



HSBC UK BANK PLC

(a company incorporated with limited liability in England with registered number 09928412)

This registration document (which expression shall include this document and all documents incorporated by reference herein) ("**Registration Document**") has been approved by the Financial Conduct Authority (the "**FCA**"), as competent authority for the purposes of Regulation (EU) 2017/1129 as it forms part of domestic law in the United Kingdom (the "**UK**") by virtue of the European Union (Withdrawal) Act 2018, as amended (the "**EUWA**") (the "**UK Prospectus Regulation**"). The FCA only approves this Registration Document as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of HSBC UK Bank plc (the "**Issuer**") that is the subject of this Registration Document. This Registration Document is valid for a period of twelve months from the date of approval.

This Registration Document includes details of the long-term and short-term credit ratings assigned to the Issuer by S&P Global Ratings UK Limited ("**S&P**"), Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Limited ("**Fitch**"). Each of S&P, Moody's and Fitch is established in the UK and registered under Regulation (EU) No. 1060/2009 on credit rating agencies as it forms part of the domestic law of the United Kingdom by virtue of the EUWA (the "**UK CRA Regulation**"). As such, each of S&P, Moody's and Fitch appears on the latest update of the list of registered credit rating agencies (as of the date of this Registration Document) on the UK FCA's Financial Services Register. The ratings each of S&P, Moody's and Fitch has given to the Issuer are endorsed by S&P Global Ratings Europe Limited, Moody's Deutschland GmbH and Fitch Ratings Ireland Limited, respectively, each of which is established in the European Union (the "**EU**") and registered under Regulation (EU) No 1060/2009 on credit rating agencies.

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RISK FACTORS

All references in this section of this Registration Document to "Issuer" refer to HSBC UK Bank plc, all references to the "Group" refer to HSBC UK Bank plc and its subsidiary undertakings, and all references to the "HSBC Group" refer to HSBC Holdings plc ("**HSBC Holdings**") and its subsidiary undertakings.

Prospective investors in any debt or derivative securities ("**Securities**") issued by the Issuer should carefully consider risk factors associated with the business of the Group and the industry in which it operates together with all other information contained in this Registration Document, including, in particular, the risk factors referred to in this section, which the Issuer considers to be the principal risk factors relating to the Group that may affect the Issuer's ability to fulfil its obligations under its Securities.

The risk factors relating to the Group specified in this section "Risk Factors" do not comprise an exhaustive list or explanation of all risks relating to the Group which investors may face when making an investment in Securities issued by the Issuer. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, also may have, individually or cumulatively, a material adverse effect on the business, prospects, results of operations and/or financial position of the Group and, if any such risk should occur, the price of any Securities issued by the Issuer may decline and investors could lose all or part of their investment.

Risks Relating to the Group

A description of the risk factors relating to the Group that may affect the ability of the Issuer to fulfil its obligations to investors in relation to any of its Securities is set out below.

Macroeconomic and geopolitical risk

1. Current economic and market conditions may adversely affect the Group's results

The Group's earnings are affected by global and local economic and market conditions.

Uncertain and at times volatile economic conditions can create a challenging operating environment for financial institutions such as the Issuer.

In particular, the Group has faced and may continue to face the following challenges to its operations and operating model in connection with these factors:

- increases in the cost of living as a result of, among other things, rising energy costs, interest rate rises, inflation and other similar factors may have an adverse impact on the ability of customers to repay mortgages, loans and other forms of borrowing;
- global market developments may continue to depress consumer and business confidence. Economies may head towards recession and interest rates may continue to rise which could (among other things) cause asset prices and payment patterns to be adversely affected, leading to greater than expected increases in the Group's delinquencies, default rates and expected credit losses and other credit impairment charges ("**ECLs**"). Moreover, the impact of higher inflation and interest rate rises in the United Kingdom ("**UK**"), the recent volatility in the United States ("**US**") and Swiss banking sectors, and other geopolitical events, as described in more detail below, remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates;
- the demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- the Group's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption;
- significant uncertainties remain in assessing the duration and impact of the ongoing Russia-Ukraine war. There is a risk that the resulting impact of the war, and related measures, such as further economic sanctions imposed by relevant government authorities, on economic activity may last for a prolonged period which may create further challenges for the Group's customers and business (see "*The macroeconomic impact of significant geopolitical and social developments,*

including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results"); and

- the impact of the Covid-19 pandemic on global economies could have a continued adverse effect on, among other things, the profitability, capital and liquidity of financial institutions, such as the Issuer (see "*The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results*").

