended at the sole and absolute discretion of the Board of HSBC Holdings plc. Accordingly, the Board of HSBC Holdings plc has approved a quarterly dividend to be payable on 15 March 2024 to holders of record on 29 February 2024.

Share capital

Issued share capital

The nominal value of HSBC Holdings' issued share capital paid up at 31 December 2023 was \$9,631,364,096.50 divided into 19,262,728,193 ordinary shares of \$0.50 each and one non-cumulative preference share of £0.01, representing approximately 100.00% and 0.00% respectively of the nominal value of HSBC Holdings' total issued share capital paid up at 31 December 2023.

Rights, obligations and restrictions attaching to shares

The rights and obligations attaching to each class of ordinary and non-cumulative preference shares in our share capital are set out in full in our Articles of Association. The Articles of Association may be amended by special resolution of the shareholders and can be found on our website at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

Ordinary shares

HSBC Holdings has one class of ordinary share, which carries no right to fixed income. There are no voting restrictions on the issued ordinary shares, all of which are fully paid. On a show of hands, each member present has the right to one vote at general meetings. On a poll, each member present or voting by proxy is entitled to one vote for every \$0.50 nominal value of share capital held.

There are no specific restrictions on transfers of ordinary shares, which are governed by the general provisions of the Articles of Association and prevailing legislation.

Information on the policy adopted by the Board for paying interim dividends on the ordinary shares may be found in the 'Shareholder information' section on page 462.

Dividend waivers

The Group's employee benefit trusts, which hold shares in HSBC Holdings in connection with the operation of its share plans, have lodged standing instructions to waive dividends on shares held by them that have not been allocated to employees. Shares held by custodians in connection with the vesting of employee share awards also lodged instructions to waive dividends. The total amount of dividends waived during 2023 was \$27.16m.

Preference shares

The preference shares, which have preferential rights to income and capital, do not, in general, confer a right to attend and vote at general meetings.

There are three classes of preference shares in the share capital of HSBC Holdings: non-cumulative US dollar preference shares of \$0.01 each ('dollar preference shares'); non-cumulative preference shares of £0.01 each ('sterling preference shares'); and non-cumulative preference shares of €0.01 ('euro preference shares').

The sterling preference share in issue is a Series A sterling preference share. There are no dollar preference shares or euro preference shares in issue.

Information on dividends approved for 2022 and 2023 may be found in Note 8 on the financial statements on page 398.

Further details of the rights and obligations attaching to the HSBC Holdings' issued share capital may be found in Note 33 on the financial statements.

Compliance with Hong Kong Listing Rule 13.25A(2)

HSBC Holdings has been granted a waiver from strict compliance with Rule 13.25A(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Under this waiver, HSBC's obligation to file a Next Day Return following the issue of new shares, pursuant to the vesting of share awards granted under its share plans to persons who are not Directors, would only be triggered where it falls within one of the circumstances set out under Rule 13.25A(3).

Share capital changes in 2023

In addition to the share buy-back programme, the following events occurred during the year in relation to the ordinary share capital of HSBC Holdings:

Scrip dividends

There were no scrip dividends issued during the year.

Treasury shares

On 30 October 2023, HSBC Holdings cancelled 325,273,407 ordinary shares which were held in treasury, and no longer holds any ordinary shares in treasury.

All-employee share plans¹

	HSBC Holdings ordinary shares issued	Aggregate nominal value \$	Market value per share from £	to £
HSBC International Employee Share Purchase Plan	179,676	89,838	6.386	6.386

¹ In respect of the HSBC Holdings Savings Related Share Option Plan (UK), no new shares were issued under this plan. All exercises were satisfied by market purchased shares. See page 351 for details of options granted, exercised and lapsed.

HSBC share plans

	HSBC Holdings ordinary shares issued	Aggregate nominal value \$	Market value per share from £	to £
Vesting of awards under the HSBC Share Plan 2011	10,598,803	5,299,401.50	5.421	6.357

Authorities to allot and to purchase shares and pre-emption rights

At the AGM in 2023, shareholders renewed the general authority for the Directors to allot new shares up to 13,314,186,248 ordinary shares, 15,000,000 non-cumulative preference shares of £0.01 each, 15,000,000 non-cumulative preference shares of \$0.01 each and 15,000,000 non-cumulative preference shares of €0.01 each. Shareholders also renewed the authority for the Directors to make market/off-market purchases of up to 1,997,127,937 ordinary shares. The Directors exercised their market/off-market purchase authority from the 2023 AGM and repurchased 760,621,817 ordinary shares during the year.

In addition, shareholders gave authority for the Directors to grant rights to subscribe for, or to convert any security into, no more than 3,994,255,874 ordinary shares in relation to any issue by HSBC Holdings or any member of the Group of contingent convertible securities that automatically convert into or are exchanged for ordinary shares in HSBC Holdings in prescribed circumstances. For further details on the issue of contingent convertible securities, see Note 33 on the financial statements.

Other than as disclosed in the tables above headed 'Share capital changes in 2023', the Directors did not allot any shares during 2023.

Debt securities

In 2023, HSBC Holdings issued the equivalent of \$24.5bn of debt securities in the public capital markets in a range of currencies and maturities, of which \$17.2bn were in the form of senior securities to ensure it meets the current and proposed regulatory rules, including those relating to the availability of adequate total loss-absorbing capacity. For details of capital instruments and subordinated bail-inable debt, see Notes 29 and 33 on pages 433 and 441.

Treasury shares

In accordance with the terms of a waiver granted by The Stock Exchange of Hong Kong Limited on 19 December 2005, HSBC Holdings will comply with the applicable law and regulation in the UK in relation to the holding of any shares in treasury and with the conditions of the waiver in connection with any shares it may hold in treasury.

HSBC Holdings does not hold any ordinary shares in treasury.

Notifiable interests in share capital

During 2023, HSBC Holdings did not receive any notification of major holdings of voting rights pursuant to the requirements of Rule 5 of the Disclosure Guidance and Transparency Rules ('Rule 5 of the DTRs').

No notifications had been received between 31 December 2023 and 15 February 2024. Previous notifications received are as follows:

- BlackRock, Inc. gave notice on 3 March 2020 that on 2 March 2020 it had the following: an indirect interest in HSBC Holdings ordinary shares of 1,235,558,490; qualifying financial instruments with 7,294,459 voting rights that may be acquired if the instruments are exercised or converted; and financial instruments with a similar economic effect to qualifying financial instruments,

which refer to 2,441,397 voting rights, representing 6.07%, 0.03% and 0.01%, respectively, of the total voting rights at 2 March 2020.

- Ping An Asset Management Co., Ltd. gave notice on 6 December 2017 that on 4 December 2017 it had an indirect interest in HSBC Holdings ordinary shares of 1,007,946,172, representing 5.04% of the total voting rights at that date.

At 31 December 2023, according to the register maintained by HSBC Holdings pursuant to section 336 of the Securities and Futures Ordinance of Hong Kong:

- BlackRock, Inc. gave notice on 9 March 2022 that on 4 March 2022 it had the following interests in HSBC Holdings ordinary shares: a long position of 1,701,656,169 shares and a short position of 19,262,061 shares, representing 8.27% and 0.09%, respectively, of the ordinary shares in issue at that date.
- Ping An Asset Management Co., Ltd. gave notice on 25 September 2020 that on 23 September 2020 it had a long position of 1,655,479,531 in HSBC Holdings ordinary shares, representing 8.00% of the ordinary shares in issue at that date.

Sufficiency of float

In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, at least 25% of the total issued share capital has been held by the public at all times during 2023 and up to the date of this report.

Dealings in HSBC Holdings listed securities

The Group has policies and procedures that, except where permitted by statute and regulation, prohibit specified transactions in respect of its securities listed on The Stock Exchange of Hong Kong Limited. Except for dealings as intermediaries or as trustees by subsidiaries of HSBC Holdings, and purchases by HSBC Holdings under the share buy-back programme, neither HSBC Holdings nor any of its subsidiaries has purchased, sold or redeemed any of its securities listed on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2023.

Directors' interests

Pursuant to the requirements of the UK Listing Rules and according to the register of Directors' interests maintained by HSBC Holdings pursuant to section 352 of the Securities and Futures Ordinance of Hong Kong, the Directors of HSBC Holdings at 31 December 2023 had certain interests, all beneficial unless otherwise stated, in the shares or debentures of HSBC Holdings and its associated corporations.

Save as stated in the following table, no further interests were held by Directors, and no Directors or their connected persons were awarded or exercised any right to subscribe for any shares or debentures in any HSBC corporation during the year.

No Directors held any short position as defined in the Securities and Futures Ordinance of Hong Kong in the shares or debentures of HSBC Holdings and its associated corporations.

Directors' interests – shares and debentures

	At 1 Jan 2023, or date of appointment, if later	At 31 Dec 2023 or date of cessation, if earlier				
		Beneficial owner	Child under 18 or spouse	Jointly with another person	Trustee	Total interests
HSBC Holdings ordinary shares						
Geraldine Buckingham ¹	15,000	15,000	—	—	—	15,000
Rachel Duan ¹	15,000	15,000	—	—	—	15,000
Georges Elhedery ² (appointed to the Board on 1 Jan 2023)	572,575	753,467	—	—	—	753,467
Dame Carolyn Fairbairn	15,000	15,000	—	—	—	15,000
James Forese ¹	115,000	115,000	—	—	—	115,000
Ann Godbehere ¹ (appointed to the Board on 1 Sep 2023)	15,000	—	15,000	—	—	15,000
Steven Guggenheimer ¹	15,000	—	15,000	—	—	15,000
José Antonio Meade Kuribreña ¹	15,000	15,000	—	—	—	15,000
Kalpana Morparia ¹ (appointed to the Board on 1 Mar 2023)	—	15,000	—	—	—	15,000
Eileen Murray ¹	75,000	75,000	—	—	—	75,000
Brendan Nelson (appointed to the Board on 1 Sep 2023)	—	—	—	—	—	—
David Nish	50,000	—	50,000	—	—	50,000
Noel Quinn ²	1,422,650	1,721,465	—	—	—	1,721,465
Jackson Tai ^{1,3} (retired on 5 May 2023)	66,515	32,800	11,965	21,750	—	66,515
Swee Lian Teo (appointed to the Board on 1 Oct 2023)	—	15,200	—	—	—	15,200
Mark Tucker	307,352	307,352	—	—	—	307,352

- 1 Geraldine Buckingham has an interest in 3,000, Rachel Duan has an interest in 3,000, James Forese has an interest in 23,000, Ann Godbehere has an interest in 3,000, Steven Guggenheimer has an interest in 3,000, José Antonio Meade Kuribreña has an interest in 3,000, Kalpana Morparia has an interest in 3,000, Eileen Murray has an interest in 15,000 and Jackson Tai has an interest in 13,303 listed American Depositary Shares ('ADS'), which are categorised as equity derivatives under Part XV of the Securities and Futures Ordinance of Hong Kong. Each ADS represents five HSBC Holdings ordinary shares.
- 2 Executive Directors' other interests in HSBC Holdings ordinary shares arising from the HSBC Holdings Savings-Related Share Option Plan (UK) and the HSBC Share Plan 2011 are set out in the Scheme interests in the Directors' remuneration report on page 315. At 31 December 2023, the aggregate interests under the Securities and Futures Ordinance of Hong Kong in HSBC Holdings ordinary shares, including interests arising through employee share plans and the interests above were: Noel Quinn – 4,993,390; and Georges Elhedery – 1,942,938, representing approximately 0.03% and 0.01% of the shares in issue respectively.
- 3 Jackson Tai has a non-beneficial interest in 11,965 shares of which he is custodian.

There have been no changes in the shares or debentures of the current Directors from 31 December 2023 to the date of this report.

Listing Rule 9.8.4 and other disclosures

This section of the *Annual Report and Accounts 2023* forms part of – and includes certain disclosures required – in the Report of the Directors incorporated by cross-reference, including under Listing Rule 9.8.4 and otherwise as applicable by law.

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Board governance

Appointment and re-election of Directors

For details on the processes governing the appointment and re-election of Directors, see the Nomination & Corporate Governance Committee report from page 298.

Commitments

For details on the processes governing Director commitments, see the Nomination & Corporate Governance Committee report from page 298.

Conflicts of interest

The Board has an established policy and set of procedures to ensure that the Board's management of Directors' conflicts of interest is effective. The Board has the power to authorise conflicts where they arise, in accordance with the Companies Act 2006 and HSBC Holdings' Articles of Association. Details of all Directors' conflicts of interest are recorded in the register of conflicts. Upon appointment, new Directors are advised of the policy and procedures for managing conflicts. Directors are required to notify the Board of any actual or potential conflicts of interest and to update the Board with any changes to the facts and circumstances surrounding such conflicts. Directors are requested to review and confirm their own and their respective closely associated persons' outside interests and appointments twice each year. The Board has considered, and authorised (with or without conditions) where appropriate, potential conflicts as they have arisen during the year in accordance with its conflicts policy and procedures. All non-executive Directors are subject to re-vetting by the Group's compliance team on a triennial basis following appointment. As part of this re-vetting process, all conflicts checks are refreshed.

Joint Company Secretary

Aileen Taylor is the Group Company Secretary and Chief Governance Officer.

Hannah Ashdown (47) was appointed as Deputy Group Secretary in December 2021 and for administrative purposes, in October 2022, was appointed as Joint Company Secretary. She is a Fellow of the Chartered Governance Institute UK and Ireland. Hannah has over 20 years' governance and regulatory experience across multiple sectors including financial services, asset management, energy, leisure and retail.

Directors' indemnity

The Articles of Association of HSBC Holdings contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of HSBC Holdings against claims from third parties in respect of certain liabilities.

HSBC Holdings has granted, by way of deed poll, indemnities to the Directors, including former Directors, against certain liabilities arising in connection with their position as a Director of HSBC Holdings or of any Group company. Directors are indemnified to the maximum extent permitted by law.

The indemnities that constitute a 'qualifying third-party indemnity provision', as defined by section 234 of the Companies Act 2006, remained in force for the whole of the financial year (or, in the case of Directors appointed during 2023, from the date of their appointment). The deed poll is available for inspection at the registered office of HSBC Holdings.

Additionally, Directors and pension trustees have the benefit of both Directors' and officers' liability insurance and pension trustees' liability insurance.

Qualifying pension scheme indemnities have also been granted to the trustees of the Group's pension schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

Contracts of significance

During 2023, none of the Directors had a material interest, directly or indirectly, in any contract of significance with any HSBC company. During the year, all Directors were reminded of their obligations in respect of transacting in HSBC securities and following specific enquiry all Directors have confirmed that they have complied with their obligations.

Shareholder engagement and communication

The Board is directly accountable to, and gives high priority to communicating with, HSBC's shareholders. Information about HSBC and its activities is provided to shareholders in its Interim Reports and the *Annual Report and Accounts* as well as on www.hsbc.com.

The Board seeks to understand investor needs through ongoing dialogue between members of the Board and institutional investors throughout the year. For examples of such engagement, see 'Board engagement with shareholders' on page 292 and the Group Remuneration Committee Chair's letter on page 315. During 2023, approximately 643 meetings were held with institutional investors and analysts globally.

Our shareholder communications policy summarises how we communicate with our shareholders, including through financial reporting, general shareholder meetings, investor and analyst meetings and our website. The policy is reviewed annually by the Board, and in 2023 the Board confirmed that it was satisfied with its implementation and effectiveness. The policy can be found at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

We also publish our current and past financial results, investor presentations and shareholder information such as dividend payments and shareholder meeting details. Stock exchange announcements are also accessible on our website along with information for fixed income investors. For further details, see www.hsbc.com/investors.

Directors are encouraged to develop an understanding of the views of shareholders. Enquiries from individuals on matters relating to their shareholdings and HSBC's business are welcomed.

Any individual or institutional investor can make an enquiry by contacting the investor relations team, Group Chairman, Group Chief Executive, Group Chief Financial Officer and Group Company Secretary and Chief Governance Officer. Our Senior Independent

Director is also available to shareholders if they have concerns that cannot be resolved or for which the normal channels would not be appropriate. They can be contacted via the Group Company Secretary and Chief Governance Officer at 8 Canada Square, London E14 5HQ.

The results of the poll vote at the 2023 AGM were published on 5 May 2023 and showed that on resolutions 2, 3(l), 6, 7, 14 and 15 we received votes of between 20.04% to 23.30% against the Board's recommendations. In our statement of 5 May 2023, it was noted that our largest shareholder, Ping An, voted against the Board's recommendations on the above resolutions and a number of others. Ping An's votes accounted for approximately 18% to 19% of all votes cast at the 2023 AGM based on a turnout of around 50%. The Board was pleased that a large majority of shareholders voting at the 2023 AGM supported HSBC's strategy and since the AGM there have been no concerns expressed by shareholders regarding the above resolutions. As referenced in the announcement released on 3 November 2023, we continue to have constructive dialogue and provide corporate access to all our institutional shareholders, including Ping An and respect and listen to their views.

Annual General Meeting

The AGM in 2024 is planned to be held in London, UK at 11:00am on Friday, 3 May 2024. Information on how to vote and participate, both in advance and on the day, can be found in the Notice of the 2024 AGM, which will be sent to shareholders on 22 March 2024 and be available on www.hsbc.com/agm. A live webcast will be available on www.hsbc.com. A recording of the proceedings will be available on www.hsbc.com shortly after the conclusion of the AGM. Shareholders should monitor our website and announcements for any changes to these arrangements. Shareholders may send enquiries to the Board in writing via the Group Company Secretary and Chief Governance Officer, HSBC Holdings plc, 8 Canada Square, London E14 5HQ or by sending an email to shareholderquestions@hsbc.com.

General meetings and resolutions

Shareholders may require the Directors to call a general meeting other than an AGM, as provided by the UK Companies Act 2006. A valid request to call a general meeting may be made by members representing at least 5% of the paid-up capital of HSBC Holdings as carries the right of voting at its general meetings (excluding any paid-up capital held as treasury shares). A request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. At any general meeting convened on such request, no business may be transacted except that stated by the requisition or proposed by the Board.

Shareholders may request the Directors to send a resolution to shareholders for consideration at an AGM, as provided by the UK Companies Act 2006. A valid request must be made by (i) members representing at least 5% of the paid-up capital of HSBC Holdings as carries the right of voting at its general meetings (excluding any paid-up capital held as treasury shares), or (ii) at least 100 members who have a right to vote on the resolution at the AGM in question and hold shares in HSBC Holdings on which there has been paid up an average sum, per member, of at least £100.

The request must be received by HSBC Holdings not later than (i) six weeks before the AGM in question; or (ii) if later, the time at which the notice of AGM is published.

A request may be in hard copy form or in electronic form, and must be authenticated by the person or persons making it. A request may be made in writing to HSBC Holdings at its UK address, referred to in the paragraph above or by sending an email to shareholderquestions@hsbc.com.

Articles of Association

The Articles of Association were last approved at the 2022 AGM. The Articles of Association can be found at www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities.

Events after the balance sheet date

For details of events after the balance sheet date, see Note 39 on the financial statements.

Change of control

The Group is not party to any significant agreements that take effect, alter or terminate following a change of control of the Group. The Group does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover bid.

Branches

The Group provides a wide range of banking and financial services through branches and offices in the UK and overseas.

Research and development activities

During the ordinary course of business, the Group develops new products and services within the global businesses.

Political donations

HSBC does not make any political donations or incur political expenditure within the ordinary meaning of those words. We have no intention of altering this policy. However, the definitions of political donations, political parties, political organisations and political expenditure used in the UK Companies Act 2006 are very wide. As a result, they may cover routine activities that form part of the normal business activities of the Group and are an accepted part of engaging with stakeholders. To ensure that neither the Group nor any of its subsidiaries inadvertently breaches the UK Companies Act 2006, authority is sought from shareholders at the AGM to make political donations.

HSBC provides administrative support to two political action committees ('PACs') in the US funded by voluntary political contributions by eligible employees. We do not control the PACs, and all decisions regarding the amounts and recipients of contributions are directed by a voluntary Board Finance Committee, which consists of contributing eligible employees. The PACs recorded combined political donations of \$110,004 during 2023 (2022: \$100,250).

Charitable contributions

For details of charitable contributions, see page 86.

Internal control

The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems, and for determining the level and type of risks the Group is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Rulebook, procedures have been designed: for safeguarding assets against unauthorised use or disposal; for maintaining proper accounting records; and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the Group and accord with the Financial Reporting Council's guidance for Directors, issued in 2014, on risk management, internal control and related financial and business reporting. The procedures have been in place throughout the year and up to 21 February 2024, the date of publication of the *Annual Report and Accounts 2023*.

The Board, the GRC and the GAC monitored the effectiveness of the Group's system of risk management and internal control throughout the year. In particular, this focused on the Group's regulatory remediation and change programmes, and involved working closely with management to better prioritise and understand where there are key interdependencies. In 2024, continued focus will be placed on

overseeing emerging risks and potential risks arising from new products and offerings.

To support the work of the Board, the GRC and the GAC in discharging their responsibilities in this regard, assurance was also provided by executive management confirming that a risk assessment had been undertaken and controls were in place to mitigate the risks arising from the Group's key activities. Necessary actions will be taken to remedy any failings or weaknesses identified from these activities and included the implementation of additional assurance procedures including in relation to the Group's externally driven ESG and climate-related disclosures, change programmes and regulatory reporting.

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

Global Principles

The Group's Global Principles set an overarching standard for all policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times. In 2024, the Global Principles will be replaced by a more concise and targeted version of the document, known as the HSBC Book.

Risk management framework

The risk management framework supports our Global Principles, and going forward, our HSBC Book. It outlines the key principles and practices that we employ in managing material risks. It applies to all categories of risk and supports a consistent approach in identifying, assessing, managing and reporting the risks we accept and incur in our activities.

Delegation of authority within limits set by the Board

Subject to certain matters reserved for the Board, the Group Chief Executive has been delegated authority limits and powers within which to manage the day-to-day affairs of the Group. A new delegation of authorities framework was implemented in April 2023 with the aim of providing a simpler Group structure within which the Board and its subsidiaries can manage their delegated powers. These delegated authorities can be used for the approval, signing and execution of specific written agreements and documents such as procurement contracts.

The delegation of authorities framework is either granted via a separate board resolution or power of attorney or is set out in the relevant Group policy with clear systems of control that are appropriate to the business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of Group companies in line with Group policy. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a Group-wide basis.

Risk identification and monitoring

Systems and procedures are in place to identify, assess, control and monitor the material risk types facing HSBC as set out in the risk management framework. The Group's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

Changes in market conditions/practices

Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the Group to heightened risk of loss or reputational damage.

The Group employs both a top and emerging risks process to provide forward-looking views of issues with the potential to threaten the execution of our strategy or operations over the medium to long term.

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, that support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help

ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. In our approach to defend against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

We continue our focus on 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 other key stakeholders.

Responsibility for risk management

All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. This is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.

The Board delegated authority to the GAC to annually review the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for the protection of staff who raise concerns of detrimental treatment.

Strategic plans

Strategic plans are prepared for global businesses, global functions and geographical regions within the framework of the Group's overall strategy. Financial resource plans, informed by detailed analysis of risk appetite describing the types and quantum of risk that the Group is prepared to take in executing its strategy, are prepared and adopted by all major Group operating companies and set out the key business initiatives and the likely financial effects of those initiatives.

Internal control over financial reporting

HSBC is required to comply with section 404 of the US Sarbanes-Oxley Act of 2002 and assess its effectiveness of internal control over financial reporting at 31 December 2023. In 2014, the GAC endorsed the adoption of the principles of the Committee of Sponsoring Organizations of the Treadway Commission ('COSO') 2013 framework for the monitoring of risk management and internal control systems to satisfy the requirements of section 404 of the Sarbanes-Oxley Act.

The primary mechanism through which comfort over risk management and internal control systems is achieved is through annual assessments of the effectiveness of controls to manage risk, and the reporting of issues on a regular basis through the various risk management and risk governance forums.

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

Entity level controls

Entity level controls are a defined suite of internal controls that have a pervasive influence over the entity as a whole and meet the principles of the COSO framework. They include controls related to the control environment, such as the Group's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees. The design and operational effectiveness of entity level controls are assessed on an ongoing basis. If issues are significant to the Group, they are escalated to the GRC and also to the GAC, if concerning financial reporting matters.

Process level transactional controls

Key process level controls that mitigate the risk of financial misstatement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues against which action plans are tracked through to remediation. Further details of HSBC's approach to risk management can be found on page 159. The GAC has continued to receive regular updates on HSBC's ongoing activities for improving

the effective oversight of end-to-end business processes, and management continued to identify opportunities for enhancing key controls, such as through the use of automation technologies.

Financial reporting controls

The Group's financial reporting process is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued to all reporting entities within the Group in advance of each reporting period end. The submission of financial information from each reporting entity is supported by a certification by the responsible financial officer and analytical review procedures at reporting entity and Group levels.

Group Disclosure and Controls Committee

Chaired by the Group Chief Financial Officer, the Group Disclosure and Controls Committee supports the discharge of the Group's obligations under relevant legislation and regulation including the UK and Hong Kong listing rules, the UK Market Abuse Regulation and US Securities and Exchange Commission rules. In so doing, the Group Disclosure and Controls Committee is empowered to determine whether a new event or circumstance should be disclosed, including the form and timing of such disclosure, and review certain material disclosures made or to be made by the Group. The membership of the Group Disclosure and Controls Committee consists of senior management, including the Group Chief Financial Officer, Group Chief Risk and Compliance Officer, Group Chief Legal Officer, and Group Company Secretary and Chief Governance Officer. The Group's brokers, external auditors and its external legal counsel also attend as required. The integrity of disclosures is underpinned by structures and processes within the Global Finance and Group Risk and Compliance functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records. As required by the Sarbanes-Oxley Act, the Group Chief Executive and the Group Chief Financial Officer have certified that the Group's disclosure controls and procedures were effective as at the end of the period covered by the *Annual Report and Accounts 2023*.

The annual review of the effectiveness of the Group's system of risk management and internal control over financial reporting was conducted with reference to the COSO 2013 framework. Based on the assessment performed, the Directors concluded that for the year ended 31 December 2023, the Group's internal control over financial reporting was effective.

PwC has audited the effectiveness of HSBC's internal control over financial reporting and has given an unqualified opinion.

Other information included in the Annual Report and Accounts 2023

We include other non-statutory information in the *Annual Report and Accounts* to enable a broader perspective of our performance for the period, including ESG and regulatory capital and liquidity information. We highlight on pages 43 and 303 that we are seeking to enhance our governance, process, systems and controls capabilities in both areas, although the scale and nature of the challenges differ between reporting areas. Our improvements in regulatory reporting are intended to strengthen our global processes, improve consistency and enhance controls in order to meet regulatory expectations. ESG reporting continues to evolve, with a lack of globally consistent metrics, taxonomies and best practices and a high reliance on external data. The GAC provides oversight to our reporting improvements in both areas, and is also focused on increasing the level of internal and external assurance in these areas, in line with wider market developments (set out on page 303).

Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis.

In making the going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, cash flows, capital requirements and capital resources.

In carrying out their assessment of the principal risks (as detailed on page 163 of this *annual report on Form 20-F*), the Directors considered a wide range of information including:

- details of the Group's business and operating models, and strategy (see page 11 in this *annual report on Form 20-F*);
- details of the Group's approach to managing risk and allocating capital;
- the continued validity of our existing risk management practices, liquidity monitoring process and metric assumptions, in light of the high-profile US and Swiss banking failures in the first quarter of 2023;
- a summary of the Group's financial position considering performance, its ability to maintain minimum levels of regulatory capital, liquidity funding and the minimum requirements for own funds and eligible liabilities over the period of the assessment. Notable are the risks which the Directors believe could cause the Group's future results or operations to adversely impact any of the above;
- enterprise risk reports, including the Group's risk appetite profile (see page 159 of this *annual report on Form 20-F*) and top and emerging risks (see page 163 of this *annual report on Form 20-F*);
- the impact on the Group due to the Russia-Ukraine and Israel-Hamas wars; instability in China's commercial real estate sector and strained economic and diplomatic relations between China and the US, the UK, the EU and other countries;
- reports and updates regarding regulatory and internal stress testing. The 2022–2023 Bank of England annual cyclical scenario stress test results were published on 12 July 2023. The stress scenario explored the potential impacts of a global economic contraction, persistently higher inflation and interest rates in advanced economies with materially increased unemployment, and a sharp fall in asset prices. Additionally during the second half of 2023, the Group-wide internal stress test was completed, which explores a prolonged global stress, depicting macroeconomic conditions that are generally more severe than that of the 2022–2023 annual cyclical scenario. The results of both these exercises indicated the Group is sufficiently capitalised to withstand a severe but plausible adverse stress;
- the results of our 2023 internal climate scenario analysis exercise. The results of this exercise further demonstrate the Group is sufficiently capitalised to withstand a severe stress. Further details of the insights from the 2023 climate scenario analysis are explained from page 66 of this *annual report on Form 20-F*;
- reports and updates from management on risk-related issues selected for in-depth consideration;
- reports and updates on regulatory developments;
- legal proceedings and regulatory matters set out in Note 36 of the financial statements in this *annual report on Form 20-F*; and
- reports and updates from management on the operational resilience of the Group.

Employees

At 31 December 2023, HSBC had a total workforce equivalent to 221,000 full-time employees compared with 219,000 at the end of 2022. Our main centres of employment were India with approximately 42,000 employees, the UK with 33,000, mainland China with 33,000, Hong Kong with 26,000, Mexico with 17,000 and France with 6,000.

Our business spans many cultures, communities and continents. We aspire to provide a high-performing environment where our colleagues can fulfil their potential by building their skills and capabilities while focusing on the development of a diverse and inclusive culture. We use employee surveys to assess progress and make changes. We want to provide an open culture, where our colleagues feel connected and supported to speak up, and where our leaders encourage and use feedback. Where we make organisational changes, we support our colleagues, in particular where there are job impacts.

Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies where we have them. It is our policy to maintain well-developed communications and consultation programmes with all employee representative bodies. There have been no material disruptions to our operations from labour disputes during the past five years.

We are committed to complying with the applicable employment laws and regulations in the jurisdictions in which we operate, including in relation to working hours and rest periods. HSBC's global employment practices and relations policy provides the framework and controls through which we seek to uphold that commitment.

Diversity and inclusion

Our customers, colleagues and communities span many cultures and continents. We value difference and believe that diversity makes us stronger. We are dedicated to building a diverse and connected workforce where everyone feels a sense of belonging.

Our Group People Committee, which is made up of Group Executive Committee members, governs our diversity and inclusion agenda. It meets regularly to agree actions to improve diverse representation and build a more inclusive culture. Members of our Group Executive Committee are held to account for the actions they take on diversity via aspirational goals contained within their performance scorecards.

We expect all colleagues at HSBC to treat each other with dignity and respect to ensure an inclusive environment. Our policies make it clear that we do not tolerate unlawful discrimination, bullying or harassment on any grounds.

To align our approach to inclusion best practices, we participate in global diversity benchmarks that help us to identify improvement opportunities. We also track a large number of diversity and inclusion metrics, including those included in the Group executive scorecards, which enable us to identify inclusion barriers and take action where required. Our approach to diversity and inclusion is set out on page 76 alongside our goals and progress.

Further details of our diversity and inclusion activity, alongside our Gender and Ethnicity Pay Gap Reports 2023, can be found at www.hsbc.com/diversitycommitments.

Employment of people with a disability

We strongly believe in providing equal opportunities for our employees. The employment of people with a disability is included in this commitment. We are committed to retaining disabled employees in the workplace and to providing reasonable adjustments to enable this.

Employee development

We aim to build a dynamic, inclusive culture where the best want to develop the skills and experiences that help them fulfil their potential. This determines how we develop our people and recruit, identify and nurture talent. A range of resources bring this to life including:

- HSBC University, our platform for learning and development with specific business and technical academies;
- our My HSBC Career portal, which offers career development information and resources; and
- HSBC Talent Marketplace, our online platform that uses AI to provide opportunities to learn as we work.

Everyone at HSBC annually completes global mandatory training. It plays a critical role in shaping our culture by ensuring everyone is focused on issues that are fundamental to working at HSBC, from sustainability, to financial crime risk, to our intolerance of bullying and harassment.

As the opportunities we face change, we provide development to key groups of colleagues through business and technical academies. This includes our risk academy, which helps us to develop broad capabilities in traditional areas of risk like financial crime but also in emerging risk issues like climate risk and the ethics of AI and data.

Our approach to learning is skills based. Our academies work with our businesses to identify the key skills and capabilities we need in the future. Alongside this, we help colleagues identify, assess and develop the skills that match their ambition and aspirations.

Our platform for learning content is Degreed. This helps colleagues identify, assess and develop key skills through internal and external training materials in a way that suits them. Content can range from quick videos, articles or podcasts to packaged programmes or learning pathways.

Effective people management and impactful leadership remain critical to our ability to energise for growth. In 2023 we have continued to focus on equipping our management population with the skills they need to lead the organisation and energise our colleagues. We have continued to run our Enterprise Leadership Programme for our most senior leaders and developed the Managing Director Leadership Programme further following the launch in 2022. We have also refreshed our People Management Excellence programme which is available to leaders at all levels of the organisation to help them manage colleagues and nurture a productive team.

Health and safety

We are committed to providing a safe and healthy working environment for everyone. We have adopted global policies, mandatory procedures, and incident and information reporting systems across the organisation that reflect our core values and are aligned to international standards. Our global health and safety performance is subject to ongoing monitoring and assurance to ensure we are compliant with relevant laws and regulations.

Our chief operating officers have overall responsibility for engendering a positive health and safety culture and ensuring that global policies, procedures and systems are put into practice locally. They also have responsibility for ensuring all local legal requirements are met.

We delivered a range of programmes in 2023 to help us understand and manage our health and safety risks:

- We reinforced our advice and risk assessment and control methodology on working from home for employees adopting a hybrid work style, providing more awareness and best practices on good ergonomics and well-being.
- We delivered health and safety training and awareness to 235,000 of our employees and contractors globally, ensuring roles and responsibilities were clear and understood.
- We completed the annual safety inspection on all of our buildings globally, to ensure we were meeting our standards and continuously improving our safety performance.
- We maintained measures in our workplaces globally to minimise the risks from the spread of respiratory disease, including through the provision of hand sanitiser, improved ventilation, and guidance on good hygiene practices.

- We continued to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, covering the five key elements of best practice safety culture, including speaking up about safety, and recognising excellence.
- We continued to provide our guidance and training programme for our construction partners, focusing on our key markets globally to reduce the likelihood of accidents occurring by helping them understand and deliver industry-leading health and safety performance. More than 7,500 construction workers received safety passport training across 20 countries.
- In 2023, our Eat Well Live Well programme continued to promote healthier and more sustainable diets among our colleagues with 30% of global food sales from HSBC catering outlets comprising healthy options. We also extended the reach of our programme through the launch of increased plant-based offers, monthly events dedicated to Eat Well Live Well, and virtual teaching kitchens accessible to all our employees.
- Protection of our colleagues and operations is of critical importance, and we have effective controls in place to protect our people from natural disasters (such as storms and earthquakes). In 2023, there were 27 named storms that passed over 2,010 of our buildings, resulting in no injuries. Only five buildings in Mexico were affected with minor business impact following Storm Otis.

Employee health and safety

	2023	2022	2021
Rate of workplace fatalities per 100,000 employees	—	—	—
Number of major injuries to employees ¹	12	7	14
All injury rate per 100,000 employees	110	70	64
Lost days due to work injury	594	485	358

¹ Fractures, dislocation, concussion, loss of consciousness, overnight admission to hospital.

Remuneration

HSBC's pay and performance strategy is designed to reward competitively the achievement of long-term sustainable performance and attract and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience with the Group, while performing their role in the long-term interests of our stakeholders.

For further details of the Group's approach to remuneration, see page 326.

Employee share plans

Summaries of the share options and share awards granted, exercised/ vested or lapsed during the year and other details required to be disclosed pursuant to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including detailed summaries of the HSBC share plans, are available on our website at www.hsbc.com/who-we-are/leadership-and-governance/remuneration and on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk, or can be obtained upon request from the Group Company Secretary and Chief Governance Officer, 8 Canada Square, London E14 5HQ.

Particulars of options held by Directors of HSBC Holdings are set out on page 336.

Note 5 on the financial statements gives details of share-based payments, including discretionary awards of shares granted under HSBC share plans.

Statement of compliance

The statement of corporate governance practices set out on pages 274 to 353 and the information referred to therein constitutes the 'Corporate governance report' and 'Report of the Directors' of HSBC Holdings. The websites referred to do not form part of this report.

Relevant corporate governance codes, role profiles and policies

UK Corporate Governance Code	www.frc.org.uk
Hong Kong Corporate Governance Code (set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ('HKEx'))	www.hkex.com.hk
Descriptions of the roles and responsibilities of the: – Group Chairman – Group Chief Executive – Senior Independent Director – Board	www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities
Board and senior management	www.hsbc.com/who-we-are/leadership-and-governance
Roles and responsibilities of the Board's committees	www.hsbc.com/who-we-are/leadership-and-governance/board-committees
Board's policies on: – diversity and inclusion – shareholder communication – human rights – remuneration practices and governance	www.hsbc.com/who-we-are/leadership-and-governance/board-responsibilities
Global Internal Audit Charter	www.hsbc.com/who-we-are/leadership-and-governance/corporate-governance-codes/internal-control

HSBC is subject to corporate governance requirements in both the UK and Hong Kong. During 2023, HSBC complied with the provisions and requirements of both the UK and Hong Kong Corporate Governance Codes.

Under the Hong Kong Code, the audit committee should be responsible for the oversight of all risk management and internal control systems. HSBC's Group Risk Committee is responsible for oversight of internal control, other than internal control over financial reporting, and risk management systems. This is permitted under the UK Corporate Governance Code.

HSBC Holdings has codified obligations for transactions in Group securities in accordance with the requirements of the UK Market Abuse Regulation and the rules governing the listing of securities on HKEx. The Group has been granted certain waivers by HKEx from strict compliance with the rules that take into account accepted practices in the UK, particularly in respect of employee share plans. During the year, all Directors were reminded of their obligations in respect of transacting in HSBC Group securities. Following specific enquiry all Directors have confirmed that they have complied with their obligations.

The Group Audit Committee has reviewed and provided assurance to the HSBC Holdings Board on the publication of the *Annual Report and Accounts 2023*.

On behalf of the Board

Mark E Tucker

Group Chairman

HSBC Holdings plc

Registered number 617987

21 February 2024

Financial statements

The financial statements provide detailed information and notes on our income, balance sheet, cash flows and changes in equity, alongside a report from our independent auditors.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of HSBC Holdings plc

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of HSBC Holdings plc and its subsidiaries (the "Group") as of 31 December 2023 and 2022, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended 31 December 2023, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Group's internal control over financial reporting as of 31 December 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2023 in conformity with (i) International Financial Reporting Standards as issued by the International Accounting Standards Board, (ii) UK-adopted International Accounting Standard, and (iii) International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Group changed the manner in which it accounts for insurance contracts in 2023.

Basis for Opinions

The Group's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's assessment of internal controls over financial reporting on page 150 of Form 20-F. Our responsibility is to express opinions on the Group's consolidated financial statements and on the Group's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Group in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Measurement of expected credit losses

As described in Note 1.2 (i) to the consolidated financial statements, expected credit losses ('ECL') are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income and certain loan commitments and financial guarantee contracts. As disclosed by management, the Group's allowance for ECL was \$12.0bn at 31 December 2023. The assessment of credit risk and the estimation of ECL are probability-weighted and incorporate information about past events, current conditions and forecasts of future economic conditions at the reporting date. Management calculates ECL using three main components: a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD'). As disclosed by management, the recognition and measurement of ECL involves the use of significant judgement and estimation. Management form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an ECL estimate. Management judgemental adjustments are made to account for late-breaking events, data and model limitations and deficiencies, and expert credit judgements. The ECL for wholesale stage 3 exposures is determined on an individual basis using discounted cash flow methodologies. The ECL charge in 2023 primarily comprised stage 3 charges, notably related to mainland China commercial real estate ('CRE') exposures, as well as the impact of continued economic uncertainty, rising interest rates and inflationary pressures.

The principal considerations for our determination that performing procedures relating to the measurement of ECL is a critical audit matter are the significant judgements by management in developing the assumptions for (i) multiple economic scenarios and the weighting of those scenarios; (ii) estimating management judgemental adjustments; and (iii) the discounted cash flow projections for certain material credit impaired exposures in relation to the mainland China CRE portfolio. This led to a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating audit evidence. The audit effort involved the use of professionals with specialised skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the measurement of ECL. These procedures also included, amongst others, testing management's process for estimating ECL through (i) evaluating the appropriateness of the ECL model methodologies applied by management; (ii) evaluating the reasonableness of certain economic scenarios and weightings; (iii) evaluating management's determination of the need for, and measurement of, judgemental adjustments; (iv) evaluating the reasonableness of discounted cash flow projections for certain material credit impaired exposures in relation to the mainland China CRE portfolio; (v) testing the completeness and accuracy of certain input data that is used by management to determine ECL; and (vi) evaluating the disclosures made in the consolidated financial statements in relation to the measurement of ECL. Professionals with specialised skills and knowledge assisted in testing the appropriateness of model methodologies, assessing the reasonableness of the selection and weighting of economic scenarios and testing the reasonableness of discounted cash flow projections for certain material credit impaired exposures in relation to the mainland China CRE portfolio.

Impairment assessment of investment in Bank of Communications co., Limited ('BoCom')

As described in Note 1.2(a) and 18 to the consolidated financial statements, the carrying value of the Group's investment in BoCom is \$21.2bn at 31 December 2023. As disclosed by management, there is significant judgement in determining the value in use, and in particular estimating the present value of cash flows expected to arise from continuing to hold the investment, based on a number of assumptions. The fair value of the Group's investment in BoCom has been below the carrying amount for approximately 12 years. At 31 December 2023, management performed an impairment test on the carrying amount, which resulted in an impairment of \$3.0bn, as the recoverable amount as determined by a value-in-use ('VIU') calculation was lower than the carrying value. The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings available to ordinary shareholders. The significant assumptions used were discount rate, operating income growth rate, cost-income ratio, ECL as a percentage of loans and advances to customers, risk-weighted assets as a percentage of total assets, loans and advances to customers growth rate, capital requirements for capital adequacy ratio and tier 1 capital adequacy ratio, and long-term effective tax, profit growth and asset growth rates.

The principal considerations for our determination that performing procedures relating to the impairment assessment of the investment in BoCom is a critical audit matter are (i) the significant judgement by management when determining significant assumptions for the discount rate, operating income growth rate, cost-income ratio, ECL as a percentage of loans and advances to customers, risk-weighted assets as a percentage of total assets, loans and advances to customers growth rate, capital requirements for capital adequacy ratio and tier 1 capital adequacy ratio, and long-term effective tax, profit growth and asset growth rates; (ii) a high degree of auditor judgement, subjectivity and effort in performing procedures and evaluating management's estimate of the VIU and evaluating audit evidence; and (iii) the audit effort involved the use of professionals with specialised skills and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's impairment assessment of the investment in BoCom. These procedures also included, amongst others: (i) evaluating management's VIU determination and underlying significant assumptions; (ii) developing an independent range for discount rates; (iii) evaluating the appropriateness of the methodology used to estimate the VIU; (iv) testing inputs used in the determination of the significant assumptions; and (v) evaluating the disclosures made in the consolidated financial statements in relation to BoCom. Professionals with specialised skill and knowledge were used to assist in assessing the VIU methodology and developing an independent range for discount rates.

/s/PricewaterhouseCoopers LLP

London, United Kingdom

22 February 2024

We have served as the Group's auditor since 2015.

Financial statements

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Consolidated income statement for the year ended 31 December 2023

	Notes*	2023 \$m	2022 ¹ \$m	2021 \$m
Net interest income		35,796	30,377	26,489
– interest income ^{2,3}		100,868	52,826	36,188
– interest expense ⁴		(65,072)	(22,449)	(9,699)
Net fee income	2	11,845	11,770	13,097
– fee income		15,616	15,124	16,788
– fee expense		(3,771)	(3,354)	(3,691)
Net income from financial instruments held for trading or managed on a fair value basis	3	16,661	10,278	7,744
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	7,887	(13,831)	4,053
Net insurance premium income		—	—	10,870
Insurance finance (expense)/income	4	(7,809)	13,799	—
Insurance service result		1,078	809	—
– insurance revenue		2,259	1,977	—
– insurance service expense		(1,181)	(1,168)	—
Gain on acquisition ⁵		1,591	—	—
(Impairment)/reversal of impairment relating to the sale of our retail banking operations in France ⁶		150	(2,316)	—
Other operating (expense)/income ⁷		(1,141)	(266)	1,687
Total operating income		66,058	50,620	63,940
Net insurance claims and benefits paid and movement in liabilities to policyholders		—	—	(14,388)
Net operating income before change in expected credit losses and other credit impairment charges⁸		66,058	50,620	49,552
Change in expected credit losses and other credit impairment charges		(3,447)	(3,584)	928
Net operating income		62,611	47,036	50,480
Employee compensation and benefits	5	(18,220)	(18,003)	(18,742)
General and administrative expenses		(10,383)	(10,848)	(11,592)
Depreciation and impairment of property, plant and equipment and right-of-use assets ⁹		(1,640)	(2,149)	(2,261)
Amortisation and impairment of intangible assets		(1,827)	(1,701)	(1,438)
Goodwill impairment		—	—	(587)
Total operating expenses		(32,070)	(32,701)	(34,620)
Operating profit		30,541	14,335	15,860
Share of profit in associates and joint ventures	18	2,807	2,723	3,046
Impairment of interest in associate	18	(3,000)	—	—
Profit before tax		30,348	17,058	18,906
Tax expense	7	(5,789)	(809)	(4,213)
Profit for the year		24,559	16,249	14,693
Attributable to:				
– ordinary shareholders of the parent company		22,432	14,346	12,607
– preference shareholders of the parent company		—	—	7
– other equity holders		1,101	1,213	1,303
– non-controlling interests		1,026	690	776
Profit for the year		24,559	16,249	14,693
		\$	\$	\$
Basic earnings per ordinary share	9	1.15	0.72	0.62
Diluted earnings per ordinary share	9	1.14	0.72	0.62

* For Notes on the financial statements, see page 368.

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Interest income includes \$88,657m (2022: \$45,994m; 2021: \$30,916m) of interest recognised on financial assets measured at amortised cost and \$12,134m (2022: \$6,293m; 2021: \$4,337m) of interest recognised on financial assets measured at fair value through other comprehensive income.

3 Interest income is calculated using the effective interest method and comprises mainly interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.

4 Interest expense includes \$62,095m (2022: \$20,798m; 2021: \$8,227m) of interest on financial instruments, excluding interest on debt instruments issued by HSBC for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments included in interest expense.

5 Provisional gain recognised in respect of the acquisition of SVB UK.

6 In the fourth quarter of 2023, an impairment loss of \$2.0bn was recognised relating to the sale of our retail banking operations in France. This largely offset the \$2.1bn recognised in the first quarter of 2023 on the reversal of the held for sale classification at that time. In 2023, a total net \$0.1bn of credit was recognised in other operating income, reflecting the net asset value disposed under the final terms of sale. The \$0.4bn impairment of goodwill recognised in the third quarter in 2022 has not been reversed.

7 Other operating (expense)/income includes a loss on net monetary positions of \$1,667m (2022: \$678m; 2021: \$576m) as a result of applying IAS 29 'Financial Reporting in Hyperinflationary Economies' and the disposal losses on capitalised Markets Treasury repositioning of \$977m in 2023.

8 Net operating income before change in expected credit losses and other credit impairment charges also referred to as revenue.

9 Includes depreciation of the right-of-use assets of \$663m (2022: \$717m; 2021: \$878m).

Consolidated statement of comprehensive income for the year ended 31 December 2023

	2023 \$m	2022 ¹ \$m	2021 \$m
Profit for the year	24,559	16,249	14,693
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	2,599	(7,232)	(2,139)
– fair value gains/(losses)	2,381	(9,618)	(2,270)
– fair value losses/(gains) transferred to the income statement on disposal	905	(18)	(464)
– expected credit (recoveries)/losses recognised in the income statement	59	56	(49)
– income taxes	(746)	2,348	644
Cash flow hedges	2,953	(3,655)	(664)
– fair value gains/(losses)	2,534	(4,207)	595
– fair value (gains)/losses reclassified to the income statement	1,463	(758)	(1,514)
– income taxes	(1,044)	1,310	255
Share of other comprehensive income/(expense) of associates and joint ventures	47	(367)	103
– share for the year	47	(367)	103
Net finance income/(expenses) from insurance contracts	(364)	1,775	—
– before income taxes	(491)	2,393	—
– income taxes	127	(618)	—
Exchange differences	(204)	(9,918)	(2,393)
Items that will not be reclassified subsequently to profit or loss:			
Fair value gains on property revaluation	1	280	—
Remeasurement of defined benefit liability	(314)	(1,031)	(274)
– before income taxes	(413)	(1,723)	(107)
– income taxes	99	692	(167)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(1,219)	1,922	531
– before income taxes	(1,617)	2,573	512
– income taxes	398	(651)	19
Equity instruments designated at fair value through other comprehensive income	(120)	107	(446)
– fair value gains/(losses)	(120)	107	(443)
– income taxes	—	—	(3)
Effects of hyperinflation	1,604	877	315
Other comprehensive income/(expense) for the year, net of tax	4,983	(17,242)	(4,967)
Total comprehensive income/(expense) for the year	29,542	(993)	9,726
Attributable to:			
– ordinary shareholders of the parent company	27,397	(2,810)	7,765
– preference shareholders of the parent company	—	—	7
– other equity holders	1,101	1,213	1,303
– non-controlling interests	1,044	604	651
Total comprehensive income/(expense) for the year	29,542	(993)	9,726

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Consolidated balance sheet

at 31 December 2023

		At ¹		
		31 Dec 2023 \$m	31 Dec 2022 \$m	1 Jan 2022 \$m
	Notes*			
Assets				
Cash and balances at central banks		285,868	327,002	403,018
Items in the course of collection from other banks		6,342	7,297	4,136
Hong Kong Government certificates of indebtedness		42,024	43,787	42,578
Trading assets	11	289,159	218,093	248,842
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	14	110,643	100,101	110,795
Derivatives	15	229,714	284,159	196,882
Loans and advances to banks		112,902	104,475	82,567
Loans and advances to customers		938,535	923,561	1,044,534
Reverse repurchase agreements – non-trading		252,217	253,754	241,648
Financial investments	16	442,763	364,726	392,005
Assets held for sale	23	114,134	115,919	3,411
Prepayments, accrued income and other assets	22	165,255	156,149	136,196
Current tax assets		1,536	1,230	970
Interests in associates and joint ventures	18	27,344	29,254	29,609
Goodwill and intangible assets	21	12,487	11,419	11,169
Deferred tax assets	7	7,754	8,360	5,432
Total assets		3,038,677	2,949,286	2,953,792
Liabilities				
Hong Kong currency notes in circulation		42,024	43,787	42,578
Deposits by banks		73,163	66,722	101,152
Customer accounts		1,611,647	1,570,303	1,710,574
Repurchase agreements – non-trading		172,100	127,747	126,670
Items in the course of transmission to other banks		7,295	7,864	5,214
Trading liabilities	24	73,150	72,353	84,904
Financial liabilities designated at fair value	25	141,426	127,321	145,503
Derivatives	15	234,772	285,762	191,064
Debt securities in issue	26	93,917	78,149	78,557
Liabilities of disposal groups held for sale	23	108,406	114,597	9,005
Accruals, deferred income and other liabilities	27	136,606	134,313	115,900
Current tax liabilities		2,777	1,135	699
Insurance contract liabilities	4	120,851	108,816	119,307
Provisions	28	1,741	1,958	2,566
Deferred tax liabilities	7	1,238	972	3,294
Subordinated liabilities	29	24,954	22,290	20,487
Total liabilities		2,846,067	2,764,089	2,757,474
Equity				
Called up share capital	33	9,631	10,147	10,316
Share premium account	33	14,738	14,664	14,602
Other equity instruments		17,719	19,746	22,414
Other reserves		(8,907)	(9,133)	6,447
Retained earnings		152,148	142,409	135,236
Total shareholders' equity		185,329	177,833	189,015
Non-controlling interests	19	7,281	7,364	7,303
Total equity		192,610	185,197	196,318
Total liabilities and equity		3,038,677	2,949,286	2,953,792

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data and the IFRS 17 transition impact on the balance sheet at 1 January 2022.

* For Notes on the financial statements, see page 368.

