

HSBC Holdings plc

Annual Report and
Accounts 2023



HSBC

| Opening up a world of opportunity

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.

Contents

Strategic report

- 1 Performance in 2023
- 2 Highlights
- 4 Who we are
- 6 Group Chairman's statement
- 8 Group Chief Executive's review
- 11 Our strategy
- 14 ESG overview
- 20 Board decision making and engagement with stakeholders (Section 172(1) statement)
- 24 Remuneration
- 25 Financial overview
- 30 Global businesses
- 37 Risk overview
- 40 Long-term viability and going concern statement

Environmental, social and governance ('ESG') review

- 42 Our approach to ESG
- 44 Environmental
- 75 Social
- 87 Governance

Financial review

- 100 Financial summary
- 111 Global businesses and legal entities
- 130 Reconciliation of alternative performance measures

Risk review

- 136 Our approach to risk
- 140 Top and emerging risks
- 145 Our material banking risks

Corporate governance report

- 239 Biographies of Directors and senior management
- 262 Board committees
- 279 Directors' remuneration report

Financial statements

- 318 Independent auditors' report
- 329 Financial statements
- 341 Notes on the financial statements

Additional information

- 435 Shareholder information
- 444 Abbreviations

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 our *Annual Report and Accounts*. Our TCFD disclosures are highlighted with the following symbol: 

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 *Annual Report and Accounts 2023* for the year ended 31 December 2023 (including where a link is provided), and none of the information contained on such websites, are incorporated by reference in this report.

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



Cover image: Opening up a world of opportunity

We connect people, capital and ideas across the world. By unlocking the true power of our international networks, we are able to deliver our purpose of opening up a world of opportunity.

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 133.
- ▶ 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 111.
- ▶ 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)

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.

Highlights

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 reach is the secret tool is a compass and a ruler. We serve over 2 billion customers and invest in over 100 countries and territories. We aim to connect them to the opportunities and help them to achieve their ambitions.



million customers worldwide through a network

- Assets of**
\$3.0tn
- Approximately**
42m
Customers bank with us
- Operations in**
62
Countries and territories
- 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.



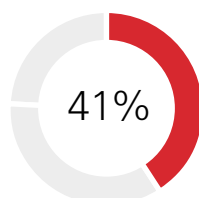
Global Banking and Markets ('GBM')

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

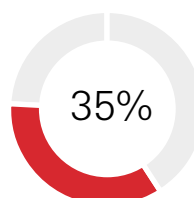
▶ For further details, see page 34.

Revenue by global business¹

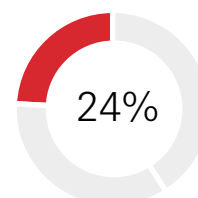
Wealth and Personal Banking



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.

Group Chairman's statement

"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.

Group Chief Executive's review

"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.

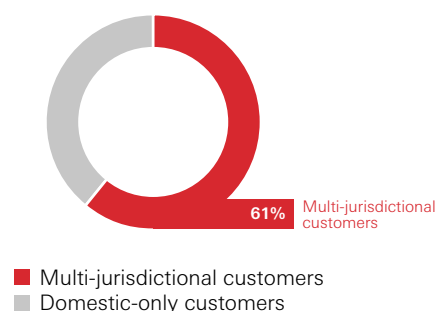
In 2023, we grew wholesale multi-jurisdictional client revenue¹ by 29% since 2022, supported by the interest rate environment. These customers also generate more revenue with us. In CMB, multi-jurisdictional corporate clients generate approximately five times the revenue of a domestic-only corporate 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.

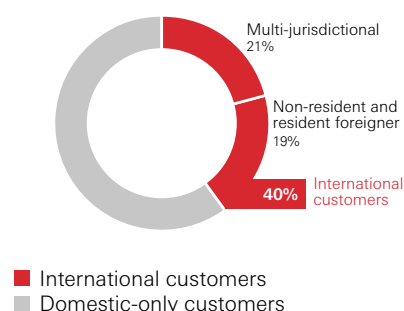
In 2023, our international strategy generated good results. We continued to attract international customers, who are either multi-jurisdictional, non-resident or resident foreigners, from our top 11 markets¹. We increased new-to-bank customers² in this segment by 43% since 2022, bringing total international 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*

Our strategy

Focus continued

Maintain cost discipline and reshape our portfolio

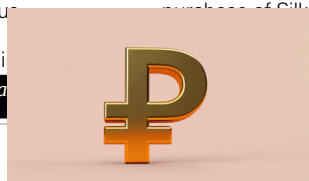
In 2023, our costs were up by 6% on a target basis. Our aim is to maintain cost discipline by driving efficiencies in our operations and reinvesting cost savings in areas that will drive future growth. We are prioritising investments in transaction banking, wealth and international propositions, and 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 investment in growth areas.

The secret currency is a

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 Silk Road Property Partners, a real estate manager in January 2024, which we have 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 284 to 298
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 284 to 298 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 PwC's 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 284.

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 284.

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 284. 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 284.

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 284.

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 440 provides further detail.



Backing renewable connections in South America

We helped to finance one of the largest transmission lines in South America, which will connect central and southern Chile to renewable energy generated in the north.

Conexión is building the Kimal-Lo Aguirre initiative after winning a tender from Chile's Minister of Energy in 2022. The project will aim to develop approximately 1,400km of critical infrastructure with the ability to carry up to 3,000 million watts of energy when scheduled to complete in 2029.

We provided a \$160m equity bridge loan to support China Southern Power Grid's contribution to the project. China Southern Power Grid is the second largest electric power company in China. The funds will help unlock energy transition infrastructure required to support Chile in achieving its net zero goals.

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 PwC's 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 limited assurance by PwC in accordance with ISAE 3000/ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and PwC's 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 PwC's 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 have enabled 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 support our communities, especially those in need, to build a sustainable future. We focus our support on digital inclusion and resilience. We also support climate solutions and innovation, and contribute to disaster



communities, we needed to focus our support on digital 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.

Board decision making and engagement with stakeholders

The Board is committed to effective engagement with all our stakeholders and seeks to understand their interests and the impacts on them when making decisions.

Section 172(1) statement

This section, from pages 20 to 23, forms our section 172(1) statement. It describes how the Directors have performed their duty to promote the success of the company, including how they have considered and engaged with stakeholders and, in particular, how they have taken account of the matters set out in section 172(1)(a) to (f) of the Companies Act 2006. The Board continued to focus on its engagement with

our key stakeholders, acknowledging that this engagement is core to being a responsible business and furthers the fulfilment of our strategy. In discharging their responsibilities, the Directors sought to understand, and have regard to, the interests and priorities of the Group's key stakeholders, including in relation to material decisions that were taken by the Board during the course of the year.

The following table includes instances where the Directors have had regard to section 172(1) factors (which are not mutually exclusive) when discussing certain matters in Board meetings and taking decisions where relevant. Some of these instances are explained in more detail in this section 172(1) statement and in the report of the Directors.

Section 172(1) factor		Where section 172(1) factor featured in Board considerations
a	Likely consequences of any decision in the long term	– Group strategy – setting and monitoring – Mergers and acquisitions activity – Share capital activity – dividend and buy-back
b	Interests of our employees	– Workforce engagement non-executive Director programme – Directors' workforce engagement activities – Annual employee Snapshot survey
c	The need to foster our business relationships with suppliers, customers and others	– Annual statement under the UK Modern Slavery Act and human rights disclosure approvals – Directors' stakeholder engagement activities – Regular Board reports from Directors and executives
d	Impact of our operations on the community and the environment	– Directors' engagement with community initiatives – Net zero transition plan – Participation at ESG events such as COP28 and representation at the World Economic Forum
e	Our desire to maintain a reputation for high standards of business conduct	– The Financial Conduct Authority's new Consumer Duty obligations – Global mandatory training – Regular engagement with global regulators including presentations by the Prudential Regulation Authority and the Financial Conduct Authority to the Board
f	Acting fairly between members of the company	– Annual General Meeting and Hong Kong Informal Shareholders' Meeting – Retail shareholder activities and investor policies' approvals – Directors' engagement with top investors

During 2023, the Board continued with an active stakeholder engagement programme, meeting numerous stakeholders in several international locations. For further details of how we engaged with our stakeholders, see pages 21 and 257.

On pages 22 and 23, we describe how the Board exercises its Directors' section 172(1) duty and takes into account the impact on relevant stakeholders when making principal decisions in order to support and deliver on the Group's strategy.

