Annual mandatory training is provided to all colleagues, with additional targeted training tailored to certain individuals. We carry out regular risk assessments, identifying where we need to respond to evolving financial crime threats, as well as 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, the enhancements to our fraud monitoring capability and our trade screening controls, and the application of machine learning to improve the accuracy and timeliness of our detection capabilities. We are confident our adoption of these new technologies will continue to enhance our ability to respond quickly to unusual activity and be more granular in our risk assessments. This will help us to protect our customers, shareholders, staff, the communities in which we operate and the integrity of the financial system on which we all rely, while providing actionable information to government authorities through our reporting.

Our anti-bribery and corruption policy

Our global AB&C 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, nor live active, legal cases regarding bribery or corruption brought against HSBC or its employees in 2022. Our global AB&C policy requires that we identify and mitigate the risk of our customers and third parties committing bribery or corruption. We utilise anti-money laundering controls, including customer due diligence and transaction monitoring, to identify and mitigate the risk that our customers are involved in bribery or corruption. We perform a bribery risk assessment on all third parties, and impose risk-based controls on the third parties that expose us to bribery or corruption risk.

Skilled Person & Independent Consultant

In August 2022, the Board of Governors of the Federal Reserve System terminated its 2012 cease-and-desist order, with immediate effect. This order was the final remaining regulatory enforcement action that HSBC had entered into in 2012. In June 2021, the UK Financial Conduct Authority had already determined that no further Skilled Person work was required under section 166 of the Financial Services and Markets Act. The Group Risk Committee retains oversight of matters relating to financial crime, including any remaining remedial activity not yet completed as part of previous recommendations.

In December 2022, the 3-year DPA our Swiss private bank entered into with the DOJ was dismissed. This dismissal confirms that our Swiss private bank complied in all material terms with the DPA obligations by establishing or enhancing the relevant governance, controls, training and internal assurance reviews and allows the private banking business in Switzerland to move forward while maintaining the robust control environment put in place to combat tax evasion in the future.

Model risk

Overview

Model risk is the risk of inappropriate or incorrect business decisions arising from the use of models that have been inadequately designed, implemented or used, or from models that do not perform in line with expectations and predictions.

Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2022

We managed the risks related to the Russia-Ukraine war and broader macroeconomic and geopolitical uncertainties, as well as the continued risks resulting from the Covid-19 pandemic and other key risks described in this section.

In addition, we enhanced our risk management in the following areas:

- In response to regulatory capital charges, we redeveloped, validated and submitted to the PRA and ECB our models for the internal ratings-based ('IRB') approach for credit risk, internal model method ('IMM') for counterparty credit risk and internal model approach ('IMA') for market risk. These new models have been built to enhanced standards using improved data as a result of investment in processes and systems. We have continued to improve our risk governance decision making, particularly regarding the governance of treasury risk to ensure senior executives have appropriate oversight and visibility of macroeconomic trends around inflation and interest rates.
- We redeveloped and validated models impacted by changes to alternative rate setting mechanisms due to the Ibor transition.
- We embedded the changes made to our control framework for our financial reporting processes to address the control weaknesses that emerged as a result of significant increases in adjustments and overlays that were applied to compensate for the impact of the Covid-19 pandemic on models.
- Our businesses and functions continue to be more involved in the development and management of models, and hiring colleagues who have strong model risk skills. They also put an enhanced focus on key model risk drivers such as data quality and model methodology.
- We enhanced the reporting that supports the model risk appetite measures, to support our businesses and functions in managing model risk more efficiently.
- We continued to support businesses in the programme of work related to climate risk and models using advanced analytics and machine learning, which have become critical areas of focus that will grow in importance in 2023 and beyond. We also added further qualified specialist skills to the model risk teams to manage the increased model risk in these areas.
- We continued the transformation of the Model Risk Management team, with further enhancements to the independent model validation processes, including new systems and working practices. Key senior hires were made during the year to lead the business areas and regions to strengthen oversight and expertise within the function.

Governance and structure

The group's Model Risk Committee is chaired by our Chief Risk Officer and provides oversight of model risk. The committee includes senior leaders and risk owners across the lines of business and Risk and focuses on model-related concerns and key model risk metrics.

Key risk management processes

We use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgmental scorecards for a range of business applications. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. HSBC Bank plc responsibility for managing model risk is delegated from the group's RMM to the group's Model Risk Committee, which is chaired by the group's Chief Risk Officer. This committee regularly reviews our model risk management policies and procedures, and requires the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management also reports on model risk to senior management on a regular basis through the use of risk management information, risk appetite metrics and top and emerging risks.

We regularly review the effectiveness of these processes, including the model oversight committee structure, to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

Insurance manufacturing operations risk
Overview

The key risks for our insurance manufacturing operations are market risks, in particular interest rate and equity, credit risks and insurance underwriting risks. These have a direct impact on the financial results and capital positions of the insurance operations. Liquidity risk, whilst significant in other parts of the bank, is relatively minor for our insurance operations.

HSBC's insurance business

We sell insurance products through a range of channels including our branches, insurance salesforces, direct channels and third-party distributors. The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship, although the proportion of sales though digital is increasing.

The insurance products we manufacture, the majority of sales are of savings, universal life and protection contracts.

We choose to manufacture these insurance products in HSBC subsidiaries based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a small number of leading external insurance companies in order to provide insurance products to our customers. These arrangements are generally structured with our exclusive strategic partners and earn the group a combination of commissions, fees and a share of profits. We distribute insurance products in all of our geographical regions.

Insurance products are sold through all global businesses, but predominantly by WPB and CMB through our branches and direct channels.

Insurance manufacturing operations risk management

Key developments in 2022

The insurance manufacturing subsidiaries follow the Group's risk management framework. In addition, there are specific policies and practices relating to the risk management of insurance contracts. There has been continued market volatility observed over 2022 across interest rates, equity markets and foreign exchange rates. This has been predominantly driven by geopolitical factors and wider inflationary concerns.

One area of key risk management focus over 2022 was the implementation of the new accounting standard, IFRS17 Insurance Contracts. Given the fundamental nature of the impact of the accounting standard on insurance accounting, this presents additional financial reporting and model risks for the Bank.

Governance

Insurance manufacturing risks are managed to a defined risk appetite, which is aligned to the bank's risk appetite and risk management framework, including the three lines of defence model. For details on the governance framework, see page 26. The Group Insurance Risk Management Meeting oversees the control framework globally and is accountable to the WPB Risk Management Meeting on risk matters relating to the insurance business.

The monitoring of the risks within the insurance operations is carried out by Insurance Risk teams. The Bank's risk stewardship functions support the Insurance Risk teams in their respective areas of expertise.

Stress and scenario testing

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and Group-wide regulatory stress tests, including, as may be required from time to time, the Bank of England stress test of the banking system, HSBC's Group Internal Stresses, and individual country insurance regulatory stress tests. The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in the HSBC Bank plc ICAAP and the entities' regulatory Own Risk and Solvency Assessments ('ORSAs').

Management and mitigation of key risk types

Market risk

All our insurance manufacturing subsidiaries have market risk mandates and limits that specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk that they may retain. They manage market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- We are able to adjust bonus rates to manage the liabilities to policyholders for products with discretionary participating features ('DPF'). The effect is that a significant portion of the market risk is borne by the policyholder.
- We use asset and liability matching where asset portfolios are structured to support projected liability cash flows. The Group manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. We use models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and ALCOs employ the outcomes in determining how best to structure asset holdings to support liabilities.
- We use derivatives to protect against adverse market movements.
- We design new products to mitigate market risk, such as changing the investment return sharing portion between policyholders and the shareholder.

Credit risk

Our insurance manufacturing subsidiaries also have credit risk mandates and limits within which they are permitted to operate, which consider the credit risk exposure, quality and performance of their investment portfolios. Our assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information.

Stress testing is performed on investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report containing a watch-list of investments with current credit concerns, primarily investments that may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly.

Capital and liquidity risk

Capital risk for our insurance manufacturing subsidiaries is assessed in the group's ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the group's economic capital basis, and the relevant local insurance regulatory basis.

Risk appetite buffers are set to ensure that the operations are able to remain solvent, allowing for business-as-usual volatility and extreme but plausible stress events. In certain cases, entities use reinsurance to manage capital risk. Liquidity risk is relatively minor for the insurance business. It is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance manufacturing subsidiaries complete quarterly liquidity risk reports and an annual review of the liquidity risks to which they are exposed.

Insurance underwriting risk

Our insurance manufacturing subsidiaries primarily use the following frameworks and processes to manage and mitigate insurance underwriting risks:

- a formal approval process for launching new products or making changes to products;
- a product pricing and profitability framework which requires initial and ongoing assessment of the adequacy of premiums charged on new insurance contracts to meet the risks associated with them;
- a framework for customer underwriting;
- reinsurance which cedes risks to third party reinsurers to keep risks within risk appetite thresholds to third party reinsurer thereby limiting our exposure; and
- oversight of expense and reserving risks by entity Financial Reporting Committees.

Insurance manufacturing operations risk in 2022

Measurement

The following table shows the composition of assets and liabilities by contract type.

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	With DPF £m	Unit-linked £m	Other contracts[1] £m	Shareholder assets and liabilities £m	Total £m
Financial assets	**17,029**	**2,888**	**191**	**2,593**	**22,701**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**9,171**	**2,880**	**80**	**1,033**	**13,164**
– derivatives	**232**	–	–	**11**	**243**
– financial investments – at amortised cost	**298**	–	–	**20**	**318**
– financial investments – at fair value through other comprehensive income	**6,332**	–	**107**	**1,452**	**7,891**
– other financial assets[2]	**996**	**8**	**4**	**77**	**1,085**
Reinsurance assets	–	**40**	**112**	–	**152**
PVIF[3]	–	–	–	**1,076**	**1,076**
Other assets and investment properties	**725**	**1**	**1**	**68**	**795**
Total assets at 31 Dec 2022	**17,754**	**2,929**	**304**	**3,737**	**24,724**
Liabilities under investment contracts designated at fair value	–	**948**	–	–	**948**
Liabilities under insurance contracts	**17,624**	**2,062**	**301**	–	**19,987**
Deferred tax[4]	**129**	**5**	–	**106**	**240**
Other liabilities	–	–	–	**1,796**	**1,796**
Total liabilities at 31 Dec 2022	**17,753**	**3,015**	**301**	**1,902**	**22,971**
Total equity at 31 Dec 2022	–	–	–	**1,753**	**1,753**
Total liabilities and equity at 31 Dec 2022	**17,753**	**3,015**	**301**	**3,655**	**24,724**
Financial assets	19,384	2,924	254	2,704	25,266
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9,876	2,859	89	1,236	14,060
– derivatives	47	–	–	1	48
– financial investments – at amortised cost	815	–	–	42	857
– financial investments – at fair value through other comprehensive income	7,490	–	104	1,327	8,921
– other financial assets[2]	1,156	65	61	98	1,380
Reinsurance assets	–	53	104	–	157
PVIF[3]	–	–	–	811	811
Other assets and investment properties	748	1	–	59	808
Total assets at 31 Dec 2021	20,132	2,978	358	3,574	27,042
Liabilities under investment contracts designated at fair value	–	1,031	–	–	1,031
Liabilities under insurance contracts	19,998	1,938	328	–	22,264
Deferred tax[4]	133	6	–	46	185
Other liabilities	–	–	–	2,003	2,003
Total liabilities at 31 Dec 2021	20,131	2,975	328	2,049	25,483
Total equity at 31 Dec 2021	–	–	–	1,559	1,559
Total liabilities and equity at 31 Dec 2021	20,131	2,975	328	3,608	27,042

1 *'Other contracts' includes term assurance and credit life insurance.*
2 *Comprise mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.*
3 *Present value of in-force long-term insurance business.*
4 *'Deferred tax' includes the deferred tax liabilities arising on recognition of PVIF.*

Key risk types

Market risk

(Audited)

Description and exposure

Market risk is the risk of changes in market factors affecting the bank's capital or profit. Market factors include interest rates, equity and growth assets and foreign exchange rates. Lapse risk exposure on products with premium financing has increased over the year as rising interest rates have led to an increase in the cost of financing for customers.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are investment contracts with discretionary participating features ('DPF') issued in France. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. These funds are primarily invested in fixed interest assets with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns.

DPF products expose the bank to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the bank. Amounts are held against the cost of such guarantees. The cost of such guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already explicitly allowed for within the insurance contracts liabilities. The table below shows the total reserve held for the cost of guarantees, the range of investment returns on assets supporting these products and the implied investment return that would enable the business to meet the guarantees. The cost of guarantees decreased to £100m (2021: £299m) primarily due to increases in interest rates and unfavourable equity performances in France. For unit-linked contracts, market risk is substantially borne by the policyholder, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Financial return guarantees

(Audited)

	2022			2021		
	Investment returns implied by guarantee	Long-term investment returns on relevant portfolios	Cost of guarantees	Investment returns implied by guarantee	Long-term investment returns on relevant portfolios	Cost of guarantees
	%	%	£m	%	%	£m
Capital	—	1.6 - 2.0	18	—	0.8 - 2.0	127
Nominal annual return	2.6	2.0	49	2.6	2.2	92
Nominal annual return	4.5	2.0	33	4.5	2.2	80
At 31 Dec			100			299

Sensitivities

The following table illustrates the effects of selected interest rate and equity price scenarios on our profit for the year and the total equity of our insurance manufacturing subsidiaries.

Where appropriate, the effects of the sensitivity tests on profit after tax and equity incorporate the impact of the stress on the PVIF. Due in part to the impact of the cost of guarantees and hedging strategies which may be in place, the relationship between the profit and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside.

The sensitivities are stated before allowance for management actions which may mitigate the effect of changes in the market environment. The sensitivities presented allow for adverse changes in policyholder behaviour that may arise in response to changes in market rates. The differences between the impacts on profit after tax and equity are driven by the changes in value of the bonds measured at FVOCI, which are only accounted for in equity.

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

(Audited)

	2022		2021	
	Effect on profit after tax	Effect on total equity	Effect on profit after tax	Effect on total equity
	£m	£m	£m	£m
+100 basis point parallel shift in yield curves	34	12	119	96
-100 basis point parallel shift in yield curves	(48)	(22)	(229)	(203)
10% increase in equity prices	65	65	46	46
10% decrease in equity prices	(66)	(66)	(49)	(49)

Credit risk

(Audited)

Description and exposure

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturers:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 91. The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'satisfactory' or higher as defined on page 37, with 100% of the exposure being neither past due nor impaired. Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholder; therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds.

The credit quality of these financial assets is included in the table on page 57.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to shared with policyholders for products with DPF.

The following table shows the expected undiscounted cash flows for insurance contract liabilities at 31 December 2022.

The profile of the expected maturity of insurance contracts at 31 December 2022 remained comparable with 2021.

The remaining contractual maturity of investment contract liabilities is included within 'Financial liabilities designated at fair value' in Note 27.

Expected maturity of insurance contract liabilities

(Audited)

	Expected cash flows (undiscounted)				
	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
Unit-linked	**147**	**368**	**818**	**1,433**	**2,766**
With DPF and Other contracts	**1,132**	**4,645**	**8,555**	**11,886**	**26,218**
At 31 Dec 2022	**1,279**	**5,013**	**9,373**	**13,319**	**28,984**
Unit-linked	230	565	927	926	2,648
With DPF and Other contracts	1,341	5,102	7,318	6,415	20,176
At 31 Dec 2021	1,571	5,667	8,245	7,341	22,824

Insurance underwriting risk

Description and exposure

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapse and expense rates.

The principal risk we face is that, over time, the cost of the contract, including claims and benefits, may exceed the total amount of premiums and investment income received.

The table on page 91 analyses our insurance manufacturing exposures by type of contract.

The insurance risk profile and related exposures remain largely consistent with those observed at 31 December 2021.

Sensitivities

The table below shows the sensitivity of profit and total equity to reasonably possible changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on profit due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges. We are most sensitive to a change in lapse rates in France.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on our profits. This risk is generally greatest for smaller entities.

Sensitivity analysis

(Audited)

	2022	2021
	£m	£m
Effect on profit after tax and total equity at 31 Dec		
10% increase in mortality and/or morbidity rates	**(24)**	(20)
10% decrease in mortality and/or morbidity rates	**25**	19
10% increase in lapse rates	**(33)**	(19)
10% decrease in lapse rates	**35**	20
10% increase in expense rates	**(28)**	(40)
10% decrease in expense rates	**28**	40

Corporate Governance Report

The statement of corporate governance practices set out on pages 94 to 102, together with the information incorporated by reference, constitutes the Corporate Governance Report of the bank. The following disclosures, read together with those in the Strategic Report, including the section 172 statement on pages 12 and 14 and reporting on employee engagement on pages 10 to 13 describe how the Board has discharged its responsibilities relating to section 172 of the Companies Act 2006 (the 'Act'), as well as the requirements under the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Reporting Regulations').

Engagement with employees, suppliers, customers and other key stakeholders:

Stakeholder	Page	Section
Customers	Page 12	How we do business
	Page 12	section 172 statement
Employees	Page 12	How we do business
	Pages 12 and 13	section 172 statement
	Pages 101 to 101	Corporate Governance statement
Communities	Pages 11	How we do business
Regulators and governments	Page 13	How we do business
	Page 12	section 172 statement
Suppliers	Page 13	How we do business
	Page 12	section 172 statement

The bank, together with the wider Group, is committed to high standards of corporate governance. The Group has a comprehensive range of principles, policies and procedures influenced by the UK Corporate Governance Code with requirements in respect of Board independence, composition and effectiveness to ensure that the Group is well managed, with appropriate oversight and control. During the year, the bank adhered to these corporate governance principles, policies and procedures, as applicable.

Board of Directors

As at 31 December 2022, the Board comprised 10 Directors including the Chair, non-executive Directors, and two executive Directors, being the Chief Executive Officer and the Chief Financial Officer. All Directors are subject to election or re-election at each Annual General Meeting's ('AGM') of the bank. The Directors serving at 31 December 2022 are set out below.

Directors

Stephen O'Connor (61)

Chair of the Board

Chair of the Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018. Chair of the Board since August 2018.

Stephen is a non-executive Director and Vice Chair of HBCE, Chairman of Quantile Group Limited and its subsidiary Quantile Technologies Limited, and a Director of the London Stock Exchange plc. He is also a non-executive Director of the Financial Markets Standards Board. He has more than 25 years' investment banking experience in London and New York.

Former appointments include: Senior Independent Director, Chairman of the Risk Committee and member of both the Audit and Nomination Committees of the London Stock Exchange Group; Chairman of the International Swaps and Derivatives Association; and Managing Director and a member of the Fixed Income Management Committee at Morgan Stanley.

Colin Bell (55)

Executive Director and Chief Executive Officer

Chair of the Executive Committee

Appointed to the Board and as Chief Executive Officer: February 2021.

Colin Bell joined HSBC in July 2016 and most recently held the role of Group Chief Compliance Officer until February 2021. He is a member of the Supervisory Board, and Remuneration, Nomination and Mediation Committees of HSBC Trinkaus & Burkhardt GmbH.

Before joining HSBC, Colin worked at UBS, where he was Global Head of Compliance and Operational Risk Control. He has more than 10 years of experience in managing risk and financial crime, following 16 years in the British Army.

During his time in the Army, he held a variety of command and staff appointments, including operational tours of Iraq and Northern Ireland, time in the Ministry of Defence, a NATO appointment and completion of the Advanced Command and Staff Course.

David Watts (56)

Executive Director and Chief Financial Officer

Member of the Executive Committee

Appointed to the Board and as Chief Financial Officer: December 2021.

David is a Member of the Supervisory Board of HSBC Trinkaus & Burkhardt GmbH. He joined the HSBC Group in 1994 and was previously a Director and Chief Financial Officer of HSBC UK Bank plc.

Former HSBC Group roles include: Chief Financial Officer and Head of Finance for HSBC Bank plc; Chief Financial Officer for Global Commercial Banking; Chief Financial Officer for the Middle East and North Africa, Chief Financial Officer for Group HSBC Technology and Operations; Chief Financial Officer for Global Banking; Head of Financial Control for Global Banking & Markets HSBC Securities (USA) Inc; Head of Group Cost and Investment Reporting & Analysis; and Manager Treasury Services, France.

Patrick Clackson (58)

Independent non-executive Director

Member of the Audit Committee

Appointed to the Board: September 2022.

Former appointments include: Chief Financial Officer, Chief Operations Officer and Chief Executive Officer at Barclays Capital (now Barclays CIB). He also held several non-executive positions whilst with Barclays, BarCap as Head of Business Transformation and Structural Reform, as well as EMEA Chief Executive Officer, Chief Operations Officer, Chief Financial Officer and Head of Risk. Between 1986-1996 he was employed in the audit and financial services advisory teams of PwC, London.

Norma Dove-Edwin (57)

Independent non-executive Director

Member of the Transformation, Operational Resilience and Technology Committee

Appointed to the Board: October 2021.

Norma is as Chief Information Officer of ESO at National Grid Plc. She is also a non-executive Director of Pod Point Group Holdings plc.

Former appointments include: Group Chief Data and Information Officer at Places for People and a number of positions at British American Tobacco Plc including as Head of Global Data Services.

Yukiko Omura (67)

Independent non-executive Director

Member of the Audit Committee

Appointed to the Board: May 2018.

Yukiko is the senior independent non-executive Director of The Private Infrastructure Development Group Limited ('PIDG'). She also serves as a non-executive Director of Assured Guaranty Ltd, and a member of the Supervisory Board of Nishimoto HD Co. Ltd. She has more than 35 years' international professional experience in both the public and private financial sectors, performing senior roles for JP Morgan, Lehman Brothers, UBS and Dresdner Bank.

Yukiko is the Consumer Duty Champion for the Board and helps support the Chair and Chief Executive Officer by encouraging regular dialogue at the Board level on how the Bank is embedding Consumer Duty and focusing on customer outcomes.

Former appointments include: Chair of GuarantCo Limited, a subsidiary of PIDG; Under-Secretary General and COO/Vice President of the International Fund for Agricultural Development; and Executive Vice President and CEO of the Multilateral Investment Guarantee Agency of the World Bank Group.

Juliet Ellis (56)

Independent non-executive Director

Chair of the Transformation, Operational Resilience and Technology Committee, member of the Risk Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: January 2021.

Former appointments include: Dual role as European Head of Operations and Global Head of Shared Services and Banking Operations and other senior management positions at Morgan Stanley. Prior to 2007 she performed senior roles within Goldman Sachs International.

Dr Eric Strutz (58)

Independent non-executive Director

Chair of the Risk Committee and member of the Nomination, Remuneration & Governance Committee and Transformation, Operational Resilience and Technology Committee

Appointed to the Board: October 2016.

Eric is a member of the Supervisory Board and Risk Committee and Chair of the Audit Committee of HSBC Trinkaus & Burkhardt GmbH. He is also a director of the HBCE and Chair of the HBCE Risk Committee and member of the HBCE Audit Committee. Other appointments include Chair of the Audit Committee of Global Blue Group Holding AG, and a member of the Advisory Board and Chairman of the Audit & Risk Committee of Luxembourg Investment Company 261 Sarl.

Former appointments include: Vice Chairman and Lead Independent Director of Partners Group Holding AG, where he also Chaired the Risk and Audit Committee; Chief Financial Officer of Commerzbank Group; Partner and Director of the Boston Consulting Group; and non-executive Director of Mediobanca Banca di Credito Finanziario SpA.

John Trueman

Deputy Chairman and non-executive Director

Member of the Audit Committee, the Risk Committee and the Nomination, Remuneration & Governance Committee

Appointed to the Board: September 2004. Deputy Chairman since December 2013.

Former appointments include: Chairman and member of the Risk Committee of HSBC Global Asset Management Limited and Deputy Chairman of S.G. Warburg & Co Ltd.

Andrew Wright (62)

Chair of the Audit Committee and member of the Risk Committee and Nomination, Remuneration & Governance Committee

Appointed to the Board: May 2018.

Andrew is a member of the Supervisory Board and Audit Committee and Chair of the Risk Committee of HSBC Trinkaus & Burkhardt GmbH.

Former appointments include: Treasurer to the Prince of Wales and the Duchess of Cornwall, a role he held from May 2012 until June 2019; Global Chief Financial Officer for the Investment Bank at UBS AG; Chief Financial Officer, Europe and the Middle East at Lehman Brothers; and Chief Financial Officer for the Private Client and Asset Management Division at Deutsche Bank.

Board Changes during 2022 and following the year-end

Mary Marsh retired as a Director at the conclusion of the bank's AGM held on 17 May 2022.

Norma Dove-Edwin was appointed as a member of the Transformation, Operational Resilience and Technology Committee with effect from 1 June 2022.

Juliet Ellis was appointed as a member of the Nomination, Remuneration & Governance Committee with effect from 1 August 2022.

Patrick Clackson was appointed as a non-executive Director and member of the Audit Committee with effect from 1 September 2022.

John Trueman retired from the Board as a Director with effect from 31 December 2022.

Lewis O'Donald will join the Board as an independent non-executive Director and member of the Risk Committee with effect from 23 February 2023.

Company Secretary

The responsibilities of the Company Secretary include ensuring good governance practices at Board level and effective information flows within the Board and its committees and between senior management and the non-executive Directors.

Alison Campbell was Company Secretary of the bank until 31 December 2022 and Philip Miller was appointed as Company Secretary from 1 January 2023.

Board of Directors

Key responsibilities

The Board, led by the Chair, is responsible amongst other matters for:

(i) promoting the long-term success of the bank and delivering sustainable value to shareholders and other stakeholders;

(ii) entrepreneurial leadership of the bank within a framework of prudent and effective controls which enables risks to be assessed and managed;

(iii) setting the bank's strategy and risk appetite statement, including monitoring the bank's risk profile;

(iv) establishing and monitoring the effectiveness of procedures for maintenance of a sound system of control and risk management, and compliance with statutory and regulatory obligations; and

(v) approving the capital and operating plans and material transactions on the recommendation of management.

The role of the non-executive Directors is to support the development of proposals on strategy, hold management to account and ensure the executive Directors are discharging their responsibilities properly by promoting a culture that encourages constructive challenge. Non-executive Directors also review the performance of management in meeting agreed goals and objectives. The Chair regularly meets with the non-executive Directors without executive Directors in attendance after Board meetings, and otherwise, as necessary.

Operation of the Board

During 2022, the Board was required to meet at least four times; seven additional meetings were scheduled to help facilitate, amongst other things, the execution of the bank's transformation strategy, the bank's SEC Registration. The Board agenda is agreed with the Chair, working closely with the Company Secretary, in advance of scheduled meetings. The agenda is informed by forward-looking planning and additional emerging matters that require Board oversight or approval.

The Chief Risk Officer, General Counsel, and Company Secretary are regular attendees at Board meetings, and other senior executives attend to contribute their subject matter expertise and insight, as required.

Board activities during 2022

During 2022, the areas of focus for the Board included in the implementation of approved strategy and execution of the bank's transformation programme across the region, supporting senior management and overseeing performance, risk and capital. The Board considered performance against financial and other strategic objectives, key business challenges, emerging risks, business development and relationships with the bank's key stakeholders.

'Deep dives' on key aspects of the bank's business were also conducted to consider the performance and strategy of targeted businesses and countries. Throughout the year, the Board received regular updates from management including the implementation of regulatory programmes, technology, operations and resilience, as well as people, culture and talent.

In addition, several information and development sessions were facilitated during the year on specific areas of interest including with respect to Recovery and Resolution Planning, technology, and ESG-related matters.

During the year the Board also approved financial, capital, liquidity and funding plans put forward by management and monitored the implementation of plans. Further information on the principal decisions made by the Board during 2022 is located in the section 172 statement on pages 12 to 14.

Directors' emoluments

Details of the emoluments of the Directors of the bank for 2022, disclosed in accordance with the Act, are shown in Note 5 'Employee compensation and benefits'.

Non-executive Directors do not have service contracts and are engaged through letters of appointment. There are no obligations in the non-executive Directors' letters of appointment that could give rise to payments other than fees due or payments for loss of office.

Board committees

The Board delegates oversight of certain audit, risk, remuneration, nomination and governance matters to its committees. With the exception of the Executive Committee which is chaired by the Chief Executive Officer, each Board committee is chaired by a non-executive Board member and has a remit to cover specific topics in accordance with their respective terms of reference approved by the Board. Only non-executive Directors are members of Board committees. The Chair of each non-executive Board Committee reports to the Board on the activities of the Committee since the previous Board meeting.

Board and Committee effectiveness and performance

The Board understands the importance of, and benefits that derive from regular reviews of the effectiveness of the Board and its committees. An effectiveness review was facilitated by the bank's Company Secretary in 2022 which included a series of interviews with the Directors. Feedback was provided on a number of areas, including the Board's composition and skills, stakeholder engagement, the cadence and logistics of Board meetings, management reporting, Director induction and training, Director and management engagement and debate, and Board priorities for 2022-23. Outcomes and recommendations were reported to the Board and an action plan was produced. Work has progressed during 2022 to address these recommendations.

An annual review of the terms of reference for the Board and its committees was facilitated by the Corporate Governance and Secretariat function. This concluded that the Board and its committees had complied with their respective terms of reference during 2022. Executive Directors are also subject to performance evaluation which helps to determine the level of variable pay they receive each year. At the date of this report, the following are the principal Committees of the Board:

Audit Committee

Key Responsibilities

The Audit Committee is accountable to the Board and has non-executive responsibility for oversight of financial reporting related matters, internal controls over financial reporting and implementation of the group policies and procedures for capturing and responding to whistleblower concerns.

The committee's key responsibilities include:

(i) monitoring and assessing the integrity of the financial statements, formal announcements and supplementary regulatory information in relation to the bank's financial performance;

(ii) reviewing, as applicable, compliance with accounting standards, listing rules, and other requirements in relation to financial reporting;

(iii) reviewing and monitoring the relationship with the external auditor; and

(iv) overseeing the work of Internal Audit and monitoring and assessing the effectiveness, performance, resourcing, independence and standing of the function.

The committee has responsibility for the oversight of the bank's whistleblowing arrangements, and receives regular updates on matters relating to the whistleblowing arrangements that are in place.