The accompanying notes on pages 368 to 461 and the audited sections in the Risk review on pages 158 to 273 (including 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 192 to 204, and 'Directors' remuneration report' on pages 315 to 342 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 February 2024 and signed on its behalf by:

Mark E Tucker
Group Chairman

Georges Elhedery
Group Chief Financial Officer

Consolidated statement of changes in equity for the year ended 31 December 2023

	Other reserves										
	Called up share capital and share premium	Other equity instru- ments	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves ^{1,2}	Insurance finance reserve ³	Retained earnings ^{1,4}	Total share- holders' equity	Non- controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	24,811	19,746	(7,038)	(3,808)	(32,575)	33,209	1,079	142,409	177,833	7,364	185,197
Profit for the year	—	—	—	—	—	—	—	23,533	23,533	1,026	24,559
Other comprehensive income (net of tax)	—	—	2,402	3,030	(211)	1	(371)	114	4,965	18	4,983
– debt instruments at fair value through other comprehensive income	—	—	2,574	—	—	—	—	—	2,574	25	2,599
– equity instruments designated at fair value through other comprehensive income	—	—	(93)	—	—	—	—	—	(93)	(27)	(120)
– cash flow hedges	—	—	—	2,919	—	—	—	—	2,919	34	2,953
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	—	—	—	—	—	(1,220)	(1,220)	1	(1,219)
– property revaluation	—	—	—	—	—	1	—	—	1	—	1
– remeasurement of defined benefit asset/liability	—	—	—	—	—	—	—	(317)	(317)	3	(314)
– share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	47	47	—	47
– effects of hyperinflation	—	—	—	—	—	—	—	1,604	1,604	—	1,604
– insurance finance income/ (expense) recognised in other comprehensive income	—	—	—	—	—	—	(364)	—	(364)	—	(364)
– exchange differences	—	—	(79)	111	(211)	—	(7)	—	(186)	(18)	(204)
Total comprehensive income for the year	—	—	2,402	3,030	(211)	1	(371)	23,647	28,498	1,044	29,542
Shares issued under employee remuneration and share plans	79	—	—	—	—	—	—	(79)	—	—	—
Capital securities issued ⁵	—	1,996	—	—	—	—	—	—	1,996	—	1,996
Dividends to shareholders	—	—	—	—	—	—	—	(11,593)	(11,593)	(603)	(12,196)
Redemption of securities ⁶	—	(4,023)	—	—	—	—	—	20	(4,003)	—	(4,003)
Transfers ⁷	—	—	—	—	—	(5,130)	—	5,130	—	—	—
Cost of share-based payment arrangements	—	—	—	—	—	—	—	482	482	—	482
Share buy-back ⁸	—	—	—	—	—	—	—	(7,025)	(7,025)	—	(7,025)
Cancellation of shares	(521)	—	—	—	—	521	—	—	—	—	—
Other movements	—	—	1,129	(255)	(967)	—	77	(843)	(859)	(524)	(1,383)
At 31 Dec 2023	24,369	17,719	(3,507)	(1,033)	(33,753)	28,601	785	152,148	185,329	7,281	192,610

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2022

	Other reserves										
	Called up share capital and share premium	Other equity instruments	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves ^{1,2}	Insurance finance reserve ³	Retained earnings ^{1,4}	Total shareholders' equity	Non-controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 31 Dec 2021 (IFRS 4)	24,918	22,414	(634)	(197)	(22,769)	30,060	—	144,458	198,250	8,527	206,777
Impact on transition to IFRS 17 ⁹	—	—	683	—	—	—	(696)	(9,222)	(9,235)	(1,224)	(10,459)
At 1 Jan 2022	24,918	22,414	49	(197)	(22,769)	30,060	(696)	135,236	189,015	7,303	196,318
Profit for the year	—	—	—	—	—	—	—	15,559	15,559	690	16,249
Other comprehensive income (net of tax)	—	—	(7,089)	(3,613)	(9,806)	174	1,775	1,403	(17,156)	(86)	(17,242)
– debt instruments at fair value through other comprehensive income	—	—	(7,181)	—	—	—	—	—	(7,181)	(51)	(7,232)
– equity instruments designated at fair value through other comprehensive income	—	—	92	—	—	—	—	—	92	15	107
– cash flow hedges	—	—	—	(3,613)	—	—	—	—	(3,613)	(42)	(3,655)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	—	—	—	—	—	1,922	1,922	—	1,922
– property revaluation	—	—	—	—	—	174	—	—	174	106	280
– remeasurement of defined benefit asset/liability	—	—	—	—	—	—	—	(1,029)	(1,029)	(2)	(1,031)
– share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	(367)	(367)	—	(367)
– effects of hyperinflation	—	—	—	—	—	—	—	877	877	—	877
– insurance finance income/ (expense) recognised in other comprehensive income	—	—	—	—	—	—	1,775	—	1,775	—	1,775
– exchange differences	—	—	—	—	(9,806)	—	—	—	(9,806)	(112)	(9,918)
Total comprehensive income for the year	—	—	(7,089)	(3,613)	(9,806)	174	1,775	16,962	(1,597)	604	(993)
Shares issued under employee remuneration and share plans	67	—	—	—	—	—	—	(67)	—	—	—
Dividends to shareholders	—	—	—	—	—	—	—	(6,544)	(6,544)	(426)	(6,970)
Redemption of securities	—	(2,668)	—	—	—	—	—	402	(2,266)	—	(2,266)
Transfers	—	—	—	—	—	2,499	—	(2,499)	—	—	—
Cost of share-based payment arrangements	—	—	—	—	—	—	—	400	400	—	400
Share buy-back	—	—	—	—	—	—	—	(1,000)	(1,000)	—	(1,000)
Cancellation of shares	(174)	—	—	—	—	174	—	—	—	—	—
Other movements	—	—	2	2	—	302	—	(481)	(175)	(117)	(292)
At 31 Dec 2022	24,811	19,746	(7,038)	(3,808)	(32,575)	33,209	1,079	142,409	177,833	7,364	185,197

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2021

	Other reserves										
	Called up share capital and share premium	Other equity instru- ments	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger and other reserves 1,2	Insurance finance reserve ³	Retained earnings 1,4	Total share- holders' equity	Non- controlling interests	Total equity
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2021	24,624	22,414	1,816	457	(20,375)	26,935	—	140,572	196,443	8,552	204,995
Profit for the year	—	—	—	—	—	—	—	13,917	13,917	776	14,693
Other comprehensive income (net of tax)	—	—	(2,455)	(654)	(2,394)	—	—	661	(4,842)	(125)	(4,967)
– debt instruments at fair value through other comprehensive income	—	—	(2,105)	—	—	—	—	—	(2,105)	(34)	(2,139)
– equity instruments designated at fair value through other comprehensive income	—	—	(350)	—	—	—	—	—	(350)	(96)	(446)
– cash flow hedges	—	—	—	(654)	—	—	—	—	(654)	(10)	(664)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	—	—	—	—	—	531	531	—	531
– remeasurement of defined benefit asset/liability	—	—	—	—	—	—	—	(288)	(288)	14	(274)
– share of other comprehensive income of associates and joint ventures	—	—	—	—	—	—	—	103	103	—	103
– effects of hyperinflation	—	—	—	—	—	—	—	315	315	—	315
– exchange differences	—	—	—	—	(2,394)	—	—	—	(2,394)	1	(2,393)
Total comprehensive income for the year	—	—	(2,455)	(654)	(2,394)	—	—	14,578	9,075	651	9,726
Shares issued under employee remuneration and share plans	354	—	—	—	—	—	—	(336)	18	—	18
Capital securities issued	—	2,000	—	—	—	—	—	(4)	1,996	—	1,996
Dividends to shareholders	—	—	—	—	—	—	—	(5,790)	(5,790)	(593)	(6,383)
Redemption of securities	—	(2,000)	—	—	—	—	—	—	(2,000)	—	(2,000)
Transfers	—	—	—	—	—	3,065	—	(3,065)	—	—	—
Cost of share-based payment arrangements	—	—	—	—	—	—	—	467	467	—	467
Cancellation of shares	(60)	—	—	—	—	60	—	(2,004)	(2,004)	—	(2,004)
Other movements	—	—	5	—	—	—	—	40	45	(83)	(38)
At 31 Dec 2021	24,918	22,414	(634)	(197)	(22,769)	30,060	—	144,458	198,250	8,527	206,777

- 1 Cumulative goodwill amounting to \$5,138m was charged against reserves in respect of acquisitions of subsidiaries prior to 1 January 1998, including \$3,469m charged against the merger reserve arising on the acquisition of HSBC Bank plc. The balance of \$1,669m was charged against retained earnings.
- 2 Statutory share premium relief under section 131 of the Companies Act 1985 was taken in respect of the acquisition of HSBC Bank plc in 1992, HSBC Continental Europe in 2000 and HSBC Finance Corporation in 2003, and the shares issued were recorded at their nominal value only. In HSBC's consolidated financial statements, the fair value differences of \$8,290m in respect of HSBC Continental Europe and \$12,768m in respect of HSBC Finance Corporation were recognised in the merger reserve. The merger reserve created on the acquisition of HSBC Finance Corporation subsequently became attached to HSBC Overseas Holdings (UK) Limited, following a number of intra-Group reorganisations. During 2009, pursuant to section 131 of the Companies Act 1985, statutory share premium relief was taken in respect of the rights issue and \$15,796m was recognised in the merger reserve.
- 3 The insurance finance reserve reflects the impact of the adoption of the other comprehensive income option for our insurance business in France. Underlying assets supporting these contracts are measured at fair value through other comprehensive income. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses, resulting in the elimination of income statement accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts is recognised in other comprehensive income ('OCI').
- 4 At 31 December 2023, retained earnings included 256,289,431 treasury shares (2022: 554,452,437; 2021: 558,397,704). These include treasury shares held within HSBC's insurance business's retirement funds for the benefit of policyholders or beneficiaries within employee trusts for the settlement of shares expected to be delivered under employee share schemes or bonus plans, and the market-making activities in Markets and Securities Services.
- 5 In March 2023, HSBC Holdings issued \$2,000m 8.000% contingent convertible securities on which there were \$4m of external issue costs.
- 6 In March 2023, HSBC Holdings redeemed \$2,350m 6.250% contingent convertible securities. In September 2023, HSBC Holdings further redeemed €1,000m 6.000% and SGD750m 5.000% contingent convertible securities.
- 7 At 31 December 2023, an impairment of \$5,512m of HSBC Overseas Holdings (UK) Limited was recognised, resulting in a permitted transfer of \$5,130m from the merger reserve to retained earnings and a realisation of \$382m shared-based payment reserve within retained earnings.
- 8 In May 2023, HSBC Holdings announced a share buy-back of up to \$2.0bn, which was completed in July 2023. In August 2023, HSBC Holdings announced another share buy-back of up to \$2.0bn, which was completed in October 2023. In October 2023, HSBC Holdings further announced a share buy-back of up to \$3.0bn, which was completed in February 2024.
- 9 The impact of IFRS 17 on previously reported total equity was \$(10,831)m at 31 December 2022.

Consolidated statement of cash flows

for the year ended 31 December 2023

	2023	2022 ¹	2021
	\$m	\$m	\$m
Profit before tax	30,348	17,058	18,906
Adjustments for non-cash items:			
Depreciation, amortisation and impairment	3,466	3,850	4,286
Net loss/(gain) from investing activities	1,213	11	(647)
Share of profit in associates and joint ventures	(2,807)	(2,723)	(3,046)
Impairment of interest in associate	3,000	—	—
(Gain)/loss on acquisition/disposal of subsidiaries, businesses, associates and joint ventures	(1,775)	2,554	—
Change in expected credit losses gross of recoveries and other credit impairment charges	3,717	3,898	(519)
Provisions including pensions	266	638	1,063
Share-based payment expense	482	400	467
Other non-cash items included in profit before tax	(4,299)	(774)	510
Elimination of exchange differences ²	(10,678)	48,718	18,937
Changes in operating assets and liabilities			
Change in net trading securities and derivatives	(63,247)	20,166	(9,226)
Change in loans and advances to banks and customers	(14,145)	31,649	(11,014)
Change in reverse repurchase agreements – non-trading	(2,095)	(23,405)	552
Change in financial assets designated and otherwise mandatorily measured at fair value	(9,994)	14,164	(4,254)
Change in other assets ³	(10,254)	(12,858)	19,899
Change in deposits by banks and customer accounts	45,021	(91,194)	95,703
Change in repurchase agreements – non-trading	43,366	4,344	14,769
Change in debt securities in issue	11,945	12,518	(16,936)
Change in financial liabilities designated at fair value	10,097	(13,654)	(11,425)
Change in other liabilities	8,742	6,021	(10,935)
Dividends received from associates	1,067	944	808
Contributions paid to defined benefit plans	(208)	(194)	(509)
Tax paid	(4,117)	(2,776)	(3,077)
Net cash from operating activities	39,111	19,355	104,312
Purchase of financial investments ³	(563,561)	(511,097)	(493,042)
Proceeds from the sale and maturity of financial investments ³	504,174	492,624	521,190
Net cash flows from the purchase and sale of property, plant and equipment	(1,145)	(1,284)	(1,086)
Net cash flows from disposal of loan portfolio and customer accounts	623	(3,530)	3,059
Net investment in intangible assets	(2,550)	(3,125)	(2,479)
Net cash flow from (acquisition)/disposal of subsidiaries, businesses, associates and joint ventures ⁴	(453)	(989)	(106)
Net cash from investing activities	(62,912)	(27,401)	27,536
Issue of ordinary share capital and other equity instruments	1,996	—	1,996
Cancellation of shares	(5,812)	(2,285)	(707)
Net sales/(purchases) of own shares for market-making and investment purposes	(614)	(91)	(1,386)
Net cash flow from change in stake of subsidiaries	(19)	(197)	—
Redemption of preference shares and other equity instruments	(4,003)	(2,266)	(3,450)
Subordinated loan capital issued	5,237	7,300	—
Subordinated loan capital repaid ⁵	(2,147)	(1,777)	(864)
Dividends paid to shareholders of the parent company and non-controlling interests	(12,196)	(6,970)	(6,383)
Net cash from financing activities	(17,558)	(6,286)	(10,794)
Net increase/(decrease) in cash and cash equivalents	(41,359)	(14,332)	121,054
Cash and cash equivalents at 1 Jan	521,671	574,032	468,323
Exchange differences in respect of cash and cash equivalents	10,621	(38,029)	(15,345)
Cash and cash equivalents at 31 Dec⁶	490,933	521,671	574,032

Consolidated statement of cash flows (continued)

for the year ended 31 December 2023

	2023 \$m	2022 ¹ \$m	2021 \$m
Cash and cash equivalents comprise:			
– cash and balances at central banks	285,868	327,002	403,018
– items in the course of collection from other banks	6,342	7,297	4,136
– loans and advances to banks of one month or less	76,620	72,295	55,705
– reverse repurchase agreements with banks of one month or less	64,341	68,682	76,658
– treasury bills, other bills and certificates of deposit less than three months	33,303	26,727	28,488
– cash collateral and net settlement accounts	15,819	19,445	11,241
– cash and cash equivalents held for sale ⁷	15,935	8,087	—
– less: items in the course of transmission to other banks	(7,295)	(7,864)	(5,214)
Cash and cash equivalents at 31 Dec⁶	490,933	521,671	574,032

Interest received was \$98,910m (2022: \$55,664m; 2021: \$40,175m), interest paid was \$65,980m (2022: \$22,856m; 2021: \$12,695m) and dividends received (excluding dividends received from associates, which are presented separately above) were \$1,869m (2022: \$1,638m; 2021: \$1,898m).

- 1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.
- 2 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.
- 3 Post adoption of IFRS 17 'Insurance Contracts', certain assets have been reclassified from 'Investing activities' to 'Operating activities'. The comparative data have not been re-presented.
- 4 The 'Net cash flow on (acquisition)/disposal of subsidiaries, businesses, associates and joint ventures' includes \$1.2bn of net cash inflows from the acquisition of Silicon Valley Bank UK Limited in March 2023.
- 5 Subordinated liabilities changes during the year are attributable to repayments of \$(2.1)bn (2022: \$(1.8)bn; 2021: \$(0.9)bn) of securities. Non-cash changes during the year included foreign exchange gains/(losses) of \$0.6bn (2022: \$(1.1)bn; 2021: \$(0.3)bn) and fair value gains/(losses) of \$0.8bn (2022: \$(3.1)bn; 2021: \$(1.0)bn).
- 6 At 31 December 2023, \$61.8bn (2022: \$59.3bn; 2021: \$33.6bn) was not available for use by HSBC due to a range of restrictions, including currency exchange and other restrictions.
- 7 Includes \$5.6bn (2022: \$6.5bn) of cash and balances at central banks, \$0.2bn (2022: \$1.3bn) of reverse repurchase agreements with banks of one month or less, \$10.5bn (2022: \$0.2bn) of loans and advances to banks of one month or less and items in the course of transmission to other banks \$(0.4)bn (2022: \$(0.2)bn).

HSBC Holdings income statement

for the year ended 31 December 2023

	Notes*	2023 \$m	2022 \$m	2021 \$m
Net interest expense		(5,339)	(3,074)	(2,367)
– interest income		2,864	937	380
– interest expense		(8,203)	(4,011)	(2,747)
Fee (expense)/income		2	(3)	(5)
Net income from financial instruments held for trading or managed on a fair value basis	3	1,063	2,129	110
Changes in fair value of designated debt and related derivatives ¹	3	(1,468)	2,144	349
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	3,692	(2,409)	(420)
Gains less losses from financial investments		45	58	—
Dividend income from subsidiaries		16,824	9,478	11,404
Other operating income		332	91	230
Total operating income		15,151	8,414	9,301
Employee compensation and benefits	5	(15)	(41)	(30)
General and administrative expenses		(1,327)	(1,586)	(1,845)
(Impairment) of subsidiaries/reversal of impairment	19	(5,574)	2,493	3,065
Total operating expenses		(6,916)	866	1,190
Profit before tax		8,235	9,280	10,491
Tax credit ²		977	3,077	343
Profit for the year		9,212	12,357	10,834

* For Notes on the financial statements, see page 368.

1 The debt instruments, issued for funding purposes, are designated under the fair value option to reduce an accounting mismatch.

2 The tax credit in 2022 includes \$2.2bn arising from the recognition of a deferred tax asset from historical tax losses in HSBC Holdings. This was a result of improved profit forecasts for the UK tax group, which accelerated the expected utilisation of these losses and reduced uncertainty regarding their recoverability. The amounts recorded within profit before tax with respect to dividend income from subsidiaries and reversal of impairment of subsidiaries are not subject to tax.

HSBC Holdings statement of comprehensive income

for the year ended 31 December 2023

	2023 \$m	2022 \$m	2021 \$m
Profit for the year	9,212	12,357	10,834
Other comprehensive income/(expense)			
Items that will not be reclassified subsequently to profit or loss:			
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(124)	326	267
– before income taxes	(166)	435	259
– income taxes	42	(109)	8
Other comprehensive income/(expense) for the year, net of tax	(124)	326	267
Total comprehensive income for the year	9,088	12,683	11,101

HSBC Holdings balance sheet

	Notes*	31 Dec 2023 \$m	31 Dec 2022 \$m
Assets			
Cash and balances with HSBC undertakings		7,029	3,210
Financial assets with HSBC undertakings designated and otherwise mandatorily measured at fair value		59,879	52,322
Derivatives	15	3,344	3,801
Loans and advances to HSBC undertakings		27,354	26,765
Financial investments	16	19,558	19,466
Prepayments, accrued income and other assets		5,341	5,242
Current tax assets		924	464
Investments in subsidiaries	19	159,478	167,542
Intangible assets		180	189
Deferred tax assets		2,082	2,100
Total assets at 31 Dec		285,169	281,101
Liabilities and equity			
Liabilities			
Amounts owed to HSBC undertakings		168	314
Financial liabilities designated at fair value	25	43,638	32,123
Derivatives	15	6,090	6,922
Debt securities in issue	26	65,239	66,938
Accruals, deferred income and other liabilities		4,289	1,969
Subordinated liabilities	29	24,439	19,727
Total liabilities		143,863	127,993
Equity			
Called up share capital	33	9,631	10,147
Share premium account	33	14,738	14,664
Other equity instruments	33	17,703	19,746
Merger and other reserves		35,946	40,555
Retained earnings		63,288	67,996
Total equity		141,306	153,108
Total liabilities and equity at 31 Dec		285,169	281,101

* For Notes on the financial statements, see page 368.

The accompanying notes on pages 368 to 461, the audited sections in the Risk review on pages 158 to 273 and 'Directors' remuneration report' on pages 315 to 342 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 21 February 2024 and signed on its behalf by:

Mark E Tucker
Group Chairman

Georges Elhedery
Group Chief Financial Officer

HSBC Holdings statement of changes in equity for the year ended 31 December 2023

	Called up share capital	Share premium	Other equity instruments	Retained earnings ^{1,2}	Other reserves Merger and other reserves	Total shareholders' equity
	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	10,147	14,664	19,746	67,996	40,555	153,108
Profit for the year	—	—	—	9,212	—	9,212
Other comprehensive income (net of tax)	—	—	—	(124)	—	(124)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	(124)	—	(124)
Total comprehensive income for the year	—	—	—	9,088	—	9,088
Shares issued under employee share plans	5	74	—	(328)	—	(249)
Capital securities issued ³	—	—	1,980	—	—	1,980
Cancellation of shares ⁴	(521)	—	—	(7,025)	521	(7,025)
Dividends to shareholders	—	—	—	(11,593)	—	(11,593)
Redemption of capital securities ⁵	—	—	(4,023)	20	—	(4,003)
Transfers ⁶	—	—	—	5,130	(5,130)	—
Other movements	—	—	—	—	—	—
At 31 Dec 2023	9,631	14,738	17,703	63,288	35,946	141,306
At 1 Jan 2022	10,316	14,602	22,414	65,116	37,882	150,330
Profit for the year	—	—	—	12,357	—	12,357
Other comprehensive income (net of tax)	—	—	—	326	—	326
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	326	—	326
Total comprehensive income for the year	—	—	—	12,683	—	12,683
Shares issued under employee share plans	5	62	—	(161)	—	(94)
Capital securities issued	—	—	—	—	—	—
Cancellation of shares	(174)	—	—	(1,001)	174	(1,001)
Dividends to shareholders	—	—	—	(6,544)	—	(6,544)
Redemption of capital securities	—	—	(2,668)	402	—	(2,266)
Transfers ⁶	—	—	—	(2,499)	2,499	—
Other movements	—	—	—	—	—	—
At 31 Dec 2022	10,147	14,664	19,746	67,996	40,555	153,108
At 1 Jan 2021	10,347	14,277	22,414	65,005	34,757	146,800
Profit for the year	—	—	—	10,834	—	10,834
Other comprehensive income (net of tax)	—	—	—	267	—	267
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	—	267	—	267
Total comprehensive income for the year	—	—	—	11,101	—	11,101
Shares issued under employee share plans	29	325	—	(103)	—	251
Capital securities issued	—	—	2,000	(20)	—	1,980
Cancellation of shares	(60)	—	—	(2,004)	60	(2,004)
Dividends to shareholders	—	—	—	(5,790)	—	(5,790)
Redemption of capital securities	—	—	(2,000)	—	—	(2,000)
Transfers ⁶	—	—	—	(3,065)	3,065	—
Other movements	—	—	—	(8)	—	(8)
At 31 Dec 2021	10,316	14,602	22,414	65,116	37,882	150,330

Dividends per ordinary share at 31 December 2023 were \$0.53 (2022: \$0.27; 2021: \$0.22).

- 1 Retained earnings include unrealised profits from intercompany transactions and share-based payment reserves, which are excluded from distributable reserves. Distributable reserves include the distributable portions of retained earnings and the merger reserve. Distributable reserves are reduced by ordinary dividend payments, distributions on additional tier 1 instruments, share buy-backs and impairments in investments in subsidiaries. They are increased by profits and the realisation of retained earnings or merger reserves upon impairment of an associated investment in subsidiary.
- 2 At 31 December 2023, retained earnings included 20,018,490 (\$100m) treasury shares (2022: 331,874,221 (\$2,615m); 2021: 329,871,829 (\$2,542m)).
- 3 In March 2023, HSBC Holdings issued \$2,000m 8.000% contingent convertible securities, on which there were \$20m of issue costs.
- 4 In May 2023, HSBC announced a share buy-back of up to \$2.0bn, which was completed in July 2023. In August 2023, HSBC announced another share buy-back of up to \$2.0bn, which was completed in October 2023. In October 2023, HSBC further announced a share buy-back of up to \$3.0bn, which was completed in February 2024.
- 5 In March 2023, HSBC Holdings redeemed \$2,350m 6.250% contingent convertible securities. In September 2023, HSBC Holdings further redeemed €1,000m 6.000% and SGD750m 5.000% contingent convertible securities.
- 6 At 31 December 2023, an impairment of \$5,512m of HSBC Overseas Holdings (UK) Limited was recognised, resulting in a permitted transfer of \$5,130m from the merger reserve to retained earnings, and a realisation of \$382m share-based payment reserve within retained earnings. In 2022, a part-reversal of the impairment resulted in a transfer from retained earnings back to the merger reserve of \$2,499m (2021: \$3,065m).

HSBC Holdings statement of cash flows

for the year ended 31 December 2023

	2023	2022	2021
	\$m	\$m	\$m
Profit before tax	8,235	9,280	10,491
Adjustments for non-cash items	5,611	(2,500)	(2,954)
– depreciation, amortisation and impairment/expected credit losses	5,629	(2,428)	(2,976)
– share-based payment expense	—	1	2
– other non-cash items included in profit before tax	(38)	(73)	20
– elimination of exchange differences ¹	20	—	—
Changes in operating assets and liabilities			
Change in loans to HSBC undertakings	(1,267)	(1,657)	3,364
Change in financial assets with HSBC undertakings designated and otherwise mandatorily measured at fair value	(7,767)	(914)	(4,409)
Change in net trading securities and net derivatives	(529)	4,712	47
Change in other assets	363	51	(226)
Change in financial investments	—	196	20
Change in debt securities in issue	1,964	(5,625)	(2,833)
Change in financial liabilities designated at fair value	3,096	(4,755)	(1,396)
Change in other liabilities	1,947	(3,394)	(691)
Tax received	577	215	32
Net cash from operating activities	12,230	(4,391)	1,445
Purchase of financial investments	(7,803)	(21,481)	(16,966)
Proceeds from the sale and maturity of financial investments	20,074	17,165	16,074
Net cash flow from capital contribution, acquisition and disposal of subsidiaries	2,476	(1,836)	663
Net investment in intangible assets	(46)	(39)	(26)
Net cash from investing activities	14,701	(6,191)	(255)
Issue of ordinary share capital and other equity instruments	2,059	67	2,334
Redemption of preference shares and other equity instruments	(4,003)	(2,266)	(3,450)
Purchase of treasury shares	(855)	(438)	(28)
Cancellation of shares	(5,812)	(2,298)	(707)
Subordinated loan capital issued	5,270	7,300	—
Subordinated loan capital repaid	—	—	—
Debt securities issued	17,180	18,076	19,379
Debt securities repaid	(13,047)	(10,094)	(5,569)
Dividends paid on ordinary shares	(10,492)	(5,330)	(4,480)
Dividends paid to holders of other equity instruments	(1,101)	(1,214)	(1,310)
Net cash from financing activities	(10,801)	3,803	6,169
Net increase/(decrease) in cash and cash equivalents	16,130	(6,779)	7,359
Cash and cash equivalents at 1 January	6,756	13,535	6,176
Exchange differences in respect of cash and cash equivalents ²	(72)	—	—
Cash and cash equivalents at 31 Dec	22,814	6,756	13,535
Cash and cash equivalents comprise:			
– cash at bank with HSBC undertakings	7,029	3,210	2,590
– cash collateral and net settlement accounts	3,422	3,544	93
– treasury and other eligible bills	12,363	2	10,852

Interest received was \$5,695m (2022: \$2,410m; 2021: \$1,636m), interest paid was \$7,754m (2022: \$3,813m; 2021: \$2,724m) and dividends received were \$16,824m (2022: \$9,478m; 2021: \$11,404m).

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. As this change has immaterial impact, prior period comparatives have not been restated.

² In 2023, additional disclosure has been made in respect of exchange differences on cash and cash equivalents. As this change has immaterial impact, prior period comparatives have not been restated.

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1 Basis of preparation and material accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006, and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IFRS Accounting Standards'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRS Accounting Standards for the periods presented. There were no unendorsed standards effective for the year ended 31 December 2023 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, the Group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the Group's total equity reduced by \$10,459m.

On adoption of IFRS 17, balances based on IFRS 4, including the present value of in-force long-term insurance business ('PVIF') asset in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been remeasured under IFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in insurance revenue as services are provided over the expected coverage period.

In addition, the Group has made use of the option under the standard to re-designate certain eligible financial assets held to support insurance contract liabilities, which were predominantly measured at amortised cost, as financial assets measured at fair value through profit or loss, with comparatives restated from the transition date. The effects of adoption of IFRS 17 are set out in Note 38 with a description of the policy in Note 1.2(j).

The key differences between IFRS 4 and IFRS 17 are summarised in the following table:

	IFRS 4	IFRS 17
Balance sheet	- Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. - An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in-force insurance contracts.	- Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. - The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. - The CSM represents the unearned profit.
Profit emergence/ recognition	- The value of new business is reported as revenue on Day 1 as an increase in PVIF. - The impact of the majority of assumption changes is recognised immediately in the income statement. - Variances between actual and expected cash flows are recognised in the period they arise.	- The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). - Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the Group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the Group's share of the investment volatility is recorded in profit or loss as it arises. - Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.
Expenses	- Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. - Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those expenses are released from the PVIF simultaneously.	- Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. - Non-attributable costs are reported in operating expenses.

Transition

In applying IFRS 17 for insurance contracts retrospectively, the full retrospective approach ('FRA') has been used unless it was impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The Group has applied the FRA for new business from 2018 at the earliest, subject to practicability, and the FVA for the majority of contracts for which the FRA is impracticable.

Under the FVA, the valuation of insurance liabilities on transition is based on the applicable requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, the Group considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of 'matching' between the Group's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

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

On 23 May 2023, the International Accounting Standards Board ('IASB') issued amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately and were approved for adoption by all members of the UK Endorsement Board on 19 July 2023 and by the European Union on 8 November 2023. On 20 June 2023, legislation was substantively enacted in the UK to introduce the OECD's Pillar Two global minimum tax rules and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. The Group has applied the IAS 12 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 financial statements.

(b) Differences between IFRS Accounting Standards and Hong Kong Financial Reporting Standards

There are no significant differences between IFRS Accounting Standards and Hong Kong Financial Reporting Standards in terms of their application to HSBC, and consequently there would be no significant differences had the financial statements been prepared in accordance with Hong Kong Financial Reporting Standards. The 'Notes on the financial statements', taken together with the 'Report of the Directors', include the aggregate of all disclosures necessary to satisfy IFRS Accounting Standards and Hong Kong Financial Reporting Standards.

(c) Future accounting developments

Minor amendments to IFRS Accounting Standards

The IASB has published a number of minor amendments to IFRS Accounting Standards that are effective from 1 January 2024. HSBC expects they will have an insignificant effect, when adopted, on the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings. Additionally, in August 2023, the IASB published amendments to IAS 21 'Lack of Exchangeability' effective from 1 January 2025. The Group is undertaking an assessment of the potential impact, which is not expected to be significant.

(d) Foreign currencies

HSBC's consolidated financial statements are presented in US dollars because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts and funds its business. The US dollar is also HSBC Holdings' functional currency because the US dollar and currencies linked to it are the most significant currencies relevant to the underlying transactions, events and conditions of its subsidiaries, as well as representing a significant proportion of its funds generated from financing activities.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date, except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised. Except for subsidiaries operating in hyperinflationary economies (see Note 1.2(p)), in the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not US dollars are translated into the Group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into US dollars at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(e) Presentation of information

Certain disclosures required by IFRS Accounting Standards have been included in the sections marked as ('Audited') in the *Annual Report and Accounts 2023* as follows:

- Disclosures concerning the nature and extent of risks relating to insurance contracts and financial instruments are included in the 'Risk review' on pages 158 to 273.
- The 'Own funds disclosure' is included in the 'Risk review' on page 243.

HSBC follows the UK Finance Disclosure Code. The UK Finance Disclosure Code aims to increase the quality and comparability of UK banks' disclosures and sets out five disclosure principles together with supporting guidance agreed in 2010. In line with the principles of the UK Finance Disclosure Code, HSBC assesses good practice recommendations issued from time to time by relevant regulators and standard setters, and will assess the applicability and relevance of such guidance, enhancing disclosures where appropriate.

(f) Critical estimates and judgements

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

Management has considered the impact of climate-related risks on HSBC's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impacts of climate-related risks of associated judgements and estimates in our value in use calculations.

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and parent company 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, liquidity, capital requirements and capital resources.

These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following rising inflation, slower Chinese economic activity, and disrupted supply chains as a result of the ongoing Russia-Ukraine and Israel-Hamas wars. They also included other top and emerging risks, including climate change, as well as the related impacts on profitability, capital and liquidity.

1.2 Summary of material accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

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

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

HSBC Holdings' investments in subsidiaries are stated at cost less impairment losses.

Impairment testing is performed where there is an indication of impairment, by comparing the recoverable amount of the relevant investment to its carrying amount. Indicators of impairment include both external and internal sources of information. Similarly, assessments are made as to whether an impairment loss recognised in prior periods may no longer exist or may have decreased. Where this is the case, such an impairment loss is reversed if there has been a change in the estimate used to determine the relevant recoverable amount since the last impairment loss was recognised, and to the extent that it does not increase the carrying amount above that had no impairment loss been previously recognised.

Critical estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment or reversal more frequently than once a year when indicators exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	- The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. - The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to the investment. The cost of equity percentage is generally derived from a capital asset pricing model and the market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. - Key assumptions used in estimating impairment in subsidiaries and their reversal where relevant are described in Note 19.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. HSBC's CGUs are based on its main legal entities subdivided by global business, except for Global Banking and Markets, for which goodwill is monitored on a global basis.

Impairment testing is performed at least once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

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

Critical estimates and judgements

The review of goodwill and non-financial assets (see Note 1.2(n)) for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	- The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. - The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to individual CGUs. The cost of equity percentage is generally derived from a capital asset pricing model and market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. - Key assumptions used in estimating goodwill and non-financial asset impairment are described in Note 21.

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of goodwill in the next financial year, but does consider this to be an area that is inherently judgemental.

HSBC sponsored structured entities

HSBC is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. HSBC is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which HSBC, together with one or more parties, has joint control. Depending on HSBC's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture.

HSBC classifies investments in entities over which it has significant influence, and which are neither subsidiaries nor joint arrangements, as associates.

HSBC recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates is included in the consolidated financial statements of HSBC based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired, by comparing the recoverable amount of the relevant investment to its carrying amount. Goodwill on acquisitions of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment. Previously recognised impairments are assessed for reversal when there are indicators that they may no longer exist or have

Notes on the financial statements

decreased. Any reversal, which may arise only from changes in estimates used to determine the prior impairment loss, is recognised to the extent that it does not increase the carrying amount above that had no impairment loss been previously recognised.

Critical estimates and judgements

The most significant critical estimates relate to the assessment of impairment of our investment in Bank of Communications Co., Limited ('BoCom'), which involves estimations of value in use:

Judgements	Estimates
	– The value in use calculation uses discounted cash flow projections based on management's best estimate of future earnings available to ordinary shareholders prepared in accordance with IAS 36 'Impairment of Assets'. – Key assumptions used in estimating BoCom's value in use and the sensitivity of the value in use calculations to different assumptions are described in Note 18.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by HSBC for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for expected credit losses).

Non-interest income and expense

HSBC generates fee income from services provided at a fixed price over time, such as account service and card fees, or when HSBC delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

HSBC acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, HSBC acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

HSBC recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where HSBC offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss': This includes all gains and losses from changes in the fair value, together with related interest income, expense and dividends in respect of financial assets and liabilities measured at fair value through profit or loss, and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the solely payments of principal and interest test, see (d) below.

The accounting policies for insurance service result and insurance finance income/(expenses) are disclosed in Note 1.2(j).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or HSBC enters into an offsetting transaction. The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
– An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs. – 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	– Details on the Group's Level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 12.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. HSBC accounts for regular way amortised cost financial instruments using trade date accounting. The carrying amount of these financial assets at initial recognition includes any directly attributable transactions costs.

HSBC may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When HSBC intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

(e) Financial assets measured at fair value through other comprehensive income

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

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at fair value through profit or loss.

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- The use of the designation removes or significantly reduces an accounting mismatch.
- A group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' or 'Changes in fair value of designated debt and related derivatives' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criteria, the main classes of financial instruments designated by HSBC are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds or by a valuation method. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

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

Where the derivatives are managed with debt securities issued by HSBC that are designated at fair value where doing so reduces an accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

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

Fair value hedge

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

Cash flow hedge

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

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. The effective portion of gains and losses on the hedging instrument is recognised in other comprehensive income and other gains and losses are recognised immediately in the income statement. Gains and losses previously recognised in other comprehensive income are reclassified to the income statement on the disposal, or part-disposal, of the foreign operation.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is recognised for ECL resulting from possible default events within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is recognised for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, and so are considered to be in default or otherwise credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit impaired (stage 3)

HSBC determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default.

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

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

Write-off

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

Forbearance

Loans are identified as forbore and classified as either performing or non-performing when HSBC modifies the contractual terms due to financial difficulty of the borrower. Non-performing forbore loans are stage 3 and classified as non-performing until they meet the curing criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

The Group applies the EBA Guidelines on the application of definition of default for our retail portfolios, which affect credit risk policies and our reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided under 'Forborne loans and advances' on page 184.

Performing forbore loans are initially stage 2 and remain classified as forbore until they meet applicable curing criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forbore loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forbore loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forbore.

Loan modifications other than forbore loans

Loan modifications that are not identified as forbore are considered to be commercial restructurings. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructuring is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition, having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes, generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD'), which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15bps
2.1–3.3	30bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

Notes on the financial statements

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 184.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internal models, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

We continue to refine the retail transfer criteria approach for certain portfolios as additional data becomes available, in order to utilise a more relative approach. These enhancements take advantage of the increase in origination-related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forborne loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, HSBC calculates ECL using three main components: a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

HSBC makes use of the IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

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

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

The ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the Group and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the bank may use a LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

HSBC applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit losses in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 192.

Critical estimates and judgements

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

Judgements	Estimates
- Defining what is considered to be a significant increase in credit risk - Determining the lifetime and point of initial recognition of overdrafts and credit cards - Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions - Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected credit loss - Making management adjustments to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgements - Selecting applicable recovery strategies for certain wholesale credit-impaired loans	The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited from page 192, sets out the assumptions used in determining ECL, and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(j) Insurance contracts

A contract is classified as an insurance contract where the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Group issues investment contracts with DPF, which are also accounted under IFRS 17 'Insurance Contracts'.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract's expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Group issues after the transition date being grouped into calendar quarter cohorts. For multi-currency groups of contracts, the Group considers its groups of contracts as being denominated in a single currency.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing the unearned profit. The Group has elected to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the following:

Best estimates of future cash flows

The cash flows within the contract boundary of each contract in the Group include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the Group's demographic and operating experience along with external mortality data where the Group's own experience data is not sufficiently large in size to be credible.

Adjustment for the time value of money and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money (i.e. discounting) and the financial risks to derive an expected present value. The Group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one-year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

For the main insurance manufacturing entity in these locations, the one-year 75th percentile level of stress corresponds to the following percentiles based on an ultimate view of risk over all future years:

- Asia-Pacific (Hong Kong): 60th percentile (2022: 59th percentile).
- Europe (France): 60th percentile (2022: 60th percentile).
- Latin America (Mexico): 65th percentile (2022: 66th percentile).

The Group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in the insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for most of the contracts issued by the Group, which is mandatory upon meeting the following eligibility criteria at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- the Group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Group considers that a substantial share is a majority of returns; and
- the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Group considers that a substantial proportion is a majority proportion of change on a present value probability-weighted average of all scenarios.

For some contracts measured under VFA, the other comprehensive income ('OCI') option is used. The OCI option is applied where the underlying items held by the Group are not accounted for at fair value through profit or loss. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses for these insurance contracts, and hence results in the elimination of accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts issued for the period is recognised in OCI. In addition, the risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the Group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the Group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. The risk mitigating instruments are primarily reinsurance contracts held.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The Group identifies the quantity of the benefits provided as follows:

- Insurance coverage: This is based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- Investment services (including both investment-return service and investment-related service): This is based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Insurance service result

Insurance revenue reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses

Insurance finance income and expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

(k) Employee compensation and benefits

Share-based payments

HSBC enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

HSBC operates a number of pension schemes including defined benefit, defined contribution and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses. Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets (see Note 1.2(c)), after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The costs of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

Critical estimates and judgements

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

Judgements	Estimates
	– A range of assumptions could be applied, and different assumptions could significantly alter the defined benefit obligation and the amounts recognised in profit or loss or OCI. – The calculation of the defined benefit pension obligation includes assumptions with regard to the discount rate, inflation rate, pension payments and deferred pensions, pay and mortality. Management determines these assumptions in consultation with the plan's actuaries. – Key assumptions used in calculating the defined benefit pension obligation for the principal plan and the sensitivity of the calculation to different assumptions are described in Note 5.

Notes on the financial statements

(l) Tax

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

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

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

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

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

Critical estimates and judgements

The recognition of deferred tax assets depends on judgements and estimates.

Judgements	Estimates
Specific judgements supporting deferred tax assets are described in Note 7.	The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits. See Note 7 for further detail.

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of deferred tax assets in the next financial year, but does consider this to be an area that is inherently judgemental.

(m) Provisions, contingent liabilities and guarantees

Provisions

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

Critical estimates and judgements

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

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

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

Financial guarantee contracts

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

(n) Impairment of non-financial assets

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

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying amount of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 21).

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

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

Critical estimates and judgements

The review of goodwill and other non-financial assets for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as described in the 'Critical estimates and judgements' in Note 1.2(a).

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of goodwill and non-financial assets in the next financial year, but does consider this to be an area that is inherently judgemental.

(o) Non-current assets and disposal groups held for sale

HSBC classifies non-current assets or disposal groups (including assets and liabilities) as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held for sale assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset (or disposal group) is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write-down of the asset or disposal group to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement. This first reduces the carrying amount of any goodwill allocated to the disposal group, and then to the other non-current assets of the disposal group pro rata on the basis of the carrying amount of each asset in the disposal group. Thereafter, any impairment loss in excess of the carrying amount of the non-current assets in scope of IFRS 5 for measurement is recognised against the total assets of the disposal group.

Critical judgements

The classification as held for sale depends on certain judgements:

Judgements

Management judgement is required in determining whether the IFRS 5 held for sale criteria are met, including whether a sale is highly probable and expected to complete within one year of classification. The exercise of judgement will normally consider the likelihood of successfully securing any necessary regulatory or governmental approvals, which are almost always required for sales of banking businesses, and sanctions risk. For large and complex plans, judgement will also include an assessment of the enforceability of any binding sale agreement, the nature and magnitude of any disincentives for non-performance, and the ability of the counterparty to undertake necessary pre-completion preparatory work, comply with conditions precedent, and otherwise be able to comply with contractual undertakings to achieve completion within the expected timescale. Once classified as held for sale, judgement is required to be applied on a continuous basis to ensure that classification remains appropriate in future accounting periods.

(p) Hyperinflationary accounting

Hyperinflationary accounting is applied to those subsidiary operations in countries where the three-year cumulative inflation rate is approaching or exceeding 100%. In 2023, this affected the Group's operations in Argentina and Türkiye. The Group applies IAS 29 to the underlying financial information of relevant subsidiaries to restate their local currency results and financial position so as to be stated in terms of the measuring unit current at the end of the reporting period. Those restated results are translated into the Group's presentation currency of US dollars for consolidation at the closing rate at the balance sheet date. Group comparatives are not restated for inflation and consequential adjustments to the opening balance sheet in relation to hyperinflationary subsidiaries are presented in other comprehensive income. The hyperinflationary gain or loss in respect of the net monetary position of the relevant subsidiary is included in profit or loss.

When applying hyperinflation accounting for the first time, the underlying financial information is restated in terms of the measuring unit current at the end of the reporting period as if the relevant economy had always been hyperinflationary. Group comparatives are not restated for such historical adjustments.

2 Net fee income

Net fee income by global business

	2023				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Funds under management	1,763	71	539	—	2,373
Cards	2,385	353	38	—	2,776
Credit facilities	103	856	615	—	1,574
Broking income	463	22	592	—	1,077
Account services	402	788	347	—	1,537
Unit trusts	727	10	1	—	738
Underwriting	—	3	583	—	586
Global custody	128	6	730	—	864
Remittances	86	389	347	1	823
Imports/exports	—	470	154	—	624
Insurance agency commission	280	18	—	—	298
Other	1,433	1,161	2,458	(2,706)	2,346
Fee income	7,770	4,147	6,404	(2,705)	15,616
Less: fee expense	(2,416)	(210)	(3,858)	2,713	(3,771)
Net fee income	5,354	3,937	2,546	8	11,845

	2022 ¹				
	Wealth and Personal Banking	Commercial Banking ²	Global Banking and Markets ²	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Funds under management	1,765	107	500	(12)	2,360
Cards	2,146	313	32	—	2,491
Credit facilities	100	783	591	—	1,474
Broking income	576	40	635	—	1,251
Account services	337	730	344	1	1,412
Unit trusts	682	14	—	—	696
Underwriting	1	2	443	(5)	441
Global custody	140	19	762	—	921
Remittances	72	380	346	1	799
Imports/exports	—	493	141	—	634
Insurance agency commission	283	16	1	—	300
Other	1,330	1,102	2,376	(2,463)	2,345
Fee income	7,432	3,999	6,171	(2,478)	15,124
Less: fee expense	(2,128)	(212)	(3,459)	2,445	(3,354)
Net fee income	5,304	3,787	2,712	(33)	11,770

	2021				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Funds under management	1,984	126	546	—	2,656
Cards	1,949	240	23	1	2,213
Credit facilities	103	833	690	1	1,627
Broking income	863	69	669	—	1,601
Account services	429	677	340	6	1,452
Unit trusts	1,065	23	—	—	1,088
Underwriting	4	6	1,009	(2)	1,017
Global custody	167	24	787	—	978
Remittances	75	357	343	—	775
Imports/exports	1	474	145	—	620
Insurance agency commission	324	17	—	—	341
Other	1,305	1,077	2,503	(2,465)	2,420
Fee income	8,269	3,923	7,055	(2,459)	16,788
Less: fee expense	(2,375)	(284)	(3,452)	2,420	(3,691)
Net fee income	5,894	3,639	3,603	(39)	13,097

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

Net fee income included \$6,971m of fees earned on financial assets that were not at fair value through profit or loss, other than amounts included in determining the effective interest rate (2022: \$6,410m; 2021: \$6,742m), \$1,872m of fees payable on financial liabilities that were not at fair value through profit or loss, other than amounts included in determining the effective interest rate (2022: \$1,613m; 2021: \$1,520m), \$3,452m of fees earned on trust and other fiduciary activities (2022: \$3,492m; 2021: \$3,849m) and \$333m of fees payable relating to trust and other fiduciary activities (2022: \$370m; 2021: \$305m).

3 Net income/(expense) from financial instruments measured at fair value through profit or loss

	2023 \$m	2022 ¹ \$m	2021 \$m
Net income/(expense) arising on:			
Net trading activities	20,391	2,372	6,668
Other instruments managed on a fair value basis	(3,730)	7,906	1,076
Net income from financial instruments held for trading or managed on a fair value basis	16,661	10,278	7,744
Financial assets held to meet liabilities under insurance and investment contracts	8,086	(14,392)	4,134
Liabilities to customers under investment contracts	(199)	561	(81)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	7,887	(13,831)	4,053

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

HSBC Holdings

	2023 \$m	2022 \$m	2021 \$m
Net income/(expense) arising on:			
– trading activities	(546)	2,094	87
– other instruments managed on a fair value basis	1,609	35	23
Net income from financial instruments held for trading or managed on a fair value basis	1,063	2,129	110
Derivatives managed in conjunction with HSBC Holdings-issued debt securities	426	(1,529)	(625)
Other changes in fair value	(1,894)	3,673	974
Changes in fair value of designated debt and related derivatives	(1,468)	2,144	349
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3,692	(2,409)	(420)
Year ended 31 Dec	3,287	1,864	39

4 Insurance business

Insurance service result

	Year ended 31 Dec 2023			Year ended 31 Dec 2022 ¹		
	Life direct participating and investment DPF contracts ²	Life other contracts ³	Total	Life direct participating and investment DPF contracts ²	Life other contracts ³	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	1,626	470	2,096	1,399	446	1,845
Contractual service margin recognised for services provided	975	151	1,126	781	151	932
Change in risk adjustment for non-financial risk for risk expired	21	15	36	17	17	34
Expected incurred claims and other insurance service expenses	594	304	898	528	278	806
Other	36	—	36	73	—	73
Recovery of insurance acquisition cash flows	109	54	163	102	30	132
Total insurance revenue	1,735	524	2,259	1,501	476	1,977
Insurance service expenses						
Incurred claims and other insurance service expenses	(615)	(292)	(907)	(573)	(280)	(853)
Losses and reversal of losses on onerous contracts	(32)	(77)	(109)	(84)	(86)	(170)
Amortisation of insurance acquisition cash flows	(109)	(54)	(163)	(102)	(30)	(132)
Adjustments to liabilities for incurred claims	(1)	(1)	(2)	(2)	(11)	(13)
Total insurance service expenses	(757)	(424)	(1,181)	(761)	(407)	(1,168)
Total insurance service results	978	100	1,078	740	69	809

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

² 'Life direct participating and investment DPF contracts' are substantially measured under the variable fee approach measurement model.

³ 'Life other contracts' are measured under the general measurement model and excludes reinsurance contracts.

Notes on the financial statements

Net investment return

	Year ended 31 Dec 2023			Year ended 31 Dec 2022 ¹		
	Life direct participating and investment DPF contracts	Life other contracts	Total	Life direct participating and investment DPF contracts	Life other contracts	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Investment return						
Amounts recognised in profit or loss ²	7,663	214	7,877	(13,520)	(181)	(13,701)
Amounts recognised in OCI ³	493	—	493	(2,392)	—	(2,392)
Total investment return (memorandum)	8,156	214	8,370	(15,912)	(181)	(16,093)
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	(7,995)	—	(7,995)	15,937	—	15,937
Effect of risk mitigation option	(35)	—	(35)	99	—	99
Interest accreted	—	(127)	(127)	—	(80)	(80)
Effect of changes in interest rates and other financial assumptions	(12)	(121)	(133)	—	233	233
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	—	(10)	(10)	—	3	3
Total net finance income/(expense) from insurance contracts	(8,042)	(258)	(8,300)	16,036	156	16,192
Represented by:						
Amounts recognised in profit or loss	(7,551)	(258)	(7,809)	13,643	156	13,799
Amounts recognised in OCI	(491)	—	(491)	2,393	—	2,393
Total net investment results	114	(44)	70	124	(25)	99
Represented by:						
Amounts recognised in profit or loss	112	(44)	68	123	(25)	98
Amounts recognised in OCI	2	—	2	1	—	1

- From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.
- Total Group 'Net income/(expense) from assets and liabilities of insurance business, including related derivatives, measured at fair value through profit or loss' of \$7,886m gain (2022: \$13,831m loss) includes returns on assets and liabilities supporting insurance policies of \$7,627m (2022: \$13,949m loss) and on shareholder assets of \$259m (2022: \$118m gain). Investment returns of \$7,877m (2022: \$13,701m loss) include gains of \$7,627m (2022: \$13,949m loss) on underlying assets supporting insurance liabilities reported in 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss', \$257m gains (2022: \$248m gain) reported in 'Net interest income' and \$7m loss (2022: nil) reported in 'Other operating income'.
- 'Amounts recognised in OCI' gross of tax for the year ended 31 December 2023 included fair value gains of \$497m (2022: \$2,396m loss) and impairment of \$4m (2022: \$4m impairment reversals).