Directors' key engagements with stakeholders in 2023

Stakeholders	Engagement	Impact and outcomes
 Customers We recognise that the greater our understanding of our customers' needs, the better we can help support them to achieve their financial aims and succeed in our purpose and strategy.	– Engagement events with business customers, including customers of HSBC Innovation Banking, to discuss challenges and opportunities in key markets – Meetings with business customers to discuss plans regarding the transition to net zero – Board reporting on retail customer surveys including net promoter scores – Visits to branches in the UK, Hong Kong and India to better understand customers' changing needs	– The Board's continued engagement with customers and potential customers around the world helps to further the Board's understanding of their purposes and business needs, and how they can be supported to achieve their varied goals. – Meetings with customers help the Board understand how the Group can help customers transition to net zero. – Customer surveys provide insights into how the Group can drive meaningful improvements in customer propositions outcomes. – Retail branch visits help the Board see the positive impact of Group initiatives such as the No Fixed Address and Survivor Bank account propositions, and how opportunities are being realised for customers.
 Employees We want to continue to be a positive place to work and build careers, with the success of the Group's strategy dependent upon having motivated people with the expertise and skills required to deliver it.	– Employee events, including leadership forums, webcasts, townhalls, global jams, off-sites and employee Exchanges, as well as events that form part of the workforce engagement non-executive Director programme – Interaction with respective employee resource groups across multiple events in many jurisdictions – Participation in the annual Non-Executive Director Summit in Hong Kong	– Meeting with colleagues across jurisdictions allowed the Board to hear first-hand the employee voice on important issues. – These interactions helped to ensure continued connectivity with the workforce, and inform the Board's decision making around people-specific matters. Employee engagement also helps the Board to put into perspective employee Snapshot survey results. – Meeting with employee directors of Group subsidiaries helped to assure the Board that a consistent approach to governance has been adopted across the Group.
 Investors We seek to understand investor needs and sentiment through ongoing dialogue and a variety of engagements with both retail and institutional investors.	– Numerous meetings with analysts and several investor roadshows to discuss interim and year-end results – Remuneration Committee Chair investor meetings with top investors and proxy advisers – Annual retail investor events such as the AGM in the UK and the Informal Shareholders' Meeting in Hong Kong – Board meeting attendance by one of our largest investors to discuss Group strategic execution and the wider market outlook	– Regular interactions with institutional and retail investors throughout the year helped the Board understand investor sentiment on material matters, such as strategy delivery and transition to net zero, and gauge investors' continued support for the Group.
 Communities We seek to play an important role in supporting the communities in which we operate through our corporate social responsibility and broader engagement activities.	– Meetings with charities and NGOs on topics such as financial education for rural women in India, reintroducing biodiversity and endangered species in Europe and financial inclusion and resilience of people facing homelessness in the UK – Meetings with Shelter to discuss the Group's partnership and to hear about the impact of the Hero Partnership initiative – Forums, summits and roundtables supporting ESG causes, such as the Abu Dhabi Sustainability Week, COP28, New York Climate Week and London Climate Action Week – Meetings with members of the Sustainable Markets Initiative Council to discuss future priorities	– The Directors' participation at a range of community initiatives helped them to understand the effect the Group has on local communities as an employer, sponsor, collaborator and supporter, and helped to break down barriers for certain communities to access our products. – The Board's interaction with, and understanding of, the communities in which the Group operates helped the Board appreciate how the Group can influence meaningful change, including by educating, encouraging broader thinking, helping to shape policy and formulating solutions, creating supportive environments, and helping to achieve net zero ambitions.
 Regulators and governments Maintaining constructive dialogue and relations with the relevant authorities in the markets in which we operate helps support the achievement of our strategic aims.	– Various meetings across our key markets with heads of state, international leaders and government officials including ministers and ambassadors – Regular meetings with, and presentations from, our many regulators, including in the UK and Hong Kong, and elsewhere	– Frequent and varied engagements between the Board and heads of state, international leaders, government officials and regulators provide an opportunity for open dialogue. It is also critical in ensuring that the Board understands and continues to meet its regulatory obligations. – Meeting with international officials allows the Board to communicate the Group's strategy, perspectives and insights while ensuring that Directors remain abreast of political and regulatory developments. It also allows the Board to share perspectives on industry best practices.
 Suppliers We engage with suppliers, which helps us operate our business effectively and execute our strategy.	– Regular reports and updates to the Board from the Group Chief Operating Officer on supplier matters – Meetings with key technology suppliers to discuss the Group's innovation ambitions and how they could further support HSBC's data requirements, including to inform and support its net zero ambitions – Meetings with key suppliers in sectors such as real estate	– Meeting with our suppliers helps the Directors understand our suppliers' challenges and how we can work collaboratively to succeed, including in digitising at scale and achieving our net zero ambitions. – It is key for the Board to understand the Group's supply chain and how suppliers' operations are aligned to our purpose and values. Such reporting and engagement supports the Board when approving the annual statement under the UK Modern Slavery Act.

Principal strategic decisions

The Board operates having regard to the duties of the Directors, including the relevant matters set out in section 172(1)(a)-(f) of the Companies Act 2006. A key focus for the Board is setting, and monitoring execution against, the Group strategy. Principal decisions taken by the Board consider how the decision furthers the Group purpose, and aligns with one or all of the strategic pillars: 'Focus', 'Digitise', 'Energise' and 'Transition'.

The following examples demonstrate how the Board operated having regard to the duties of the Directors. Good governance practices adopted by the Board facilitate its key decision taking. Governance features as an agenda item at all scheduled Board meetings. Papers presented to the Board for consideration are expected to follow a template to help ensure that Directors get the right level of information to take informed decisions in keeping with their duties. The template requests authors to, among others things, describe the extent to which relevant stakeholders are engaged with, or impacted by, the matter under consideration, and whether this has influenced the recommendation to the Board.

Group strategy



As part of the Board's responsibility to set, and monitor execution against, HSBC's strategy, Directors take into consideration the Group's strategies across the global businesses and legal entities. The Board continued to oversee the progression of the Group's divestment of non-core operations while targeting select acquisitions. One such principal decision taken during the year was the acquisition by HSBC UK Bank plc of SVB UK. In considering this opportunity, the Board took into account the views of key stakeholders, including UK regulators and the government. It also considered the potential impact of the acquisition on SVB UK customers, principally that their banking services would be maintained, backed by the strength, safety and security of HSBC. The Board also considered how the acquisition would enhance shareholder value, strengthen our CMB franchise, and further its ability to serve innovation and fast-growing firms in the technology and life sciences sectors, supporting our 'Focus' strategic pillar. Following the acquisition of SVB UK, HSBC Innovation Banking was

launched in June 2023. Senior management embarked on a programme of communication and interactions with customers, employees and investors by way of townhalls and Q&A sessions to help key stakeholders understand the rationale for the transaction and reiterate HSBC's support for its customers.

The Board continued its monitoring and oversight of the impacts flowing from its principal strategic decisions taken in the current and previous years, in particular the sale of the retail banking operations in France and the planned sale of the banking business in Canada. The Board met in order to agree amended terms to complete our France business sale. It was updated regularly, and provided input as appropriate, on actions required to ensure the successful completion of these transactions. It also liaised with relevant stakeholders such as governments, regulators, work councils, employees and customers, as necessary.

In this way, the Board effectively carried out its duties and assured itself that the principal

strategic decisions taken were, and continue to be, most likely to promote the long-term success of the company.

During the course of the year, the Board continued a targeted focus on receiving relevant and succinct management information, including key metrics and data, to help demonstrate progress against strategic areas of interest. The Board considered how it should be informed, in the most transparent way, on the evolution of the Group's strategy from transformation to one focused on growth. The Board has agreed key performance indicators to help keep it informed on relevant areas of strategic progress, all of which are focused on four overarching perspectives: external commitments/key outcomes; key business drivers; sustainable financial performance; and the ability to transform and license to operate. These indicators will also be used to foster a culture of performance and discipline across the organisation and will be factored into executive Directors' scorecards.

Sustainability



The Board is responsible for the oversight of the Group's sustainability and ESG strategy setting and delivery, and monitors progress against execution of our net zero ambitions. Key outcomes are reviewed regularly by the Board. Directors also received training on ESG-related matters as part of their ongoing development.

The Board's understanding of the progress against the Group's ESG strategy was informed by the ESG dashboard. The data provided in this dashboard included key metrics that help the Board to monitor progress against the Group's ESG ambitions, including the transition to net zero, building inclusion and resilience, and acting responsibly. Additional details were provided on metrics relating to the roll-out of the Group's supplier code of conduct, female entrepreneurship and gender diversity in senior roles.

In 2023, the Board gave the Group Executive Committee feedback on the need to better

define core areas of the Group's sustainability execution programme, a Group-wide programme to enable the delivery of our sustainability agenda. The core areas included accountability, governance, capability, investment in infrastructure and data. Governance was enhanced by the establishment of the Sustainability Execution Committee, with responsibility to oversee delivery of the sustainability execution programme. This committee reports to the Group Executive Committee which receives regular updates on progress towards fulfilment of our net zero ambitions. It takes into account key stakeholder considerations and potential impacts on the Group's strategic direction for sustainability, and reports these to the Board, helping Directors take relevant decisions. In addition, three non-executive Directors participated in climate advisory panel meetings with external subject matter experts to discuss sustainability, including the Group's net zero transition plan.

Appreciating the importance of the Group's commitment to publish a net zero transition plan, the Board took the decision to establish a dedicated sub-group with responsibility for overseeing its finalisation, taking into consideration the implications for all our stakeholders and communication of the plan to the market. This sub-group included four non-executive Directors, the Group Chief Executive and the Group Chief Financial Officer, as well as other members of senior management. It took into consideration the short-term consequences on stakeholders, particularly for customers and investors, and balanced these against long-term benefits for the Group, the society in which we live, and the success of the company as a whole for the long term. Recommendations made to the Board by the sub-group, including stakeholder impacts, helped to inform the Board's deliberations, leading to its final approval of the net zero transition plan, published in January 2024.

Board decision making and engagement with stakeholders

Technology



In support of the strategic pillar 'Digitise', the Board continued its oversight of the Group's technology strategy, Vision 27, recognising that technology is an integral part of business success. In overseeing legal entity and global business strategies, the Board acts to promote connectivity of technology strategies across the organisation.

To help assure the Board that the Vision 27 initiatives remained strategically aligned and appropriately resourced, it supported the appointment of a third-party professional services firm to conduct a review. The third party engaged with employees from across

the global businesses and functions to explore how the organisation was executing various technological initiatives.

The third party's review was facilitated by its attendance at the newly formed technology steering committee, overseen by the Board's Technology Governance Working Group. This steering committee comprised senior management including global business representatives to ensure that business views were well represented. The insights gained from the steering committee helped to form its reports to the Technology Governance Working Group, which in turn reports to the

Board. It also attended a Board meeting in person to discuss the independent review. The findings from the report helped deepen the Board's understanding of contributing factors to the success of Vision 27.