Committee activities during 2022

In addition to significant accounting judgements, key matters considered by the committee during the year were regulatory reporting and control enhancements, disposal groups, IFRS 17 implementation, the development of climate-related disclosure, the bank's financial resources and capital, transformation of the Finance function, the independence, fees and performance of the external auditor, PwC UK, and updates on key issues identified by Internal Audit related to the bank and its subsidiaries.

During the year, the committee dedicated time in overseeing management's preparation for the Bank's registration with the U.S. Securities and Exchange Commission ('SEC') and wider programme preparation to achieve compliance with the U.S. Sarbanes-Oxley Act of 2002 ('SOX').

The committee also received updates from the Chairs of the audit committees of key subsidiaries of the Bank, updates from the external auditor on the progress and findings of their audit, and bi-annual updates on the tax position of the bank and its subsidiaries.

Operation of the Committee

The committee held seven scheduled meetings during the year and held separate meetings with each of the Chief Finance Officer, the Chief Risk Officer, the Head of Internal Audit and representatives of the external auditor without management present. An additional meeting was convened in May 2022 to review the bank's draft SEC registration statement and relevant documentation prior to the Board's approval.

The committee meets regularly with the bank's senior financial and Internal Audit management and the external auditors to consider, among other matters, the bank's financial reporting, the nature and scope of audit reviews, the effectiveness of the systems of internal control relating to financial reporting and the monitoring of the Finance function transformation programme.

The Chief Financial Officer, Financial Controller, Chief Risk Officer, Head of Internal Audit, and Company Secretary are standing attendees and regularly attend committee meetings to contribute their subject matter expertise and insight. Other members of senior management routinely attended meetings of the committee. The external auditor attended all meetings.

During 2022, the committee continued to actively engage with the bank's key subsidiaries and key subsidiary audit committees, with regular reporting throughout the year.

The key subsidiary audit committee chairs attended and participated in the April Audit Committee meeting to consider important HSBC-wide and regional specific matters.

The Chair of the committee regularly meets with the Chair of the Group Audit Committee ('GAC') to help maintain connectivity with the Group and develop deeper understanding on judgements around key matters. Further, from time to time the Chair is invited to attend meetings of the GAC on relevant topics.

The Chair of the GAC also attended a committee meeting in November 2022. The committee comprises three independent non-executive Directors. The current members are Andrew Wright (Chair), Yukiko Omura, and Patrick Clackson.

Significant accounting judgements and related matters considered by the Audit Committee ('AC') for the year ended 31 December 2022 included:

Key area	Action taken
Interim and annual reporting	The AC considered key matters in relation to interim and annual reporting, including changes to segmental reporting and US filings 20-F and 6-K following the bank's registration at the SEC.
Disposals	The AC considered the financial and accounting impacts of the planned disposals of the retail banking business in France, the Greece branch operations and the bank in Russia. In particular, the AC considered judgements related to the timing of recognition of assets as held-for-sale, the re-measurement of those assets and losses arising, which has a significant impact in the year ended 31 December 2022.
Expected credit loss ('ECL')	The AC considered key judgements in relation to ECL, in particular multiple economic scenarios and post-model adjustments due to economic uncertainty and the Russia-Ukraine war.
Valuation of financial instruments	The AC considered key valuation metrics and judgements involved in the determination of the fair value of financial instruments. The AC also considered management's analysis of exit losses upon the novation of certain derivative portfolios and the determination that there was insufficient evidence to support the introduction of fair value adjustments in respect of these.
Going concern	The AC considered a wide range of information relating to present and potential conditions, including projections for profitability, cash flows, liquidity and capital.
Impairment of investment in subsidiaries	The AC reviewed management's periodic assessment of impairment of investments in subsidiaries and paid particular attention to the sensitivities to cash flow projections and long-term growth rate and discount rate assumptions. Management assessed that there had been a partial reversal of impairment of the bank's investment in HBCE in the year ended 31 December 2022, with due regard to the planned sale of the retail banking business in France.
Appropriateness of provisioning for legal proceedings and regulatory matters	The AC received reports from management on the recognition and measurement of provisions and contingent liabilities for legal proceedings and regulatory matters, including investigations by regulators and competition and law-enforcement authorities.
Regulatory reporting	The AC reviewed management's efforts to strengthen and simplify the end-to-end operating and control model, including independent external reviews of key aspects of regulatory reporting.
IBOR transition	The AC considered the implications of benchmark interest rate reform, including the recognition and measurement of financial instruments and related disclosures.
Controls	The AC considered the financial control environment on an ongoing basis through the year, reviewing and challenging remediation actions undertaken and enhancements made. This included confirmation of mitigating controls where programmes of work had not fully completed by the year end. Areas of particular focus in 2022 have been Model Risk Governance, controls over use of external market data, accounting and tax implications of Merger and Acquisition ('M&A') transactions, general ledger substantiation and Financial Statement Disclosures.
Tax	The AC reviewed management's judgements on the recognition and measurement of deferred tax assets and liabilities, in particular those arising from the planned sale of retail banking activities in France, and the accounting and disclosure of retrospective VAT assessments issued by HMRC.
Environmental, Social and Governance ('ESG') Reporting	The AC considered regulatory developments in ESG Reporting, in particular at 31 December 2022 for bank subsidiaries in the European Union.
IFRS 17 implementation	The AC reviewed accounting policy judgements in relation to the retrospective implementation of IFRS 17 Insurance Contracts on 1 January 2023, and preparation of transitional disclosure.
Restructuring provisions	The AC considered key judgements in relation to restructuring provisions, mainly relating to transformation in Continental Europe and Germany.

Risk Committee

Key Responsibilities

The Risk Committee is accountable to the Board and has overall non-executive responsibility for oversight of risk-related matters and the risks impacting the bank.

The committee's key responsibilities include:

(i) advising the Board on risk appetite and risk tolerance related matters;

(ii) reviewing and recommending key regulatory submissions to the Board;

(iii) overseeing and advising the Board on all risk-related matters, including financial and non-financial risks and reviewing the effectiveness of the bank's conduct framework;

(iv) reviewing, challenging and satisfying itself that the bank's stress testing framework, governance and internal controls are robust; and

(v) reviewing the effectiveness of the bank's risk management framework and internal control systems (other than internal financial controls overseen by the Audit Committee).

Committee activities during 2022

Key matters considered by the committee during the year included the bank's approach to the financial and non-financial risks in the context of capital and liquidity, retail, wholesale credit and market risks including, financial crime and fraud, geopolitical, operational, people and climate-related risks.

The committee also reviewed and challenged management on key regulatory processes, including the bank's internal capital adequacy assessment process ('ICAAP') and the internal liquidity adequacy assessment process ('ILAAP'), recovery and resolution plans, the outcome of stress tests (including annual cyclical scenario, cyber and solvency) undertaken during the year, and the bank's capital liquidity and funding plans.

Deep dives on key aspects of the bank's business were conducted to consider specific climate risk related matters including the bank's thermal coal phase-out policy.

The committee worked closely with the Transformation, Operational Resilience and Technology Committee during the year to ensure appropriate alignment in the review and discussion on operational resilience and technology risk-related matters.

Operation of the Committee

The committee held eight scheduled meetings during the year. The Chief Risk Officer, Chief Financial Officer and Head of Internal Audit are standing attendees and regularly attend committee meetings to contribute their subject matter expertise and insight. The Chair and members of the committee also hold private meetings with the Chief Risk Officer, following quarterly scheduled meetings.

The committee reviews and challenges current and forward-looking risk issues, and the regional senior business leaders are regularly invited to participate at committee meetings, working together with functional and regional leaders across all three lines of defence.

The Chair and members of the committee meet regularly with the bank's senior financial, risk, internal audit and compliance management and the external auditors to consider and discuss, among other matters, specific risk matters and priorities, risk reports and internal audit reports and the effectiveness of compliance activities. The Chair meets regularly with the committee secretary to ensure the committee meets its governance responsibilities.

During 2022 the committee continued to actively engage with the bank's key subsidiaries and key subsidiary risk committees, with regular reporting from the respective Chairs throughout the year. The Chair of the committee attended several Group-led meetings to help promote connectivity, escalation and cascade of important topics. The committee comprises a majority of independent non-executive Directors.

The current members are Eric Strutz (Chair), Juliet Ellis and Andrew Wright.

Transformation, Operational Resilience and Technology Committee

Key Responsibilities

The Transformation, Operational Resilience and Technology Committee was established to assist the Board and Risk Committee with their respective responsibilities in relation to the bank's transformation strategy, operational resilience, as well as the governance and oversight of technology. During the year, on recommendation of the Board, the Group Nomination & Corporate Governance Committee approved the continuation of the committee to continue necessary engagement allowing a more detailed oversight of the matters within its remit.

The committee's key responsibilities include:

(i) reviewing progress of the transformation strategy and the steps management have taken to manage risk, and to monitor progress against set objectives;

(ii) reviewing the effectiveness of governance frameworks to set and oversee the internal control environment in relation to technology;

(iii) reviewing regional technology strategy, ensuring it is aligned with the adopted business strategies of the bank; and

(iv) overseeing and challenging management on execution of operational resilience objectives and deliverables.

Committee activities during 2022

Key matters considered by the committee during the year included review and oversight of Information Technology ('IT') and Cloud strategies and governance, the bank's operating systems, operational resilience and technology infrastructure, including operational resilience of critical IT and other business services, information and cyber security risks, and major IT change programmes. The committee also reviewed and challenged management on the progress and associated risks with respect of the transformation strategy, including transformation governance, key change programmes and initiatives underway, including those related to outsourced technology services and meeting regulatory requirements and expectations.

Operation of the Committee

The committee held seven scheduled meetings during 2022.

The Board Chair, Chief Operating Officer, Chief Information Officer, Chief Risk Officer, Head of Internal Audit, and Head of Strategy and Planning, Chief of Staff (Europe CEO), are standing attendees and regularly attend Committee meetings to contribute their subject matter expertise and insight.

The current members are Juliet Ellis (Chair), Norma Dove-Edwin, and Eric Strutz.

Nomination, Remuneration & Governance Committee

Key Responsibilities

The Nomination, Remuneration & Governance Committee has responsibility for:

(i) leading the process for Board appointments and for identifying and nominating, for the approval of the Board, candidates for appointment to the Board and its committees;

(ii) the endorsement of the appointment of individuals to certain Board and management positions of the bank's subsidiaries, including proposed fees payable to non-executive Directors on subsidiary boards;

(iii) reviewing the implementation and appropriateness of the Group's director remuneration policy and the remuneration of the bank's senior executives, including the identification of the Material Risk Taker population for the purposes of the CRD;

(iv) reviewing and developing the corporate governance framework on behalf of the Board and ensuring it is consistent with best corporate governance standards and practices while remaining appropriate to the size, complexity and strategy of the bank; and

(v) overseeing compliance with the HSBC Group Subsidiary Accountability Framework ('SAF').

Further information in relation to HSBC's approach to remuneration for group employees is available in the Director's remuneration report on pages 276-278 of HSBC's Annual Report and Accounts 2022 available on https://www.hsbc.com/investors/results-and-announcements/annual-report.

Committee activities during 2022

As a UK regulated subsidiary of HSBC Holdings plc, the bank has both internal and external responsibilities for succession planning. During the year the committee undertook a review of its succession plan and the Board and Board Committee's composition in keeping with best practice and applicable policies, including SAF.

As part of its review, the committee identified opportunities to further strengthen the skills and experience required for the Board. The committee commenced a search process to identify a new non-executive Director for appointment to the Board with a successful recommendation to the Board for approval secured in the appointment of Patrick Clackson. Further information in relation to Board and committee changes throughout the year can be found on page 95.

Additionally, the committee reviewed and approved an updated Board Continuity Plan ('BCP') which is in place to cover any unexpected or temporary absence of non-executive Directors who hold SMF responsibilities in relation to the Bank.

In overseeing compliance with SAF, the committee reviewed of the Board composition and succession planning for all of the bank's material subsidiaries.

Other activities during the year included, the review of key remuneration matters for the bank and its subsidiaries in the context of HSBC's remuneration framework, including variable and fixed pay allocations, aligned with the bank's risk appetite, and in keeping with the bank's strategy, culture and values, and long-term interests of the bank.

The committee reviewed the annual pay review outcomes across the region and received regular updates on relevant subsidiary and regulatory matters.

Operation of the Committee

The committee held seven scheduled meetings during 2022, with additional meetings arranged to consider specific matters.

The Head of HR and Head of Performance & Reward attend committee meetings on a regular basis to contribute their subject matter expertise and insight. Other senior executives attend periodically for specific items considered by the committee.

The committee comprises four non-executive Directors. The current members are: Stephen O'Connor (Chair), Juliet Ellis, Eric Strutz, and Andrew Wright.

Executive Committee

The Executive Committee is a committee of the Board and has overall executive responsibility, under formal delegation, for the management and day-to-day running of the bank. The Committee is accountable to the Board for overseeing the execution of the bank's strategy.

The purpose of the Committee is to support the Chief Executive Officer of the bank in the performance of their duties and exercise of their powers, authorities and discretions in relation to the management of the bank and its subsidiaries. The committee meets on a regular basis and is chaired by the Chief Executive Officer.

During 2022, in addition to its day-to-day oversight of the bank's operations, the committee reviewed business plans in light of geopolitical and macroeconomic developments in keeping with the Bank's approved Risk Framework and Risk Appetite prior to formal recommendation to the Board for approval. The committee remained focused on the Bank's strategic transformation and corporate restructuring across Europe, including the country exit of Russia, sale of branch operations in Greece and retail banking operations in France and the regulatory requirement to establish an IPU following the UK's departure from the European Union. The committee is responsible for oversight of the performance across the bank's lines of business, review of the bank's financial performance, cost management, and preparing the bank's forward looking Financial Resource Plan. The committee received updates on regulatory remediation programmes and regulatory engagement themes across the region.

Dividends

Information about dividends paid during the year is provided on page 20 of the Strategic Report and in Note 8 to the financial statements.

Internal control

The Board is responsible for the establishment and operation of effective procedures for the maintenance of a sound system of internal control and risk management, adequate accounting, and compliance with statutory and regulatory obligations. The Board determine the aggregate level and types of risks the bank is willing to take in achieving its strategic objectives.

To meet this requirement and to discharge its obligations under the FCA Handbook and the PRA Handbook, procedures have been designed for safeguarding assets against unauthorised use or disposal, for maintaining proper accounting records, and for ensuring the reliability and usefulness of financial information used within the business or for publication.

These procedures provide reasonable assurance against material misstatement, errors, losses or fraud. They are designed to provide effective internal control within the group and accord with the Financial Reporting Council's guidance for Directors issued in 2014 (and subsequent relevant publications), internal control and related financial and business reporting. The procedures have been in place throughout the year and up to 20 February 2023, the date of approval of this Annual Report and Accounts 2022.

The key risk management and internal control procedures include the following:

- **Global principles:** The HSBC Group's Global Principles set an overarching standard for all other policies and procedures and are fundamental to the Group's risk management structure. They inform and connect our purpose, values, strategy and risk management principles, guiding us to do the right thing and treat our customers and our colleagues fairly at all times.
- **Risk management framework ('RMF'):** The RMF supports our Global Principles. It outlines the key principles and practices that we employ in managing material risks. It applies to all categories of risk and supports a consistent approach in identifying, assessing, managing and reporting the risks we accept and incur in our activities.
- **Delegation of authority within limits set by the Board:** Subject to certain matters reserved for the Board, the Chief Executive Officer has been delegated authority limits and powers within which to manage the day-to-day affairs of the bank, including the right to sub-delegate those limits and powers. Each relevant executive has authority within which to manage the day-to-day affairs of the business or function for which he or she is accountable. Those individuals are required to maintain a clear and appropriate apportionment of significant responsibilities and to oversee the establishment and maintenance of systems of control that are appropriate to their business or function. Authorities to enter into credit and market risk exposures are delegated with limits to line management of group companies. However, credit proposals with specified higher-risk characteristics require the concurrence of the appropriate global function. Credit and market risks are measured and reported at subsidiary company level and aggregated for risk concentration analysis on a group-wide basis.

- **Risk identification and monitoring:** Systems and procedures are in place to identify, assess, control and monitor the material risk types facing the group as set out in the RMF. The group's risk measurement and reporting systems are designed to help ensure that material risks are captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.
- **Changes in market conditions/practices:** Processes are in place to identify new risks arising from changes in market conditions/practices or customer behaviours, which could expose the group to heightened risk of loss or reputational damage. The group employs a top and emerging risks framework, which contains an aggregate of all current and forward-looking risks and enables it to take action that either prevents them materialising or limits their impact.
- **Responsibility for risk management:** All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. This is an activity-based model to delineate management accountabilities and responsibilities for risk management and the control environment. The second line of defence sets the policy and guidelines for managing specific areas, provides advice and guidance in relation to the risk, and challenges the first line of defence (the risk owners) on effective risk management.
- The Board has delegated to the Audit Committee oversight for the implementation of the group's policies and procedures for capturing and responding to whistleblower concerns, ensuring confidentiality, protection and fair treatment of whistleblowers, and receiving reports arising from the operation of those policies as well as ensuring arrangements are in place for independent investigation.
- **Strategic plans:** Strategic plans are prepared for global businesses, global functions and geographical regions within the framework of the HSBC Group's overall strategy. The bank also prepares and adopts a Financial Resource Plan, which is informed by detailed analysis of risk appetite, describing the types and quantum of risk that the bank is prepared to take in executing its strategy and sets out the key business initiatives and the likely financial effects of those initiatives.
- The effectiveness of the group's system of risk management and internal control is reviewed regularly by the Board, the Risk Committee and the Audit Committee.
- During 2022, the group continued to focus on operational resilience and invest in the non-financial risk infrastructure. There was a particular focus on material and emerging risks with progress made enhancing the end-to-end risk and control assessment process. The Risk Committee, supported by the TRT, and the Audit Committee received confirmation that executive management continued to take efforts to effect the necessary actions to remedy any failings or weaknesses identified through the operation of the group's framework of controls.

Internal control over financial reporting

The key risk management and internal control procedures over financial reporting include the following:

- **Entity level controls ('ELC'):** The primary mechanism through which comfort over risk management and internal control systems is achieved, is through assessments of the effectiveness of controls to manage risk, and the reporting of risk and control issues on a regular basis through the various risk management and risk governance forums. ELCs are a defined suite of internal controls that have a pervasive influence over the entity as a whole. They include controls related to the control environment, such as the bank's values and ethics, the promotion of effective risk management and the overarching governance exercised by the Board and its non-executive committees. The design and operational effectiveness of ELCs are assessed annually as part of the assessment of the effectiveness of internal controls over financial reporting. If issues are significant to the group, they are notified to the Risk Committee, and also to the Audit Committee if concerning financial reporting matters.
- **Process level transactional controls:** Key process level controls that mitigate risk of financial misstatement are identified, recorded and monitored in accordance with the risk framework. This includes the identification and assessment of relevant control issues against which action plans are tracked through to remediation. Further details on the group's approach to risk management can be found on page 26. The Audit Committee has continued to receive regular updates on HSBC's ongoing activities for improving the effective oversight of end-to-end business processes and management continues to identify opportunities for enhancing key controls, such as through the use of automation technologies.
- **External Reporting Forum:** The External Reporting Forum reviews financial reporting disclosures to be made by the bank for accuracy and completeness. The integrity of disclosures is underpinned by structures and processes within the group's Finance and Risk functions that support rigorous analytical review of financial reporting and the maintenance of proper accounting records.
- **Disclosure Committee:** Chaired by the Chief Financial Officer, the committee supports the discharge of the bank's obligations under relevant legislation and regulation including the European Union's Market Abuse Regulation ('EU MAR'), as amended by the Market Abuse (Amendment) (EU Exit) Regulations 2019, the New York Stock Exchange's Listed Company Manual, U.S. Securities law and the rules and regulations of the SEC, and also any other listing and disclosure rules of the markets and exchanges on which the bank's financial instruments are listed, including any other requirements that shall apply from time to time.
- **Financial reporting:** The group's financial reporting process is controlled using documented accounting policies and reporting formats, supported by detailed instructions and guidance on reporting requirements, issued to all reporting entities within the group in advance of each reporting period end. The submission of financial information from each reporting entity is supported by a certification by the responsible financial officer and analytical review procedures at subsidiary and group levels.
- **Subsidiary certifications:** Certifications are provided to the Audit Committee and the Risk Committee (full and half yearly) and to the Nomination, Remuneration and Governance Committee (annually) from the audit, risk and remuneration committees of key material subsidiary companies confirming amongst other things that:
  - Audit – the financial statements of the subsidiary have been prepared in accordance with group policies, present fairly the state of affairs of the subsidiary and are prepared on a going concern basis;
  - Risk – the risk committee of the subsidiary has carried out its oversight activities consistent with and in alignment to the RMF; and
  - Remuneration – the remuneration committee of the subsidiary has discharged its obligations in overseeing the implementation and operation of HSBC's Group Remuneration Policy.

Employees

Health and safety

We are committed to providing a safe and healthy working environment for everyone. We have adopted global policies, mandatory procedures, and incident and information reporting systems across the organisation that reflect our core values and are aligned to international standards. Our global health and safety performance is subject to ongoing monitoring and assurance.

Our Chief Operating Officers have overall responsibility for engendering a positive health and safety culture and ensuring that global policies, procedures and systems are put into practice locally. They also have responsibility for ensuring all local legal requirements are met.

We delivered a range of programmes in 2022 to help us understand and manage our health and safety risks:

- We continued to provide enhancements to our workplaces to minimise the risks of Covid-19, including enhancing cleaning, improved ventilation and social distancing measures
- We updated our advice and risk assessment methodology on working from home, providing more awareness and best practices on good ergonomics and wellbeing to be adopted as we transitioned to new ways of working upon return to the office
- We delivered health and safety training and awareness to employees and contractors ensuring roles and responsibilities were clear and understood, especially in higher risk environments
- We completed the annual safety inspection on all of our buildings, to ensure we were meeting our standards and continuously improving our safety performance
- We continued to focus on enhancing the safety culture in our supply chain through our SAFER Together programme, covering the five key elements of best practice safety culture, including speaking up about safety, and recognising excellence
- Our Safety Climate Survey continued to show high results and recognised that we encourage suggestions on how to improve health and safety and have good processes in place to communicate health and safety messages
- Our Eat Well Live Well programme continued to be rolled out, notably in France and Germany, educating and informing our colleagues on how to make healthy food and drink choices. We enhanced the programme to provide digital educational and information resources, including a suite of videos and recipe ideas and to provide healthy vending options.
- Protection of our colleagues and operations is of critical importance and we have effective controls in place to protect our people from natural disasters (i.e. storms and earthquakes). In 2022, there were 38 named storms that passed over 1,667 of our buildings, resulting in 0 injuries or material business impact.

Employee health and safety

	2022	2021	2020
Number of workplace fatalities	—	—	—
Number of major injuries to employees[1]	—	2	3
All injury rate per 100,000 employees	**49**	35	130

1 *Fractures, dislocation, concussion, hospitalisation, unconsciousness.*

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. Promoting diversity and fostering inclusion contributes to our 'energise for growth' priority. By valuing difference, we can make use of the unique expertise, capabilities, breadth and perspectives of our colleagues to the benefit of our customers. To achieve progress, we are focused on specific region-wide priorities for which we hold senior executives accountable. We are pleased to report on key progress made in 2022:

Achievements

- We have set up a HSBC Bank plc Diversity and Inclusion Council, chaired by the HSBC Bank plc CEO and consisting of the European Executive Committee to reinforce our commitments, engage more closely with our Employee Resources Groups and track progress and accountability.
- Throughout 2022, we arranged multiple events and conferences to support our colleagues across our European countries, including ethnicity conferences attended by over 600 colleagues, 6 disability awareness events and six ethnicity exchanges in French and English.
- We have continued supporting colleagues through our ERGs; we now have 47 ERGs in 20 markets across six diversity strands.
- We have created D&I objectives for European people managers.
- Focus on developing our middle management female colleagues through our flagship programmes 'uGrow' and 'Accelerated Female Leaders'.
- We have a black heritage action plan in place to support our ethnicity goals, including a Black Heritage Sponsorship Programme being run in Global Banking and Markets.
- 3000+ hours spent on Inclusion Learning across the region
- 47.9% of employees in the UK, Channels Islands and Isle of Man and South Africa have declared their ethnicity in our 'HR Direct' system

Gender diversity statistics

Our overall female representation is improving and we are committed to building a strong pipeline of female talent to improve gender balance in senior leadership across Europe. By the end of 2022, we had reached 24.6% and are committed to doing more going forward.

Female representation by management level:

All grades – 51.9%

GCB 6-8 Clerical grades – 65.1%

GCB 4-5 Management – 43.7%

GCB 0-3 Senior management – 24.6%

Employment of people with a disability

We strongly believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment. The recruitment, training, development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during their employments with us, efforts are made to continue their employment. Where necessary, we will provide appropriate training, facilities and reasonable equipment. For example, we recently established a telephone platform for instant sign translation for our deaf colleagues in France where the sign language translators exchange sign language by video.
A number of countries have dedicated teams to ensure that barriers to work are removed for colleagues. Our Employee Resource Groups ('ERG'), supported by HR and business leadership are doing an important job of breaking down barriers. They offer a space for discussion between those with a disability and their allies for exchanges of inclusive best practices.

Continuous work is done to ensure individual support is provided to make home office adjustments.

Learning and talent 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 to meet our strategic priorities and support our colleagues' career goals.

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 designed to build their knowledge of the organisation and engage them with our purpose, values and strategy.

HSBC University remains our home for skills development with access to face to face training and an extensive catalogue of digital content from partners such as LinkedIn Learning, Harvard Business Review podcast and Microsoft Learn. Powered by Degreed, our HSBC University platform provides tailored content aligned to employees chosen skills and development areas. Our Leadership development partners include Imperial College and London Business Schools who we work with on topics of strategic importance. For example, we launched the HSBC University Sustainability Academy in October 2022 providing a wealth of knowledge articles and structured learning pathways to grow awareness of climate and wider social sustainability matters that HSBC and its employees can play a role in resolving.

My HSBC Career Portal is also available to all our employees which offers career development information and resources to help colleagues manage the various stages of their career, from joining through to career progression. However, we also recognise that most development happens while our colleagues work, through regular coaching, feedback, and performance management and we will extend the use of the HSBC Talent Marketplace platform in Europe in 2023 (the platform is already live in the UK). This will connect our employees to 'on the job' development opportunities across the HSBC Group, by means of matching individuals existing skills and career aspirations to live projects within the Group. HSBC Europe will also be able to call upon talent that exists across the Group, to supplement its own personnel, in the development of local initiatives and projects.

Employee relations

We consult with and, where appropriate, negotiate with employee representative bodies where we have them. We also aim to maintain well-developed communications and consultation programmes with all employee representative bodies and there have been no material disruptions to our operations from labour disputes during the past five years.

Disclosure of information to auditors

The directors are not aware that there is any relevant audit information (as defined in the Companies Act 2006) of which the bank's auditors are unaware and processes are in place to ensure that the bank's auditors are aware of any relevant audit information.

Auditors

PricewaterhouseCoopers LLP ('PwC') are the external auditors to the bank. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the bank's auditors. A resolution proposing the re-appointment of PwC as the bank's auditors, and giving authority to the Audit Committee to determine its remuneration, will be submitted to the forthcoming AGM.

Branches

HSBC Bank plc provides a wide range of banking and financial services through 20 markets. HSBC Bank plc is simplifying its operating model to one integrated business supporting a wholesale banking hub for the EU in Paris and a wholesale banking hub for western markets in London. Further information on the bank's branches are located in 'HSBC in Europe' on page 6.

Disclosures required pursuant to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as updated by Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Engagement with employees (Sch.7 Para 11 and 11A 2008/2018 Regs), s172 Statement)	Pages 12 and 13
Engagement with suppliers, customers and others in a business relationship with the bank (Sch.7 Para 11B 2008 Regs)	Pages 12 and 13
Policy concerning the employment of disabled persons (Sch.7 Para 10 2008 Regs)	Page 101
Financial Instruments (Sch.7 Para 6 2008 Regs)	Pages 36 to 75
Hedge accounting policy (Sch.7 Para 6 2008 Regs)	Note 14, Pages 159 to 164

Articles of Association, Conflicts of interest and indemnification of Directors

The bank's Articles of Association gives the Board authority to approve Directors' conflicts and potential conflicts of interest. The Board has adopted policies and procedures for the approval of Directors' conflicts or potential conflicts of interest. On appointment, new Directors are advised of the process for dealing with conflicts and a review of those conflicts that have been authorised, and the terms of those authorisations, is routinely undertaken by the Board.

The Articles of Association of the bank contain a qualifying third-party indemnity provision, which entitles Directors and other officers to be indemnified out of the assets of the bank against claims from third parties in respect of certain liabilities. HSBC Group has granted, by way of deed poll, indemnities to the Directors, including former Directors who retired during the year, against certain liabilities arising in connection with their position as a Director of any Group company, including the bank and its subsidiaries. Directors are indemnified to the maximum extent permitted by law.

The indemnities that constitute a 'qualifying third-party indemnity provision', as defined by section 234 of the Companies Act 2006, remained in force for the whole of the financial year (or, in the case of Directors appointed during 2022, from the date of their appointment). The deed poll is available for inspection at the registered office of HSBC Holdings plc.

Additionally, Directors have the benefit of Directors' and Officers' liability insurance. Qualifying pension scheme indemnities have also been granted to the Trustees of the Group's pension schemes, which were in force for the whole of the financial year and remain in force as at the date of this report.

Research and Development

In the ordinary course, the lines of business develop new products and services.

Events after the Balance Sheet Date

In its assessment of events after the balance sheet date, the group has considered and concluded that there are no events requiring adjustment or disclosures in the financial statements.

Statement on going concern

The Directors consider it appropriate to prepare the financial statements on the going concern basis. In making their going concern assessment, the Directors have considered a wide range of detailed information relating to present and potential conditions, including profitability, cash flows, capital requirements and capital resources.

Further information relevant to the assessment is provided in the Strategic Report and the Report of the Directors, in particular:

- a description of the group's strategic direction;
- a summary of the group's financial performance and a review of performance by business;
- the group's approach to capital management and its capital position; and
- the top and emerging risks facing the group, as appraised by the Directors, along with details of the group's approach to mitigating those risks and its approach to risk management in general.