Reconciliation of amounts included in other comprehensive income for financial assets measured at fair value through other comprehensive income – assets supporting contracts measured under the modified retrospective approach

	2023	2022
	\$m	\$m
Balance at 1 Jan	(973)	622
Net change in fair value	451	(2,099)
Net amount reclassified to profit or loss	(6)	(2)
Related income tax	(115)	543
Foreign exchange and other	(27)	(37)
Balance at 31 Dec	(670)	(973)

Movements in carrying amounts of insurance contracts – analysis by remaining coverage and incurred claims

	Year ended 31 Dec 2023								
	Life direct participating and investment DPF contracts				Life other contracts				
	Liabilities for remaining coverage:				Liabilities for remaining coverage:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening assets	(5)	—	—	(5)	(187)	21	35	(131)	(136)
Opening liabilities	104,676	114	355	105,145	3,359	109	203	3,671	108,816
Net opening balance at 1 Jan 2023	104,671	114	355	105,140	3,172	130	238	3,540	108,680
Changes in the statement of profit or loss and other comprehensive income									
Insurance revenue									
Contracts under the fair value approach	(508)	—	—	(508)	(196)	—	—	(196)	(704)
Contracts under the modified retrospective approach	(148)	—	—	(148)	(22)	—	—	(22)	(170)
Other contracts ²	(1,079)	—	—	(1,079)	(306)	—	—	(306)	(1,385)
Total insurance revenue	(1,735)	—	—	(1,735)	(524)	—	—	(524)	(2,259)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	(6)	621	615	—	(24)	316	292	907
Amortisation of insurance acquisition cash flows	109	—	—	109	54	—	—	54	163
Losses and reversal of losses on onerous contracts	—	32	—	32	—	77	—	77	109
Adjustments to liabilities for incurred claims	—	—	1	1	—	—	1	1	2
Total insurance service expenses	109	26	622	757	54	53	317	424	1,181
Investment components	(8,104)	—	8,104	—	(818)	—	818	—	—
Insurance service result	(9,730)	26	8,726	(978)	(1,288)	53	1,135	(100)	(1,078)
Net finance (income)/expense from insurance contracts ³	8,042	—	—	8,042	254	3	1	258	8,300
Other movements recognised in the statement of profit or loss	513	(5)	(214)	294	(8)	4	(13)	(17)	277
Effect of movements in exchange rates	942	1	6	949	25	(2)	8	31	980
Total changes in the statement of profit or loss and other comprehensive income	(233)	22	8,518	8,307	(1,017)	58	1,131	172	8,479
Cash flows									
Premiums received	12,616	—	—	12,616	1,256	—	—	1,256	13,872
Claims and other insurance service expenses paid, including investment components, and other cash flows	(15)	—	(8,502)	(8,517)	1	—	(1,112)	(1,111)	(9,628)
Insurance acquisition cash flows	(522)	—	—	(522)	(282)	—	—	(282)	(804)
Total cash flows	12,079	—	(8,502)	3,577	975	—	(1,112)	(137)	3,440
Other movements	14	(14)	—	—	(9)	(13)	22	—	—
Net closing balance at 31 Dec 2023	116,531	122	371	117,024	3,121	175	279	3,575	120,599
Closing assets	(15)	1	1	(13)	(279)	(16)	56	(239)	(252)
Closing liabilities	116,546	121	370	117,037	3,400	191	223	3,814	120,851
Net closing balance at 31 Dec 2023	116,531	122	371	117,024	3,121	175	279	3,575	120,599

Notes on the financial statements

Movements in carrying amounts of insurance contracts – analysis by remaining coverage and incurred claims (continued)

	Year ended 31 Dec 2022 ¹								
	Life direct participating and investment DPF contracts				Life other contracts				
	Liabilities for remaining coverage:			Total	Liabilities for remaining coverage:			Total	Total
	Excluding loss component	Loss component	Incurred claims		Excluding loss component	Loss component	Incurred claims		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening assets	—	—	—	—	(159)	7	36	(116)	(116)
Opening liabilities	114,952	93	226	115,271	3,825	67	144	4,036	119,307
Net opening balance at 1 Jan 2022	114,952	93	226	115,271	3,666	74	180	3,920	119,191
Changes in the statement of profit or loss and other comprehensive income									
Insurance revenue									
Contracts under the fair value approach	(571)	—	—	(571)	(234)	—	—	(234)	(805)
Contracts under the modified retrospective approach	(147)	—	—	(147)	(24)	—	—	(24)	(171)
Other contracts ²	(783)	—	—	(783)	(218)	—	—	(218)	(1,001)
Total insurance revenue	(1,501)	—	—	(1,501)	(476)	—	—	(476)	(1,977)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	5	568	573	—	(6)	286	280	853
Amortisation of insurance acquisition cash flows	102	—	—	102	30	—	—	30	132
Losses and reversal of losses on onerous contracts	—	84	—	84	—	86	—	86	170
Adjustments to liabilities for incurred claims	—	—	2	2	—	—	11	11	13
Total insurance service expenses	102	89	570	761	30	80	297	407	1,168
Investment components	(5,487)	—	5,487	—	(549)	—	549	—	—
Insurance service result	(6,886)	89	6,057	(740)	(995)	80	846	(69)	(809)
Net finance (income)/expense from insurance contracts ³	(16,038)	—	2	(16,036)	(154)	2	(4)	(156)	(16,192)
Effect of movements in exchange rates	(2,159)	(4)	(11)	(2,174)	(88)	(2)	(3)	(93)	(2,267)
Total changes in the statement of profit or loss and other comprehensive income	(25,083)	85	6,048	(18,950)	(1,237)	80	839	(318)	(19,268)
Cash flows									
Premiums received	12,740	—	—	12,740	882	—	—	882	13,622
Claims and other insurance service expenses paid, including investment components, and other cash flows	—	—	(5,783)	(5,783)	—	—	(880)	(880)	(6,663)
Insurance acquisition cash flows	(423)	—	—	(423)	(162)	—	—	(162)	(585)
Total cash flows	12,317	—	(5,783)	6,534	720	—	(880)	(160)	6,374
Acquisition of subsidiaries and other movements	2,485	(64)	(136)	2,285	23	(24)	99	98	2,383
Net closing balance at 31 Dec 2022	104,671	114	355	105,140	3,172	130	238	3,540	108,680
Closing assets	(5)	—	—	(5)	(187)	21	35	(131)	(136)
Closing liabilities	104,676	114	355	105,145	3,359	109	203	3,671	108,816
Net closing balance at 31 Dec 2022	104,671	114	355	105,140	3,172	130	238	3,540	108,680

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

² 'Other contracts' are those contracts measured by applying IFRS 17 from inception of the contracts. These include contracts measured under the full retrospective approach at transition and contracts incepted after transition and excludes reinsurance contracts.

³ 'Net finance (income)/expense from insurance contracts' expense of \$8,300m (2022: \$16,192m income) comprises expense of \$7,809m (2022: \$13,799m income) recognised in the statement of profit or loss and expense of \$491m (2022: \$2,393m income) recognised in the statement of other comprehensive income.

Movements in carrying amounts of insurance contracts – analysis by measurement component

	Year ended 31 Dec 2023										
	Life direct participating and investment DPF contracts						Life other contracts				
	Estimates of present value of future cash flows and risk adjustment	Contractual service margin				Estimates of present value of future cash flows and risk adjustment	Contractual service margin				Total
		Contracts under the fair value approach	Contracts under the modified retrospective approach	Other contracts ²	Total		Contracts under the fair value approach	Contracts under the modified retrospective approach	Other contracts ²	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening assets	(18)	3	—	10	(5)	(308)	86	—	91	(131)	(136)
Opening liabilities	96,174	4,364	792	3,815	105,145	3,162	325	18	166	3,671	108,816
Net opening balance at 1 Jan 2023	96,156	4,367	792	3,825	105,140	2,854	411	18	257	3,540	108,680
Changes in the statement of profit or loss and other comprehensive income											
Changes that relate to current services											
Contractual service margin recognised for services provided	—	(188)	(70)	(717)	(975)	—	(69)	(6)	(76)	(151)	(1,126)
Change in risk adjustment for non-financial risk expired	(21)	—	—	—	(21)	(15)	—	—	—	(15)	(36)
Experience adjustments	21	—	—	—	21	(12)	—	—	—	(12)	9
Changes that relate to future services											
Contracts initially recognised in the year	(1,606)	—	—	1,619	13	(176)	—	—	207	31	44
Changes in estimates that adjust the contractual service margin	(771)	368	(33)	436	—	21	26	6	(53)	—	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	19	—	—	—	19	46	—	—	—	46	65
Changes that relate to past services											
Adjustments to liabilities for incurred claims	1	—	—	—	1	1	—	—	—	1	2
Other movements recognised in insurance service result	(36)	—	—	—	(36)	—	—	—	—	—	(36)
Insurance service result	(2,393)	180	(103)	1,338	(978)	(135)	(43)	—	78	(100)	(1,078)
Net finance (income)/expense from insurance contracts ³	8,042	—	—	—	8,042	235	11	—	12	258	8,300
Other movements recognised in the statement of profit or loss	145	133	(1)	17	294	(43)	6	—	20	(17)	277
Effect of movements in exchange rates	883	2	27	37	949	—	12	1	18	31	980
Total changes in the statement of profit or loss and other comprehensive income	6,677	315	(77)	1,392	8,307	57	(14)	1	128	172	8,479
Cash flows											
Premiums received	12,616	—	—	—	12,616	1,256	—	—	—	1,256	13,872
Claims, other insurance service expenses paid (including investment components) and other cash flows	(8,517)	—	—	—	(8,517)	(1,111)	—	—	—	(1,111)	(9,628)
Insurance acquisition cash flows	(522)	—	—	—	(522)	(282)	—	—	—	(282)	(804)
Total cash flows	3,577	—	—	—	3,577	(137)	—	—	—	(137)	3,440
Net closing balance at 31 Dec 2023	106,410	4,682	715	5,217	117,024	2,774	397	19	385	3,575	120,599
Closing assets	(30)	3	—	14	(13)	(339)	36	—	64	(239)	(252)
Closing liabilities	106,440	4,679	715	5,203	117,037	3,113	361	19	321	3,814	120,851
Net closing balance at 31 Dec 2023	106,410	4,682	715	5,217	117,024	2,774	397	19	385	3,575	120,599

Notes on the financial statements

Movements in carrying amounts of insurance contracts – analysis by measurement component (continued)

	Year ended 31 Dec 2022 ¹										
	Life direct participating and investment DPF contracts					Life other contracts					
	Estimates of present value of future cash flows and risk adjustment	Contractual service margin				Estimates of present value of future cash flows and risk adjustment	Contractual service margin				Total
		Contracts under the fair value approach	Contracts under the modified retrospective approach	Other contracts ²	Total		Contracts under the fair value approach	Contracts under the modified retrospective approach	Other contracts ²	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Opening assets	—	—	—	—	—	(236)	57	—	63	(116)	(116)
Opening liabilities	105,861	5,823	704	2,883	115,271	3,532	331	26	147	4,036	119,307
Net opening balance at 1 Jan 2022	105,861	5,823	704	2,883	115,271	3,296	388	26	210	3,920	119,191
Changes in the statement of profit or loss and other comprehensive income											
Changes that relate to current services											
Contractual service margin recognised for services provided	—	(297)	(69)	(415)	(781)	—	(69)	(6)	(76)	(151)	(932)
Change in risk adjustment for non-financial risk expired	(17)	—	—	—	(17)	(17)	—	—	—	(17)	(34)
Experience adjustments	45	—	—	—	45	2	—	—	—	2	47
Changes that relate to future services											
Contracts initially recognised in the year	(1,092)	—	—	1,101	9	(110)	—	—	117	7	16
Changes in estimates that adjust contractual service margin	820	(1,349)	208	321	—	(7)	23	—	(16)	—	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	75	—	—	—	75	79	—	—	—	79	154
Changes that relate to past services											
Adjustments to liabilities for incurred claims	2	—	—	—	2	11	—	—	—	11	13
Other movements recognised in insurance service result	(73)	—	—	—	(73)	—	—	—	—	—	(73)
Insurance service result	(240)	(1,646)	139	1,007	(740)	(42)	(46)	(6)	25	(69)	(809)
Net finance (income)/expense from insurance contracts ³	(16,025)	(10)	—	(1)	(16,036)	(169)	7	—	6	(156)	(16,192)
Effect of movements in exchange rates	(2,082)	(16)	(51)	(25)	(2,174)	(74)	(17)	(2)	—	(93)	(2,267)
Total changes in the statement of profit or loss and other comprehensive income	(18,347)	(1,672)	88	981	(18,950)	(285)	(56)	(8)	31	(318)	(19,268)
Cash flows											
Premiums received	12,740	—	—	—	12,740	882	—	—	—	882	13,622
Claims, other insurance service expenses paid (including investment components) and other cash flows	(5,783)	—	—	—	(5,783)	(880)	—	—	—	(880)	(6,663)
Insurance acquisition cash flows	(423)	—	—	—	(423)	(162)	—	—	—	(162)	(585)
Total cash flows	6,534	—	—	—	6,534	(160)	—	—	—	(160)	6,374
Acquisition of subsidiaries and other movements	2,108	216	—	(39)	2,285	3	79	—	16	98	2,383
Net closing balance at 31 Dec 2022	96,156	4,367	792	3,825	105,140	2,854	411	18	257	3,540	108,680
Closing assets	(18)	3	—	10	(5)	(308)	86	—	91	(131)	(136)
Closing liabilities	96,174	4,364	792	3,815	105,145	3,162	325	18	166	3,671	108,816
Net closing balance at 31 Dec 2022	96,156	4,367	792	3,825	105,140	2,854	411	18	257	3,540	108,680

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

2 'Other contracts' are those contracts measured by applying IFRS 17 from inception of the contracts. These include contracts measured under the full retrospective approach at transition and contracts inception after transition and excludes reinsurance contracts.

3 'Net finance (income)/expense from insurance contracts' expense of \$8,300m (2022: \$16,192m income) comprises expense of \$7,809m (2022: \$13,799m income) recognised in the statement of profit or loss and expense of \$491m (2022: \$2,393m income) recognised in the statement of other comprehensive income.

Effect of contracts initially recognised in the year

	Year ended 31 Dec 2023			Year ended 31 Dec 2022 ¹		
	Profitable contracts issued \$m	Onerous contracts issued \$m	Total \$m	Profitable contracts issued \$m	Onerous contracts issued \$m	Total \$m
Life direct participating and investment DPF contracts						
Estimates of present value of cash outflows	12,418	215	12,633	9,714	123	9,837
– insurance acquisition cash flows	602	21	623	401	16	417
– claims and other insurance service expenses payable	11,816	194	12,010	9,313	107	9,420
Estimates of present value of cash inflows	(14,074)	(204)	(14,278)	(10,844)	(115)	(10,959)
Risk adjustment for non-financial risk	37	2	39	29	1	30
Contractual service margin	1,619	—	1,619	1,101	—	1,101
Losses recognised on initial recognition	—	(13)	(13)	—	(9)	(9)
Life other contracts						
Estimates of present value of cash outflows	1,116	464	1,580	640	111	751
– insurance acquisition cash flows	106	50	156	57	9	66
– claims and other insurance service expenses payable	1,010	414	1,424	583	102	685
Estimates of present value of cash inflows	(1,350)	(438)	(1,788)	(778)	(105)	(883)
Risk adjustment for non-financial risk	27	5	32	21	1	22
Contractual service margin	207	—	207	117	—	117
Losses recognised on initial recognition	—	(31)	(31)	—	(7)	(7)

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	Less than 1 year \$m	1–2 years \$m	2–3 years \$m	3–4 years \$m	4–5 years \$m	5–10 years \$m	10–20 years \$m	Over 20 years \$m	Total \$m
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	(2,620)	(545)	2,321	2,419	3,344	11,695	23,351	65,897	105,862
Life other contracts	1,276	362	(347)	4	(45)	36	102	1,628	3,016
Insurance liability future cash flows at 31 Dec 2023	(1,344)	(183)	1,974	2,423	3,299	11,731	23,453	67,525	108,878
Remaining contractual service margin									
Life direct participating and investment DPF contracts	917	848	783	722	666	2,597	2,653	1,428	10,614
Life other contracts	172	113	84	74	61	141	115	41	801
Remaining contractual service margin at 31 Dec 2023	1,089	961	867	796	727	2,738	2,768	1,469	11,415
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	(5,049)	(1,891)	180	1,417	1,685	9,585	30,108	59,762	95,797
Life other contracts	695	770	395	(13)	38	172	182	859	3,098
Insurance liability future cash flows at 31 Dec 2022¹	(4,354)	(1,121)	575	1,404	1,723	9,757	30,290	60,621	98,895
Remaining contractual service margin									
Life direct participating and investment DPF contracts	757	689	638	590	547	2,177	2,293	1,293	8,984
Life other contracts	194	64	56	48	42	134	99	49	686
Remaining contractual service margin at 31 Dec 2022¹	951	753	694	638	589	2,311	2,392	1,342	9,670

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

Discount rates

The discount rates applied to expected future cash flows are determined through a bottom-up approach as set out in Note 1.2(j) 'Summary of material accounting policies – Insurance contracts' on page 378. The blended average of discount rates used within our most material manufacturing entities are as follows:

	HSBC Life (International) Ltd		Hang Seng Insurance Co Ltd		HSBC Assurances Vie (France)
	HK\$	US\$	HK\$	US\$	€
At 31 Dec 2023					
10-year discount rate (%)	4.02	4.47	4.16	4.62	2.96
20-year discount rate (%)	4.21	4.91	4.34	5.06	2.97
At 31 Dec 2022					
10-year discount rate (%)	4.56	4.59	4.70	4.80	3.66
20-year discount rate (%)	4.63	4.96	4.76	5.17	3.33

5 Employee compensation and benefits

	2023	2022	2021
	\$m	\$m	\$m
Employee compensation and benefits ¹	18,220	18,003	18,742
Capitalised wages and salaries ²	1,403	1,285	870
Gross employee compensation and benefits for the year ended 31 Dec	19,623	19,288	19,612
Consists of:			
Wages and salaries	17,359	16,970	17,072
Social security costs	1,507	1,403	1,503
Post-employment benefits	757	915	1,037
Year ended 31 Dec	19,623	19,288	19,612

1 In 2023 and 2022, employee compensation and benefits are presented in the income statement net of software capitalisation costs and costs included in the insurance contract fulfilment cash flow liabilities under IFRS 17. In 2021, employee compensation and benefits are presented net of software capitalisation costs in the income statement.

2 Comprises \$1,043m (2022: \$922m; 2021: \$870m) software capitalisation costs and \$360m (2022: \$363m; 2021: n/a) costs included in the insurance contract fulfilment cash flow liabilities under IFRS 17.

Average number of persons employed by HSBC during the year by global business¹

	2023	2022	2021
Wealth and Personal Banking	132,336	135,676	138,026
Commercial Banking	46,826	48,004	44,992
Global Banking and Markets	48,043	48,597	48,179
Corporate Centre	347	365	359
Year ended 31 Dec	227,552	232,642	231,556

1 Average number of persons employed represents the number of persons with contracts of service with the Group.

Average number of persons employed by HSBC during the year by legal entity¹

	2023	2022	2021
HSBC UK Bank plc	20,415	20,501	21,447
HSBC Bank plc	14,809	15,405	16,823
The Hongkong and Shanghai Banking Corporation Limited	54,321	54,792	55,253
HSBC Bank Middle East Limited	3,316	3,338	3,429
HSBC North America Holdings Inc.	6,046	6,749	8,197
HSBC Bank Canada	4,354	4,241	4,369
Grupo Financiero HSBC, S.A. de C.V.	14,412	14,484	14,529
Other trading entities ²	9,247	10,026	10,442
Holding companies, shared service centres and intra-Group eliminations	100,632	103,106	97,067
Year ended 31 Dec	227,552	232,642	231,556

1 Average number of persons employed represents the number of persons with contracts of service with the Group.

2 Other trading entities includes entities located in Oman, Türkiye, Egypt and Saudi Arabia.

Reconciliation of total incentive awards granted to income statement charge

	2023	2022	2021
	\$m	\$m	\$m
Total incentive awards approved for the current year	3,774	3,359	3,495
Less: deferred bonuses awarded, expected to be recognised in future periods	(353)	(343)	(379)
Total incentives awarded and recognised in the current year	3,421	3,016	3,116
Add: current year charges for deferred bonuses from previous years	375	239	270
Other	(56)	(22)	4
Income statement charge for incentive awards	3,740	3,233	3,390

Share-based payments

'Wages and salaries' includes the effect of share-based payments arrangements, of which \$482m was equity settled (2022: \$400m; 2021: \$467m), as follows:

	2023	2022	2021
	\$m	\$m	\$m
Conditional share awards	499	402	479
Savings-related and other share award option plans	23	22	27
Year ended 31 Dec	522	424	506

HSBC share awards

Award	Policy
Deferred share awards (including annual incentive awards, long-term incentive ('LTI') awards delivered in shares)	An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. – Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. An exception to these are LTI awards, which are subject to performance conditions. – Deferred share awards generally vest over a period of three, four, five or seven years. – Vested shares may be subject to a retention requirement post-vesting. – Awards are generally subject to malus and clawback provisions.
International Employee Share Purchase Plan ('ShareMatch')	The plan was first introduced in Hong Kong in 2013 and now includes employees based in 30 jurisdictions. – Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. – Matching awards are added at a ratio of one free share for every three purchased. In mainland China, matching awards are settled in cash. – Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC share awards

	2023	2022
	Number	Number
	(000s)	(000s)
Conditional share awards outstanding at 1 Jan	126,246	109,364
Additions during the year	72,289	90,190
Released in the year	(70,054)	(67,718)
Forfeited in the year	(3,458)	(5,590)
Conditional share awards outstanding at 31 Dec	125,023	126,246
Weighted average fair value of awards granted (\$)	5.84	5.60

HSBC share option plans

Main plans	Policy
Savings-related share option plans ('Sharesave')	– From 2014, employees eligible for the UK plan could save up to £500 per month with the option to use the savings to acquire shares. – These are generally exercisable within six months following either the third or fifth anniversary of the commencement of a three-year or five-year contract, respectively. – The exercise price is set at a 20% (2022: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans	
	Number	WAEP¹
	(000s)	£
Outstanding at 1 Jan 2023	115,651	2.89
Granted during the year ²	23,382	4.70
Exercised during the year ³	(49,007)	2.73
Expired during the year	(3,832)	3.78
Forfeited during the year	(2,200)	2.88
Outstanding at 31 Dec 2023	83,994	3.42
– of which exercisable	7,165	2.70
Weighted average remaining contractual life (years)	2.41	
Outstanding at 1 Jan 2022	123,197	2.85
Granted during the year ²	8,928	4.24
Exercised during the year ³	(3,483)	3.49
Expired during the year	(9,047)	3.55
Forfeited during the year	(3,944)	2.79
Outstanding at 31 Dec 2022	115,651	2.89
– of which exercisable	4,029	4.11
Weighted average remaining contractual life (years)	2.26	

¹ Weighted average exercise price.

² The weighted average fair value of options granted during the year was \$1.92 (2022: \$1.45).

³ The weighted average share price at the date the options were exercised was \$7.39 (2022: \$6.22).

Post-employment benefit plans

The Group operates pension plans throughout the world for its employees. 'Pension risk management processes' on page 242 contains details of the policies and practices associated with these pension plans, some of which are defined benefit plans. The largest defined benefit plan is the HBUK section of the HSBC Bank (UK) Pension Scheme ('the principal plan'), created as a result of the HSBC Bank (UK) Pension Scheme being fully sectionalised in 2018 to meet the requirements of the Banking Reform Act. For further details of how the trustee of the HSBC Bank (UK) Pension Scheme manages climate risk, see 'Managing climate risk' on page 65.

HSBC holds on its balance sheet the net surplus or deficit, which is the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, HSBC has considered its current right to obtain a future refund or a reduction in future contributions together with the rights of third parties such as trustees.

The principal plan

The principal plan has a defined benefit section and a defined contribution section. The defined benefit section was closed to future benefit accrual in 2015, with defined benefits earned by employees at that date continuing to be linked to their salary while they remain employed by HSBC. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the Group.

The investment strategy of the plan is to hold the majority of assets in bonds, with the remainder in a diverse range of investments. It also includes some interest rate swaps to reduce interest rate risk, inflation swaps to reduce inflation risk and longevity swaps to reduce the impact of longer life expectancy.

The principal plan is subject to the statutory funding objective requirements of the UK Pensions Act 2004, which requires that it be funded to at least the level of technical provisions (an actuarial estimate of the assets needed to provide for the benefits already built up under the plan). Where a funding valuation is carried out and identifies a deficit, the employer and trustee are required to agree to a deficit recovery plan.

The latest funding valuation of the plan at 31 December 2019 was carried out by Colin G Singer of Willis Towers Watson Limited, who is a Fellow of the UK Institute and Faculty of Actuaries, using the projected unit credit method. At that date, the market value of the plan's assets was £31.1bn (\$41.1bn) and this exceeded the value placed on its liabilities on an ongoing basis by £2.5bn (\$3.3bn), giving a funding level of 109%. These figures include defined contribution assets amounting to £2.4bn (\$3.2bn). The main differences between the assumptions used for assessing the defined benefit liabilities for this funding valuation and those used for IAS 19 are that an element of prudence is contained in the funding valuation assumptions for discount rate, inflation rate and life expectancy. The funding valuation is used to judge the amount of cash contributions the Group needs to put into the pension scheme. It will always be different to the IAS 19 accounting surplus, which is an accounting rule concerning employee benefits and shown on the balance sheet of our financial statements. The next funding valuation, with an effective date of 31 December 2022, is currently underway and will be concluded no later than the regulatory deadline of 31 March 2024. The plan is estimated to remain in a comfortable surplus relative to the funding liabilities as at the end of 2022, based on assumptions consistent with those used to determine the funding liabilities for the 2019 valuation.

The actuary also assessed the value of the liabilities if the plan were to have been stopped and an insurance company asked to secure all future pension payments. This is generally larger than the amount needed on the ongoing basis described above because an insurance company would use more prudent assumption, which would allow for reserves and include an explicit allowance for the future administrative expenses of the plan. Under this approach, the amount of assets needed was estimated to be £33bn (\$44bn) at 31 December 2019.

The trust deed gives the ability for HSBC UK to take a refund of surplus assets after the plan has been run down such that no further beneficiaries remain. In assessing whether a surplus is recoverable, HSBC UK has considered its right to obtain a future refund together with the rights of third parties such as trustees. On this basis, any net surplus in the HBUK section of the plan is recognised in HSBC UK's financial statements and the Group's financial statements.

Income statement charge/(credit)

	2023 \$m	2022 \$m	2021 \$m
Defined benefit pension plans	(151)	42	243
Defined contribution pension plans	874	845	767
Pension plans	723	887	1,010
Defined benefit and contribution healthcare plans	34	28	27
Year ended 31 Dec	757	915	1,037

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets \$m	Present value of defined benefit obligations \$m	Effect of limit on plan surpluses \$m	Total \$m
Defined benefit pension plans	33,897	(27,011)	—	6,886
Defined benefit healthcare plans	107	(403)	—	(296)
At 31 Dec 2023	34,004	(27,414)	—	6,590
Total employee benefit liabilities (within Note 27 'Accruals, deferred income and other liabilities')				(1,160)
Total employee benefit assets (within Note 22 'Prepayments, accrued income and other assets')				7,750
Defined benefit pension plans	32,171	(25,693)	—	6,478
Defined benefit healthcare plans	96	(388)	—	(292)
At 31 Dec 2022	32,267	(26,081)	—	6,186
Total employee benefit liabilities (within Note 27 'Accruals, deferred income and other liabilities')				(1,096)
Total employee benefit assets (within Note 22 'Prepayments, accrued income and other assets')				7,282

HSBC Holdings

Employee compensation and benefit expense in respect of HSBC Holdings' employees in 2023 amounted to \$15m (2022: \$41m). The average number of persons employed during 2023 was 29 (2022: 42). A small number of employees are members of defined benefit pension plans. These employees are members of the HSBC Bank (UK) Pension Scheme. HSBC Holdings pays contributions to such plan for its own employees in accordance with the schedules of contributions determined by the trustees of the plan and recognises these contributions as an expense as they fall due.

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets		Present value of defined benefit obligations		Effect of the asset ceiling		Net defined benefit asset/(liability)	
	Principal ¹ plan \$m	Other plans \$m	Principal ¹ plan \$m	Other plans \$m	Principal ¹ plan \$m	Other plans \$m	Principal ¹ plan \$m	Other plans \$m
At 1 Jan 2023	25,121	7,050	(18,787)	(6,906)	—	—	6,334	144
Service cost	—	—	(10)	(150)	—	—	(10)	(150)
– current service cost	—	—	(14)	(135)	—	—	(14)	(135)
– past service cost and gains/(losses) from settlements	—	—	4	(15)	—	—	4	(15)
Net interest income/(cost) on the net defined benefit asset/(liability)	1,247	298	(925)	(286)	—	—	322	12
Remeasurement effects recognised in other comprehensive income	(225)	110	7	(300)	—	—	(218)	(190)
– return on plan assets (excluding interest income)	(225)	110	—	—	—	—	(225)	110
– actuarial gains/(losses) financial assumptions	—	—	(123)	(327)	—	—	(123)	(327)
– actuarial gains/(losses) demographic assumptions	—	—	357	17	—	—	357	17
– actuarial gains/(losses) experience adjustments	—	—	(227)	10	—	—	(227)	10
– other changes	—	—	—	—	—	—	—	—
Exchange differences	1,472	228	(1,098)	(190)	—	—	374	38
Benefits paid	(1,063)	(548)	1,063	629	—	—	—	81
Other movements ²	38	169	(32)	(26)	—	—	6	143
At 31 Dec 2023	26,590	7,307	(19,782)	(7,229)	—	—	6,808	78
At 1 Jan 2022	41,384	10,047	(32,255)	(10,022)	—	(23)	9,129	2
Service cost	—	—	(30)	(170)	—	—	(30)	(170)
– current service cost	—	—	(12)	(161)	—	—	(12)	(161)
– past service cost and losses from settlements	—	—	(18)	(9)	—	—	(18)	(9)
Net interest income/(cost) on the net defined benefit asset/(liability)	703	198	(546)	(202)	—	(1)	157	(5)
Remeasurement effects recognised in other comprehensive income	(11,505)	(2,181)	9,532	2,360	—	(3)	(1,973)	176
– return on plan assets (excluding interest income)	(11,505)	(2,181)	—	—	—	—	(11,505)	(2,181)
– actuarial gains/(losses) financial assumptions	—	—	10,543	2,383	—	—	10,543	2,383
– actuarial gains/(losses) demographic assumptions	—	—	(123)	24	—	—	(123)	24
– actuarial gains/(losses) experience adjustments	—	—	(888)	(47)	—	—	(888)	(47)
– other changes	—	—	—	—	—	(3)	—	(3)
Exchange differences	(4,288)	(180)	3,325	35	—	2	(963)	(143)
Benefits paid	(1,222)	(616)	1,222	686	—	—	—	70
Other movements ²	49	(218)	(35)	407	—	25	14	214
At 31 Dec 2022	25,121	7,050	(18,787)	(6,906)	—	—	6,334	144

¹ For further details of the principal plan, see page 392.

² Other movements include contributions by HSBC, contributions by employees, administrative costs and taxes paid by plan.

HSBC expects to make \$113m of contributions to defined benefit pension plans during 2024, consisting of \$nil for the principal plan and \$113m for other plans. Benefits expected to be paid from the plans to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2024 \$m	2025 \$m	2026 \$m	2027 \$m	2028 \$m	2029-2033 \$m
The principal plan ^{1,2}	1,125	1,160	1,196	1,234	1,273	6,988
Other plans ¹	465	473	456	478	476	2,403

¹ The duration of the defined benefit obligation is 12.9 years for the principal plan under the disclosure assumptions adopted (2022: 13.2 years) and 10.3 years for all other plans combined (2022: 10.2 years).

² For further details of the principal plan, see page 392.

Notes on the financial statements

Fair value of plan assets by asset classes

	31 Dec 2023				31 Dec 2022			
	Value \$m	Quoted market price in active market \$m	No quoted market price in active market \$m	Thereof HSBC ¹ \$m	Value \$m	Quoted market price in active market \$m	No quoted market price in active market \$m	Thereof HSBC ¹ \$m
The principal plan²								
Fair value of plan assets	26,590	15,006	11,584	547	25,121	13,915	11,206	510
– equities ³	83	—	83	—	112	—	112	—
– bonds fixed income	5,262	4,739	523	—	5,285	4,822	463	—
– bonds index-linked	10,300	10,300	—	—	9,479	9,479	—	—
– derivatives	1,061	—	1,061	547	1,203	—	1,203	510
– property	830	—	830	—	842	—	842	—
– pooled investment vehicles	9,087	—	9,087	—	8,586	—	8,586	—
– other	(33)	(33)	—	—	(386)	(386)	—	—
Other plans								
Fair value of plan assets	7,307	5,361	1,946	39	7,050	5,848	1,202	37
– equities	556	556	—	3	639	486	153	2
– bonds fixed income	3,624	3,623	1	5	3,571	3,472	99	4
– bonds index-linked	90	90	—	—	58	58	—	—
– bonds other	447	415	32	—	1,357	1,007	350	—
– derivatives	2	(1)	3	—	4	(1)	5	—
– property	112	108	4	—	109	104	5	—
– other	2,476	570	1,906	31	1,312	722	590	31

1 The fair value of plan assets includes derivatives entered into with HSBC Bank plc as detailed in Note 37.

2 For further details of the principal plan, see page 392.

3 Includes \$83m (2022: \$112m) in relation to private equities.

Post-employment defined benefit plans' principal actuarial financial assumptions

HSBC determines the discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of high-quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions for the principal plan¹

	Discount rate %	Inflation rate (RPI) %	Inflation rate (CPI) %	Rate of increase for pensions %	Rate of pay increase %
UK					
At 31 Dec 2023	4.65	3.23	2.67	3.14	3.42
At 31 Dec 2022	4.93	3.39	2.84	3.27	3.34

1 For further details of the principal plan, see page 392.

Mortality tables and average life expectancy at age 60 for the principal plan¹

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
UK					
At 31 Dec 2023	SAPS S3²	26.2	27.7	28.3	29.8
At 31 Dec 2022	SAPS S3	27.1	28.6	28.4	29.9

1 For further details of the principal plan, see page 392.

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

The effect of changes in key assumptions on the principal plan¹

	Impact on HBUK section of the HSBC Bank (UK) Pension Scheme obligation ²			
	Financial impact of increase		Financial impact of decrease	
	2023 \$m	2022 \$m	2023 \$m	2022 \$m
Discount rate – increase/decrease of 0.25%	(599)	(582)	631	612
Inflation rate (RPI and CPI) – increase/decrease of 0.25%	500	466	(497)	(446)
Pension payments and deferred pensions – increase/decrease of 0.25%	622	551	(590)	(519)
Pay – increase/decrease of 0.25%	8	10	(6)	(10)
Change in mortality – increase/decrease of 1 year	613	470	(613)	(489)

1 For further details of the principal plan, see page 392.

2 Sensitivities allow for HSBC UK's convention of rounding pension assumptions during 2023 to the nearest 0.01% (2022: 0.01%).

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared with the prior period.

Directors' emoluments

Details of Directors' emoluments, pensions and their interests are disclosed in the Directors' remuneration report on page 315.

6 Auditor's remuneration

	2023 \$m	2022 \$m	2021 \$m
Audit fees payable to PwC ¹	109.8	97.6	88.1
Other audit fees payable	2.2	1.6	2.0
Year ended 31 Dec	112.0	99.2	90.1

Fees payable by HSBC to PwC

	2023 \$m	2022 \$m	2021 \$m
Fees for HSBC Holdings' statutory audit ²	24.1	21.9	19.5
Fees for other services provided to HSBC	131.8	126.2	109.9
– audit of HSBC's subsidiaries	85.7	75.7	68.6
– audit-related assurance services ³	26.0	26.4	18.7
– other assurance services ^{4,5}	20.1	24.1	22.6
Year ended 31 Dec	155.9	148.1	129.4

- ¹ Audit fees payable to PwC in 2023 included adjustments made to the prior year audit fee after finalisation of the 2022 financial statements.
- ² Fees payable to PwC for the statutory audit of the consolidated financial statements of HSBC and the separate financial statements of HSBC Holdings. They include amounts payable for services relating to the consolidation returns of HSBC Holdings' subsidiaries, which are clearly identifiable as being in support of the Group audit opinion.
- ³ Including services for assurance and other services that relate to statutory and regulatory filings, including interim reviews.
- ⁴ Including permitted services relating to attestation reports on internal controls of a service organisation primarily prepared for and used by third-party end users, including comfort letters.
- ⁵ Includes reviews of PRA regulatory reporting returns.

No fees were payable by HSBC to PwC as principal auditor for the following types of services: internal audit services and services related to litigation, recruitment and remuneration.

Fees payable by HSBC's associated pension schemes to PwC

	2023 \$000	2022 \$000	2021 \$000
Audit of HSBC's associated pension schemes	297	480	382
Year ended 31 Dec	297	480	382

No fees were payable by HSBC's associated pension schemes to PwC as principal auditor for the following types of services: internal audit services, other assurance services, services related to corporate finance transactions, valuation and actuarial services, litigation, recruitment and remuneration, and information technology.

In addition to the above, the estimated fees paid to PwC by third parties associated with HSBC amounted to \$12.3m (2022: \$13.1m; 2021: \$6.3m). In these cases, HSBC was connected with the contracting party and may therefore have been involved in appointing PwC. These fees arose from services such as auditing mutual funds managed by HSBC and reviewing the financial position of corporate concerns that borrow from HSBC.

Fees payable for non-audit services for HSBC Holdings are not disclosed separately because such fees are disclosed on a consolidated basis for the Group.

7 Tax

Tax expense

	2023 \$m	2022 \$m	2021 \$m
Current tax ¹	5,718	2,984	3,250
– for this year	5,737	3,264	3,182
– adjustments in respect of prior years	(19)	(280)	68
Deferred tax	71	(2,175)	963
– origination and reversal of temporary differences	19	(2,278)	874
– effect of changes in tax rates	17	(293)	132
– adjustments in respect of prior years	35	396	(43)
Year ended 31 Dec²	5,789	809	4,213

- ¹ Current tax included Hong Kong profits tax of \$1,328m (2022: \$604m; 2021: \$813m). The Hong Kong tax rate applying to the profits of subsidiaries assessable in Hong Kong was 16.5% (2022: 16.5%; 2021: 16.5%).
- ² In addition to amounts recorded in the income statement, a tax credit of \$41m (2022: credit of \$145m) was recorded directly to equity.

Notes on the financial statements

Tax reconciliation

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

	2023		2022		2021	
	\$m	%	\$m	%	\$m	%
Profit before tax	30,348		17,058		18,906	
Tax expense						
Taxation at UK corporation tax rate of 23.5% (2022: 19.0%, 2021: 19.0%)	7,132	23.5	3,241	19.0	3,592	19.0
Impact of differently taxed overseas profits in overseas locations	(612)	(2.0)	459	2.7	280	1.5
UK banking surcharge	350	1.2	283	1.7	332	1.8
Items increasing tax charge in 2023:						
– impairment of interest in associate	705	2.3	—	—	—	—
– local taxes and overseas withholding taxes	419	1.4	346	2.0	360	1.9
– impacts of hyperinflation	348	1.1	171	1.0	68	0.4
– other permanent disallowables	227	0.7	363	2.1	414	2.2
– bank levy	112	0.4	59	0.3	93	0.5
– impact of changes in tax rates	17	0.1	(293)	(1.7)	132	0.7
– adjustments in respect of prior period	16	0.1	116	0.7	25	0.1
– tax impact of sale of French retail banking business	—	—	115	0.7	(434)	(2.3)
– impact of differences between French tax basis and IFRSs	—	—	—	—	434	2.3
Items reducing tax charge in 2023:						
– non-taxable income and gains	(1,189)	(3.9)	(825)	(4.8)	(641)	(3.4)
– effect of profits in associates and joint ventures	(571)	(1.9)	(504)	(3.1)	(414)	(2.2)
– movements in provisions for uncertain tax positions	(472)	(1.6)	27	0.2	15	0.1
– accounting gain on acquisition of SVB UK	(442)	(1.5)	—	—	—	—
– deductions for AT1 coupon payments	(229)	(0.7)	(246)	(1.4)	(270)	(1.4)
– movements in unrecognised deferred tax	(22)	(0.1)	(2,503)	(14.7)	227	1.1
Year ended 31 December	5,789	19.1	809	4.7	4,213	22.3

The Group's profits are taxed at different rates depending on the country or territory in which the profits arise. The key applicable tax rates for 2023 include Hong Kong (16.5%), the US (21%) and the UK (23.5%). If the Group's profits were taxed at the statutory rates of the countries in which the profits arose, then the tax rate for the year would have been 22.6% (2022: 23.3%).

The effective tax rate for the year of 19.1% was higher than in the previous year (2022: 4.7%). The effective tax rate for the year was increased by 2.3% by the non-taxable impairment of the Group's interest in BoCom, reduced by 1.6% by the release of provisions for uncertain tax positions and reduced by 1.5% by the non-taxable accounting gain on the acquisition of SVB UK. The effective tax rate for 2022 was reduced by 14.7% as a result of the recognition of previously unrecognised losses in the UK of \$2.2bn and France of \$0.3bn, in light of improved forecast profitability.

On 20 June 2023, legislation was substantively enacted in the UK to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a UK qualified domestic minimum top-up tax, with effect from 1 January 2024. Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in a jurisdiction, calculated using principles set out in the Pillar Two legislation, is below 15%. Any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to HMRC. In response to the OECD's Pillar Two global minimum tax rules, many national governments have announced their intention to introduce domestic minimum tax rules that are closely aligned to the OECD's Pillar Two model rules. Where such qualifying domestic minimum tax rules are introduced, they may be expected to have the effect of increasing local tax liabilities to the 15% minimum rate, eliminating the top-up tax liability payable in the UK by HSBC Holdings plc in such cases. Based on the Group's forecasts, top-up tax liabilities are expected to arise in approximately 10 jurisdictions as a result of low or 0% statutory tax rates, in particular in respect of the Group's banking operations in Bermuda and the Channel Islands. Additionally, the application of local tax laws in Hong Kong and mainland China, particularly with regard to the non-taxation of dividend income and income on government bonds, has typically resulted in effective tax rates of below 15%. This is expected to create future top-up tax liabilities in these jurisdictions, which have statutory tax rates of 16.5% and 25%, respectively. The application of the Pillar Two global minimum tax rules and the introduction of new domestic minimum tax regimes are currently forecast to increase the Group's annual effective tax rate by around 0.5 and 1.0 percentage points.

Accounting for taxes involves some estimation because tax law is uncertain and its application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. Exposures relating to legacy tax cases were reassessed during 2023, resulting in a credit of \$472m to the income statement. We do not expect significant liabilities to arise in excess of the amounts provided. HSBC only recognises current and deferred tax assets where recovery is probable.

Movement of deferred tax assets and liabilities

	Loan impairment provisions	Unused tax losses and tax credits	Financial assets at FVOCI	Cash flow hedges	Retirement obligations	Other	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets	1,062	4,397	850	1,271	—	3,048	10,628
Liabilities	—	—	—	—	(1,673)	(1,567)	(3,240)
At 1 Jan 2023	1,062	4,397	850	1,271	(1,673)	1,481	7,388
Income statement	(39)	102	541	1	(114)	(562)	(71)
Other comprehensive income	—	—	(598)	(974)	99	399	(1,074)
Foreign exchange and other adjustments	135	45	83	121	(126)	15	273
At 31 Dec 2023	1,158	4,544	876	419	(1,814)	1,333	6,516
Assets ¹	1,158	4,544	876	419	—	2,933	9,930
Liabilities ¹	—	—	—	—	(1,814)	(1,600)	(3,414)
Assets ²	1,151	2,001	382	154	—	1,744	5,432
Liabilities ²	—	—	—	—	(2,819)	(475)	(3,294)
At 1 Jan 2022	1,151	2,001	382	154	(2,819)	1,269	2,138
Income statement	7	2,425	(1,127)	1	217	652	2,175
Other comprehensive income	—	—	2,281	1,159	692	(1,260)	2,872
Foreign exchange and other adjustments	(96)	(29)	(686)	(43)	237	820	203
At 31 Dec 2022	1,062	4,397	850	1,271	(1,673)	1,481	7,388
Assets ¹	1,062	4,397	850	1,271	—	3,048	10,628
Liabilities ¹	—	—	—	—	(1,673)	(1,567)	(3,240)

1 After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets of \$7,754m (2022: \$8,360m) and deferred tax liabilities of \$1,238m (2022: \$972m).

2 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

In applying judgement in recognising deferred tax assets, management has assessed all relevant information, including future business profit projections and the track record of meeting forecasts. Management's assessment of the likely availability of future taxable profits against which to recover deferred tax assets is based on the most recent financial forecasts approved by management, which cover a five-year period and are extrapolated where necessary, and takes into consideration the reversal of existing taxable temporary differences and past business performance. When forecasts are extrapolated beyond five years, a number of different scenarios are considered, reflecting different downward risk adjustments, in order to assess the sensitivity of our recognition and measurement conclusions in the context of such longer-term forecasts.

The Group's net deferred tax asset of \$6.5bn (2022: \$7.4bn) included \$3.3bn (2022: \$4.0bn) of deferred tax assets relating to the UK, \$3.1bn (2022: \$3.3bn) of deferred tax assets relating to the US and a net deferred asset of \$0.9bn (2022: \$1.0bn) in France.

The UK deferred tax asset of \$3.3bn excluded a \$1.9bn deferred tax liability arising on the UK pension scheme surplus, the reversal of which is not taken into account when estimating future taxable profits. The UK deferred tax assets are supported by forecasts of taxable profit, also taking into consideration the history of profitability in the relevant businesses. The majority of the deferred tax asset relates to tax attributes which do not expire and are forecast to be recovered within four years and as such are less sensitive to changes in long-term profit forecasts.

The net US deferred tax asset of \$3.1bn included \$1.3bn related to US tax losses, of which \$1.0bn expire in 10 to 15 years. Management expects the US deferred tax asset to be substantially recovered within 14 years, with the majority recovered in the first nine years.

The net deferred tax asset in France of \$0.9bn included \$0.7bn related to tax losses, which are expected to be substantially recovered within 12 years.

Unrecognised deferred tax

The amount of gross temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was \$10.4bn (2022: \$9.2bn). This amount included unused US state tax losses of \$4.0bn (2022: \$4.1bn) which are forecast to expire before they are recovered and unused UK tax losses of \$4.5bn (2022: \$3.5bn), which arose prior to 1 April 2017 and can only be recovered against future taxable profits of HSBC Holdings. No deferred tax was recognised on these losses due to the absence of convincing evidence regarding the availability of sufficient future taxable profits against which to recover them. Deferred tax asset recognition is reassessed at each balance sheet date based on the available evidence. Of the total amounts unrecognised, \$5.1bn (2022: \$3.6bn) had no expiry date, \$0.5bn (2022: \$1.2bn) was scheduled to expire within 10 years and the remaining balance is expected to expire after 10 years.

Deferred tax is not recognised in respect of the Group's investments in subsidiaries and branches where HSBC is able to control the timing of remittance or other realisation and where remittance or realisation is not probable in the foreseeable future. The aggregate temporary differences relating to unrecognised deferred tax liabilities arising on investments in subsidiaries and branches was \$14.4bn (2022: \$11.7bn) and the corresponding unrecognised deferred tax liability was \$0.7bn (2022: \$0.7bn).

8 Dividends

Dividends to shareholders of the parent company

	2023		2022		2021	
	Per share \$	Total \$m	Per share \$	Total \$m	Per share \$	Total \$m
Dividends paid on ordinary shares						
In respect of previous year:						
– second interim dividend	0.23	4,589	0.18	3,576	0.15	3,059
In respect of current year:						
– first interim dividend	0.10	2,001	0.09	1,754	0.07	1,421
– second interim dividend	0.10	1,956	—	—	—	—
– third interim dividend	0.10	1,946	—	—	—	—
Total	0.53	10,492	0.27	5,330	0.22	4,480
Total dividends on preference shares classified as equity (paid quarterly) ¹	—	—	—	—	4.99	7
Total coupons on capital securities classified as equity		1,101		1,214		1,303
Dividends to shareholders		11,593		6,544		5,790

1 HSBC Holdings called \$1,450m 6.20% non-cumulative US dollar preference shares on 10 December 2020. The security was redeemed and cancelled on 13 January 2021.

Total coupons on capital securities classified as equity

	First call date	2023		2022	2021
		Per security	Total \$m	Total \$m	Total \$m
Perpetual subordinated contingent convertible securities¹					
\$2,000m issued at 6.875% ²	Jun 2021	\$68.750	—	—	69
\$2,250m issued at 6.375%	Sep 2024	\$63.750	143	143	143
\$2,450m issued at 6.375%	Mar 2025	\$63.750	156	156	156
\$3,000m issued at 6.000%	May 2027	\$60.000	180	180	180
\$2,350m issued at 6.250% ³	Mar 2023	\$62.500	52	147	147
\$1,800m issued at 6.500%	Mar 2028	\$65.000	117	117	117
\$1,500m issued at 4.600%	Dec 2030	\$46.000	69	69	69
\$1,000m issued at 4.000% ⁴	Mar 2026	\$40.000	40	40	20
\$1,000m issued at 4.700% ⁵	Mar 2031	\$47.000	47	47	24
\$2,000m issued at 8.000% ⁶	Mar 2028	\$80.000	80	—	—
€1,500m issued at 5.250% ⁷	Sep 2022	€52.500	—	76	93
€1,000m issued at 6.000% ⁸	Sep 2023	€60.000	56	63	70
€1,250m issued at 4.750%	Jul 2029	€47.500	64	65	72
£1,000m issued at 5.875%	Sep 2026	£58.750	72	70	80
SGD1,000m issued at 4.700% ⁹	Jun 2022	SGD47.000	—	14	35
SGD750m issued at 5.000% ¹⁰	Sep 2023	SGD50.000	25	27	28
Total			1,101	1,214	1,303

1 Discretionary coupons are paid semi-annually, based on the denominations of each security.

2 This security was called by HSBC Holdings on 15 April 2021 and was redeemed and cancelled on 1 June 2021.

3 This security was called by HSBC Holdings on 30 January 2023 and was redeemed and cancelled on 23 March 2023.

4 This security was issued by HSBC Holdings on 9 March 2021. The first call period commences six calendar months prior to the reset date of 9 September 2026.

5 This security was issued by HSBC Holdings on 9 March 2021. The first call period commences six calendar months prior to the reset date of 9 September 2031.

6 This security was issued by HSBC Holdings on 7 March 2023. The first call period commences six calendar months prior to the reset date of 7 September 2028.

7 This security was called by HSBC Holdings on 9 August 2022 and was redeemed and cancelled on 16 September 2022.

8 This security was called by HSBC Holdings on 3 August 2023 and was redeemed and cancelled on 29 September 2023.

9 This security was called by HSBC Holdings on 4 May 2022 and was redeemed and cancelled on 8 June 2022.

10 This security was called by HSBC Holdings on 3 August 2023 and was redeemed and cancelled on 25 September 2023.

On 21 February 2024, the Directors approved a fourth interim dividend in respect of the financial year ended 31 December 2023 of \$0.31 per ordinary share, a distribution of approximately \$5,913m. The fourth interim dividend for 2023 will be payable on 25 April 2024 to holders on the Principal Register in the UK, the Hong Kong Overseas Branch Register or the Bermuda Overseas Branch Register on 8 March 2024. No liability was recorded in the financial statements in respect of the fourth interim dividend for 2023.

On 4 January 2024, HSBC paid a coupon on its €1,250m subordinated capital securities, representing a total distribution of €30m (\$33m). No liability was recorded in the balance sheet at 31 December 2023 in respect of this coupon payment.

9 Earnings per share

Basic earnings per ordinary share is calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding, excluding own shares held. Diluted earnings per ordinary share is calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive potential ordinary shares, by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on conversion of dilutive potential ordinary shares.

Basic and diluted earnings per share

	2023			2022 ¹			2021		
	Profit \$m	Number of shares (millions)	Per share \$	Profit \$m	Number of shares (millions)	Per share \$	Profit \$m	Number of shares (millions)	Per share \$
Basic ²	22,432	19,478	1.15	14,346	19,849	0.72	12,607	20,197	0.62
Effect of dilutive potential ordinary shares		122			137			105	
Diluted²	22,432	19,600	1.14	14,346	19,986	0.72	12,607	20,302	0.62

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

² Weighted average number of ordinary shares outstanding (basic) or assuming dilution (diluted).

The number of anti-dilutive employee share options excluded from the weighted average number of dilutive potential ordinary shares was 23 million (2022: 9.4 million; 2021: 8.6 million).

10 Segmental analysis

The Group Chief Executive, supported by the rest of the Group Executive Committee ('GEC'), is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Group's reportable segments. Global business results are assessed by the CODM on the basis of constant currency performance that removes the effects of currency translation from reported results. Therefore, we disclose these results on a constant currency basis as required by IFRS Accounting Standards. The 2022 and 2021 income statements are converted at the average rates of exchange for 2023, and the balance sheets at 31 December 2022 and 31 December 2021 at the prevailing rates of exchange on 31 December 2023.

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 that 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. Measurement of segmental assets, liabilities, income and expenses is in accordance with the Group's accounting policies. Shared costs are included in segments on the basis of actual recharges. The intra-Group elimination items for the global businesses are presented in Corporate Centre.

Resegmentation

In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our Global Banking customers within our entities in Latin America was transferred from Global Banking and Markets to Commercial Banking for reporting purposes. Comparative data have been re-presented accordingly. Similar smaller transfers from Global Banking and Markets to Commercial Banking were also undertaken within our entities in Australia and Indonesia, where comparative data have not been re-presented.

Our global businesses

We provide a comprehensive range of banking and related financial services to our customers in our three global businesses. The products and services offered to customers are organised by these global businesses.

- Wealth and Personal Banking ('WPB') provides a full range of retail banking and wealth products to our customers from personal banking to ultra high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. We also provide wealth management services, including insurance and investment products, global asset management services, investment management and private wealth solutions for customers with more sophisticated and international requirements.
- Commercial Banking ('CMB') offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards), commercial insurance and investments. CMB also offers customers access to products and services offered by other global businesses, such as Global Banking and Markets, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- Global Banking and Markets ('GBM') provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities, including financing, advisory and transaction services, a markets business that provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.