As a result of the review and related Board discussions, in order to enhance governance around overseeing the progress of the Group's long-term technology strategy, the Board agreed that a new Board committee will be established in 2024 in place of the Technology Governance Working Group, to be chaired by a non-executive Director.

Financial performance and capital returns



When taking its decision to approve the annual financial resource plan, the Board engaged in active deliberation, taking into account stakeholders' perspectives, including customers, employees and investors, as well as market perception and regulatory expectations. The Board considered the alignment between the Group's medium-term strategic and investment plans with projected performance throughout the annual financial resource plan. In addition, consideration was given to scenario analysis related to the macroeconomic and geopolitical environment to ascertain the risks – and potential mitigating actions – to best protect the Group's financial performance and capital returns.

In 2023, 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. To this end, in the *Annual Report and Accounts 2022*, the Board approved the Group's announcement regarding its intention to revert to paying quarterly dividends from the first quarter of 2023. Following discussion at the Board, subject to the completion of the sale of the banking business in Canada, the Board agreed its intention to consider the payment of a special dividend of \$0.21 per share as a priority use of the proceeds generated by the completion of the transaction. 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. In approving the payment of the dividends, the Board took into account the interests of the shareholders and sought to act in the best interests of the members as a whole.

In addition to dividend payments, HSBC undertook share buy-backs of up to \$2bn each commencing on 10 May 2023 and 3 August 2023, and commenced a further buy-back of up to \$3bn on 1 November 2023. In considering the buy-backs, the Board (or the Chairman's Committee with delegated authority from the Board) took into account its stated intention to consider buy-backs subject to appropriate capital levels, the views of its regulators with regard to its regulatory capital requirements and, in particular, the benefit to shareholders, and determined that the buy-backs would promote the success of the company.

People and culture



Each Board meeting starts with a culture moment – a standing agenda item for one of the Board members, on a rotational basis, to share insights into their perceptions on how the Group culture is being lived. These perceptions help the Board to fulfil its responsibility of monitoring the Group's culture. They also serve to shape and frame discussions more generally in Board meetings.

The Board regularly considers updates on people and the workforce, supported by key metrics and culture insights. These updates help the Board understand employee sentiment, including any upward or downward trends, which informs considerations of how the tone from the top is being embedded. Regular reporting to the Board and/or its committees from the Group Chief Human Resources Officer includes metrics on attrition, whistleblowing, escalations, employee understanding of strategy and pay sentiment across our legal entities. This, together with the annual Snapshot survey results, demonstrate

people-related challenges and successes across the Group and legal entities. In these ways the Board broadens its understanding of the interests of our employees, which in turn helps to shape its decisions or add value when asked to approve HR policy and other people-related matters.

The dedicated workforce engagement non-executive Director provides a regular report to Board meetings, which together with the Directors' own participation in arranged employment engagement activities, strengthen the Board's appreciation of what matters to employees, and help to inform decisions related to HR and people matters. An example of people and culture data and engagements assisting Board decision making in 2023 included the discussion held by the Board on a strategic focus around 'the workforce of the future' programme. This programme is looking at the key workforce skills necessary for the future, the role of technology in the workplace and development

of a plan for its implementation. For further details of how we structure engagement between the Board and the workforce, see page 257.

The Board took the decision in 2023 to approve HSBC's new headquarters and to move to the new Panorama St Paul's development. This decision was facilitated by people data gathered from the Snapshot survey and other methods that demonstrated a desire from colleagues to continue to create an agile and technologically fit-for-purpose environment to work and succeed together. The Board took this decision knowing that a new purpose-built office and the continuation of a hybrid working model would enable the Group to continue to attract top talent, and provide them with collaboration spaces to support their success and well-being. The Board concluded the new headquarters would be in the best interests of the company for the long term. For further details of the new head office, see page 99.

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 279.

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 284.

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. If this basis had been adopted for 2023, our RoTE excluding notable items would have been 16.2%.

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 131 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, excluding material notable items and related items	0.33	0.35	(0.07)
Basic earnings per share excluding material notable items and related items	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 111. Definitions and calculations of other alternative performance measures are included in 'Reconciliation of alternative performance measures' on page 130.

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 156 to 168.

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.

Financial overview

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 206.

Total assets
(\$bn)

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

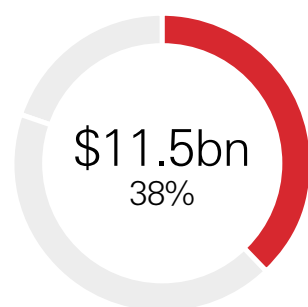
Common equity tier 1 ratio
(%)

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.

Launching our international proposition

We launched our redesigned international proposition in February 2023 to strengthen our position as a leading banking provider for international customers, which is WPB's fastest-growing segment representing 40% of revenue in 2023. The refresh involved six services launched across 10 international markets, with the aim of helping customers move and invest overseas easier.

This included supporting our international customers, who generate around three times the average revenue of a domestic customer, so they can open an international account digitally pre-departure, gain access to a credit card in their new market with an appropriate limit, and make use of quick, competitively priced cross-border payment solutions with 24/7 global support to manage their international needs.



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.

	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.

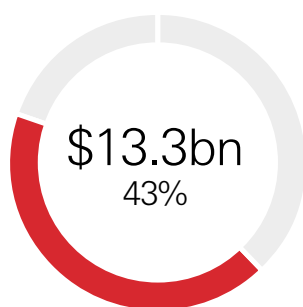
ECL were \$1.1bn in 2023, down \$0.1bn on a constant currency basis, as credit performance remained resilient, despite a rise in inflationary pressures.

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.

Backing a manufacturer in its international expansion

When Polygroup, a leading manufacturing business specialising in seasonal goods, decided to expand into new international markets, it was able to take advantage of our global network and local market insights.

The group, which employs more than 15,000 people across four continents, partnered with us to expand to new locations in mainland China, Indonesia and Mexico. With our broad range of banking capabilities across our international network, we were able to provide capital expenditure financing to help build new manufacturing facilities.

We also supported Polygroup in improving its cash flow during off-peak seasons by extending tailor-made trade solutions delivered through an international digital platform, and we continue to support it on its ESG journey.



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

The secret transportation is a

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



	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

	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.

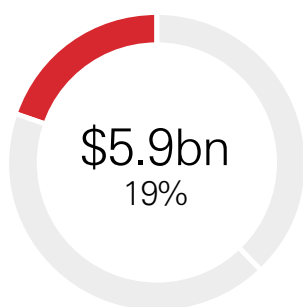
ECL were a charge of \$2.1bn, compared with a charge of \$1.9bn in 2022 on a constant currency basis. The increase of \$0.2bn was mainly driven by higher stage 3 charges in the UK, and included provisions from HSBC Innovation Banking, and charges in the Middle East. ECL in both periods reflected charges 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.

Leading on a \$2.4bn rights issue for Link REIT

Our international connectivity and balance sheet strength help support clients when they need to carry out large strategic transactions in the capital markets.

In March 2023, we supported Asia's largest real estate investment trust to complete the largest ever rights issue from a non-bank issuer in Hong Kong. We acted as sole global coordinator and lead underwriter on a \$2.4bn one-for-five rights issue for Link REIT, which was conducted to strengthen its capital base and position itself for the next phase of growth.

The transaction was the largest ever rights issue in the Asian real estate sector and the largest equity offering in Hong Kong since September 2021.



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

	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	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 156.

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 207. 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 221.

► 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 225.

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 137 and 145, 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 labor 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	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 third parties, including our third party suppliers. Due to the current macroeconomic and supply chain has heightened. We continue to implement policies and processes to select and manage third parties, 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		



Long-term viability and going concern statement

Under the UK Corporate Governance Code, the Directors are required to provide a viability statement that must state whether the Group will be able to continue in operation and meet its liabilities, taking into account its current position and the principal risks it faces. They must also specify the period covered by, and the appropriateness of, this statement.

The Directors have specified a period of three years to 31 December 2026. They are satisfied that a forward-looking assessment of the Group for this period is sufficient to enable a reasonable statement of viability. In addition, this period is covered by the Group's stress testing programmes, and its internal projections for profitability, key capital ratios and leverage ratios. Notwithstanding this, our stress testing programmes also cover scenarios out to five years and our assessment of risks are beyond three years where appropriate (see page 140):

- This period is representative of the time horizon to consider the impact of ongoing regulatory changes in the financial services industry.
- Our updated business plan covers 2024–2028.

The Board, having made appropriate enquiries, is satisfied that the Group as a whole has adequate resources to continue operations for a period of at least 12 months from the date of this report, and it therefore continues to adopt the going concern basis in preparing the financial statements.

Based upon their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet liabilities as they fall due over the next three years.

In making their going concern and viability assessments, the Directors have considered a wide range of detailed information relating to present and potential conditions, including projections for profitability, liquidity, capital requirements and capital resources.

The Directors carried out a robust assessment of the emerging and principal risks facing the Group to determine its long-term viability, including those that would threaten its

solvency and liquidity. They determined that the principal risks are the Group's top and emerging risks as set out on page 38. These include geopolitical and macroeconomic risks (including geopolitical tensions and their impact on sanctions, trade restrictions and continued distressed Chinese economic activity), digitalisation and technological advances, financial crime risk and ESG risks, all of which have remained at heightened levels during 2023.

The Directors assessed that all of the top and emerging risks identified are considered to be material and, therefore, appropriate to be classified as the principal risks to be considered in the assessment of viability. They also appraised the impact that these principal risks could have on the Group's risk profile, taking account of mitigating actions planned or taken for each, and compared this with the Group's risk appetite as approved by the Board.

In carrying out their assessment of the principal risks, the Directors considered a wide range of information including:

- details of the Group's business and operating models, and strategy (see page 11);
- 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 136) and top and emerging risks (see page 140);
- 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 225;
- 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 on the financial statements; and
- reports and updates from management on the operational resilience of the Group.