In addition, the objectives, policies and processes for managing credit, liquidity and market risk are set out in the 'Report of the Directors: Risk'.

The Report of the Directors comprising pages 26 to 102 was approved by the Board on 20 February 2023 and is signed on its behalf:

By order of the Board

David Watts

Director

HSBC Bank plc

20 February 2023

Registered number 00014259

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards. In preparing the group and company financial statements, the directors have also elected to comply with International Financial Reporting Standards issued by the International Accounting Standards Board (IFRSs as issued by IASB).

The group and company have also prepared financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, whose names and functions are listed in Corporate Governance Report confirm that, to the best of their knowledge:

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRSs issued by IASB, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the loss of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

D M Watts

On behalf of the Board

David Watts

Director

HSBC Bank plc

20 February 2023

Registered number 00014259

Independent auditors' report to the members of HSBC Bank plc

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Bank plc's group financial statements and company financial statements (the 'financial statements'):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the *Annual Report and Accounts 2022* (the 'Annual Report'), which comprise:

- the consolidated balance sheet as at 31 December 2022;
- the consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the HSBC Bank plc balance sheet as at 31 December 2022;
- the HSBC Bank plc statement of cash flows for the year then ended;
- the HSBC Bank plc statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Certain notes to the financial statements have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as '(Audited)'. The relevant disclosures are included in the Risk review section on pages 26 to 93.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1.1(a) to the financial statements, the group and company, in addition to applying UK-adopted international accounting standards, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1.1(a) to the financial statements, the group and company, in addition to applying UK-adopted international accounting standards, have also applied international financial reporting standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB').

In our opinion, the group and company financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'), International Standards on Auditing issued by the International Auditing and Assurance Standards Board ('ISAs') and applicable law. Our responsibilities under ISAs (UK) and ISAs are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by either the FRC's Ethical Standard or Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

We performed audits of the complete financial information of two components, namely the UK non-ring-fenced bank and HSBC Continental Europe ('HBCE'). For five further components, specific audit procedures were performed over selected significant account balances and financial statement note disclosures.

Key audit matters

- Expected credit losses ('ECL') impairment of loans and advances (group and company)
- Held for sale accounting (group)
- Recognition of deferred tax assets (group); and
- Impairment of investment in subsidiaries (company)

Materiality

- Overall group materiality: £230 million (2021: £218 million) based on 1% of Tier 1 capital.
- Overall company materiality: £133 million (2021: £140 million) based on 1% of Tier 1 capital.
- Performance materiality: £172 million (2021: £164 million) (group) and £99 million (2021: £105 million) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Held for sale accounting (group) is a new key audit matter this year. Valuation of financial instruments (group and company), which was a key audit matter last year, is no longer included because the risk is reduced due to a reduction in the size of the level 3 asset backed securities portfolio, resulting in a lower risk of material misstatement. Otherwise, the key audit matters below are consistent with last year.

Expected credit losses – Impairment of loans and advances (group and company)

Nature of the key audit matter

Determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty.

Management makes various assumptions when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on ECL. These included assumptions made in determining forward looking economic scenarios and their probability weightings (specifically the central and downside scenarios given these have the most material impact on ECL) and estimating expected cash flows and collateral valuations to assess the ECL of credit impaired wholesale exposures.

The level of estimation uncertainty and judgement has remained high during 2022 as a result of the uncertain macroeconomic and geopolitical environment, high levels of inflation and a rising global interest rate environment. This leads to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models, and in the estimation of expected cash flows and collateral valuations on credit impaired stage 3 exposures.

Management makes other assumptions which are less judgemental or for which variations have a less significant impact on ECL. These assumptions include:

- The methodologies used in quantitative scorecards for determining customer risk ratings ('CRRs');
- Model methodologies themselves; and
- Quantitative and qualitative criteria used to assess significant increases in credit risk.

Matters discussed with the Audit Committee

We held discussions with the Audit Committee covering governance and controls over ECL. We discussed a number of areas including:

- The severity of macroeconomic scenarios, and their related probability weightings;
- The valuation of credit impaired exposures, with focus on assumptions made in the recoverability of significant wholesale exposures; and
- The disclosures made in relation to ECL.

How our audit addressed the Key Audit Matter

We assessed the design and effectiveness of governance and controls over the estimation of ECL. We observed management's review and challenge in governance forums for (1) the determination of macroeconomic scenarios and their probability weightings and (2) the assessment of ECL for Wholesale exposures, including the assessment of ECL calculated on the largest credit-impaired stage 3 exposures.

We also tested controls over:

- The input of critical data into source systems and the flow and transformation of critical data from source systems to impairment models and management judgemental adjustments;
- Credit reviews that determine CRRs for wholesale customers;
- Independent model validation and monitoring;
- The calculation and approval of management judgemental adjustments to modelled outcomes;
- The identification of credit-impairment triggers; and
- The calculation and approval of significant individual impairments relating to the largest wholesale credit-impaired exposures.

We involved our economic experts in assessing the significant assumptions made in determining the severity and probability weighting of macroeconomic forecasts. These assessments considered the sensitivity of ECL to variations in the severity and probability weighting of macroeconomic forecasts. We involved our modelling experts in assessing the appropriateness of the significant assumptions and methodologies used for models and independently re-performed the calculations for a sample of those models. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias.

In addition, we performed substantive testing over:

- the compliance of ECL methodologies and assumptions with the requirements of IFRS 9;
- the appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk;
- a sample of critical data used in the year end ECL calculation;
- a sample of CRRs applied to wholesale exposures; and
- a sample of calculations made in estimating expected cash flows for certain credit-impaired wholesale exposures.

We evaluated and tested the Credit Risk disclosures made in the financial statements.

Relevant references in the Annual Report and Accounts 2022

- Measurement uncertainty and sensitivity analysis of ECL estimates, page 47.
- Audit Committee Report, page 97.
- Credit risk, page 36.
- Note 1.2(i) Impairment of amortised cost and FVOCI financial assets, page 129.

Recognition of deferred tax assets (group)

Nature of the key audit matter

Recognition of deferred tax assets ('DTAs') relies on an assessment of the availability and timing of future deferred tax liabilities and taxable profits against which to recognise accumulated tax losses.

Management judgement is required when assessing whether a deferred tax asset should be recognised, particularly when an entity has a history of recent losses and convincing evidence of future taxable profits is required. Judgements include assumptions regarding the forecast cash flows, determination of risk adjustments to such cash flows and the timing of the reversal of temporary differences.

Management performed an assessment of the recoverability of deferred tax assets at 31 December 2022 and an additional deferred tax asset of £288 million has been recorded in HBCE.

Matters discussed with the Audit Committee

We discussed with the audit committee the key judgements made by management in assessing the recoverability of DTAs. We also discussed the appropriateness of the disclosures made in the annual report.

How our audit addressed the Key Audit Matter

We tested the design and operating effectiveness of controls over deferred tax asset recognition.

With the support of our tax specialists we assessed the viability of management's plans to recover deferred tax assets.

We tested key inputs into the deferred tax recognition model, including forecast cash flows to approved plans and their consistency with other judgements. We challenged management on their methodology and underlying assumptions in arriving at their judgements, including in relation to availability of convincing other evidence of future taxable profits and determination of risk adjustments applied to those forecast taxable profits. In assessing these judgements we considered the historic taxable profits and losses and the evidence provided to support the judgement that the criteria for recognition had been reached.

We challenged the achievability of management's forecast taxable profits, considering the achievement of historic forecasts and assessing the sensitivity of forecasts to reasonable variations in significant assumptions. We also evaluated assumptions made over the future reversal of deferred tax assets and liabilities.

We evaluated and tested the disclosures made in the financial statements

Relevant references in the Annual Report and Accounts 2022

- Audit Committee Report, page 97.
- Note 1.2(l) Tax, page 133
- Note 7: Tax, page 143

Held for sale accounting (group)

Nature of the key audit matter

The group has agreements to sell a number of businesses as part of executing its strategy. This has resulted in £21.2 billion of assets and £24.7 billion of liabilities being classified as held for sale as at 31 December 2022, in relation to businesses in France, Russia and Greece. In addition to the assets and liabilities classified as held for sale, a pre-tax loss of £1.7 billion has also been recognised in 2022 in relation to the sale of the business in France.

For the assets and liabilities to be classified as held for sale, the sale needs to be considered highly probable and expected to complete within 12 months of the date of classification. We focused our audit on the areas with greater levels of management judgement relating to the highly probable assessment including the expected timing of completion, the appropriateness of disclosures relating to the highly probable assessment and the loss recognised in relation to the sale of business in France.

Matters discussed with the Audit Committee

We discussed with the Audit Committee the judgements made by management in determining if the highly probable threshold were met as at 31 December 2022. We also discussed the appropriateness of the disclosure made in the Annual Report which explained how management had concluded that transactions met the highly probable threshold as at 31 December 2022.

How our audit addressed the Key Audit Matter

We tested governance and controls in place over the management process to determine if the highly probable threshold had been met on assets and liabilities classified as held for sale.

We assessed the key judgments made by management to determine whether the highly probable threshold was met as at 31 December 2022, including their assessment of remaining actions to complete the transaction, any regulatory requirements that need to be met, and the likelihood and expected timing of the transactions being approved by relevant regulators and shareholders.

We also tested the completeness and accuracy of the assets and liabilities that were classified as held for sale and the loss on sale recognised in relation to the French business. We evaluated and tested the disclosures made in the Annual Report in relation to assets and liabilities classified as held for sale.

Relevant references in the Annual Report and Accounts 2022

- Audit Committee Report, page 97.
- Note 1.2(o): Critical accounting estimates and judgements, page 134.
- Note 34: Assets held for sale and liabilities of disposal groups held for sale, page 186.

Impairment of investment in subsidiaries (company)

Nature of the key audit matter

Management reviewed investments in subsidiaries for indicators of impairment or reversal of impairment previously recorded as at 31 December 2022. Where indicators were identified management estimated the recoverable amount using a value in use ('VIU') model. Management's assessment resulted in a partial reversal of an impairment charge of £2 billion in relation to the investment in HBCE. This resulted in investment in subsidiaries of £10.6 billion at 31 December 2022.

The methodology used to estimate the recoverable amount is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management's judgement, experts engaged by management and market data. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amount. Specifically, these included forecast cash flows for 2023 to 2027, regulatory capital requirements, long term growth rates and discount rates.

Matters discussed with the Audit Committee

We discussed the partial reversal of the impairment charge for HBCE, the appropriateness of methodologies used and significant assumptions with the audit committee, giving consideration to the macroeconomic outlook and HSBC's strategy. We considered reasonable possible alternatives for significant assumptions.

How our audit addressed the Key Audit Matter

We tested controls in place over significant assumptions and the model used to determine the recoverable amounts. We assessed the appropriateness of the methodology used, and tested the mathematical accuracy of the calculations, to estimate the recoverable amounts. In respect of the significant assumptions, our testing included the following:

- Challenging the achievability of management's business plan and the prospects for HSBC's businesses, as well as considering the achievement of historic forecasts;
- Obtaining and evaluating evidence relating to significant assumptions, from a combination of historic experience and external market and other financial information;
- Assessing whether the cash flows included in the model were in accordance with the relevant accounting standard;
- Assessing the sensitivity of the VIU to reasonable variations in significant assumptions, both individually and in aggregate; and
- Determining a reasonable range for the discount rate used within the model, with the assistance of our valuation experts, and comparing it to the discount rate used by management.

We evaluated and tested the disclosures made in the financial statements in relation to investment in subsidiaries.

Relevant references in the Annual Report and Accounts 2022

- Audit Committee Report, page 97.
- Note 1.2(a) Consolidation and related policies, page 126.
- Note 18: Investment in subsidiaries, page 166.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The risks that HSBC faces are diverse, with the interdependencies between them being numerous and complex. In performing our risk assessment we engaged with a number of stakeholders to ensure we appropriately understood and considered these risks and their interrelationships. This included stakeholders within HSBC and our own experts within PwC. This engagement covered external factors across the geopolitical, macroeconomic and regulatory and accounting landscape, the impact of climate change risk as well as the internal environment at HSBC, driven by strategy and transformation.

We evaluated and challenged management's assessment of the impact of climate change risk including their conclusion that there is no material impact on the financial statements. In making this evaluation we considered management's use of stress testing and scenario analysis to arrive at the conclusion that there is no material impact on the financial statements. We considered management's assessment on the areas in the financial statements most likely to be impacted by climate risk, including: the impact on ECL on loans and advances to customers, for both physical and transition risk; the forecast cash flows from management's five year business plan and long term growth rates used in estimating recoverable amounts as part of impairment assessments of investments in subsidiaries; the impact of climate related terms on the solely payments of principal and interest test for classification and measurement of loans and advances to customers; and climate risks relating to contingent liabilities as HSBC faces increased reputational, legal and regulatory risk as it progresses towards its climate ambition.

Using our risk assessment, we tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

HSBC Bank plc is structured into five divisions being Markets & Securities Services, Global Banking, GBM Other, Commercial Banking and Wealth and Personal Banking, which are supported by a Corporate Centre. The divisions operate across a number of operations, subsidiary entities and branches ('components') throughout Europe. Within the group's main consolidation and financial reporting system, the consolidated financial statements are an aggregation of the components. Each component submits their financial information to the group in the form of a consolidation pack.

In establishing the overall approach to the group and company audit, we scoped using the balances included in the consolidation pack. We determined the type of work that needed to be performed over the components by us, as the group engagement team, or auditors within PwC UK and from other PwC network firms operating under our instruction ('component auditors').

As a result of our scoping, for the group we determined that audits of the complete financial information of the UK non-ring-fenced bank ('UK NRFB') and HBCE were necessary, owing to their financial significance. We instructed component auditors, PwC UK and PwC France to perform the audits of these components. Our interactions with component auditors included regular communication throughout the audit, including the issuance of instructions, a review of working papers relating to the key audit matters and formal clearance meetings. The group audit engagement partner was also the partner on the audit of the UK NRFB significant component.

We then considered the significance of other components in relation to primary statement account balances and note disclosures. In doing this we also considered the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For five components, specific audit procedures were performed over selected significant account balances. For the remainder, the risk of material misstatement was mitigated through group audit procedures including testing of entity level controls and group and company level analytical review procedures.

Certain group-level account balances were audited by the group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£230 million (2021: £218 million).	£133 million (2021: £140 million).
How we determined it	1% of Tier 1 capital	1% of Tier 1 capital
Rationale for benchmark applied	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.	Tier 1 capital is used as a benchmark as it is considered to be a key driver of HSBC Bank plc's decision making process and has been a primary focus for regulators.

Tier 1 capital was also used as the benchmark in the prior year. The basis for determining materiality was re-evaluated and we considered other benchmarks, such as profit before tax. Tier 1 capital is a common benchmark for wholly owned banking subsidiaries, because of the focus on financial stability. Tier 1 capital was determined to continue to be an appropriate benchmark given the importance of this metric to the HSBC Bank plc decision making process and to principal users of the financial statements, including the ultimate holding company HSBC Holdings plc.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £8 million to £230 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £172 million (2021: £164 million) for the group financial statements and £99 million (2021: £105 million)for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £11 million (group audit) (2021: £11 million) and £6 million (company audit) (2021: £7 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including both internal risks (i.e., strategy execution) and external risks (i.e., macroeconomic conditions).
- Understanding and evaluating the group and company's financial forecasts and stress testing of liquidity and regulatory capital, including the severity of the stress scenarios that were used.
- Understanding and evaluating credit agency ratings and actions.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Report of the Directors for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Financial Conduct Authority's ('FCA') regulations, the Prudential Regulation Authority's ('PRA') regulations, UK tax legislation and equivalent local laws and regulations applicable to other countries in which the company operates, and we considered the extent to which non-compliance might have a material effect on the financial statements.

We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creation of fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with and reports to the regulators, including the PRA and FCA;
- Review of reporting to the Audit Committee and Risk Committee in respect of compliance and legal matters;
- Review of a sample of legal correspondence with legal advisors;
- Enquiries of management and review of internal audit reports in so far as they related to the financial statements;
- Obtaining legal confirmations from legal advisors relating to material litigation and compliance matters;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the determination of fair value for certain financial instruments, the determination of expected credit losses, impairment assessments of investments in subsidiaries and recognition of deferred tax assets;
- Obtaining confirmations from third parties to confirm the existence of a sample of transactions and balances; and
- Identifying and testing journal entries meeting specific fraud criteria, including those posted with certain descriptions, posted and approved by the same individual, backdated journals or posted by infrequent and unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements in accordance with ISAs (UK) is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group and company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group and company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 31 March 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is eight years, covering the years ended 31 December 2015 to 31 December 2022.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Lawrence Wilkinson

Lawrence Wilkinson

(Senior Statutory Auditor)

for and on behalf of **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

London

20 February 2023

Financial statements

Notes on the financial statements

Consolidated income statement

for the year ended 31 December

	Notes*	2022 £m	2021 £m	2020 £m
Net interest income		**1,904**	1,754	1,898
– interest income[1,2]		**6,535**	3,149	4,086
– interest expense[3]		**(4,631)**	(1,395)	(2,188)
Net fee income	2	**1,261**	1,413	1,400
– fee income		**2,606**	2,706	2,674
– fee expense		**(1,345)**	(1,293)	(1,274)
Net income from financial instruments held for trading or managed on a fair value basis	3	**2,875**	1,733	1,758
Net (expense)/ income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	**(1,369)**	1,214	254
Changes in fair value of long-term debt and related derivatives	3	**102**	(8)	17
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	**143**	493	285
Gains less losses from financial investments		**(60)**	60	95
Net insurance premium income	4	**1,787**	1,906	1,559
(Losses)/gains recognised on Assets held for sale[4]		**(1,947)**	67	—
Other operating income		**356**	527	417
Total operating income		**5,052**	9,159	7,683
Net insurance claims, benefits paid and movement in liabilities to policyholders	4	**(406)**	(3,039)	(1,783)
Net operating income before change in expected credit losses and other credit impairment charges[5]		**4,646**	6,120	5,900
Change in expected credit losses and other credit impairment charges		**(222)**	174	(808)
Net operating income		**4,424**	6,294	5,092
Total operating expenses		**(5,353)**	(5,462)	(6,705)
– employee compensation and benefits	5	**(1,762)**	(2,023)	(2,340)
– general and administrative expenses		**(3,463)**	(3,265)	(3,092)
– depreciation and impairment of property, plant and equipment and right of use assets		**(103)**	(110)	(372)
– amortisation and impairment of intangible assets	20	**(25)**	(64)	(901)
Operating (loss)/profit		**(929)**	832	(1,613)
Share of (loss)/profit in associates and joint ventures	17	**(30)**	191	(1)
(Loss)/profit before tax		**(959)**	1,023	(1,614)
Tax credit	7	**561**	23	136
(Loss)/profit for the year		**(398)**	1,046	(1,478)
(Loss)/profit attributable to the parent company		**(408)**	1,041	(1,488)
Profit attributable to non-controlling interests		**10**	5	10

* *For Notes on the financial statements, see page 124.*

1 *Interest income includes £5,512m (2021: £1,986m; 2020: £2,773m) of interest recognised on financial assets measured at amortised cost; £422m (2021: £659m; 2020: £656m) of negative interest recognised on financial liabilities and £601m (2021: £504m; 2020: £657m) of interest recognised on financial assets measured at fair value through other comprehensive income. Include within this is £59m (2021: £61m; 2020: £57m) interest recognised on impaired financial assets.*

2 *Interest revenue calculated using the effective interest method comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*

3 *Interest expense includes £3,740m (2021: £616m; 2020: £1,299) of interest on financial liabilities, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value.*

4 *2022 balances include losses on disposal of businesses classified as held-for-sale as part of a broader restructuring of our European business.*

5 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as 'revenue'.*

Consolidated statement of comprehensive income

for the year ended 31 December

	2022	2021	2020
	£m	£m	£m
(Loss)/profit for the year	**(398)**	1,046	(1,478)
Other comprehensive (expense)/income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value through other comprehensive income	**(454)**	(237)	213
– fair value (losses)/gains	**(698)**	(247)	366
– fair value losses/(gains) transferred to the income statement on disposal	**59**	(63)	(90)
– expected credit losses/(recoveries) recognised in the income statement	**6**	(5)	8
– income taxes	**179**	78	(71)
Cash flow hedges	**(943)**	(165)	118
– fair value (losses)/gains	**(1,418)**	(40)	86
– fair value losses/(gains) reclassified to the income statement	**127**	(202)	72
– income taxes	**348**	77	(40)
Exchange differences	**701**	(603)	467
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit asset/liability	**38**	44	(8)
– before income taxes	**56**	61	(18)
– income taxes	**(18)**	(17)	10
Equity instruments designated at fair value through other comprehensive income	**—**	2	2
– fair value gains	**—**	2	2
– income taxes	**—**	—	—
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**329**	2	67
– fair value gains	**462**	3	93
– income taxes	**(133)**	(1)	(26)
Other comprehensive (expense)/income for the year, net of tax	**(329)**	(957)	859
Total comprehensive (expense)/income for the year	**(727)**	89	(619)
Attributable to:			
– shareholders of the parent company	**(739)**	93	(653)
– non-controlling interests	**12**	(4)	34
Total comprehensive (expense)/income for the year	**(727)**	89	(619)

Consolidated balance sheet

at 31 December

	Notes*	2022 £m	2021 £m
Assets			
Cash and balances at central banks		**131,433**	108,482
Items in the course of collection from other banks		**2,285**	346
Trading assets	10	**79,878**	83,706
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	**15,881**	18,649
Derivatives	14	**225,238**	141,221
Loans and advances to banks		**17,109**	10,784
Loans and advances to customers		**72,614**	91,177
Reverse repurchase agreements – non-trading		**53,949**	54,448
Financial investments	15	**32,604**	41,300
Assets held for sale[1]	34	**21,214**	9
Prepayments, accrued income and other assets	21	**61,379**	43,118
Current tax assets		**595**	1,135
Interests in associates and joint ventures	17	**728**	743
Goodwill and intangible assets	20	**1,167**	894
Deferred tax assets	7	**1,279**	599
Total assets		**717,353**	596,611
Liabilities and equity			
Liabilities			
Deposits by banks		**20,836**	32,188
Customer accounts		**215,948**	205,241
Repurchase agreements – non-trading		**32,901**	27,259
Items in the course of transmission to other banks		**2,226**	489
Trading liabilities	22	**41,265**	46,433
Financial liabilities designated at fair value	23	**27,287**	33,608
Derivatives	14	**218,867**	139,368
Debt securities in issue		**7,268**	9,428
Liabilities of disposal groups held for sale[1]	34	**24,711**	—
Accruals, deferred income and other liabilities	24	**66,945**	43,456
Current tax liabilities		**130**	97
Liabilities under insurance contracts	4	**19,987**	22,264
Provisions	25	**424**	562
Deferred tax liabilities	7	**14**	15
Subordinated liabilities	26	**14,528**	12,488
Total liabilities		**693,337**	572,896
Equity			
Total shareholders' equity		**23,875**	23,584
– called up share capital	29	**797**	797
– share premium account		**420**	—
– other equity instruments	29	**3,930**	3,722
– other reserves		**(6,368)**	(5,670)
– retained earnings		**25,096**	24,735
Non-controlling interests		**141**	131
Total equity		**24,016**	23,715
Total liabilities and equity		**717,353**	596,611

1 *Includes businesses classified as held-for-sale as part of a broader restructuring of our European business. Refer to Note 34 'Assets held for sale and liabilities of disposal groups held for sale' on page 186.*

* *For Notes on the financial statements, see page 124.*

The accompanying notes on pages 124 to 190, and the audited sections of the 'Report of the Directors' on pages 26 to 102 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

D M Watts

David Watts

Director

Consolidated statement of cash flows

for the year ended 31 December

	2022 £m	2021 £m	2020 £m
(Loss)/profit before tax	**(959)**	1,023	(1,614)
Adjustments for non-cash items			
Depreciation, amortisation and impairment[1]	**128**	174	1,273
Net loss/(gain) from investing activities[2]	**2,002**	(62)	(99)
Share of loss/(profit) in associates and joint ventures	**30**	(191)	1
Change in expected credit losses gross of recoveries and other credit impairment charges	**253**	(171)	810
Provisions including pensions	**192**	104	424
Share-based payment expense	**46**	96	78
Other non-cash items included in loss/(profit) before tax	**(242)**	(198)	135
Elimination of exchange differences[3]	**(6,714)**	4,926	(2,527)
Changes in operating assets and liabilities	**37,454**	9,602	35,418
– change in net trading securities and derivatives	**(6,213)**	8,157	8,070
– change in loans and advances to banks and customers	**(2,717)**	11,149	6,780
– change in reverse repurchase agreements – non-trading	**6,251**	9,538	16,084
– change in financial assets designated and otherwise mandatorily measured at fair value	**2,729**	(2,429)	735
– change in other assets	**(7,329)**	10,924	(7,513)
– change in deposits by banks and customer accounts	**19,835**	7,940	28,262
– change in repurchase agreements – non-trading	**5,641**	(7,643)	(14,482)
– change in debt securities in issue	**(1,060)**	(7,943)	(7,668)
– change in financial liabilities designated at fair value	**(1,822)**	(7,191)	(402)
– change in other liabilities	**21,297**	(12,295)	5,432
– dividend received from associates	**7**	–	–
– contributions paid to defined benefit plans	**(10)**	(24)	(22)
– tax received/(paid)	**845**	(581)	142
Net cash from operating activities	**32,190**	15,303	33,899
– purchase of financial investments	**(13,227)**	(18,890)	(21,037)
– proceeds from the sale and maturity of financial investments	**20,490**	25,027	17,417
– net cash flows from the purchase and sale of property, plant and equipment	**(20)**	52	(70)
– net investment in intangible assets	**(28)**	(45)	(150)
– net cash outflow from investment in associates and acquisition of businesses and subsidiaries	**(29)**	(85)	(371)
– net cash flow on disposal of subsidiaries, businesses, associates and joint ventures	**—**	–	57
Net cash from investing activities	**7,186**	6,059	(4,154)
– redemption of preference shares and other equity instruments	**628**	–	(318)
– subordinated loan capital issued	**3,111**	10,466	–
– subordinated loan capital repaid[4]	**(2,248)**	(10,902)	(18)
– dividends to the parent company	**(1,052)**	(194)	(263)
– funds received from the parent company	**1,465**	–	1,000
– dividends paid to non-controlling interests	**(2)**	(1)	–
Net cash from financing activities	**1,902**	(631)	401
Net increase in cash and cash equivalents	**41,278**	20,731	30,146
Cash and cash equivalents at 1 Jan	**140,923**	125,304	92,338
Exchange difference in respect of cash and cash equivalents	**7,706**	(5,112)	2,820
Cash and cash equivalents at 31 Dec[5]	**189,907**	140,923	125,304
Cash and cash equivalents comprise of			
– cash and balances at central banks	**131,433**	108,482	85,092
– items in the course of collection from other banks	**2,285**	346	243
– loans and advances to banks of one month or less	**13,801**	7,516	8,676
– reverse repurchase agreement with banks of one month or less	**23,182**	17,430	21,020
– treasury bills, other bills and certificates of deposit less than three months	**294**	235	685
– cash collateral and net settlement accounts	**19,213**	7,403	9,878
– cash and cash equivalents held for sale[6]	**1,925**	–	–
– less: items in the course of transmission to other banks	**(2,226)**	(489)	(290)
Cash and cash equivalents at 31 Dec[5]	**189,907**	140,923	125,304

1 *Included within 2020 are the impact of impairment and write-offs related principally to our businesses in the UK and HSBC Continental Europe £(994)m.*

2 *2022 balances include losses on disposal of businesses classified as held-for-sale as part of a broader restructuring of our European business.*

3 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*

4 *Subordinated liabilities changes during the year are attributable to cash flows from issuance £3,111m (2021: £10,466m, 2020: nil) and repayment of £(2,248)m (2021: £(10,902)m; 2020: £(18)m) of securities as presented in the Consolidated statement of cash flows. Non-cash changes during the year included foreign exchanges gains/(losses) £711m (2021: £(512)m; 2020: £351m) and fair value gains/(losses) £(427)m (2021: £(82)m; 2020: £69m).*

5 *At 31 December 2022, £23,395m (2021: £9,410m, 2020: £11,828m) was not available for use by the group, of which £1,601m (2021: £1,393m; 2020: £2,460m) related to mandatory deposits at central banks.*

6 *Includes £1,562m of cash and balances at central banks (excluding the expected cash contribution as part of the planned sale of our retail banking operations in France. For further details, see Note 34); £208m of reverse repurchase agreements with banks of one month or less, £114m of loans and advances to banks of one month or less and remaining £41m relates to other cash and cash equivalents.*

Interest received was £7,668m (2021: £4,285m; 2020: £5,424m), interest paid was £5,284m (2021: £2,919m; 2020: £3,725m) and dividends received were £431m (2021: £704m; 2020: £423m).