Notes on the financial statements

HSBC constant currency profit before tax and balance sheet data

	2023				
	Wealth and Personal Banking	Commercial Banking ³	Global Banking and Markets ³	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges²	27,275	22,867	16,115	(199)	66,058
– external	19,107	24,209	28,021	(5,279)	66,058
– inter-segment	8,168	(1,342)	(11,906)	5,080	—
– of which: net interest income/(expense) ⁴	20,492	17,147	7,141	(8,984)	35,796
Change in expected credit losses and other credit impairment charges	(1,058)	(2,062)	(326)	(1)	(3,447)
Net operating income/(expense)	26,217	20,805	15,789	(200)	62,611
Total operating expenses	(14,738)	(7,524)	(9,865)	57	(32,070)
Operating profit/(loss)	11,479	13,281	5,924	(143)	30,541
Share of profit/(loss) in associates and joint ventures less impairment ⁵	65	(1)	—	(257)	(193)
Constant currency profit before tax	11,544	13,280	5,924	(400)	30,348
	%	%	%	%	%
Share of HSBC's constant currency profit before tax	38.0	43.8	19.5	(1.3)	100.0
Constant currency cost efficiency ratio	54.0	32.9	61.2	28.6	48.5
Constant currency balance sheet data	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	454,878	309,422	173,966	269	938,535
Interests in associates and joint ventures	551	28	111	26,654	27,344
Total external assets	937,079	632,406	1,331,395	137,797	3,038,677
Customer accounts	804,863	475,666	330,522	596	1,611,647

2022 ¹					
Net operating income/(expense) before change in expected credit losses and other credit impairment charges ²	20,884	16,283	14,602	(1,898)	49,871
– external	18,299	16,973	18,744	(4,145)	49,871
– inter-segment	2,585	(690)	(4,142)	2,247	—
– of which: net interest income/(expense) ⁴	15,971	11,763	4,696	(2,668)	29,762
Change in expected credit losses and other credit impairment charges	(1,186)	(1,862)	(573)	(9)	(3,630)
Net operating income/(expense)	19,698	14,421	14,029	(1,907)	46,241
Total operating expenses	(14,248)	(6,894)	(9,338)	(1,822)	(32,302)
Operating profit/(loss)	5,450	7,527	4,691	(3,729)	13,939
Share of profit/(loss) in associates and joint ventures	30	—	(2)	2,574	2,602
Constant currency profit/(loss) before tax	5,480	7,527	4,689	(1,155)	16,541
	%	%	%	%	%
Share of HSBC's constant currency profit before tax	33.1	45.6	28.3	(7.0)	100.0
Constant currency cost efficiency ratio	68.2	42.3	64.0	(96.0)	64.8
Constant currency balance sheet data	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	434,122	316,863	190,202	361	941,548
Interests in associates and joint ventures	514	33	93	28,143	28,783
Total external assets	893,867	620,193	1,341,575	152,049	3,007,684
Customer accounts	793,310	472,424	332,303	458	1,598,495

HSBC constant currency profit before tax and balance sheet data (continued)

	2021				
	Wealth and Personal Banking \$m	Commercial Banking \$m	Global Banking and Markets \$m	Corporate Centre \$m	Total \$m
Net operating income/(expense) before change in expected credit losses and other credit impairment charges ²	20,972	12,699	13,086	(678)	46,079
– external	20,787	12,685	14,533	(1,926)	46,079
– inter-segment	185	14	(1,447)	1,248	—
– of which: net interest income/(expense) ⁴	13,445	8,467	3,419	(714)	24,617
Change in expected credit losses and other credit impairment charges	195	339	221	3	758
Net operating income/(expense)	21,167	13,038	13,307	(675)	46,837
Total operating expenses	(15,338)	(6,691)	(9,255)	(960)	(32,244)
Operating profit/(loss)	5,829	6,347	4,052	(1,635)	14,593
Share of profit in associates and joint ventures	36	1	—	2,770	2,807
Constant currency profit/(loss) before tax	5,865	6,348	4,052	1,135	17,400
	%	%	%	%	%
Share of HSBC's constant currency profit before tax	33.7	36.5	23.3	6.5	100.0
Constant currency cost efficiency ratio	73.1	52.7	70.7	(141.6)	70.0
Constant currency balance sheet data	\$m	\$m	\$m	\$m	\$m
Loans and advances to customers (net)	473,304	340,603	196,193	712	1,010,812
Interests in associates and joint ventures	493	31	101	27,036	27,661
Total external assets	905,024	605,696	1,171,909	178,074	2,860,703
Customer accounts	834,767	495,492	322,306	622	1,653,187

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

3 In the first quarter of 2023, following an internal review to assess which global businesses were best suited to serve our customers' respective needs, a portfolio of our customers within our entities in Latin America was transferred from GBM to CMB for reporting purposes. Comparative data have been re-presented accordingly.

4 Net interest expense recognised in Corporate Centre includes \$8.7bn (2022: \$2.5bn; 2021: undisclosed) of interest expense in relation to the internal cost to fund trading and fair value net assets; and the funding cost of foreign exchange swaps in our Markets Treasury function. In the second quarter of 2023, we implemented a consistent reporting approach across the most material entities that contribute to our trading and fair value net assets, which resulted in an increase to the associated funding costs reported through the intersegment elimination in Corporate Centre.

5 Includes an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 418.

Reported external net operating income is attributed to countries and territories on the basis of the location of the branch responsible for reporting the results or advancing the funds:

	2023 \$m	2022 ¹ \$m	2021 \$m
Reported external net operating income/(expense) by country/territory²	66,058	50,620	49,552
– UK	11,027	11,710	10,909
– Hong Kong	20,185	15,454	14,245
– US	3,816	3,893	3,795
– France	4,208	(177)	2,179
– other countries/territories	26,822	19,740	18,424

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

Constant currency results reconciliation

	2023	2022 ¹			2021		
	Reported and constant currency	Constant currency	Currency translation	Reported	Constant currency	Currency translation	Reported
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Revenue ²	66,058	49,871	(749)	50,620	46,079	(3,473)	49,552
ECL	(3,447)	(3,630)	(46)	(3,584)	758	(170)	928
Operating expenses	(32,070)	(32,302)	399	(32,701)	(32,244)	2,376	(34,620)
Share of profit in associates and joint ventures less impairment ³	(193)	2,602	(121)	2,723	2,807	(239)	3,046
Profit before tax	30,348	16,541	(517)	17,058	17,400	(1,506)	18,906

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

2 Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.

3 Includes an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 418.

Notes on the financial statements

Constant currency balance sheet reconciliation

	2023	2022 ¹			2021		
	Reported and constant currency \$m	Constant currency \$m	Currency translation \$m	Reported \$m	Constant currency \$m	Currency translation \$m	Reported \$m
Loans and advances to customers (net)	938,535	941,548	(17,987)	923,561	1,010,812	35,002	1,045,814
Interests in associates and joint ventures	27,344	28,783	471	29,254	27,661	1,948	29,609
Total external assets	3,038,677	3,007,684	(58,398)	2,949,286	2,860,703	97,236	2,957,939
Customer accounts	1,611,647	1,598,495	(28,192)	1,570,303	1,653,187	57,387	1,710,574

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Notable items

	2023 \$m	2022 \$m	2021 \$m
Year ended 31 Dec			
Notable items			
Revenue			
Disposals, acquisitions and related costs ^{1,2}	1,298	(2,737)	—
Fair value movements on financial instruments ³	14	(618)	(221)
Restructuring and other related costs	—	(247)	(307)
Disposal losses on Markets Treasury repositioning	(977)	—	—
Operating expenses			
Disposals, acquisitions and related costs	(321)	(18)	—
Impairment of non-financial items	—	—	(587)
Restructuring and other related costs ⁴	136	(2,882)	(1,836)
Impairment of interests in associates⁵	(3,000)	—	—

1 Includes the impact of the sale of our retail banking operations in France.

2 Includes the provisional gain of \$1.6bn recognised in respect of the acquisition of SVB UK.

3 Fair value movements on non-qualifying hedges in HSBC Holdings.

4 Amounts in 2023 relate to reversals of restructuring provisions recognised during 2022.

5 Relates to an impairment loss of \$3.0bn recognised in respect of the Group's investment in BoCom. See Note 18 on page 418.

11 Trading assets

	2023 \$m	2022 \$m
Treasury and other eligible bills	24,433	22,897
Debt securities	106,108	78,126
Equity securities	123,663	88,026
Trading securities	254,204	189,049
Loans and advances to banks ¹	9,761	8,769
Loans and advances to customers ¹	25,194	20,275
Year ended 31 Dec	289,159	218,093

1 Loans and advances to banks and customers include reverse repos, stock borrowing and other accounts.

12 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is used. For inactive markets, HSBC sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

The majority of financial instruments measured at fair value are in GBM. GBM's fair value governance structure comprises its Finance function, Valuation Committees and a Valuation Committee Review Group. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committees, which consist of independent support functions. These committees are overseen by the Valuation Committee Review Group, which considers all material subjective valuations.

Financial liabilities measured at fair value

In certain circumstances, HSBC records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to HSBC's liabilities. The change in fair value of issued debt securities attributable to the Group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using an appropriate market discount curve. The difference in the valuations is attributable to the Group's own credit spread. This methodology is applied consistently across all securities.

Structured notes issued and certain other hybrid instruments are reported as financial liabilities designated at fair value. The credit spread applied to these instruments is derived from the spreads at which HSBC issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by HSBC, recorded in other comprehensive income, reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price. These are financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- Level 2 – valuation technique using observable inputs. These are financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs. These are financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2023				2022 ¹			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	202,020	82,833	4,306	289,159	148,592	64,684	4,817	218,093
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	27,030	63,825	19,788	110,643	23,146	59,548	17,407	100,101
Derivatives	931	226,714	2,069	229,714	2,917	279,278	1,964	284,159
Financial investments	215,228	76,591	2,618	294,437	181,659	71,040	2,961	255,660
Liabilities								
Trading liabilities	53,354	19,318	478	73,150	44,787	27,092	474	72,353
Financial liabilities designated at fair value	1,266	129,232	10,928	141,426	1,125	115,764	10,432	127,321
Derivatives	1,918	230,285	2,569	234,772	2,399	280,443	2,920	285,762

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

The table below provides the fair value levelling of assets held for sale and liabilities of disposal groups that have been classified as held for sale in accordance with IFRS 5. For further details, see Note 23.

Financial instruments carried at fair value and bases of valuation – assets and liabilities held for sale

	2023				2022			
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	2,403	61	—	2,465	2,932	244	—	3,176
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	15	49	64	—	14	47	61
Derivatives	—	528	—	528	—	866	—	866
Financial investments	9,357	—	28	9,385	11,184	—	—	11,184
Liabilities								
Trading liabilities	1,352	64	—	1,417	2,572	182	—	2,754
Financial liabilities designated at fair value	—	2,370	—	2,370	—	3,523	—	3,523
Derivatives	—	615	—	615	—	813	—	813

Notes on the financial statements

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 31 Dec 2023							
Transfers from Level 1 to Level 2	13,200	8,066	1,709	—	54	—	—
Transfers from Level 2 to Level 1	9,975	5,758	2,477	—	309	—	—
At 31 Dec 2022							
Transfers from Level 1 to Level 2	4,721	5,284	2,565	—	113	—	—
Transfers from Level 2 to Level 1	8,208	5,964	3,340	—	233	—	—

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.

Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to GBM. Movements in the amount of fair value adjustments do not necessarily translate in equivalent movements of profits or losses within the income statement, as these movements can be compensated by other related profits or loss effects. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Global Banking and Markets fair value adjustments

	2023		2022	
	GBM \$m	Corporate Centre \$m	GBM \$m	Corporate Centre \$m
Type of adjustment				
Risk-related	692	41	650	40
– bid-offer	414	—	426	—
– uncertainty	75	3	86	—
– credit valuation adjustment	164	35	245	35
– debit valuation adjustment	(54)	—	(175)	—
– funding fair value adjustment	93	3	68	5
Model-related	63	—	61	—
– model limitation	63	—	61	—
Inception profit (Day 1 P&L reserves)	86	—	97	—
At 31 Dec	841	41	808	40

The increase in fair value adjustments was predominantly driven by the reduction in the debit valuation adjustment including a consideration of the overlap with the funding fair value adjustment. This was partly offset by reductions from changes to exposure, and tightening of credit and liquidity market spreads.

Bid-offer

IFRS 13 'Fair Value Measurement' requires the use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in HSBC's valuation model.

Credit and debit valuation adjustments

The credit valuation adjustment ('CVA') is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and that HSBC may not receive the full market value of the transactions.

The debit valuation adjustment ('DVA') is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC may default, and that it may not pay the full market value of the transactions. The DVA considers the overlap with the funding fair value adjustment.

HSBC calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group entities.

HSBC calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC, to HSBC's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, HSBC calculates the DVA by applying the PD of HSBC, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to HSBC and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products HSBC uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment

The funding fair value adjustment ('FFVA') is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed in Note 1.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Trading liabilities	Designated at fair value	Derivatives	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Private equity including strategic investments	507	7	17,640	—	18,154	—	1	—	1
Asset-backed securities	309	128	8	—	445	—	—	—	—
Structured notes	—	—	3	—	3	—	10,331	—	10,331
Other derivatives	—	—	—	2,069	2,069	—	—	2,569	2,569
Other portfolios	1,802	4,171	2,137	—	8,110	478	596	—	1,074
At 31 Dec 2023	2,618	4,306	19,788	2,069	28,781	478	10,928	2,569	13,975
Private equity including strategic investments	647	19	15,653	—	16,319	92	—	—	92
Asset-backed securities	438	208	95	—	741	—	—	—	—
Structured notes	—	—	—	—	—	—	10,432	—	10,432
Other derivatives	—	—	—	1,964	1,964	—	—	2,920	2,920
Other portfolios	1,876	4,590	1,659	—	8,125	382	—	—	382
At 31 Dec 2022	2,961	4,817	17,407	1,964	27,149	474	10,432	2,920	13,826

Level 3 instruments are present in both ongoing and legacy businesses. Loans held for securitisation, derivatives with monolines, certain 'other derivatives' and predominantly all Level 3 asset-backed securities are legacy positions. HSBC has the capability to hold these positions.

Private equity including strategic investments

The fair value of a private equity investment (including strategic investments) is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; the price at which similar companies have changed ownership; or from published net asset values ('NAV') received. If necessary, adjustments are made to the NAV of funds to obtain the best estimate of fair value.

Asset-backed securities

While quoted market prices are generally used to determine the fair value of the asset-backed securities ('ABSs'), valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For certain ABSs, such as residential mortgage-backed securities, the valuation uses an industry standard model with assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios.

Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	2,961	4,817	17,407	1,964	474	10,432	2,920
Total gains/(losses) recognised in profit or loss	(44)	266	921	692	75	97	910
– net income/(losses) from financial instruments held for trading or managed on a fair value basis	—	266	—	692	75	97	910
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	921	—	—	—	—
– gains less losses from financial investments at fair value through other comprehensive income	(44)	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI') ¹	28	108	87	81	24	523	111
– financial investments: fair value gains/(losses)	(44)	—	—	—	—	335	—
– exchange differences	72	108	87	81	24	188	111
Purchases	353	2,276	3,555	—	291	—	—
New issuances	—	2	—	—	2	5,389	—
Sales	(290)	(2,478)	(658)	—	(320)	(2)	—
Settlements	(352)	(872)	(1,886)	(1,018)	(74)	(3,258)	(1,565)
Transfers out	(662)	(922)	(156)	(240)	(45)	(2,881)	(358)
Transfers in	624	1,109	518	590	51	628	551
At 31 Dec 2023	2,618	4,306	19,788	2,069	478	10,928	2,569
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2023	—	(152)	82	737	—	(433)	(903)
– net income/(losses) from financial instruments held for trading or managed on a fair value basis	—	(152)	—	737	—	—	(903)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	82	—	—	(433)	—
At 1 Jan 2022	3,389	2,662	14,238	2,478	785	7,880	3,088
IFRS 17 impacts	(12)	—	1,468	—	—	—	—
At 1 Jan 2022 (as restated)	3,377	2,662	15,706	2,478	785	7,880	3,088
Total gains/(losses) recognised in profit or loss	(4)	(245)	132	390	(52)	(1,334)	1,014
– net income/(losses) from financial instruments held for trading or managed on a fair value basis	—	(245)	—	390	(52)	—	1,014
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	132	—	—	(1,334)	—
– gains less losses from financial investments at fair value through other comprehensive income	(4)	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income ('OCI') ¹	(325)	(137)	(217)	(219)	(11)	(345)	(226)
– financial investments: fair value gains/(losses)	(202)	—	—	—	—	82	—
– exchange differences	(123)	(137)	(217)	(219)	(11)	(427)	(226)
Purchases	1,048	3,436	4,410	—	178	—	—
New issuances	1	—	—	—	8	4,183	—
Sales	(240)	(1,102)	(801)	—	(152)	(94)	—
Settlements	(464)	(1,273)	(1,883)	(918)	(644)	182	(993)
Transfers out	(489)	(442)	(76)	(409)	(18)	(1,296)	(632)
Transfers in	57	1,918	136	642	380	1,256	669
At 31 Dec 2022	2,961	4,817	17,407	1,964	474	10,432	2,920
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2022	—	(100)	(158)	707	2	100	2,779
– net income/(losses) from financial instruments held for trading or managed on a fair value basis	—	(100)	—	707	2	—	2,779
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(158)	—	—	100	—

1 Included in 'financial investments: fair value gains/(losses)' in the current year and 'exchange differences' in the consolidated statement of comprehensive income.

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.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of fair values to reasonably possible alternative assumptions

	2023				2022			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Derivatives, trading assets and trading liabilities ¹	492	(531)	—	—	264	(291)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value through profit or loss	1,092	(1,100)	—	—	981	(978)	—	—
Financial investments	13	(12)	61	(66)	11	(11)	65	(55)
At 31 Dec	1,597	(1,643)	61	(66)	1,256	(1,280)	65	(55)

1 'Derivatives, trading assets and trading liabilities' are presented as one category to reflect the manner in which these instruments are risk-managed.

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

The following table lists key unobservable inputs to Level 3 financial instruments and provides the range of those inputs at 31 December 2023.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value		Key valuation techniques	Key unobservable inputs	2023		2022	
	Assets	Liabilities			Full range of inputs		Full range of inputs	
	\$m	\$m			Lower	Higher	Lower	Higher
Private equity including strategic investments	18,154	1	See below	See below				
Asset-backed securities	445	—						
– collateralised loan/debt obligation	44	—	Market proxy	Bid quotes	—	94	—	92
– other ABSs	401	—	Market proxy	Bid quotes	—	220	—	99
Structured notes	3	10,331						
– equity-linked notes	3	7,054	Model – Option model	Equity volatility	6%	154%	6%	142%
			Model – Option model	Equity correlation	34%	100%	32%	99%
– Foreign exchange-linked notes	—	1,733	Model – Option model	Foreign exchange volatility	1%	34%	3%	37%
– other	—	1,544						
Derivatives	2,069	2,569						
– interest rate derivatives	864	784						
– securitisation swaps	146	136	Model – Discounted cash flow	Prepayment rate	5%	10%	5%	10%
– long-dated swaptions	57	69	Model – Option model	Interest rate volatility	11%	37%	8%	53%
– other	661	579						
– Foreign exchange derivatives	308	427						
– Foreign exchange options	255	356	Model – Option model	Foreign exchange volatility	1%	31%	1%	46%
– other	53	71						
– equity derivatives	600	981						
– long-dated single stock options	391	609	Model – Option model	Equity volatility	6%	110%	7%	153%
– other	209	372						
– credit derivatives	297	377						
Other portfolios	8,110	1,074						
– repurchase agreements	1,090	310	Model – Discounted cash flow	Interest rate curve	3%	8%	1%	9%
– bonds	3,278	1	Market proxy	Mid quotes	—	101	—	102
– other ¹	3,742	763						
At 31 Dec 2023	28,781	13,975						

1 'Other' includes a range of smaller asset holdings.

The range of values above shows the highest and lowest unobservable inputs that have been used to value significant Level 3 exposures and reflects the diversity of the underlying financial instruments in scope and subsequent differentiation in pricing.

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each private equity holding, it is not practical to quote a range of key unobservable inputs. The valuation approach includes using a range of inputs that include company-specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available but there is evidence from instruments with common characteristics. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option. Certain volatilities, typically those of a longer-dated nature, are unobservable and are estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price.

Correlation

Correlation is a measure of the inter-relationship between two market variables and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market variable. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market variable pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC portfolio will depend on HSBC's net risk position in respect of each variable.

HSBC Holdings

Basis of valuing HSBC Holdings' financial assets and liabilities measured at fair value

	2023 \$m	2022 \$m
Valuation technique using observable inputs: Level 2		
Assets at 31 Dec		
– derivatives	3,344	3,801
– designated and otherwise mandatorily measured at fair value through profit or loss	59,879	52,322
Liabilities at 31 Dec		
– designated at fair value	43,638	32,123
– derivatives	6,090	6,922

13 Fair values of financial instruments not carried at fair value

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

	Fair value				Total \$m
	Carrying amount \$m	Quoted market price Level 1 \$m	Observable inputs Level 2 \$m	Significant unobservable inputs Level 3 \$m	
At 31 Dec 2023					
Assets					
Loans and advances to banks	112,902	2	111,263	1,479	112,744
Loans and advances to customers	938,535	—	13,258	911,124	924,382
Reverse repurchase agreements – non-trading	252,217	—	252,243	—	252,243
Financial investments – at amortised cost	148,326	115,383	30,765	440	146,588
Liabilities					
Deposits by banks	73,163	—	73,176	—	73,176
Customer accounts	1,611,647	—	1,611,795	—	1,611,795
Repurchase agreements – non-trading	172,100	—	172,081	—	172,081
Debt securities in issue	93,917	—	93,196	706	93,902
Subordinated liabilities	24,954	—	27,151	—	27,151

At 31 Dec 2022¹

Assets					
Loans and advances to banks	104,475	4	103,641	814	104,459
Loans and advances to customers	923,561	—	8,791	903,107	911,898
Reverse repurchase agreements – non-trading	253,754	—	253,668	—	253,668
Financial investments – at amortised cost	109,066	84,087	21,850	475	106,412
Liabilities					
Deposits by banks	66,722	—	66,831	—	66,831
Customer accounts	1,570,303	—	1,570,209	—	1,570,209
Repurchase agreements – non-trading	127,747	—	127,500	—	127,500
Debt securities in issue	78,149	—	76,640	381	77,021
Subordinated liabilities	22,290	—	22,723	—	22,723

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data for the financial year ended 31 December 2022 have been restated accordingly. Comparative data for the year ended 31 December 2021 are prepared on an IFRS 4 basis.

Fair values of financial instruments not carried at fair value and bases of valuation – assets and disposal groups held for sale

	Fair value				
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
At 31 Dec 2023					
Assets					
Loans and advances to banks	10,487	—	10,487	—	10,487
Loans and advances to customers	73,376	—	90	72,200	72,290
Reverse repurchase agreements – non-trading	2,723	—	2,723	—	2,723
Financial investments – at amortised cost	7,624	7,530	—	5	7,535
Liabilities					
Deposits by banks	78	—	78	—	78
Customer accounts	85,950	—	86,475	—	86,475
Repurchase agreements – non-trading	2,768	—	2,768	—	2,768
Debt securities in issue	9,084	—	8,820	—	8,820
Subordinated liabilities	8	—	7	—	7

At 31 Dec 2022

Assets					
Loans and advances to banks	253	—	257	—	257
Loans and advances to customers	80,687	—	111	78,048	78,159
Reverse repurchase agreements – non-trading	4,646	—	4,646	—	4,646
Financial investments – at amortised cost	6,165	6,042	—	—	6,042
Liabilities					
Deposits by banks	64	—	64	—	64
Customer accounts	85,274	—	85,303	—	85,303
Repurchase agreements – non-trading	3,266	—	3,266	—	3,266
Debt securities in issue	12,928	—	12,575	—	12,575
Subordinated liabilities	8	—	7	—	7

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

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This may be different from the theoretical economic value attributed from an instrument's cash flows over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC believes are consistent with those that would be used by market participants in valuing such loans; recent origination pricing for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit-impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying amount. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and subordinated liabilities

Fair values in debt securities in issue and subordinated liabilities are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values of repurchase and reverse repurchase agreements that are held on a non-trading basis provide approximate carrying amounts. This is due to the fact that balances are generally short dated.

HSBC Holdings

The methods used by HSBC Holdings to determine fair values of financial instruments for the purposes of measurement and disclosure are described above.

Fair values of HSBC Holdings' financial instruments not carried at fair value on the balance sheet

	2023		2022	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
	\$m	\$m	\$m	\$m
Assets at 31 Dec				
Loans and advances to HSBC undertakings	27,354	27,878	26,765	26,962
Financial investments – at amortised cost	19,558	19,531	19,466	19,314
Liabilities at 31 Dec				
Debt securities in issue	65,239	65,172	66,938	65,364
Subordinated liabilities	24,439	26,651	19,727	20,644

¹ Fair values (other than Level 1 financial investments) were determined using valuation techniques with observable inputs (Level 2).

14 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2023			2022 ¹		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Securities	2,353	101,152	103,505	3,096	91,936	95,032
– treasury and other eligible bills	695	724	1,419	649	869	1,518
– debt securities	1,658	60,045	61,703	2,447	56,633	59,080
– equity securities	—	40,383	40,383	—	34,434	34,434
Loans and advances to banks and customers	371	5,495	5,866	—	3,455	3,455
Other	—	1,272	1,272	—	1,614	1,614
At 31 Dec	2,724	107,919	110,643	3,096	97,005	100,101

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

15 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held by HSBC

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading \$m	Hedging \$m	Trading \$m	Hedging \$m	Total \$m	Trading \$m	Hedging \$m	Total \$m
Foreign exchange	9,463,768	63,547	99,014	935	99,949	99,949	780	100,729
Interest rate	14,853,397	361,312	223,534	5,119	228,653	225,443	4,080	229,523
Equities	677,149	—	14,427	—	14,427	17,603	—	17,603
Credit	153,606	—	1,351	—	1,351	1,861	—	1,861
Commodity and other	90,007	—	1,820	—	1,820	1,542	—	1,542
Gross total fair values	25,237,927	424,859	340,146	6,054	346,200	346,398	4,860	351,258
Offset (Note 31)					(116,486)			(116,486)
At 31 Dec 2023	25,237,927	424,859	340,146	6,054	229,714	346,398	4,860	234,772
Foreign exchange	8,434,453	38,924	122,206	525	122,731	123,088	166	123,254
Interest rate	15,213,232	276,589	285,449	5,066	290,515	287,876	3,501	291,377
Equities	570,410	—	9,325	—	9,325	9,176	—	9,176
Credit	183,995	—	1,091	—	1,091	1,264	—	1,264
Commodity and other	78,414	—	1,484	—	1,484	1,678	—	1,678
Gross total fair values	24,480,504	315,513	419,555	5,591	425,146	423,082	3,667	426,749
Offset (Note 31)					(140,987)			(140,987)
At 31 Dec 2022	24,480,504	315,513	419,555	5,591	284,159	423,082	3,667	285,762

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

Derivative assets and liabilities decreased during 2023, driven by yield curve movements and changes in foreign exchange rates.

Notional contract amounts and fair values of derivatives by product contract type held by HSBC Holdings with subsidiaries

	Notional contract amount		Assets			Liabilities		
	Trading \$m	Hedging \$m	Trading \$m	Hedging \$m	Total \$m	Trading \$m	Hedging \$m	Total \$m
Foreign exchange	66,711	—	486	—	486	1,705	—	1,705
Interest rate	33,480	92,268	1,730	1,128	2,858	747	3,638	4,385
At 31 Dec 2023	100,191	92,268	2,216	1,128	3,344	2,452	3,638	6,090
Foreign exchange	60,630	—	502	—	502	1,683	—	1,683
Interest rate	34,322	81,873	2,386	913	3,299	826	4,413	5,239
At 31 Dec 2022	94,952	81,873	2,888	913	3,801	2,509	4,413	6,922

Use of derivatives

For details regarding the use of derivatives, see page 256 under 'Market risk'.

Trading derivatives

Most of HSBC's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenue based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Substantially all of HSBC Holdings' derivatives entered into with subsidiaries are managed in conjunction with financial liabilities.

Hedge accounting derivatives

HSBC applies hedge accounting to manage the following risks: interest rate and foreign exchange risks. Further details of how these risks arise and how they are managed by the Group can be found in the 'Risk review'.

Hedged risk components

HSBC designates a portion of cash flows of a financial instrument or a group of financial instruments for a specific interest rate or foreign currency risk component in a fair value or cash flow hedge. The designated risks and portions are either contractually specified or otherwise separately identifiable components of the financial instrument that are reliably measurable. Risk-free or benchmark interest rates generally are regarded as being both separately identifiable and reliably measurable, except for the Interest Rate Benchmark Reform Phase 2 transition where HSBC designates alternative benchmark rates as the hedged risk which may not have been separately identifiable upon initial designation, provided HSBC reasonably expects it will meet the requirement within 24 months from the first designation date. The designated risk components account for a significant portion of the overall changes in fair value or cash flows of the hedged items.

HSBC uses net investment hedges to hedge the structural foreign exchange risk related to net investments in foreign operations including subsidiaries and branches whose functional currencies are different from that of the parent. When hedging with foreign exchange forward contracts, the spot rate component of the foreign exchange risk is designated for an amount of net assets as the hedged risk.

Sources of hedge ineffectiveness may arise from basis risk, including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value, and notional and timing differences between the hedged items and hedging instruments.

Fair value hedges

HSBC enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value caused by movements in market interest rates on certain fixed-rate financial instruments that are not measured at fair value through profit or loss, including debt securities held and issued.

HSBC hedging instrument by hedged risk

Hedged risk	Hedging instrument				Change in fair value ²
	Carrying amount				
	Notional amount ¹	Assets	Liabilities	Balance sheet presentation	
	\$m	\$m	\$m		\$m
Interest rate ³	172,985	3,729	2,965	Derivatives	(1,043)
At 31 Dec 2023	172,985	3,729	2,965		(1,043)
Interest rate ³	162,062	4,973	2,573	Derivatives	4,064
At 31 Dec 2022	162,062	4,973	2,573		4,064

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

2 Used in effectiveness testing, which uses the full fair value change of the hedging instrument not excluding any component.

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

HSBC hedged item by hedged risk

Hedged risk	Hedged item					Ineffectiveness		
	Accumulated fair value hedge adjustments included in carrying amount ¹					Change in fair value ² \$m	Recognised in profit and loss \$m	Profit and loss presentation
	Carrying amount Assets \$m	Liabilities \$m	Assets \$m	Liabilities \$m	Balance sheet presentation			
Interest rate ³	82,321		(2,282)		Financial investments - measured at fair value through other comprehensive income	2,053	5	Net income from financial instruments held for trading or managed on a fair value basis
	514		32		Financial investments - measured at amortised cost	32		
	4,701		(18)		Loans and advances to customers	122		
	—		—		Reverse repurchase agreements – non-trading	15		
		64,269		(2,147)	Debt securities in issue	(1,179)		
		—		—	Deposits by banks	—		
		—		—	Subordinated liabilities	5		
	87,536	64,269	(2,268)	(2,147)		1,048	5	
At 31 Dec 2023								

HSBC hedged item by hedged risk (continued)

Hedged risk	Hedged item					Ineffectiveness		
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount ¹		Balance sheet presentation	Change in fair value ²	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities				
	\$m	\$m	\$m	\$m		\$m	\$m	
Interest rate ³	82,792		(5,100)		Financial investments - measured at fair value through other comprehensive income	(8,005)		Net income from financial instruments held for trading or managed on a fair value basis
	3,415		(210)		Loans and advances to customers	(233)	(59)	
	519		(18)		Reverse repurchase agreements – non-trading	(17)		
		49,180		(2,006)	Debt securities in issue	4,138		
		83		—	Deposits by banks	(5)		
At 31 Dec 2022	86,726	49,263	(5,328)	(2,006)		(4,122)	(59)	

1 The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were liabilities of \$136m (2022: \$252m) for FVOCI assets and liabilities of \$1,256m (2022: \$916m) for debt issued.

2 Used in effectiveness testing, which comprise an amount attributable to the designated hedged risk that can be a risk component.

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

HSBC Holdings hedging instrument by hedged risk

Hedged risk	Hedging instrument				Change in fair value ³
	Carrying amount				
	Notional amount ^{1,2}	Assets	Liabilities	Balance sheet presentation	
	\$m	\$m	\$m		\$m
Interest rate ⁴	92,268	1,128	3,638	Derivatives	1,426
At 31 Dec 2023	92,268	1,128	3,638		1,426
Interest rate ⁴	81,873	913	4,413	Derivatives	(5,599)
At 31 Dec 2022	81,873	913	4,413		(5,599)

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

2 The notional amount of non-dynamic fair value hedges is equal to \$92,268m (2022: \$81,873m), of which the weighted-average maturity date is May 2029 and the weighted-average swap rate is 2.46% (2022: 2.33%). The majority of these hedges are internal to the Group.

3 Used in effectiveness testing, comprising the full fair value change of the hedging instrument not excluding any component.

4 The hedged risk 'interest rate' includes foreign exchange risk.

HSBC Holdings hedged item by hedged risk

Hedged risk	Hedged item					Ineffectiveness		
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount ¹		Balance sheet presentation	Change in fair value ²	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities				
	\$m	\$m	\$m	\$m		\$m	\$m	
Interest rate ³		80,889		(2,971)	Debt securities in issue	(1,716)	29	Net income from financial instruments held for trading or managed on a fair value basis
	7,772		(490)		Loans and advances to banks	319		
	7,772	80,889	(490)	(2,971)		(1,397)	29	
At 31 Dec 2023	7,772	80,889	(490)	(2,971)		(1,397)	29	
Interest rate ³		68,223		(3,829)	Debt securities in issue	6,258	(34)	Net income from financial instruments held for trading or managed on a fair value basis
	6,812		(789)		Loans and advances to banks	(693)		
	6,812	68,223	(789)	(3,829)		5,565	(34)	
At 31 Dec 2022	6,812	68,223	(789)	(3,829)		5,565	(34)	

1 The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were liabilities of \$1,299m (2022: \$971m) for debt issued.

2 Used in effectiveness testing, comprising amount attributable to the designated hedged risk that can be a risk component.

3 The hedged risk 'interest rate' includes foreign exchange risk.

For some debt securities held, HSBC manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high-quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

The interest rate risk of the HSBC fixed-rate debt securities issued is managed in a non-dynamic risk management strategy.

Cash flow hedges

HSBC's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

HSBC applies macro cash flow hedging for interest rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

HSBC also hedges the variability in future cash flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps, which are considered dynamic hedges.

Hedging instrument by hedged risk

Hedged risk	Hedging instrument				Hedged item		Ineffectiveness	
	Carrying amount				Change in fair value ²	Change in fair value ³	Recognised in profit and loss	Profit and loss presentation
	Notional amount ¹	Assets	Liabilities	Balance sheet presentation				
	\$m	\$m	\$m		\$m	\$m	\$m	
Foreign currency	29,772	935	257	Derivatives	977	977	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	188,327	1,390	1,116	Derivatives	1,542	1,512	30	
At 31 Dec 2023	218,099	2,325	1,373		2,519	2,489	30	
Foreign currency	8,781	418	166	Derivatives	659	659	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	114,527	93	950	Derivatives	(4,997)	(4,973)	(24)	
At 31 Dec 2022	123,308	511	1,116		(4,338)	(4,314)	(24)	

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

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

3 Used in effectiveness assessment, comprising amount attributable to the designated hedged risk that can be a risk component.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	Foreign currency
	\$m	\$m
Cash flow hedging reserve at 1 Jan 2023	(3,387)	(421)
Fair value gains/(losses)	1,512	977
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
Hedged items that have affected profit or loss ¹	2,196	(718)
Income taxes	(937)	(29)
Others	(285)	59
Cash flow hedging reserve at 31 Dec 2023	(901)	(132)
Cash flow hedging reserve at 1 Jan 2022	8	(205)
Fair value gains/(losses)	(4,973)	659
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
Hedged items that have affected profit or loss	325	(926)
Income taxes	1,123	28
Others	130	23
Cash flow hedging reserve at 31 Dec 2022	(3,387)	(421)

1 Hedged items that have affected profit or loss are primarily recorded within interest income.

Net investment hedges

The Group applies hedge accounting in respect of certain net investments in non-US dollar functional currency foreign operations for changes in spot exchange rates only. Hedging could be undertaken for Group structural exposure to changes in the US dollar to foreign currency exchange rates using forward foreign exchange contracts or by financing with foreign currency borrowings. An economic relationship exists between the hedged net investment and hedging instrument due to the shared foreign currency risk exposure. For further details of our structural foreign exchange exposures, see page 241.

The aggregate positions at the reporting date and the performance indicators of both live and de-designated hedges are summarised below.

Hedges of net investment in foreign operations

Description of hedged risk	Carrying amount		Nominal amount \$m	Amounts recognised in OCI ¹ \$m	Change in fair value ² \$m	Hedge ineffectiveness recognised in income statement \$m
	Derivative assets \$m	Derivative liabilities \$m				
2023						
Pound sterling-denominated structural foreign exchange		(404)	16,415	604	(843)	—
Swiss franc-denominated structural foreign exchange		(23)	526	49	(62)	—
Hong Kong dollar-denominated structural foreign exchange		—	5,792	—	2	—
Other structural foreign exchange ³		(96)	11,042	477	102	—
Total	—	(523)	33,775	1,130	(801)	—
2022						
Pound sterling-denominated structural foreign exchange	264	—	14,000	1,447	1,573	—
Swiss franc-denominated structural foreign exchange	—	(21)	727	111	10	—
Hong Kong dollar-denominated structural foreign exchange	—	(19)	4,597	(2)	(7)	—
Other structural foreign exchange ³	—	(117)	10,819	375	369	—
Total	264	(157)	30,143	1,931	1,945	—

1 Amount recognised in OCI for Swiss franc includes \$110m (2022: \$110m) related to de-designated hedge.

2 Used in effectiveness assessment, comprising amount attributable to the designated hedged risk that can be a risk component.

3 Other currencies include euro, New Taiwan dollar, Singapore dollar, Canadian dollar, Omani rial, South Korean won, UAE dirham, Indian rupee, Chinese renminbi, Kuwaiti dinar, Qatari riyal, Saudi riyal, Indonesian rupiah and Philippine peso.

Interest rate benchmark reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

HSBC has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibor reform, including those designated in hedge accounting relationships, is disclosed in Note 32. For further details of Ibor transition, see 'Ibor transition' on page 162.

For some of the Ibors included under the 'Other' header in the table below, judgement has been needed to establish whether a transition is required, since there are Ibor benchmarks that are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of interest rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the Group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instrument impacted by Ibor reform

	Hedging instrument						Not impacted by Ibor reform	Notional amount ³
	Impacted by Ibor reform							
	€ ¹	£	\$	Other ²	Total			
	\$m	\$m	\$m	\$m	\$m			
Fair value hedges	16,907	—	—	4,384	21,291	151,694	172,985	
Cash flow hedges	10,850	—	—	3,504	14,354	173,973	188,327	
At 31 Dec 2023	27,757	—	—	7,888	35,645	325,667	361,312	
Fair value hedges	12,756	—	2,015	12,643	27,414	134,648	162,062	
Cash flow hedges	8,865	—	—	27,830	36,695	77,832	114,527	
At 31 Dec 2022	21,621	—	2,015	40,473	64,109	212,480	276,589	

1 The notional contract amounts of euro interest rate derivatives impacted by Ibor reform consist of hedges with a Euribor benchmark.

2 Other benchmarks impacted by Ibor reform consist mainly of Emirates interbank offered rate, Mexican interbank equilibrium interest rate ('TIIE') and Korean won-related derivatives. In 2022, the Hong Kong interbank offered rate ('HIBOR') was included in 'Other' given that reform in the benchmark was considered possible. At 31 December 2023, HIBOR was no longer expected to be directly affected by Ibor reform following the successful transition of all Libor settings and the HKMA's affirmation that there are no plans to discontinue HIBOR. As a result HIBOR has been moved from 'Other' to 'Not impacted by Ibor reform'.

3 The notional contract amounts of interest rate derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date and they do not represent amounts at risk.

Hedging instrument impacted by Ibor reform held by HSBC Holdings

	Hedging instrument					Not impacted by Ibor reform \$m	Notional amount \$m
	Impacted by Ibor reform						
	€ \$m	£ \$m	\$ \$m	Other \$m	Total \$m		
Fair value hedges	19,614	—	—	583	20,197	72,071	92,268
At 31 Dec 2023	19,614	—	—	583	20,197	72,071	92,268
Fair value hedges	15,210	—	2,000	1,336	18,546	63,327	81,873
At 31 Dec 2022	15,210	—	2,000	1,336	18,546	63,327	81,873

16 Financial investments

Carrying amount of financial investments

	2023 \$m	2022 ¹ \$m
Financial investments measured at fair value through other comprehensive income	294,437	255,660
– treasury and other eligible bills	102,438	86,749
– debt securities	190,119	167,107
– equity securities	1,447	1,696
– other instruments	433	108
Debt instruments measured at amortised cost	148,326	109,066
– treasury and other eligible bills	30,733	34,507
– debt securities	117,593	74,559
At 31 Dec	442,763	364,726

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

Equity instruments measured at fair value through other comprehensive income

Type of equity instruments	Fair value \$m	Dividends recognised \$m
Investments required by central institutions	609	27
Business facilitation	793	35
Others	45	2
At 31 Dec 2023	1,447	64
Investments required by central institutions	690	24
Business facilitation	954	28
Others	52	2
At 31 Dec 2022	1,696	54

Weighted average yields of investment debt securities

	Up to 1 year Yield %	1 to 5 years Yield %	5 to 10 years Yield %	Over 10 years Yield %
Debt securities measured at fair value through other comprehensive income				
US Treasury	2.1	2.0	2.0	2.4
US Government agencies	3.6	3.1	3.3	3.0
US Government-sponsored agencies	1.0	2.6	2.1	1.8
UK Government	0.2	2.8	0.8	2.5
Hong Kong Government	1.0	1.4	1.6	—
Other governments	3.2	3.5	3.3	2.9
Asset-backed securities	1.4	6.6	4.8	5.3
Corporate debt and other securities	5.5	3.1	3.1	2.4
Debt securities measured at amortised cost				
US Treasury	8.9	3.7	3.7	2.1
US Government agencies	7.9	7.8	5.8	4.5
US Government-sponsored agencies	2.3	3.7	3.4	2.9
UK Government	—	—	0.9	4.5
Hong Kong Government	—	2.6	—	—
Other governments	2.7	3.5	5.3	—
Asset-backed securities	4.7	—	7.7	—
Corporate debt and other securities	2.6	2.6	3.5	5.2

The maturity distributions of ABSs are presented in the above table on the basis of contractual maturity dates. The weighted average yield for each range of maturities is calculated by dividing the annualised interest income for the year ended 31 December 2023 by the book amount of debt securities at that date. The yields do not include the effect of related derivatives.

HSBC Holdings

HSBC Holdings carrying amount of financial investments

	2023 \$m	2022 \$m
Debt instruments measured at amortised cost		
– treasury and other eligible bills	15,629	12,796
– debt securities	3,929	6,670
At 31 Dec	19,558	19,466

Weighted average yields of investment debt securities

	Up to 1 year Yield %	1 to 5 years Yield %	5 to 10 years Yield %	Over 10 years Yield %
Debt securities measured at amortised cost				
US Treasury	3.2	4.3	—	—

The weighted average yield for each range of maturities is calculated by dividing the annualised interest income for the year ended 31 December 2023 by the book amount of debt securities at that date. The yields do not include the effect of related derivatives.

17 Assets pledged, collateral received and assets transferred

Assets pledged¹

Financial assets pledged as collateral

	2023 \$m	2022 \$m
Treasury bills and other eligible securities	20,504	18,364
Loans and advances to banks	13,636	10,198
Loans and advances to customers	27,490	27,627
Debt securities	88,367	60,542
Equity securities	40,280	26,902
Other	61,223	67,576
Assets pledged at 31 Dec	251,500	211,209

Assets pledged as collateral include all assets categorised as encumbered in the disclosure on page 27 of the Pillar 3 Disclosures at 31 December 2023, except for assets held for sale.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued plus mandatory over-collateralisation is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary for collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. HSBC places both cash and non-cash collateral in relation to derivative transactions.

Hong Kong currency notes in circulation are secured by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

Financial assets pledged as collateral which the counterparty has the right to sell or repledge

	2023 \$m	2022 \$m
Trading assets	77,847	56,894
Financial investments	39,324	27,841
At 31 Dec	117,171	84,735

Collateral received¹

The fair value of assets accepted as collateral relating primarily to standard securities lending, reverse repurchase agreements, swaps of securities and derivative margining that HSBC is permitted to sell or repledge in the absence of default was \$495,653m (2022: \$449,896m). The fair value of any such collateral sold or repledged was \$284,108m (2022: \$228,245m).

HSBC is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred¹

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full while a related liability, reflecting the Group's obligation to repurchase the assets for a fixed price at a future date, is also recognised on the balance sheet.

Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The Group is unable to use, sell or pledge the transferred assets for the duration of the transaction, and remains exposed to interest rate risk and credit risk on these pledged assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
	\$m	\$m
At 31 Dec 2023		
Repurchase agreements	81,486	74,517
Securities lending agreements	46,663	3,826
At 31 Dec 2022		
Repurchase agreements	52,604	48,501
Securities lending agreements	39,134	4,613

¹ Excludes assets classified as held for sale.

18 Interests in associates and joint ventures

Carrying amount of HSBC's interests in associates and joint ventures

	2023	2022
	\$m	\$m
Interests in associates	27,200	29,127
Interests in joint ventures	144	127
Interests in associates and joint ventures	27,344	29,254

Principal associates of HSBC

	2023		2022	
	Carrying amount	Fair value ¹	Carrying amount	Fair value ¹
	\$m	\$m	\$m	\$m
Bank of Communications Co., Limited	21,210	8,812	23,307	8,141
Saudi Awwal Bank	4,659	6,438	4,494	6,602

¹ Principal associates are listed on recognised stock exchanges. The fair values are based on the quoted market prices of the shares held (Level 1 in the fair value hierarchy).

	At 31 Dec 2023		
	Jurisdiction of incorporation and principal place of business	Principal activity	HSBC's interest ¹ %
Bank of Communications Co., Limited	Mainland China	Banking services	19.03
Saudi Awwal Bank	Saudi Arabia	Banking services	31.00

¹ There has been no percentage change in HSBC's shareholding interest in the principal associates when compared with 2022.

Share of profit in associates and joint ventures

	2023	2022
	\$m	\$m
Bank of Communications Co., Limited	2,250	2,377
Saudi Awwal Bank	538	342
Other associates and joint ventures	19	4
Share of profit in associates and joint ventures	2,807	2,723
Less: Impairment of interest in BoCom	(3,000)	—

A list of all associates and joint ventures is set out in Note 40.

Bank of Communications Co., Limited

We maintain a 19.03% interest in Bank of Communications Co., Limited ('BoCom'). The Group's investment in BoCom is classified as an associate. Significant influence in BoCom was established with consideration of all relevant factors, including representation on BoCom's Board of Directors and participation in a resource and experience sharing agreement ('RES'). Under the RES, HSBC staff have been seconded to assist in the maintenance of BoCom's financial and operating policies. Investments in associates are recognised using the equity method of accounting in accordance with IAS 28 'Investments in Associates and Joint Ventures', whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of associate's net assets. An impairment test is required if there is any indication of impairment.

Impairment testing

The fair value of the Group's investment in BoCom had been below the carrying amount for approximately 12 years. We have previously disclosed that the excess of the value in use ('VIU') calculation over its balance sheet value has been marginal in recent years, and that reasonably possible changes in assumptions could generate an impairment.

Recent macroeconomic, policy and industry-wide factors resulted in a wider range of possible VIU calculation outcomes, and our VIU calculation uses both historical experience and market participant views to estimate future cash flows, relevant discount rates and associated capital assumptions. At 31 December 2023, the Group performed an impairment test on the carrying amount, which resulted in an impairment of \$3.0bn, as the recoverable amount as determined by a VIU calculation was lower than the carrying value.

	At 31 Dec 2023			At 31 Dec 2022		
	VIU \$bn	Carrying value \$bn	Fair value \$bn	VIU \$bn	Carrying value \$bn	Fair value \$bn
BoCom	21.2	21.2	8.8	23.5	23.3	8.1

The impairment test will be updated in future periods, reflecting updated assumptions in the VIU impairment calculation. Going forward, the carrying value will be aligned to the updated VIU calculation and capped at carrying value that would have been determined had no impairment loss been recognised, rather than at cost and adjusted thereafter for the post-acquisition change in the Group's share of associate's net assets, and therefore there is a risk of reversals or further impairments in future periods.

The VIU may increase or decrease depending on the effect of changes to model inputs. The main model inputs are described below and are based on factors observed at period-end. The factors that could result in increases or reductions in the VIU include changes in BoCom's short-term performance, a change in regulatory capital requirements or revisions to the forecast of BoCom's future profitability.

If the Group did not have significant influence in BoCom, the investment would be carried at fair value rather than the current carrying value.

Basis of recoverable amount

The impairment test was performed by comparing the recoverable amount of BoCom, determined by a VIU calculation, with its carrying value. The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings available to ordinary shareholders prepared in accordance with IAS 36 'Impairment of Assets'. Significant management judgement is required in arriving at the best estimate.

There are two main components to the VIU calculation. The first component is management's best estimate of BoCom's earnings. Forecast earnings growth over the short to medium term is lower than recent (within the last five years) actual growth, and reflects the impact of recent macroeconomic, policy and industry factors in mainland China. As a result of management's intent to continue to retain its investment, earnings beyond the short to medium term are then extrapolated into perpetuity using a long-term growth rate to derive a terminal value, which comprises the majority of the VIU. The second component is the capital maintenance charge ('CMC'), which is management's forecast of the earnings that need to be withheld in order for BoCom to meet capital requirements over the forecast period, meaning that CMC is deducted when arriving at management's estimate of future earnings available to ordinary shareholders. The CMC reflects the revised capital requirements arising from revisions of the ratio of risk-weighted assets to total assets assumption. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets and the expected capital requirements. An increase in the CMC as a result of a change to these principal inputs would reduce VIU. Additionally, management considers other qualitative factors, to ensure that the inputs to the VIU calculation remain appropriate.

Key assumptions in value in use calculation

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Long-term profit growth rate: 3% (2022: 3%) for periods after 2027, which does not exceed forecast GDP growth in mainland China and is similar to forecasts by external analysts.
- Long-term asset growth rate: 3% (2022: 3%) for periods after 2027, which is the rate that assets are expected to grow to achieve long-term profit growth of 3%.
- Discount rate: 9.00% (2022: 10.04%), which is based on a capital asset pricing model ('CAPM'), using market data. The discount rate used is within the range of 7.9% to 9.7% (2022: 8.4% to 10.4%) indicated by the CAPM, and decreased as a consequence of a market-driven reduction in beta. While the CAPM range sits at the lower end of the range adopted by selected external analysts of 8.8% to 13.5% (2022: 8.8% to 13.5%), we continue to regard the CAPM range as the most appropriate basis for determining this assumption.
- Expected credit losses ('ECL') as a percentage of loans and advances to customers: ranges from 0.80% to 0.97% (2022: 0.99% to 1.05%) in the short to medium term, reflecting reported credit experience in mainland China. For periods after 2027, the ratio is 0.97% (2022: 0.97%), which is higher than BoCom's average ECL as a percentage of loans and advances to customers in recent years prior to the pandemic.
- Risk-weighted assets as a percentage of total assets: ranges from 62.0% to 63.7% (2022: 61.0% to 64.4%) in the short to medium term, reflecting higher risk-weights in the short term followed by an expected reversion to recent historical levels. For periods after 2027, the ratio is 62.0% (2022: 61.0%), which is similar to BoCom's actual results in recent years.
- Loans and advances to customers growth rate: ranges from 9.0% to 10.0% (2022: 7.1% to 11.0%) in the short to medium term, reflecting higher growth rate in loans and advances to customers as a result of recent macroeconomic, policy and industry factors in mainland China. Increases in the forecast growth rate of loans and advances to customers results in higher forecast ECL.

Notes on the financial statements

- Operating income growth rate: ranges from -0.4% to 9.7% (2022: 1.9% to 7.7%) in the short to medium term, which is lower than BoCom's actual results in recent years, and is impacted by projections of net interest income in the short term as a consequence of recent macroeconomic, policy and industry factors in mainland China.
- Cost-income ratio: ranges from 35.5% to 39.8% (2022: 35.5% to 36.3%) in the short to medium term. These ratios are higher than BoCom's actual results in recent years and forecasts disclosed by external analysts.
- Effective tax rate ('ETR'): ranges from 5.3% to 15.0% (2022: 4.4% to 15.0%) in the short to medium term, reflecting BoCom's actual results and an expected increase towards the long-term assumption through the forecast period. For periods after 2027, the rate is 15.0% (2022: 15.0%), which is higher than the recent historical average, and aligned to the minimum tax rate as proposed by the OECD/Group of 20 ('G20') Inclusive Framework on Base Erosion and Profit Shifting.
- Capital requirements: capital adequacy ratio of 12.5% (2022: 12.5%) and tier 1 capital adequacy ratio of 9.5% (2022: 9.5%), based on BoCom's capital risk appetite and capital requirements respectively.

The following table further illustrates the impact on VIU of reasonably possible changes to key assumptions. This reflects the sensitivity of the VIU to each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time. Loans and advances to customers growth rate has been added to the list of key assumptions detailed in the table to reflect the greater potential variability associated with the assumption as a result of recent macroeconomic, policy and industry factors in mainland China. The selected rates of reasonably possible changes to key assumptions are based on external analysts' forecasts, statutory requirements and other relevant external data sources, which can change period to period. Unless specified, favourable and unfavourable changes are consistently applied throughout short-to-medium and long-term forecast years, based on a straight-line average of the base case assumption.