Aileen Taylor

Group Company Secretary and Chief Governance Officer

21 February 2024

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.

- 42 Our approach to ESG
- 44 Environmental
- 75 Social
- 87 Governance

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 221 to 230. 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 *Annual Report and Accounts*, 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 our *Annual Report and Accounts*, 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 439.

Our reporting around ESG

We report on ESG matters throughout our *Annual Report and Accounts*, 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 221 to 230). 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 our *Annual Report and Accounts*, *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 PwC limited 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 PwC's 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 221.

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 343.

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.

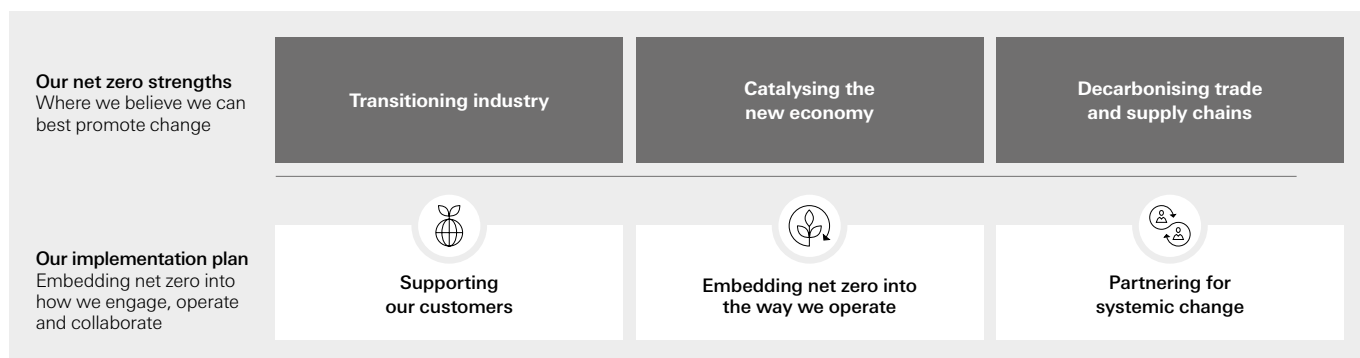
Our implementation plan

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.

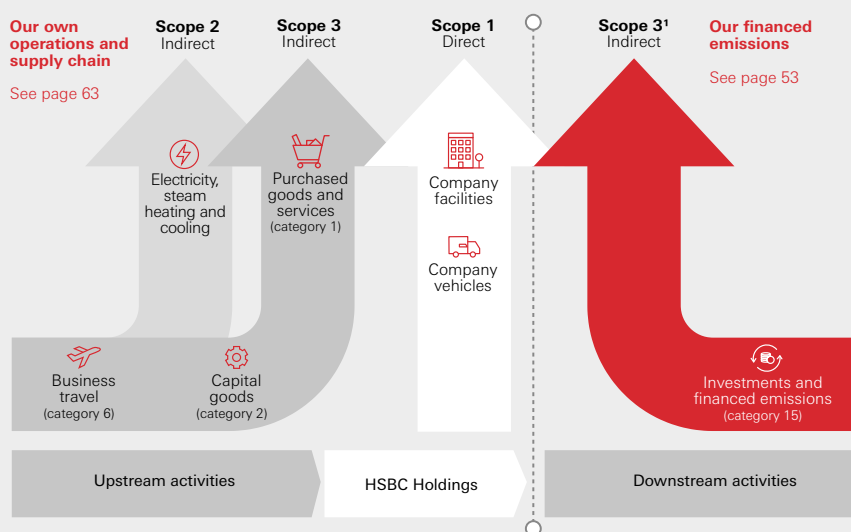
We acknowledge that to achieve our climate ambition we need to be transparent about the opportunities, challenges, related risks we face and progress we make. Our reporting must evolve to keep pace with market developments, and we will aim to work through challenges and seek to improve consistency across 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'.



Accelerating investment in Baltic offshore wind energy

Polish multi-energy company Orlen Group and Canadian power producer Northland Power have set up a joint venture to build the Baltic Power project – the first offshore wind farm in Polish waters of the Baltic Sea.

In September 2023, we played a key role in supporting the construction and operation of 76 offshore turbines when we acted as a mandated lead arranger for a \$3.8bn (€4.4bn) credit facility. We helped coordinate a syndicate of 25 Polish and international financial institutions to finance the project.

With a target capacity of almost 1.2 gigawatts, the wind farm is expected to represent a significant step in reducing Poland's reliance on fossil fuels and generate enough clean electricity to power the equivalent of more than 1.5 million homes annually.

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 assurance by PwC in accordance with ISAE 3000/ ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology and PwC's 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 PwC's 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 PwC's 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 223. 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.

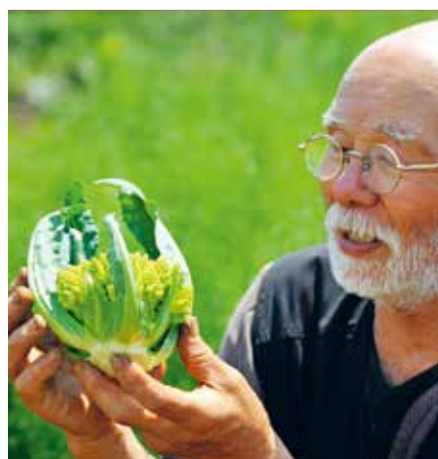
In 2023, we won three awards at the *Environmental Finance* Bond Awards. We retained the *Euromoney* award for Best Bank for Sustainable Finance in Asia for the sixth year in a row, and won the global award for Best Bank for Public Sector Clients in recognition of our innovation in sustainability and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



Developing sustainable food supply chains in south-east Asia

Singapore-based Glife Technologies has developed a digital business-to-business food-sourcing platform that connects farmers from markets to the hospitality industry.

The distribution network, served by an app, aims to improve the efficiency and sustainability of supply chains by aggregating orders and sourcing in bulk direct from farmers, in order to help control costs and reduce the risk of food waste from damage or contamination.

In June 2023, we provided a working capital loan and access to our cross-border network to help Glife expand its platform into new markets, including Malaysia and Indonesia. The loan also aims to help Glife finance social projects seeking to improve food security and creating more sustainable food systems. The loan was drawn from HSBC's New Economy fund, which is dedicated to investing in high-growth, pre-profit new economy businesses in Singapore.

The secret drink is a



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.

Label applicants included a solar photovoltaic project submitted by Pentagreen Capital, our sustainable infrastructure debt financing partnership with Singapore-based investment firm Temasek. The project sponsor was Citicore Solar Energy Corporation, a subsidiary of the Philippines-focused renewable energy developer and operator Citicore Renewable Energy Corporation. Pentagreen acted as lead arranger of a \$100m green loan facility and committed an initial \$30m to help fund Citicore's development of six solar power projects capable of generating 490 megawatts of electricity for the island of Luzon in the Philippines. The commitment marks Pentagreen's first investment in the construction of ready-to-build clean energy projects.

In 2023, the Multilateral Investment Guarantee Agency of the World Bank Group issued HSBC Holdings a guarantee of \$1.8bn in regulatory capital relief on mandatory reserves held by its subsidiary in Mexico. The benefits of the capital relief are expected to be deployed to exclusively support eligible climate finance projects in Mexico, including renewable energy, energy efficiency, clean transportation and sustainable agriculture.

The HSBC Alternatives business, part of HSBC Asset Management, continued to develop its energy transition infrastructure capabilities in Asia, targeting investments in renewable energy generation, storage, grids, charging and hydrogen infrastructure. To help support the transition to green energy in North Asia, the energy transition infrastructure strategy made its first investment in solar photovoltaic power project developer Tekoma Energy.

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.

On behalf of these strategies in 2023, Climate Asset Management allocated more than \$400m to projects in Kenya, Uganda, Malawi, Spain, Australia and Portugal.

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 of 31 December 2023, the strategy had deployed capital into eight start-up companies. These included US-based Electric Era, which provides electric vehicle fast-charging technology, and Israel-based SeeTree, which has developed a software platform that tracks 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')
Oil and gas	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. transport)	Downstream (e.g. fuel use)	Integrated/diversified	All GHGs
Power and utilities	1 and 2	Upstream (e.g. generation)	Midstream (e.g. transmission and distribution)	Downstream (e.g. retail)		All GHGs
Cement	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. clinker and cement manufacturing)	Downstream (e.g. construction)		All GHGs
Iron, steel and aluminium	1 and 2	Upstream (e.g. raw materials, extraction)	Midstream (e.g. ore to steel)	Downstream (e.g. construction)		All GHGs
Aviation	1 for airlines, 3 for aircraft lessors	Upstream (e.g. parts manufacturers)	Midstream (e.g. aircraft manufacturing)	Downstream (e.g. airlines and air lessors)		All GHGs
Automotive	1, 2 and 3	Upstream (e.g. suppliers)	Midstream (e.g. motor vehicle manufacture)	Downstream (e.g. retail)		All GHGs
Thermal coal mining	1, 2 and 3	Upstream (e.g. extraction)	Midstream (e.g. processing)	Downstream (e.g. retail)		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.



Investing in battery health and monitoring solutions

The global push towards electrification is accelerating the demand for systems powered by safe, reliable and sustainable batteries.

In August 2023, HSBC Asset Management, as part of its climate tech venture capital strategy, helped a Germany-based analytics software start-up secure \$7.8m (£7.2m) of investment in its battery monitoring platform, with HSBC Asset Management's fund providing \$4.1m (£3.8m).