Consolidated statement of changes in equity

for the year ended 31 December

	Called up share capital & share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorganisation reserve ('GRR')[7]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	**797**	**3,722**	**24,735**	**1,081**	**(7)**	**948**	**(7,692)**	**23,584**	**131**	**23,715**
Loss for the year	—	—	**(408)**	—	—	—	—	**(408)**	**10**	**(398)**
Other comprehensive (expense)/income (net of tax)	—	—	**367**	**(449)**	**(943)**	**694**	—	**(331)**	**2**	**(329)**
– debt instruments at fair value through other comprehensive income	—	—	—	**(449)**	—	—	—	**(449)**	**(5)**	**(454)**
– cash flow hedges	—	—	—	—	**(943)**	—	—	**(943)**	—	**(943)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	**329**	—	—	—	—	**329**	—	**329**
– remeasurement of defined benefit asset/ liability	—	—	**38**	—	—	—	—	**38**	—	**38**
– exchange differences	—	—	—	—	—	**694**	—	**694**	**7**	**701**
Total comprehensive (expense)/ income for the year	—	—	**(41)**	**(449)**	**(943)**	**694**	—	**(739)**	**12**	**(727)**
Capital securities issued during the period	**420**	**208**	—	—	—	—	—	**628**	—	**628**
Dividends to the parent company[2]	—	—	**(1,052)**	—	—	—	—	**(1,052)**	**(2)**	**(1,054)**
Net impact of equity-settled share-based payments	—	—	**5**	—	—	—	—	**5**	—	**5**
Capital contribution[3]	—	—	**1,465**	—	—	—	—	**1,465**	—	**1,465**
Change in business combinations and other movements	—	—	**(16)**	—	—	—	—	**(16)**	—	**(16)**
At 31 Dec 2022	**1,217**	**3,930**	**25,096**	**632**	**(950)**	**1,642**	**(7,692)**	**23,875**	**141**	**24,016**
At 1 Jan 2021	797	3,722	23,829	1,309	158	1,543	(7,692)	23,666	183	23,849
Profit for the year	—	—	1,041	—	—	—	—	1,041	5	1,046
Other comprehensive (expense)/income (net of tax)	—	—	46	(234)	(165)	(595)	—	(948)	(9)	(957)
– debt instruments at fair value through other comprehensive income	—	—	—	(236)	—	—	—	(236)	(1)	(237)
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2	—	2
– cash flow hedges	—	—	—	—	(165)	—	—	(165)	—	(165)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	2	—	—	—	—	2	—	2
– remeasurement of defined benefit asset/ liability	—	—	44	—	—	—	—	44	—	44
– exchange differences	—	—	—	—	—	(595)	—	(595)	(8)	(603)
Total comprehensive income/(expense) for the year	—	—	1,087	(234)	(165)	(595)	—	93	(4)	89
Capital securities issued during the period	—	—	—	—	—	—	—	—	—	—
Dividends to the parent company[2]	—	—	(194)	—	—	—	—	(194)	(1)	(195)
Net impact of equity-settled share-based payments	—	—	(10)	—	—	—	—	(10)	—	(10)
Change in business combinations and other movements[5]	—	—	23	6	—	—	—	29	(47)	(18)
At 31 Dec 2021	797	3,722	24,735	1,081	(7)	948	(7,692)	23,584	131	23,715

Consolidated statement of changes in equity (continued)

for the year ended 31 December

					Other reserves					
	Called up share capital & share premium	Other equity instruments	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Group reorganisation reserve ('GRR')[7]	Total share-holders' equity	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	24,449	1,089	40	1,098	(7,692)	23,503	509	24,012
Loss for the year	—	—	(1,488)	—	—	—	—	(1,488)	10	(1,478)
Other comprehensive income (net of tax)	—	—	56	216	118	445	—	835	24	859
– debt instruments at fair value through other comprehensive income	—	—	—	214	—	—	—	214	(1)	213
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2	—	2
– cash flow hedges	—	—	—	—	118	—	—	118	—	118
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	67	—	—	—	—	67	—	67
– remeasurement of defined benefit asset/ liability	—	—	(11)	—	—	—	—	(11)	3	(8)
– exchange differences	—	—	—	—	—	445	—	445	22	467
Total comprehensive (expense)/income for the year	—	—	(1,432)	216	118	445	—	(653)	34	(619)
Dividends to the parent company[2]	—	—	(263)	—	—	—	—	(263)	—	(263)
Net impact of equity-settled share-based payments	—	—	11	—	—	—	—	11	—	11
Capital contribution[4]	—	—	1,000	—	—	—	—	1,000	—	1,000
Change in business combinations and other movements[6]	—	—	64	4	—	—	—	68	(360)	(292)
At 31 Dec 2020	797	3,722	23,829	1,309	158	1,543	(7,692)	23,666	183	23,849

1 *The cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a gain of £292m (2021: loss of £165m and 2020: loss of £189m).*

2 *The dividends to the parent company includes dividend on ordinary share capital £850m (2021: nil and 2020: nil), coupon payment on additional tier 1 instrument £202m (2021: £194m and 2020: £212m) & dividend on preference share capital nil (2021: nil and 2020: £51m).*

3 *HSBC Holdings plc injected £1.5bn of CET1 capital into HSBC Bank plc during November 2022 which in turn injected into HSBC Continental Europe for funding the acquisition of HSBC Bank Malta plc and HSBC Trinkaus & Burkhardt GmbH.*

4 *HSBC UK Holdings Limited (during 2021, parent company of the bank changed to HSBC Holdings plc) injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*

5 *Additional shares were acquired in HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Armenia cjsc, in 2021 increasing the group's interest to 100%.*

6 *Additional shares were acquired in HSBC Trinkaus & Burkhardt GmbH in May 2020, increasing the group's interest from 80.67% to 99.33%.*

7 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

HSBC Bank plc balance sheet

at 31 December

	Notes*	2022 £m	2021 £m
Assets			
Cash and balances at central banks		**78,441**	63,008
Items in the course of collection from other banks		**1,863**	211
Trading assets	10	**67,623**	70,790
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	13	**1,618**	3,215
Derivatives	14	**196,714**	125,787
Loans and advances to banks		**14,486**	6,778
Loans and advances to customers		**36,992**	33,936
Reverse repurchase agreements – non-trading		**43,055**	39,708
Financial investments	15	**18,639**	26,542
Prepayments, accrued income and other assets	21	**43,907**	31,490
Current tax assets		**394**	1,071
Investments in subsidiary undertakings	18	**10,646**	6,479
Goodwill and intangible assets	20	**41**	34
Deferred tax assets	7	**608**	509
Total assets		**515,027**	409,558
Liabilities and equity			
Liabilities			
Deposits by banks		**13,594**	14,655
Customer accounts		**141,714**	124,706
Repurchase agreements – non-trading		**29,638**	22,344
Items in the course of transmission to other banks		**1,758**	172
Trading liabilities	22	**25,765**	31,161
Financial liabilities designated at fair value	23	**19,415**	20,869
Derivatives	14	**193,336**	127,651
Debt securities in issue		**4,656**	5,658
Accruals, deferred income and other liabilities	24	**47,982**	30,170
Current tax liabilities		**21**	5
Provisions	25	**167**	250
Subordinated liabilities	26	**14,252**	12,218
Total liabilities		**492,298**	389,859
Equity			
Called up share capital	29	**797**	797
Share premium account		**420**	—
Other equity instruments	29	**3,930**	3,722
Other reserves		**(6,073)**	(5,173)
Retained earnings		**23,655**	20,353
Total equity		**22,729**	19,699
Total liabilities and equity		**515,027**	409,558

* *For Notes on the financial statements, see page 124.*

Profit after tax for the year was £2,743m (2021: £455m; 2020: loss after tax £(644)m.

The accompanying notes on pages 124 to 190, and the audited sections of the 'Report of the Directors' on pages 26 to 102 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 20 February 2023 and signed on its behalf by:

DM Watts

David Watts

Director

HSBC Bank plc statement of cash flows

for the year ended 31 December

	2022 £m	2021 £m	2020 £m
Profit/(loss) before tax	**2,548**	273	(936)
Adjustments for non-cash items			
Depreciation, amortisation and impairment[1]	**17**	18	635
Net gain from investing activities[2]	**(1,669)**	(34)	(67)
Change in expected credit losses gross of recoveries and other credit impairment charges	**130**	(216)	457
Provisions including pensions	**91**	42	154
Share-based payment expense	**27**	71	56
Other non-cash items included in loss/(profit) before tax	**(21)**	(7)	8
Elimination of exchange differences[3]	**(2,109)**	1,073	108
Changes in operating assets and liabilities	**18,609**	4,150	27,197
– change in net trading securities and derivatives	**(9,551)**	11,761	11,580
– change in loans and advances to banks and customers	**(3,870)**	9,712	8,568
– change in reverse repurchase agreements – non-trading	**791**	5,651	5,890
– change in financial assets designated and otherwise mandatorily measured at fair value	**1,597**	(1,350)	1,264
– change in other assets[4]	**(10,912)**	4,383	(3,771)
– change in deposits by banks and customer accounts	**15,947**	1,903	12,062
– change in repurchase agreements – non-trading	**7,294**	(4,652)	(9,331)
– change in debt securities in issue	**(1,002)**	(9,698)	318
– change in financial liabilities designated at fair value	**(116)**	(3,831)	500
– change in other liabilities	**17,343**	(9,357)	(71)
– contributions paid to defined benefit plans	**(10)**	(21)	(22)
– tax received/(paid)	**1,098**	(351)	210
Net cash from operating activities	**17,623**	5,370	27,612
– purchase of financial investments	**(8,535)**	(15,185)	(13,882)
– proceeds from the sale and maturity of financial investments	**17,022**	18,285	11,791
– net cash flows from the purchase and sale of property, plant and equipment	**(2)**	(4)	(9)
– net investment in intangible assets	**(176)**	(8)	(98)
Net cash from investing activities	**8,309**	3,088	(2,198)
– issue of ordinary share capital and other equity instruments	**628**	—	
– subordinated loan capital issued[5]	**3,111**	10,466	—
– subordinated loan capital repaid[5]	**(2,240)**	(10,791)	(313)
– funds received from the parent company	**1,465**	—	1,000
– dividends to the parent company	**(1,052)**	(194)	(263)
Net cash from financing activities	**1,912**	(519)	424
Net increase in cash and cash equivalents	**27,844**	7,939	25,838
Cash and cash equivalents at 1 Jan	**83,814**	77,605	51,235
Exchange difference in respect of cash and cash equivalents	**3,652**	(1,730)	532
Cash and cash equivalents at 31 Dec	**115,310**	83,814	77,605
Cash and cash equivalents comprise of:			
– cash and balances at central banks	**78,441**	63,008	48,777
– items in the course of collection from other banks	**1,863**	211	37
– loans and advances to banks of one month or less	**11,353**	4,323	5,338
– reverse repurchase agreement with banks of one month or less	**13,917**	9,779	14,558
– treasury bills, other bills and certificates of deposit less than three months	**150**	175	279
– cash collateral and net settlement accounts	**11,344**	6,490	8,630
– less: items in the course of transmission to other banks	**(1,758)**	(172)	(14)
Cash and cash equivalents at 31 Dec	**115,310**	83,814	77,605

1 *Included within 2020 is the impact of impairment related to our business in the UK (£531m).*
2 *Included within 2022 is the impact of impairment reversal booked in Paris branch for investment in subsidiary.*
3 *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as details cannot be determined without unreasonable expense.*
4 *Includes additional investment in subsidiaries (2021: £17m; 2020: £443m).*
5 *Subordinated liabilities changes during the year are attributable to cash flows from issuance £3,111m (2021: £10,466m, 2020: nil) and repayment of £(2,240)m (2021: £10,791m, 2020: £313m) of securities as presented in the HSBC Bank plc statement of cash flows. Non-cash changes during the year included foreign exchange gains(losses) £696m (2021: £489m; 2020: £329m) and fair value gains £(427)m (2021: £(82)m; 2020: £69m).*

Interest received was £5,023m (2021: £2,321m, 2020: £3,211m), interest paid was £3,891m (2021: £1,827m, 2020: £2,539m) and dividends received was £936m (2021: £902m; 2020: £555m).

HSBC Bank plc statement of changes in equity

for the year ended 31 December

	Called up share capital & share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorganisation reserve ('GRR')[7]	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	**797**	**3,722**	**20,353**	**135**	**(82)**	**22**	**(5,248)**	**19,699**
Profit for the year	–	–	**2,743**	–	–	–	–	**2,743**
Other comprehensive income/(expense) (net of tax)	–	–	**141**	**(257)**	**(714)**	**71**	–	**(759)**
– debt instruments at fair value through other comprehensive income	–	–	–	**(258)**	–	–	–	**(258)**
– equity instruments designated at fair value through other comprehensive income	–	–	–	**1**	–	–	–	**1**
– cash flow hedges	–	–	–	–	**(714)**	–	–	**(714)**
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	**156**	–	–	–	–	**156**
– remeasurement of defined benefit asset/liability	–	–	**(15)**	–	–	–	–	**(15)**
– exchange differences	–	–	–	–	–	**71**	–	**71**
Total comprehensive income/(expense) for the period	–	–	**2,884**	**(257)**	**(714)**	**71**	–	**1,984**
Capital securities issued during the period	**420**	**208**	–	–	–	–	–	**628**
Dividends to the parent company[2]	–	–	**(1,052)**	–	–	–	–	**(1,052)**
Net impact of equity-settled share-based payments	–	–	**5**	–	–	–	–	**5**
Capital contribution[3]			**1,465**					**1,465**
At 31 Dec 2022	**1,217**	**3,930**	**23,655**	**(122)**	**(796)**	**93**	**(5,248)**	**22,729**
At 1 Jan 2021	797	3,722	20,099	351	55	43	(5,248)	19,819
Profit for the year	–	–	455	–	–	–	–	455
Other comprehensive income/(expense) (net of tax)	–	–	14	(216)	(137)	(21)	–	(360)
– debt instruments at fair value through other comprehensive income	–	–	–	(215)	–	–	–	(215)
– equity instruments designated at fair value through other comprehensive income	–	–	–	(1)	–	–	–	(1)
– cash flow hedges	–	–	–	–	(137)	–	–	(137)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	–	–	–	–	–	–	–	–
– remeasurement of defined benefit asset/liability	–	–	14	–	–	–	–	14
– exchange differences	–	–	–	–	–	(21)	–	(21)
Total comprehensive income/(expense) for the period	–	–	469	(216)	(137)	(21)	–	95
Dividends to the parent company[2]	–	–	(194)	–	–	–	–	(194)
Net impact of equity-settled share-based payments	–	–	(10)	–	–	–	–	(10)
Change in business combinations and other movements[5]	–	–	(11)	–	–	–	–	(11)
At 31 Dec 2021	797	3,722	20,353	135	(82)	22	(5,248)	19,699

HSBC Bank plc statement of changes in equity (continued)

for the year ended 31 December

	Called up share capital & share premium	Other equity instruments	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Group reorganisation reserve ('GRR')	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 Jan 2020	797	3,722	19,876	182	(32)	77	(5,248)	19,374
Loss for the year	—	—	(644)	—	—	—	—	(644)
Other comprehensive income/(expense) (net of tax)	—	—	107	170	87	(28)	—	336
– debt instruments at fair value through other comprehensive income	—	—	—	168	—	—	—	168
– equity instruments designated at fair value through other comprehensive income	—	—	—	2	—	—	—	2
– cash flow hedges	—	—	—	—	87	—	—	87
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk[1]	—	—	92	—	—	—	—	92
– remeasurement of defined benefit asset/ liability	—	—	15	—	—	—	—	15
– exchange differences	—	—	—	—	—	(28)	—	(28)
Total comprehensive (expense)/income for the period	—	—	(537)	170	87	(28)	—	(308)
Dividends to the parent company[2]	—	—	(263)	—	—	—	—	(263)
Net impact of equity-settled share-based payments	—	—	11	—	—	—	—	11
Capital contribution[4]	—		1,000	—	—	—	—	1,000
Change in business combinations and other movements[6]	—		12	(1)	—	(6)	—	5
At 31 Dec 2020	797	3,722	20,099	351	55	43	(5,248)	19,819

1 *The cumulative amount of change in fair value attributable to changes in own credit risk of financial liabilities designated at fair value was a gain of £139m (2021: loss of £72m and 2020: loss of £76m).*
2 *The dividends to the parent company includes dividend on ordinary share capital £850m (2021: nil and 2020: nil), coupon payment on additional tier 1 instrument £222m (2021: £194m and 2020: £212m) & dividend on preference share capital nil (2021: nil and 2020: £51m).*
3 *HSBC Holdings plc injected £1.5bn of CET1 capital into HSBC Bank plc during November 2022 which in turn injected into HSBC Continental Europe for funding the acquisition of HSBC Bank Malta plc and HSBC Trinkaus & Burkhardt GmbH.*
4 *HSBC UK Holdings Limited (during 2021, parent company of the bank changed to HSBC Holdings plc) injected £1bn of CET1 capital into HSBC Bank plc during March 2020 to improve the capital base of the group, impacted by Covid-19. There was no new issuance of share capital.*
5 *Additional shares were acquired in HSBC Trinkaus & Burkhardt GmbH in Feb 2021, increasing the group's interest from 99.33% to 100.00%.*
6 *Additional shares were acquired in HSBC Trinkaus & Burkhardt GmbH in May 2020, increasing the group's interest from 80.67% to 99.33%.*
7 *The Group reorganisation reserve ('GRR') is an accounting reserve resulting from the ring-fencing implementation. The GRR does not form part of regulatory capital.*

Notes on the Financial Statements

1 Basis of preparation and significant accounting policies

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of the group and the separate financial statements of HSBC Bank plc comply with UK-adopted international accounting standards and with the requirements of the Companies Act 2006, and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. These financial statements are also prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, as there are no applicable differences from IFRSs as issued by the IASB for the periods presented. There were no unendorsed standards effective for the year ended 31 December 2022 affecting these consolidated and separate financial statements.

Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on the group in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has not published any minor amendments effective from 1 January 2022 that are applicable to the group. However, the IASB has published a number of minor amendments to IFRSs that are effective from 1 January 2023 and 1 January 2024. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc.

New IFRSs

IFRS 17 'Insurance Contracts'

IFRS 17 'Insurance Contracts' was issued in May 2017, with amendments to the standard issued in June 2020 and December 2021. Following the amendments, IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023 and is applied retrospectively, with comparatives restated from 1 January 2022. IFRS 17 has been adopted in its entirety for use in the UK while it has been adopted by the EU subject to certain optional exemptions.

IFRS 17 sets out the requirements that the group will apply in accounting for insurance contracts it issues, reinsurance contracts it holds, and investment contracts with discretionary participation features.

The group is at an advanced stage in the implementation of IFRS 17, having put in place accounting policies, data and models, and made progress with preparing 2022 comparative data. Below are set out our expectations of the impact of IFRS 17 compared with our current accounting policy for insurance contracts, which is set out in policy 1.2(j) on page 344.

Under IFRS 17, no present value of in-force business ('PVIF') asset is recognised. Instead, the measurement of the insurance contracts liability is based on groups of insurance contracts and will include fulfilment cash flows, as well as the contractual service margin ('CSM'), which represents the unearned profit.

To identify groups of insurance contracts, individual contracts subject to similar dominant risk and managed together are identified as a portfolio of insurance contracts. Each portfolio is further separated by profitability group and issue date into periodic cohorts.

The fulfilment cash flows comprise:

- the best estimates of future cash flows, including amounts expected to be collected from premiums and payouts for claims, benefits and expenses, which are projected using assumptions based on demographic and operating experience;
- an adjustment for the time value of money and financial risks associated with the future cash flows; and
- an adjustment for non-financial risk that reflects the uncertainty about the amount and timing of future cash flows.

In contrast to the group's IFRS 4 accounting where profits are recognised upfront, the CSM will be systematically recognised in revenue, as services are provided over the expected coverage period of the group of contracts without any change to the overall profit of the contracts. Losses resulting from the recognition of onerous contracts are recognised in the income statement immediately.

The CSM is adjusted depending on the measurement model of the group of insurance contracts. While the general measurement model ('GMM') is the default measurement model under IFRS 17, the group expects that the majority of its contracts will be accounted for under the variable fee approach ('VFA'), which is mandatory to apply for insurance contracts with direct participation features upon meeting the eligibility criteria.

IFRS 17 requires entities to apply IFRS 17 retrospectively as if IFRS 17 had always been applied, using the full retrospective approach ('FRA') unless it is impracticable. When FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). The group will primarily apply the MRA for new business where FRA is impracticable. The group will make use of the other comprehensive income ('OCI') option for some contracts.

Impact of IFRS 17

Changes to equity on transition are driven by the elimination of the PVIF asset, the re-designation of certain eligible financial assets in the scope of IFRS 9, the remeasurement of insurance liabilities and assets under IFRS 17, and the recognition of the CSM.

IFRS 17 requires the use of current market values for the measurement of insurance liabilities. The shareholder's share of the investment experience and assumption changes will be absorbed by the CSM and released over time to profit or loss under VFA. For contracts measured under GMM, the shareholder's share of the investment volatility is recorded in profit or loss as it arises. Under IFRS 17, operating expenses will be lower as directly attributable costs will be incorporated in the CSM and recognised in the insurance service result.

While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17.

All of these impacts will be subject to deferred tax.

Estimates of the opening balance sheet as at 1 January 2022 have been calculated and are presented below, showing separately the impact on the total assets, liabilities and equity of our insurance manufacturing operations. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change.

Impact of transition to IFRS 17, at 1 January 2022	Total assets £bn	Total liabilities £bn	Total equity £bn
Balance sheet values at 1 January 2022 under IFRS 4	27.1	25.5	1.6
Removal of PVIF	(0.8)	–	(0.8)
Replacement of IFRS 4 liabilities with IFRS 17	–	–	–
Removal of IFRS 4 liabilities and recording of IFRS 17 fulfilment cash flows	–	(0.9)	0.9
IFRS 17 contractual service margin	–	0.9	(0.9)
Re-measurement effect of IFRS 9 re-designations	–	–	–
Tax effect	–	(0.2)	0.2
Estimated balance sheet values at 1 January 2022 under IFRS 17	**26.3**	**25.3**	**1.0**

PVIF of £812m less deferred tax of £175m constitute the overall estimated reduction in intangible assets, after tax, of £637m on transition to IFRS 17.

(c) Foreign currencies

The functional currency of the bank is sterling, which is also the presentational currency of the consolidated financial statements of the group.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not sterling are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into sterling at the average rates of exchange for the reporting period. Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRSs have been included in the audited sections of this *Annual Report and Accounts 2022* as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Report of the Directors: Risk' on pages 26 to 93;
- the 'Own funds' disclosure is included in the 'Report of the Directors: Capital Risk in 2022' on page 80; and
- in publishing the parent company financial statements together with the group financial statements, the bank has taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted, as the 'critical accounting estimates and judgements' in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on HSBC's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2022 management do not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impact of climate-related risks of associated judgements and estimates in our value in use calculations.

(f) Segmental analysis

HSBC Bank plc's chief operating decision maker is the group Chief Executive, supported by the group Executive Committee, and operating segments are reported in a manner consistent with the internal reporting provided to the group Chief Executive and the group Executive Committee.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made.

The types of products and services from which each reportable segment derives its revenue are discussed in the 'Strategic Report – Our global businesses' on page 9

(g) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the group and the company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty in structural changes from the Covid-19 pandemic, the Russia-Ukraine war, disrupted supply chains globally, climate change and other top and emerging risks, as well as from the related impacts on profitability, capital and liquidity.

1.2 Summary of significant accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds – directly or indirectly – the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The bank's investments in subsidiaries are stated at cost less impairment losses.

Impairment testing is performed where there is an indication of impairment, by comparing the recoverable amount of a cash-generating unit with its carrying amount.

Critical accounting estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to the investment. The cost of equity percentage is generally derived from a capital asset pricing model and the market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. • Key assumptions used in estimating impairment in subsidiaries are described in Note 18.

Group sponsored structured entities

The group is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. The group is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which the group, together with one or more parties, has joint control. Depending on the group's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. The group classifies investments in entities over which it has significant influence, and those that are neither subsidiaries nor joint arrangements, as associates.

The group recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of the group based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Non-interest income and expense

The group generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the group delivers a specific transaction at a point in time, such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement. Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss': This includes interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the solely payments of principal and interest ('SPPI') test, see (d) below.

The accounting policies for insurance premium income are disclosed in Note 1.2(j).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 11, 'Fair values of financial instruments carried at fair value'.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
• An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs. • 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	• Details on the group's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 11.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

The group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When the group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

(e) Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at fair value through profit or loss.

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' or 'Changes in fair value of designated debt and related derivatives' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds. If no fair value designation was made for the related assets, at least some of the assets would otherwise be measured at either fair value through other comprehensive income or amortised cost. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities, which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by HSBC that are designated at fair value where doing so reduces an accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income ('FVOCI'), and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The group determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when the group modifies the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

In 2022, the group adopted the EBA Guidelines on the application of definition of default for our retail portfolios, which affects credit risk policies and our reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided under 'Forborne loans and advances' on page 37.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructurings. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

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

The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD'), which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macro-economic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15bps
2.1-3.3	30bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds, as set out in the table below:

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 37.

For Retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments. These enhancements resulted in significant migrations of loans to customers gross carrying amounts from stage 1 to stage 2, but did not have a significant impact on the overall ECL for these portfolios in 2022 due to low loan-to-value ratios.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forborne loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, HSBC calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

HSBC makes use of the Basel II IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle). • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK and US mortgages.	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). • Default backstop of 90+ days past due for all portfolios.
EAD	• Cannot be lower than current balance	• Amortisation captured for term products
LGD	• Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn). • Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. • Discounted using cost of capital. • All collection costs included.	• Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral). • No floors. • Discounted using the original effective interest rate of the loan. • Only costs associated with obtaining/selling collateral included.
Other		• Discounted back from point of default to balance sheet date.

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the Wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for Wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by HSBC Group and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC is exposed to credit risk. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

HSBC applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 48.

Critical accounting estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Defining what is considered to be a significant increase in credit risk. • Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions. • Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss. • Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements. • Selecting applicable recovery strategies for certain wholesale credit-impaired loans.	• The section 'Measurement uncertainty and sensitivity analysis of ECL estimates', marked as audited from page 48 sets out the assumptions used in determining ECL, and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(j) Insurance contracts

A contract is classified as an insurance contract where the group accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the group issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 4 'Insurance Contracts'.

Net insurance premium income

Premiums for life insurance contracts are accounted for when receivable, except in unit-linked insurance contracts where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance contracts to which they relate.

Net insurance claims and benefits paid and movements in liabilities to policyholders

Gross insurance claims for life insurance contracts reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration.

Maturity claims are recognised when due for payment. Surrenders are recognised when paid or at an earlier date on which, following notification, the policy ceases to be included within the calculation of the related insurance liabilities. Death claims are recognised when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Liabilities under insurance contracts

Liabilities under non-linked life insurance contracts are calculated by each life insurance operation based on local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, which is calculated by reference to the value of the relevant underlying funds or indices.

Future profit participation on insurance contracts with DPF

Where contracts provide discretionary profit participation benefits to policyholders, liabilities for these contracts include provisions for the future discretionary benefits to policyholders. These provisions reflect the actual performance of the investment portfolio to date and management's expectation of the future performance of the assets backing the contracts, as well as other experience factors such as mortality, lapses and operational efficiency, where appropriate. The benefits to policyholders may be determined by the contractual terms, regulation or past distribution policy.

Investment contracts with DPF

While investment contracts with DPF are financial instruments, they continue to be treated as insurance contracts as required by IFRS 4. The group therefore recognises the premiums for these contracts as revenue and recognises as an expense the resulting increase in the carrying amount of the liability.

In the case of net unrealised investment gains on these contracts, whose discretionary benefits principally reflect the actual performance of the investment portfolio, the corresponding increase in the liabilities is recognised in either the income statement or other comprehensive income, following the treatment of the unrealised gains on the relevant assets. In the case of net unrealised losses, a deferred participating asset is recognised only to the extent that its recoverability is highly probable. Movements in the liabilities arising from realised gains and losses on relevant assets are recognised in the income statement.

Present value of in-force long-term insurance business

The group recognises the value placed on insurance contracts, and investment contracts with DPF, that are classified as long-term and in-force at the balance sheet date, as an asset. The asset represents the present value of the equity holders' interest in the issuing insurance companies' profits expected to emerge from these contracts written at the balance sheet date. The present value of in-force long-term insurance business ('PVIF') is determined by discounting those expected future profits using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a risk discount rate that reflects the risk premium attributable to the respective contracts. The PVIF incorporates allowances for both non-market risk and the value of financial options and guarantees. The PVIF asset is presented gross of attributable tax in the balance sheet and movements in the PVIF asset are included in 'Other operating income' on a gross of tax basis.

(k) Employee compensation and benefits

Share-based payments

The group enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services. The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

The group operates a number of pension schemes including defined benefit, defined contribution and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The costs of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

(l) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

In assessing the probability and sufficiency of future taxable profit, we consider the availability of evidence to support the recognition of deferred tax assets. taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. We also consider the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical accounting judgements

The recognition of deferred tax assets depends on judgements and estimates

Judgements	Estimates
• Specific judgements supporting deferred tax assets are described in Note 7.	The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits.

The Group does not consider there to be a significant risk of a material adjustment to the carrying amount of the deferred tax assets in the next financial year but does consider this to be an area that is inherently judgemental.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical accounting estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
• Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations. • Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	• Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions, because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying value of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs. When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(o) Non-current assets and disposal groups held for sale

HSBC classifies non-current assets or disposal groups (including assets and liabilities) as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held-for-sale assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset (or disposal group) is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write down of the asset or disposal group to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement. This first reduces the carrying amount of any goodwill allocated to the disposal group, and then to the other assets of the disposal group pro rata on the basis of the carrying amount of each asset in the disposal group. Thereafter, any impairment loss in excess of the carrying value of the non-current assets in scope of IFRS 5 for measurement is recognised against the total assets of the disposal group.

Critical accounting estimates and judgements

The classification as held for sale depends on certain judgements
Judgements
Management judgement is required in determining whether the IFRS 5 held for sale criteria are met, including whether a sale is highly probable and expected to complete within one year of classification. The exercise of judgement will normally consider the likelihood of successfully securing any necessary regulatory or political approvals which are almost always required for sales of banking businesses. For large and complex plans judgement will also include an assessment of the enforceability of any binding sale agreement, the nature and magnitude of any disincentives for non-performance, and the ability of the counterparty to undertake necessary pre-completion preparatory work, comply with conditions precedent, and otherwise be able to comply with contractual undertakings to achieve completion within the expected timescale. Once classified as held for sale, judgement is required to be applied on a continuous basis to ensure that classification remains appropriate in future accounting periods.