Sensitivity of VIU to reasonably possible changes in key assumptions

	Favourable change			Unfavourable change		
		Increase in VIU	VIU		Decrease in VIU	VIU
	bps	\$bn	\$bn	bps	\$bn	\$bn
At 31 Dec 2023						
Long-term profit growth rate ¹	58	3.3	24.5	(79)	(3.4)	17.8
Long-term asset growth rate ¹	(79)	4.5	25.7	58	(4.0)	17.2
Discount rate	(110)	4.5	25.7	280	(6.1)	15.1
Expected credit losses as a percentage of loans and advances to customers	2023 to 2027: 78 2028 onwards: 91	2.9	24.1	2023 to 2027: 120 2028 onwards: 104	(4.4)	16.8
Risk-weighted assets as a percentage of total assets	(150)	0.9	22.1	216	(1.6)	19.6
Loans and advances to customers growth rate	(213)	3.2	24.4	207	(2.9)	18.3
Operating income growth rate	57	2.6	23.8	(81)	(2.6)	18.6
Cost-income ratio	(212)	0.8	22.0	99	(2.9)	18.3
Long-term effective tax rate	(426)	1.6	22.8	1,000	(3.5)	17.7
Capital requirements – capital adequacy ratio	—	—	21.2	215	(7.5)	13.7
Capital requirements – tier 1 capital adequacy ratio	—	—	21.2	248	(3.7)	17.5
At 31 Dec 2022						
Long-term profit growth rate ¹	75	3.6	27.1	(71)	(2.7)	20.8
Long-term asset growth rate ¹	(71)	3.1	26.6	75	(4.1)	19.4
Discount rate	(164)	6.9	30.4	136	(3.7)	19.8
Expected credit losses as a percentage of loans and advances to customers	2022 to 2026: 95 2027 onwards: 91	1.9	25.4	2022 to 2026: 120 2027 onwards: 104	(2.9)	20.6
Risk-weighted assets as a percentage of total assets	(118)	0.1	23.6	239	(2.3)	21.2
Loans and advances to customers growth rate	(75)	1.1	24.6	295	(3.2)	20.3
Operating income growth rate	44	1.3	24.8	(83)	(2.5)	21.0
Cost-income ratio	(122)	1.0	24.5	174	(2.1)	21.4
Long-term effective tax rate	(426)	1.5	25.0	1,000	(3.6)	19.9
Capital requirements – capital adequacy ratio	—	—	23.5	191	(6.3)	17.2
Capital requirements – tier 1 capital adequacy ratio	—	—	23.5	266	(3.2)	20.3

¹ The favourable and unfavourable ranges of the long-term profit growth rate and long-term asset growth rate assumptions reflect the close relationship between these assumptions, which would result in offsetting changes to each assumption.

Considering the interrelationship of the changes set out in the table above, management estimates that the reasonably possible range of VIU is \$13.1bn to \$28.8bn (2022: \$16.9bn to \$28.7bn), acknowledging that the fair value of the Group's investment has ranged from \$6.8bn to \$11.6bn over the last five years as at the date of the impairment tests. The possible range of VIU is based on impacts set out in the table above arising from the favourable/unfavourable change in the earnings in the short to medium term, the long-term expected credit losses as a percentage of loans and advances to customers, and a 50bps increase/decrease in the discount rate. All other long-term assumptions, and the basis of the CMC have been kept unchanged when determining the reasonably possible range of the VIU.

Selected financial information of BoCom

The statutory accounting reference date of BoCom is 31 December. For the year ended 31 December 2023, HSBC included the associate's results on the basis of the financial statements for the 12 months ended 30 September 2023, taking into account any known changes in the subsequent period from 1 October 2023 to 31 December 2023 that would have materially affected the results.

Selected balance sheet information of BoCom

	At 30 Sep 2023 \$m	At 31 Dec 2022 \$m
Cash and balances at central banks	112,800	116,942
Due from and placements with banks and other financial institutions	100,464	100,160
Loans and advances to customers	1,087,613	1,035,151
Other financial assets	587,949	583,898
Other assets	59,215	48,796
Total assets	1,948,041	1,884,947
Due to and placements from banks and other financial institutions	292,065	295,205
Deposits from customers	1,216,611	1,153,184
Other financial liabilities	251,246	249,230
Other liabilities	36,776	37,153
Total liabilities	1,796,698	1,734,772
Total equity	151,343	150,175

Reconciliation of BoCom's total shareholders' equity to the carrying amount in HSBC's consolidated financial statements

	At 30 Sep 2023 \$m	2022 \$m
HSBC's share of total shareholders' equity	23,746	22,828
Goodwill originally arising on acquisition	464	479
Impairment	(3,000)	—
Carrying amount	21,210	23,307

Selected income statement information of BoCom

	For the 9 months ended 30 Sep 2023 \$m	2022 \$m
Net interest income	17,519	19,004
Net fee and commission income	4,815	5,181
Credit and impairment losses	(6,836)	(7,641)
Depreciation and amortisation	(1,977)	(1,785)
Tax expense	(552)	(436)
Profit for the year	9,835	10,102
Other comprehensive income	631	(37)
Total comprehensive income	10,466	10,065
Dividends received from BoCom	736	749

Saudi Awwal Bank

The Group's investment in Saudi Awwal Bank ('SAB') is classified as an associate. HSBC is the largest shareholder in SAB with a shareholding of 31%. Significant influence in SAB is established via representation on the Board of Directors. Investments in associates are recognised using the equity method of accounting in accordance with IAS 28, as described previously for BoCom.

Impairment testing

There were no indicators of impairment at 31 December 2023. The fair value of the Group's investment in SAB of \$6.4bn was above the carrying amount of \$4.7bn.

19 Investments in subsidiaries

Main subsidiaries of HSBC Holdings¹

	At 31 Dec 2023		
	Place of incorporation or registration	HSBC's interest %	Share class
Europe			
HSBC Bank plc	England and Wales	100	£1 Ordinary, \$0.01 Non-Cumulative Third Dollar Preference
HSBC UK Bank plc	England and Wales	100	£1 Ordinary
HSBC Continental Europe	France	99.99	€5 Actions
HSBC Trinkaus & Burkhardt GmbH	Germany	99.99	€1 Ordinary
Asia			
Hang Seng Bank Limited ²	Hong Kong	62.14	HK\$5 Ordinary
HSBC Bank (China) Company Limited	People's Republic of China	100	CNY1 Ordinary
HSBC Bank Malaysia Berhad	Malaysia	100	RM0.5 Ordinary
HSBC Life (International) Limited	Bermuda	100	HK\$1 Ordinary
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	100	Ordinary no par value
Middle East, North Africa and Türkiye			
HSBC Bank Middle East Limited	United Arab Emirates	100	\$1 Ordinary and \$1 Cumulative Redeemable Preference shares
North America			
HSBC Bank Canada	Canada	100	Common no par value and Preference no par value
HSBC Bank USA, N.A.	US	100	\$100 Common and \$0.01 Preference
Latin America			
HSBC Mexico, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC	Mexico	99.99	MXN2 Ordinary

¹ Main subsidiaries are either held directly or indirectly via intermediate holding companies. There has been no material percentage change in HSBC's shareholding for its main subsidiaries since 2022.

² In addition to the strategic holding disclosed above, the Group held 0.09% (2022: 0.07%) shareholding as part of its trading books.

Details of the debt, subordinated debt and preference shares issued by the main subsidiaries to parties external to the Group are included in Note 26 'Debt securities in issue' and Note 29 'Subordinated liabilities', respectively.

A list of all related undertakings is set out in Note 40. The principal countries and territories of operation are the same as the countries and territories of incorporation except for HSBC Life (International) Limited, which operates mainly in Hong Kong.

HSBC is structured as a network of regional banks and locally incorporated regulated banking entities. Each bank is separately capitalised in accordance with applicable prudential requirements and maintains a capital buffer consistent with the Group's risk appetite for the relevant country or region. HSBC's capital management process is incorporated in the financial resource plan, which is approved by the Board.

HSBC Holdings is the primary provider of equity capital to its subsidiaries and also provides them with non-equity capital where necessary. These investments are substantially funded by HSBC Holdings' issuance of equity and non-equity capital, and by profit retention.

As part of its capital management process, HSBC Holdings seeks to maintain a balance between the composition of its capital and its investment in subsidiaries. Subject to this, there is no current or foreseen impediment to HSBC Holdings' ability to provide funding for such investments. During 2023, consistent with the Group's capital plan, the Group's material subsidiaries did not experience any significant restrictions on paying dividends or repaying loans and advances. Also, there are no foreseen restrictions envisaged with regard to planned dividends or payments from material subsidiaries. However, the ability of subsidiaries to pay dividends or advance monies to HSBC Holdings depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

The amount of guarantees by HSBC Holdings in favour of other Group entities is set out in Note 34.

Information on structured entities consolidated by HSBC where HSBC owns less than 50% of the voting rights is included in Note 20 'Structured entities'. In each of these cases, HSBC controls and consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC Holdings reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment. The recoverable amount is the higher of the investment's fair value less costs of disposal and its VIU, in accordance with the requirements of IAS 36. The VIU is calculated by discounting management's cash flow projections for the investment. The cash flows represent the free cash flows based on the subsidiary's binding capital requirements.

We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Management's judgement in estimating future cash flows: The cash flow projections for each investment are based on the latest approved plans, which include forecast capital available for distribution based on the capital requirements of the subsidiary, taking into account minimum and core capital requirements. For the impairment test as at 31 December 2023, cash flow projections until the end of 2028 were considered in line with our internal planning horizon. Our cash flow projections include known and observable climate-related opportunities and costs associated with our sustainable products and operating model.
- Long-term growth rates: The long-term growth rate is used to extrapolate the free cash flows in perpetuity because of the long-term perspective of the legal entity. The growth rate reflects long-term inflation for the country or territory within which the investment operates.

- Discount rates: The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a CAPM and market implied cost of equity. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each investment are refined to reflect the rates of inflation for the countries or territories within which the investment operates. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets. The impacts from climate risk are included to the extent that they are observable in discount rates and asset prices.

As at 31 December 2023, the carrying amount of HSBC Holdings' investments in subsidiaries was \$159.5bn (2022: \$167.5bn). The net year-on-year reduction was predominantly due to the recognition of a \$5.5bn impairment of HSBC Holdings' investment in HSBC Overseas Holdings (UK) Limited, resulting in a cumulative impairment of \$10.2bn (2022: \$4.7bn), and a carrying amount of \$25.8bn as at 31 December 2023 (2022: \$32.8bn).

The recoverable amount of HSBC Overseas Holdings (UK) Limited is assessed as the aggregate of the recoverable amounts of its subsidiaries. During 2023, the principal subsidiaries of HSBC Overseas Holdings (UK) Limited were HSBC North America Holdings Limited, HSBC Bank Canada and HSBC Bank Bermuda. In October 2023, HSBC Bank Bermuda was transferred to HSBC Bank plc. As at 31 December 2023, the adjusted net asset value of HSBC Overseas Holdings (UK) Limited fell below the carrying amount therefore management assessed that indicators of impairment were present and an impairment test was performed. The recoverable amount reduced owing to lower projected profits and higher projected capital requirements for HSBC North America Holdings, the transfer of HSBC Bank Bermuda to HSBC Bank plc at its book value which stood below its assessed recoverable amount, and higher prevailing discount rates, as a result of which a \$5.5bn impairment was recognised.

As HSBC Overseas Holdings (UK) Limited has entered into a sales purchase agreement with Royal Bank of Canada to dispose of our banking business in Canada, the sales purchase agreement has been used to support the recoverable amount of \$11.0bn (2022: \$10.8bn) (inclusive of the preferred shares) under a fair value less costs of disposal basis. The fair value less costs of disposal of HSBC Bank Canada is at a \$3.7bn (2022: \$3.7bn) premium to the book value recorded in HSBC Overseas Holdings (UK) Limited. In 2024, a distribution of the proceeds from the planned sale of our banking business in Canada to HSBC Holdings from HSBC Overseas Holdings (UK) Limited could lead to a future impairment. In respect of distributable reserves, an impairment would be offset by the dividend income recognised on the distributions from sales proceeds.

Impairment test results

Investments	Recoverable amount	Discount rate	Long-term growth rate
At 31 Dec 2023	\$m	%	%
HSBC North America Holdings Limited	12,756	10.50	2.17
At 31 Dec 2022			
HSBC North America Holdings Limited	18,363	10.00	2.22

Sensitivities of key assumptions in calculating VIU

At 31 December 2023, the recoverable amount of HSBC Overseas Holdings (UK) Limited remained sensitive to reasonably possible changes in key assumptions impacting its principal subsidiary, HSBC North America Holdings Limited.

In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast, and risks attached to the key assumptions underlying cash flow.

The following table presents a summary of the key assumptions underlying the most sensitive inputs to the model for HSBC North America Holdings Limited, the key risks attached to each, and details of a reasonably possible change to assumptions where, in the opinion of management, these could result in a change in VIU.

Reasonably possible changes in key assumptions

	Input	Key assumptions	Associated risks	Reasonably possible change
Investment				
HSBC North America Holdings Limited (subsidiary of HSBC Overseas Holdings (UK) Limited)	Free cash flows projections	– Level of interest rates and yield curves. – Competitors' positions within the market.	– Strategic actions relating to revenue and costs are not achieved.	– Free cash flow projections decrease by 10%.
	Discount rate	– Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	– External evidence arises to suggest that the rate used is not appropriate to the business.	– Discount rate decreases by 1%. – Discount rate increases by 1%.

Notes on the financial statements

Sensitivity of VIU to reasonably possible changes in key assumptions

In \$bn (unless otherwise stated)	HSBC North America Holdings Limited
At 31 December 2023	
VIU	12.8
Impact on VIU	
100bps decrease in the discount rate – single variable ¹	1.6
100bps increase in the discount rate – single variable ^{1, 2}	(1.2)
10% decrease in forecast profitability – single variable ^{1, 2}	(1.3)

- 1 The recoverable amount of HSBC Overseas Holdings (UK) Limited represents the aggregate of recoverable amounts of the underlying subsidiaries. Single variable sensitivity analysis on a single subsidiary may therefore not be representative of the aggregate impact of the change in the variable.
- 2 As at 31 December 2022, the impact on the VIU of HSBC North America Holdings Limited of a 100bps increase in the discount rate was \$(1.7)bn and a 10% decrease in forecast profitability was \$(1.8)bn, respectively on a single variable basis.

Subsidiaries with significant non-controlling interests

	2023	2022 ¹
Hang Seng Bank Limited		
Proportion of ownership interests and voting rights held by non-controlling interests (%) ²	37.86	37.86
Place of business	Hong Kong	Hong Kong
	\$m	\$m
Profit attributable to non-controlling interests	889	574
Accumulated non-controlling interests of the subsidiary	6,877	6,513
Dividends paid to non-controlling interests	490	361
Summarised financial information:		
– total assets	214,321	235,630
– total liabilities	194,621	216,917
– net operating income before changes in expected credit losses and other credit impairment charges	5,210	4,379
– profit for the year	2,356	1,518
– total comprehensive income for the year	2,723	1,428

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

2 In addition to the strategic holding disclosed above, the Group held 0.09% (2022: 0.07%) shareholding as part of its trading books.

20 Structured entities

HSBC is mainly involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits and investment funds, established either by HSBC or a third party.

Consolidated structured entities

Total assets of HSBC's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC managed funds	Other	Total
	\$bn	\$bn	\$bn	\$bn	\$bn
At 31 Dec 2023	3.6	7.8	5.5	8.2	25.1
At 31 Dec 2022	4.2	7.2	4.8	7.5	23.7

Conduits

HSBC has established and manages two types of conduits: securities investment conduits ('SICs') and multi-seller conduits.

Securities investment conduits

The SICs purchase highly rated ABSs to facilitate tailored investment opportunities.

- At 31 December 2023, Solitaire, HSBC's principal SIC, held \$1.0bn of ABSs (2022: \$1.3bn). It is currently funded entirely by commercial paper ('CP') issued to HSBC. At 31 December 2023, HSBC held \$1.3bn of CP (2022: \$1.5bn).

Multi-seller conduit

HSBC's multi-seller conduit was established to provide access to flexible market-based sources of finance for its clients. Currently, HSBC bears risk equal to the transaction-specific facility offered to the multi-seller conduit, amounting to \$6.1bn at 31 December 2023 (2022: \$6.2bn). First loss protection is provided by the originator of the assets, and not by HSBC, through transaction-specific credit enhancements. A layer of secondary loss protection is provided by HSBC in the form of programme-wide enhancement facilities.

Securitisations

HSBC uses structured entities to securitise customer loans and advances it originates in order to diversify its sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by HSBC to the structured entities for cash or synthetically through credit default swaps, and the structured entities issue debt securities to investors.

HSBC managed funds

HSBC has established a number of money market and non-money market funds. Where it is deemed to be acting as principal rather than agent in its role as investment manager, HSBC controls these funds.

Other

HSBC has entered into a number of transactions in the normal course of business, which include asset and structured finance transactions where it has control of the structured entity. In addition, HSBC is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by HSBC. The Group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

Nature and risks associated with HSBC interests in unconsolidated structured entities

Total asset values of the entities (\$m)	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
0–500	120	337	1,271	42	1,770
500–2,000	4	96	1,069	3	1,172
2,000–5,000	—	39	418	—	457
5,000–25,000	—	24	217	—	241
25,000+	—	3	11	—	14
Number of entities at 31 Dec 2023	124	499	2,986	45	3,654
	\$bn	\$bn	\$bn	\$bn	\$bn
Total assets in relation to HSBC's interests in the unconsolidated structured entities	3.2	13.9	20.7	3.3	41.1
– trading assets	—	0.6	—	—	0.6
– financial assets designated and otherwise mandatorily measured at fair value	—	12.6	19.7	—	32.3
– loans and advances to customers	3.2	—	0.6	2.5	6.3
– financial investments	—	0.7	0.4	—	1.1
– other assets	—	—	—	0.8	0.8
Total liabilities in relation to HSBC's interests in the unconsolidated structured entities	—	—	—	0.3	0.3
– other liabilities	—	—	—	0.3	0.3
Other off-balance sheet commitments	0.1	1.9	5.0	1.2	8.2
HSBC's maximum exposure at 31 Dec 2023	3.3	15.8	25.7	4.2	49.0

Total asset values of the entities (\$m)					
0–500	85	338	1,321	41	1,785
500–2,000	8	102	929	4	1,043
2,000–5,000	—	28	388	—	416
5,000–25,000	—	18	206	—	224
25,000+	—	5	24	—	29
Number of entities at 31 Dec 2022	93	491	2,868	45	3,497
	\$bn	\$bn	\$bn	\$bn	\$bn
Total assets in relation to HSBC's interests in the unconsolidated structured entities	2.5	10.7	19.7	2.6	35.5
– trading assets	—	0.4	0.1	—	0.5
– financial assets designated and otherwise mandatorily measured at fair value	—	9.7	18.7	—	28.4
– loans and advances to customers	2.5	—	0.5	1.9	4.9
– financial investments	—	0.6	0.4	—	1
– other assets	—	—	—	0.7	0.7
Total liabilities in relation to HSBC's interests in the unconsolidated structured entities	—	—	—	0.4	0.4
– other liabilities	—	—	—	0.4	0.4
Other off-balance sheet commitments	0.2	1.5	4.6	1.8	8.1
HSBC's maximum exposure at 31 Dec 2022	2.7	12.2	24.3	4	43.2

The maximum exposure to loss from HSBC's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying amount of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements that HSBC has entered into in order to mitigate the Group's exposure to loss.

Securitisations

HSBC has interests in unconsolidated securitisation vehicles through holding notes issued by these entities. In addition, HSBC has investments in ABSs issued by third-party structured entities.

HSBC managed funds

HSBC establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities. Further information on funds under management is provided on page 131.

HSBC, as fund manager, may be entitled to receive management and performance fees based on the assets under management. HSBC may also retain units in these funds.

Non-HSBC managed funds

HSBC purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs.

Other

HSBC has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions.

In addition to the interests disclosed above, HSBC enters into derivative contracts, reverse repos and stock borrowing transactions with structured entities. These interests arise in the normal course of business for the facilitation of third-party transactions and risk management solutions.

HSBC sponsored structured entities

The amount of assets transferred to and income received from such sponsored structured entities during 2023 and 2022 was not significant.

21 Goodwill and intangible assets

	2023 \$m	2022 ¹ \$m
Goodwill	4,323	4,156
Other intangible assets ²	8,164	7,263
At 31 Dec	12,487	11,419

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

² Included within other intangible assets is internally generated software with a net carrying amount of \$6,895m (2022: \$6,166m). During the year, capitalisation of internally generated software was \$2,306m (2022: \$2,663m), reversal of impairment was \$285m (2022: impairment of \$125m) and amortisation was \$1,877m (2022: \$1,447m).

Movement analysis of goodwill

	2023 \$m	2022 \$m
Gross amount		
At 1 Jan	18,965	22,215
Exchange differences	523	(776)
Reclassified to held for sale and additions ¹	73	(2,485)
Other	(1)	11
At 31 Dec	19,560	18,965
Accumulated impairment losses		
At 1 Jan	(14,809)	(17,182)
Exchange differences	(428)	482
Reclassified to held for sale ¹	—	1,891
At 31 Dec	(15,237)	(14,809)
Net carrying amount at 31 Dec	4,323	4,156

¹ Includes goodwill allocated to disposal groups as a result of the sales of our retail banking operations in France and branch operations in Greece, and planned sale of our banking business in Canada, offset by goodwill arising from the acquisition of L&T Investment Management Limited. For further details, see Note 23.

Goodwill

Impairment testing

The Group's impairment test in respect of goodwill allocated to each cash-generating unit ('CGU') is performed at 1 October each year. A review for indicators of impairment is undertaken at each subsequent quarter-end and at 31 December 2023. No indicators of impairment were identified as part of these reviews.

Basis of the recoverable amount

The recoverable amount of all CGUs to which goodwill has been allocated was equal to its value in use ('VIU') at each respective testing date. The VIU is calculated by discounting management's cash flow projections for the CGU. The key assumptions used in the VIU calculation for each individually significant CGU that is not impaired are discussed below.

Key assumptions in VIU calculation – significant CGUs at 1 October 2023

	Carrying amount at 1 Oct 2023 \$m	of which goodwill \$m	Value in use at 1 Oct 2023 \$m	Discount rate %	Growth rate beyond initial cash flow %	Carrying amount at 1 Oct 2022 \$m	of which goodwill \$m	Value in use at 1 Oct 2022 \$m	Discount rate %	Growth rate beyond initial cash flow projections %
HSBC UK Bank plc – WPB¹	11,167	2,597	27,933	10.4	2.0	N/A	N/A	N/A	N/A	N/A
Europe – WPB¹	N/A	N/A	N/A	N/A	N/A	15,215	2,643	46,596	9.9	2.0

¹ Following change in the Reporting Framework the Group's CGUs are main legal entities subdivided by global business effective 1 January 2023.

At 1 October 2023, aggregate goodwill of \$1,599m (1 October 2022: \$1,464m) had been allocated to CGUs that were not considered individually significant. The Group's CGUs do not carry on their balance sheets any significant intangible assets with indefinite useful lives, other than goodwill.

Management's judgement in estimating the cash flows of a CGU

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of goodwill in the next financial year, but does consider this to be an area that is inherently judgemental. The cash flow projections for each CGU are based on forecast profitability plans approved by the Board and minimum capital levels required to support the business operations of a CGU. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support our strategy, current market conditions and macroeconomic outlook. For the 1 October 2023 impairment test, cash flow projections until the end of 2028 were considered, in line with our internal planning horizon. Key assumptions underlying cash flow projections reflect management's outlook on interest rates and inflation, as well as business strategy, including the scale of investment in technology and automation. Our cash flow projections include known and observable climate-related opportunities and costs associated with our sustainable products and operating model. As required by IFRS Accounting Standards, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs.

Discount rate

The rate used to discount the cash flows is based on the cost of equity assigned to each CGU, which is derived using a capital asset pricing model ('CAPM') and market implied cost of equity. CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each CGU are refined to reflect the rates of inflation for the countries within which the CGU operates. In addition, for the purposes of testing goodwill for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with the cost of equity rates produced by external sources for businesses operating in similar markets. The impacts of climate risk are included to the extent that they are observable in discount rates and asset prices.

Long-term growth rate

The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the Group of business units making up the CGUs. These growth rates reflect inflation for the countries within which the CGU operates or from which it derives revenue.

Sensitivities of key assumptions in calculating VIU

At 1 October 2023, given the extent by which VIU exceeds carrying amount, the HBUK WPB CGU was not sensitive to reasonably possible adverse changes in key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the VIU calculation, such as the external range of discount rates observable, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections. None of the remaining CGUs are individually significant.

Other intangible assets

Impairment testing

Impairment of other intangible assets is assessed in accordance with our policy explained in Note 1.2(n) by comparing the net carrying amount of CGUs containing intangible assets with their recoverable amounts. Recoverable amounts are determined by calculating an estimated VIU or fair value, as appropriate, for each CGU. No significant impairment was recognised during the year.

Key assumptions in VIU calculation

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of other intangible assets in the next financial year, but does consider this to be an area that is inherently judgemental. We used a number of assumptions in our VIU calculation, in accordance with the requirements of IAS 36:

- Management's judgement in estimating future cash flows: We considered past business performance, current market conditions and our macroeconomic outlook to estimate future earnings. As required by IFRS Accounting Standards, estimates of future cash flows exclude estimated cash inflows or outflows that are expected to arise from restructuring initiatives before an entity has a constructive obligation to carry out the plan, and would therefore have recognised a provision for restructuring costs. For some businesses, this means that the benefit of certain strategic actions may not be included in the impairment assessment, including capital releases. Our cash flow projections include known and observable climate-related opportunities and costs associated with our sustainable products and operating model.
- Long-term growth rates: The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective of the businesses within the Group.
- Discount rates: Rates are based on a combination of CAPM and market-implied calculations considering market data for the businesses and geographies in which the Group operates. The impacts of climate risk are included to the extent that they are observable in discount rates and asset prices.

Sensitivity of estimates relating to non-financial assets

As explained in Note 1.2(a), estimates of future cash flows for CGUs are made in the review of goodwill and non-financial assets for impairment. Non-financial assets include other intangible assets shown above, and owned property, plant and equipment and right-of-use assets (see Note 22). The most significant sources of estimation uncertainty are in respect of the goodwill balances disclosed above. There are no non-financial asset balances relating to individual CGUs which involve estimation uncertainty that represents a significant risk of resulting in a material adjustment to the results and financial position of the Group within the next financial year.

Non-financial assets are widely distributed across CGUs within the legal entities of the Group, including Corporate Centre assets that cannot be allocated to CGUs and are therefore tested for impairment at consolidated level. The recoverable amounts of other intangible assets, owned property, plant and equipment, and right-of-use assets cannot be lower than individual asset fair values less costs to dispose, where relevant. At 31 December 2023 none of the CGUs were sensitive to reasonably possible adverse changes in key assumptions supporting the recoverable amount. In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the VIU calculation, such as the external range of discount rates observable, historical performance against forecast and risks attaching to the key assumptions underlying cash flow projections.

22 Prepayments, accrued income and other assets

	2023	2022 ¹
	\$m	\$m
Prepayments and accrued income	13,854	10,279
Settlement accounts	32,853	19,565
Cash collateral and margin receivables	57,058	63,421
Bullion	13,701	15,752
Endorsements and acceptances	7,939	8,407
Insurance contract assets (Note 4)	252	136
Reinsurance contract assets	4,728	4,310
Employee benefit assets (Note 5)	7,750	7,282
Right-of-use assets	2,456	2,219
Owned property, plant and equipment	10,478	10,365
Other accounts	14,186	14,413
At 31 Dec	165,255	156,149

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

Prepayments, accrued income and other assets include \$122,863m (2022: \$112,464m) of financial assets, the majority of which are measured at amortised cost.

23 Assets held for sale, liabilities of disposal groups held for sale and business acquisitions

	2023	2022
	\$m	\$m
Held for sale at 31 Dec		
Disposal groups	115,836	118,055
Unallocated impairment losses ¹	(1,975)	(2,385)
Non-current assets held for sale	273	249
Assets held for sale	114,134	115,919
Liabilities of disposal groups held for sale	108,406	114,597

1 This represents impairment losses in excess of the carrying value of the non-current assets, excluded from the measurement scope of IFRS 5.

Disposal groups and other planned disposals

Sale of our retail banking operations in France

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking business in France to CCF, a subsidiary of Promontoria MMB SAS ('My Money Group'). The sale also included HSBC Continental Europe's 100% ownership interest in HSBC SFH (France) and its 3% ownership interest in Crédit Logement.

In the first quarter of 2023, the sale had become less certain, as a result of which we recognised a \$2.1bn partial reversal of the impairment loss recognised in 2022, when the disposal group was classified as held for sale. In the fourth quarter of 2023, following the receipt of regulatory approvals and the satisfaction of other relevant conditions, we reclassified the disposal group as held for sale, and it was subsequently remeasured at the lower of the carrying amount and fair value less costs to sell. This resulted in the reinstatement of a €1.8bn (\$2.0bn) pre-tax impairment loss reflecting the final terms of the sale, giving rise to a net reversal of impairment recognised in other operating income in the year of \$0.1bn.

Upon completion and in accordance with the terms of the sale, HSBC Continental Europe received a €0.1bn (\$0.1bn) profit participation interest in the ultimate holding company of My Money Group. The associated impacts on initial recognition of this stake at fair value were recognised as part of the pre-tax loss on disposal. In addition, we recognised the reversal of a €0.4bn (\$0.4bn) deferred tax liability, which had arisen as a consequence of the temporary difference in tax and accounting treatment in respect of the provision for loss on disposal, which was deductible in the French tax return in 2021.

In accordance with the terms of the sale, HSBC Continental Europe retained a portfolio of €7.1bn (\$7.8bn) consisting of home and certain other loans, in respect of which it may consider on-sale opportunities at a suitable time, and the CCF brand, which it licensed to the buyer under a long-term licence agreement. Additionally, HSBC Continental Europe's subsidiaries, HSBC Assurances Vie (France) and HSBC Global Asset Management (France), have entered into distribution agreements with the buyer. Ongoing costs associated with the retention of the home and certain other loans, net of income on distribution agreements and the brand licence, are estimated to have an after-tax loss impact of €0.1bn (\$0.1bn) in 2024 based on expected funding rates.

Planned sale of our banking business in Canada

On 29 November 2022, HSBC Holdings plc announced that its wholly-owned subsidiary, HSBC Overseas Holdings (UK) Limited, had entered into an agreement for the sale of its banking business in Canada to the Royal Bank of Canada. Completion of the transaction is expected to occur in the first quarter of 2024 and the required governmental approvals have been obtained. The majority of the estimated gain on sale of \$5.2bn (as at 31 December 2023) will be recognised on completion, reduced by earnings recognised by the Group in the period to completion. There would be no tax on the gain recognised at completion. This estimated gain would also have been reduced by \$0.3bn in fair value losses recognised on the related foreign exchange hedges in 2023. The estimated pre-tax profit on the sale will be recognised through a combination of the consolidation of HSBC Canada's results into the Group's financial statements (between the 30 June 2022 net asset reference date and until completion), and the remaining gain on sale recognised at completion. At 31 December 2023, total assets of \$87.9bn and total liabilities of \$81.5bn met the criteria to be classified as held for sale in accordance with IFRS 5.

Planned sale of our business in Russia

On 30 June 2022, following a strategic review of our business in Russia, HSBC Europe BV (a wholly-owned subsidiary of HSBC Bank plc) entered into an agreement for the sale of its wholly-owned subsidiary HSBC Bank (RR) (Limited Liability Company). In 2022, a \$0.3bn impairment loss on the planned sale was recognised, upon classification as held for sale in accordance with IFRS 5. As at 31 December 2023, following US sanctions designation of the buyer, the outcome of the planned sale became less certain. This resulted in the reversal of \$0.2bn of the previously recognised loss, as the business was no longer classified as held for sale. However, owing to restrictions impacting the recoverability of assets in Russia, we recognised charges of \$0.2bn in other operating income. Completion of the planned sale remains subject to regulatory approval. On completion, accumulated foreign currency translation reserves will be recycled to the income statement.

Our branch operations in Greece

On 24 May 2022, HSBC Continental Europe signed a sale and purchase agreement for the sale of its branch operations in Greece to Pancreta Bank SA. In the second quarter of 2022, we recognised a loss of \$0.1bn upon reclassification as held for sale in accordance with IFRS 5. At completion on 28 July 2023, the disposal group included \$0.3bn of loans and advances to customers and \$1.1bn of customer accounts.

Merger of our business in Oman

In November 2022, HSBC Bank Oman SAOG entered into a binding merger agreement with Sohar International Bank SAOG, under which the two banks agreed to take the necessary steps to implement a merger by incorporation, whereby HSBC Bank Oman would merge into Sohar International Bank. Following regulatory and shareholder approvals, the merger was completed on 17 August 2023 by way of dissolution and transfer of all the assets and liabilities of HSBC Bank Oman to Sohar International Bank, with the shareholders of HSBC Bank Oman receiving the consideration in cash and shares in Sohar International Bank. Separately, HSBC Bank Middle East Limited is in the process of establishing a new wholesale banking branch in Oman subject to regulatory approvals.

Our New Zealand loan portfolio

In August 2023, the Hongkong and Shanghai Banking Corporation Limited (acting through its New Zealand branch) entered into an agreement with Pepper New Zealand Limited, a wholly-owned subsidiary of Pepper Money Limited, to sell its New Zealand retail mortgage loan portfolio. The sale was classified as held for sale in the third quarter of 2023 and was completed on 1 December 2023.

Our retail business in Mauritius

In November 2023, the Hongkong and Shanghai Banking Corporation Limited (acting through its Mauritius branch) entered into an agreement with ABSA Bank (Mauritius) Limited, a wholly-owned subsidiary of ABSA Bank Group Limited, to sell its Wealth and Personal Banking business. The sale is expected to complete in the second half of 2024 subject to regulatory approvals.

At 31 December 2023, the major classes of assets and associated liabilities of disposal groups held for sale, excluding allocated impairment losses, were as follows:

	Canada \$m	Retail banking operations in France \$m	Other ¹ \$m	Total \$m
Assets of disposal groups held for sale				
Cash and balances at central banks ²	5,370	226	—	5,596
Trading assets	2,465	—	—	2,465
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	15	49	—	64
Derivatives	528	—	—	528
Loans and advances to banks ²	154	10,333	—	10,487
Loans and advances to customers	56,129	16,902	254	73,285
Reverse repurchase agreements – non-trading	2,723	—	—	2,723
Financial investments ³	16,978	33	—	17,011
Goodwill	225	—	—	225
Prepayments, accrued income and other assets	3,318	132	2	3,452
Total assets at 31 Dec 2023	87,905	27,675	256	115,836
Liabilities of disposal groups held for sale				
Trading liabilities	1,417	—	—	1,417
Deposits by banks	78	—	—	78
Customer accounts	63,001	22,307	642	85,950
Repurchase agreements – non-trading	2,768	—	—	2,768
Financial liabilities designated at fair value	—	2,370	—	2,370
Derivatives	608	7	—	615
Debt securities in issue	7,707	1,377	—	9,084
Subordinated liabilities	8	—	—	8
Accruals, deferred income and other liabilities	5,916	196	4	6,116
Total liabilities at 31 Dec 2023	81,503	26,257	646	108,406
Expected date of completion	First quarter of 2024	1 January 2024		
Operating segment	All global businesses	WPB		

¹ Includes balances classified as held for sale in respect of the planned sale of our retail business in Mauritius and planned sale of our global hedge fund administration business across several markets.

² Under the financial terms of the sale of our retail banking operations in France, HSBC Continental Europe will transfer the business with a net asset value of €1.7bn (\$1.8bn) for a consideration of €1. Any required increase to the net asset value of the business to achieve this will be satisfied by the inclusion of additional cash. Based upon the net liabilities of the disposal group at 31 December 2023, HSBC would be expected to include a cash contribution of \$11bn, of which \$10.5bn was reclassified as held for sale at 31 December 2023 ('Loans and advances to banks', \$10.3bn, 'Cash and balances at central bank', \$0.2bn).

³ Includes financial investments measured at fair value through other comprehensive income of \$9.4bn and debt instruments measured at amortised cost of \$7.6bn.

Notes on the financial statements

At 31 December 2022, the major classes of assets and associated liabilities of disposal groups held for sale, excluding allocated impairment losses, were as follows:

	Canada \$m	Retail banking operations in France \$m	Other \$m	Total \$m
Assets of disposal groups held for sale				
Cash and balances at central banks	4,664	71	1,811	6,546
Trading assets	3,168	—	8	3,176
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	47	1	61
Derivatives	866	—	—	866
Loans and advances to banks	99	—	154	253
Loans and advances to customers	55,197	25,029	350	80,576
Reverse repurchase agreements – non-trading	4,396	—	250	4,646
Financial investments ¹	17,243	—	106	17,349
Goodwill	225	—	—	225
Prepayments, accrued income and other assets	4,245	75	26	4,357
Total assets at 31 Dec 2022	90,127	25,222	2,706	118,055
Liabilities of disposal groups held for sale				
Trading liabilities	2,751	—	3	2,754
Deposits by banks	62	—	2	64
Customer accounts	60,606	22,348	2,320	85,274
Repurchase agreements – non-trading	3,266	—	—	3,266
Financial liabilities designated at fair value	—	3,523	—	3,523
Derivatives	806	7	—	813
Debt securities in issue	11,602	1,326	—	12,928
Subordinated liabilities	8	—	—	8
Accruals, deferred income and other liabilities	5,727	159	81	5,967
Total liabilities at 31 Dec 2022	84,828	27,363	2,406	114,597
Expected date of completion	Second half of 2023	Second half of 2023		
Operating segment	All global businesses	WPB		

¹ Includes financial investments measured at fair value through other comprehensive income of \$11.2bn and debt instruments measured at amortised cost of \$6.2bn.

Business acquisitions

Acquisition of Silicon Valley Bank UK Limited

In March 2023, HSBC UK Bank plc acquired Silicon Valley Bank UK Limited ('SVB UK'), and in June 2023 changed its legal entity name to HSBC Innovation Bank Limited. The acquisition was funded from existing resources and brought the staff, assets and liabilities of SVB UK into the HSBC portfolio. On acquisition, we performed a preliminary assessment of the fair value of the assets and liabilities purchased. We established an 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 \$0.2bn. The provisional gain on acquisition of \$1.6bn represents the difference between the consideration paid of £1 and the net assets acquired. Further due diligence has been performed post-acquisition, resulting in the recognition of an additional gain of \$0.1bn at 30 September 2023, as required by IFRS 3 'Business Combinations'.

HSBC Innovation Bank Limited contributed \$0.5bn of revenue and \$0.2bn to the Group profit after tax for the period from 13 March 2023 to 31 December 2023. As per the disclosure requirements set out in IFRS 3 'Business Combinations', if HSBC Innovation Bank Limited had been acquired on 1 January 2023, management estimates that for the 12 months to 31 December 2023, consolidated revenue would have been \$66bn and consolidated profit after tax would have been \$25bn. In determining these amounts, management has assumed that the previously determined fair value adjustments, which arose on acquisition would have been the same if the acquisition had occurred on 1 January 2023.

The details of the business combination at acquisition are as follows:

	At 13 Mar 2023 \$m
Fair value of assets acquired	11,367
Fair value of liabilities acquired	(9,776)
Fair value of net assets acquired	1,591
Provisional gain on acquisition	1,591
Consideration transferred settled in cash	—
Cash and cash equivalents acquired	1,243
Net cash inflow on acquisition	1,243

Acquisition of Citibank China's wealth management portfolio

In October 2023, HSBC Bank (China) Company Limited, a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, entered into an agreement to acquire Citibank China's retail wealth management portfolio in mainland China. The portfolio comprises assets under management and deposits and the associated wealth customers. Upon completion, the acquired business will be integrated into HSBC Bank China's Wealth and Personal Banking operations. The transaction is expected to complete in the first half of 2024.

Acquisition of Silkroad Property Partners Singapore

In October 2023, HSBC Global Asset Management Singapore Limited entered into an agreement to acquire 100% of the shares of Silkroad Property Partners Pte Ltd ('Silkroad') and for HSBC Global Asset Management Limited to acquire Silkroad's affiliated General Partner entities. Silkroad is a Singapore headquartered Asia-Pacific-focused, real estate investment manager. The acquisition was completed on 31 January 2024.

24 Trading liabilities

	2023 \$m	2022 \$m
Deposits by banks ¹	6,779	9,332
Customer accounts ¹	8,955	10,724
Other debt securities in issue (Note 26)	27	978
Other liabilities – net short positions in securities	57,389	51,319
At 31 Dec	73,150	72,353

¹ 'Deposits by banks' and 'Customer accounts' include fair value repos, stock lending and other amounts.

25 Financial liabilities designated at fair value

HSBC

	2023 \$m	2022 ¹ \$m
Deposits by banks and customer accounts ²	21,043	19,171
Liabilities to customers under investment contracts	5,103	5,374
Debt securities in issue (Note 26)	103,803	93,140
Subordinated liabilities (Note 29)	11,477	9,636
At 31 Dec	141,426	127,321

¹ From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

² Structured deposits placed at HSBC Bank USA are insured by the Federal Deposit Insurance Corporation, a US government agency, up to \$250,000 per depositor.

The carrying amount of financial liabilities designated at fair value was \$4,421m less than the contractual amount at maturity (2022: \$8,124m less). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of \$1,286m (2022: profit of \$234m).

HSBC Holdings

	2023 \$m	2022 \$m
Debt securities in issue (Note 26)	35,189	25,423
Subordinated liabilities (Note 29)	8,449	6,700
At 31 Dec	43,638	32,123

The carrying amount of financial liabilities designated at fair value was \$246m less than the contractual amount at maturity (2022: \$2,405m less). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of \$682m (2022: \$516m).

26 Debt securities in issue

HSBC

	2023 \$m	2022 \$m
Bonds and medium-term notes	160,632	145,240
Other debt securities in issue	37,115	27,027
Total debt securities in issue	197,747	172,267
Included within:		
– trading liabilities (Note 24)	(27)	(978)
– financial liabilities designated at fair value (Note 25)	(103,803)	(93,140)
At 31 Dec	93,917	78,149

Notes on the financial statements

HSBC Holdings

	2023 \$m	2022 \$m
Debt securities	100,428	92,361
Included within:		
– financial liabilities designated at fair value (Note 25)	(35,189)	(25,423)
At 31 Dec	65,239	66,938

27 Accruals, deferred income and other liabilities

	2023 \$m	2022 \$m
Accruals and deferred income	16,814	12,605
Settlement accounts	28,423	18,178
Cash collateral and margin payables	56,832	70,298
Endorsements and acceptances	7,911	8,379
Employee benefit liabilities (Note 5)	1,160	1,096
Reinsurance contract liabilities	819	748
Lease liabilities	2,813	2,767
Other liabilities	21,834	20,242
At 31 Dec	136,606	134,313

- 1 Accruals, deferred income and other liabilities include \$129,401m (2022: \$125,957m) of financial liabilities, the majority of which are measured at amortised cost.
- 2 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

28 Provisions

	Restructuring costs \$m	Legal proceedings and regulatory matters \$m	Customer remediation \$m	Other provisions \$m	Total \$m
Provisions (excluding contractual commitments)					
At 1 Jan 2023	445	409	195	397	1,446
Additions	255	236	37	170	698
Amounts utilised	(288)	(231)	(69)	(68)	(656)
Unused amounts reversed	(149)	(30)	(41)	(95)	(315)
Exchange and other movements	21	(4)	8	16	41
At 31 Dec 2023	284	380	130	420	1,214
Contractual commitments¹					
At 1 Jan 2023					512
Net change in expected credit loss provision and other movements					15
At 31 Dec 2023					527
Total provisions					
At 31 Dec 2022					1,958
At 31 Dec 2023					1,741
Provisions (excluding contractual commitments)					
At 1 Jan 2022	383	619	386	558	1,946
Additions	434	271	60	206	971
Amounts utilised	(288)	(393)	(106)	(168)	(955)
Unused amounts reversed	(87)	(82)	(109)	(125)	(403)
Exchange and other movements	3	(6)	(36)	(74)	(113)
At 31 Dec 2022	445	409	195	397	1,446
Contractual commitments¹					
At 1 Jan 2022					620
Net change in expected credit loss provision and other movements					(108)
At 31 Dec 2022					512
Total provisions					
At 31 Dec 2021					2,566
At 31 Dec 2022					1,958

- 1 Contractual commitments include the expected credit loss provision in relation to off-balance sheet financial guarantee contracts and commitments where HSBC has become party to an irrevocable commitment, as defined under IFRS 9 'Financial Instruments'; and provisions for performance and other guarantee contracts.

Further details of 'Legal proceedings and regulatory matters' are set out in Note 36. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim); or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. 'Regulatory matters' refers to investigations, reviews and other actions carried out by, or in response to, the actions of regulators or law enforcement agencies in connection with alleged wrongdoing by HSBC.

Customer remediation refers to HSBC'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 in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

For further details of the impact of IFRS 9 on undrawn loan commitments and financial guarantees, presented in 'Contractual commitments', see Note 34. Further analysis of the movement in the expected credit loss provision is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 205.

Brazil PIS and COFINS tax matters

Beginning in the late 1990s, HSBC Bank Brasil S.A. – Banco Múltiplo ('HSBC Brazil') and other financial services firms brought legal proceedings in Brazil challenging the assessment of PIS and COFINS taxes, which are federal taxes imposed on gross revenues earned by legal entities in Brazil. The Supreme Court of Brazil selected three cases – one involving an insurer, in 2007, and two involving other banks, in 2011 – to set standards that would apply to all of these proceedings. In June 2023, the court ruled against the financial services firms in all three cases. The standards set by the court in this ruling have not yet been applied to HSBC Brazil's legacy cases, liability for which remained with HSBC after the sale of HSBC's operations in Brazil to Bradesco in 2016. There are many factors that may affect the range of outcomes and any resulting financial impact for HSBC. Based upon the information currently available, a provision was recognised in respect of one legacy case. The remaining additional tax liability subject to challenge on all legacy PIS and COFINS cases is up to \$0.4bn.

29 Subordinated liabilities

HSBC's subordinated liabilities

	2023 \$m	2022 \$m
At amortised cost	24,954	22,290
– subordinated liabilities	23,149	20,547
– preferred securities	1,805	1,743
Designated at fair value (Note 25)	11,477	9,636
– subordinated liabilities	11,477	9,636
– preferred securities	—	—
At 31 Dec	36,431	31,926
Issued by HSBC subsidiaries	4,154	6,094
Issued by HSBC Holdings	32,277	25,832

Subordinated liabilities rank behind senior obligations and generally count towards the capital base of HSBC. Capital securities may be called and redeemed by HSBC subject to prior notification to the PRA and, where relevant, the consent of the local banking regulator. If not redeemed at the first call date, coupons payable may reset or become floating rate based on relevant market rates. On subordinated liabilities other than floating rate notes, interest is payable at fixed rates of up to 10.176%.

The balance sheet amounts disclosed in the following table are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital, principally due to regulatory amortisation and regulatory eligibility limits.

HSBC's subordinated liabilities: subsidiaries

	2023 \$m	2022 \$m
Additional tier 1 capital securities issued by HSBC subsidiaries	1,672	1,584
Tier 2 securities issued by HSBC subsidiaries		
– Tier 2 securities issued by HSBC Bank plc	764	2,427
– Tier 2 securities issued by The Hongkong and Shanghai Banking Corporation Limited	—	400
– Tier 2 securities issued by HSBC Bank USA Inc	223	223
– Tier 2 securities issued by HSBC Bank USA N.A.	1,449	1,405
– Tier 2 securities issued by HSBC Bank Canada ¹	—	—
Securities issued by other HSBC subsidiaries	46	55
Subordinated liabilities issued by HSBC subsidiaries at 31 Dec	4,154	6,094

¹ Liability accounts for HSBC Bank Canada have been reclassified to 'Liabilities of disposal groups held for sale'.

HSBC Holdings' subordinated liabilities

	2023 \$m	2022 \$m
At amortised cost	24,439	19,727
Designated at fair value (Note 25)	8,449	6,700
At 31 Dec	32,888	26,427

HSBC Holdings' subordinated liabilities in issue

	2023 \$m	2022 \$m
Tier 2 securities issued by HSBC Holdings		
Amounts owed to third parties	31,975	25,527
Amounts owed to HSBC undertakings	913	900
Subordinated liabilities issued by HSBC Holdings at 31 Dec	32,888	26,427

Guaranteed by HSBC Holdings or HSBC Bank plc

Capital securities guaranteed by HSBC Holdings or HSBC Bank plc were issued by the Jersey limited partnerships. The proceeds of these were lent to the respective guarantors by the limited partnerships in the form of subordinated notes. They qualified as additional tier 1 capital for HSBC under CRR II until 31 December 2021 by virtue of the application of grandfathering provisions. The capital security guaranteed by HSBC Bank plc also qualified as additional tier 1 capital for HSBC Bank plc (on a solo and a consolidated basis) under CRR II until 31 December 2021 by virtue of the same grandfathering process. Since 31 December 2021, these securities have no longer qualified as regulatory capital for HSBC or HSBC Bank plc.

These preferred securities, together with the guarantee, are intended to provide investors with rights to income and capital distributions and distributions upon liquidation of the relevant issuer that are equivalent to the rights that they would have had if they had purchased non-cumulative perpetual preference shares of the relevant issuer. There are limitations on the payment of distributions if such payments are prohibited under UK banking regulations or other requirements, if a payment would cause a breach of HSBC's capital adequacy requirements, or if HSBC Holdings or HSBC Bank plc has insufficient distributable reserves (as defined).

HSBC Holdings and HSBC Bank plc have individually covenanted that, if prevented under certain circumstances from paying distributions on the preferred securities in full, they will not pay dividends or other distributions in respect of their ordinary shares, or repurchase or redeem their ordinary shares, until the distribution on the preferred securities has been paid in full.

If the consolidated total capital ratio of HSBC Holdings falls below the regulatory minimum required or if the Directors expect it to do so in the near term, provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC Holdings, the holders' interests in the preferred securities guaranteed by HSBC Holdings will be exchanged for interests in preference shares issued by HSBC Holdings that have economic terms which are in all material respects equivalent to the preferred securities and their guarantee.

If the preferred securities guaranteed by HSBC Bank plc are outstanding in November 2048, or if the total capital ratio of HSBC Bank plc (on a solo or consolidated basis) falls below the regulatory minimum required, or if the Directors expect it to do so in the near term, provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC Bank plc, the holders' interests in the preferred security guaranteed by HSBC Bank plc will be exchanged for interests in preference shares issued by HSBC Bank plc that have economic terms which are in all material respects equivalent to the preferred security and its guarantee.

Tier 2 securities

Tier 2 capital securities are either perpetual or dated subordinated securities on which there is an obligation to pay coupons. These capital securities are included within HSBC's regulatory capital base as tier 2 capital under CRR II, either as fully eligible capital or by virtue of the application of grandfathering provisions. In accordance with CRR II, the capital contribution of all tier 2 securities is amortised for regulatory purposes in their final five years before maturity.