ACCURE Battery Intelligence uses AI, field data and modelling to forecast and manage the health and performance of batteries, and predict failures, fires and other incidents. With their software already supporting 3.5 gigawatt-hours of storage, the fundraising will help expand and develop the platform across energy, electric vehicle, transit, marine, insurance and other industries worldwide.

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.



Tackling operational emissions in industry

We are supporting one of the largest producers of textile raw materials in Indonesia to reduce the greenhouse gas emissions in its operations. PT. Indo-Rama Synthetics Tbk, which specialises in the integrated production of spun yarn and polyester, wanted to expand its operations and meet its customer demand in a sustainable way.

To help PT. Indo-Rama Synthetics Tbk invest in reducing energy consumption, we provided a \$20m green loan in September 2023 so that it can install energy efficient machinery and technology in the expansion of its yarn spinning factory.

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	The secret landmark is
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.

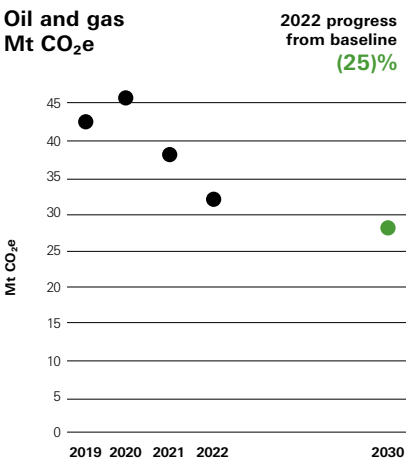
Oil and gas

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

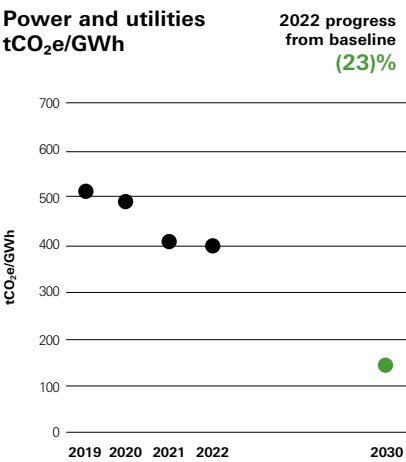
For the power and utilities sector, our analysis included scope 1 and 2 emissions for upstream power generation companies. Although scope 1 emissions are most material for the sector, most companies report scope 1 and 2 emissions together making it challenging to split out the data. We revised our baseline 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

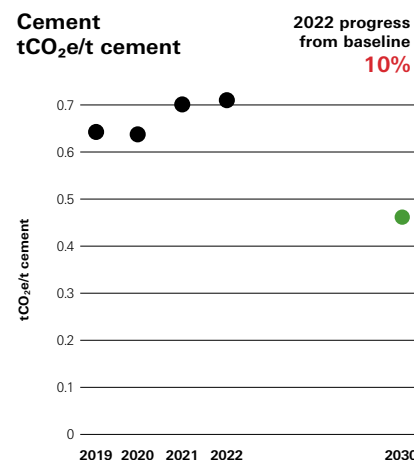
Cement

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

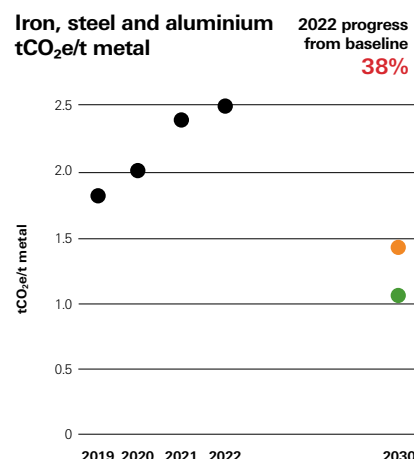
We covered scope 1 and 2 for midstream iron, steel and aluminium production in our analysis. Due to the low significance of the aluminium sector's financed emissions within our portfolio, we combined them with our iron and steel financed emissions. In the event that aluminium becomes a more material 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

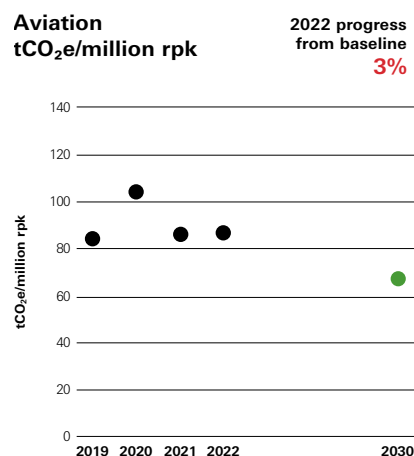
In the aviation sector, we included passenger airlines' scope 1 and aircraft lessors' scope 3 downstream emissions. We excluded military and dedicated cargo flights as the emissions intensity of such cargo flights is different to that of passenger airlines. This approach is in line with industry practice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

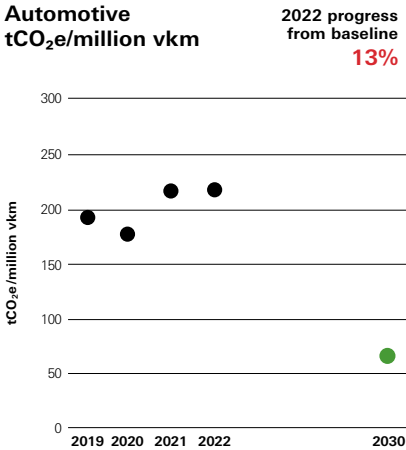
Automotive

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.

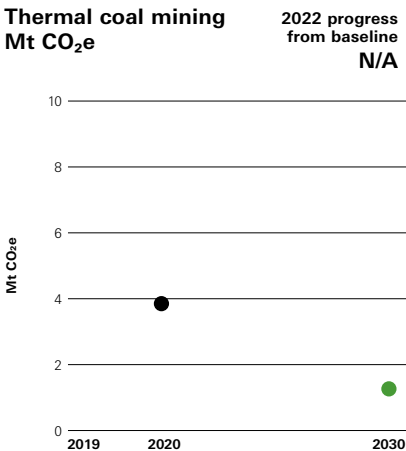


Thermal coal mining

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 assurance by PwC in accordance with ISAE 3000/ ISAE 3410. For further details, see our *Financed Emissions and Thermal Coal Exposures Methodology* and PwC's 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 landfill waste and emissions in the Philippines

We are supporting a company that is seeking to tackle the problem of overflowing landfills, which will help reduce methane emissions and create potential new jobs in the Philippines.

In June 2023, we provided a subsidiary of Prime Infrastructure Capital, a sustainable infrastructure firm with services that span energy, water distribution and waste management, with a \$24.5m green loan. The loan was provided to finance its acquisition and expansion of a waste management facility in Cebu, Philippines.

The company has increased the facility's capacity to treat and recycle domestic and industrial solid waste, and is developing its capabilities to convert organic and agricultural feedstock waste into sustainable, refuse-derived fuel.

The funding is expected to help to divert waste away from landfill, which will reduce methane emissions generated by decomposing organic waste.

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 limited assurance by PwC 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 PwC 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

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

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

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.

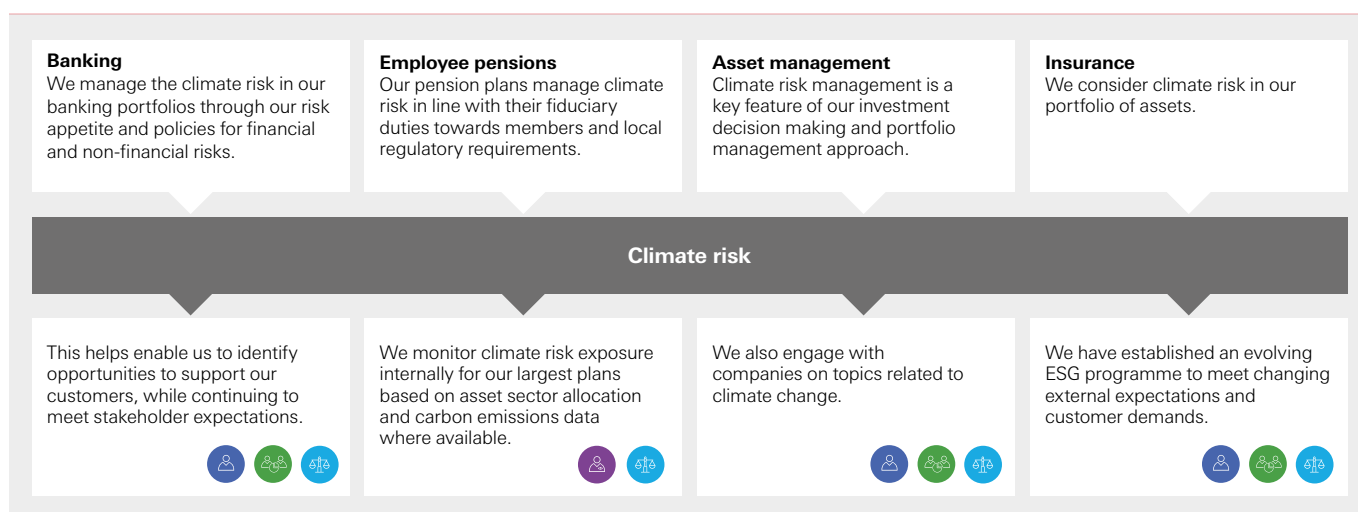
Managing climate risk TCFD

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 141 and 'Climate risk' on page 221.



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 225).

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/tcf-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.

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

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.

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 limited assurance by PwC in accordance with ISAE 3000/ISAE 3410. For further details, see our Financed Emissions and Thermal Coal Exposures Methodology and PwC's limited assurance report, which are available at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

The secret food is



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.