2 Net fee income

Net fee income by product type

	2022	2021	2020
	£m	£m	£m
Account services	**302**	271	239
Funds under management	**433**	465	424
Cards	**56**	44	44
Credit facilities	**235**	246	250
Broking income	**354**	368	369
Imports/exports	**44**	40	41
Remittances	**101**	84	62
Underwriting	**171**	286	360
Global custody	**203**	200	220
Corporate finance	**124**	132	85
Securities others — (including stock lending)	**81**	76	—
Trust income	**49**	43	45
Other	**453**	451	535
Fee income	**2,606**	2,706	2,674
Less: fee expense	**(1,345)**	(1,293)	(1,274)
Net fee income	**1,261**	1,413	1,400

Net fee income by global business

	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
	£m	£m	£m	£m	£m	£m	£m
Year ended 31 Dec 2022							
Fee income	**1,301**	**817**	**70**	**425**	**592**	**(599)**	**2,606**
Less: fee expense	**(1,439)**	**(173)**	**(55)**	**(26)**	**(246)**	**594**	**(1,345)**
Net fee income	**(138)**	**644**	**15**	**399**	**346**	**(5)**	**1,261**
Year ended 31 Dec 2021							
Fee income	1,251	861	89	415	633	(543)	2,706
Less: fee expense	(1,245)	(188)	(83)	(54)	(255)	532	(1,293)
Net fee income	6	673	6	361	378	(11)	1,413
Year ended 31 Dec 2020							
Fee income	1,243	857	94	407	603	(530)	2,674
Less: fee expense	(1,209)	(172)	(123)	(51)	(245)	526	(1,274)
Net fee income	34	685	(29)	356	358	(4)	1,400

Net fee income includes £778m of fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2021: £935m; 2020 £883m), £229m of fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2021: £221m; 2020: £176m), £687m of fees earned on trust and other fiduciary activities (2021: £709m; 2020: £688m), and £69m of fees payable relating to trust and other fiduciary activities (2021: £61m; 2020 £68m).

3 Net income from financial instruments measured at fair value through profit or loss

	2022	2021	2020
	£m	£m	£m
Net income arising on:			
Net Trading activities	(2,840)	3	1,948
Other instruments managed on a fair value basis	5,715	1,730	(190)
Net income from financial instruments held for trading or managed on a fair value basis	2,875	1,733	1,758
Financial assets held to meet liabilities under insurance and investment contracts	(1,436)	1,305	290
Liabilities to customers under investment contracts	67	(91)	(36)
Net (expense)/income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	(1,369)	1,214	254
Derivatives managed in conjunction with the group's issued debt securities	(736)	(337)	112
Other changes in fair value	838	329	(95)
Changes in fair value of designated debt and related derivatives	102	(8)	17
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	143	493	285
Year ended 31 Dec	1,751	3,432	2,314

4 Insurance business

Net insurance premium income

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross insurance premium income	214	432	1,238	1,884
Reinsurers' share of gross insurance premium income	(96)	(1)	—	(97)
Year ended 31 Dec 2022	118	431	1,238	1,787
Gross insurance premium income	218	429	1,360	2,007
Reinsurers' share of gross insurance premium income	(100)	(1)	—	(101)
Year ended 31 Dec 2021	118	428	1,360	1,906
Gross insurance premium income	205	274	1,185	1,664
Reinsurers' share of gross insurance premium income	(100)	(5)	—	(105)
Year ended 31 Dec 2020	105	269	1,185	1,559

1 *Discretionary participation features.*

Net insurance claims and benefits paid and movement in liabilities to policyholders

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross claims and benefits paid and movement in liabilities	44	238	177	459
– claims, benefits and surrenders paid	122	129	1,491	1,742
– movement in liabilities	(78)	109	(1,314)	(1,283)
Reinsurers' share of claims and benefits paid and movement in liabilities	(64)	11	—	(53)
– claims, benefits and surrenders paid	(57)	(2)	—	(59)
– movement in liabilities	(7)	13	—	6
Year ended 31 Dec 2022	(20)	249	177	406
Gross claims and benefits paid and movement in liabilities	120	550	2,420	3,090
– claims, benefits and surrenders paid	126	106	1,554	1,786
– movement in liabilities	(6)	444	866	1,304
Reinsurers' share of claims and benefits paid and movement in liabilities	(45)	(6)	—	(51)
– claims, benefits and surrenders paid	(68)	(1)	—	(69)
– movement in liabilities	23	(5)	—	18
Year ended 31 Dec 2021	75	544	2,420	3,039
Gross claims and benefits paid and movement in liabilities	143	300	1,404	1,847
– claims, benefits and surrenders paid	102	93	1,578	1,773
– movement in liabilities	41	207	(174)	74
Reinsurers' share of claims and benefits paid and movement in liabilities	(64)	—	—	(64)
– claims, benefits and surrenders paid	(62)	(3)	—	(65)
– movement in liabilities	(2)	3	—	1
Year ended 31 Dec 2020	79	300	1,404	1,783

1 *Discretionary participation features.*

Liabilities under insurance contracts

	Non-linked insurance	Linked life insurance	Investment contracts with DPF[1]	Total
	£m	£m	£m	£m
Gross liabilities under insurance contracts at 1 Jan 2022	**556**	**1,938**	**19,770**	**22,264**
Claims and benefits paid	**(122)**	**(129)**	**(1,491)**	**(1,742)**
Increase in liabilities to policyholders	**44**	**238**	**177**	**459**
Exchange differences and other movements[2]	**20**	**15**	**(1,029)**	**(994)**
Gross liabilities under insurance contracts at 31 Dec 2022	**498**	**2,062**	**17,427**	**19,987**
Reinsurers' share of liabilities under insurance contracts	**(100)**	**(40)**	**—**	**(140)**
Net liabilities under insurance contracts at 31 Dec 2022	**398**	**2,022**	**17,427**	**19,847**
Gross liabilities under insurance contracts at 1 Jan 2021	594	1,512	20,710	22,816
Claims and benefits paid	(126)	(106)	(1,554)	(1,786)
Increase in liabilities to policyholders	120	550	2,420	3,090
Exchange differences and other movements[2]	(32)	(18)	(1,806)	(1,856)
Gross liabilities under insurance contracts at 31 Dec 2021	556	1,938	19,770	22,264
Reinsurers' share of liabilities under insurance contracts	(93)	(53)	—	(146)
Net liabilities under insurance contracts at 31 Dec 2021	463	1,885	19,770	22,118
Gross liabilities under insurance contracts at 1 Jan 2020	576	1,295	19,638	21,509
Claims and benefits paid	(102)	(93)	(1,578)	(1,773)
Increase in liabilities to policyholders	143	300	1,404	1,847
Exchange differences and other movements[2]	(23)	10	1,246	1,233
Gross liabilities under insurance contracts at 31 Dec 2020	594	1,512	20,710	22,816
Reinsurers' share of liabilities under insurance contracts	(118)	(47)	—	(165)
Net liabilities under insurance contracts at 31 Dec 2020	476	1,465	20,710	22,651

1 *Discretionary participation features.*
2 *'Exchange differences and other movements' includes movements in liabilities arising from net unrealised investment gains recognised in other comprehensive income.*

The key factors contributing to the movement in liabilities to policyholders included movement in the market value of assets supporting policyholder liabilities, death claims, surrenders, lapses, new business, the declaration of bonuses and other amounts attributable to policyholders.

5 Employee compensation and benefits

	2022	2021	2020
	£m	£m	£m
Wages and salaries	**1,423**	1,609	1,917
Social security costs	**282**	341	367
Post-employment benefits[1]	**57**	73	56
Year ended 31 Dec	**1,762**	2,023	2,340

1 *Includes £42m (2021: £37m; 2020: £36m) in employer contributions to the defined contribution pension plans.*

Average number of persons employed by the group during the year by global business[1]

	2022	2021	2020
MSS	**3,722**	4,322	4,590
GB	**2,155**	2,458	2,857
GBM Other	**81**	140	158
CMB	**2,748**	3,023	3,396
WPB	**6,484**	6,709	6,807
Corporate Centre	**215**	171	58
Year ended 31 Dec	**15,405**	16,823	17,866

1 *Average numbers of headcount in corporate centre are allocated in respective businesses on the basis of amounts charged to the respective global businesses.*

Share-based payments

'Wages and salaries' includes the effect of share-based payments arrangements, of which £45m were equity settled (2021: £96m; 2020: £76m), as follows:

	2022	2021	2020
	£m	£m	£m
Restricted share awards	**45**	96	77
Savings-related and other share award option plans	**1**	1	2
Year ended 31 Dec	**46**	97	79

HSBC share awards

Award	Policy
Deferred share awards (including annual incentive awards, long-term incentive ('LTI') awards delivered in shares) and Group Performance Share Plan ('GPSP')	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are generally not subject to performance conditions after the grant date. An exception to these are the LTI awards, which are subject to performance conditions. • Deferred share awards generally vest over a period of three, four, five or seven years. • Vested shares may be subject to a retention requirement post-vesting. • Awards are subject to malus and clawback.
International Employee Share Purchase Plan ('ShareMatch')	• The plan was first introduced in Hong Kong in 2013 and now includes employees based in 31 jurisdictions. • Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. • Matching awards are added at a ratio of one free share for every three purchased. • Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

Movement on HSBC share awards

	2022 Number (000s)	2021 Number (000s)	2020 Number (000s)
Restricted share awards outstanding at 1 Jan	**21,828**	24,367	24,578
Additions during the year[1]	**11,651**	15,479	16,823
Released in the year[1]	**(12,279)**	(16,690)	(16,024)
Forfeited in the year	**(746)**	(1,328)	(1,010)
Restricted share awards outstanding at 31 Dec	**20,454**	21,828	24,367
Weighted average fair value of awards granted (£)	**4.96**	4.49	5.58

1 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

HSBC share option plans

Main plans	Policy
Savings-related share option plans ('Sharesave')	• From 2014, eligible employees for the UK plan can save up to £500 per month with the option to use the savings to acquire shares. • These are generally exercisable within six months following either the third or fifth anniversary of the commencement of a three years or five years contract, respectively. • The exercise price is set at a 20% (2021: 20%) discount to the market value immediately preceding the date of invitation.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans	
	Number (000s)	WAEP[1] £
Outstanding at 1 Jan 2022	**6,936**	**2.87**
Granted during the year[2]	**(179)**	**3.96**
Exercised during the year	**(173)**	**3.36**
Expired during the year	**(177)**	**4.72**
Forfeited during the year	**(625)**	**2.98**
Outstanding at 31 Dec 2022	**5,782**	**2.91**
Weighted average remaining contractual life (years)	**2.18**	
Outstanding at 1 Jan 2021	7,206	2.96
Granted during the year[2]	984	3.25
Exercised during the year	(227)	3.97
Expired during the year	(99)	4.70
Forfeited during the year	(928)	3.68
Outstanding at 31 Dec 2021	6,936	2.87
Weighted average remaining contractual life (years)	2.98	
Outstanding at 1 Jan 2020	4,245	4.78
Granted during the year[2]	5,909	2.56
Exercised during the year	(107)	4.43
Expired during the year	(78)	4.64
Forfeited during the year	(2,763)	4.79
Outstanding at 31 Dec 2020	7,206	2.96
Weighted average remaining contractual life (years)	3.64	

1 *Weighted average exercise price.*
2 *Includes a number of share option plans transferred from or to other subsidiaries of HSBC Holdings plc.*

Post-employment benefit plans

We operate a number of pension plans throughout Europe for our employees. Some are defined benefit plans, of which HSBC Trinkaus & Burkhardt Pension Plan is the most prominent within the group.

The group's balance sheet includes the net surplus or deficit, being the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future, or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, the group has considered its current right to obtain a future refund or a reduction in future contributions together with the rights of third parties such as trustees.

HSBC Trinkaus & Burkhardt Pension Plan

The plan is a final salary scheme and is calculated based on the employee length of service multiplied by a predefined benefit accrual and earnings. The pension is paid when the benefit falls due and is a specified pension payment, lump-sum or combination thereof. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The strategic aim of the investment is to achieve, as continuously as possible, an increase in value over time. For this purpose, the fund invests mainly in government bonds, corporate bonds, investment funds and equities. It invests predominantly in developed regions. Overall, emphasis is placed on having a high degree of diversification.

Plan assets were created to fund the pension obligations and separated through what is known as a contractual trust agreement ('CTA'). HSBC Trinkaus Vermögenstreu¬händer e. V. and HSBC Trinkaus Mitarbeitertreuhänder e. V. assume the role of trustee. Active members of the trustee constitute members of the Management Board, of the Supervisory Board and Bank employees.

The Bank regularly aims to comprehensively finance the committed benefits externally. There is no obligation to allocate contributions to the CTA. The Bank is entitled to assets that are not needed to fund the committed benefits. No further additions to the plan assets are envisaged at the present time.

In accordance with the Memorandum and Articles of Association, the revenues may only be used, for example, for pension payments or for reinvestment. Similarly, withdrawals may only be made in accordance with the Memorandum and Articles of Association. In so far as the benefits are directly committed and there is a shortfall in the CTA, provisions are created for these.

The latest measurement of the defined benefit obligation of the plan at 31 December 2022 was carried out by Tim Voetmann and Hans-Peter Kieselmann, at Willis Towers Watson GmbH, who are Fellows of the German Association of Actuaries ('DAV'), using the projected unit credit method. The next measurement will have an effective date of 31 December 2023.

Net assets/(liabilities) recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Total
	£m	£m	£m
Defined benefit pension plans	**534**	**(531)**	**3**
Defined benefit healthcare plans	**—**	**(51)**	**(51)**
At 31 Dec 2022	**534**	**(582)**	**(48)**
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			**(121)**
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			**73**
Defined benefit pension plans	668	(742)	(74)
Defined benefit healthcare plans	—	(68)	(68)
At 31 Dec 2021	668	(810)	(142)
Total employee benefit liabilities (within 'Accruals, deferred income and other liabilities')			(196)
Total employee benefit assets (within 'Prepayments, accrued income and other assets')			54

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets		Present value of defined benefit obligations		Net defined benefit asset/(liability)	
	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans	HSBC Trinkaus & Burkhardt Pension Plan[2]	Other plans
	£m	£m	£m	£m	£m	£m
At 1 Jan 2022	**434**	**234**	**(438)**	**(304)**	**(4)**	**(70)**
Service cost	—	—	4	(8)	4	(8)
– current service cost	—	—	3	(9)	3	(9)
– past service cost and gains from settlements	—	—	1	1	1	1
Net interest income/(cost) on the net defined benefit asset/(liability)	(3)	5	(4)	(5)	(7)	—
Remeasurement effects recognised in other comprehensive income	(51)	(99)	94	98	43	(1)
– return on plan assets (excluding interest income)	(51)	(99)	—	—	(51)	(99)
– actuarial gains/(losses) financial assumptions	—	—	94	106	94	106
– actuarial gains/(losses) demographic assumptions	—	—	—	(2)	—	(2)
– actuarial gains/(losses) experience assumptions	—	—	—	(6)	—	(6)
– other changes	—	—	—	—	—	—
Exchange differences	22	1	(20)	(3)	2	(2)
Benefits paid	—	(7)	10	13	10	6
Other movements[1]	3	(5)	(3)	35	—	30
At 31 Dec 2022	**405**	**129**	**(357)**	**(174)**	**48**	**(45)**
At 1 Jan 2021	435	258	(489)	(387)	(54)	(129)
Service cost	—	—	(7)	(27)	(7)	(27)
– current service cost	—	—	(8)	(11)	(8)	(11)
– past service cost and gains from settlements	—	—	1	(16)	1	(16)
Net interest income/(cost) on the net defined benefit asset/(liability)	3	4	(3)	(3)	—	1
Remeasurement effects recognised in other comprehensive income	17	(2)	26	16	43	14
– return on plan assets (excluding interest income)	17	(2)	—	—	17	(2)
– actuarial gains/(losses) financial assumptions	—	—	26	7	26	7
– actuarial gains/(losses) demographic assumptions	—	—	—	—	—	—
– actuarial gains/(losses) experience assumptions	—	—	—	9	—	9
– other changes	—	—	—	—	—	—
Exchange differences	(28)	(1)	29	9	1	8
Benefits paid	—	(15)	10	19	10	4
Other movements[1]	7	(10)	(4)	69	3	59
At 31 Dec 2021	434	234	(438)	(304)	(4)	(70)

1 *Other movements include contributions by the group, contributions by employees, administrative costs and tax paid by plan.*
2 *The HSBC Trinkaus & Burkhardt Pension Plan and its comparatives have been disclosed as it is considered to be a prominent plan within the group. Figures disclosed comprise this prominent plan and other plans in Germany.*

HSBC Trinkaus & Burkhardt GmbH has not made contributions to the HSBC Trinkaus & Burkhardt Pension Plan during 2022. Benefits expected to be paid from the HSBC Trinkaus & Burkhardt Pension Plan to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2023	2024	2025	2026	2027	2028-2032
	£m	£m	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan[1]	**11**	10	12	11	12	66

1 *The duration of the defined benefit obligation is 13.7 Years for the HSBC Trinkaus & Burkhardt Pension Plan under the disclosure assumptions adopted (2021: 17.1).*

Fair value of plan assets by asset classes

	31 Dec 2022				31 Dec 2021			
	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC	Value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	£m	£m	£m	£m	£m	£m	£m	£m
HSBC Trinkaus & Burkhardt Pension Plan								
Fair value of plan assets	**405**	**352**	**53**	**—**	434	377	57	—
– equities	**8**	**8**	**—**	**—**	11	11	—	—
– bonds	**199**	**199**	**—**	**—**	112	112	—	—
– other	**198**	**145**	**53**	**—**	311	254	57	—

Post-employment defined benefit plans' principal actuarial financial assumptions

The group determines the discount rates to be applied to its obligations in consultation with the plans' local actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

Key actuarial assumptions

	Discount rate	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%
HSBC Trinkaus & Burkhardt Pension Plan				
At 31 Dec 2022	**3.71**	**2.25**	**2.25**	**2.25**
At 31 Dec 2021	1.14	1.75	1.75	1.75

Mortality tables and average life expectancy at age 60

	Mortality table	Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
		Aged 60	Aged 40	Aged 60	Aged 40
HSBC Trinkaus & Burkhardt Pension Plan					
At 31 Dec 2022	**RT 2018G1[1]**	**25.2**	**28.2**	**28.9**	**31.2**
At 31 Dec 2021[2]	RT 2018G1[1]	20.6	23.4	24.0	26.3

1 *Heubeck tables: RT 2018G. These are generally accepted and used mortality tables for occupational pension plans in Germany, taking into account future mortality improvements and lighter mortality for higher-paid pensioners.*
2 *2021 data provided based on Heubeck tables for Life expectancy at age 65 for male/female members currently aged 65 or 45.*

The effect of changes in key assumptions

	HSBC Trinkaus & Burkhardt Pension Plan Obligation					
	Financial impact of increase			Financial impact of decrease		
	2022	2021	2020	**2022**	2021	2020
	£m	£m	£m	**£m**	£m	£m
Discount rate – increase/decrease of 0.25%	**(7)**	(13)	(15)	**8**	13	16
Inflation rate – increase/decrease of 0.25%	**7**	11	16	**(5)**	(9)	(12)
Pension payments and deferred pensions – increase/decrease of 0.25%	**5**	9	10	**(5)**	(8)	(10)
Pay – increase/decrease of 0.25%	**1**	2	4	**(1)**	(2)	(4)
Change in mortality – increase of 1 Year	**10**	16	19	**N/A**	N/A	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this in unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit asset recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

Directors' emoluments

The aggregate emoluments of the Directors of the bank, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2022	2021	2020
	£000	£000	£000
Fees[1]	1,410	1,525	1,256
Salaries and other emoluments[2]	2,294	3,569	2,321
Annual incentives[3]	979	694	576
Long-term incentives[4]	779	511	727
Year ended 31 Dec	5,462	6,299	4,880

1 *Fees paid to non-executive Directors.*
2 *Salaries and other emoluments include Fixed Pay Allowances.*
3 *Discretionary annual incentives for executive Directors are based on a combination of individual and corporate performance, and are determined by the Remuneration Committee of the bank's parent company, HSBC Holdings plc. Incentive awards made to executive directors are delivered in the form of cash and HSBC Holdings plc shares. The total amount shown is comprised of £489,285 (2021: £346,959) in cash and £489,285 (2021: £346,959) in Restricted Shares, which is the upfront portion of the annual incentive granted in respect of performance year 2022.*
4 *The amount shown is comprised of £380,893 (2021: £274,177) in deferred cash, £398,162 (2021: £237,259) in deferred Restricted Shares. These amounts relate to the portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2022. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The deferred share awards are subject to at least a six-month retention period upon vesting. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc. The cost of any awards subject to service conditions under the HSBC Share Plan 2011 are recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates.*

No Director exercised share options over HSBC Holdings plc ordinary shares during the year.

No Director is accruing retirement benefits under a money purchase scheme in respect of Directors' qualifying services (2021: one Director).

In addition, there were payments during 2022 under unfunded retirement benefit agreements to former Directors of £394,334 (2021: £396,363). The provision at 31 December 2022 in respect of unfunded pension obligations to former Directors amounted to £4,286,951 (2021: £5,387,505).

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2022	2021	2020
	£000	£000	£000
Salaries and other emoluments	1,641	1,399	1,392
Annual incentives[1]	859	558	417
Long-term incentives[2]	677	390	677
Year ended 31 Dec	3,177	2,347	2,486

1 *Awards made to the highest paid Director are delivered in the form of cash and HSBC Holdings plc shares. The amount shown comprises £429,285 (2021: £279,225) in cash and £429,285 (2021: £279,225) in Restricted Shares.*
2 *The amount shown comprises £330,687 (2021: £209,492) in deferred cash, £345,818 (2021: £180,147) in deferred Restricted Shares. These amounts relate to a portion of the awards that will vest following the substantial completion of the vesting condition attached to these awards in 2022. The total vesting period of deferred cash and share awards is no less than three years, with 33% of the award vesting on each of the first and second anniversaries of the date of the award, and the balance vesting on the third anniversary of the date of the award. The share awards are subject to a six-month retention period upon vesting.*

No pension contributions were made by the bank in respect of services by the highest paid Director during the year (2021: £0).

6 Auditors' remuneration

	2022 £m	2021 £m	2020 £m
Audit fees payable to PwC	**11.3**	10.4	11.3
Other audit fees payable	**0.7**	0.4	0.4
Year ended 31 Dec	**12.0**	10.8	11.7

Fees payable by the group to PwC

	2022 £m	2021 £m	2020 £m
Fees for HSBC Bank plc's statutory audit[1]	**5.5**	4.8	5.3
Fees for other services provided to the group	**15.6**	14.3	13.1
– audit of the group's subsidiaries[2]	**5.8**	5.6	6.0
– audit-related assurance services[3]	**5.3**	5.7	4.2
– other assurance services[4]	**4.5**	3.0	2.9
Year ended 31 Dec	**21.1**	19.1	18.4

1 *Fees payable to PwC for the statutory audit of the consolidated financial statements of the group and the separate financial statements of HSBC Bank plc. They exclude amounts payable for the statutory audit of the bank's subsidiaries which have been included in 'Fees for other services provided to the group'.*
2 *Including fees payable to PwC for the statutory audit of the bank's subsidiaries.*
3 *Including services for assurance and other services that relate to statutory and regulatory filings, including interim reviews.*
4 *Including permitted services relating to attestation reports on internal controls of a service organisation primarily prepared for and used by third-party end user, including comfort letters.*

Fees payable for non-audit services for HSBC Bank plc are not disclosed separately because such fees are disclosed on a consolidated basis for the group.

7 Tax

Tax expense

	2022 £m	2021 £m	2020 £m
Current tax	**(283)**	(187)	195
– for this year	**(243)**	(245)	186
– adjustments in respect of prior years	**(40)**	58	9
Deferred tax	**(278)**	164	(331)
– origination and reversal of temporary differences	**(444)**	248	(339)
– effect of changes in tax rates	**33**	(56)	(26)
– adjustments in respect of prior years	**133**	(28)	34
Year ended 31 Dec[1]	**(561)**	(23)	(136)

1 *In addition to amounts recorded in the income statement, a tax credit of £393m (2021: credit of £135m; 2020 charge of £135m) was recorded directly to equity.*

The group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate tax rates in 2022 included the UK and France. The UK tax rate applying to HSBC Bank plc and its banking subsidiaries was 27% (2021: 27%), comprising 19% corporation tax plus 8% surcharge on UK banking profits. The applicable tax rate in France was 26% (2021: 28%). Other overseas subsidiaries and overseas branches provided for taxation at the appropriate rates in the countries in which they operate.

During 2022, legislation was enacted to reduce the UK banking surcharge rate from 8% to 3% from 1 April 2023, decreasing the tax credit for 2021 by £33m due to the remeasurement of deferred tax balances. The main rate of UK corporation tax will increase from 19% to 25% from 1 April 2023.

In December 2021, the OECD published model rules that provided a template for countries to implement a new global minimum tax rate of 15%. These rules are due to be effective from 2024. In January 2022, the UK government opened a consultation on how the UK implements the rules. The impact on HSBC will depend on exactly how the UK implements the model rules, as well as the profitability and local tax liabilities of HSBC's operations in each tax jurisdiction from 2024. In addition, potential changes to tax legislation and tax rates in the countries and territories in which we operate could increase our effective tax rate in the future.

Tax reconciliation

The tax charged to the income statement differs from the tax expense that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2022		2021		2020	
	£m	%	£m	%	£m	%
(Loss)/profit before tax	**(959)**		1,023		(1,615)	
Tax expense						
Taxation at UK corporation tax rate	**(182)**	**19.0**	194	19.0	(307)	19.0
Impact of taxing overseas profits at different rates	**(75)**	**7.8**	7	0.7	(75)	4.6
UK banking surcharge	**(47)**	**4.9**	(2)	(0.2)	(100)	6.2
Items increasing the tax charge in 2022:						
– adjustment in respect of prior years	**93**	**(9.7)**	30	2.9	45	(2.8)
– UK and European Bank levies	**50**	**(5.2)**	72	7.0	31	(1.9)
– impact of held for sale adjustments	**47**	**(4.9)**	—	—	—	—
– adjustment to deferred tax on insurance contracts	**36**	**(3.8)**	—	—	—	—
– impact of changes in tax rates	**33**	**(3.4)**	(56)	(5.5)	(26)	1.6
– effect of profits in associates and joint ventures	**5**	**(0.5)**	(43)	(4.2)	(3)	0.2
– local taxes and overseas withholding taxes	**4**	**(0.4)**	(4)	(0.4)	49	(3.0)
– impact of temporary differences between French tax returns and IFRS	**—**	**—**	324	31.7	—	—
– other	**1**	**(0.1)**	(34)	(3.4)	34	(2.1)
Items reducing the tax charge in 2022:						
– movements in unrecognised deferred tax	**(268)**	**27.9**	(47)	(4.6)	321	(19.9)
– movement in uncertain tax positions	**(110)**	**11.5**	5	0.5	1	(0.1)
– non-taxable income and gains	**(93)**	**9.7**	(92)	(9.0)	(55)	3.4
– deductions for AT1 coupon payments	**(55)**	**5.7**	(53)	(5.2)	(51)	3.2
– tax impact of planned sale of French retail banking business	**—**	**—**	(324)	(31.7)	—	—
Year ended 31 Dec	**(561)**	**58.5**	(23)	(2.3)	(136)	8.4

The effective tax rate for the year was 58.5% (2021: (2.3)%; 2020: 8.4%), reflecting a tax credit arising on a loss before tax. The tax credit for 2022 was driven by underlying losses before tax and non-recurring items, including recognition of previously unrecognised deferred tax assets in France and a tax credit of £110m from movement in provisions for uncertain tax positions. The tax credit for 2021 included favourable non-recurring items in respect of tax rate changes, prior period adjustments and the recognition of previously unrecognised deferred tax assets in France.

In 2021, the signing of a framework agreement for the planned sale of the French retail banking business resulted in a tax deduction (tax value of £324m) for a provision for loss on disposal which was recorded in the French tax return. A deferred tax liability of the same amount arose as a consequence of the temporary difference between the French tax basis and IFRS in respect of this provision. This temporary difference reversed in 2022 upon application of held for sale accounting for IFRS, resulting in the reversal of this deferred tax liability to the income statement.

Accounting for taxes involves some estimation because tax law is uncertain and its application requires a degree of judgement, which authorities may dispute. Liabilities are recognised based on best estimates of the probable outcome, taking into account external advice where appropriate. We do not expect significant liabilities to arise in excess of the amounts provided. The current tax asset includes an estimate of tax recoverable from HMRC with regards to past dividends received from EU resident companies. The ultimate resolution of this matter involves litigation for which the outcome is uncertain.

Movement of deferred tax assets and liabilities

The group	Retirement benefits £m	Loan impairment provisions £m	Property, plant and equipment £m	FVOCI investments £m	Goodwill and intangibles £m	Relief for tax losses[2] £m	Other[1] £m	Total £m
Assets	74	53	215	—	212	381	—	935
Liabilities	—	(4)	—	(58)	—	—	(289)	(351)
At 1 Jan 2022	**74**	**49**	**215**	**(58)**	**212**	**381**	**(289)**	**584**
Income statement	(11)	—	22	3	(201)	243	222	278
Other comprehensive income	(18)	—	—	179	—	—	215	376
Foreign exchange and other	—	—	(1)	18	—	4	6	27
At 31 Dec 2022	**45**	**49**	**236**	**142**	**11**	**628**	**154**	**1,265**
Assets[3]	45	50	236	142	11	628	154	1,266
Liabilities[3]	—	(1)	—	—	—	—	—	(1)
Assets	63	66	171	—	157	418	—	875
Liabilities	—	(9)	(6)	166)	—	—	(117)	(298)
At 1 Jan 2021	63	57	165	166)	157	418	(117)	577
Income statement	28	(10)	51	3	55	(37)	(254)	(164)
Other comprehensive income	(17)	2	(1)	105	—	—	82	171
At 31 Dec 2021	74	49	215	(58)	212	381	(289)	584
Assets[3]	74	53	215	—	212	381	—	935
Liabilities[3]	—	(4)	—	(58)	—	—	(289)	(351)

1 *Other deferred tax assets and liabilities relate to share-based payments, cash flow hedges and temporary differences arising between IFRS and French tax returns.*

2 *The deferred tax asset recognised in respect of tax losses mainly relates to France £(588)m, and US State tax losses of the New York branch of HSBC Bank plc £(28)m, all of which are supported by future profit forecasts.*

3 *After netting off balances within countries, the balances as disclosed in the financial statements are as follows: deferred tax assets £1,279m (2021: £599m); and deferred tax liabilities £14m (2021:£15m).*

Management has assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the Company and the Group, taking into consideration the reversal of existing taxable temporary differences, past business performance and forecasts of future business performance.