30 Maturity analysis of assets, liabilities and off-balance sheet commitments

The table on page 435 provides an analysis of consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Due not more than 1 month' time bucket because trading balances are typically held for short periods of time.
- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due over 5 years' time bucket.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due over 5 years' time bucket.
- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction.
- Liabilities under insurance contracts included in 'other financial liabilities' are irrespective of contractual maturity included in the 'Due over 5 years' time bucket in the maturity table provided below. An analysis of the present value of expected future cash flows of insurance contract liabilities and contractual service margin is provided on page 438. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Due over 5 years' time bucket, although such contracts are subject to surrender and transfer options by the policyholders.
- Loan and other credit-related commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month \$m	Due over 1 month but not more than 3 months \$m	Due over 3 months but not more than 6 months \$m	Due over 6 months but not more than 9 months \$m	Due over 9 months but not more than 1 year \$m	Due over 1 year but not more than 2 years \$m	Due over 2 years but not more than 5 years \$m	Due over 5 years \$m	Total \$m
Financial assets									
Cash and balances at central banks	285,868	—	—	—	—	—	—	—	285,868
Items in the course of collection from other banks	6,342	—	—	—	—	—	—	—	6,342
Hong Kong Government certificates of indebtedness	42,024	—	—	—	—	—	—	—	42,024
Trading assets	284,865	2,010	637	363	555	165	564	—	289,159
Financial assets designated or otherwise mandatorily measured at fair value	5,530	697	821	753	581	4,839	11,917	85,505	110,643
Derivatives	227,343	138	134	71	35	383	570	1,040	229,714
Loans and advances to banks	76,524	18,662	6,487	2,689	3,281	2,756	2,328	175	112,902
Loans and advances to customers	142,803	66,425	52,218	40,135	36,323	94,206	175,381	331,044	938,535
– personal	44,105	9,558	6,960	6,422	6,127	19,606	54,365	297,512	444,655
– corporate and commercial	83,281	50,268	38,250	24,685	24,566	61,612	106,598	30,592	419,852
– financial	15,417	6,599	7,008	9,028	5,630	12,988	14,418	2,940	74,028
Reverse repurchase agreements – non-trading	164,826	43,893	23,840	6,708	5,126	6,113	1,711	—	252,217
Financial investments	48,969	69,816	44,493	16,348	18,603	46,124	106,117	92,293	442,763
Assets held for sale ²	39,882	2,929	7,041	4,176	3,261	17,085	33,015	7,943	115,332
Accrued income and other financial assets	108,138	6,574	4,404	550	698	220	764	1,513	122,861
Financial assets at 31 Dec 2023	1,433,114	211,144	140,075	71,793	68,463	171,891	332,367	519,513	2,948,360
Non-financial assets	—	—	—	—	—	—	—	90,317	90,317
Total assets at 31 Dec 2023	1,433,114	211,144	140,075	71,793	68,463	171,891	332,367	609,830	3,038,677
Off-balance sheet commitments received									
Loan and other credit-related commitments	39,836	—	—	—	—	—	—	—	39,836
Financial liabilities									
Hong Kong currency notes in circulation	42,024	—	—	—	—	—	—	—	42,024
Deposits by banks	52,747	2,758	2,324	381	94	1,458	13,064	337	73,163
Customer accounts	1,343,858	138,117	78,611	20,832	17,724	7,785	4,616	104	1,611,647
– personal	621,112	84,909	61,286	14,794	12,465	5,507	2,742	2	802,817
– corporate and commercial	545,207	43,562	14,525	4,605	3,393	2,165	1,527	92	615,076
– financial	177,539	9,646	2,800	1,433	1,866	113	347	10	193,754
Repurchase agreements – non-trading	158,882	10,311	1,759	300	847	1	—	—	172,100
Items in the course of transmission to other banks	7,295	—	—	—	—	—	—	—	7,295
Trading liabilities	66,548	6,302	300	—	—	—	—	—	73,150
Financial liabilities designated at fair value	22,080	8,366	7,823	7,197	6,239	16,679	39,497	33,545	141,426
– debt securities in issue: covered bonds	—	—	—	—	—	—	—	—	—
– debt securities in issue: unsecured	10,383	2,760	5,748	6,225	5,390	14,090	34,757	23,898	103,251
– subordinated liabilities and preferred securities	—	1,995	—	—	—	1,471	3,429	4,581	11,476
– other	11,697	3,611	2,075	972	849	1,118	1,311	5,066	26,699
Derivatives	233,134	113	25	9	47	73	1,223	148	234,772
Debt securities in issue	6,891	6,664	10,816	6,896	6,427	6,317	27,452	22,454	93,917
– covered bonds	—	—	—	—	—	—	1,273	—	1,273
– otherwise secured	447	44	62	58	55	188	861	1,679	3,394
– unsecured	6,444	6,620	10,754	6,838	6,372	6,129	25,318	20,775	89,250
Liabilities of disposal groups held for sale ³	69,868	5,231	5,479	6,728	6,541	4,730	7,918	1,511	108,006
Accruals and other financial liabilities	104,264	11,827	6,007	1,205	1,414	1,053	1,491	2,137	129,398
Subordinated liabilities	—	13	—	—	—	1,790	897	22,254	24,954
Total financial liabilities at 31 Dec 2023	2,107,591	189,702	113,144	43,548	39,333	39,886	96,158	82,490	2,711,852
Non-financial liabilities	—	—	—	—	—	—	—	134,215	134,215
Total liabilities at 31 Dec 2023	2,107,591	189,702	113,144	43,548	39,333	39,886	96,158	216,705	2,846,067
Off-balance sheet commitments given									
Loan and other credit-related commitments	895,140	95	126	72	171	439	807	300	897,150
– personal	256,272	21	30	46	107	279	745	192	257,692
– corporate and commercial	472,507	74	26	26	64	160	62	108	473,027
– financial	166,361	—	70	—	—	—	—	—	166,431

Notes on the financial statements

Maturity analysis of assets, liabilities and off-balance sheet commitments (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets									
Cash and balances at central banks	327,002	—	—	—	—	—	—	—	327,002
Items in the course of collection from other banks	7,297	—	—	—	—	—	—	—	7,297
Hong Kong Government certificates of indebtedness	43,787	—	—	—	—	—	—	—	43,787
Trading assets	213,234	1,333	1,343	338	425	808	222	390	218,093
Financial assets designated at fair value	3,282	718	1,369	1,178	479	1,967	13,353	77,755	100,101
Derivatives	281,724	132	29	21	65	261	1,052	875	284,159
Loans and advances to banks	72,240	13,965	8,323	860	2,328	3,058	3,569	132	104,475
Loans and advances to customers	139,934	75,486	58,951	35,633	33,730	99,933	173,076	306,818	923,561
– personal	41,834	9,141	6,659	5,745	5,773	18,326	51,050	273,487	412,015
– corporate and commercial	84,955	60,067	45,695	24,430	22,629	68,473	108,418	30,231	444,898
– financial	13,145	6,278	6,597	5,458	5,328	13,134	13,608	3,100	66,648
Reverse repurchase agreements – non-trading	171,173	51,736	16,164	5,840	2,776	3,999	2,066	—	253,754
Financial investments	46,493	79,309	30,722	11,798	13,067	40,710	67,951	74,676	364,726
Assets held for sale ²	33,781	3,755	3,452	3,044	3,263	15,369	40,017	14,697	117,378
Accrued income and other financial assets	99,113	6,042	3,766	620	703	543	302	1,295	112,384
Financial assets at 31 Dec 2022	1,439,060	232,476	124,119	59,332	56,836	166,648	301,608	476,638	2,856,717
Non-financial assets	—	—	—	—	—	—	—	92,569	92,569
Total assets at 31 Dec 2022	1,439,060	232,476	124,119	59,332	56,836	166,648	301,608	569,207	2,949,286
Off-balance sheet commitments received									
Loan and other credit-related commitments	27,340	—	—	—	—	—	—	—	27,340
Financial liabilities									
Hong Kong currency notes in circulation	43,787	—	—	—	—	—	—	—	43,787
Deposits by banks	46,994	359	3,510	205	136	1,455	13,737	326	66,722
Customer accounts	1,388,297	93,108	47,712	14,244	17,295	4,719	4,607	321	1,570,303
– personal	657,413	55,252	35,430	10,431	12,374	2,835	2,351	2	776,088
– corporate and commercial	555,539	31,624	10,385	3,080	3,824	1,667	2,146	274	608,539
– financial	175,345	6,232	1,897	733	1,097	217	110	45	185,676
Repurchase agreements – non-trading	121,193	3,804	685	170	645	1,250	—	—	127,747
Items in the course of transmission to other banks	7,864	—	—	—	—	—	—	—	7,864
Trading liabilities	66,027	5,668	281	113	113	116	35	—	72,353
Financial liabilities designated at fair value	16,430	7,398	6,562	4,308	5,325	19,287	34,886	33,125	127,321
– debt securities in issue: covered bonds	—	—	—	—	—	—	—	—	—
– debt securities in issue: unsecured	7,056	3,620	4,793	3,157	4,288	16,234	29,941	23,510	92,599
– subordinated liabilities and preferred securities	—	—	—	—	—	1,971	3,675	3,990	9,636
– other	9,374	3,778	1,769	1,151	1,037	1,082	1,270	5,625	25,086
Derivatives	284,412	73	18	46	57	171	849	136	285,762
Debt securities in issue	4,514	7,400	7,476	4,745	3,585	9,198	19,240	21,991	78,149
– covered bonds	—	—	—	—	—	—	601	—	601
– otherwise secured	705	28	40	38	36	124	656	1,346	2,973
– unsecured	3,809	7,372	7,436	4,707	3,549	9,074	17,983	20,645	74,575
Liabilities of disposal groups held for sale ³	76,928	4,342	5,374	6,599	8,606	2,343	8,653	1,479	114,324
Accruals and other financial liabilities	104,295	9,576	4,776	967	1,564	1,028	2,016	1,725	125,947
Subordinated liabilities	—	—	11	160	—	—	1,689	20,430	22,290
Total financial liabilities at 31 Dec 2022	2,160,741	131,728	76,405	31,557	37,326	39,567	85,712	79,533	2,642,569
Non-financial liabilities	—	—	—	—	—	—	—	121,520	121,520
Total liabilities at 31 Dec 2022	2,160,741	131,728	76,405	31,557	37,326	39,567	85,712	201,053	2,764,089
Off-balance sheet commitments given									
Loan and other credit-related commitments	825,781	184	75	59	210	242	975	328	827,854
– personal	242,953	2	3	—	110	199	811	300	244,378
– corporate and commercial	449,843	176	72	59	84	43	163	28	450,468
– financial	132,985	6	—	—	16	—	1	—	133,008

1 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.

2 Unallocated impairment losses in relation to disposal groups of \$2.0bn (2022: \$2.4bn) and non-financial assets of \$0.9bn (2022: \$1bn) that are presented within assets held for sale on the balance sheet have been included within non-financial assets in the table above.

3 A total of \$0.4bn (2022: \$0.3bn) of non-financial liabilities that are presented within liabilities of disposal groups held for sale on the balance sheet have been included within non-financial liabilities in the table above.

HSBC Holdings

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month \$m	Due over 1 month but not more than 3 months \$m	Due over 3 months but not more than 6 months \$m	Due over 6 months but not more than 9 months \$m	Due over 9 months but not more than 1 year \$m	Due over 1 year but not more than 2 years \$m	Due over 2 years but not more than 5 years \$m	Due over 5 years \$m	Total \$m
Financial assets									
Cash at bank and in hand:									
– balances with HSBC undertakings	7,029	—	—	—	—	—	—	—	7,029
Financial assets with HSBC undertakings designated and otherwise mandatorily measured at fair value	—	—	—	—	—	3,815	26,284	29,780	59,879
Derivatives	2,217	—	—	—	—	18	675	434	3,344
Loans and advances to HSBC undertakings	—	—	120	—	—	1,016	6,783	19,435	27,354
Financial investments	10,365	6,017	898	750	757	771	—	—	19,558
Accrued income and other financial assets	3,511	860	254	229	5	—	—	—	4,859
Total financial assets at 31 Dec 2023	23,122	6,877	1,272	979	762	5,620	33,742	49,649	122,023
Non-financial assets	—	—	—	—	—	—	—	163,146	163,146
Total assets at 31 Dec 2023	23,122	6,877	1,272	979	762	5,620	33,742	212,795	285,169
Financial liabilities									
Amounts owed to HSBC undertakings	—	168	—	—	—	—	—	—	168
Financial liabilities designated at fair value	—	—	—	—	—	5,287	19,604	18,747	43,638
– debt securities in issue	—	—	—	—	—	3,816	16,175	15,198	35,189
– subordinated liabilities and preferred securities	—	—	—	—	—	1,471	3,429	3,549	8,449
Derivatives	2,452	209	7	59	75	558	1,318	1,412	6,090
Debt securities in issue	—	—	816	2,158	—	4,920	33,735	23,610	65,239
Accruals and other financial liabilities	1,437	1,599	1,049	127	34	—	—	23	4,269
Subordinated liabilities	—	1,987	—	—	—	1,600	880	19,972	24,439
Total financial liabilities 31 Dec 2023	3,889	3,963	1,872	2,344	109	12,365	55,537	63,764	143,843
Non-financial liabilities	—	—	—	—	—	—	—	20	20
Total liabilities at 31 Dec 2023	3,889	3,963	1,872	2,344	109	12,365	55,537	63,784	143,863

Financial assets									
Cash at bank and in hand:									
– balances with HSBC undertakings	3,210	—	—	—	—	—	—	—	3,210
Financial assets with HSBC undertakings designated and otherwise mandatorily measured at fair value	—	—	—	—	—	9,007	16,230	27,085	52,322
Derivatives	2,889	—	—	—	—	—	796	116	3,801
Loans and advances to HSBC undertakings	—	2,163	240	—	—	2,035	4,414	17,913	26,765
Financial investments	1,517	2,712	8,870	1,020	2,194	3,153	—	—	19,466
Accrued income and other financial assets	68	4,147	179	90	4	—	14	—	4,502
Total financial assets at 31 Dec 2022	7,684	9,022	9,289	1,110	2,198	14,195	21,454	45,114	110,066
Non-financial assets	—	—	—	—	—	—	—	171,035	171,035
Total assets at 31 Dec 2022	7,684	9,022	9,289	1,110	2,198	14,195	21,454	216,149	281,101
Financial liabilities									
Amounts owed to HSBC undertakings	48	266	—	—	—	—	—	—	314
Financial liabilities designated at fair value	—	—	—	—	—	1,447	16,459	14,217	32,123
– debt securities in issue	—	—	—	—	—	1,447	12,784	11,192	25,423
– subordinated liabilities and preferred securities	—	—	—	—	—	—	3,675	3,025	6,700
Derivatives	2,540	—	35	—	102	460	1,638	2,147	6,922
Debt securities in issue	—	—	1,972	448	714	11,046	25,380	27,378	66,938
Accruals and other financial liabilities	722	450	648	61	35	—	14	31	1,961
Subordinated liabilities	—	—	—	—	—	1,941	1,492	16,294	19,727
Total financial liabilities at 31 Dec 2022	3,310	716	2,655	509	851	14,894	44,983	60,067	127,985
Non-financial liabilities	—	—	—	—	—	—	—	8	8
Total liabilities at 31 Dec 2022	3,310	716	2,655	509	851	14,894	44,983	60,075	127,993

Contractual maturity of financial liabilities

The following table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the following table do not agree directly with those in our consolidated balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loan and other credit-related commitments and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable by HSBC under financial liabilities by remaining contractual maturities

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 1 year	Due over 1 year but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Deposits by banks	52,938	2,898	3,304	17,123	362	76,625
Customer accounts	1,345,006	141,348	119,660	13,423	109	1,619,546
Repurchase agreements – non-trading	159,264	10,457	2,996	1	—	172,718
Trading liabilities	73,150	—	—	—	—	73,150
Financial liabilities designated at fair value	22,262	9,156	26,033	63,960	44,886	166,297
Derivatives	232,598	609	1,295	2,445	2,910	239,857
Debt securities in issue	6,837	7,407	24,117	43,513	27,119	108,993
Subordinated liabilities	39	135	1,465	9,020	34,920	45,579
Other financial liabilities ¹	149,904	9,752	5,943	2,555	2,109	170,263
	2,041,998	181,762	184,813	152,040	112,415	2,673,028
Loan and other credit-related commitments	895,156	95	371	1,437	91	897,150
Financial guarantees ²	16,966	4	39	—	—	17,009
At 31 Dec 2023	2,954,120	181,861	185,223	153,477	112,506	3,587,187
Proportion of cash flows payable in period	83%	5%	5%	4%	3%	
Deposits by banks	47,082	406	4,024	16,050	359	67,921
Customer accounts	1,387,125	96,474	80,608	9,961	346	1,574,514
Repurchase agreements – non-trading	121,328	3,852	1,535	1,268	—	127,983
Trading liabilities	72,353	—	—	—	—	72,353
Financial liabilities designated at fair value	16,687	7,859	18,740	63,606	43,475	150,367
Derivatives	283,512	171	1,181	2,222	1,059	288,145
Debt securities in issue	4,329	8,217	17,522	34,283	26,428	90,779
Subordinated liabilities	37	168	1,395	7,321	32,946	41,867
Other financial liabilities ¹	153,597	8,670	5,994	3,230	1,704	173,195
	2,086,050	125,817	130,999	137,941	106,317	2,587,124
Loan and other credit-related commitments	825,781	184	344	1,217	328	827,854
Financial guarantees ²	18,696	25	62	—	—	18,783
At 31 Dec 2022	2,930,527	126,026	131,405	139,158	106,645	3,433,761
Proportion of cash flows payable in period	85%	4%	4%	4%	3%	

¹ Excludes financial liabilities of disposal groups.

² Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

HSBC Holdings

HSBC Holdings' primary sources of liquidity are dividends received from subsidiaries, interest on and repayment of intra-Group loans and securities, and interest earned on its own liquid funds. HSBC Holdings also raises funds in the debt capital markets to meet the Group's minimum requirement for own funds and eligible liabilities and maintain an appropriate liquidity buffer. HSBC Holdings uses this liquidity to meet its obligations, including interest and principal repayments on external debt liabilities, operating expenses and collateral on derivative transactions.

HSBC Holdings is also subject to contingent liquidity risk by virtue of credit-related commitments and guarantees and similar contracts issued relating to its subsidiaries. Such commitments and guarantees are only issued after due consideration of HSBC Holdings' ability to finance the commitments and guarantees and the likelihood of the need arising.

HSBC Holdings actively manages the cash flows from its subsidiaries to optimise the amount of cash held at the holding company level. During 2023, consistent with the Group's capital plan, the Group's material subsidiaries did not experience any significant restrictions on paying dividends or repaying loans and advances. Also, there are no foreseen restrictions envisaged with regard to planned dividends or payments from material subsidiaries. However, the ability of subsidiaries to pay dividends or advance monies to HSBC Holdings depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

HSBC Holdings currently has sufficient liquidity to meet its present and forecast requirements. Liquidity risk in HSBC Holdings is overseen by Holdings ALCO.

The following table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the following table do not agree directly with those in HSBC Holdings balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loan and other credit-related commitments and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable by HSBC Holdings under financial liabilities by remaining contractual maturities

	Due not more than 1 month \$m	Due over 1 month but not more than 3 months \$m	Due over 3 months but not more than 1 year \$m	Due over 1 year but not more than 5 years \$m	Due over 5 years \$m	Total \$m
Amounts owed to HSBC undertakings	—	168	—	—	—	168
Financial liabilities designated at fair value	23	405	1,437	31,050	25,610	58,525
Derivatives	1,244	556	1,651	2,227	726	6,404
Debt securities in issue	—	680	4,787	46,909	27,745	80,121
Subordinated liabilities	46	2,163	1,360	8,239	30,862	42,670
Other financial liabilities	1,436	1,620	1,210	—	23	4,289
	2,749	5,592	10,445	88,425	84,966	192,177
Loan commitments	—	—	—	—	—	—
Financial guarantees ¹	—	—	—	—	—	—
At 31 Dec 2023	2,749	5,592	10,445	88,425	84,966	192,177
Amounts owed to HSBC undertakings	48	266	—	—	—	314
Financial liabilities designated at fair value	11	72	1,139	22,921	19,196	43,339
Derivatives	1,182	177	1,089	4,231	1,321	8,000
Debt securities in issue	—	544	4,899	44,608	32,540	82,591
Subordinated liabilities	46	161	1,068	8,262	27,045	36,582
Other financial liabilities	721	458	745	14	31	1,969
	2,008	1,678	8,940	80,036	80,133	172,795
Loan commitments	—	—	—	—	—	—
Financial guarantees ¹	—	—	—	—	—	—
At 31 Dec 2022	2,008	1,678	8,940	80,036	80,133	172,795

¹ Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied. Prior period comparatives have been restated. Refer to footnote 1 in Note 34.

31 Offsetting of financial assets and financial liabilities

In the offsetting of financial assets and financial liabilities, the net amount is reported in the balance sheet when the offset criteria are met. This is achieved when there is a legally enforceable right to offset the recognised amounts and there is either an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

In the following table, the 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with HSBC and a master netting or similar arrangement is in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral (debt securities and equities) has been received/pledged for derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements to cover net exposure in the event of a default or other predetermined events.

The effect of over-collateralisation is excluded.

'Amounts not subject to enforceable netting agreements' include contracts executed in jurisdictions where the rights of offset may not be upheld under the local bankruptcy laws, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

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

Notes on the financial statements

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements							
	Amounts not set off in the balance sheet						Amounts not subject to enforceable netting arrangements ¹	Total
	Gross amounts \$m	Amounts offset \$m	Net amounts in the balance sheet \$m	Financial instruments, including non-cash collateral \$m	Cash collateral \$m	Net amount \$m		
Financial assets								
Derivatives (Note 15) ²	341,473	(116,486)	224,987	(198,743)	(22,926)	3,318	4,727	229,714
Reverse repos, stock borrowing and similar agreements classified as: ³								
– trading assets	29,152	(602)	28,550	(28,513)	(34)	3	2,633	31,183
– non-trading assets	365,922	(135,210)	230,712	(230,240)	(80)	392	21,653	252,365
Loans and advances to customers ⁴	34,173	(15,792)	18,381	(15,613)	(93)	2,675	2	18,383
At 31 Dec 2023	770,720	(268,090)	502,630	(473,109)	(23,133)	6,388	29,015	531,645
Derivatives (Note 15) ²	419,020	(140,987)	278,033	(236,372)	(36,486)	5,175	6,126	284,159
Reverse repos, stock borrowing and similar agreements classified as: ³								
– trading assets	24,370	(236)	24,134	(24,105)	(29)	—	1,369	25,503
– non-trading assets	335,193	(102,888)	232,305	(231,432)	(449)	424	21,689	253,994
Loans and advances to customers ⁴	28,336	(12,384)	15,952	(13,166)	—	2,786	267	16,219
At 31 Dec 2022⁶	806,919	(256,495)	550,424	(505,075)	(36,964)	8,385	29,451	579,875
Financial liabilities								
Derivatives (Note 15) ²	344,799	(116,486)	228,313	(198,640)	(23,748)	5,925	6,459	234,772
Repos, stock lending and similar agreements classified as: ³								
– trading liabilities	15,686	(172)	15,514	(15,453)	—	61	6	15,520
– non-trading liabilities	270,493	(135,640)	134,853	(134,095)	(669)	89	37,247	172,100
Customer accounts ⁶	42,522	(15,792)	26,730	(15,613)	(93)	11,024	13	26,743
At 31 Dec 2023	673,500	(268,090)	405,410	(363,801)	(24,510)	17,099	43,725	449,135
Derivatives (Note 15) ²	419,992	(140,987)	279,005	(239,234)	(29,276)	10,495	6,757	285,762
Repos, stock lending and similar agreements classified as: ³								
– trading liabilities	20,026	(236)	19,790	(19,790)	—	—	5	19,795
– non-trading liabilities	206,827	(102,888)	103,939	(103,296)	(249)	394	23,809	127,748
Customer accounts ⁶	37,164	(12,384)	24,780	(13,166)	—	11,614	14	24,794
At 31 Dec 2022⁶	684,009	(256,495)	427,514	(375,486)	(29,525)	22,503	30,585	458,099

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

2 At 31 December 2023, the amount of cash margin received that had been offset against the gross derivatives assets was \$5,105m (2022 \$8,357m). The amount of cash margin paid that had been offset against the gross derivatives liabilities was \$7,142m (2022: \$10,918m).

3 For the amount of repos, reverse repos, stock lending, stock borrowing and similar agreements recognised on the balance sheet within 'Trading assets' of \$31,183m (2022: \$25,503m) and 'Trading liabilities' of \$15,520m (2022: \$19,795m), see the 'Funding sources and uses' table on page 247.

4 At 31 December 2023, the total amount of 'Loans and advances to customers' was \$938,535m (2022: \$923,561m), of which \$18,381m (2022: \$15,952m) was subject to offsetting.

5 From 1 January 2023, we adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data.

6 At 31 December 2023, the total amount of 'Customer accounts' was \$1,611,647m (2022: \$1,570,303m), of which \$26,730m (2022: \$24,780m) was subject to offsetting.

32 Interest rate benchmark reform

	Financial instruments yet to transition to alternative benchmarks, by main benchmark					
	USD Libor	GBP Libor ³	JPY Libor	CDOR	TIE	Others ¹
At 31 Dec 2023	\$m	\$m	\$m	\$m	\$m	\$m
Non-derivative financial assets ²	2,644	45	—	2,132	3,961	1,941
Non-derivative financial liabilities	905	2,054	558	181	1,323	9
Derivative notional contract amount	12,013	—	—	134,636	32,836	11,821
At 31 Dec 2022						
Non-derivative financial assets ²	54,348	304	—	1,695	3,635	4,144
Non-derivative financial liabilities	25,564	1,804	1,179	176	—	—
Derivative notional contract amount	2,348,412	68	—	119,832	17,698	56,759

1 Comprises financial instruments referencing other significant benchmark rates yet to transition to alternative benchmarks (euro Libor, SOR, THBFX, MIFOR, Sibor and Johannesburg interbank average rate ('JIBAR')). An announcement was made by the South African regulator during the first half of 2023 on the cessation of the JIBAR. Therefore, JIBAR is also included in 'Others' during the current period.

2 Gross carrying amount excluding allowances for expected credit losses.

3 Non-derivative assets exposure relates to contracts for clients requiring additional time for loan restructuring or repayment. The limited number of remaining contracts are expected to be transitioned prior to cessation of 'synthetic' GBP Libor from 31 March 2024. Non-derivative financial liabilities relate to MREL instruments that include references to GBP Libor in their contractual terms but are currently using a fixed interest rate. HSBC remains committed to seeking to remediate and/or mitigate the risks associated with these contracts by the relevant interest rate calculation dates.

The amounts in the above table relate to HSBC's main operating entities where HSBC has material exposures impacted by Ibor reform, including in the UK, Hong Kong, France, the US, Mexico, Canada, Singapore, the UAE, Bermuda, Australia, Qatar, Germany, Thailand, India and Japan. The amounts provide an indication of the extent of the Group's exposure to the Ibor benchmarks that are due to be replaced. Amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to cease; and
- are recognised on HSBC's consolidated balance sheet.

33 Called up share capital and other equity instruments

Called up share capital and share premium

HSBC Holdings ordinary shares of \$0.50 each, issued and fully paid

	2023		2022	
	Number	\$m	Number	\$m
At 1 Jan	20,293,607,410	10,147	20,631,520,439	10,316
Shares issued under HSBC employee share plans	10,778,479	5	10,226,221	5
Shares issued in lieu of dividends	—	—	—	—
Less: shares repurchased and cancelled	716,384,289	358	348,139,250	174
Less: treasury shares cancelled	325,273,407	163	—	—
At 31 Dec ¹	19,262,728,193	9,631	20,293,607,410	10,147

HSBC Holdings share premium

	2023	2022
	\$m	\$m
At 31 Dec	14,738	14,664

Total called up share capital and share premium

	2023	2022
	\$m	\$m
At 31 Dec	24,369	24,811

1 All HSBC Holdings ordinary shares in issue confer identical rights, including in respect of capital, dividends and voting.

HSBC Holdings non-cumulative preference share of £0.01

The one non-cumulative sterling preference share of £0.01 ('sterling preference share') has been in issue since 29 December 2010 and is held by a subsidiary of HSBC Holdings. Dividends are paid quarterly at the sole and absolute discretion of the Board. The sterling preference share carries no rights of conversion into ordinary shares of HSBC Holdings and no right to attend or vote at shareholder meetings of HSBC Holdings. These securities can be redeemed by HSBC Holdings at any time, subject to prior approval by the PRA.

Other equity instruments

HSBC Holdings has included two types of additional tier 1 capital securities in its tier 1 capital, including the contingent convertible securities described below. These are accounted for as equity because HSBC does not have an obligation to transfer cash or a variable number of its own ordinary shares to holders under any circumstances outside its control. See Note 29 for additional tier 1 securities accounted for as liabilities.

Additional tier 1 capital – contingent convertible securities

HSBC Holdings continues to issue contingent convertible securities that are included in its capital base as fully CRR II-compliant additional tier 1 capital securities on an end point basis. These securities are marketed principally and subsequently allotted to corporate investors and fund managers. The net proceeds of the issuances are typically used for HSBC Holdings' general corporate purposes and to further strengthen its capital base to meet requirements under CRR II. These securities bear a fixed rate of interest until their initial call dates. After the initial call dates, if they are not redeemed, the securities will bear interest at rates fixed periodically in advance for five-year periods based on credit spreads, fixed at issuance, above prevailing market rates. Interest on the contingent convertible securities will be due and payable only at the sole discretion of HSBC Holdings, and HSBC Holdings has sole and absolute discretion at all times to cancel for any reason (in whole or part) any interest payment that would otherwise be payable on any payment date. Distributions will not be paid if they are prohibited under UK banking regulations or if the Group has insufficient reserves or fails to meet the solvency conditions defined in the securities' terms.

The contingent convertible securities are undated and are repayable at the option of HSBC Holdings in whole typically at the initial call date or on any fifth anniversary after this date. In addition, the securities are repayable at the option of HSBC in whole for certain regulatory or tax reasons. Any repayments require the prior consent of the PRA. These securities rank *pari passu* with HSBC Holdings' sterling preference shares and therefore rank ahead of ordinary shares. The contingent convertible securities will be converted into fully paid ordinary shares of HSBC Holdings at a predetermined price, should HSBC's consolidated non-transitional CET1 ratio fall below 7.0%. Therefore, in accordance with the terms of the securities, if the non-transitional CET1 ratio breaches the 7.0% trigger, the securities will convert into ordinary shares at fixed contractual conversion prices in the issuance currencies of the relevant securities, subject to anti-dilution adjustments.

HSBC's additional tier 1 capital – contingent convertible securities in issue which are accounted for in equity

Original nominal amount (LCY)		First call date	2023 \$m	2022 \$m
\$2,250m	6.375% perpetual subordinated contingent convertible securities	Sep 2024	2,250	2,250
\$2,450m	6.375% perpetual subordinated contingent convertible securities	Mar 2025	2,450	2,450
\$3,000m	6.000% perpetual subordinated contingent convertible securities	May 2027	3,000	3,000
\$2,350m	6.250% perpetual subordinated contingent convertible securities ¹	Mar 2023	—	2,350
\$1,800m	6.500% perpetual subordinated contingent convertible securities	Mar 2028	1,800	1,800
\$1,500m	4.600% perpetual subordinated contingent convertible securities ²	Dec 2030	1,500	1,500
€1,000m	4.000% perpetual subordinated contingent convertible securities ³	Mar 2026	1,000	1,000
\$1,000m	4.700% perpetual subordinated contingent convertible securities ⁴	Mar 2031	1,000	1,000
\$2,000m	8.000% perpetual subordinated contingent convertible securities ⁵	Mar 2028	1,980	—
€1,000m	6.000% perpetual subordinated contingent convertible securities ⁶	Sep 2023	—	1,123
€1,250m	4.750% perpetual subordinated contingent convertible securities	Jul 2029	1,422	1,422
\$875m	5.000% perpetual subordinated contingent convertible securities ⁷	Sep 2023	—	550
€1,000m	5.875% perpetual subordinated contingent convertible securities	Sep 2026	1,301	1,301
At 31 Dec			17,703	19,746

¹ This security was called by HSBC Holdings on 30 January 2023 and redeemed and cancelled on 23 March 2023.

² This security was issued by HSBC Holdings on 17 December 2020. The first call period commences six months prior to reset date of 17 June 2031.

³ This security was issued by HSBC Holdings on 9 March 2021. The first call period commences six months prior to reset date of 9 September 2026.

⁴ This security was issued by HSBC Holdings on 9 March 2021. The first call period commences six months prior to reset date of 9 September 2031.

⁵ This security was issued by HSBC Holdings on 7 March 2023. The first call period commences six months prior to reset date of 7 September 2028.

This security has been accounted for net of directly attributable transaction costs.

⁶ This security was called by HSBC Holdings on 3 August 2023 and was redeemed and cancelled on 29 September 2023.

⁷ This security was called by HSBC Holdings on 3 August 2023 and was redeemed and cancelled on 25 September 2023.

Shares under option

For details of the options outstanding to subscribe for HSBC Holdings ordinary shares under the HSBC Holdings Savings-Related Share Option Plan (UK), see Note 5.

Aggregate options outstanding under these plans

31 Dec 2023			31 Dec 2022		
Number of HSBC Holdings ordinary shares	Usual period of exercise	Exercise price	Number of HSBC Holdings ordinary shares	Usual period of exercise	Exercise price
83,993,678	2022 to 2029	£2.6270–£5.4490	115,650,723	2021 to 2028	£2.6270–5.9640

Maximum obligation to deliver HSBC Holdings ordinary shares

At 31 December 2023, the maximum obligation to deliver HSBC Holdings ordinary shares under all of the above option arrangements and the HSBC International Employee Share Purchase Plan, together with long-term incentive awards and deferred share awards granted under the HSBC Share Plan 2011, was 208,539,316 (2022: 240,612,019). The total number of shares at 31 December 2023 held by employee benefit trusts that may be used to satisfy such obligations to deliver HSBC Holdings ordinary shares was 20,902,218 (2022: 12,315,711).

34 Contingent liabilities, contractual commitments and guarantees

	HSBC		HSBC Holdings ¹	
	2023	2022	2023	2022
	\$m	\$m	\$m	\$m
Guarantees and other contingent liabilities:				
– financial guarantees	17,009	18,783	—	—
– performance and other guarantees	94,277	88,240	7,723	17,707
– other contingent liabilities	636	676	—	90
At 31 Dec	111,922	107,699	7,723	17,797
Commitments: ²				
– documentary credits and short-term trade-related transactions	7,818	8,241	—	—
– forward asset purchases and forward deposits placed	78,535	50,852	—	—
– standby facilities, credit lines and other commitments to lend	810,797	768,761	—	—
At 31 Dec	897,150	827,854	—	—

¹ Guarantees by HSBC Holdings are in favour of other Group entities. These include contracts that provide protection against credit risk on a specified exposure but do not meet the definition of financial guarantees, which have been reclassified to 'performance and other guarantees'. Prior period comparatives have been restated and the full balance reclassified.

² Includes \$661,015m of commitments at 31 December 2023 (31 December 2022: \$618,788m), to which the impairment requirements in IFRS 9 are applied where HSBC 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 represent the maximum amounts at risk should the contracts be fully drawn upon and the 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 28.

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 HSBC's annual credit review process.

Contingent liabilities arising from legal proceedings, regulatory and other matters against Group companies are excluded from this note but are disclosed in Notes 28 and 36.

Financial Services Compensation Scheme

The Financial Services Compensation Scheme ('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 the Group 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.

Associates

HSBC's share of associates' contingent liabilities, contractual commitments and guarantees amounted to \$69.9bn at 31 December 2023 (2022: \$64.8bn). No matters arose where HSBC was severally liable.

35 Finance lease receivables

HSBC leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

The table below excludes finance lease receivables reclassified on the balance sheet to 'Assets held for sale' in accordance with IFRS 5. Net investment in finance leases of \$1,595m (2022: \$1,502m) was reclassified to 'Assets held for sale' as a result of the planned sale of our banking business in Canada.

	2023			2022		
	Total future minimum payments	Unearned finance income	Present value	Total future minimum payments	Unearned finance income	Present value
	\$m	\$m	\$m	\$m	\$m	\$m
Lease receivables:						
No later than one year	2,355	(308)	2,047	2,159	(236)	1,923
One to two years	1,954	(249)	1,705	1,652	(201)	1,451
Two to three years	1,380	(189)	1,191	1,391	(161)	1,230
Three to four years	930	(153)	777	906	(131)	775
Four to five years	593	(132)	461	613	(112)	501
Later than one year and no later than five years	4,857	(723)	4,134	4,562	(605)	3,957
Later than five years	4,116	(838)	3,278	4,064	(736)	3,328
At 31 Dec	11,328	(1,869)	9,459	10,785	(1,577)	9,208

36 Legal proceedings and regulatory matters

HSBC is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, HSBC considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2023 (see Note 28). Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent that doing so would be seriously prejudicial. 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.

Bernard L. Madoff Investment Securities LLC

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Bernard L. Madoff Investment Securities LLC ('Madoff Securities'). Based on information provided by Madoff Securities as at 30 November 2008, the purported aggregate value of these funds was \$8.4bn, including fictitious profits reported by Madoff. Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately \$4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US litigation: The Madoff Securities Trustee has brought lawsuits against various HSBC companies and others, seeking recovery of alleged transfers from Madoff Securities to HSBC in the amount of \$543m (plus interest), and these lawsuits remain pending in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court').

Certain Fairfield entities (together, 'Fairfield') (in liquidation) have brought a lawsuit in the US against fund shareholders, including HSBC companies that acted as nominees for clients, seeking restitution of redemption payments in the amount of \$382m (plus interest). Fairfield's claims against most of the HSBC companies have been dismissed by the US Bankruptcy Court and the US District Court for the Southern District of New York, but remain pending on appeal before the US Court of Appeals for the Second Circuit. Fairfield's claims against HSBC Private Bank (Suisse) SA and HSBC Securities Services Luxembourg ('HSSL') have not been dismissed and their appeals are also pending before the US Court of Appeals for the Second Circuit. Meanwhile, proceedings before the US Bankruptcy Court with respect to the claims against HSBC Private Bank (Suisse) SA and HSSL are ongoing.

UK litigation: The Madoff Securities Trustee has filed a claim against various HSBC companies in the High Court of England and Wales, seeking recovery of transfers from Madoff Securities to HSBC. The claim has not yet been served and the amount claimed has not been specified.

Cayman Islands litigation: In February 2013, Primeo Fund ('Primeo') (in liquidation) brought an action against HSSL and Bank of Bermuda (Cayman) Limited (now known as HSBC Cayman Limited), alleging breach of contract and breach of fiduciary duty and claiming damages. Following dismissal of Primeo's action by the Grand Court and Court of Appeal of the Cayman Islands, in 2019, Primeo appealed to the Judicial Committee of the Privy Council. In November 2023, the Privy Council issued a judgment upholding the dismissal of Primeo's claims. This matter is now closed.

Luxembourg litigation: In 2009, Herald Fund SPC ('Herald') (in liquidation) brought an action against HSSL before the Luxembourg District Court, seeking restitution of cash and securities in the amount of \$2.5bn (plus interest), or damages in the amount of \$2bn (plus interest). In 2018, HSBC Bank plc was added to the claim and Herald increased the amount of the alleged damages claim to \$5.6bn (plus interest). The Luxembourg District Court has dismissed Herald's securities restitution claim, but reserved Herald's cash restitution and damages claims. Herald has appealed this dismissal to the Luxembourg Court of Appeal, where the matter is pending.

Beginning in 2009, various HSBC companies have been named as defendants in a number of actions brought by Alpha Prime Fund Limited ('Alpha Prime') in the Luxembourg District Court seeking damages for alleged breach of contract and negligence in the amount of \$1.16bn (plus interest). These matters are currently pending before the Luxembourg District Court.

Beginning in 2014, HSSL and the Luxembourg branch of HSBC Bank plc have been named as defendants in a number of actions brought by Senator Fund SPC ('Senator') before the Luxembourg District Court seeking restitution of securities in the amount of \$625m (plus interest), or damages in the amount of \$188m (plus interest). These matters are currently pending before the Luxembourg District Court.

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

US Anti-Terrorism Act litigation

Since November 2014, a number of lawsuits have been filed in federal courts in the US against various HSBC companies and others on behalf of plaintiffs who are, or are related to, alleged victims of terrorist attacks in the Middle East. In each case, it is alleged that the defendants aided and abetted the unlawful conduct of various sanctioned parties in violation of the US Anti-Terrorism Act, or provided banking services to customers alleged to have connections to terrorism financing. Seven actions, which seek damages for unspecified amounts, remain pending and HSBC's motions to dismiss have been granted in three of these cases. These dismissals are subject to appeals and/or the plaintiffs re-pleading their claims. The four other actions are at an early stage.

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

Interbank offered rates investigation and litigation

Euro interest rate derivatives: In December 2016, the European Commission ('EC') issued a decision finding that HSBC, among other banks, engaged in anti-competitive practices in connection with the pricing of euro interest rate derivatives, and the EC imposed a fine on HSBC based on a one-month infringement in 2007. The fine was annulled in 2019 and a lower fine was imposed in 2021. In January 2023, the European Court of Justice dismissed an appeal by HSBC and upheld the EC's findings on HSBC's liability. A separate appeal by HSBC concerning the amount of the fine remains pending before the General Court of the European Union.

US dollar Libor: Beginning in 2011, HSBC and other panel banks have been named as defendants in a number of individual and putative class action lawsuits filed in federal and state courts in the US with respect to the setting of US dollar Libor. The complaints assert claims under various US federal and state laws, including antitrust and racketeering laws and the Commodity Exchange Act ('US CEA'). HSBC has concluded class settlements with five groups of plaintiffs, and several class action lawsuits brought by other groups of plaintiffs have been voluntarily dismissed. A number of individual US dollar Libor-related actions seeking damages for unspecified amounts remain pending.

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

Foreign exchange-related investigations and litigation

In December 2016, Brazil's Administrative Council of Economic Defense initiated an investigation into the onshore foreign exchange market and identified a number of banks, including HSBC, as subjects of its investigation, which remains ongoing.

Since 2017, HSBC Bank plc, among other financial institutions, has been defending a complaint filed by the Competition Commission of South Africa before the South African Competition Tribunal for alleged anti-competitive behaviour in the South African foreign exchange market. In 2020, a revised complaint was filed which also named HSBC Bank USA N.A. ('HSBC Bank USA') as a defendant. In January 2024, the South African Competition Appeal Court dismissed HSBC Bank USA from the revised complaint, but denied HSBC Bank plc's application to dismiss. The Competition Commission has appealed the dismissal of HSBC Bank USA to the Constitutional Court of South Africa.

Since 2015, various HSBC companies and other banks have been named as defendants in a putative class action in the US District Court for the Southern District of New York filed by a group of retail customers who dealt in foreign exchange products. The plaintiffs allege that the defendants conspired to manipulate foreign exchange rates and seek damages for unspecified amounts. This action has been dismissed but remains pending on appeal.

In January 2023, HSBC Bank plc and HSBC Holdings reached a settlement-in-principle with plaintiffs in Israel to resolve a class action filed in the local courts alleging foreign exchange-related misconduct. The settlement remains subject to court approval. Lawsuits alleging foreign exchange-related misconduct remain pending against HSBC and other banks in courts in Brazil.

In February 2024, HSBC Bank plc and HSBC Holdings were joined to an existing claim brought in the UK Competition Appeals Tribunal against various other banks alleging historical anti-competitive behaviour in the foreign exchange market and seeking damages for unspecified amounts. This matter is at an early stage. It is possible that additional civil actions will be initiated against HSBC in relation to its historical foreign exchange activities.

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

Precious metals fix-related litigation

US litigation: HSBC and other members of The London Silver Market Fixing Limited are defending a class action pending in the US District Court for the Southern District of New York alleging that, from January 2007 to December 2013, the defendants conspired to manipulate the price of silver and silver derivatives for their collective benefit in violation of US antitrust laws, the US CEA and New York state law. In May 2023, this action, which seeks damages for unspecified amounts, was dismissed but remains pending on appeal.

HSBC and other members of The London Platinum and Palladium Fixing Company Limited are defending a class action pending in the US District Court for the Southern District of New York alleging that, from January 2008 to November 2014, the defendants conspired to manipulate the price of platinum group metals and related financial products for their collective benefit in violation of US antitrust laws and the US CEA. In February 2023, the court reversed an earlier dismissal of the plaintiffs' third amended complaint and this action, which seeks damages for unspecified amounts, is proceeding.

Canada litigation: HSBC and other financial institutions are defending putative class actions filed in the Ontario and Quebec Superior Courts of Justice alleging that the defendants conspired to manipulate the price of silver, gold and related derivatives in violation of the Canadian Competition Act and common law. These actions each seek CA\$1bn in damages plus CA\$250m in punitive damages. Two of the actions are proceeding and the others have been stayed.

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

Tax-related investigations

Various tax administration, regulatory and law enforcement authorities around the world are conducting investigations in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation. HSBC continues to cooperate with these investigations.

In March 2023, the French National Financial Prosecutor announced an investigation into a number of banks, including HSBC Continental Europe and the Paris branch of HSBC Bank plc, in connection with alleged tax fraud related to the dividend withholding tax treatment of certain trading activities. HSBC Bank plc and HSBC Germany also continue to cooperate with investigations by the German public prosecutor into numerous financial institutions and their employees, in connection with the dividend withholding tax treatment of certain trading activities.

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

Gilts trading investigation and litigation

Since 2018, the UK Competition and Markets Authority ('CMA') has been investigating HSBC and four other banks for suspected anti-competitive conduct in relation to the historical trading of gilts and related derivatives. In May 2023, the CMA announced its case against HSBC Bank plc and HSBC Holdings; both HSBC companies are contesting the CMA's allegations.

In June 2023, HSBC Bank plc and HSBC Securities (USA) Inc., among other banks, were named as defendants in a putative class action filed in the US District Court for the Southern District of New York by plaintiffs alleging anti-competitive conduct in the gilts market and seeking damages for unspecified amounts. In September 2023, the defendants filed a motion to dismiss which remains pending. It is possible that additional civil actions will be initiated against HSBC in relation to its historical gilts trading activities.

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

UK depositor protection arrangements investigation

In January 2022, the UK Prudential Regulation Authority ('PRA') commenced an investigation into HSBC Bank plc's and HSBC UK Bank plc's compliance with depositor protection arrangements under the Financial Services Compensation Scheme in the UK. In January 2024, the PRA concluded its investigation and imposed a £57m fine on HSBC Bank plc and HSBC UK Bank plc, which has been paid, and this matter is now closed.

UK collections and recoveries investigation

Since 2019, the FCA has been investigating HSBC Bank plc's, HSBC UK Bank plc's and Marks and Spencer Financial Services plc's compliance with regulatory standards relating to collections and recoveries operations in the UK between 2017 and 2018. HSBC continues to cooperate with this investigation.

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

Korean short selling investigation

In December 2023, the Korean Securities and Futures Commission issued a decision to impose a fine on The Hongkong and Shanghai Banking Corporation Limited in connection with trades in breach of Korean short selling rules and to refer the case to the Korean Prosecutors' Office for investigation.

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

Silicon Valley Bank ('SVB') litigation

In May 2023, First-Citizens Bank & Trust Company ('First Citizens') brought a lawsuit in the US District Court for the Northern District of California against various HSBC companies and seven US-based HSBC employees who had previously worked for SVB. The lawsuit seeks \$1bn in damages and alleges, among other things, that the various HSBC companies conspired with the individual defendants to solicit employees from First Citizens and that the individual defendants took confidential information belonging to SVB and/or First Citizens. In January 2024, the court denied the defendants' motion to dismiss in part and granted it in part, and directed the plaintiff to amend its complaint to specify its allegations as to each defendant. In February 2024, First Citizens filed its amended complaint. This action is ongoing.

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

Film Finance litigation

In June 2020, two separate investor groups issued claims against HSBC UK Bank plc (as successor to HSBC Private Bank (UK) Limited ('PBGB')) in the High Court of England and Wales seeking damages for unspecified amounts in connection with PBGB's role in the development of Eclipse film finance schemes. These actions are ongoing.

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

US mortgage securitisation litigation

Beginning in 2014, a number of lawsuits were filed in various state and federal courts in the US against HSBC Bank USA, as a trustee of more than 280 mortgage securitisation trusts, seeking unspecified damages for losses in collateral value allegedly sustained by the trusts. HSBC Bank USA has reached settlements with a number of plaintiffs to resolve nearly all of these lawsuits. The remaining two actions are pending in a New York state court. HSBC Bank USA and certain of its affiliates continue to defend a mortgage loan repurchase action seeking unspecified damages and specific performance brought by the trustee of a mortgage securitisation trust in New York state court.

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

Mexican government bond litigation

HSBC Mexico S.A. and other banks are named as defendants in a consolidated putative class action pending in the US District Court for the Southern District of New York alleging anti-competitive conduct in the Mexican government bond market between 2006 and 2017 and seeking damages for unspecified amounts. In February 2024, the US Court of Appeals for the Second Circuit reversed an earlier dismissal of this lawsuit and this matter is proceeding.

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

Stanford litigation

Since 2009, HSBC Bank plc has been named as a defendant in numerous claims filed in courts in the UK and the US arising from the collapse of Stanford International Bank Ltd, for which it was a correspondent bank from 2003 to 2009. In February 2023, HSBC Bank plc reached settlements with the plaintiffs to resolve these claims. The US settlement is subject to court approval and the UK settlement has concluded.

Other regulatory investigations, reviews and litigation

HSBC Holdings and/or certain of its affiliates are also subject to a number of other enquiries and examinations, requests for information, investigations and reviews by various regulators and competition and law enforcement authorities, as well as legal proceedings including litigation, arbitration and other contentious proceedings, in connection with various matters arising out of their ordinary course businesses and operations.

At the present time, HSBC does not expect the ultimate resolution of any of these matters to be material to the Group's financial position; however, given the uncertainties involved in legal proceedings and regulatory matters, there can be no assurance regarding the eventual outcome of a particular matter or matters.

37 Related party transactions

Related parties of the Group and HSBC Holdings include subsidiaries, associates, joint ventures, post-employment benefit plans for HSBC employees, Key Management Personnel ('KMP') as defined by IAS 24, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of HSBC Holdings. These individuals also constitute 'senior management' for the purposes of the Hong Kong Listing Rules. In applying IAS 24, it was determined that for this financial reporting period all KMP included Directors, former Directors and senior management listed on pages 275 to 282 except for the roles of Group Chief Legal Officer, Group Head of Internal Audit, Group Chief Human Resources Officer, Group Chief Sustainability Officer, Group Head of Strategy, Group Chief Communications and Brand Officer, and Group Company Secretary and Chief Governance Officer who do not meet the criteria for KMP as provided for in the standard.

Particulars of transactions with related parties are tabulated below. The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of the transactions and outstanding balances during the year.

Key Management Personnel

Details of Directors' remuneration and interests in shares are disclosed in the 'Directors' remuneration report' on pages 315 to 342. IAS 24 'Related Party Disclosures' requires the following additional information for key management compensation.

Compensation of Key Management Personnel

	2023	2022	2021
	\$m	\$m	\$m
Short-term employee benefits	51	52	50
Post-employment benefits	1	1	—
Other long-term employee benefits	10	8	6
Share-based payments	29	26	27
Year ended 31 Dec	91	87	83

Shareholdings, options and other securities of Key Management Personnel

	2023	2022
	(000s)	(000s)
Number of options held over HSBC Holdings ordinary shares under employee share plans	32	35
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	20,409	18,185
Number of other HSBC securities held	228	228
At 31 Dec	20,669	18,448

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

	2023		2022	
	Balance at 31 Dec	Highest amounts outstanding during year	Balance at 31 Dec	Highest amounts outstanding during year
	\$m	\$m	\$m	\$m
Key Management Personnel				
Advances and credits ¹	11	16	16	25
Deposits	60	130	53	123

¹ Advances and credits entered into by subsidiaries of HSBC Holdings plc during 2023 with Directors and former Directors, disclosed pursuant to section 413 of the Companies Act 2006, totalled \$2.6m (2022: \$2.5m).

Some of the transactions were connected transactions as defined by the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, but were exempt from any disclosure requirements under the provisions of those rules. The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Associates and joint ventures

The Group provides certain banking and financial services to associates and joint ventures including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Details of the interests in associates and joint ventures are given in Note 18.

Transactions and balances during the year with associates and joint ventures

	2023		2022	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	\$m	\$m	\$m	\$m
Unsubordinated amounts due from joint ventures	98	94	140	90
Unsubordinated amounts due from associates	7,907	5,910	7,378	6,594
Amounts due to associates	3,002	1,668	2,548	1,295
Amounts due to joint ventures	95	61	57	53
Fair value of derivative assets with associates	1,514	795	1,205	841
Fair value of derivative liabilities with associates	4,388	2,962	4,319	3,648
Guarantees and commitments	503	331	513	293

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Post-employment benefit plans

At 31 December 2023, \$3.1bn (2022: \$2.9bn) of HSBC post-employment benefit plan assets were under management by HSBC companies, earning management fees of \$13m in 2023 (2022: \$13m). At 31 December 2023, HSBC's post-employment benefit plans had placed deposits of \$402m (2022: \$369m) with its banking subsidiaries, earning interest payable to the schemes of \$2m (2022: nil). The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The combined HSBC Bank (UK) Pension Scheme enters into swap transactions with HSBC to manage inflation and interest rate sensitivity of its liabilities and selected assets. At 31 December 2023, the gross notional value of the swaps was \$7.1bn (2022: \$6.6bn). These swaps had a positive fair value to the scheme of \$0.5bn (2022: \$0.5bn); and HSBC had delivered collateral of \$0.6bn (2022: \$0.5bn) to the scheme in respect of these arrangements. All swaps were executed at prevailing market rates and within standard market bid/offer spreads.

HSBC Holdings

Details of HSBC Holdings' subsidiaries are shown in Note 40.

Transactions and balances during the year with subsidiaries

	2023		2022	
	Highest balance during the year	Balance at 31 Dec	Highest balance during the year	Balance at 31 Dec
	\$m	\$m	\$m	\$m
Assets				
Cash and balances with HSBC undertakings	8,396	7,029	7,421	3,210
Financial assets with HSBC undertakings designated and otherwise mandatorily measured at fair value	60,309	59,879	52,322	52,322
Derivatives	4,010	3,344	5,380	3,801
Loans and advances to HSBC undertakings	28,213	27,354	26,765	26,765
Prepayments, accrued income and other assets	7,417	5,145	4,893	4,803
Investments in subsidiaries	167,542	159,478	167,542	167,542
Total related party assets at 31 Dec	275,887	262,229	264,323	258,443
Liabilities				
Amounts owed to HSBC undertakings	179	168	314	314
Derivatives	9,309	6,090	8,318	6,922
Accruals, deferred income and other liabilities	505	341	1,375	429
Subordinated liabilities	927	913	900	900
Total related party liabilities at 31 Dec	10,920	7,512	10,907	8,565
Guarantees and commitments	7,723	7,723	17,707	17,707

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Some employees of HSBC Holdings are members of the HSBC Bank (UK) Pension Scheme, which is sponsored by a separate Group company. HSBC Holdings incurs a charge for these employees equal to the contributions paid into the scheme on their behalf. Disclosure in relation to the scheme is made in Note 5.

38 Effects of adoption of IFRS 17

On 1 January 2023, the Group adopted IFRS 17 'Insurance Contracts', and as required by the standard applied the requirements retrospectively, with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the Group's consolidated balance sheet as at 1 January 2022, as well as the Group consolidated income statement and the Group consolidated statement of comprehensive income for the year ended 31 December 2022.

Further information about the effect of the adoption of IFRS 17 is provided in Note 1 'Basis of preparation and material accounting policies' on page 368.