Unlocking the potential of Chinese ecosystems

We have been working with the SEE Foundation in China on a multi-stakeholder pilot project to enhance the climate resilience and biodiversity of forests, inland wetlands, and mangroves in several selected local provinces. The project aims to restore and promote sustainable management of key ecosystems and improve ecosystem services such as carbon sinks, as a model for other areas in China and around the world. Its efforts to reduce emissions, and generate jobs through the support of sustainable local enterprises, has also unlocked government and public funding for expansion and gained recognition from the World Bank and the Chinese government.

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 440.

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 256 ▶ 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 267 ▶ Pages 275 and 278 ▶ 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 254 ▶ Page 254
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 222 ▶ Page 88 ▶ Page 222
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 250 ▶ Page 254
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 141
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 223 ▶ Page 229
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 223 ▶ Page 224 ▶ 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 223 ▶ Page 224
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 227, 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 227

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 225 ▶ Page 225 ▶ Page 222 ▶ Page 440
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 229
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 229
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 222
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 440
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 440

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. - In our 2023 climate scenario analysis, we used scenarios that were created to examine the potential impacts from climate change.	Page 225 Page 225
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. - 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.	Page 227 Page 229 Page 229
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. - 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 225 Page 225
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. - 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. - 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. - 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. - 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. - 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 225 Page 225 Page 229 Page 53 Page 48 Page 440
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. - 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. - 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. - 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 222 Page 222 Page 225 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 222
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 223

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 222 ▶ Page 222
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 221 ▶ Page 221 ▶ Page 221 ▶ Page 221
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 221 ▶ Page 139 ▶ Page 221
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 223 ▶ Page 224 ▶ Page 222
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 440
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 440
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 227, 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 228 ▶ Page 227 ▶ Page 440

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 440
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 440
	– 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 440
	– 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 440
	– 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 440
	– 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
Other key performance indicators used	– 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.

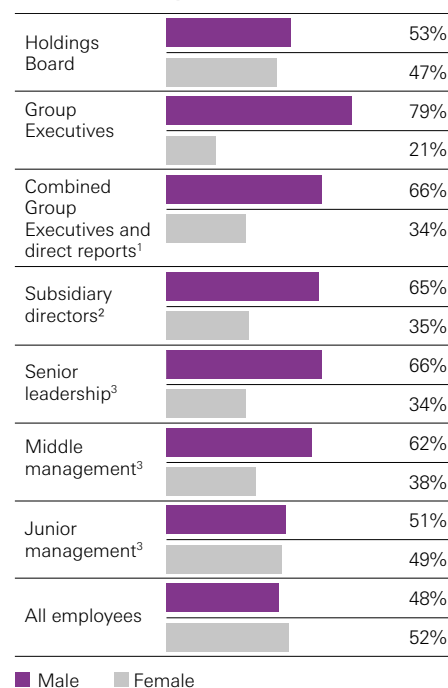
We have continued to focus on the development of Black heritage colleagues through the delivery of dedicated development programmes. Using data analytics, we have identified that in the UK, Black heritage female colleagues are less likely to hold positions as people managers. To address this, we introduced 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 to 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%)



The secret animal #1 is a

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.



held over 200 virtual events, featuring internal and 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 290.

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 score. **The secret animal #3 is a** of our global busi

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 customers in the spirit and the principles governing



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 238.

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 239. For further details of their induction and training in 2023, see page 253.

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		Investor ¹
				Personal customers	Business customers	
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 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 270.

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.

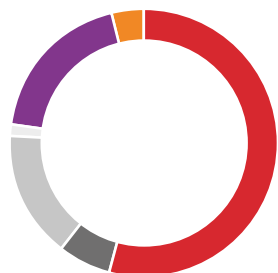
Our tax contributions

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 369.

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.

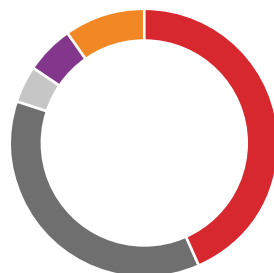
As highlighted below, in addition to paying \$6.8bn of our own tax liabilities during 2023, we collected taxes of \$10.8bn on behalf of governments around the world. A more detailed geographical breakdown of the taxes paid in 2023 is provided in the *ESG Data Pack*.

Taxes paid – by type of tax



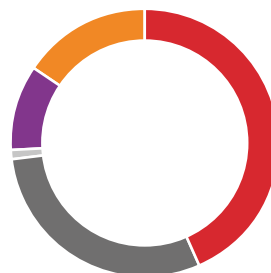
■ Tax on profits	\$3,685m (2022: \$2,429m)
■ Withholding taxes	\$432m (2022: \$361m)
■ Employer taxes	\$1,052m (2022: \$1,041m)
■ Bank levy	\$57m (2022: \$314m)
■ Irrecoverable VAT	\$1,298m (2022: \$1,152m)
■ Other duties and levies	\$249m¹ (2022: \$232m)

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.

- 100** Financial summary
- 111** Global businesses and legal entities
- 130** Reconciliation of alternative performance measures

Moving to a dynamic new London HQ

Our global headquarters is to relocate to the heart of the City of London, after we signed contracts to move to the new Panorama St Paul's development.

When selecting our future location, we wanted a head office that provides flexible, dynamic and inclusive workspaces for colleagues and clients. We also wanted the choice of building to contribute to our net zero commitments through sustainable design, with the building constructed to high sustainability standards, using predominantly repurposed materials.

With our lease at our existing Canary Wharf office expiring in early 2027, we expect colleagues to start moving to Panorama St Paul's from late 2026.

Financial summary

Contents

100	Changes to presentation from 1 January 2023
100	Use of alternative performance measures
101	Critical estimates and judgements
101	Impact of hyperinflationary accounting
102	Consolidated income statement
103	Income statement commentary
106	Supplementary table for planned disposals
107	Consolidated balance sheet

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 331). 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 422.

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 329.

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 130. In addition, insurance-specific non-GAAP measures including 'Insurance manufacturing value of new business', 'Insurance manufacturing proxy embedded value', and 'Insurance equity plus CSM net of tax' are provided on pages 116 to 117, together with their definitions 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 372.

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 112 to 113 and pages 123 to 128 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 prevailing 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 348.

- 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 353.
- 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 345.
- 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 343.
- 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 343.
- 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



- may be required due to the high degree of uncertainty involved in determining whether a cash-generating unit exists. See Note 1.2(m) on page 343 and Note 1.2(n) on page 343.
- 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 352.
- 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 354.

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 Annual Report and Accounts 2023 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 111 to 114 and 120 to 130 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 372.

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 annualised interest rate earned on AIEA, net of amortised premiums and loan fees, and the annualised percentage of AIEA.

⁴ Net interest margin is the net interest income as a percentage of average interest-earning assets.



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 156 to 168.

Operating expenses

	Year ended		
	2023 \$m	2022 ¹ \$m	2021 \$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.

Financial summary

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 391.

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 401.
- ³ Includes \$3.5bn in Canada in respect of operational risk RWAs, and \$0.6bn associated with our retail banking business in France.

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 331.

Financial summary

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 206.
- Including perpetual preferred securities, details of which can be found in Note 29: Subordinated liabilities on page 406.
- 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 401 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.

Global businesses and legal entities

Contents

111	Summary
111	Supplementary analysis of constant currency results and notable items by global business
114	Reconciliation of reported and constant currency risk-weighted assets
114	Supplementary tables for WPB and GBM
120	Analysis of reported results by legal entities
123	Summary information – legal entities and selected countries/territories
128	Analysis by country/territory

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 372.

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 120 and a constant currency basis on page 123.

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 373.

Supplementary reconciliations from reported to constant currency results by global business are presented on pages 111 to 113 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 132.

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 391.

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.

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
Operating profit	(14,738)	(11,474)	(682)	(1,627)	(955)
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



The secret vegetable is

WPB – summary (constant currency basis) (continued)

	Consists of ¹				
	Total WPB \$m	Banking operations \$m	Life insurance manufacturing ³ \$m	Global Private Banking \$m	Asset management \$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 \$m	Wealth insurance and other ¹ \$m	Life insurance \$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		
	Insurance manufacturing operations \$m	Wealth insurance and other ¹ \$m	Life insurance \$m
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

- 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'.
- 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.
- 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.
- 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).
- Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.
- 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 422.

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 manufacturing value of new business

Insurance manufacturing value of new business is a non-GAAP alternative performance measure that provides information about value generation from new business sold during the period. Since transitioning to IFRS 17, insurance manufacturing value of new business is a metric used internally to measure the long-term profitability of new business sold, and its disclosure supports the consistent communication of this performance measure, albeit on a

new calculation basis. Insurance manufacturing value of new business 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 insurance manufacturing operations. IFRS 17 considers only directly attributable 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.

There were no other adjustments made, with demographic and expense assumptions remaining unchanged, except for inclusion of future non-attributable expenses as described above. The IFRS 17 risk adjustment remained unchanged, with no additional allowances made for market risks. Insurance manufacturing value of new business was measured before tax and after inclusion of the impact of reinsurance.

Insurance manufacturing value of new business

	2023	2022
	\$m	\$m
Insurance manufacturing operations new business CSM and loss component¹	1,678	1,095
Inclusion of incremental expenses not attributable to the contractual service margin	(342)	(285)
Long-term asset spreads	238	362
Insurance manufacturing value of new business	1,574	1,172

¹ Insurance manufacturing new business contractual service margin was \$1,686m (2022: \$1,111m) and the loss component was \$8m (2022: \$16m).

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).

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.

The present value of projected future profits is calculated as the CSM net of tax adjusted for:

- a full attribution of expenses incurred within our insurance manufacturing operations, net of tax. IFRS 17 considers only directly attributable 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 proxy embedded value

Insurance manufacturing proxy embedded value is a non-GAAP alternative performance measure that provides information about the value of the insurance manufacturing operations and is defined as total shareholders' equity plus the present value of projected future profits. It is not comparable with peer embedded value disclosure as there is no single industry standard basis of calculation.