The group's net deferred tax asset of £1,265m (2021: £584m) included a net UK deferred tax asset of £498m (2021: £448m) and a net deferred asset of £597m (2021: £7m) in France, of which £588m (2021: £294m) related to tax losses which are expected to be substantially recovered within 10 years.

Management is satisfied that although the Company recorded a UK tax loss in the year, the aforementioned evidence is sufficient to support recognition of all UK deferred tax assets. These deferred tax assets are supported by future profit forecasts for the whole of HSBC's UK tax group. This includes a number of companies which are not part of the HSBC Bank plc group, in particular HSBC UK Bank plc and its subsidiaries.

Following the signing of a framework agreement in 2021 for the planned sale of the French retail banking business, that business is now excluded from our deferred tax recognition analysis as its sale is considered probable. Although the French consolidated tax group recorded a tax loss in 2020 and 2021, this would have been taxable profit if the effects of the retail banking business and other non-recurring items, mainly related to the restructuring of the European business, were excluded. The accounting loss for France in 2022 is driven by the loss on assets held for sale. Excluding this amount, the business in France recorded a profit in 2022. The French net deferred tax asset is supported by forecasts of taxable profit, also taking into consideration the history of profitability in the remaining businesses.

Movement of deferred tax assets and liabilities

	Retirement benefits	Property, plant and equipment	FVOCI	Goodwill and intangibles	Relief for tax losses[2]	Other[1]	Total
The bank	£m	£m	£m	£m	£m	£m	£m
Assets[2]	17	207	—	191	69	48	532
Liabilities[2]	—	—	(23)	—	—	—	(23)
At 1 Jan 2022	**17**	**207**	**(23)**	**191**	**69**	**48**	**509**
Income statement	(4)	24	—	(191)	(41)	(6)	(218)
Other comprehensive income	1	—	98	—	—	210	309
Foreign exchange and other adjustments	—	—		—	—	8	8
At 31 Dec 2022	**14**	**231**	**75**	**—**	**28**	**260**	**608**
Assets[3]	14	231	75	—	28	260	608
Liabilities[3]	—	—	—	—	—	—	—
Assets	16	162	—	156	416	—	750
Liabilities	—	—	(100)	—	—	(104)	(204)
At 1 Jan 2021	16	162	(100)	156	416	(104)	546
Income statement	2	45	—	35	(347)	73	(192)
Other comprehensive income	(1)	—	77	—	—	77	153
Foreign exchange and other adjustments	—	—	—	—	—	2	2
At 31 Dec 2021	17	207	(23)	191	69	48	509
Assets[3]	17	207	—	191	69	48	532
Liabilities[3]	—	—	(23)	—	—	—	(23)

1 *Other deferred tax assets and liabilities relate to fair value of own debt, loan impairment allowances, share-based payments and cash flow hedges.*
2 *The deferred tax asset recognised in respect of losses mainly relates to US State tax losses of the New York branch of HSBC Bank plc,which are supported by future profit forecasts.*
3 *After netting off balances within countries, the balances as disclosed in the accounts are as follows: deferred tax assets £608m (2021: £509m) and deferred tax liabilities nil (2021:nil).*

Unrecognised deferred tax

The group

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £1,017m (2021: £1,944m). These amounts include unused tax losses, tax credits and temporary differences of £912m (2021: £1,141m) arising in the New York branch of HSBC Bank plc and of nil (2021: £782m) arising in France. Of the unrecognised losses, £502m expire within 10 years (2021: £394m), and the remainder expire after 10 years or do not expire.

The bank

The amount of temporary differences, unused tax losses and tax credits for which no deferred tax asset is recognised in the balance sheet was £912m (2021: £1,141m). These amounts include unused tax losses, tax credits and temporary differences arising in the New York branch of HSBC Bank plc of £912m (2021: £1,141m). Of the unrecognised losses, £402m expire within 10 years (2021: £394m), and the remainder expire after 10 years.

There are no unrecognised deferred tax liabilities arising from the group's investments in subsidiaries and branches.

8 Dividends

Dividends to the parent company

	2022		2021		2020	
	£ per share	**£m**	£ per share	£m	£ per share	£m
Dividends paid on ordinary shares						
In respect of previous year:						
Previous year:	—	—	—	—		
– first special dividend			—	—		
In respect of current year:						
Current year:	—	—	—	—		
– first special dividend[1]	**1.067**	**850**				
– second special dividend	—	—	—	—		
Total	**1.067**	**850**	—	—		
Dividends on preference shares classified as equity						
Dividend on HSBC Bank plc non-cumulative third dollar preference shares[2]	**0.001**	—	0.001	—	1.47	51
Total	**0.001**	—	0.001	—	1.47	51
Total coupons on capital securities classified as equity	—	**202**	—	194	0	212
Dividends to parent	—	**1,052**	—	194	0	263

1 Special dividend declared/paid on CET1 capital in 2022.
2 In 2021, the liquidation value of USD third dollar preference shares reduced to $0.01 per share.

Total coupons on capital securities classified as equity

		2022	2021	2020
	First call date	**£m**	£m	£m
Undated Subordinated additional Tier 1 instruments				
Undated Subordinated Resettable Additional Tier 1 instrument 2015	Dec 2020	**87**	84	103
Undated Subordinated Resettable Additional Tier 1 instrument 2016	Jan 2022	**11**	12	11
Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**28**	10	10
Undated Subordinated Resettable Additional Tier 1 instrument 2018	Mar 2023	**10**	28	28
Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**24**	24	24
Undated Subordinated Resettable Additional Tier 1 instrument 2019	Nov 2024	**8**	7	8
Undated Subordinated Resettable Additional Tier 1 instrument 2019	Dec 2024	**20**	20	20
Undated Subordinated Resettable Additional Tier 1 instrument 2019	Jan 2025	**8**	9	8
Undated Subordinated Resettable Additional Tier 1 instrument 2022	Mar 2027	**6**	—	—
Total		**202**	194	212

9 Segmental analysis

The Chief Executive, supported by the rest of the Executive Committee, is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the group's reportable segments. Business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. We therefore present a reconciliation between reported and adjusted results as required by IFRSs.

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 functions to the extent that they can be meaningfully attributed to businesses and countries. 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 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 businesses are presented in Corporate Centre.

Our businesses

HSBC provides a comprehensive range of banking and related financial services to its customers through its global businesses. The products and services offered to customers are organised by these global businesses.

Our operating model has the following material segments: WPB; CMB; a GBM business which is further split into three reportable segments MSS, GB and GBM Other reflecting the reorganisation of the GBM management structure during 2021 and a Corporate Centre. These segments are supported by Digital Business Services and eleven global functions, including Risk, Finance, Compliance, Legal, Marketing and Human Resources. These business segment are our reportable segments under IFRS 8 'Operating Segments'.
By operating segment:

Adjusted profit/(loss) before tax

	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
2022							
	£m	£m	£m	£m	£m	£m	£m
Net operating income before change in expected credit losses and other credit impairment charges	2,413	1,571	(8)	1,432	1,492	(118)	6,782
– *of which: net interest income/(expense)*	*(54)*	*903*	*(16)*	*925*	*710*	*(564)*	*1,904*
Change in expected credit losses and other credit impairment charges	(1)	(153)	(1)	(54)	(7)	(6)	(222)
Net operating income/(expense)	2,412	1,418	(9)	1,378	1,485	(124)	6,560
Total operating expenses	(1,940)	(932)	(318)	(593)	(908)	(115)	(4,806)
Operating profit/(loss)	472	486	(327)	785	577	(239)	1,754
Share of loss in associates and joint ventures	—	—	(2)	—	—	(28)	(30)
Adjusted profit/(loss) before tax	472	486	(329)	785	577	(267)	1,724
	%	%	%	%	%		%
Adjusted cost efficiency ratio	80.4	59.3	n/a	41.4	60.9		70.9
2021							
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	2,055	1,367	579	1,095	1,275	(41)	6,330
– *of which: net interest income/(expense)*	*(232)*	*568*	*224*	*649*	*567*	*(22)*	*1,754*
Change in expected credit losses and other credit impairment charges	1	140	5	7	23	(2)	174
Net operating income/(expense)	2,056	1,507	584	1,102	1,298	(43)	6,504
Total operating expenses	(2,064	(918)	(485)	(612)	(975)	(64)	(5,118
Operating profit/(loss)	(8)	589	99	490	323	(107)	1,386
Share of profit in associates and joint ventures	—	—	—	—	—	191	191
Adjusted profit/(loss) before tax	(8)	589	99	490	323	84	1,577
	%	%	%	%	%		%
Adjusted cost efficiency ratio	100.4	67.2	83.9	55.9	76.5		80.9
2020							
Net operating income/(expense) before change in expected credit losses and other credit impairment charges[1]	1,968	1,381	624	1,133	1,035	(144)	5,997
– *of which: net interest income/(expense)*	*(96)*	*651*	*46*	*686*	*664*	*(53)*	*1,898*
Change in expected credit losses and other credit impairment charges	1	(448)	(4)	(322)	(39)	4	(808)
Net operating income/(expense)	1,969	933	620	811	996	(140)	5,189
Total operating expenses	(1,949)	(878)	(672)	(659)	(1,128)	(86)	(5,372)
Operating profit/(loss)	20	55	(52)	152	(132)	(226)	(183)
Share of profit in associates and joint ventures	—	—	—	—	—	(1)	(1)
Adjusted profit/(loss) before tax	20	55	(52)	152	(132)	(227)	(184)
	%	%	%	%	%		%
Adjusted cost efficiency ratio	99.0	63.6	107.7	58.2	109.0		89.6

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue. It includes inter-segment revenue which is eliminated in Corporate centre, amounting to £120m (2021: £124m; 2020: £167m).*

Reported external net operating income is attributed to countries on the basis of the location of the branch responsible for reporting the results or advancing the funds:

	2022	2021	2020
	£m	£m	£m
Reported external net operating income by country	4,646	6,120	5,900
– United Kingdom	3,161	2,937	2,914
– France[1]	171	1,677	1,528
– Germany	732	887	814
– Other countries[1]	582	619	644

1 *2022 balances include losses on disposal of businesses classified as held-for-sale as part of a broader restructuring of our European business.*

Adjusted results reconciliation

	2022			2021			2020		
	Adjusted	**Significant items**	**Reported**	Adjusted	Significant items	Reported	Adjusted	Significant items	Reported
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Revenue[1]	**6,782**	**(2,136)**	**4,646**	6,330	(210)	6,120	5,997	(97)	5,900
ECL	**(222)**	**—**	**(222)**	174	—	174	(808)	—	(808)
Operating expenses	**(4,806)**	**(547)**	**(5,353)**	(5,118)	(344)	(5,462)	(5,372)	(1,333)	(6,705)
Share of profit/(loss) in associates and joint ventures	**(30)**	**—**	**(30)**	191	—	191	(1)	—	(1)
Profit/(loss) before tax	**1,724**	**(2,683)**	**(959)**	1,577	(554)	1,023	(184)	(1,430)	(1,614)

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

Adjusted profit/(loss) reconciliation

	2022	2021	2020
	£m	£m	£m
Year ended 31 Dec			
Adjusted profit/(loss) before tax	**1,724**	1,577	(184)
Significant items	**(2,683)**	(554)	(1,430)
– fair value movements on financial instruments[1]	**43**	(5)	(3)
– European restructurings	**(2,034)**	(23)	—
– restructuring and other related costs	**(692)**	(526)	(773)
– settlements and provisions in connection with legal and regulatory matters	**—**	—	(9)
– impairment of other intangible assets	**—**	—	(645)
Reported profit/(loss) before tax	**(959)**	1,023	(1,614)

1 Includes fair value movements on non-qualifying hedges and debit valuation adjustments on derivatives.

Balance sheet by business

	MSS	GB	GBM Other	CMB	WPB	Corporate Centre	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
31 Dec 2022							
Loans and advances to customers	**2,785**	**37,523**	**115**	**25,219**	**6,826**	**146**	**72,614**
Customer accounts	**45,320**	**79,606**	**5,903**	**55,749**	**29,211**	**159**	**215,948**
31 Dec 2021							
Loans and advances to customers	2,016	37,685	197	23,529	27,574	176	91,177
Customer accounts	34,243	74,179	4,355	50,297	41,939	228	205,241

10 Trading assets

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Treasury and other eligible bills	**3,712**	2,451	**3,061**	1,872
Debt securities	**21,873**	27,004	**13,960**	17,794
Equity securities	**38,330**	40,930	**35,407**	38,570
Trading securities	**63,915**	70,385	**52,428**	58,236
Loans and advances to banks[1]	**3,987**	4,142	**3,872**	3,559
Loans and advances to customers[1]	**11,976**	9,179	**11,323**	8,995
At 31 Dec	**79,878**	83,706	**67,623**	70,790

1 Loans and advances to banks and customers include reverse repos, stock borrowing and other accounts.

11 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, the group will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia*:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;

- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support functions of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, the group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the group's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value. The spread applied to these instruments is derived from the spreads at which the group issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**52,493**	**24,647**	**2,738**	**79,878**	59,813	22,549	1,344	83,706
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**6,183**	**6,380**	**3,318**	**15,881**	6,332	9,146	3,171	18,649
Derivatives	**2,296**	**221,205**	**1,737**	**225,238**	1,987	137,418	1,816	141,221
Financial investments	**19,007**	**8,902**	**1,447**	**29,356**	29,668	10,235	1,387	41,290
Liabilities								
Trading liabilities	**26,258**	**14,592**	**415**	**41,265**	32,886	12,967	580	46,433
Financial liabilities designated at fair value	**938**	**23,888**	**2,461**	**27,287**	1,020	30,467	2,121	33,608
Derivatives	**1,744**	**214,645**	**2,478**	**218,867**	1,105	135,809	2,454	139,368
The bank								
Recurring fair value measurements at 31 Dec								
Assets								
Trading assets	**41,524**	**23,940**	**2,159**	**67,623**	49,435	20,021	1,334	70,790
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**252**	**1,094**	**272**	**1,618**	298	2,556	361	3,215
Derivatives	**2,037**	**192,778**	**1,899**	**196,714**	1,413	122,422	1,952	125,787
Financial investments	**11,214**	**976**	**71**	**12,261**	21,806	1,346	53	23,205
Liabilities								
Trading liabilities	**11,771**	**13,591**	**403**	**25,765**	19,367	11,240	554	31,161
Financial liabilities designated at fair value	**—**	**17,565**	**1,850**	**19,415**	—	19,306	1,563	20,869
Derivatives	**1,691**	**189,908**	**1,737**	**193,336**	1,066	123,863	2,722	127,651

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	£m	£m	£m	£m	£m	£m	£m
At 31 Dec 2022							
Transfers from Level 1 to Level 2	**126**	**1,194**	**—**	**39**	**—**	**—**	**—**
Transfers from Level 2 to Level 1	**189**	**682**	**—**	**32**	**—**	**—**	**—**
At 31 Dec 2021							
Transfers from Level 1 to Level 2	366	1,731	757	—	27	—	—
Transfers from Level 2 to Level 1	244	990	399	—	91	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are normally attributable to observability of valuation inputs and price transparency.

Fair value adjustments

Fair value adjustments are adopted when the group determines there are additional factors considered by market participants that are not incorporated within the valuation model. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Fair value adjustments

	2022		2021	
	MSS	Corporate	MSS	Corporate
Type of adjustment	£m	£m	£m	£m
Risk-related	359	33	505	31
– bid-offer	188	–	190	–
– uncertainty	50	–	37	1
– credit valuation adjustment	98	29	99	26
– debt valuation adjustment	(64)	–	(27)	–
– funding fair value adjustment	87	4	206	4
– other	–	–	–	–
Model-related	31	–	19	–
– model limitation	31	–	19	–
– other	–	–	–	–
Inception profit (Day 1 P&L reserves)	64	–	65	–
At 31 Dec	**454**	**33**	589	31

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit and debit valuation adjustments

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default, and that the group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC may default, and that it may not pay the full market value of the transactions.

HSBC calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across the Group's entities.

HSBC calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of HSBC, to HSBC's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default.

Conversely, HSBC calculates the DVA by applying the PD of HSBC, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to HSBC and multiplying the result by the proportional loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products, HSBC uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty. The methodologies do not, in general, account for 'wrong-way risk', which arises when the underlying value of the derivative prior to any CVA is positively correlated to the PD of the counterparty. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplified set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for inception profit adjustments is discussed in Note 1.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial Investments £m	Held for trading £m	Designated and otherwise mandatorily measured at fair value through profit or loss £m	Derivatives £m	Total £m	Held for trading £m	Designated at fair value £m	Derivatives £m	Total £m
The group									
Private equity including strategic investments	**85**	**59**	**3,058**	**–**	**3,202**	**104**	**–**	**–**	**104**
Asset-backed securities	**275**	**170**	**78**	**–**	**523**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**2,461**	**–**	**2,461**
Derivatives	**–**	**–**	**–**	**1,737**	**1,737**	**–**	**–**	**2,478**	**2,478**
Other portfolios	**1,087**	**2,509**	**182**	**–**	**3,778**	**311**	**–**	**–**	**311**
At 31 Dec 2022	**1,447**	**2,738**	**3,318**	**1,737**	**9,240**	**415**	**2,461**	**2,478**	**5,354**
Private equity including strategic investments	79	1	2,898	–	2,978	7	–	–	7
Asset-backed securities	495	97	–	–	592	–	–	–	–
Structured notes	–	–	–	–	–	–	2,120	–	2,120
Derivatives	–	–	–	1,816	1,816	–	–	2,454	2,454
Other portfolios	813	1,246	273	–	2,332	573	1	–	574
At 31 Dec 2021	1,387	1,344	3,171	1,816	7,718	580	2,121	2,454	5,155
The bank									
Private equity including strategic investments	**54**	**58**	**272**	**–**	**384**	**103**	**–**	**–**	**103**
Asset-backed securities	**17**	**170**	**–**	**–**	**187**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**–**	**1,850**	**–**	**1,850**
Derivatives	**–**	**–**	**–**	**1,899**	**1,899**	**–**	**–**	**1,728**	**1,728**
Other portfolios	**–**	**1,931**	**–**	**–**	**1,931**	**300**	**–**	**9**	**309**
At 31 Dec 2022	**71**	**2,159**	**272**	**1,899**	**4,401**	**403**	**1,850**	**1,737**	**3,990**
Private equity including strategic investments	53	–	353	–	406	6	–	–	6
Asset-backed securities	–	97	–	–	97	–	–	–	–
Structured notes	–	–	–	–	–	–	1,563	–	1,563
Derivatives	–	–	–	1,952	1,952	–	–	2,722	2,722
Other portfolios	–	1,237	8	–	1,245	548	–	–	548
At 31 Dec 2021	53	1,334	361	1,952	3,700	554	1,563	2,722	4,839

Level 3 instruments are present in both ongoing and legacy businesses. Loans held for securitisation, certain derivatives and predominantly all Level 3 Asset-backed securities are legacy positions. HSBC has the capability to hold these positions.

Private equity including strategic investments

The investment's fair value is estimated: on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; the price at which similar companies have changed ownership; or from published net asset values ('NAVs') received. If necessary, adjustments are made to the NAV of funds to obtain the best estimate of fair value.

Asset-backed securities

While quoted market prices are generally used to determine the fair value of these securities, valuation models are used to substantiate the reliability of the limited market data available and to identify whether any adjustments to quoted market prices are required. For certain ABSs, such as residential mortgage-backed securities, the valuation uses an industry standard model with assumptions relating to prepayment speeds, default rates and loss severity based on collateral type, and performance, as appropriate. The valuations output is benchmarked for consistency against observable data for securities of a similar nature.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes, issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data, wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices through model calibration procedures or estimated from historical data or other sources.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	**Trading assets**	**Designated and otherwise mandatorily measured at fair value through profit or loss**	**Derivatives**	**Trading liabilities**	**Designated at fair value**	**Derivatives**
The group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2022	**1,387**	**1,344**	**3,171**	**1,816**	**580**	**2,121**	**2,454**
Total gains/(losses) on assets and total (gains)/losses on liabilities recognised in profit or loss	**(6)**	**(415)**	**(84)**	**564**	**(223)**	**(638)**	**723**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(415)**	**–**	**564**	**(223)**	**–**	**723**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**(84)**	**–**	**–**	**(638)**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**(6)**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	**(145)**	**12**	**238**	**3**	**1**	**29**	**17**
– financial investments: fair value gains/(losses)	**(232)**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**87**	**12**	**238**	**3**	**1**	**29**	**17**
Purchases	**601**	**2,067**	**562**	**–**	**151**	**–**	**–**
New issuances	**–**	**–**	**–**	**–**	**7**	**1,705**	**–**
Sales	**(142)**	**(716)**	**(594)**	**–**	**(120)**	**(78)**	**–**
Settlements	**(90)**	**(323)**	**(51)**	**(731)**	**(407)**	**(575)**	**(701)**
Transfers out	**(199)**	**(283)**	**(2)**	**(473)**	**(15)**	**(564)**	**(582)**
Transfers in	**41**	**1,052**	**78**	**558**	**441**	**461**	**567**
At 31 Dec 2022	**1,447**	**2,738**	**3,318**	**1,737**	**415**	**2,461**	**2,478**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2022	**–**	**(5)**	**49**	**565**	**2**	**30**	**2,339**
– trading income/(expense) excluding net interest income	**–**	**(5)**	**–**	**565**	**2**	**–**	**2,339**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**49**	**–**	**–**	**30**	**–**
At 1 Jan 2021	1,635	1,611	3,467	1,974	118	1,150	3,096
Total gains/(losses) on assets and total (gains)/losses on liabilities recognised in profit or loss	15	(77)	148	1,608	11	(316)	1,362
– net income from financial instruments held for trading or managed on a fair value basis	–	(77)	–	1,608	11	–	1,362
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	148	–	–	(316)	–
– gains less losses from financial investments at fair value through other comprehensive income	15	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	(75)	(4)	(152)	(6)	(1)	(32)	(8)
– financial investments: fair value gains/(losses)	(27)	–	–	–	–	–	–
– exchange differences	(48)	(4)	(152)	(6)	(1)	(32)	(8)
Purchases	555	686	543	–	742	1	–
New issuances	–	–	–	–	25	2,213	–
Sales	(417)	(209)	(813)	–	(3)	(20)	–
Settlements	(109)	(506)	(5)	(1,722)	(504)	(1,053)	(2,343)
Transfers out	(218)	(668)	(41)	(368)	(5)	(137)	(465)
Transfers in	1	511	24	330	197	315	812
At 31 Dec 2021	1,387	1,344	3,171	1,816	580	2,121	2,454
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	–	(11)	51	846	–	102	(721)
– trading income/(expense) excluding net interest income	–	(11)	–	846	–	–	(721)
– net income from other financial instruments designated at fair value	–	–	51	–	–	102	–

1 *Included in 'financial investments: fair value gains/(losses)' in the current year and 'exchange differences' in the consolidated statement of comprehensive income.*

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading Assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading Liabilities	Designated at fair value	Derivatives
The bank	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 Jan 2022	**53**	**1,334**	**361**	**1,952**	**554**	**1,563**	**2,722**
Total gains/(losses) on assets and total (gains)/losses on liabilities recognised in profit or loss	**2**	**(419)**	**(91)**	**665**	**(216)**	**(569)**	**45**
– net income from financial instruments held for trading or managed on a fair value basis	**–**	**(419)**	**–**	**665**	**(216)**	**–**	**45**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	**–**	**(91)**	**–**	**–**	**(569)**	**–**
– gains less losses from financial investments at fair value through other comprehensive income	**2**	**–**	**–**	**–**	**–**	**–**	**–**
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	**1**	**–**	**24**	**–**	**–**	**–**	**–**
– financial investments: fair value gains/(losses)	**1**	**–**	**–**	**–**	**–**	**–**	**–**
– exchange differences	**–**	**–**	**24**	**–**	**–**	**–**	**–**
Purchases	**–**	**1,495**	**–**	**–**	**151**	**–**	**–**
New issuances	**–**	**–**	**–**	**–**	**–**	**1,682**	**–**
Sales	**–**	**(659)**	**(12)**	**–**	**(120)**	**–**	**–**
Settlements	**–**	**(323)**	**(8)**	**(850)**	**(392)**	**(557)**	**(1,025)**
Transfers out	**–**	**(283)**	**(2)**	**(541)**	**(15)**	**(471)**	**(606)**
Transfers in	**15**	**1,014**	**–**	**673**	**441**	**202**	**601**
At 31 Dec 2022	**71**	**2,159**	**272**	**1,899**	**403**	**1,850**	**1,737**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2022	**–**	**–**	**–**	**688**	**–**	**19**	**3,020**
– trading income/(expense) excluding net interest income	**–**	**–**	**–**	**688**	**–**	**–**	**3,020**
– net income/(expense) from other financial instruments designated at fair value	**–**	**–**	**–**	**–**	**–**	**19**	**–**
At 1 Jan 2021	141	1,583	311	2,032	103	651	3,287
Total gains/(losses) on assets and total (gains)/losses on liabilities recognised in profit or loss	1	(76)	77	1,730	12	(246)	1,443
– net income from financial instruments held for trading or managed on a fair value basis	–	(76)	–	1,730	12	–	1,443
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	–	–	77	–	–	(246)	–
– gains less losses from financial investments at fair value through other comprehensive income	1	–	–	–	–	–	–
Total gains/(losses) recognised in other comprehensive income ('OCI')[1]	(1)	(3)	(11)	–	–	–	–
– financial investments: fair value gains/(losses)	(1)	–	–	–	–	–	–
– exchange differences	–	(3)	(11)	–	–	–	–
Purchases	–	683	2	–	741	–	–
New issuances	–	–	–	–	–	2,128	–
Sales	(2)	(186)	(13)	–	–	–	–
Settlements	(3)	(505)	(5)	(1,778)	(494)	(950)	(2,297)
Transfers out	(83)	(668)	–	(375)	(5)	(153)	(511)
Transfers in	–	506	–	343	197	133	800
At 31 Dec 2021	53	1,334	361	1,952	554	1,563	2,722
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2021	–	(11)	1	973	–	46	(949)
– trading income/(expense) excluding net interest income	–	(11)	–	973	–	–	(949)
– net income from other financial instruments designated at fair value	–	–	1	–	–	46	–

1 *Included in 'financial investments: fair value gains/(losses)' in the current year and 'exchange differences' in the consolidated statement of comprehensive income.*

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	2022				2021			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
The group	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives, trading assets and trading liabilities[1]	201	(261)	—	—	92	(70)	—	—
Designated and otherwise mandatorily measured at fair value through profit or loss	236	(235)	—	—	247	(247)	—	—
Financial investments	9	(9)	27	(19)	15	(15)	51	(50)
Year ended 31 Dec	446	(505)	27	(19)	354	(332)	51	(50)
The bank								
Derivatives, trading assets and trading liabilities[1]	193	(253)	—	—	93	(72)	—	—
Designated and otherwise mandatorily measured at fair value through profit or loss	45	(45)	—	—	64	(64)	—	—
Financial investments	—	—	14	(6)	0	—	6	(5)
Year ended 31 Dec	238	(298)	14	(6)	157	(136)	6	(5)

1 Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these instruments are risk managed.

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	2022				2021			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes	Favourable changes	Un-favourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Private equity including strategic investments	225	(389)	8	(7)	232	(234)	7	(7)
Asset-backed securities	28	(17)	12	(5)	39	(20)	1	—
Structured notes	5	(5)	—	—	6	(6)	—	—
Derivatives	44	(44)	—	—	29	(34)	—	—
Other portfolios	144	(50)	7	(7)	48	(38)	43	(43)
Total	446	(505)	27	(19)	354	(332)	51	(50)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value				2022		2021	
					Full range of inputs		Full range of inputs	
	Assets £m	Liabilities £m	Valuation techniques	Key unobservable inputs	Lower	Higher	Lower	Higher
Private equity including strategic investments	3,202	104	See below	See below	N/A	N/A	N/A	N/A
Asset-backed securities	523	–						
– CLO/CDO[1]	156	–	Market proxy	Bid quotes	–	92	–	100
– Other ABSs	367	–	Market proxy	Bid quotes	–	99	–	100
Structured notes	–	2,461						
– equity-linked notes	–	2,042	Model – Option model	Equity Volatility	6%	99%	6%	124%
				Equity Correlation	32%	99%	34%	99%
– fund-linked notes	–	–	Model – Option model	Fund Volatility				
– FX-linked notes	–	3	Model – Option model	FX Volatility	3%	20%	3%	99%
– other	–	416						
Derivatives	1,737	2,478						
– Interest rate derivatives:	507	633						
securitisation swaps	215	173	Model – Discounted cash flow	Constant Prepayment	5%	10%	5%	50%
long-dated swaptions	44	56	Model – Option model	IR Volatility	9%	33%	15%	35%
other	248	404						
– FX derivatives:	447	304						
FX options	418	294	Model – Option model	FX Volatility	3%	46%	2%	99%
other	29	10						
– Equity derivatives:	688	1,324						
long-dated single stock options	344	376	Model – Option model	Equity Volatility	7%	153%	4%	138%
other[2]	344	948						
– Credit derivatives:	95	217						
other	95	217						
Other portfolios	3,778	311						
– repurchase agreements	387	272	Model – Discounted cash flow	IR Curve	1%	9%	1%	5%
– other[3]	3,391	39						
At 31 Dec	9,240	5,354						

1 *Collateralised loan obligation/collateralised debt obligation.*
2 *Other Equity Derivatives consists mainly of Swaps and OTC Options.*
3 *Other consists of various instruments including investment in funds, repurchase agreement and bonds.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs. The key unobservable inputs would be price and correlation. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available, but there is evidence from instruments with common characteristics. In some cases, it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC portfolio will depend on HSBC's net risk position in respect of each variable.