IFRS 17 transition impact on the Group consolidated balance sheet at 1 January 2022

	Under IFRS 4	Removal of PVIF and IFRS 4 balances	Remeasurement effect of IFRS 9 re-designations	Recognition of IFRS 17 fulfilment cash flows	Recognition of IFRS 17 contractual service margin	Tax effect	Under IFRS 17	Total movements
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	49,804	—	60,991	—	—	—	110,795	60,991
Loans and advances to banks	83,136	—	(569)	—	—	—	82,567	(569)
Loans and advances to customers	1,045,814	—	(1,280)	—	—	—	1,044,534	(1,280)
Financial investments	446,274	—	(54,269)	—	—	—	392,005	(54,269)
Goodwill and intangible assets	20,622	(9,453)	—	—	—	—	11,169	(9,453)
Deferred tax assets	4,624	—	—	—	—	808	5,432	808
All other assets	1,307,665	(4,468)	—	4,198	(105)	—	1,307,290	(375)
Total assets	2,957,939	(13,921)	4,873	4,198	(105)	808	2,953,792	(4,147)
Liabilities and equity								
Liabilities								
Insurance contract liabilities	112,745	(112,745)	—	109,393	9,914	—	119,307	6,562
Deferred tax liabilities	4,673	—	—	—	—	(1,379)	3,294	(1,379)
All other liabilities	2,633,744	78	—	1,102	(51)	—	2,634,873	1,129
Total liabilities	2,751,162	(112,667)	—	110,495	9,863	(1,379)	2,757,474	6,312
Total shareholders' equity	198,250	92,738	4,558	(99,631)	(8,847)	1,947	189,015	(9,235)
Non-controlling interests	8,527	6,008	315	(6,666)	(1,121)	240	7,303	(1,224)
Total equity	206,777	98,746	4,873	(106,297)	(9,968)	2,187	196,318	(10,459)
Total liabilities and equity	2,957,939	(13,921)	4,873	4,198	(105)	808	2,953,792	(4,147)

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of \$9,453m previously reported under IFRS 4 within 'Goodwill and intangible assets' arose from the upfront recognition of future profits associated with in-force insurance contracts. The PVIF intangible asset is no longer reported following the transition to IFRS 17, as future profits are deferred within the CSM. Other IFRS 4 insurance contract assets (shown above within 'All other assets') and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 balances.

Remeasurement effect of IFRS 9 re-designations

Loans and advances of \$1,849m and debt securities of \$53,201m, both supporting associated insurance liabilities, were re-designated from an amortised cost classification to fair value through profit and loss. Debt securities supporting the associated insurance liabilities of \$1,068m were reclassified from fair value through other comprehensive income to fair value through profit or loss. The re-designations were made in order to more closely align the asset accounting with the valuation of the associated insurance liabilities. The re-designation of amortised cost assets generated a net increase to assets of \$4,873m because the fair value measurement on transition was higher than the previous amortised cost carrying amount.

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the insurance contracts, such as premiums, directly attributable expenses, insurance benefits and claims including policyholder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment for non-financial risk.

Recognition of the IFRS 17 contractual service margin

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts that will be released to the profit and loss over the expected coverage period.

Tax effect

The removal of deferred tax liabilities primarily results from the removal of the associated PVIF intangible asset, and new deferred tax assets are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

Notes on the financial statements

IFRS 17 transition impact on the reported Group consolidated income statement for the year ended 31 December 2022

	Under IFRS 4	Removal of PVIF and IFRS 4 balances	Remeasurement effect of IFRS 9 re-designations	Insurance finance income/expense	Contractual service margin	Onerous contracts	Experience variance and other	Attributable expenses	Tax effect	Under IFRS 17
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	32,610	—	(2,233)	—	—	—	—	—	—	30,377
Net fee income	11,451	—	—	—	—	—	—	319	—	11,770
Net income from financial instruments held for trading or managed on a fair value basis	10,469	—	(191)	—	—	—	—	—	—	10,278
Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(3,394)	—	(10,437)	—	—	—	—	—	—	(13,831)
Net insurance premium income	12,825	(12,825)	—	—	—	—	—	—	—	—
Insurance finance income/(expense)	—	—	—	13,799	—	—	—	—	—	13,799
Insurance service result	—	—	—	—	965	(186)	30	—	—	809
– insurance revenue	—	—	—	—	965	—	1,012	—	—	1,977
– insurance service expense	—	—	—	—	—	(186)	(982)	—	—	(1,168)
Other operating income/(loss)	(2,365)	(265)	—	48	—	—	—	—	—	(2,582)
Total operating income	61,596	(13,090)	(12,861)	13,847	965	(186)	30	319	—	50,620
Net insurance claims and benefits paid and movement in liabilities to policyholders	(9,869)	9,869	—	—	—	—	—	—	—	—
Net operating income before change in expected credit losses and other credit impairment charges	51,727	(3,221)	(12,861)	13,847	965	(186)	30	319	—	50,620
Change in expected credit losses and other credit impairment charges	(3,592)	—	8	—	—	—	—	—	—	(3,584)
Net operating income	48,135	(3,221)	(12,853)	13,847	965	(186)	30	319	—	47,036
Total operating expenses	(33,330)	—	—	—	—	—	—	629	—	(32,701)
Operating profit	14,805	(3,221)	(12,853)	13,847	965	(186)	30	948	—	14,335
Share of profit in associates and joint ventures	2,723	—	—	—	—	—	—	—	—	2,723
Profit before tax	17,528	(3,221)	(12,853)	13,847	965	(186)	30	948	—	17,058
Tax expense	(858)	—	—	—	—	—	—	—	49	(809)
Profit for the period	16,670	(3,221)	(12,853)	13,847	965	(186)	30	948	49	16,249

Transition drivers

Removal of IFRS 4-based revenue items

As a result of the removal of the PVIF intangible asset and IFRS 4 results, the associated revenue of \$265m for the year ended 31 December 2022 that was previously reported within 'Other operating income/(loss)' is no longer reported under IFRS 17. This includes the removal of the value of new business and changes to PVIF intangible asset from valuation adjustments and experience variances.

On the implementation of IFRS 17, new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium income' and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

Remeasurement effect of IFRS 9 re-designations

Following the re-designation of financial assets supporting associated insurance liabilities to fair value through profit or loss classification, the related income statement reporting also changed. Under our previous IFRS 4-based reporting convention, these assets generated interest income of \$2,233m for the year ended 31 December 2022, which is no longer reported in 'Net interest income' under IFRS 17. To the extent that this interest income was shared with policyholders, the corresponding policyholder sharing obligation was previously included within the 'net insurance claims and benefits paid and movement in liabilities to policyholders' line.

Following re-designation to fair value through profit or loss, gains and losses from changes in the fair value of underlying assets, together with interest income earned, are both reported within 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. Similar to an IFRS 4 basis, IFRS 17 accounting provides for an offset. While this offset was reported within the claims line under IFRS 4, under IFRS 17 it is reported within the 'Insurance finance income/(expense)' line described below.

Introduction of IFRS 17 income statement

Insurance finance income/(expense)

Insurance finance income/(expense) of \$13,799m for the year ended 31 December 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For variable fee approach contracts, which represent more than 90% of HSBC's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts. This includes an offsetting impact to the gains and losses on assets re-designated on transition to fair value through profit or loss, and which is now included in 'Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Contractual service margin

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 9% during 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, the Group's share of investment experience, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

'Experience variance and other' represents the expected expenses, claims and recovery of acquisition cash flows, which are reported as part of the insurance revenue. This is offset with the actual expenses and claims incurred in the year and amortisation of acquisition cash flows, which are reported as part of insurance service expense.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads, which are included within the fulfilment cash flows and are no longer shown on the operating expenses line, whereas non-attributable expenses remain in the operating expenses.

IFRS 17 transition impact on the Group comprehensive income

	Year ended 31 Dec 2022	
	Under IFRS 17	Under IFRS 4
	\$m	\$m
Total equity at 1 Jan	196,318	206,777
<i>of which</i>		
– retained earnings	135,236	144,458
– financial assets at FVOCI reserve	49	(634)
– insurance finance reserve	(696)	—
Profit for the period	16,249	16,670
Debt instruments at fair value through other comprehensive income	(7,232)	(5,468)
Equity instruments designated at fair value through other comprehensive income	107	107
Insurance finance income recognised in other comprehensive income	1,775	—
Other comprehensive expense for the period, net of tax	(11,892)	(11,940)
Total comprehensive (expense)/income for the period	(993)	(631)
Other movements	(10,128)	(10,118)
Total equity at 31 Dec	185,197	196,028

Transition drivers

Insurance finance reserve

The insurance finance reserve reflects the impact of the adoption of the other comprehensive income option for our insurance business in France. Underlying assets supporting these contracts are measured at fair value through other comprehensive income. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses, resulting in the elimination of income statement accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts is recognised in OCI. At the transition date an insurance finance reserve of \$696m was recognised and following transition, gains net of tax of \$1,775m were recorded in the year ended 31 December 2022. An offsetting fair value through other comprehensive income reserve of \$683m recorded on transition represents the accumulated fair value movements on assets supporting these insurance contract liabilities, with associated losses net of tax of \$1,898m recorded within the fair value through other comprehensive income reserve for the year ended 31 December 2022.

Notes on the financial statements

Group's consolidated balance sheet at the transition date and at 31 December 2022

	Under IFRS 17		Under IFRS 4	
	31 Dec 2022 \$m	1 Jan 2022 \$m	31 Dec 2022 \$m	1 Jan 2022 \$m
Assets				
Cash and balances at central banks	327,002	403,018	327,002	403,018
Items in the course of collection from other banks	7,297	4,136	7,299	4,136
Hong Kong Government certificates of indebtedness	43,787	42,578	43,787	42,578
Trading assets	218,093	248,842	218,093	248,842
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	100,101	110,795	45,063	49,804
Derivatives	284,159	196,882	284,146	196,882
Loans and advances to banks	104,475	82,567	104,882	83,136
Loans and advances to customers	923,561	1,044,534	924,854	1,045,814
Reverse repurchase agreements – non-trading	253,754	241,648	253,754	241,648
Financial investments	364,726	392,005	425,563	446,274
Assets held for sale	115,919	3,411	115,919	3,411
Prepayments, accrued income and other assets	156,149	136,196	156,865	136,571
Current tax assets	1,230	970	1,230	970
Interests in associates and joint ventures	29,254	29,609	29,254	29,609
Goodwill and intangible assets	11,419	11,169	21,321	20,622
Deferred tax assets	8,360	5,432	7,498	4,624
Total assets	2,949,286	2,953,792	2,966,530	2,957,939
Liabilities and equity				
Liabilities				
Hong Kong currency notes in circulation	43,787	42,578	43,787	42,578
Deposits by banks	66,722	101,152	66,722	101,152
Customer accounts	1,570,303	1,710,574	1,570,303	1,710,574
Repurchase agreements – non-trading	127,747	126,670	127,747	126,670
Items in the course of transmission to other banks	7,864	5,214	7,864	5,214
Trading liabilities	72,353	84,904	72,353	84,904
Financial liabilities designated at fair value	127,321	145,503	127,327	145,502
Derivatives	285,762	191,064	285,764	191,064
Debt securities in issue	78,149	78,557	78,149	78,557
Liabilities of disposal groups held for sale	114,597	9,005	114,597	9,005
Accruals, deferred income and other liabilities	134,313	115,900	133,240	114,773
Current tax liabilities	1,135	699	1,135	698
Insurance contract liabilities	108,816	119,307	114,844	112,745
Provisions	1,958	2,566	1,958	2,566
Deferred tax liabilities	972	3,294	2,422	4,673
Subordinated liabilities	22,290	20,487	22,290	20,487
Total liabilities	2,764,089	2,757,474	2,770,502	2,751,162
Equity				
Called up share capital	10,147	10,316	10,147	10,316
Share premium account	14,664	14,602	14,664	14,602
Other equity instruments	19,746	22,414	19,746	22,414
Other reserves	(9,133)	6,447	(9,141)	6,460
Retained earnings	142,409	135,236	152,068	144,458
Total shareholders' equity	177,833	189,015	187,484	198,250
Non-controlling interests	7,364	7,303	8,544	8,527
Total equity	185,197	196,318	196,028	206,777
Total liabilities and equity	2,949,286	2,953,792	2,966,530	2,957,939

39 Events after the balance sheet date

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking business in France to CCF, a subsidiary of Promontoria MMB SAS ('My Money Group'). The sale also included HSBC Continental Europe's 100% ownership interest in HSBC SFH (France) and its 3% ownership interest in Crédit Logement. In the fourth quarter of 2023, a loss of \$2.0bn was recognised upon reclassification to held for sale, in accordance with IFRS 5, which net of the \$2.1bn partial reversal of impairment recognised in the first quarter of 2023, gave rise to a net reversal of impairment recognised in the year of \$0.1bn.

On 30 January 2024, the PRA concluded its investigation into HSBC Bank plc's and HSBC UK Bank plc's compliance with depositor protection arrangements under the Financial Services Compensation Scheme in the UK. The PRA imposed a fine of \$73m (£57m) on these entities, which was fully provided for as at 31 December 2023, and has now been paid.

On 31 January 2024, HSBC Global Asset Management Limited, through its indirect subsidiary HSBC Global Asset Management Singapore Limited, completed the acquisition of the Asia-Pacific-focused real estate investment manager Silkroad Property Partners Pte Ltd. HSBC Global Asset Management Limited also acquired Silkroad's affiliated General Partner entities as part of the transaction.

On 6 February 2024, HSBC Europe B.V., an indirect subsidiary of HSBC Holdings plc, signed an agreement to sell HSBC Bank Armenia CJSC, its wholly-owned subsidiary, to Ardshinbank CJSC subject to regulatory approvals. The transaction is expected to complete within the next 12 months.

A fourth interim dividend for 2023 of \$0.31 per ordinary share (a distribution of approximately \$5,913m) was approved by the Directors after 31 December 2023. On 21 February 2024, HSBC Holdings announced a share buy-back programme to purchase its ordinary shares up to a maximum consideration of \$2.0bn, which is expected to commence shortly and complete by our first quarter 2024 results announcement. HSBC Holdings called \$2,500m 3.803% and \$500m floating rate senior unsecured debt securities on 25 January 2024. These securities are expected to be redeemed and cancelled on 11 March 2024. These accounts were approved by the Board of Directors on 21 February 2024 and authorised for issue.

40 HSBC Holdings' subsidiaries, joint ventures and associates

In accordance with section 409 of the Companies Act 2006 a list of HSBC Holdings plc subsidiaries, joint ventures and associates, the registered office addresses and the effective percentages of equity owned at 31 December 2023 are disclosed below.

Unless otherwise stated, the share capital comprises ordinary or common shares that are held by Group subsidiaries. The ownership percentage is provided for each undertaking. The undertakings below are consolidated by HSBC unless otherwise indicated.

Subsidiaries

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
452 TALF SPV LLC	100.00	1, 15
AI Nominees (UK) One Limited	100.00	1, 16
AI Nominees (UK) Two Limited	100.00	116
Almacenadora Banpacifico S.A. (In Liquidation)	99.99	17
Assetfinance December (F) Limited	100.00	18
Assetfinance December (H) Limited	100.00	16
Assetfinance December (P) Limited	100.00	16
Assetfinance December (R) Limited	100.00	16
Assetfinance June (A) Limited	100.00	16
Assetfinance June (D) Limited	100.00	18
Assetfinance Limited (In Liquidation)	100.00	19
Assetfinance March (B) Limited	100.00	20
Assetfinance March (D) Limited	100.00	18
Assetfinance March (F) Limited	100.00	16
Assetfinance September (F) Limited	100.00	16
Assetfinance September (G) Limited	100.00	18
B&Q Financial Services Limited	100.00	16
Banco HSBC S.A.	100.00	21
Banco Nominees (Guernsey) Limited	100.00	22
Banco Nominees 2 (Guernsey) Limited	100.00	22
Banco Nominees Limited	100.00	23
Beau Soleil Limited Partnership	N/A	0, 24
Beijing HSBC Real Estate Leasing Company Limited	100.00	1, 12, 25
Beijing Miyun HSBC Rural Bank Company Limited	100.00	12, 26
BentallGreenOak China Real Estate Investments, L.P.	N/A	0, 1, 27
Canada Crescent Nominees (UK) Limited	100.00	16
Canada Square Nominees (UK) Limited	100.00	16
Canada Water Nominees (UK) Limited (In Liquidation)	100.00	19
Capco/Cove, Inc.	100.00	28
Card-Flo #1, Inc.	100.00	15
Card-Flo #3, Inc.	100.00	15
CC&H Holdings LLC	100.00	29
CCF & Partners Asset Management Limited	100.00 (99.99)	16
CCF Holding (Liban) S.A.L. (In Liquidation)	74.99	30
Charterhouse Administrators (D.T.) Limited	100.00 (99.99)	16
Charterhouse Management Services Limited	100.00 (99.99)	16
Charterhouse Pensions Limited	100.00	16
Chongqing Dazu HSBC Rural Bank Company Limited	100.00	12, 31
Chongqing Fengdu HSBC Rural Bank Company Limited	100.00	12, 32
Chongqing Rongchang HSBC Rural Bank Company Limited	100.00	12, 33
COIF Nominees Limited	N/A	0, 16
Corsair IV Financial Services Capital Partners - B LP	N/A	0, 1, 34
Dalian Pulandian HSBC Rural Bank Company Limited	100.00	12, 35
Decision One Mortgage Company, LLC	N/A	0, 36
Dempar 1	100.00 (99.99)	4, 37
Desarrollo Turistico, S.A. de C.V. (In Liquidation)	100.00 (99.99)	17
Electronic Data Process México, S.A. de C.V.	100.00	1, 38
Eton Corporate Services Limited	100.00	22
Flandres Contentieux S.A.	100.00 (99.99)	4, 37
Foncière Elysées	100.00 (99.99)	4, 37
Fujian Yongan HSBC Rural Bank Company Limited	100.00	12, 39
Fulcher Enterprises Company Limited	100.00 (62.14)	40
Fundacion HSBC, A.C.	100.00 (99.99)	11, 17
Giller Ltd.	100.00	28

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
GPIF Co-Investment, LLC	N/A	0, 15
Griffin International Limited	100.00	16
Grupo Financiero HSBC, S. A. de C. V.	99.99	17
Guangdong Enping HSBC Rural Bank Company Limited	100.00	12, 41
Guangzhou HSBC Real Estate Company Ltd (广州汇丰房地产有限公司)	100.00	1, 12, 42
Hang Seng (Nominee) Limited	100.00 (62.14)	40
Hang Seng Bank (China) Limited	N/A	0, 12, 43
Hang Seng Bank (Trustee) Limited	100.00 (62.14)	40
Hang Seng Bank Limited	62.14	40
Hang Seng Bullion Company Limited	100.00 (62.14)	40
Hang Seng Credit Limited	100.00 (62.14)	40
Hang Seng Data Services Limited	100.00 (62.14)	40
Hang Seng Finance Limited	100.00 (62.14)	40
Hang Seng Financial Information Limited	100.00 (62.14)	40
Hang Seng Indexes (Netherlands) B.V.	N/A	0, 1, 44
Hang Seng Indexes Company Limited	100.00 (62.14)	40
Hang Seng Insurance Company Limited	100.00 (62.14)	40
Hang Seng Investment Management Limited	100.00 (62.14)	40
Hang Seng Investment Services Limited	100.00 (62.14)	40
Hang Seng Qianhai Fund Management Company Limited	N/A	0, 12, 45
Hang Seng Real Estate Management Limited	100.00 (62.14)	40
Hang Seng Securities Limited	100.00 (62.14)	40
Hang Seng Security Management Limited	100.00 (62.14)	40
HASE Wealth Limited	100.00 (62.14)	1, 40
Haseba Investment Company Limited	100.00 (62.14)	40
HFC Bank Limited (In Liquidation)	100.00	19
High Time Investments Limited	100.00 (62.14)	40
HLF	100.00 (99.99)	4, 37
Honey Blue Enterprises Limited (亨京企業有限公司)	100.00	1, 46
Honey Green Enterprises Ltd.	100.00	47
Honey Grey Enterprises Limited (亨穗企業有限公司)	100.00	1, 48
Honey Silver Enterprises Limited (亨深企業有限公司)	100.00	1, 48
Household International Europe Limited (In Liquidation)	100.00	5, 49
Household Pooling Corporation	100.00	50
Housing (USA) LLP	N/A	0, 1, 29
HSBC (BGF) Investments Limited	100.00	16
HSBC (General Partner) Limited	100.00	2, 51
HSBC (Guernsey) GP PCC Limited	100.00	22
HSBC (Kuala Lumpur) Nominees Sdn Bhd	100.00	52
HSBC (Malaysia) Trustee Berhad	100.00	53
HSBC (Singapore) Nominees Pte Ltd	100.00	54
HSBC Agency (India) Private Limited	100.00	55
HSBC Alternative Investments Limited	100.00	16
HSBC Amanah Malaysia Berhad	100.00	52
HSBC Americas Corporation (Delaware)	100.00	15
HSBC Argentina Holdings S.A.	100.00	56
HSBC Asia Holdings B.V.	100.00	16
HSBC Asia Holdings Limited	100.00	2, 48
HSBC Asia Pacific Holdings (UK) Limited	100.00	5, 16
HSBC Asset Finance (UK) Limited	100.00	16
HSBC Asset Finance M.O.G. Holdings (UK) Limited	100.00	16
HSBC Asset Management (Fund Services UK) Limited	100.00	1, 16
HSBC Asset Management (India) Private Limited	99.99	3, 57
HSBC Asset Management (Japan) Limited	100.00	58
HSBC Assurances Vie (France)	100.00 (99.99)	4, 59
HSBC Australia Holdings Pty Limited	100.00	5, 60

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
HSBC BANK (CHILE)	100.00	61
HSBC Bank (China) Company Limited	N/A	0, 12, 62
HSBC Bank (General Partner) Limited	100.00	51
HSBC Bank (Mauritius) Limited	100.00	63
HSBC Bank (RR) (Limited Liability Company)	N/A	0, 13, 64
HSBC Bank (Singapore) Limited	100.00	54
HSBC Bank (Taiwan) Limited	100.00	65
HSBC Bank (Uruguay) S.A.	100.00	66
HSBC Bank (Vietnam) Ltd.	100.00	67
HSBC Bank A.S.	100.00 (99.99)	68
HSBC Bank Argentina S.A.	99.99	56
HSBC Bank Armenia cjsc	100.00	69
HSBC Bank Australia Limited	100.00	60
HSBC Bank Bermuda Limited	100.00	23
HSBC Bank Canada	100.00	3, 70
HSBC Bank Capital Funding (Sterling 1) LP	N/A	0, 51
HSBC Bank Capital Funding (Sterling 2) LP	N/A	0, 51
HSBC Bank Egypt S.A.E	99.62 (94.54)	71
HSBC Bank Malaysia Berhad	100.00	3, 52
HSBC Bank Malta p.l.c.	70.03	72
HSBC Bank Middle East Limited	100.00	3, 73
HSBC Bank Middle East Limited Representative Office Morocco SARL (In Liquidation)	100.00	74
HSBC Bank Pension Trust (UK) Limited	100.00	16
HSBC Bank plc	100.00	2, 3, 16
HSBC Bank USA, National Association	100.00	3, 75
HSBC Branch Nominee (UK) Limited	100.00	18
HSBC Brasil Holding S.A.	100.00	21
HSBC Broking Forex (Asia) Limited	100.00	48
HSBC Broking Futures (Asia) Limited	100.00	48
HSBC Broking Futures (Hong Kong) Limited	100.00	48
HSBC Broking Securities (Asia) Limited	100.00	48
HSBC Broking Securities (Hong Kong) Limited	100.00	48
HSBC Broking Services (Asia) Limited	100.00	48
HSBC Canadian Covered Bond (Legislative) GP Inc.	100.00	76
HSBC Canadian Covered Bond (Legislative) Guarantor Limited Partnership	N/A	0, 76
HSBC Capital (USA), Inc.	100.00	3, 15
HSBC Capital Funding (Dollar 1) L.P.	N/A	0, 51
HSBC Card Services Inc.	100.00	15
HSBC Casa de Bolsa, S.A. de C.V., Grupo Financiero HSBC	100.00 (99.99)	17
HSBC Cayman Limited	100.00	192
HSBC Cayman Services Limited	100.00	77
HSBC City Funding Holdings (In Liquidation)	100.00	19
HSBC Client Holdings Nominee (UK) Limited	100.00	16
HSBC Client Nominee (Jersey) Limited	100.00	78
HSBC Columbia Funding, LLC	N/A	0, 15
HSBC Continental Europe	99.99	4, 37
HSBC Corporate Advisory (Malaysia) Sdn Bhd	100.00	52
HSBC Corporate Finance (Hong Kong) Limited	100.00	48
HSBC Corporate Secretary (UK) Limited	100.00	1, 2, 16
HSBC Corporate Services (Shanghai) Co., Ltd	N/A	0, 1, 79
HSBC Corporate Trustee Company (UK) Limited	100.00	16
HSBC Custody Nominees (Australia) Limited	100.00	60
HSBC Custody Services (Guernsey) Limited	100.00	22
HSBC Daisy Investments (Mauritius) Limited	100.00	80
HSBC Diversified Loan Fund General Partner Sarl	N/A	0, 81
HSBC Electronic Data Processing (Guangdong) Limited	N/A	0, 12, 82
HSBC Electronic Data Processing (Malaysia) Sdn Bhd	100.00	83
HSBC Electronic Data Processing (Philippines), Inc.	99.99	84

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
HSBC Electronic Data Processing India Private Limited	100.00	85
HSBC Electronic Data Processing Lanka (Private) Limited	100.00	86
HSBC Electronic Data Service Delivery (Egypt) S.A.E.	100.00	87
HSBC Epargne Entreprise (France)	100.00 (99.99)	4, 59
HSBC Equipment Finance (UK) Limited	100.00	18
HSBC Equity (UK) Limited	100.00	16
HSBC Europe B.V.	100.00	16
HSBC Executor & Trustee Company (UK) Limited	100.00	18
HSBC Factoring (France)	100.00 (99.99)	4, 37
HSBC Finance (Netherlands)	100.00	2, 16
HSBC Finance Corporation	100.00	3, 15
HSBC Finance Limited	100.00	16
HSBC Finance Mortgages Inc.	100.00	88
HSBC Finance Transformation (UK) Limited	100.00	16
HSBC Financial Advisors Singapore Pte. Ltd.	100.00	1, 54
HSBC Financial Services (Lebanon) s.a.l.	99.80	89
HSBC Financial Services (Uruguay) S.A. (In Liquidation)	100.00	90
HSBC FinTech Services (Shanghai) Company Limited	N/A	0, 1, 91
HSBC Global Asset Management (Bermuda) Limited	100.00	3, 23
HSBC Global Asset Management (Canada) Limited	100.00	70
HSBC Global Asset Management (Deutschland) GmbH	100.00 (99.99)	6, 92
HSBC Global Asset Management (France)	100.00 (99.99)	4, 59
HSBC Global Asset Management (Hong Kong) Limited	100.00	24
HSBC Global Asset Management (Malta) Limited	100.00 (70.03)	93
HSBC Global Asset Management (México), S.A. de C.V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC	100.00 (99.99)	17
HSBC Global Asset Management (Singapore) Limited	100.00	54
HSBC Global Asset Management (Switzerland) AG	100.00	4, 94
HSBC Global Asset Management (Taiwan) Limited	100.00	95
HSBC Global Asset Management (UK) Limited	100.00	16
HSBC Global Asset Management (USA) Inc.	100.00	96
HSBC Global Asset Management Argentina S.A. Sociedad Gerente de Fondos Comunes de Inversión	100.00 (99.99)	97
HSBC Global Asset Management Holdings (Bahamas) Limited	100.00	98
HSBC Global Asset Management Limited	100.00	2, 16
HSBC Global Custody Nominee (UK) Limited	100.00	16
HSBC Global Custody Proprietary Nominee (UK) Limited	100.00	1, 16
HSBC Global Services (Canada) Limited	100.00	88
HSBC Global Services (China) Holdings Limited	100.00	16
HSBC Global Services (Hong Kong) Limited	100.00	99
HSBC Global Services (UK) Limited	100.00	16
HSBC Global Services Limited	100.00	2, 16
HSBC Group Management Services Limited	100.00	16
HSBC Group Nominees UK Limited	100.00	2, 16
HSBC Holdings B.V.	100.00	16
HSBC IM Pension Trust Limited	100.00	16
HSBC Infrastructure Debt GP 1 S.à r.l.	N/A	0, 1, 100
HSBC Infrastructure Debt GP 2 S.à r.l.	N/A	0, 1, 100

Notes on the financial statements

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
HSBC Infrastructure Limited (In Liquidation)	100.00	19
HSBC Innovation Bank Limited	100.00	1, 101
HSBC INSN (Non Operating) Pte. Ltd. (In Liquidation)	100.00	54
HSBC Institutional Trust Services (Asia) Limited	100.00	48
HSBC Institutional Trust Services (Bermuda) Limited	100.00	23
HSBC Institutional Trust Services (Mauritius) Limited	100.00	102
HSBC Institutional Trust Services (Singapore) Limited	100.00	54
HSBC Insurance (Asia-Pacific) Holdings Limited	100.00	103
HSBC Insurance (Asia) Limited	100.00	104
HSBC Insurance (Bermuda) Limited	100.00	105
HSBC Insurance Agency (USA) Inc.	100.00	106
HSBC Insurance Brokerage Company Limited	N/A	0, 1, 107
HSBC Insurance Brokers Greater China Limited	100.00	1, 108
HSBC Insurance Holdings Limited (In Liquidation)	100.00	2, 16
HSBC Insurance SAC 1 (Bermuda) Limited	100.00	23
HSBC Insurance SAC 2 (Bermuda) Limited	100.00	1, 109
HSBC Insurance Services Holdings Limited	100.00	16
HSBC International Finance Corporation (Delaware)	100.00	110
HSBC International Trustee (BVI) Limited	100.00	10, 111
HSBC International Trustee (Holdings) Pte. Limited	100.00	54
HSBC International Trustee Limited	100.00	112
HSBC Inversiones S.A.	100.00	61
HSBC InvestDirect (India) Private Limited	99.99	57
HSBC InvestDirect Financial Services (India) Limited	99.99	57
HSBC InvestDirect Sales & Marketing (India) Limited	98.99	113
HSBC InvestDirect Securities (India) Private Limited	99.99	57
HSBC Investment and Insurance Brokerage, Philippines Inc.	99.99	114
HSBC Investment Bank Holdings B.V.	100.00	16
HSBC Investment Bank Holdings Limited	100.00	16
HSBC Investment Company Limited	100.00	2, 16
HSBC Investment Funds (Canada) Inc.	100.00	5, 115
HSBC Investment Funds (Hong Kong) Limited	100.00	24
HSBC Investment Funds (Luxembourg) SA	100.00	116
HSBC Invoice Finance (UK) Limited	100.00	18
HSBC Issuer Services Common Depositary Nominee (UK) Limited	100.00	16
HSBC Issuer Services Depositary Nominee (UK) Limited (In Liquidation)	100.00	19
HSBC Latin America B.V.	100.00	16
HSBC Latin America Holdings (UK) Limited	100.00	2, 16
HSBC Leasing (Asia) Limited	100.00	48
HSBC Life (Bermuda) Limited	100.00	1, 23
HSBC Life (Cornell Centre) Limited	100.00	104
HSBC Life (Edwick Centre) Limited	100.00	104
HSBC Life (International) Limited	100.00	23
HSBC Life (Property) Limited	100.00	104
HSBC Life (Singapore) Pte. Ltd.	100.00	1, 54
HSBC Life (Tsing Yi Industrial) Limited	100.00	104
HSBC Life (UK) Limited	100.00	16
HSBC Life (Workshop) Limited	100.00	1, 104
HSBC Life Assurance (Malta) Limited	100.00	(70.03) 93
HSBC Life Insurance Company Limited	N/A	0, 12, 117
HSBC LU Nominees Limited	100.00	16
HSBC Management (Guernsey) Limited	100.00	118

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
HSBC Markets (USA) Inc.	100.00	15
HSBC Marking Name Nominee (UK) Limited	100.00	16
HSBC Master Trust Trustee Limited	100.00	16
HSBC Mexico, S.A., Institucion de Banca Multiple, Grupo Financiero HSBC	99.99	17
HSBC Middle East Asset CO. LLC	100.00	119
HSBC Middle East Holdings B.V.	100.00	2, 3, 73
HSBC Middle East Leasing Partnership	N/A	0, 120
HSBC Middle East Securities L.L.C	100.00	121
HSBC Mortgage Corporation (Canada)	100.00	122
HSBC Mortgage Corporation (USA)	100.00	15
HSBC Nominees (Asing) Sdn Bhd	100.00	52
HSBC Nominees (Hong Kong) Limited	100.00	48
HSBC Nominees (New Zealand) Limited	100.00	123
HSBC Nominees (Tempatan) Sdn Bhd	100.00	52
HSBC North America Holdings Inc.	100.00	3, 15
HSBC Operational Services GmbH	100.00	(99.99) 6, 92
HSBC Overseas Holdings (UK) Limited	100.00	2, 3, 16
HSBC Overseas Investments Corporation (New York)	100.00	124
HSBC Overseas Nominee (UK) Limited	100.00	16
HSBC Participaciones (Argentina) S.A.	100.00	(99.99) 56
HSBC PB Corporate Services 1 Limited	100.00	125
HSBC PB Services (Suisse) SA	100.00	126
HSBC Pension Trust (Ireland) DAC	100.00	127
HSBC Pensiones, S.A. (In Liquidation)	100.00	(99.99) 17
HSBC Philanthropy Foundation Beijing	N/A	0, 191
HSBC PI Holdings (Mauritius) Limited	100.00	128
HSBC Portfoy Yonetimi A.S.	100.00	129
HSBC Preferential LP (UK)	100.00	16
HSBC Private Bank (Luxembourg) S.A.	100.00	(99.99) 116
HSBC Private Bank (Suisse) SA	100.00	130
HSBC Private Bank (UK) Limited	100.00	16
HSBC Private Banking Holdings (Suisse) SA	100.00	126
HSBC Private Banking Nominee 3 (Jersey) Limited	100.00	125
HSBC Private Equity Investments (UK) Limited	100.00	16
HSBC Private Investment Counsel (Canada) Inc.	100.00	3, 115
HSBC Private Markets Management SARL	N/A	0, 1, 131
HSBC Private Trustee (Hong Kong) Limited	100.00	48
HSBC Professional Services (India) Private Limited	100.00	132
HSBC Property (UK) Limited	100.00	16
HSBC Property Funds (Holding) Limited	100.00	16
HSBC Provident Fund Trustee (Hong Kong) Limited	100.00	48
HSBC Qianhai Securities Limited	N/A	0, 12, 133
HSBC Real Estate Leasing (France)	100.00	(99.99) 4, 37
HSBC REGIO Fund General Partner S.à r.l.	N/A	0, 1, 100
HSBC REIM (France)	100.00	(99.99) 4, 59
HSBC Retirement Benefits Trustee (UK) Limited	100.00	1, 2, 16
HSBC Retirement Services Limited	100.00	1, 16
HSBC Saudi Arabia, Closed Joint Stock Company	100.00	(66.18) 134
HSBC Savings Bank (Philippines) Inc.	99.99	135
HSBC Securities (Canada) Inc.	100.00	88
HSBC Securities (Egypt) S.A.E. (In Liquidation)	100.00	(94.65) 71
HSBC Securities (Japan) Co., Ltd.	100.00	1, 58
HSBC Securities (Japan) Limited (In Liquidation)	100.00	16
HSBC Securities (Singapore) Pte Limited	100.00	54
HSBC Securities (South Africa) (Pty) Limited	100.00	136
HSBC Securities (Taiwan) Corporation Limited	100.00	65

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
HSBC Securities (USA) Inc.	100.00	15
HSBC Securities and Capital Markets (India) Private Limited	99.99	5, 113
HSBC Securities Brokers (Asia) Limited	100.00	48
HSBC Securities Investments (Asia) Limited	100.00	48
HSBC Securities Services (Bermuda) Limited	100.00	23
HSBC Securities Services (Guernsey) Limited	100.00	22
HSBC Securities Services (Ireland) DAC	100.00	127
HSBC Securities Services (Luxembourg) S.A.	100.00	116
HSBC Securities Services Holdings (Ireland) DAC	100.00	127
HSBC Securities Services Nominees Limited	100.00	1, 48
HSBC Seguros de Retiro (Argentina) S.A.	100.00 (99.99)	56
HSBC Seguros de Vida (Argentina) S.A.	100.00 (99.99)	56
HSBC Seguros, S.A de C.V., Grupo Financiero HSBC	100.00 (99.99)	17
HSBC Service Company Germany GmbH	100.00 (99.99)	1, 6, 92
HSBC Service Delivery (Polska) Sp. z o.o.	100.00	137
HSBC Services (France)	100.00 (99.99)	4, 37
HSBC Services Japan Limited	100.00	138
HSBC Services USA Inc.	100.00	139
HSBC Servicios Financieros, S.A. de C.V	100.00 (99.99)	17
HSBC Servicios, S.A. DE C.V., Grupo Financiero HSBC	100.00 (99.99)	17
HSBC SFH (France)	100.00 (99.99)	59
HSBC SFT (C.I.) Limited	100.00	22
HSBC Software Development (Guangdong) Limited	N/A	0, 12, 140
HSBC Software Development (India) Private Limited	100.00 (99.99)	141
HSBC Software Development (Malaysia) Sdn Bhd	100.00	83
HSBC Specialist Investments Limited	100.00	3, 16
HSBC Technology & Services (China) Limited	N/A	0, 12, 142
HSBC Technology & Services (USA) Inc.	100.00	15
HSBC Transaction Services GmbH	100.00 (99.99)	6, 92
HSBC Trinkaus & Burkhardt (International) S.A.	100.00 (99.99)	143
HSBC Trinkaus & Burkhardt Gesellschaft fur Bankbeteiligungen mbH	100.00 (99.99)	92
HSBC Trinkhaus & Burkhardt GmbH	100.00 (99.99)	1, 6, 144
HSBC Trinkaus Family Office GmbH	100.00 (99.99)	6, 92
HSBC Trinkaus Real Estate GmbH	100.00 (99.99)	6, 92
HSBC Trust Company (Canada)	100.00	122
HSBC Trust Company (Delaware), National Association	100.00	110
HSBC Trust Company (UK) Limited	100.00	16
HSBC Trustee (C.I.) Limited	100.00	125
HSBC Trustee (Cayman) Limited	100.00	145
HSBC Trustee (Guernsey) Limited	100.00	22
HSBC Trustee (Hong Kong) Limited	100.00	48
HSBC Trustee (Singapore) Limited	100.00	54
HSBC UK Bank plc	100.00	2, 18
HSBC UK Client Nominee Limited	100.00	18
HSBC UK Holdings Limited (In Liquidation)	100.00	2, 3, 146
HSBC UK Societal Projects Limited	N/A	0, 1, 18
HSBC USA Inc.	100.00	3, 124
HSBC Ventures USA Inc.	100.00	15
HSBC Violet Investments (Mauritius) Limited	100.00	80
HSBC Wealth Client Nominee Limited	100.00	1, 18
HSBC Yatirim Menkul Degerler A.S.	100.00	68
HSI Asset Securitization Corporation	100.00	15
HSI International Limited	100.00 (62.14)	40
HSIL Investments Limited	100.00	16
Hubei Macheng HSBC Rural Bank Company Limited	N/A	0, 12, 147
Hubei Suizhou Cengdu HSBC Rural Bank Company Limited	N/A	0, 12, 148

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	Footnotes
Hubei Tianmen HSBC Rural Bank Company Limited	N/A	0, 12, 149
Hunan Pingjiang HSBC Rural Bank Company Limited	N/A	0, 12, 150
Imenson Limited	100.00 (62.14)	40
INKA Internationale Kapitalanlagegesellschaft mbH	100.00 (99.99)	92
Inmobiliaria Bisa, S.A. de C.V.	99.98	17
Inmobiliaria Grufin, S.A. de C.V.	100.00 (99.99)	17
Inmobiliaria Guatusi, S.A. de C.V.	100.00 (99.99)	17
James Capel (Nominees) Limited	100.00	16
James Capel (Taiwan) Nominees Limited	100.00	16
John Lewis Financial Services Limited	100.00	16
Keyser Ullmann Limited	100.00 (99.99)	16
Lion Corporate Services Limited	100.00	48
Lion International Corporate Services Limited	100.00	1, 151
Lion International Management Limited	100.00	151
Lion Management (Hong Kong) Limited	100.00	1, 48
Lyndholme Limited	100.00	48
Marks and Spencer Financial Services plc	100.00	152
Marks and Spencer Unit Trust Management Limited	100.00	152
Midcorp Limited	100.00	16
Midland Bank (Branch Nominees) Limited	100.00	18
Midland Nominees Limited	100.00	18
MP Payments Group Limited	100.00	1, 16
MP Payments Netherlands B.V.	100.00	1, 153
MP Payments Operations Limited	100.00	1, 16
MP Payments Singapore Pte. Ltd.	100.00	1, 154
MP Payments UK Limited	100.00	1, 16
MW Gestion SA	100.00	56
Prudential Client HSBC GIS Nominee (UK) Limited	100.00	16
PT Bank HSBC Indonesia	99.99 (98.93)	155
PT HSBC Sekuritas Indonesia	100.00 (85.00)	155
R/CLIP Corp.	100.00	15
Real Estate Collateral Management Company	100.00	15
Republic Nominees Limited	100.00	22
RLUKREF Nominees (UK) One Limited	100.00	1, 16
RLUKREF Nominees (UK) Two Limited	100.00	1, 16
S.A.P.C. - Ufipro Recouvrement	99.99	11, 37
Saf Baiyun	100.00 (99.99)	4, 37
Saf Guangzhou	100.00 (99.99)	4, 37
SCI HSBC Assurances Immo	100.00 (99.99)	11, 59
Serai Limited	100.00	48
Serai Technology Development (Shanghai) Limited (丝睿科技开发 (上海) 有限公司)	N/A	0, 1, 12, 156
SFM	100.00 (99.99)	4, 37
SFSS Nominees (Pty) Limited	100.00	136
Shandong Rongcheng HSBC Rural Bank Company Limited	N/A	0, 12, 157
Shenzhen HSBC Development Company Ltd	N/A	0, 1, 12, 158
Sico Limited	100.00	159
SNC Les Oliviers D'Antibes	60.00 (59.99)	11, 59
SNCB/M6-2008 A	100.00 (99.99)	4, 37
SNCB/M6-2007 A	100.00 (99.99)	4, 37
SNCB/M6-2007 B	100.00 (99.99)	4, 37
Société Française et Suisse	100.00 (99.99)	4, 37
Somers Dublin DAC	100.00 (99.99)	127
Somers Nominees (Far East) Limited	100.00	23
Sopingest	100.00 (99.99)	4, 37
South Yorkshire Light Rail Limited	100.00	16
St Cross Trustees Limited	100.00	18
Sterling Credit Limited	100.00	183
Sun Hung Kai Development (Lujiazui III) Limited	N/A	0, 12, 160

Notes on the financial statements

Subsidiaries	% of share class held by immediate parent company (or by the Group where this varies)	<i>Footnotes</i>
Swan National Limited (In Liquidation)	100.00	19
The Hongkong and Shanghai Banking Corporation Limited	100.00	5, 48
The Venture Catalysts Limited (In Liquidation)	100.00	19
Tooley Street View Limited	100.00	2, 16
Trinkaus Europa Immobilien-Fonds Nr.3 Objekt Utrecht Verwaltungs-GmbH	100.00 (99.99)	6, 92
Trinkaus Immobilien-Fonds Geschaefstsfuehrungs-GmbH	100.00 (99.99)	6, 92
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	100.00 (99.99)	6, 92
Trinkaus Private Equity Management GmbH	100.00 (99.99)	6, 92
Trinkaus Private Equity Verwaltungs GmbH	100.00 (99.99)	6, 92
Turnsonic (Nominees) Limited	100.00	18
Valeurs Mobilières Elysées	100.00 (99.99)	4, 37
Wardley Limited	100.00	48
Wayfoong Nominees Limited	100.00	48
Westminster House, LLC	N/A	0, 15
Woodex Limited	100.00	23
Yan Nin Development Company Limited	100.00 (62.14)	40

Joint ventures

The undertakings below are joint ventures and equity accounted.

Joint ventures	% of share class held by immediate parent company (or by the Group where this varies)	<i>Footnotes</i>
Climate Asset Management Limited	40.00	1, 161
Global Payments Technology Mexico S.A. De C.V	50.00	162
HCM Holdings Limited (In Liquidation)	50.99	19
MK HoldCo Limited	50.32	1, 163
Pentagreen Capital Pte. Ltd	50.00	1, 164
ProServe Bermuda Limited	50.00	165
The London Silver Market Fixing Limited	N/A	0, 1, 166
Vaultex UK Limited	50.00	167

Associates

The undertakings below are associates and equity accounted.

Associates	% of share class held by immediate parent company (or by the Group where this varies)	<i>Footnotes</i>
Bank of Communications Co., Ltd.	19.03	168
Barrowgate Limited	15.31	169
BGF Group plc	24.62	170
Bud Financial Limited	4.84	1, 171
Canara HSBC Life Insurance Company Limited	26.00	172
Contour Pte Ltd	9.87	1, 173
Divido Financial Services Limited	7.70	1, 174
Electronic Payment Services Company (Hong Kong) Limited	38.66	48
Episode Six Inc.	5.69	1, 175
EPS Company (Hong Kong) Limited	38.66	48
Euro Secured Notes Issuer	16.67	176
HSBC Jintrust Fund Management Company Limited	N/A	0, 177
HSBC UK Covered Bonds (LM) Limited	20.00	1, 178
HSBC UK Covered Bonds LLP	N/A	0, 1, 18
Liquidity Match LLC	N/A	0, 1, 179
London Precious Metals Clearing Limited	30.00	1, 180
MENA Infrastructure Fund (GP) Ltd	33.33	181
Monese Ltd	5.39	1, 182
Quantexa Ltd	9.36	183
RadiantESG Global Investors LLC	N/A	0, 1, 184
Saudi Awwal Bank	31.00	186
Services Epargne Entreprise	14.18	187
The London Gold Market Fixing Limited	N/A	0, 188
Threadneedle Software Holdings Limited	7.10	1, 189
Trade Information Network Limited	12.76	1, 161
Trinkaus Europa Immobilien-Fonds Nr. 7 Frankfurt Mertonviertel KG	N/A	0, 92
We Trade Innovation Designated Activity Company (In Liquidation)	9.88	1, 190

Footnotes for Note 40

Description of shares

0	Where an entity is governed by voting rights, HSBC consolidates when it holds – directly or indirectly – the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities, and whether power is held as an agent or principal. HSBC's consolidation policy is described in Note 1.2(a).
1	Management has determined that these undertakings are excluded from consolidation in the Group accounts as these entities do not meet the definition of subsidiaries in accordance with IFRS. HSBC's consolidation policy is described in Note 1.2(a).
2	Directly held by HSBC Holdings plc
3	Preference Shares
4	Actions
5	Redeemable Preference Shares
6	GmbH Anteil
7	Limited and Unlimited Liability Shares
8	Liquidating Share Class
9	Nominal Shares
10	Non-Participating Voting Shares
11	Parts
12	Registered Capital Shares
13	Russian Limited Liability Company Shares
14	Stückaktien

Registered offices

15	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware, United States of America, 19801
16	8 Canada Square, London, United Kingdom, E14 5HQ
17	Paseo de la Reforma 347 Col. Cuauhtemoc, Mexico, 06500
18	1 Centenary Square, Birmingham, United Kingdom, B1 1HQ
19	C/O Teneo Financial Advisory Limited, The Colmore Building, 20 Colmore Circus, Queensway, Birmingham, United Kingdom, B4 6AT
20	5 Donegal Square South, Northern Ireland, Belfast, United Kingdom, BT1 5JP
21	1909 Avenida Presidente Juscelino Kubitschek, 19° andar, Torre Norte, São Paulo Corporate Towers, São Paulo, Brazil, 04551-903
22	Arnold House, St Julians Avenue, St Peter Port, Guernsey, GY1 3NF
23	37 Front Street, Harbourview Centre, Ground Floor, Hamilton, Pembroke, Bermuda, HM 11
24	HSBC Main Building, 1 Queen's Road Central, Hong Kong
25	2401-55 24/F, Office Tower Two 1 Jianguomenwai Street, Chaoyang District, Beijing, China
26	First Floor, Xinhua Bookstore Xindong Road (SE of roundabout), Miyun District, Beijing, China
27	Oak House Hirzel Street, St Peter Port, Guernsey, GY1 2NP
28	2929 Walden Avenue, Depew, New York, United States of America, 14043
29	Corporation Service Company 251 Little Falls Drive, Wilmington, Delaware, United States of America, 19808
30	Solidere - Rue Saad Zaghloul Immeuble - 170 Marfaa, P.O. Box 17 5476 Mar Michael, Beyrouth, Lebanon, 11042040
31	No 1, Bei Huan East Road Dazu County, Chongqing, China
32	No 107 Ping Du Avenue (E), Sanhe Town, Fengdu County, Chongqing, China
33	No. 3, 5, 7, Haitang Erzhi Road Changyuan, Rongchang, Chongqing, China, 402460
34	c/o Walkers Corporate Services Limited Walker House, 87 Mary Street, George Town, Grand Cayman, Cayman Islands, KY1-9005

Registered offices

35	First & Second Floor, No.3 Nanshan Road, Pulandian, Dalian, Liaoning, China
36	160 Mine Lake CT, Ste 200, Raleigh, North Carolina, United States of America, 27615-6417
37	38 Avenue Kléber, Paris, France, 75116
38	Avenida de las Granjas 972, Building A, Floor 2, Colonia Santa Bárbara, Alcaldía Azcapotzalco, Mexico City, Mexico, 02230
39	No. 1 1211 Yanjiang Zhong Road, Yonggan, Fujian, China
40	83 Des Voeux Road Central, Hong Kong
41	No. 44 Xin Ping Road Central, Encheng, Enping, Guangdong, China, 529400
42	Room 311, Cheng Hui No. 2, Nan Sha Street, Nan Sha District, Guangzhou, Guangdong, China
43	34/F, 36/F, Unit 031 of 45/F, and 46/F, Hang Seng Bank Tower 1000 Lujiazui Ring Road, Pilot Free Trade Zone, Shanghai, China, 200120
44	Gustav Mahlerplein 2 1082 MA, Amsterdam, Netherlands
45	1001 T2 Office Building, Qianhai Kerry Business Center, Qianhai Avenue, Nanshan Street, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen, Guangdong, China
46	1 Queen's Road Central, Hong Kong
47	Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110
48	1 Queen's Road Central, Hong Kong
49	156 C/O Teneo Financial Advisory Limited, Great Charles Street, Queensway, West Midlands, Birmingham, United Kingdom, B3 3HN
50	701 S CARSON ST STE 200, Carson City, Nevada, United States of America, 89701
51	HSBC House Esplanade, St. Helier, Jersey, JE4 8UB
52	Level 21, Menara IQ, Lingkaran TRX, Tun Razak Exchange, Kuala Lumpur, Malaysia, 55188
53	Level 19, Menara IQ, Lingkaran TRX, Tun Razak Exchange, Kuala Lumpur, Malaysia, 55188
54	10 Marina Boulevard, #48-01 Marina Bay Financial Centre, Singapore, 018983
55	52/60, M G Road Fort, Mumbai, India, 400 001
56	557 Bouchard Level 20, Ciudad de Buenos Aires, Federal Capital, Argentina, C1106ABG
57	9-11 Floors, NESCO IT Park Building No. 3 Western Express Highway, Goregaon (East), Mumbai, India, 400063
58	HSBC Building 11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan, 103-0027
59	Immeuble Cœur Défense 110 esplanade du Général de Gaulle, Courbevoie, France, 92400
60	Level 36 Tower 1 International Towers Sydney, 100 Barangaroo Avenue, Sydney, New South Wales, Australia, 2000
61	Isidora Goyenechea 2800 23rd floor, Las Condes, Santiago, Chile, 7550647
62	HSBC Building Shanghai ifc, 8 Century Avenue, Pudong, Shanghai, China, 200120
63	IconEbene, Level 5 Office 1 (West Wing), Rue de L'institut, Ebene, Mauritius
64	2 Paveletskaya Square Building 2, Moscow, Russia, 115054
65	54F, 7 Xinyi Road Sec. 5 Xinyi District, Taipei, Taiwan
66	1266 Dr Luis Bonativa 1266 Piso 30 (Torre IV WTC), Montevideo, Uruguay, CP 11.000
67	The Metropolitan 235 Dong Khoi Street, District 1, Ho Chi Minh City, Vietnam
68	Esentepe Mah. Büyükdere Caddesi No.128 Şişli, Istanbul, Türkiye, 34394
69	90 Area 42 Paronyan Street, Yerevan, Armenia, 0015
70	885 West Georgia Street 3rd Floor, Vancouver, British Columbia, Canada, V6C 3E9
71	306 Corniche El Nil, Maadi, Egypt, 11728