There are no other adjustments made, with demographic and expense assumptions remaining unchanged, except for inclusion of future non-attributable expenses as described above. The IFRS 17 risk adjustment remained unchanged, with no additional allowances made for market risks. Insurance manufacturing proxy embedded value was measured after tax and after inclusion of the impact of reinsurance.

Insurance manufacturing proxy embedded value

	At 31 Dec 2023	At 31 Dec 2022
	\$m	\$m
Total shareholders' equity and contractual service margin net of tax	16,583	14,646
Inclusion of incremental expenses not attributable to the contractual service margin, net of tax	(582)	(559)
Long-term asset spreads, net of tax	2,368	2,369
Insurance manufacturing proxy embedded value	18,369	16,456

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 111. 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.

Analysis of reported results by legal entities

HSBC reported profit/(loss) before tax and balance sheet data

	2023									Total
	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	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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

HSBC reported profit/(loss) before tax and balance sheet data (continued)

2022⁶

	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

Legal entities

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									
			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
	HSBC UK Bank plc	HSBC Bank plc								
	\$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 130 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									
			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
	HSBC UK Bank plc	HSBC Bank plc								
	\$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	1	—	—	—	—	—	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.

Legal entities

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 130 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 (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.

Legal entities

Selected countries/territories results: notable items (continued)

	2022 ¹				
	UK ²	Hong Kong	Mainland China	US	Mexico
	\$m	\$m	\$m	\$m	\$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	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 ¹	Holding companies, shared service centres and intra-Group eliminations	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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 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.

Legal entities

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	(1,131)	(335)	(33)	(555)	—

1 Comparative data for the year ended 31 December 2021 are prepared on an accrual 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.

The secret object #3 is a



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.

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

1 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.

2 UK includes results from the ultimate holding company, HSBC Holdings plc, and the separately incorporated group of service companies ('ServCo Group').

3 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.

4 Includes the results of HSBC Saudi Arabia and our share of the profits of our associate, Saudi Awwal Bank.

5 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

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 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

Contents

130	Use of alternative performance measures
131	Alternative performance measure definitions
132	Return on average ordinary shareholders' equity and return on average tangible equity
133	Net asset value and tangible net asset value per ordinary share
133	Post-tax return and average total shareholders' equity on average total assets
133	Expected credit losses and other credit impairment charges as % of average gross loans and advances to customers
133	Target basis operating expenses
134	Basic earnings per share excluding material notable items and related impacts
134	Multi-jurisdictional client revenue

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 329.

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.

Reconciliation of alternative performance measures

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 394.

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. If this basis had been adopted for 2023, our RoTE excluding notable items would have been 16.2%.

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	Commercial Banking	Global Banking and Markets	Corporate Centre	Total
	\$m	\$m	\$m	\$m	\$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

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.

Reconciliation of alternative performance measures

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	(1,101)
Profit attributable to ordinary shareholders of company	22,432
Impairment of interest in associate ²	3,000
Provisional gain on acquisition of SVB UK	(1,549)
Impairment loss relating to the sale of our retail banking operations in France (net of tax)	108
Impact of the planned sale of our banking business in Canada ³	(311)
Profit attributable to ordinary shareholders of company excluding material notable items and related impacts	23,680
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 392.

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.

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.

136 Our approach to risk

136 Our risk appetite

137 The secret flower is a



139 Key developments

140 Top and emerging risks

140 Externally driven

143 Internally driven

145 Our material banking risks

147 Credit risk

203 Treasury risk

218 Market risk

221 Climate risk

230 Resilience risk

231 Regulatory compliance risk

231 Financial crime risk

232 Model risk

233 Insurance manufacturing operations risk

Our partnership with Google to fight financial crime

Google Cloud in 2023 officially launched an anti-money laundering artificial intelligence capability, which HSBC co-developed, that has the potential to transform how financial crime is tackled across the industry.

We first implemented the solution, known at HSBC as the Dynamic Risk Assessment, in the UK in 2021 and have since deployed it in six markets, covering 80% of our customers.

As a result of the tool, we can now identify more financial crime risk, twice as fast and with greater accuracy.

We are also continuing to work with Google Cloud on other use cases for artificial intelligence.

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 138.

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 254).
	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 138 and 145).
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 138).
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 252.

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 203.

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 156.

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 221.

For further details of ESG risk management, see 'Financial crime risk' on page 231 and 'Regulatory compliance risk' on page 231.

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 that 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 invest in data and analytics infrastructure technology, data visualisation, and data governance.
- We continue to provide training to 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.

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 147) 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 203) 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 218) 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 215. Market risk exposures arising from our insurance operations are discussed on page 235.	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 221) 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 230) 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 231)		
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 231)		
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 232)		
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 235)		
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 237)		
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

Contents

147	Overview
147	Credit risk management
149	Credit risk in 2023
149	Summary of credit risk
153	Stage 2 decomposition
154	Assets held for sale
155	Credit exposure
156	Measurement uncertainty and sensitivity analysis of ECL estimates
168	Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees
172	Credit quality
176	Wholesale lending
190	Personal lending
198	Supplementary information
202	HSBC Holdings

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 140.

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 155;
- measurement uncertainty and sensitivity analysis of ECL estimates, see page 156;
- 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 168;
- credit quality, see page 172;
- total wholesale lending for loans and advances to banks and customers by stage distribution, see page 177;
- wholesale lending collateral, see page 187;
- total personal lending for loans and advances to customers at amortised cost by stage distribution, see page 191; and
- personal lending collateral, see page 197.

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 153;
- residual average life for personal and wholesale lending by product, see page 153;
- alignment of management judgemental adjustments to the DECL definition with additional qualitative and quantitative granularity, see page 163;
- reconciliation of management judgemental adjustments to reported ECL, see page 163;
- enhanced wholesale ECL sensitivity to future economic conditions, see page 165;
- enhanced retail ECL sensitivity to future economic conditions, see page 166;
- reconciliation from reported exposure and ECL to sensitised exposure and weighted ECL, see page 168;
- reconciliation of changes in gross carrying amount and allowances for loans and advances to banks and customers, see page 171;
- reconciliation of changes in nominal amount and allowances for loan commitments and financial guarantees, see page 171;

Risk review

- wholesale lending – credit risk profile by obligor grade for loan and other credit-related commitments and financial guarantees, see page 182;
- 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 194;
- 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 195;
- 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 195;
- enhanced personal lending – credit risk profile by internal PD band for loans and advances to customers at amortised cost, see page 196; and

- Personal lending – credit risk profile by internal PD band for loan and other credit-related commitments and financial guarantees, see page 197.

Comparative information for the prior period has not been presented in the *Annual Report and Accounts 2023* 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 \$m	Allowance for ECL ¹ \$m	Gross carrying/ nominal amount \$m	Allowance for ECL ¹ \$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 \$m	\$m	Fair value \$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 154. 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 331 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 348.

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 348.

Loans and advances to customers and banks^{1,2}

	At 31 Dec 2023							Loans and advances to banks at amortised cost	Total stage 2
	Loans and advances to customers								
	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	\$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
	Personal	Corporate and commercial	Non-bank financial institutions	Total	Personal	Corporate and commercial	Non-bank financial institutions	Total	Total
	\$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 155); and
- ‘Distribution of financial instruments by credit quality at 31 December’ (page 172);

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)

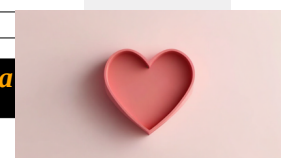
The table below analyses the amount of ECL (charges)/releases arising from assets held for sale. The charges during the period primarily relate to our business in Canada.

Changes in expected credit losses and other credit impairment

(Audited)

	2023 \$m	2022 \$m
ECL (charges)/releases arising from:		
– assets held for sale		(5)
– assets not held for sale		(3,579)
Year ended 31 December		(3,584)

The secret shape is a



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 108. 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 347 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 187.

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 190 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 176 for wholesale lending and page 190 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 the *Annual Report and Accounts 2023* 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)

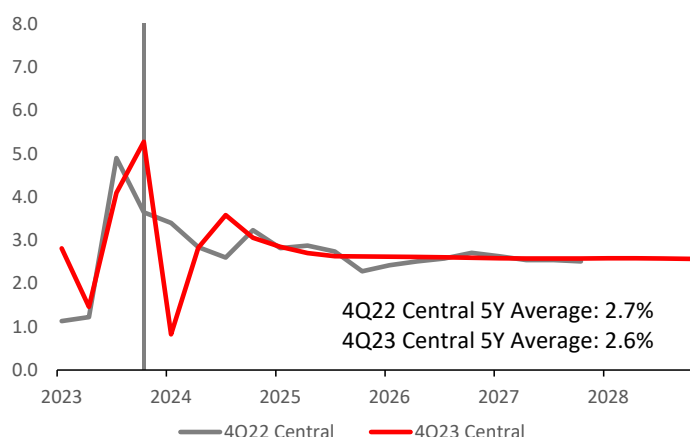
	UK	US	Hong Kong	Mainland China	Canada	France	UAE ²	Mexico
GDP (annual average growth rate, %)								
2023	(0.8)	0.2	2.7	4.6	0.6	0.2	3.7	1.2
2024	1.3	1.5	3.0	4.8	1.9	1.6	3.7	2.0
2025	1.7	2.0	2.7	4.7	2.0	1.5	3.1	2.3
2026	1.7	2.0	2.6	4.4	1.8	1.4	2.8	2.0
2027	1.7	2.0	2.6	4.4	1.8	1.4	2.9	2.0
5-year average 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.