12 Fair values of financial instruments not carried at fair value

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

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
The group	£m	£m	£m	£m	£m
At 31 Dec 2022					
Assets					
Loans and advances to banks	**17,109**	**–**	**17,112**	**–**	**17,112**
Loans and advances to customers	**72,614**	**–**	**–**	**72,495**	**72,495**
Reverse repurchase agreements – non-trading	**53,949**	**–**	**53,949**	**–**	**53,949**
Financial investments – at amortised cost	**3,248**	**2,336**	**848**	**8**	**3,192**
Liabilities					
Deposits by banks	**20,836**	**–**	**20,900**	**–**	**20,900**
Customer accounts	**215,948**	**–**	**215,955**	**–**	**215,955**
Repurchase agreements – non-trading	**32,901**	**–**	**32,901**	**–**	**32,902**
Debt securities in issue	**7,268**	**–**	**7,124**	**132**	**7,256**
Subordinated liabilities	**14,528**	**–**	**14,434**	**–**	**14,434**
At 31 Dec 2021					
Assets					
Loans and advances to banks	10,784	–	10,786	–	10,786
Loans and advances to customers	91,177	–	–	91,276	91,276
Reverse repurchase agreements – non-trading	54,448	–	54,448	–	54,448
Financial investments – at amortised cost	10	2	–	8	10
Liabilities					
Deposits by banks	32,188	–	32,102	–	32,102
Customer accounts	205,241	–	205,236	–	205,236
Repurchase agreements – non-trading	27,259	–	27,259	–	27,259
Debt securities in issue	9,428	–	9,286	144	9,430
Subordinated liabilities	12,488	–	13,118	–	13,118

Fair values of selected financial instruments not carried at fair value and bases of valuation – assets and disposal groups held for sale

		Fair value			
	Carrying amount	Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	$m	$m	$m	$m	$m
At 31 Dec 2022					
Assets					
Loans and advances to banks	**127**	**–**	**131**	**–**	**131**
Loans and advances to customers	**21,067**	**–**	**–**	**19,481**	**19,481**
Reverse repurchase agreements – non-trading	**208**	**–**	**208**	**–**	**208**
Liabilities					
Deposits by banks	**2**	**–**	**2**	**–**	**2**
Customer accounts	**20,478**	**–**	**20,393**	**–**	**20,393**
Debt securities in issue	**1,100**	**–**	**1,100**	**–**	**1,100**

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

		Fair value			
The bank	Carrying amount £m	Quoted market price Level 1 £m	Observable inputs Level 2 £m	Significant unobservable inputs Level 3 £m	Total £m
At 31 Dec 2022					
Assets					
Loans and advances to banks	**14,486**	–	**14,508**	–	**14,508**
Loans and advances to customers	**36,992**	–	–	**36,875**	**36,875**
Reverse repurchase agreements – non-trading	**43,055**	–	**43,055**	–	**43,055**
Financial investments – at amortised cost	**6,378**	**1,984**	**4,305**	–	**6,289**
Liabilities					
Deposits by banks	**13,594**	–	**13,594**	–	**13,594**
Customer accounts	**141,714**	–	**141,714**	–	**141,714**
Repurchase agreements – non-trading	**29,638**	–	**29,638**	–	**29,638**
Debt securities in issue	**4,656**	–	**4,656**	–	**4,656**
Subordinated liabilities	**14,252**	–	**14,139**	–	**14,139**
At 31 Dec 2021					
Assets					
Loans and advances to banks	6,778	–	6,881	–	6,881
Loans and advances to customers	33,936	–	–	33,921	33,921
Reverse repurchase agreements – non-trading	39,708	–	39,708	–	39,708
Financial investments – at amortised cost[1]	3,337	–	3,300	–	3,300
Liabilities					
Deposits by banks	14,655	–	14,655	–	14,655
Customer accounts	124,706	–	124,706	–	124,706
Repurchase agreements – non-trading	22,344	–	22,344	–	22,344
Debt securities in issue	5,658	–	5,658	–	5,658
Subordinated liabilities	12,218	–	12,851	–	12,851

1 *Fair value of Financial investment is represented to include the impact of inter-company.*

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

Valuation

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that HSBC expects to flow from an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that HSBC believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments. When quoted market prices are unavailable, these instruments are valued using valuation techniques, the inputs for which are derived from observable market data and, where relevant, from assumptions in respect of unobservable inputs.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as balances are generally short dated.

13 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	The group		The bank	
	2022	2021	2022	2021
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value
	£m	£m	£m	£m
Securities	14,581	15,738	318	418
– debt securities	1,975	2,584	44	146
– equity securities	12,606	13,154	274	272
Loans and advances to banks and customers	971	2,613	971	2,498
Other	329	298	329	299
At 31 Dec	15,881	18,649	1,618	3,215

14 Derivatives

Notional contract amounts and fair values of derivatives by product contract type

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The group	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	6,101,153	582	88,244	2	88,246	(86,119)	(57)	(86,176)
Interest rate	10,141,018	56,144	206,689	433	207,122	(201,419)	(819)	(202,238)
Equities	465,626	–	7,751	–	7,751	(8,175)	–	(8,175)
Credit	146,522	–	865	–	865	(1,012)	–	(1,012)
Commodity and other	57,594	–	1,053	–	1,053	(1,065)	–	(1,065)
Offset (Note 28)					(79,799)			79,799
At 31 Dec 2022	16,911,913	56,726	304,602	435	225,238	(297,790)	(876)	(218,867)
Foreign exchange	4,737,254	4,045	49,775	266	50,041	(48,613)	(67)	(48,680)
Interest rate	8,727,934	39,553	99,744	144	99,888	(96,297)	(270)	(96,567)
Equities	498,980	–	9,718	–	9,718	(11,881)	–	(11,881)
Credit	134,440	–	1,582	–	1,582	(2,159)	–	(2,159)
Commodity and other	42,677	–	681	–	681	(770)	–	(770)
Offset (Note 28)					(20,689)			20,689
At 31 Dec 2021	14,141,285	43,598	161,500	410	141,221	(159,720)	(337)	(139,368)

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative asset and liability fair values increased during 2022, driven by yield curve movements and changes in foreign exchange rates.

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
The bank	£m	£m	£m	£m	£m	£m	£m	£m
Foreign exchange	6,049,682	582	87,459	2	87,461	(84,885)	(56)	(84,941)
Interest rate	7,665,449	33,408	158,492	244	158,736	(157,315)	(780)	(158,095)
Equities	439,588	–	7,626	–	7,626	(7,325)	–	(7,325)
Credit	144,972	–	847	–	847	(982)	–	(982)
Commodity and other	57,346	–	1,051	–	1,051	(1,000)	–	(1,000)
Offset					(59,007)			59,007
At 31 Dec 2022	14,357,037	33,990	255,475	246	196,714	(251,507)	(836)	(193,336)
Foreign exchange	4,713,729	3,829	48,651	247	48,898	(47,771)	(67)	(47,838)
Interest rate	6,846,965	27,206	80,798	193	80,991	(80,281)	(240)	(80,521)
Equities	478,832	–	9,153	–	9,153	(11,896)	–	(11,896)
Credit	132,582	–	1,558	–	1,558	(2,121)	–	(2,121)
Commodity and other	41,308	–	677	–	677	(765)	–	(765)
Offset					(15,490)			15,490
At 31 Dec 2021	12,213,416	31,035	140,837	440	125,787	(142,834)	(307)	(127,651)

Use of derivatives

We undertake derivatives activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business, and to manage and hedge our own risks.

Trading derivatives

Most of the group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume.

Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Substantially all of the group's derivatives entered into with subsidiaries are managed in conjunction with financial liabilities designated at fair value.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	The group		The bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Unamortised balance at 1 Jan	64	60	64	56
Deferral on new transactions	110	156	99	155
Recognised in the income statement during the year:	(111)	(152)	(107)	(147)
– amortisation	(59)	(88)	(56)	(88)
– subsequent to unobservable inputs becoming observable	—	(2)	—	(2)
– maturity, termination or offsetting derivative	(52)	(60)	(51)	(57)
– risk hedged	—	(2)	—	—
Exchange differences and other	1	—	—	—
Unamortised balance at 31 Dec[1]	64	64	56	64

1 *This amount is yet to be recognised in the consolidated income statement.*

Hedge accounting derivatives

The group applies hedge accounting to manage the following risks: interest rate and foreign exchange. The Report of the Directors – Risk presents more details on how these risks arise and how they are managed by the group.

Hedged risk components

HSBC designates a portion of cash flows of a financial instrument or a group of financial instruments for a specific interest rate or foreign currency risk component in a fair value or cash flow hedge. The designated risks and portions are either contractually specified or otherwise separately identifiable components of the financial instrument that are reliably measurable. Risk-free or benchmark interest rates generally are regarded as being both separately identifiable and reliably measurable, except for the IBOR Reform transition where HSBC designates Alternative Benchmark Rates as the hedged risk which may not have been separately identifiable upon initial designation, provided HSBC reasonably expects it will meet the requirement within 24 months from the first designation date. The designated risk component accounts for a significant portion of the overall changes in fair value or cash flows of the hedged item(s).

Fair value hedges

The group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Hedging instrument by hedged risk

	Hedging instrument				
		Carrying amount			
The group	Notional amount[1]	Assets	Liabilities		Change in fair value[2]
Hedged risk	£m	£m	£m	Balance sheet presentation	£m
Interest rate[3]	26,649	428	(799)	Derivatives	981
At 31 Dec 2022	26,649	428	(799)		981
Interest rate[3]	24,486	139	(270)	Derivatives	159
At 31 Dec 2021	24,486	139	(270)		159

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

The group	Hedged item					Ineffectiveness		
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
Hedged risk	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Balance sheet presentation	Change in fair value[1] £m	Recognised in profit and loss £m	Profit and loss presentation
Interest rate[3]	**15,446**	**–**	**(1,095)**	**–**	**Financial assets at fair value through other comprehensive income**	**(1,850)**		**Net income from financial instruments held for trading or managed on a fair value basis**
	–	**–**	**–**	**–**	**Loans and advances to banks**	**–**		
	713	**–**	**(31)**	**–**	**Loans and advances to customers**	**(40)**	**31**	
	431	**–**	**(15)**	**–**	**Reverse Repos**	**(14)**		
	–	**1,576**	**–**	**(169)**	**Debt securities in issue**	**398**		
	–	**5,686**	**–**	**(659)**	**Subordinated liabilities and deposits by banks[4]**	**556**		
At 31 Dec 2022	**16,590**	**7,262**	**(1,141)**	**(828)**		**(950)**	**31**	
Interest rate[3]	14,099	–	167	–	Financial assets at fair value through other comprehensive income	(278)		Net income from financial instruments held for trading or managed on a fair value basis
	1	–	(2)	–	Loans and advances to banks	(2)		
	997	–	7	–	Loans and advances to customers	(16)	(9)	
	–	2,844	–	71	Debt securities in issue	24		
	–	5,841	–	(77)	Subordinated liabilities and deposits by banks[4]	104		
At 31 Dec 2021	15,097	8,685	172	(6)		(168)	(9)	

1 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
2 The accumulated amounts of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were £10m (2021: £21m) for 'Financial assets at fair value through other comprehensive income', is nil (2021: nil) for 'Deposits by banks' and £13m (2021: £19m) for 'Debt securities in issue'.
3 The hedged risk 'interest rate' includes inflation risk.
4 The notional amount of non-dynamic fair value hedges was £6,312m (2021: £5,886m) of which the weighted-average maturity is March 2026 and the weighted average swap rate is 0.06% (2021: 0.06%) (negative). £6,312m (2021: £5,886m) of these hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.

Hedging instrument by hedged risk

The bank	Hedging instrument				
		Carrying amount			
Hedged risk	Notional amount[1] £m	Assets £m	Liabilities £m	Balance sheet presentation	Change in fair value[2] £m
Interest rate[3]	**18,391**	**242**	**(773)**	**Derivatives**	**466**
At 31 Dec 2022	**18,391**	**242**	**(773)**		**466**
Interest rate[3]	18,016	188	(234)	Derivatives	27
At 31 Dec 2021	18,016	188	(234)		27

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 The hedged risk 'interest rate' includes inflation risk.

Hedged item by hedged risk

The bank	Hedged item					Ineffectiveness		
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
Hedged risk	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Balance sheet presentation	Change in fair value[1] £m	Recognised in profit and loss £m	Profit and loss presentation
Interest rate[3]	**9,072**	**–**	**(642)**	**–**	**Financial assets at fair value through other comprehensive income**	**(1,389)**		**Net income from financial instruments held for trading or managed on a fair value basis**
	7	**–**	**3**	**–**	**Loans and advances to customers**	**–**	**31**	
	–	**–**	**–**	**–**	**Reverse Repos**	**–**		
	–	**1,576**	**–**	**(169)**	**Debt securities in issue**	**398**		
	–	**5,653**	**–**	**(659)**	**Subordinated liabilities and deposits by banks[4]**	**556**		
At 31 Dec 2022	**9,079**	**7,229**	**(639)**	**(828)**		**(435)**	**31**	

Hedged item by hedged risk (continued)

The bank	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m	£m		£m	£m	
Interest rate[3]	9,232	—	159	—	Financial assets at fair value through other comprehensive income	(163)	(8)	Net income from financial instruments held for trading or managed on a fair value basis
	6	—	—	—	Loans and advances to customers	—		
	—	2,844	—	71	Debt securities in issue	24		
	—	5,810	—	(77)	Subordinated liabilities and deposits by banks[4]	104		
At 31 Dec 2021	9,238	8,654	159	(6)		(35)	(8)	

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The accumulated amounts of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were £10m (2021: £21m) for 'Financial assets at fair value through other comprehensive income', nil (2021: nil) for 'Deposits by banks' and £13m (2021: £19m) for 'Debt securities in issue'.*
3 *The hedged risk 'interest rate' includes inflation risk.*
4 *The notional amount of non-dynamic fair value hedges was £6,312m (2021: £5,886m), of which the weighted-average maturity is March 2026 and the weighted average swap rate is 0.06% (2021: 0.06%) (negative). Those hedges are internal to HSBC Group and composed by internal funding between HSBC Holdings and the group.*

Cash flow hedges

The group's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

The group applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross-currency swaps; these are considered dynamic hedges.

Hedging instrument by hedged risk[4]

The group	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m		£m	£m	£m	
Foreign exchange	**582**	**2**	**(57)**	**Derivatives**	**(84)**	**(84)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**29,495**	**5**	**(20)**		**(1,345)**	**(1,334)**	**(11)**	
At 31 Dec 2022	**30,077**	**7**	**(77)**		**(1,429)**	**(1,418)**	**(11)**	
Foreign exchange	4,042	266	(67)	Derivatives	127	127	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	15,067	5	(2)		(178)	(167)	(11)	
At 31 Dec 2021	19,109	271	(69)		(51)	(40)	(11)	

The bank	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	£m	£m	£m		£m	£m	£m	
Foreign exchange	**582**	**2**	**(56)**	**Derivatives**	**(84)**	**(84)**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**15,017**	**2**	**(7)**		**(1,021)**	**(1,021)**	**—**	
At 31 Dec 2022	**15,599**	**4**	**(63)**		**(1,105)**	**(1,105)**	**—**	

Hedging instrument by hedged risk[4] (continued)

The bank	Hedging instrument					Hedged item	Ineffectiveness	
		Carrying amount						
Hedged risk	Notional amount[1] £m	Assets £m	Liabilities £m	Balance sheet presentation	Change in fair value[2] £m	Change in fair value[3] £m	Recognised in profit and loss £m	Profit and loss presentation
Foreign exchange	3,829	247	(67)	Derivatives	127	127	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	9,190	5	(2)	Derivatives	(119)	(116)	(3)	Net income from financial instruments held for trading or managed on a fair value basis
At 31 Dec 2021	13,019	252	(69)		8	11	(3)	

1 The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.
2 Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.
3 Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.
4 The amounts in the above table predominantly represent the bank's exposure.

Sources of hedge ineffectiveness may arise from basis risk including, but not limited to timing differences between the hedged items and hedging instruments, and hedges using instruments with a non-zero fair value.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate £m	Foreign exchange £m
Cash flow hedging reserve at 1 Jan 2022	**32**	**(39)**
Fair value (losses)/gains	**(1,334)**	**(84)**
Fair value (gains) reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	**53**	**74**
Income taxes	**348**	**—**
Cash flow hedging reserve at 31 Dec 2022	**(901)**	**(49)**
Cash flow hedging reserve at 1 Jan 2021	147	11
Fair value gains/(losses)	(167)	127
Fair value (gains)/losses reclassified from cash flow hedge reserve to income statement in respect of:		
– hedged items that have affected profit or loss	(25)	(177)
Income taxes	77	—
Cash flow hedging reserve at 31 Dec 2021	32	(39)

Interest rate benchmark reform: amendments to IFRS 9 and IAS 39 'Financial Instruments'

HSBC has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'. The notional value of the derivatives impacted by the Ibors reform, including those designated in hedge accounting relationships, is disclosed on page 31 in the section 'Financial instruments impacted by the Ibor reform'. For further details of Ibor transition, see 'Top and emerging risks' on page 28.

During 2022, the group transitioned all of its hedging instruments referencing sterling Libor, European Overnight Index Average rate ('Eonia') and Japanese yen Libor. The group also transitioned some of the hedging instruments referencing US dollar Libor. There is no significant judgement applied for these benchmarks to determine whether and when the transition uncertainty has been resolved.

The most significant Ibor benchmark in which the group continues to have hedging instruments is US dollar Libor. The transition out of US dollar Libor hedging derivatives has been largely completed by the end of 2022. These transitions do not necessitate new approaches compared with any of the mechanisms used so far for transition and it will not be necessary to change the transition risk management strategy.

For some of the Ibors included under the 'Other' header, in the table below, judgment has been needed to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instrument impacted by Ibor Reform

	Hedging instrument						
	Impacted by Ibor Reform					NOT Impacted by Ibor Reform	Notional Amount[1]
	EUR[2]	GBP	USD	Other[3]	Total		
	£m	£m	£m	£m	£m	£m	£m
The group							
Fair Value Hedges	7,581	–	225	105	7,911	18,738	26,649
Cash Flow Hedges	7,359	–	–	–	7,359	22,136	29,495
At 31 Dec 2022	14,940	–	225	105	15,270	40,874	56,144
Fair Value Hedges	6,407	–	336	124	6,867	17,619	24,486
Cash Flow Hedges	5,877	–	–	–	5,877	9,190	15,067
At 31 Dec 2021	12,284	–	336	124	12,744	26,809	39,553
The bank							
Fair Value Hedges	5,184	–	4	104	5,292	13,099	18,391
Cash Flow Hedges	–	–	–	–	–	15,017	15,017
At 31 Dec 2022	5,184	–	4	104	5,292	28,116	33,408
Fair Value Hedges	4,920	–	6	124	5,050	12,966	18,016
Cash Flow Hedges	–	–	–	–	–	9,190	9,190
At 31 Dec 2021	4,920	–	6	124	5,050	22,156	27,206

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *The notional contract amounts of euro interest rate derivatives impacted by Ibor reform mainly comprise hedges with a Euribor benchmark, which are Fair value hedges of £7,581m (31 Dec 2021: £6,407m) and Cash flow hedges £7,359m (31 Dec 2021: £5,877m).*
3 *Other benchmarks impacted by Ibor reform comprise derivatives that are expected to transition, but do not have a published cessation date.*

15 Financial investments

Carrying amount of financial investments

	The group		The bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Financial investments measured at fair value through other comprehensive income	29,356	41,290	12,261	23,205
– treasury and other eligible bills	1,447	2,229	693	1,441
– debt securities	27,710	38,924	11,514	21,711
– equity securities	109	103	54	53
– other instruments[1]	90	34	–	–
Debt instruments measured at amortised cost	3,248	10	6,378	3,337
– treasury and other eligible bills	1,030	2	976	–
– debt securities[2]	2,218	8	5,402	3,337
At 31 Dec	32,604	41,300	18,639	26,542

1 *'Other instruments' are comprised of loans and advances.*
2 *The £4.2bn (2021: £3.3bn) of debt securities in the bank relates to Senior Non-Preferred debt issued by HSBC Continental Europe to comply with Single Resolution Board requirements on Minimum Required Eligible Liabilities.*

Equity instruments measured at fair value through other comprehensive income

	Instruments held at year end	
	Fair value	Dividends recognised
Type of equity instruments	£m	£m
Business facilitation	77	–
Investments required by central institutions	31	–
Others	1	–
At 31 Dec 2022	109	–
Business facilitation	76	–
Investments required by central institutions	26	–
Others	1	–
At 31 Dec 2021	103	–

16 Assets pledged, collateral received and assets transferred

Assets pledged[1]

Financial assets pledged as collateral

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Treasury bills and other eligible securities	**1,649**	990	**877**	990
Loans and advances to banks	**3,300**	—	**3,300**	—
Loans and advances to customers	**4,996**	18,403	**—**	—
Debt securities	**17,407**	20,247	**9,699**	11,415
Equity securities	**25,408**	23,612	**25,014**	25,452
Cash collateral	**45,034**	29,963	**32,255**	22,961
Other	**330**	298	**329**	298
Assets pledged at 31 Dec	**98,124**	93,513	**71,474**	61,116

Financial assets pledged as collateral which the counterparty has the right to sell or repledge

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Trading assets	**38,896**	39,594	**32,371**	35,311
Financial investments	**3,588**	1,436	**1,974**	542
At 31 Dec	**42,484**	41,030	**34,345**	35,853

Assets pledged as collateral includes all assets categorised as encumbered in the disclosure on page 84 except for assets held for sale.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The group places both cash and non-cash collateral in relation to derivative transactions.

Collateral received[1]

The fair value of assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that the group is permitted to sell or repledge in the absence of default was £180,233m (2021: £202,794m) (the bank: 2022: £154,376m; 2021: £167,737m). The fair value of any such collateral sold or repledged was £136,777m (2021: £151,378m) (the bank: 2022: £113,917m; 2021: £120,436m).

The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred[1]

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet.

Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	**Associated liabilities**
The group	**£m**	**£m**
At 31 Dec 2022		
Repurchase agreements	**13,349**	**13,371**
Securities lending agreements	**29,171**	**3,442**
At 31 Dec 2021		
Repurchase agreements	11,710	11,732
Securities lending agreements	29,321	2,129

1 Excludes assets classified as held for sale.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
The bank	£m	£m
At 31 Dec 2022		
Repurchase agreements	**5,795**	**5,795**
Securities lending agreements	**28,550**	**3,467**
At 31 Dec 2021		
Repurchase agreements	4,489	4,488
Securities lending agreements	31,365	2,132

17 Interests in associates and joint ventures

Principal associates of the group and the bank

Business Growth Fund Group plc ('BGF') is a principal associate of the group. BGF is an independent company, established in 2011 to provide investment to growing small to medium-sized British businesses. BGF is backed by five of the UK's main banking groups: Barclays, HSBC, Lloyds, RBS and Standard Chartered. At 31 Dec 2022, the group had a 24.62% interest in the equity capital of BGF. Share of (Loss)/profit in BGF is £(22)m (2021: £192m; 2020: £5m) and carrying amount of interest in BGF is £673m (2021: £702m; 2020: £471m).

Interests in joint ventures

A list of all associates is set out on page 189.

18 Investments in subsidiaries

Main subsidiaries of HSBC Bank plc[1]

	At 31 Dec 2022		
	Country of incorporation or registration	HSBC Bank plc's interest in equity capital %	Share class
HSBC Investment Bank Holdings Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Life (UK) Limited	**England and Wales**	**100.00**	**£1 Ordinary**
HSBC Trinkaus & Burkhardt GmbH	**Germany**	**99.99**	**€1 Ordinary**
HSBC Continental Europe	**France**	**99.99**	**€5 Actions**
HSBC Bank Malta p.l.c	**Malta**	**70.03**	**€0.3 Ordinary**

1 *Main subsidiaries are either held directly or indirectly via intermediate holding companies.*

All the above prepare their financial statements up to 31 December. Details of all group subsidiaries, as required under Section 409 of the Companies Act 2006, are set out in Note 36. The principal countries of operation are the same as the countries of incorporation.

Impairment testing of investments in subsidiaries

At each reporting period end, HSBC Bank plc reviews investments in subsidiaries for indicators of impairment. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use, in accordance with the requirements of IAS 36. The value in use is calculated by discounting management's cash flow projections for the investment.

The cash flows represent the Free Cash Flows ('FCF') based on the subsidiary's binding capital requirements.

- The cash flow projections for each investment are based on the latest approved plans, which includes forecast capital available for distribution based on the capital requirements of the subsidiary taking into account minimum and core capital requirements. Our cash flow projections include known climate-related opportunities and costs associated with our sustainable offering. A long term growth rate is used to extrapolate the free cash flows in perpetuity.
- The growth rate reflects inflation for the country within which the investment operates and is based on the long-term average growth rates.
- The rate used to discount the cash flows is based on the cost of capital assigned to each investment, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each investment are refined to reflect the rates of inflation for the countries within which the investment operates. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets.

During 2022, an additional investment of £3.4bn is made in HSBC Continental Europe. Further, an impairment reversal of £2bn was recognised in the fourth quarter as a result of the impairment test performed which relates to the investment in subsidiary i.e. HSBC Continental Europe. This was due to updates to inputs and assumptions in the model used to estimate value-in-use ('VIU') and increase in forecast free cash flows, resulting from acquisition of HSBC Bank Malta plc and HSBC Trinkaus & Burkhardt GmbH as well as interest rates rise in the Eurozone. No investments in subsidiaries were impaired or reversed in 2021. There is no impact on the group financial statement due to these transactions.

Impairment test results

Investments	Carrying amount	Value in use	Discount rate	Long-term growth rate	Headroom
HSBC Continental Europe	£m	£m	%	%	£m
At 31 Dec 2022	**7,743**	**11,507**	**9.95**	**1.56**	**3,764**
At 31 Dec 2021	4,331	4,429	8.34	1.53	98

Sensitivities of key assumptions in calculating VIU

At 31 December 2022, the investment in HSBC Continental Europe was sensitive to reasonably possible changes in the key assumptions supporting the recoverable amount.

In making an estimate of reasonably possible changes to assumptions, management considers the available evidence in respect of each input to the model. These include the external range of observable discount rates, historical performance against forecast, and risks attaching to the key assumptions underlying cash flow projections.

The following table presents a summary of the key assumptions underlying the most sensitive inputs to the model for HSBC Continental Europe, the key risks attaching to each, and details of a reasonably possible change to assumptions where, in the opinion of management, there is a sufficient headroom to cover the changes which could not result in an impairment.

Reasonably possible changes in key assumptions

Investment	Input	Key assumptions	Associated risks	Reasonably possible change
HSBC Continental Europe	Free Cash Flows projections	• Level of interest rates and yield curves. • Competitors' positions within the market. • Level and change in unemployment rates.	• Customer remediation and regulatory actions. • Achievement of strategic actions relating to revenue and costs.	• FCF projections decrease by 10% . • Achievement of revenue and cost targets.
	Discount rate	• Discount rate used is a reasonable estimate of a suitable market rate for the profile of the business.	• External evidence arises to suggest that the rate used is not appropriate to the business.	• Discount rate increases by 1%.

Sensitivity of VIU to reasonably possible changes in key assumptions and changes to current assumptions to reduce headroom to nil

			Increase/(decrease)	
Investments	**Carrying amount**	**Value in use**	**Discount rate**	**Free Cash flows**
At 31 Dec 2022	£m	£m	bps	%
HSBC Continental Europe	**7,743**	**11,507**	**614**	**(33.3)**

19 Structured entities

The group is mainly involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits and investment funds, established either by the group or a third party.

Consolidated structured entities

Total assets of the group's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC managed funds	Other	Total
	£m	£m	£m	£m	£m
At 31 Dec 2022	**3,479**	**192**	**3,981**	**463**	**8,115**
At 31 Dec 2021	3,233	287	4,653	568	8,741

Conduits

The group has established and manages two types of conduits: securities investment conduits ('SICs') and multi-seller conduits.

Securities investment conduits

The SICs purchase highly rated ABSs to facilitate tailored investment opportunities.

At 31 Dec 2022, Solitaire, the group's principal SIC held £1.1bn of ABSs (2021: £1.2bn). It is currently funded entirely by commercial paper ('CP') issued to the group. At 31 Dec 2022, the group held £1.3bn of CP (2021: £1.3bn).

Multi-seller conduits

The group's multi-seller conduit was established to provide access to flexible market-based sources of finance for its clients. Currently, the group bears risk equal to transaction-specific facility offered to the multi-seller conduits, amounting to £4.7bn at 31 December 2022 (2021: £4.6bn). First loss protection is provided by the originator of the assets, and not by the group, through transaction-specific credit enhancements. A layer of secondary loss protection is provided by the group in the form of programme-wide enhancement facilities.

Securitisations

The group uses structured entities to securitise customer loans and advances it originates in order to diversify the sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entities for cash or synthetically through credit default swaps, and the structured entities issue debt securities to investors.

HSBC managed funds

The group together with other HSBC entities has established a number of money market and non-money market funds. Where it is deemed to be acting as principal rather than agent in its role as investment manager, the group controls these funds.