Registered offices

72	116 Archbishop Street, Valletta, Malta
73	Unit 401, Level 4 Gate Precinct Building 2, Dubai International Financial Centre, P. O. Box 30444, Dubai, United Arab Emirates
74	Majer Consulting, Office 54/44, Building A1, Residence Ryad Anfa, Boulevard Omar El Khayam, Casa Finance City (CFC), Casablanca, Morocco
75	1800 Tysons Boulevard Suite 50, Tysons, Virginia, United States of America, 22102
76	66 Wellington Street West, Suite 5300, Toronto, Ontario, Canada, M5K 1E6
77	P.O. Box 1109, Strathvale House, Ground floor, 90 North Church Street, George Town, Grand Cayman, Cayman Islands, KY1-1102
78	HSBC House Esplanade, St. Helier, Jersey, JE1 1HS
79	RM 2113 HSBC Building, Shanghai ifc, No. 8 Century Avenue, Pudong, Shanghai, China, 200120
80	c/o Rogers Capital St. Louis Business Centre, Cnr Desroches & St Louis Streets, Port Louis, Mauritius
81	49 avenue J.F. Kennedy, Luxembourg, 1855
82	4-17/F, Office Tower 2 TaiKoo Hui, No. 381 Tian He Road, Tian He District, Guangzhou, Guangdong, China
83	Suite 1005, 10th Floor, Wisma Hamzah Kwong, Hing No. 1, Leboh Ampang, Kuala Lumpur, Malaysia, 50100
84	Building C-1 UP Ayala Technohub, Commonwealth Avenue, Diliman, Quezon City, Metro Manila, Philippines
85	HSBC House Plot No.8 Survey No.64 (Part), Hightec City Layout Madhapur, Hyderabad, India, 500081
86	Mireka City 324/9 Havelock Road, Colombo 05, Sri Lanka, 00500
87	Smart Village 28th Km Cairo- Alexandria Desert Road Building, Cairo, Egypt
88	16 York Street, 6th Floor, Toronto, Ontario, Canada, M5J 0E6
89	Centre Ville 1341 Building - 4th Floor Patriarche Howayek Street, PO Box Riad El Solh, Lebanon, 9597
90	World Trade Center Montevideo Avenida Luis Alberto de Herrera 1248, Torre 1, Piso 15, Oficina 1502, Montevideo, Uruguay, CP 11300
91	Room 655, Building A, No.888 Huan Hu West 2nd Road, Lingang New Area, China (Shanghai) Pilot Free Trade Zone, Shanghai, China
92	Hansaallee 3, Düsseldorf, Germany, 40549
93	80 Mill Street, Qormi, Malta, QRM 3101
94	Gartenstrasse 26, Zurich, Switzerland, 8002
95	36F., No. 68 Sec. 5, Zhongxiao E. Rd., Xinyi Dist., Taipei City, Taiwan, 110419
96	452 Fifth Avenue, New York, United States of America, NY10018
97	Bouchard 557, Piso 18°, Cdad. Autónoma de Buenos Aires, Argentina, 1106
98	Mareva House 4 George Street, Nassau, Bahamas
99	1 Queen's Road Central, Hong Kong
100	4 rue Peterelchen, Howald, Luxembourg, 2370
101	Alphabeta 14-18 Finsbury Square, London, United Kingdom, EC2A 1BR
102	IconEbene Rue de L'institut, Ebene, Mauritius
103	HSBC Main Building, 1 Queen's Road Central, Hong Kong
104	18th Floor Tower 1, HSBC Centre 1 Sham Mong Road, Kowloon, Hong Kong
105	37 Front Street, Harbourview Center, Ground Floor, Hamilton, Pembroke, Bermuda, HM 11
106	CT Corporation System 28 Liberty Street, New York, New York, United States of America, 10005
107	Unit 201, Floor 2, Building 3 No. 12, Anxiang Street, Shunyi District, Beijing, China
108	HSBC Main Building, 1 Queen's Road Central, Hong Kong
109	37 Front Street, Harbourview Centre, Ground Floor, Hamilton Pembroke, Bermuda, HM 11

Registered offices

110	300 Delaware Avenue Suite 1401, Wilmington, Delaware, United States of America, 19801
111	Woodbourne Hall, Road Town, Tortola, British Virgin Islands, P.O. Box 916
112	Craigmuir Chambers, Road Town Tortola, British Virgin Islands, VG1110
113	52/60 M G Road Fort, Mumbai, India, 400 001
114	5/F HSBC Centre 3058 Fifth Ave West, Bonifacio Global City, Taguig City, Philippines
115	300-885 West Georgia Street, Vancouver, British Columbia, Canada, V6C 3E9
116	18 Boulevard de Kockelscheuer, Luxembourg, 1821
117	Unit 2002 of 20/F, Unit 2101 of 21/F HSBC Building, 8 Century Avenue, China (Shanghai) Pilot Free Trade Zone, Shanghai, China, 200120
118	Arnold House, St Julians Avenue, St Peter Port, Guernsey, GY1 1WA
119	HSBC Tower, Downtown Dubai, P.O. Box 66, United Arab Emirates
120	Unit 401, Level 4, Gate Precinct Building 2, Dubai International Financial Centre, P. O. Box 506553, Dubai, United Arab Emirates
121	Level 16, HSBC Tower, Downtown Dubai, P.O. Box 66, United Arab Emirates
122	885 West Georgia Street, Suite 300, Vancouver, British Columbia, Canada, V6C 3E9
123	HSBC Tower, Level 21, 188 Quay Street, Auckland, New Zealand, 1010
124	The Corporation Trust Incorporated, 2405 York Road, Suite 201, Lutherville Timonium, Maryland, United States of America, 21093
125	HSBC House Esplanade, St. Helier, Jersey, JE1 1GT
126	Quai des Bergues 9-17, Geneva, Switzerland, 1201
127	1 Grand Canal Square Grand Canal Harbour, Dublin 2, Ireland, D02 P820
128	6th floor HSBC Centre 18, Cybercity, Ebene, Mauritius, 72201
129	Esentepe Mah. Büyükdere Caddesi No.128, 34394, Şişli, Istanbul, Türkiye
130	Quai des Bergues 9-17, Geneva, Switzerland, 1201
131	5 rue Heienhaff, Senningerberg, Luxembourg, L-1736
132	52/60 M G Road, Fort, Mumbai, India, 400 001
133	Unit 2201, 22/F, Qianhai Chow Tai Fook Finance Tower (Phase I) No. 66 Shu Niu Avenue, Nanshan Subdistrict, the Shenzhen Qianhai Shenzhen-Hong Kong Cooperation Zone, the PRC, Shenzhen, China, 518054
134	HSBC Building 7267 Olaya - Al Murrooj, Riyadh, Kingdom of Saudi Arabia, 12283 - 2255
135	Unit 1 GF The Commerical Complex Madrigal Avenue, Ayala Alabang Village, Muntinlupa City, Philippines, 1780
136	1 Mutual Place, 107 Rivonia Road, Sandton, Gauteng, South Africa, 2196
137	Kapelanka 42A, Krakow, Poland, 30-347
138	Mareva House, 4 George Street, Nassau, Bahamas
139	C T Corporation System 820 Bear Tavern Road, West Trenton, New Jersey, United States of America, 08628
140	L22, Office Tower 2, Taikoo Hui, 381 Tianhe Road, Tianhe District, Guangzhou, Guangdong, China
141	Business Bay, Wing 2 Tower B, Survey no 103, Hissa no. 2, Airport Road, Yerwada, Pune, India, 411006
142	Room 3102, L31 HSBC Building, Shanghai ifc, 8 Century Avenue, China (Shanghai) Free Trade Zone, Shanghai, China, 200120
143	16 Boulevard d'Avanches, Luxembourg, L-1160
144	3 Hansaallee, Düsseldorf, Nordrhein-Westfalen, Germany, 40549
145	P.O. Box 309 Ugland House, Grand Cayman, Cayman Islands, KY1-1104

Registered offices

146	<i>c/o Teneo Financial Advisory Limited The Colmore Building, 20 Colmore Circus, Queensway, Birmingham, United Kingdom, B4 6AT</i>	168	<i>188 Yin Cheng Zhong Lu (Shanghai) Pilot Free Trade Zone, China</i>
147	<i>No. 56 Yu Rong Street, Macheng, China, 438300</i>	169	<i>50/F, Lee Garden One, 33 Hysan Avenue, Hong Kong</i>
148	<i>No. 205 Lie Shan Road, Suizhou, Hubei, China</i>	170	<i>13-15 York Buildings, London, United Kingdom, WC2N 6JU</i>
149	<i>Building 3, Yin Zuo Di Jing Wan Tianmen New City, Tianmen, Hubei Province, China</i>	171	<i>167-169 Great Portland Street, 5th Floor, London, United Kingdom, W1W 5PF</i>
150	<i>RM101, 102 & 106 Sunshine Fairview, Sunshine Garden, Pedestrian Walkway, Pingjiang, China</i>	172	<i>Unit No. 208, 2nd Floor, Kanchenjunga Building, 18 Barakhamba Road, New Delhi, India, 110001</i>
151	<i>Craigmuir Chambers, Road Town, Tortola, British Virgin Islands, VG1110</i>	173	<i>1 Harbourfront Avenue, #14-07 Keppel Bay Tower, Singapore, 098632</i>
152	<i>Kings Meadow Chester Business Park, Chester, United Kingdom, CH99 9FB</i>	174	<i>Office 7, 35-37 Ludgate Hill, London, United Kingdom, EC4M 7JN</i>
153	<i>De Entree, 236 , Amsterdam, Netherlands, 1101 EE</i>	175	<i>251 Little Falls Drive, New Castle, Wilmington, United States of America, 19808</i>
154	<i>10 Marina Boulevard, #48-01 Marina Bay Financial Centre, Singapore, 018983</i>	176	<i>3 Avenue de l'Opera , Paris, France, 75001</i>
155	<i>5th Floor, World Trade Center 1, Jl. Jend. Sudirman Kav. 29-31, Jakarta, Indonesia, 12920</i>	177	<i>17F, HSBC Building, Shanghai ifc 8 Century Avenue, Pudong, Shanghai, China</i>
156	<i>Room 667, 6/F, Tower A, No. 8 Century Avenue, Pudong District, Shanghai, China</i>	178	<i>10th Floor 5 Churchill Place, London, United Kingdom, E14 5HU</i>
157	<i>No.198-2 Chengshan Avenue (E), Rongcheng, China, 264300</i>	179	<i>100 Town Square Place, Suite 201, Jersey City, New Jersey, United States of America, 07310</i>
158	<i>Room 1303-13062 Marine Center Main Tower, 59 Linhai Rd, Nanshan District, Shenzhen, China</i>	180	<i>7th Floor, 62 Threadneedle Street, London, United Kingdom, EC2R 8HP</i>
159	<i>Woodbourne Hall, Road Town, Tortola, British Virgin Islands, P.O. Box 3162</i>	181	<i>Unit 705, Level 7, Currency House-Tower 2, Dubai International Financial Centre, P.O. BOX 506553, Dubai, United Arab Emirates</i>
160	<i>RM 2112, HSBC Building, Shanghai ifc No. 8 Century Road, Pudong, Shanghai, China, 200120</i>	182	<i>Eagle House, 163 City Road, London, United Kingdom, EC1V 1NR</i>
161	<i>3 More London Riverside, London, United Kingdom, SE1 2AQ</i>	183	<i>Hill House, 1 Little New Street, London, United Kingdom, EC4A 3TR</i>
162	<i>296, Floor 18, Office A Paseo de la Reforma, Mexico City, Mexico, 06600</i>	184	<i>4482 Deer Ridge Road, Danville, CA, Delaware, United States of America, 94506</i>
163	<i>35 Ballards Lane, London, United Kingdom, N3 1XW</i>	185	<i>9004 Al Ulaya - Al Olaya Dis. Unit no. 1, Riyadh, Kingdom of Saudi Arabia, 12214-2652</i>
164	<i>1 Raffles Quay #23-01, Singapore, 048583</i>	186	<i>7206 Prince Abdul Aziz Bin Musaid Bin Jalawi, 4065 Al Murabba District, 12613 Riyadh, Kingdom of Saudi Arabia</i>
165	<i>c/o MUFG Fund Services (Bermuda) Limited, Cedar House, 4th Floor North, 41 Cedar Avenue, Hamilton, Bermuda, HM12</i>	187	<i>32 Rue du Champ de Tir, Nantes, France, 44300</i>
166	<i>27 Old Gloucester Street, London, United Kingdom, WC1N 3AX</i>	188	<i>c/o Hackwood Secretaries Limited, One Silk Street, London, United Kingdom, EC2Y 8HQ</i>
167	<i>All Saints Triangle Caledonian Road, London, United Kingdom, N1 9UT</i>	189	<i>2nd Floor, Regis House, 45 King William Street, London, United Kingdom, EC4R 9AN</i>
		190	<i>10 Earlsfort Terrace, Dublin, Ireland, D02 T380</i>
		191	<i>Meeting Room 18.R005, 18/F Fortune Financial Center, No. 5 Dongsanhuan Zhong Road, Chaoyang District, Beijing, 100020, China</i>
		192	<i>P.O. Box, 309 Ugland House, Grand Cayman, Cayman Islands, KY1-1104</i>

41 Non-statutory accounts

The information set out in these accounts does not constitute the Company's statutory accounts for the years ended 31 December 2023 or 2022. Those accounts have been reported on by the Company's auditors: their reports were unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered in due course.

Shareholder information

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This section gives important information for our shareholders, including contact information. It also includes an overview of key abbreviations and terminology used throughout this *Form 20-F*.

A glossary of terms used in the Annual Report and Accounts can be found in the Investors section of www.hsbc.com.

Fourth interim dividend for 2023

The Directors have approved a fourth interim dividend for 2023 of \$0.31 per ordinary share. Information on the currencies in which shareholders may elect to have the cash dividend paid can be viewed at www.hsbc.com/investors. The interim dividend will be paid in cash. The timetable for the interim dividend is:

Announcement	21 February 2024
Shares quoted ex-dividend in London, Hong Kong and Bermuda and American Depositary Shares ('ADS') quoted ex-dividend in New York	7 March 2024
Record date – London, Hong Kong, New York, Bermuda ¹	8 March 2024
Mailing of <i>Annual Report and Accounts 2023</i> and/or <i>Strategic Report 2023</i>	22 March 2024
Final date for dividend election changes including Investor Centre electronic instructions and revocations of standing instructions for dividend elections	11 April 2024
Exchange rate determined for payment of dividends in pounds sterling and Hong Kong dollars	15 April 2024
Payment date	25 April 2024

¹ Removals to and from the Overseas Branch register of shareholders in Hong Kong will not be permitted on this date.

Interim dividends for 2024

For the financial year 2023, the Group reverted to paying quarterly dividends, and achieved a dividend payout ratio of 50% of reported earnings per ordinary share ('EPS'), in line with our published target for 2023 and 2024. EPS for this purpose excludes material notable items and related impacts (including those associated with the sale of our retail banking operations in France, the agreed sale of our banking business in Canada and our acquisition of SVB UK). The Board has adopted a dividend policy designed to provide sustainable cash dividends, while retaining the flexibility to invest and grow the business in the future, supplemented by additional shareholder distributions, if appropriate.

Dividends are approved in US dollars and, at the election of the shareholder, paid in cash in one of, or in a combination of, US dollars, pounds sterling and Hong Kong dollars.

Other equity instruments

Additional tier 1 capital – contingent convertible securities

HSBC continues to issue contingent convertible securities that are included in its capital base as fully CRR II-compliant additional tier 1 capital securities. For further details on these securities, see Note 33 on the financial statements.

HSBC issued \$2,000m 8.000% perpetual contingent convertible securities on 7 March 2023.

2023 Annual General Meeting

With the exception of the shareholder requisitioned Resolutions 16, 17 and 18, which the Board recommended that shareholders vote against, all resolutions considered at the 2023 AGM held at 11:00am on 5 May 2023 at The Eastside Rooms, 2 Woodcock Street, Birmingham, B7 4BL, UK, were passed on a poll.

Earnings releases and interim results

First and third quarter results for 2024 will be released on 30 April 2024 and 29 October 2024, respectively. The interim results for the six months to 30 June 2024 will be issued on 31 July 2024.

Shareholder enquiries and communications

Enquiries

Any enquiries relating to shareholdings on the share register (for example, transfers of shares, changes of name or address, lost share certificates or dividend cheques) should be sent to the Registrars at the address given below. The Registrars offer an online facility, Investor Centre, which enables shareholders to manage their shareholding electronically.

Principal Register:	Computershare Investor Services PLC The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ, United Kingdom	Telephone: +44 (0) 370 702 0137 www.investorcentre.co.uk/contactus Investor Centre: www.investorcentre.co.uk
Hong Kong Overseas Branch Register:	Computershare Hong Kong Investor Services Limited Rooms 1712–1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong	Telephone: +852 2862 8555 hsbc.ecom@computershare.com.hk Investor Centre: www.investorcentre.com/hk
Bermuda Overseas Branch Register:	Investor Relations Team HSBC Bank Bermuda Limited, 37 Front Street, Hamilton, HM 11, Bermuda	hbbm.shareholder.services@hsbc.bm Investor Centre: www.investorcentre.com/bm
ADS Depositary:	The Bank of New York Mellon Shareowner Services, P.O. Box 43006, Providence RI 02940-3078, USA	Telephone (US): +1 877 283 5786 Telephone (International): +1 201 680 6825 shrrelations@cpushareownerservices.com www.mybnymdr.com

If you have elected to receive general shareholder communications directly from HSBC Holdings, it is important to remember that your main contact for all matters relating to your investment remains the registered shareholder, or custodian or broker, who administers the investment on your behalf. Therefore, any changes or queries relating to your personal details and holding (including any administration of it) must continue to be directed to your existing contact at your investment manager or custodian or broker. HSBC Holdings cannot guarantee dealing with matters directed to it in error.

Shareholders who wish to receive a hard copy of the *Annual Report and Accounts 2023* should contact HSBC's Registrars. Please visit www.hsbc.com/investors/investor-contacts for further information. You can also download an online version of the report from www.hsbc.com.

Electronic communications

Shareholders may at any time choose to receive corporate communications in printed form or to receive notifications of their availability on HSBC's website. To receive notifications of the availability of a corporate communication on HSBC's website by email, or revoke or amend an instruction to receive such notifications by email, go to www.hsbc.com/investors/shareholder-information/manage-your-shareholding. If you received a notification of the availability of this document on HSBC's website and would like to receive a printed copy, or if you would like to receive future corporate communications in printed form, please write or send an email (quoting your shareholder reference number) to the appropriate Registrars at the address given above. Printed copies will be provided without charge.

Additional information

Chinese translation

A Chinese translation of the *Annual Report and Accounts 2023* will be available upon request after 22 March 2024 from the Registrars (contact details above). Please also contact the Registrars if you wish to receive Chinese translations of future documents, or if you have received a Chinese translation of this document and do not wish to receive them in future.

《2023 年報及賬目》備有中譯本，各界人士可於2024年3月22日之後，向上列股份登記處索閱。

閣下如欲於日後收取相關文件的中譯本，或已收到本文件的中譯本但不希望繼續收取有關譯本，均請聯絡股份登記處。

Stock symbols

HSBC Holdings ordinary shares trade under the following stock symbols:

London Stock Exchange	HSBA*	New York Stock Exchange (ADS)	HSBC
Hong Kong Stock Exchange	5	Bermuda Stock Exchange	HSBC.BH

* HSBC's Primary market

Investor relations

Enquiries relating to HSBC's strategy or operations may be directed to:

Neil Sankoff, Global Head of Investor Relations
HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom
Telephone: +44 (0) 20 7991 5072
Email: investorrelations@hsbc.com

Yafei Tian, Head of Investor Relations, Asia-Pacific
The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong
Telephone: +852 2899 8909
Email: investorrelations@hsbc.com.hk

Where more information about HSBC is available

The *Annual Report and Accounts 2023* and other information on HSBC may be downloaded from HSBC's website: www.hsbc.com.

Reports, statements and information that HSBC Holdings files with the Securities and Exchange Commission are available at www.sec.gov. Investors can also request hard copies of these documents upon payment of a duplicating fee by writing to the SEC at the Office of Investor Education and Advocacy, 100 F Street N.E., Washington, DC 20549-0213 or by emailing PublicInfo@sec.gov. Investors should call the Commission at (1) 202 551 8090 if they require further assistance. Investors may also obtain the reports and other information that HSBC Holdings files at www.nyse.com (telephone number (1) 212 656 3000).

HM Treasury has transposed the requirements set out under CRD IV and issued the Capital Requirements Country-by-Country Reporting Regulations 2013. The legislation requires HSBC Holdings to publish additional information in respect of the year ended 31 December 2023 by 31 December 2024. This information will be available on HSBC's website: www.hsbc.com/tax.

Taxation of shares and dividends

Taxation – UK residents

The following is a summary, under current law (unless otherwise noted) and the current published practice of HM Revenue and Customs ('HMRC'), of certain UK tax considerations that are likely to be material to the ownership and disposition of HSBC Holdings ordinary shares. The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a holder of shares. In particular, the summary deals with shareholders who are resident solely in the UK for UK tax purposes and only with holders who hold the shares as investments and who are the beneficial owners of the shares, and does not address the tax treatment of certain classes of holders such as dealers in securities. Holders and prospective purchasers should consult their own advisers regarding the tax consequences of an investment in shares in light of their particular circumstances, including the effect of any national, state or local laws.

Taxation of dividends

Currently, no tax is withheld from dividends paid by HSBC Holdings.

UK resident individuals

UK resident individuals are generally entitled to a tax-free annual allowance in respect of dividends received. The amount of the allowance for the tax year beginning 6 April 2023 is £1,000. To the extent that dividend income received by an individual in the relevant tax year does not exceed the allowance, a nil tax rate will apply. Dividend income in excess of this allowance will be taxed at 8.75% for basic rate taxpayers, 33.75% for higher rate taxpayers and 39.35% for additional rate taxpayers.

UK resident companies

Shareholders that are within the charge to UK corporation tax should generally be entitled to an exemption from UK corporation tax on any dividends received from HSBC Holdings. However, the exemptions are not comprehensive and are subject to anti-avoidance rules.

If the conditions for exemption are not met or cease to be satisfied, or a shareholder within the charge to UK corporation tax elects for an otherwise exempt dividend to be taxable, the shareholder will be subject to UK corporation tax on dividends received from HSBC Holdings at the rate of corporation tax applicable to that shareholder.

Taxation of capital gains

The computation of the capital gains tax liability arising on disposals of shares in HSBC Holdings by shareholders subject to UK tax on capital gains can be complex, partly depending on whether, for example, the shares were purchased since April 1991, acquired in 1991 in exchange for shares in The Hongkong and Shanghai Banking Corporation Limited, or acquired subsequent to 1991 in exchange for shares in other companies.

For capital gains tax purposes, the acquisition cost for ordinary shares is adjusted to take account of subsequent rights and capitalisation issues. Any capital gain arising on a disposal of shares in HSBC Holdings by a UK company may also be adjusted to take account of indexation allowance if the shares were acquired before 1 January 2018, although the level of indexation allowance that is given in calculating the gain would be frozen at the value that would have been applied to a disposal of those shares in December 2017. If in doubt, shareholders are recommended to consult their professional advisers.

Stamp duty and stamp duty reserve tax

Transfers of shares by a written instrument of transfer generally will be subject to UK stamp duty at the rate of 0.5% of the consideration paid for the transfer (rounded up to the next £5), and such stamp duty is generally payable by the transferee. An agreement to transfer shares, or any interest therein, normally will give rise to a charge to stamp duty reserve tax at the rate of 0.5% of the consideration. However, provided an instrument of transfer of the shares is executed pursuant to the agreement and duly stamped before the date on which the stamp duty reserve tax becomes payable, under

the current published practice of HMRC it will not be necessary to pay the stamp duty reserve tax, nor to apply for such tax to be cancelled. Stamp duty reserve tax is generally payable by the transferee.

Paperless transfers of shares within CREST, the UK's paperless share transfer system, are liable to stamp duty reserve tax at the rate of 0.5% of the consideration. In CREST transactions, the tax is calculated and payment made automatically. Deposits of shares into CREST generally will not be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration. Until 31 December 2023, the charge to stamp duty reserve tax at 1.5% on the issue of shares (and transfers integral to capital raising) to a depositary receipt issuer or a clearance service was incompatible with European Union law as retained in the UK following the UK's departure from the European Union, and was not imposed by HMRC. If the UK Finance Bill 2023-24 is enacted in the form it stands as at the date hereof, that 1.5% charge will be repealed with retrospective effect from 1 January 2024.

Taxation – US residents

The following is a summary, under current law, of the principal UK tax and US federal income tax considerations that are likely to be material to the ownership and disposition of shares or American Depositary Shares ('ADSs') by a holder that is a US holder, as defined below, and who is not resident in the UK for UK tax purposes.

The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of shares or ADSs. In particular, the summary deals only with US holders that hold shares or ADSs as capital assets, and does not address the tax treatment of holders that are subject to special tax rules. These include banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold shares or ADSs as part of an integrated investment (including a 'straddle' or 'hedge') comprised of a share or ADS and one or more other positions, and persons that own directly or indirectly 10% or more (by vote or value) of the stock of HSBC Holdings. This discussion is based on laws, treaties, judicial decisions and regulatory interpretations in effect on the date hereof, all of which are subject to change.

For the purposes of this discussion, a 'US holder' is a beneficial holder that is a citizen or resident of the United States, a US domestic corporation or otherwise is subject to US federal income taxes on a net income basis in respect thereof.

Holders and prospective purchasers should consult their own advisers regarding the tax consequences of an investment in shares or ADSs in light of their particular circumstances, including the effect of any national, state or local laws.

Any US federal tax advice included in the *Annual Report and Accounts 2023* is for informational purposes only. It was not intended or written to be used, and cannot be used, for the purpose of avoiding US federal tax penalties.

Taxation of dividends

Currently, no tax is withheld from dividends paid by HSBC Holdings. For US tax purposes, a US holder must include cash dividends paid on the shares or ADSs in ordinary income on the date that such holder or the ADS depositary receives them, translating dividends paid in UK pounds sterling into US dollars using the exchange rate in effect on the date of receipt. A US holder that elects to receive shares in lieu of a cash dividend must include in ordinary income the fair market value of such shares on the dividend payment date, and the tax basis of those shares will equal such fair market value.

Subject to certain exceptions for positions that are held for less than 61 days, and subject to a foreign corporation being considered a 'qualified foreign corporation' (which includes not being classified for US federal income tax purposes as a passive foreign investment company), certain dividends ('qualified dividends') received by an individual US holder generally will be subject to US taxation at preferential rates.

Additional information

Based on the company's audited financial statements and relevant market and shareholder data, HSBC Holdings does not believe that it was a passive investment company for its 2023 taxable year and does not anticipate becoming a passive foreign investment company in 2024 or the foreseeable future. Accordingly, dividends paid on the shares or ADSs generally should be eligible for qualified dividends treatment.

Taxation of capital gains

Gains realised by a US holder on the sale or other disposition of shares or ADSs normally will not be subject to UK taxation unless at the time of the sale or other disposition the holder carries on a trade, profession or vocation in the UK through a branch or agency or permanent establishment and the shares or ADSs are or have been used, held or acquired for the purposes of such trade, profession, vocation, branch or agency or permanent establishment. Such gains will be included in income for US tax purposes, and will be long-term capital gains if the shares or ADSs were held for more than one year. A long-term capital gain realised by an individual US holder generally will be subject to US tax at preferential rates.

Inheritance tax

Shares or ADSs held by an individual whose domicile is determined to be the US for the purposes of the United States–United Kingdom Double Taxation Convention relating to estate and gift taxes (the 'Estate Tax Treaty') and who is not for such purposes a national of the UK will not, provided any US federal estate or gift tax chargeable has been paid, be subject to UK inheritance tax on the individual's death or on a lifetime transfer of shares or ADSs except in certain cases where the shares or ADSs (i) are comprised in a settlement (unless, at the time of the settlement, the settlor was domiciled in the US and was not a national of the UK), (ii) are part of the business property of a UK permanent establishment of an enterprise, or (iii) pertain to a UK fixed base of an individual used for the performance of independent personal services. In such cases, the Estate Tax Treaty generally provides a credit against US federal tax liability for the amount of any tax paid in the UK in a case where the shares or ADSs are subject to both UK inheritance tax and to US federal estate or gift tax.

Stamp duty and stamp duty reserve tax – ADSs

If shares are transferred to a clearance service or American Depositary Receipt ('ADR') issuer (which will include a transfer of shares to the depository) UK stamp duty and/or stamp duty reserve tax will be payable unless the UK Finance Bill 2023-24 is enacted in the form it stands as at the date hereof and the transfer is, or is treated as being, in the course of a capital raising arrangement. The stamp duty or stamp duty reserve tax is generally payable on the consideration for the transfer and is payable at the aggregate rate of 1.5%.

The amount of stamp duty reserve tax payable on such a transfer will be reduced by any stamp duty paid in connection with the same transfer.

No stamp duty will be payable on the transfer of, or agreement to transfer, an ADS, provided that the ADR and any separate instrument of transfer or written agreement to transfer remain at all times outside the UK, and provided further that any such transfer or written agreement to transfer is not executed in the UK. No stamp duty reserve tax will be payable on a transfer of, or agreement to transfer, an ADS effected by the transfer of an ADR.

US information reporting and backup withholding tax

Distributions made on shares or ADSs and proceeds from the sale of shares or ADSs that are paid within the US, or through certain financial intermediaries to US holders, are subject to US information reporting and may be subject to a US 'backup' withholding tax. General exceptions to this rule happen when the US holder: establishes that it is a corporation (other than an S corporation) or other exempt holder; or provides a correct taxpayer identification number, certifies that no loss of exemption from backup withholding has occurred and otherwise complies with the applicable requirements of the backup withholding rules. Holders that are not US persons (as defined in the US Internal Revenue Code of 1986, as amended) generally are not subject to US information reporting or

backup withholding tax, but may be required to comply with applicable certification procedures to establish that they are not US persons in order to avoid the application of such US information reporting requirements or backup withholding tax to payments received within the US or through certain financial intermediaries.

Information about the enforceability of judgments made in the US

HSBC Holdings is a public limited company incorporated in England and Wales.

Most of the Directors and executive officers live outside the US. As a result, it may not be possible to serve process on such persons or HSBC Holdings in the US or to enforce judgments obtained in US courts against them or HSBC Holdings based on civil liability provisions of the securities laws of the US.

There is doubt as to whether English courts would enforce:

- civil liabilities under US securities laws in original actions; or
- judgments of US courts based upon these civil liability provisions.

In addition, awards of punitive damages in actions brought in the US or elsewhere may be unenforceable in the UK.

The enforceability of any judgment in the UK will depend on the particular facts of the case as well as the laws and treaties in effect at the time.

Exchange controls and other limitations affecting equity security holders

Other than certain economic sanctions that may be in force from time to time, there are currently no UK laws, decrees or regulations that would prevent the import or export of capital or remittance of distributable profits by way of dividends and other payments to holders of HSBC Holdings' equity securities who are not residents of the UK. There are also no restrictions under the laws of the UK or the terms of the Memorandum and Articles of Association concerning the right of non-resident or foreign owners to hold HSBC Holdings' equity securities or, when entitled to vote, to do so.

Dividends on the ordinary shares of HSBC Holdings

The HSBC Holdings dividends approved, per ordinary share, in respect of each of the last five years were:

		First interim	Second interim	Third interim	Fourth interim ¹	Total ²
2023	\$	0.100	0.100	0.100	0.310	0.610
	£	0.079	0.080	0.080	0.243	0.482
	HK\$	0.783	0.783	0.780	2.422	4.768
2022	\$	0.090	0.230			0.320
	£	0.079	0.185			0.264
	HK\$	0.706	1.804			2.510
2021	\$	0.070	0.180	–	–	0.250
	£	0.051	0.138	–	–	0.189
	HK\$	0.545	1.412	–	–	1.957
2020	\$	–	–	–	0.150	0.150
	£	–	–	–	0.108	0.108
	HK\$	–	–	–	1.165	1.165
2019	\$	0.100	0.100	0.100	–	0.300
	£	0.078	0.080	0.078	–	0.236
	HK\$	0.781	0.782	0.783	–	2.346

1 The fourth interim dividend for 2023 of \$0.31 per ordinary share will be paid on 25 April 2024. The fourth interim dividend for 2023 has been translated into pounds sterling and Hong Kong dollars at the closing rate on 31 December 2023.

2 The above dividends approved are accounted for as disclosed in Note 8 on the Financial Statements.

3 The above dividend amounts for pounds sterling and Hong Kong dollars have been rounded.

American Depositary Shares

A holder of HSBC Holdings' American Depositary Shares ('ADSs') may have to pay, either directly or indirectly (via the intermediary through whom their ADSs are held) fees to the Bank of New York Mellon as depositary.

Fees may be paid or recovered in several ways: by deduction from amounts distributed; by selling a portion of distributable property; by deduction from dividend distributions; by directly invoicing the holder; or by charging the intermediaries who act for them.

Fees for the holders of the HSBC ADSs include:

For:	HSBC ADS holders must pay:
Each issuance of HSBC ADSs, including as a result of a distribution of shares (including through a stock dividend, stock split or distribution of rights or other property)	\$5.00 (or less) per 100 HSBC ADSs or portion thereof
Each cancellation of HSBC ADSs, including if the deposit agreement terminates	\$5.00 (or less) per 100 HSBC ADSs or portion thereof
Transfer and registration of shares on our share register to/from the holder's name to/from the name of The Bank of New York Mellon or its agent when the holder deposits or withdraws shares	Registration or transfer fees (of which there currently are none)
Conversion of non-US currency to US dollars	Charges and expenses incurred by The Bank of New York Mellon with respect to the conversion
Each cash distribution to HSBC ADS holders	\$0.02 or less per ADS
Transfers of HSBC ordinary shares to the depositary in exchange for HSBC ADSs	Any applicable taxes and/or other governmental charges
Distribution of securities by the depositary to HSBC ADS holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and those shares had been deposited for issuance of ADSs
Any other charges incurred by the depositary or its agents for servicing shares or other securities deposited	As applicable

The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The depositary has agreed to reimburse us for expenses we incur, and to pay certain out-of-pocket expenses and waive certain fees, in connection with the administration, servicing and maintenance of our ADS programme. There are limits on the amount of expenses for which the depositary will reimburse us. During the year ended 31 December 2023, the depositary reimbursed, paid and/or waived fees and expenses totalling \$1,516,730.03 in connection with the administration, servicing and maintenance of the programme.

Nature of trading market

HSBC Holdings ordinary shares are listed or admitted to trading on the London Stock Exchange ('LSE'), the Hong Kong Stock Exchange ('HKSE'), the Bermuda Stock Exchange and on the New York Stock Exchange ('NYSE') in the form of ADSs. HSBC Holdings maintains its principal share register in England and overseas branch share registers in Hong Kong and Bermuda (collectively, the 'share register').

As at 31 December 2023, there were a total of 172,243 holders of record of HSBC Holdings ordinary shares on the share register.

As at 31 December 2023, a total of 16,561,194 of the HSBC Holdings ordinary shares were registered in the HSBC Holdings' share register in the name of 13,917 holders of record with addresses in the US. These shares represented 0.09% of the total HSBC Holdings ordinary shares in issue.

As at 31 December 2023, there were 4,679 holders of record of ADSs holding approximately 82.33m ADSs, representing approximately 411.65m HSBC Holdings ordinary shares, 4,599 of these holders had addresses in the US, holding approximately 82.30m ADSs, representing approximately 411.52m HSBC Holdings ordinary shares. As at 31 December 2023, approximately 2.14% of the HSBC Holdings ordinary shares were represented by ADSs held by holders of record with addresses in the US.

Memorandum and Articles of Association

The disclosure under the caption 'Memorandum and Articles of Association' contained in Form 20-F for the years ended 31 December 2000, 2001, 2014, 2018 and 2022 is incorporated by reference herein.

Differences in HSBC Holdings/New York Stock Exchange corporate governance practices

Under the NYSE's corporate governance rules for listed companies and the applicable rules of the SEC, as a NYSE-listed foreign private issuer, HSBC Holdings must disclose any significant ways in which its corporate governance practices differ from those followed by US companies subject to NYSE listing standards. HSBC Holdings believes the following to be the significant differences between its corporate governance practices and NYSE corporate governance rules applicable to US companies.

US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines. The Listing Rules of the FCA require each listed company incorporated in the UK to include in its annual report and accounts a statement of how it has applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council and a statement as to whether or not it has complied with the code provisions of The UK Corporate Governance Code throughout the accounting period covered by the annual report and accounts. A company that has not complied with the code provisions, or complied with only some of the code provisions or (in the case of provisions whose requirements are of a continuing nature) complied for only part of an accounting period covered by the report, must specify the code provisions with which it has not complied, and (where relevant) for which part of the reporting period such non-compliance continued, and give reasons for any non-compliance. During 2023, HSBC complied with the applicable code provisions of the UK Corporate Governance Code. The UK Corporate Governance Code does not require HSBC Holdings to disclose the full range of corporate guidelines with which it complies.

Under NYSE standards, companies are required to have a nominating/corporate governance committee composed entirely of directors determined to be independent in accordance with the NYSE's corporate governance rules. All of the members of the Nomination & Corporate Governance Committee (excluding the Group Chairman) during 2023 were independent non-executive Directors, as determined in accordance with the UK Corporate Governance Code. The terms of reference of our Nomination & Corporate Governance Committee, which comply with the UK Corporate Governance Code, require a majority of members to be independent non-executive Directors. In addition to identifying individuals qualified to become Board members, a nominating/corporate governance committee must develop and recommend to the Board a set of corporate governance principles.

The Nomination & Corporate Governance Committee's terms of reference do not require it to develop and recommend corporate governance principles for HSBC Holdings, as HSBC Holdings is subject to the corporate governance principles of the UK Corporate Governance Code.

The Board of Directors is responsible under its terms of reference for the development and review of Group policies and practices on corporate governance.

Under the NYSE standards, companies are required to have a compensation committee composed entirely of directors determined to be independent in accordance with the NYSE's corporate governance rules. All of the members of the Group Remuneration Committee during 2023 were independent non-executive Directors, as determined in accordance with the UK Corporate Governance Code. The terms of reference of our Group Remuneration Committee, which comply with the UK Corporate Governance Code, require at least three members to be independent non-executive Directors. A compensation committee must review and approve corporate goals and objectives relevant to chief executive officer compensation and

evaluate a chief executive officer's performance in light of these goals and objectives. The Group Remuneration Committee's terms of reference require it to review and approve performance-based remuneration of the executive Directors by reference to corporate goals and objectives that are set by the Board of Directors.

Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year.

The Group Chairman meets with the independent non-executive Directors without the executive Directors in attendance after each scheduled Board meeting and otherwise, as necessary. HSBC Holdings' practice, in this regard, complies with the UK Corporate Governance Code.

In accordance with the requirements of the UK Corporate Governance Code, HSBC Holdings discloses in its Annual Report and Accounts how the Board, its committees and the Directors are evaluated (on page 352) and provides extensive information regarding Directors' compensation in the Directors' remuneration report (on page 315).

The terms of reference of HSBC Holdings' Group Audit, Nomination & Corporate Governance, Group Remuneration and Group Risk Committees are available at www.hsbc.com/who-we-are/leadership-and-governance/board-committees.

NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

In 2021, the Board endorsed the Statement of Business Principles and Code of Conduct, which, pursuant to the requirements of the Sarbanes-Oxley Act, incorporates the Sarbanes-Oxley code of ethics (the "Sarbanes-Oxley Principles") applicable to the Group Chief Executive, as the principal executive officer, and to the Group Chief Financial Officer and Global Financial Controller. The Statement of Business Principles and Code of Conduct remains in force and applies to the employees of all our companies. The Statement of Business Principles and Code of Conduct is available on www.hsbc.com/who-we-are/esg-and-responsible-business/our-conduct or from the Group Company Secretary and Chief Governance Officer at 8 Canada Square, London E14 5HQ. During 2023, HSBC Holdings granted no waivers from its code of ethics.

Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors. Currently, more than three-quarters of HSBC Holdings' Directors are independent.

Under the UK Corporate Governance Code, the HSBC Holdings Board determines whether a Director is independent in character and judgement and whether there are relationships or circumstances that are likely to affect, or could appear to affect, the Director's judgement.

Under the NYSE rules, a director cannot qualify as independent unless the board affirmatively determines that the director has no material relationship with the listed company; in addition, the NYSE rules prescribe a list of circumstances in which a director cannot be independent. The UK Corporate Governance Code requires a company's board to assess director independence by affirmatively concluding that the director is independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgement. Lastly, a chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards. In accordance with NYSE listing rules applicable to foreign private issuers, HSBC Holdings' Group Chief Executive is not required to provide the NYSE with this annual compliance certification. However, in accordance with rules applicable to both US companies and foreign private issuers, the Group Chief Executive is required promptly to notify the NYSE in writing after any executive officer becomes aware of any material non-compliance with the NYSE corporate governance standards applicable to HSBC Holdings. HSBC Holdings is required to submit annual and interim written affirmations of compliance with applicable NYSE corporate governance standards, similar to the affirmations required of NYSE-listed US companies.

Glossary of accounting terms and US equivalents

Accounting term	US equivalent or brief description
Accounts	Financial Statements
Articles of Association	Articles of incorporation
Called up share capital	Shares issued and fully paid
Creditors	Payables
Debtors	Receivables
Deferred tax	Deferred income tax
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interests in associates and joint ventures	Interests in entities over which we have significant influence or joint control, which are accounted for using the equity method
Loans and advances	Loans
Loan capital	Long-term debt
Nominal value	Par value
One-off	Non-recurring
Ordinary shares	Common stock
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term has been agreed, established through a customer's current account
Preference shares	Preferred stock
Premises	Property
Provisions	Liabilities of uncertain timing or amount
Share premium account	Additional paid-in capital
Shares in issue	Shares outstanding
Write-offs	Charge-offs

Reconciliations

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Abbreviations

Currencies

£	British pound sterling
CA\$	Canadian dollar
€	Euro
HK\$	Hong Kong dollar
MXN	Mexican peso
RMB	Chinese renminbi
SGD	Singapore dollar
\$	United States dollar

A

ABS ¹	Asset-backed security
ADR	American Depositary Receipt
ADS	American Depositary Share
AGM	Annual General Meeting
AI	Artificial intelligence
AIEA	Average interest-earning assets
ALCO	Asset and Liability Management Committee
AML	Anti-money laundering
AML DPA	Five-year deferred prosecution agreement with the US Department of Justice, entered into in December 2012
ANP	Annualised new business premium
ASEAN	Association of Southeast Asian Nations
AT1	Additional tier 1

B

Basel Committee	Basel Committee on Banking Supervision
Basel II ¹	2006 Basel Capital Accord
Basel III ¹	Basel Committee's reforms to strengthen global capital and liquidity rules
Basel 3.1	Outstanding measures to be implemented from the Basel III reforms
BEPS	Base Erosion and Profit Shifting
BGF	Business Growth Fund, an investment firm that provides growth capital for small and mid-sized businesses in the UK and Ireland
BoCom	Bank of Communications Co., Limited, one of China's largest banks
BoE	Bank of England
Bps ¹	Basis points. One basis point is equal to one-hundredth of a percentage point
BVI	British Virgin Islands

C

CAPM	Capital asset pricing model
CDS ¹	Credit default swap
CEA	Commodity Exchange Act (US)
CET1 ¹	Common equity tier 1
CGUs	Cash-generating units
CMB	Commercial Banking, a global business
CMC	Capital maintenance charge
CODM	Chief Operating Decision Maker
COSO	2013 Committee of Sponsoring Organizations of the Treadway Commission (US)
Corporate Centre	Corporate Centre comprises Central Treasury, our legacy businesses, interests in our associates and joint ventures, central stewardship costs and consolidation adjustments
CP ¹	Commercial paper
CRD IV ¹	Capital Requirements Regulation and Directive
CRR ¹	Customer risk rating
CRR II ¹	The regulatory requirements of the Capital Requirements Regulation and Directive, the CRR II regulation and the PRA Rulebook
CSA	Credit support annex
CSM	Contractual service margin
CVA ¹	Credit valuation adjustment

D

Deferred shares	Awards of deferred shares define the number of HSBC Holdings ordinary shares to which the employee will become entitled, generally between one and seven years from the date of the award, and normally subject to the individual remaining in employment

DPD	Days past due
DPF	Discretionary participation feature of insurance and investment contracts
DVA ¹	Debit valuation adjustment

E

EAD ¹	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
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
EEA	European Economic Area
Eonia	Euro Overnight Index Average
EPC	Energy performance certificate
EPS	Earnings per ordinary share
ESG	Environmental, social and governance
EU	European Union
Euribor	Euro interbank offered rate
EVE	Economic value of equity

F

FAST-Infra	Finance to Accelerate the Sustainable Transition-Infrastructure
FCA	Financial Conduct Authority (UK)
FDIC	Federal Deposit Insurance Corporation
FFVA	Funding fair value adjustment estimation methodology on derivative contracts
FPA	Fixed pay allowance
FRB	Federal Reserve Board (US)
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FTE	Full-time equivalent staff
FTSE	Financial Times Stock Exchange index
FVOCI ¹	Fair value through other comprehensive income
FX	Foreign exchange

G

GAAP	Generally accepted accounting principles
GAC	Group Audit Committee
GBM	Global Banking and Markets, a global business
GDP	Gross domestic product
GEC	Group Executive Committee
GFANZ	Glasgow Financial Alliance for Net Zero
GMP	Guaranteed minimum pension
GPS	Global Payments Solutions, the business formerly known as Global Liquidity and Cash Management
GPSP	Group Performance Share Plan
GRC	Group Risk Committee
Group	HSBC Holdings together with its subsidiary undertakings
GTRF	Global Trade and Receivables Finance

H

Hang Seng Bank	Hang Seng Bank Limited, one of Hong Kong's largest banks
HKEx	The Stock Exchange of Hong Kong Limited
HKMA	Hong Kong Monetary Authority
HMRC	HM Revenue and Customs
Holdings ALCO	HSBC Holdings Asset and Liability Management Committee
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
HSBC Bank plc	HSBC Bank plc, also known as the non-ring-fenced bank
HSBC Bank Middle East	HSBC Bank Middle East Limited
HSBC Bank USA	HSBC Bank USA, N.A., HSBC's retail bank in the US
HSBC Canada	The sub-group, HSBC Bank Canada, HSBC Trust Company Canada, HSBC Mortgage Corporation Canada and HSBC Securities Canada, consolidated for liquidity purposes

Additional information

HSBC Continental Europe	HSBC Continental Europe
HSBC Finance	HSBC Finance Corporation, the US consumer finance company (formerly Household International, Inc.)
HSBC Holdings	HSBC Holdings plc, the parent company of HSBC
HSBC Private Bank (Suisse)	HSBC Private Bank (Suisse) SA, HSBC's private bank in Switzerland
HSBC UK	HSBC UK Bank plc, also known as the ring-fenced bank
HSBC USA	The sub-group, HSBC USA Inc (the holding company of HSBC Bank USA) and HSBC Bank USA, consolidated for liquidity purposes
HSI	HSBC Securities (USA) Inc.
HSSL	HSBC Securities Services (Luxembourg)

I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBE	Independent Board Evaluation
Ibor	Interbank offered rate
ICAAP	Internal capital adequacy assessment process
ICMA	International Capital Market Association
IEA	International Energy Agency
IFRS Accounting Standards	International Financial Reporting Standards as issued by the International Accounting Standards Board
ILAAP	Internal liquidity adequacy assessment process
IMA	Internal model approach
IMM	Internal model method
IRB ¹	Internal ratings-based
ISDA	International Swaps and Derivatives Association
ISSB	International Sustainability Standard Board
JV	Joint venture

K

KMP	Key Management Personnel

L

LCR	Liquidity coverage ratio
LGBTQ+	Lesbian, gay, bisexual, transgender and queer. The plus sign denotes other non-mainstream groups on the spectrums of sexual orientation and gender identity
LGD ¹	Loss given default
Libor	London interbank offered rate
Long term	For our financial targets, we define long term as five to six years, commencing 1 January 2024
LTI	Long-term incentive
LTV ¹	Loan to value

M

Mainland China	People's Republic of China excluding Hong Kong and Macau
Medium term	For our financial targets, we define medium term as three to four years, commencing 1 January 2024
MENAT	Middle East, North Africa and Türkiye
MREL	Minimum requirement for own funds and eligible liabilities
MRT ¹	Material Risk Taker
MSS	Markets and Securities Services, HSBC's capital markets and securities services businesses in Global Banking and Markets

N

Net operating income	Net operating income before change in expected credit losses and other credit impairment charges
NGO	Non-governmental organisation
NII	Net interest income
NIM	Net interest margin
NPS	Net promoter score
NSFR	Net stable funding ratio
NYSE	New York Stock Exchange
NZBA	Net-Zero Banking Alliance

O

OCI	Other comprehensive income
OECD	Organisation of Economic Co-operation and Development
OTC ¹	Over-the-counter

P

PBT	Profit before tax
PCAF	Partnership for Carbon Accounting Financials
PD ¹	Probability of default
Performance shares ¹	Awards of HSBC Holdings ordinary shares under employee share plans that are subject to corporate performance conditions
Ping An	Ping An Insurance (Group) Company of China, Ltd, the second-largest life insurer in the PRC
POCI	Purchased or originated credit-impaired financial assets
PRA	Prudential Regulation Authority (UK)
PRC	People's Republic of China
Principal plan	HSBC Bank (UK) Pension Scheme
PVIF	Present value of in-force long-term insurance business and long-term investment contracts with DPF
PwC	The member firms of the PwC network, including PricewaterhouseCoopers LLP

R

RAS	Risk appetite statement
Repo ¹	Sale and repurchase transaction
Revenue	Net operating income before ECL
Reverse repo	Security purchased under commitments to sell
RNIV	Risk not in VaR
RoE	Return on average ordinary shareholders' equity
RoTE	Return on average tangible equity
RWA ¹	Risk-weighted asset

S

SAB	Saudi Awwal Bank
SAPS	Self-administered pension scheme
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SDG	United Nation's Sustainable Development Goals
SEC	Securities and Exchange Commission (US)
ServCo group	Separately incorporated group of service companies established in response to UK ring-fencing requirements
Sibor	Singapore interbank offered rate
SIC	Securities investment conduit
SME	Small and medium-sized enterprise
Solitaire	Solitaire Funding Limited, a special purpose entity managed by HSBC
SPE ¹	Special purpose entity
SVB UK	Silicon Valley Bank UK Limited, now HSBC Innovation Bank Limited

T

TCFD ¹	Task Force on Climate-related Financial Disclosures
THBFX	Thai Baht Interest Rate Fixing
TNFD	Taskforce on Nature-related Financial Disclosures
TSR ¹	Total shareholder return

U

UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
US	United States of America

V

VaR ¹	Value at risk
VIU	Value in use

W

WEF	World Economic Forum
WPB	Wealth and Personal Banking, a global business

¹ A full definition is included in the glossary to the Annual Report and Accounts 2023 which is available at www.hsbc.com/investors.

HSBC Holdings plc

Incorporated in England on 1 January 1959 with
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Additional information

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Item 19. Exhibits

Documents filed as exhibits to this annual report on Form 20-F:

Exhibit Number	Description
1.1	Memorandum and Articles of Association of HSBC Holdings plc (incorporated by reference to Exhibit 1.1 to HSBC Holding plc's Form 20-F filed with the SEC on February 22, 2023).
2.1	Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934.
4.1	Undertaking by HSBC Holdings plc to the Financial Services Authority (incorporated by reference to Exhibit 99.3 to HSBC Holdings plc's Form 6-K filed with the Securities and Exchange Commission on December 12, 2012), as replaced by the Direction by the Financial Conduct Authority to HSBC Holdings plc (incorporated by reference to HSBC Holdings plc's Form 6-K filed with the Securities and Exchange Commission on April 12, 2013), as further replaced by the Direction by the Financial Conduct Authority to HSBC Holdings plc dated July 7, 2020.
4.2	Amendment dated January 16, 2024 to Paragraph 5 of the Annex to the Direction by the Financial Conduct Authority to HSBC Holdings plc dated July 7, 2020.
4.3	Service Agreement dated October 25, 2022 between HSBC Holdings plc and Georges Elhedery (incorporated by reference to Exhibit 4.2 to HSBC Holdings plc's Form 20-F filed with the SEC on February 22, 2023).
4.4	Service Agreement dated March 18, 2020 between HSBC Holdings plc and Noel Quinn (incorporated by reference to Exhibit 4.9 to HSBC Holdings plc's Form 20-F filed with the Securities and Exchange Commission on February, 24, 2021).
4.5	Engagement Letter dated March 12, 2017, between HSBC Holdings plc and Mark Tucker (incorporated by reference to Exhibit 4.11 to HSBC Holdings plc's Form 20-F filed with the Securities and Exchange Commission on February 20, 2018).
8.1	Subsidiaries of HSBC Holdings plc (set forth in Note 40 to the consolidated financial statements included in this annual report on Form 20-F).
12.1	Certificate of HSBC Holdings plc's Group Chief Executive pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certificate of HSBC Holdings plc's Group Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.1	Annual Certification of HSBC Holdings plc's Group Chief Executive and Group Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
15.1	Consent of PricewaterhouseCoopers LLP.
15.2	Pages of HSBC Holdings plc's 2000 Form 20-F/A dated February 26, 2001 relating to the Memorandum and Articles of Association of HSBC Holdings plc (incorporated by reference to Exhibit 14.2 to HSBC Holdings plc's Form 20-F filed with the Securities and Exchange Commission on March 20, 2006).
15.3	Page of HSBC Holdings plc's 2001 Form 20-F dated March 13, 2002 relating to the Memorandum and Articles of Association of HSBC Holdings plc (incorporated by reference to Exhibit 14.3 to HSBC Holdings plc's Form 20-F filed with the Securities and Exchange Commission on March 20, 2006).
15.4	Page of HSBC Holdings plc's 2018 Form 20-F dated February 20, 2019 relating to the Memorandum and Articles of Association of HSBC Holdings plc (incorporated by reference to Exhibit 15.4 to HSBC Holdings plc's Form 20-F filed with the Securities and Exchange Commission on February 19, 2020).
15.5	Page of HSBC Holdings plc's 2022 Form 20-F dated February 22, 2023 relating to the Memorandum and Articles of Association of HSBC Holdings plc.
15.6	Consent of C G Singer.
97	HSBC Holdings plc Policy for the Recovery of Erroneously Awarded Compensation.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

HSBC Holdings plc

By: /s/ Georges Elhedery

Name: Georges Elhedery

Title: Group Chief Financial Officer

Date: February 22, 2024