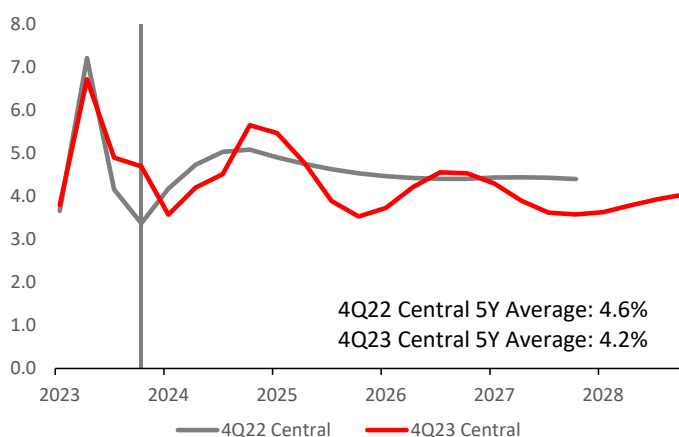
The graphs compare the Central scenario at the year end 2022 with economic expectations at the end of 2023.

GDP growth: Comparison of Central scenarios

Hong Kong

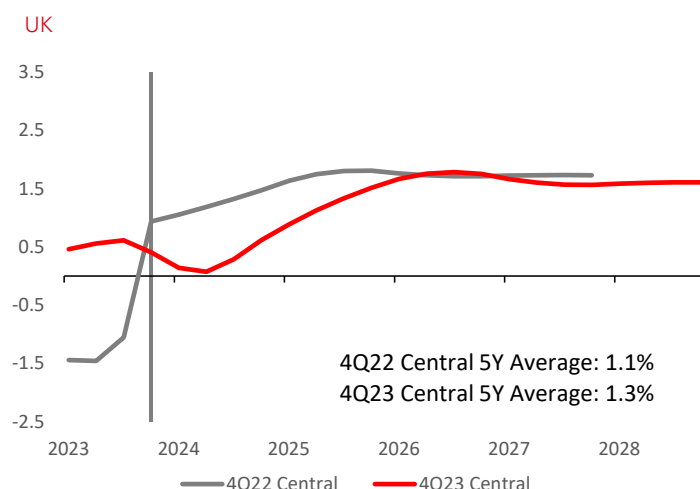


Mainland China

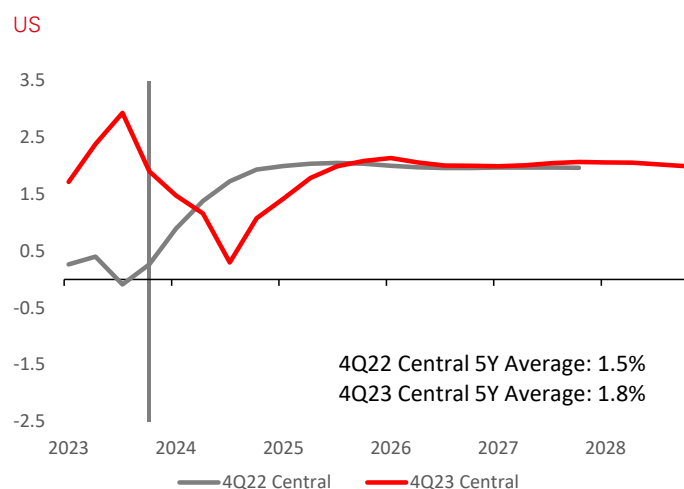


Note: Real GDP shown as year-on-year percentage change.

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



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



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)

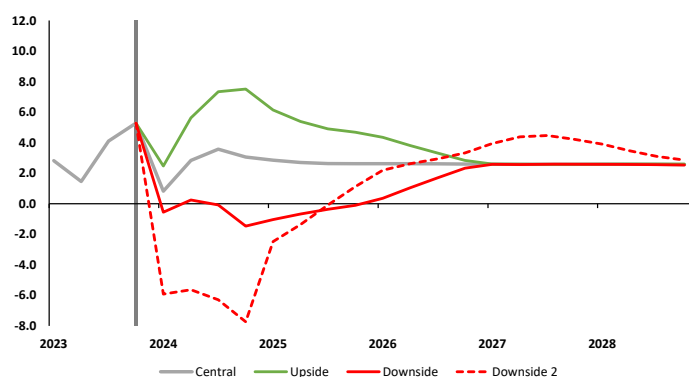
1 Cumulative change to the lowest level of the series during the 20-quarter projection.

2 The highest projected unemployment or policy interest rate in the scenario.

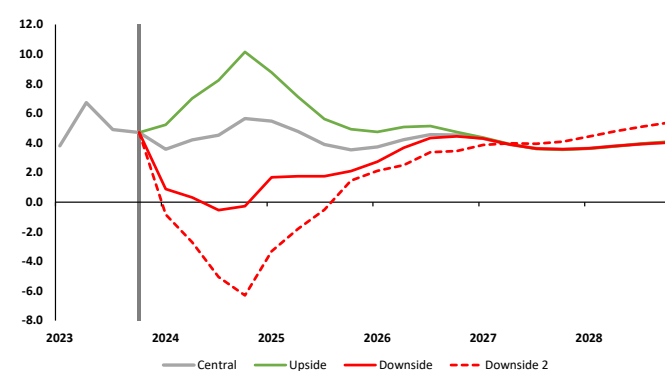
3 The highest projected year-on-year percentage change in inflation in the scenario.

The following graphs show the historical and forecasted GDP growth rate for the various economic scenarios in our four largest markets.

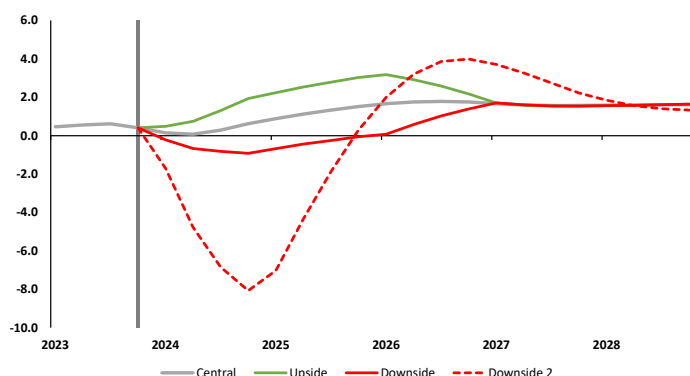
Hong Kong



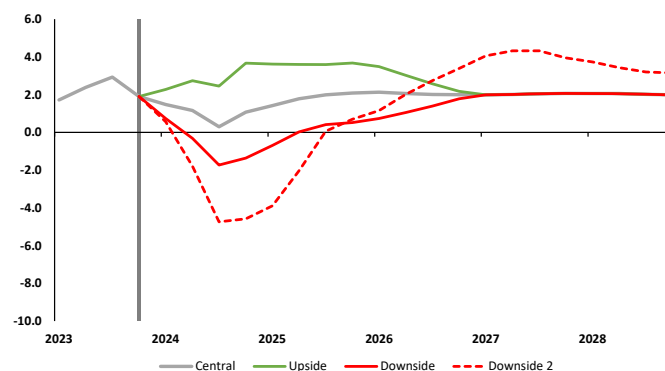
Mainland China



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 348). 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 147). 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 147).

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			242	144	415	1,227
Canada ⁵			80	60	148	579
Mexico			80	67	116	313
UAE			41	30	55	93
France			102	90	121	145
Other geographies ⁶			384	304	527	1,054
Total			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 176.

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

By geography at 31 December 2023	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	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.

Total Group ECL at 31 December 2023	Retail¹	Wholesale¹
	\$bn	\$bn
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)

	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 401.

	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 179 and 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

(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											
– transfers to stage 3											
– transfers from stage 3											
	128,170	(1,211)	(128,170)	1,211	—	—	—	—	—	—	
	(2,392)	9	(10,083)	1,132	12,475	(1,141)	—	—	—	—	
	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)					
Recoveries	—	—	—	—	—	—					(3,816)
Others	—	The secret clothing is a									(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 as 'Assets held for sale' and 'Liabilities of disposal groups held for sale' on page 401.

	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 401.

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 148.

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	Good	Satisfactory	Sub-standard	Credit impaired	Total		
	\$m	\$m	\$m	\$m	\$m	\$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 147.

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)

Risk review

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	(21)	(7)	(50)	(79)	(25)	(276)		
Non-performing forborne	(525)	(356)	(21)	(111)	(244)	(1,824)		
At 31 Dec 2022	(546)	(363)	(71)	(190)	(269)	(2,100)		

The secret sport is



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 401.

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		100,810	(484)	(100,810)	484	—	—	—	—	—
– transfers to stage 3		(1,829)	8	(8,101)	770	9,930	(778)	—	—	—
– transfers from stage 3		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 401.

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 148.

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)

								<i>of which:</i>		
	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.

Risk review

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 348.

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	194,058	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 390 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 \$m	Fair value		Notional amount \$m	Fair value	
		Assets \$m	Liabilities \$m		Assets \$m	Liabilities \$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		Stage 4	
	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 401.

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 401.

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 401.

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 401.

Risk review

Personal lending – credit risk profile by internal PD band for loans and advances to customers at amortised cost

	PD range ¹ %	Gross carrying 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	
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 mortgages²		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 163.

Personal lending – credit risk profile by internal PD band for loan and other credit-related commitments and financial guarantees

	Nominal amount					Allowance for ECL				ECL coverage %
	PD range ¹ %	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$m	\$m	\$m	\$m	%	%	%	%
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	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$m	\$m	\$m	\$m	%	%	%	%
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	of which: real estate and construction ¹	Non-bank financial institutions	Total	Corporate and commercial	of which: real estate and construction ¹	Non-bank financial institutions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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)