Other

The group has entered into a number of transactions in the normal course of business, which include asset and structured finance transactions where it has control of the structured entity. In addition, the group is deemed to control a number of third-party managed funds through its involvement as a principal in the funds.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

Nature and risks associated with the group's interests in unconsolidated structured entities

	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
Total asset values of the entities (£m)					
0 – 400	**2**	**155**	**966**	**12**	**1,135**
400 – 1,500	**1**	**55**	**757**	**1**	**814**
1,500 – 4,000	**—**	**19**	**304**	**—**	**323**
4,000 – 20,000	**—**	**16**	**155**	**—**	**171**
20,000+	**—**	**3**	**14**	**—**	**17**
Number of entities at 31 Dec 2022	**3**	**248**	**2,196**	**13**	**2,460**
	£m	**£m**	**£m**	**£m**	**£m**
Total assets in relation to the group's interests in the unconsolidated structured entities	**220**	**4,671**	**4,425**	**925**	**10,241**
– trading assets	**—**	**1**	**104**	**—**	**105**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**4,665**	**3,869**	**—**	**8,534**
– loans and advances to banks	**—**	**—**	**—**	**—**	**—**
– loans and advances to customers	**220**	**—**	**452**	**497**	**1,169**
– financial investments	**—**	**5**	**—**	**—**	**5**
– other assets	**—**	**—**	**—**	**428**	**428**
Total liabilities in relation to the group's interests in the unconsolidated structured entities	**—**	**4**	**—**	**—**	**4**
Other off-balance sheet commitments	**34**	**—**	**571**	**24**	**629**
The group's maximum exposure at 31 Dec 2022	**254**	**4,667**	**4,996**	**949**	**10,866**
Total asset values of the entities (£m)					
0 – 400	2	157	1,194	14	1,367
400 – 1,500	—	81	774	—	855
1,500 – 4,000	—	16	354	—	370
4,000 – 20,000	—	12	149	—	161
20,000+	—	2	9	—	11
Number of entities at 31 Dec 2021	2	268	2,480	14	2,764
	£m	£m	£m	£m	£m
Total assets in relation to the group's interests in the unconsolidated structured entities	193	4,414	5,225	631	10,463
– trading assets	—	1	1,807	—	1,808
– financial assets designated at fair value	—	4,409	3,273	—	7,682
– loans and advances to customers	193	—	49	631	873
– financial investments	—	4	96	—	100
– other assets	—	—	—	—	—
Total liabilities in relation to group's interests in the unconsolidated structured entities	—	—	2	—	2
Other off-balance sheet commitments	20	4	916	38	978
The group's maximum exposure at 31 Dec 2021	213	4,418	6,139	669	11,439

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

Securitisations

The group has interests in unconsolidated securitisation vehicles through holding notes issued by these entities. In addition, the group has investments in ABSs issued by third-party structured entities.

HSBC managed funds

The group together with other HSBC entities establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities. The group, as fund manager, may be entitled to receive management and performance fees based on the assets under management. The group may also retain units in these funds.

Non-HSBC managed funds

The group purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs.

Other

The group has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions.

In addition to the interests disclosed above, the group enters into derivative contracts, reverse repos and stock borrowing transactions with structured entities. These interests arise in the normal course of business for the facilitation of third-party transactions and risk management solutions.

Group sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2022 and 2021 was not significant.

20 Goodwill and intangible assets

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Goodwill	**—**	—	**19**	19
Present value of in-force long-term insurance business	**1,076**	811	**—**	—
Other intangible assets[1]	**91**	83	**22**	15
At 31 Dec	**1,167**	894	**41**	34

1 Included within the group's other intangible assets is internally generated software with a net carrying value of £87m (2021: £77m). During 2022, capitalisation of internally generated software was £47m (2021: £46m), impairment was £21m (2021: £45m) and amortisation was £34m (2021: £15m).

Present value of in-force long-term insurance business

When calculating the present value of in-force long-term ('PVIF') insurance business, expected cash flows are projected after adjusting for a variety of assumptions made by each insurance operation to reflect local market conditions and management's judgement of future trends and uncertainty in the underlying assumptions is reflected by applying margins (as opposed to a cost of capital methodology) including valuing the cost of policyholder options and guarantees using stochastic techniques.

Financial reporting Committees of each key insurance entity meet on a quarterly basis to review and approve PVIF assumptions. All changes to non-economic assumptions, economic assumptions that are not observable and model methodology must be approved by the Financial Reporting Committee.

Movements in PVIF

	2022	2021
	£m	£m
PVIF at 1 Jan	**811**	647
Change in PVIF of long-term insurance business	**226**	200
– value of new business written during the year	**79**	67
– expected return[1]	**(53)**	(70)
– assumption changes and experience variances[2,3] (see below)	**200**	202
– other adjustments	**—**	1
Exchange differences	**39**	(36)
PVIF at 31 Dec	**1,076**	811

1 'Expected return' represents the unwinding of the discount rate and reversal of expected cash flows for the period.

2 Represents the effect of changes in assumptions on expected future profits and the difference between assumptions used in the previous PVIF calculation and actual experience observed during the year to the extent that this affects future profits. The gain of £200m in the year (2021: gain of £202m) was primarily driven by a reduction in the cost of financial guarantees in France as a result of rising interest rates during 2022.

3 2022 includes £52m impact recognised on the classification of France retail as discontinued operations.

Key assumptions used in the computation of PVIF for main life insurance operations

Economic assumptions are set in a way that is consistent with observable market values. The valuation of PVIF is sensitive to observed market movements and the impact of such changes is included in the sensitivities presented below.

	2022		2021	
	UK	France[1]	UK	France[1]
	%	%	%	%
Weighted average risk-free rate	3.71	2.80	0.95	0.69
Weighted average risk discount rate	3.71	4.44	0.95	1.55
Expense inflation	3.70	4.26	3.80	1.80

1 *For 2022, the calculation of France's PVIF assumes a risk discount rate of 4.44% (2021: 1.55%) plus a risk margin of £83m (2021: £156m).*

Sensitivity to changes in economic assumptions

The group sets the risk discount rate applied to the PVIF calculation by starting from a risk-free rate curve and adding explicit allowances for risks not reflected in the best estimate cash flow modelling. Where the insurance operations provide options and guarantees to policyholders, the cost of these options and guarantees is accounted for as a deduction from the present value of in-force 'PVIF' asset, unless the cost of such guarantees is already allowed for as an explicit addition to liabilities under insurance contracts. See page 92 for further details of these guarantees and the impact of changes in economic assumptions on our insurance manufacturing subsidiaries.

Sensitivity to changes in non-economic assumptions

Policyholder liabilities and PVIF are determined by reference to non-economic assumptions including mortality and/or morbidity, lapse rates and expense rates. See page 93 for further details on the impact of changes in non-economic assumptions on our insurance manufacturing operations.

21 Prepayments, accrued income and other assets

	The group		The bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Cash collateral and margin receivables	44,932	29,947	32,255	22,961
Settlement accounts	6,926	4,960	5,441	4,604
Bullion	3,464	2,253	3,464	2,253
Prepayments and accrued income	1,769	1,365	994	531
Property, plant and equipment	761	846	9	10
Right-of-use assets	166	251	32	37
Reinsurers' share of liabilities under insurance contracts (Note 4)	140	146	—	—
Employee benefit assets (Note 5)	73	54	12	43
Endorsements and acceptances	243	196	218	172
Other accounts	2,905	3,100	1,482	879
At 31 Dec	**61,379**	43,118	**43,907**	31,490

Prepayments, accrued income and other assets include £55,801m (2021: £39,064m) of financial assets, the majority of which are measured at amortised cost.

22 Trading liabilities

	The group		The bank	
	2022	2021	2022	2021
	£m	£m	£m	£m
Deposits by banks[1]	4,337	3,122	4,350	3,141
Customer accounts[1]	5,812	6,386	5,692	6,216
Other debt securities in issue	812	1,324	61	30
Other liabilities – net short positions in securities	30,304	35,601	15,662	21,774
At 31 Dec	**41,265**	46,433	**25,765**	31,161

1 *'Deposits by banks' and 'Customer accounts' include repos, stock lending and other amounts.*

23 Financial liabilities designated at fair value

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Deposits by banks and customer accounts	**4,864**	4,302	**4,864**	4,245
Liabilities to customers under investment contracts	**948**	1,032	**—**	—
Debt securities in issue	**20,666**	26,049	**13,742**	14,399
Subordinated liabilities (Note 26)	**809**	2,225	**809**	2,225
At 31 Dec	**27,287**	33,608	**19,415**	20,869

The group

The carrying amount of financial liabilities designated at fair value was £(3,431)m lower than the contractual amount at maturity (2021: £(1,568)m lower). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £(292)m (2021: loss of £165m).

The bank

The carrying amount of financial liabilities designated at fair value was £(2,230)m lower than the contractual amount at maturity (2021: £(2,146)m lower). The cumulative amount of change in fair value attributable to changes in credit risk was a loss of £(139)m (2021: loss of £72m).

24 Accruals, deferred income and other liabilities

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Cash collateral and margin payables	**55,470**	32,309	**40,356**	24,204
Settlement accounts	**4,915**	4,767	**4,485**	3,996
Accruals and deferred income	**1,903**	1,507	**1,241**	859
Amount due to investors in funds consolidated by the group	**991**	1,315	**—**	—
Lease liabilities	**269**	386	**45**	55
Employee benefit liabilities (Note 5)	**121**	196	**56**	74
Share-based payment liability to HSBC Holdings	**98**	129	**72**	102
Endorsements and acceptances	**231**	189	**218**	172
Other liabilities	**2,947**	2,658	**1,509**	708
At 31 Dec	**66,945**	43,456	**47,982**	30,170

For the group, accruals, deferred income and other liabilities include £66,356m (2021: £42,887m), and for the bank £47,683m (2021: £29,913m) of financial liabilities, the majority of which are measured at amortised cost.

25 Provisions

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
The group					
Provisions (excluding contractual commitments)					
At 1 Jan 2022	164	175	21	99	459
Additions	117	61	4	63	245
Amounts utilised	(124)	(152)	(6)	(34)	(316)
Unused amounts reversed	(35)	(4)	(6)	(23)	(68)
Exchange and other movements	4	(3)	—	(2)	(1)
At 31 Dec 2022	126	77	13	103	319
Contractual commitments[1]					
At 1 Jan 2022					103
Net change in expected credit loss provision and other movements					2
At 31 Dec 2022					105
Total Provisions					
At 31 Dec 2021					562
At 31 Dec 2022					424
Provisions (excluding contractual commitments)					
At 1 Jan 2021	309	237	25	103	674
Additions	91	32	11	86	220
Amounts utilised	(170)	(63)	(10)	(32)	(275)
Unused amounts reversed	(63)	(25)	(6)	(58)	(152)
Exchange and other movements	(3)	(6)	1	—	(8)
At 31 Dec 2021	164	175	21	99	459
Contractual commitments[1]					
At 1 Jan 2021					187
Net change in expected credit loss provision and other movements					(84)
At 31 Dec 2021					103
Total Provisions					
At 31 Dec 2020					861
At 31 Dec 2021					562

1 *The contractual commitments include provision for off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 53.*

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	£m	£m	£m	£m	£m
The bank					
Provisions (excluding contractual commitments)					
At 1 Jan 2022	12	155	13	27	207
Additions	36	51	1	32	120
Amounts utilised	(14)	(146)	(3)	(11)	(174)
Unused amounts reversed	(17)	(3)	(3)	(13)	(36)
Exchange and other movements	—	—	—	—	—
At 31 Dec 2022	17	57	8	35	117
Contractual commitments[1]					
At 1 Jan 2022					43
Net change in expected credit loss provision and other movements					7
At 31 Dec 2022					50
Total Provisions					
At 31 Dec 2021					250
At 31 Dec 2022					167

The bank	Restructuring costs £m	Legal proceedings and regulatory matters £m	Customer remediation £m	Other provisions £m	Total £m
Provisions (excluding contractual commitments)					
At 1 Jan 2021	39	198	17	52	306
Additions	54	23	7	30	114
Amounts utilised	(54)	(32)	(8)	(15)	(109)
Unused amounts reversed	(26)	(24)	(4)	(40)	(94)
Exchange and other movements	(1)	(10)	1	—	(10)
At 31 Dec 2021	12	155	13	27	207
Contractual commitments[1]					
At 1 Jan 2021					107
Net change in expected credit loss provision and other movements					(64)
At 31 Dec 2021					43
Total Provisions					
At 31 Dec 2020					413
At 31 Dec 2021					250

1 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table on page 53.*

Restructuring costs

These provisions comprise the estimated cost of restructuring, including redundancy costs where an obligation exists. Additions made during the year relate to formal restructuring plans made within the group.

Legal proceedings and regulatory matters

Further details of legal proceedings and regulatory matters are set out in Note 32. Legal proceedings include civil court, arbitration or tribunal proceedings brought against HSBC companies (whether by way of claim or counterclaim), or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulatory or law enforcement agencies in connection with alleged wrongdoing.

26 Subordinated liabilities

Subordinated liabilities

	The group		The bank	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
At amortised cost	**14,528**	12,488	**14,252**	12,218
– subordinated liabilities	**13,828**	11,788	**14,252**	12,218
– preferred securities	**700**	700	**—**	—
Designated at fair value (Note 23)	**809**	2,225	**809**	2,225
– subordinated liabilities	**809**	2,225	**809**	2,225
At 31 Dec	**15,337**	14,713	**15,061**	14,443

Subordinated liabilities rank behind senior obligations and consist of capital instruments and other instruments. Capital securities may be called and redeemed by HSBC subject to prior notification to the PRA and, where relevant, the consent of the local banking regulator. If not redeemed at the first call date, coupons payable may reset or become floating rate based on relevant market rates. On subordinated liabilities other than floating rate notes, interest is payable at fixed rates of up to 7.65%.

The balance sheet amounts disclosed below are presented on an IFRS basis and do not reflect the amount that the instruments contribute to regulatory capital due to the inclusion of issuance costs, regulatory amortisation and regulatory eligibility limits.

Subordinated liabilities of the group

		Carrying amount	
		2022	2021
		£m	£m
Additional tier 1 instruments guaranteed by the bank			
£700m	5.844% Non-cumulative Step-up Perpetual Preferred Securities[1,5,6]	569	700
Tier 2 instruments			
$750m	3.43% Subordinated Loan 2022	—	558
£300m	6.5% Subordinated Notes 2023[3]	134	300
£1,500m	Floating Rate Subordinated Loan 2023	—	1,260
€1,500m	Floating Rate Subordinated Loan 2032	1,326	—
€1,500m	Floating Rate Subordinated Loan 2024	1,329	1,260
$300m	7.65% Subordinated Notes 2025[2]	141	222
$750m	HSBC Bank plc 4.19% Subordinated Loan 2027	593	604
€300m	Floating Rate Subordinated Loan 2027	—	252
£200m	Floating Rate Subordinated Loan 2028	200	200
€300m	Floating Rate Subordinated Loan 2028	266	252
€260m	Floating Rate Subordinated Loan 2029	230	218
£350m	5.375% Callable Subordinated Step-up Notes 2030[3,4,6]	60	398
$2,000m	HSBC Bank plc 1.625% Subordinated Loan 2031	1,497	1,457
€2,000m	HSBC Bank plc 0.375% Subordinated Loan 2031	1,583	1,658
€2,000m	HSBC Bank plc 0.375% Subordinated Loan 2031	1,583	1,658
€1,250m	HSBC Bank plc 0.25% Subordinated Loan 2031	990	1,036
£500m	5.375% Subordinated Notes 2033[3]	152	665
£225m	6.25% Subordinated Notes 2041[3]	47	224
£600m	4.75% Subordinated Notes 2046[3]	191	595
$750m	Undated Floating Rate Primary Capital Notes	624	554
$500m	Undated Floating Rate Primary Capital Notes	415	369
$300m	Undated Floating Rate Primary Capital Notes (Series 3)	249	222
$1,250m	HSBC Bank plc floating Subordinated Loan 2028	1,035	—
$1,100m	HSBC Bank plc floating Subordinated Loan 2033	910	—
€400m	HSBC Bank plc floating Subordinated Loan 2028	362	—
€400m	HSBC Bank plc floating Subordinated Loan 2027	361	—
€500m	HSBC Bank plc floating Subordinated Loan 2028	443	—
Other Tier 2 instruments each less than £100m		47	51
At 31 Dec		15,337	14,713

1 *The value of the security partially decreased as a result of a fair value hedge gain. The instrument was held at amortised cost in 2021. Also, the interest rate payable after November 2031 is the sum of the compounded daily Sonia rate plus 2.0366%.*
2 *The bank tendered for this security in November 2022. The principal balance is $180m. The original notional value of the security is $300m.*
3 *The bank tendered for these securities in November 2022. The principal balance is £135m, £61m, £157m, £70m and £237m respectively. The original notional values of these securities are £300m, £350m, £500m, £225m and £600m respectively.*
4 *The interest rate payable after November 2025 is the sum of the compounded daily Sonia rate plus 1.6193%.*
5 *See paragraph below, 'Guaranteed by HSBC Bank plc'.*
6 *These securities are ineligible for inclusion in the capital base of the group.*

Guaranteed by HSBC Bank plc

A capital security guaranteed by the bank was issued by a Jersey limited partnership. The proceeds of this was lent to the bank by the limited partnership in the form of a subordinated note. It qualified as additional tier 1 capital for the group (on a solo and consolidated basis) under CRR II until 31 December 2021 by virtue of the application of grandfathering provisions. Since 31 December 2021, this security has no longer qualified as regulatory capital for the group.

This preferred security, together with the guarantee, is intended to provide investors with rights to income, capital distributions and distributions upon liquidation of the company that are equivalent to the rights that they would have had if they had purchased non-cumulative perpetual preference shares of the company. There are limitations on the payment of distributions if such payments are prohibited under UK banking regulations or other requirements, if a payment would cause a breach of HSBC's capital adequacy requirements, or if the bank has insufficient distributable reserves (as defined).

The bank has individually covenanted that, if prevented under certain circumstances from paying distributions on the preferred security in full, it will not pay dividends or other distributions in respect of its ordinary shares, or repurchase or redeem its ordinary shares, until the distribution on the preferred security has been paid in full.

If the preferred security guaranteed by the bank is outstanding in November 2048, or if the total capital ratio of the group (on a solo or consolidated basis) falls below the regulatory minimum required, or if the Directors expect it to do so in the near term, provided that proceedings have not been commenced for the liquidation, dissolution or winding up of the bank, the holders' interests in the preferred security guaranteed by the bank will be exchanged for interests in preference shares issued by the bank that have economic terms which are in all material respects equivalent to the preferred security and its guarantee.

Tier 2 securities

Tier 2 capital securities are either perpetual or dated subordinated securities on which there is an obligation to pay coupons. These capital securities are included within the group's regulatory capital base as tier 2 capital under CRR II, either as fully eligible capital or by virtue of the application of grandfathering provisions. In accordance with CRR II, the capital contribution of all tier 2 securities is amortised for regulatory purposes in their final five years before maturity.

27 Maturity analysis of assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in our consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

Cash flows payable under financial liabilities by remaining contractual maturities

The group	Due not more than 1 month £m	Due over 1 month but not more than 3 months £m	Due between 3 and 12 months £m	Due between 1 and 5 years £m	Due after 5 years £m	Total £m
Deposits by banks	**16,178**	**36**	**2,479**	**1,994**	**256**	**20,943**
Customer accounts	**197,400**	**11,821**	**6,441**	**127**	**285**	**216,074**
Repurchase agreements – non-trading	**30,572**	**1,793**	**203**	**427**	**–**	**32,995**
Trading liabilities	**41,265**	**–**	**–**	**–**	**–**	**41,265**
Financial liabilities designated at fair value	**9,558**	**1,950**	**4,887**	**7,200**	**6,857**	**30,452**
Derivatives	**218,015**	**88**	**391**	**1,382**	**437**	**220,313**
Debt securities in issue	**832**	**3,047**	**2,352**	**812**	**851**	**7,894**
Subordinated liabilities	**9**	**137**	**427**	**3,300**	**14,713**	**18,586**
Other financial liabilities[1]	**65,305**	**272**	**824**	**180**	**1,080**	**67,661**
	579,134	**19,144**	**18,004**	**15,422**	**24,479**	**656,183**
Loan and other credit-related commitments	**127,913**	**–**	**–**	**–**	**–**	**127,913**
Financial guarantees[2]	**5,327**	**–**	**–**	**–**	**–**	**5,327**
At 31 Dec 2022	**712,374**	**19,144**	**18,004**	**15,422**	**24,479**	**789,423**
Deposits by banks	16,783	1,555	1,106	12,277	401	32,122
Customer accounts	196,609	5,599	2,770	199	101	205,278
Repurchase agreements – non-trading	24,273	1,924	1,061	7	–	27,265
Trading liabilities	46,433	–	–	–	–	46,433
Financial liabilities designated at fair value	9,358	2,790	4,310	8,269	11,873	36,600
Derivatives	139,040	46	104	406	581	140,177
Debt securities in issue	2,755	2,952	2,145	1,328	335	9,515
Subordinated liabilities	14	62	123	3,969	10,734	14,902
Other financial liabilities[1]	40,292	423	442	234	1,417	42,808
	475,557	15,351	12,061	26,689	25,442	555,100
Loan and other credit-related commitments	119,476	–	–	–	–	119,476
Financial guarantees[2]	11,054	–	–	–	–	11,054
At 31 Dec 2021	606,087	15,351	12,061	26,689	25,442	685,630

Cash flows payable under financial liabilities by remaining contractual maturities (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
The bank	£m	£m	£m	£m	£m	£m
Deposits by banks	13,327	6	214	53	–	13,600
Customer accounts	129,308	8,578	3,867	3	–	141,756
Repurchase agreements – non-trading	27,436	1,663	203	427	–	29,729
Trading liabilities	25,765	–	–	–	–	25,765
Financial liabilities designated at fair value	9,446	646	4,303	3,820	3,967	22,182
Derivatives	192,521	88	365	1,372	434	194,780
Debt securities in issue	–	2,878	1,525	83	314	4,800
Subordinated liabilities	9	137	417	3,283	14,874	18,720
Other financial liabilities	48,283	180	297	18	18	48,796
	446,095	14,176	11,191	9,059	19,607	500,128
Loan and other credit-related commitments	36,474	–	–	–	–	36,474
Financial guarantees[2]	1,363	–	–	–	–	1,363
At 31 Dec 2022	483,932	14,176	11,191	9,059	19,607	537,965
Deposits by banks	18,053	4,781	1,516	1,453	–	25,803
Customer accounts	119,749	3,504	1,453	2	–	124,708
Repurchase agreements – non-trading	19,707	1,575	1,061	7	–	22,350
Trading liabilities	31,161	–	–	–	–	31,161
Financial liabilities designated at fair value	9,241	1,597	3,723	2,360	7,055	23,976
Derivatives	127,352	46	104	379	574	128,455
Debt securities in issue	1,480	1,915	845	1,118	327	5,685
Subordinated liabilities	14	62	111	3,700	11,202	15,089
Other financial liabilities	29,248	320	148	28	22	29,766
	356,005	13,800	8,961	9,047	19,180	406,993
Loan and other credit-related commitments	32,471	–	–	–	–	32,471
Financial guarantees[2]	1,270	–	–	–	–	1,270
At 31 Dec 2021	389,746	13,800	8,961	9,047	19,180	440,734

1 *Excludes financial liabilities of disposal groups.*
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Maturity analysis of financial assets and financial liabilities

The following table provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after more than 1 year' time bucket. Undated or perpetual instruments are classified based on the contractual notice period, which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after more than 1 year' time bucket.
- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction.
- Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Due after more than 1 year' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

Maturity analysis of financial assets and financial liabilities

	2022			2021		
	Due within 1 year	Due after more than 1 year	Total	Due within 1 year	Due after more than 1 year	Total
The group	£m	£m	£m	£m	£m	£m
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	1,391	14,490	15,881	3,225	15,424	18,649
Loans and advances to banks	15,867	1,242	17,109	8,841	1,943	10,784
Loans and advances to customers	38,405	34,209	72,614	40,837	50,340	91,177
Reverse repurchase agreement – non-trading	52,324	1,625	53,949	53,079	1,369	54,448
Financial investments	7,201	25,403	32,604	6,748	34,552	41,300
Other financial assets	55,369	428	55,797	38,851	203	39,054
Assets held for sale	4,174	17,040	21,214	9	—	9
At 31 Dec	174,731	94,437	269,168	151,590	103,831	255,421
Liabilities						
Deposits by banks	18,674	2,162	20,836	19,439	12,749	32,188
Customer accounts	215,562	386	215,948	204,973	268	205,241
Repurchase agreements – non-trading	32,486	415	32,901	27,252	7	27,259
Financial liabilities designated at fair value	16,281	11,006	27,287	16,329	17,279	33,608
Debt securities in issue	6,149	1,119	7,268	7,840	1,588	9,428
Other financial liabilities	65,108	1,248	66,356	41,131	1,754	42,885
Subordinated liabilities	142	14,386	14,528	8	12,480	12,488
Liabilities of disposal groups held for sale	21,621	3,090	24,711	—	—	—
At 31 Dec	376,023	33,812	409,835	316,972	46,125	363,097
The bank						
Assets						
Financial assets designated or otherwise mandatorily measured at fair value	1,287	331	1,618	2,796	419	3,215
Loans and advances to banks	13,338	1,148	14,486	5,267	1,511	6,778
Loans and advances to customers	25,814	11,178	36,992	23,609	10,327	33,936
Reverse repurchase agreement – non-trading	41,430	1,625	43,055	38,759	949	39,708
Financial investments	3,415	15,224	18,639	4,580	21,962	26,542
Other financial assets	39,605	2	39,607	28,812	—	28,812
At 31 Dec	124,889	29,508	154,397	103,823	35,168	138,991
Liabilities						
Deposits by banks	13,543	51	13,594	14,655	—	14,655
Customer accounts	141,712	2	141,714	124,704	2	124,706
Repurchase agreements – non-trading	29,223	415	29,638	22,337	7	22,344
Financial liabilities designated at fair value	14,290	5,125	19,415	14,425	6,444	20,869
Debt securities in issue	4,341	315	4,656	4,240	1,418	5,658
Other financial liabilities	47,651	32	47,683	29,868	44	29,912
Subordinated liabilities	133	14,119	14,252	—	12,218	12,218
At 31 Dec	250,893	20,059	270,952	210,229	20,133	230,362

28 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

In the following table, the 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with the group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral (debt securities and equities) has been received/pledged to cover net exposure in the event of a default or other predetermined events.

The effect of over-collateralisation is excluded.

'Amounts not subject to enforceable master netting agreements' include contracts executed in jurisdictions where the rights of set off may not be upheld under the local bankruptcy laws, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right of offset remains appropriate.

	Amounts subject to enforceable netting arrangements							
				Amounts not set off in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial instruments, including non-cash collateral[6]	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[5]	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
Derivatives (Note 14)[1]	**303,911**	**(79,799)**	**224,112**	**(193,720)**	**(29,998)**	**394**	**1,126**	**225,238**
Reverse repos, stock borrowing and similar agreements classified as[2]:								
– trading assets	**14,490**	**(196)**	**14,294**	**(14,293)**	**—**	**1**	**63**	**14,357**
– non-trading assets	**103,839**	**(52,268)**	**51,571**	**(51,310)**	**(260)**	**1**	**2,378**	**53,949**
Loans and advances to customers[3]	**17,979**	**(8,105)**	**9,874**	**(8,143)**	**—**	**1,731**	**1**	**9,875**
At 31 Dec 2022	**440,219**	**(140,368)**	**299,851**	**(267,466)**	**(30,258)**	**2,127**	**3,568**	**303,419**
Derivatives (Note 14)[1]	160,801	(20,689)	140,112	(114,985)	(24,277)	850	1,109	141,221
Reverse repos, stock borrowing and similar agreements classified as[2]:								
– trading assets	11,960	(156)	11,804	(11,804)	—	—	40	11,844
– non-trading assets	125,935	(72,788)	53,147	(53,044)	(103)	—	1,301	54,448
Loans and advances to customers[3]	14,741	(6,091)	8,650	(7,053)	—	1,597	5	8,655
At 31 Dec 2021	313,437	(99,724)	213,713	(186,886)	(24,380)	2,447	2,455	216,168
Financial liabilities								
Derivatives (Note 14)[1]	**297,341**	**(79,799)**	**217,542**	**(197,201)**	**(19,662)**	**679**	**1,325**	**218,867**
Repos, stock lending and similar agreements classified as[2]:								
– trading liabilities	**10,180**	**(196)**	**9,984**	**(9,983)**	**—**	**1**	**2**	**9,986**
– non-trading liabilities	**85,168**	**(52,268)**	**32,900**	**(32,719)**	**(182)**	**(1)**	**1**	**32,901**
Customer accounts[4]	**24,082**	**(8,105)**	**15,977**	**(8,143)**	**—**	**7,834**	**10**	**15,987**
At 31 Dec 2022	**416,771**	**(140,368)**	**276,403**	**(248,046)**	**(19,844)**	**8,513**	**1,338**	**277,741**
Derivatives (Note 14)[1]	159,169	(20,689)	138,480	(124,745)	(13,273)	462	888	139,368
Repos, stock lending and similar agreements classified as[2]:								
– trading liabilities	9,444	(156)	9,288	(9,288)	—	—	13	9,301
– non-trading liabilities	100,031	(72,788)	27,243	(27,090)	(153)	—	16	27,259
Customer accounts[4]	21,846	(6,091)	15,755	(7,053)	—	8,702	11	15,766
At 31 Dec 2021	290,490	(99,724)	190,766	(168,176)	(13,426)	9,164	928	191,694

1 *At 31 Dec 2022, the amount of cash margin received that had been offset against the gross derivatives assets was £2,375m (2021: £2,590m). The amount of cash margin paid that had been offset against the gross derivatives liabilities was £7,275m (2021: £6,180m).*

2 *For the amount of repos, reverse repos, stock lending, stock borrowing and similar agreements recognised on the balance sheet within 'Trading assets' and 'Trading liabilities', see the 'Funding sources and uses' table on page 83.*

3 *At 31 Dec 2022, the total amount of 'Loans and advances to customers' recognised on the balance sheet was £72,614m (2021: £91,177m) of which £9,874m (2021: £8,650m) was subject to offsetting.*

4 *At 31 Dec 2022, the total amount of 'Customer accounts' recognised on the balance sheet was £215,948m (2021: £205,241m) of which £15,977m (2021: £15,755m) was subject to offsetting.*

5 *These exposures continue to be secured by financial collateral, but we may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

6 *The disclosure has been enhanced this year to support consistency across Group entities. All financial instruments (whether recognised on our balance sheet or as non-cash collateral received or pledged) are presented within 'financial instruments, including non-cash collateral' as balance sheet classification has no effect on the rights of set-off associated with financial instruments. Comparative data have been represented accordingly.*

29 Called up share capital and other equity instruments

Issued and fully paid

HSBC Bank plc £1.00 ordinary shares

	2022		2021	
	Number	£m	Number	£m
At 1 Jan	**796,969,111**	**797**	796,969,111	797
At 31 Dec	**796,969,112**	**797**	796,969,111	797

HSBC Bank plc share premium

	2022	2021
	£m	£m
At 31 Dec	**420**	—