The occurrence of any of these events or circumstances could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and customers.

2. ***The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results***

The ongoing Russia-Ukraine war is a key factor in shaping the global macroeconomic outlook. The war has contributed to a sharp rise in the price of energy and non-energy commodities, which had already been affected by the impact of the Covid-19 pandemic and later localised Covid-19 outbreaks, which gave rise to significant supply chain disruptions. Another effect of the Russia-Ukraine war has been a marked slowdown in economic activity, mainly in the UK and the European Union ("EU"), as a consequence of the reduction in energy supplies and the limited investment in these markets due to geopolitical turmoil. In addition, further economic sanctions, in particular, by the UK, the US, and the EU, have adversely affected global markets.

The steep rise in inflation engendered by the rise in commodity prices, and by the previous monetary and fiscal policy loosening in response to the Covid-19 pandemic has prompted global central banks, including the Bank of England (the "BoE"), to raise their policy rates sharply in recent months, with the potential for further increases to come, which may create further challenges for the Group's customers and may continue to impact its ECLs.

Interest rates continued to increase in the first quarter of 2023, although following uncertainty concerning the US and Swiss banking sectors, market expectations indicate that policy tightening may be close to its peak. Global inflation is in the process of abating as energy prices moderate, but underlying price pressures are likely to remain in place as recent unexpected oil output reductions have resulted in continued uncertainty. Nevertheless, the ongoing Russia-Ukraine war has the potential to cause renewed spikes in energy and food prices, as could an increase in demand from China as the economy has reopened following the removal of restrictions relating to the Covid-19 pandemic.

The effects of higher inflation and significant increases in interest rates may also have material impacts on capital and liquidity. In particular, the combined pressure of inflation and interest rate rises may impact the ability of the Group's customers to repay debt and affect their credit rating, which could, in turn, negatively impact the Group's risk-weighted assets ("RWAs") and capital position, and lead to potential liquidity stress due, among other factors, to increased customer drawdowns, notwithstanding the significant initiatives that governments and central banks, including the UK government and the BoE, have put in place to support funding and liquidity.

Higher inflation and interest rate expectations around the world – and the resulting economic uncertainty – have had an impact on ECL. The Group's Central scenario, which has the highest probability weighting in the Group's IFRS 9 'Financial Instruments' ("**IFRS 9**") calculations of ECL, assumes low growth and a higher inflation environment. However, due to the rapidly changing economic conditions, the potential for forecast dispersion and volatility remain high, impacting the degree of accuracy and certainty of the Group's Central scenario forecast. The level of volatility depends on various factors, including, but not limited to: commodity price increases, supply chain constraints, the monetary policy response to inflation and the public health policy response to the Covid-19 pandemic. There is also uncertainty with respect to the relationship between the economic drivers and the historical loss experience, which has required adjustments to modelled ECLs in cases where the Group determined that the model was unable to capture the material underlying risks.

There could be further adverse impacts on the Group's income due to lower lending and transaction volumes and lower wealth and insurance manufacturing revenue due to market volatility and weakness.

Fiscal deficits are likely to remain high in developed markets, including the UK, as further public spending is rolled out to help businesses and households manage rising prices, against a backdrop of higher interest rates. This could increase the strains on highly leveraged corporates and households, while rising interest rates could reduce the affordability of debt and may eventually bring into question its sustainability for some corporates and households. In particular, those that need to refinance maturing US dollar-denominated debt in the context of a strengthening dollar may face increasing difficulties. Where the Group has exposures to such parties, it could incur losses.

The Russia-Ukraine war has continued to elevate geopolitical instability which could have significant ramifications for the Group and its customers (See also "*The Group is subject to political, social and other risks*"). The Group continues to monitor and respond to economic sanctions and trade restrictions that have been adopted in response. These sanctions and trade restrictions are complex, novel and evolving. In particular, significant sanctions and trade restrictions imposed against Russia have been put in place by the UK, the US and the EU, as well as other countries. Such sanctions and restrictions have specifically targeted certain Russian government officials, politically exposed persons, business people, Russian oil imports, energy products, financial institutions and other major Russian companies. In addition, there have been put in place more generally applicable investment, export, and import bans and restrictions. In response to such sanctions and restrictions, as well as asset flight, Russia has implemented certain countermeasures. These sanctions, restrictions and Russian countermeasures may adversely affect the Group, its customers by creating regulatory, reputational and market risks.

The Group's financial models have been impacted by the effects of higher inflation and significant increases in interest rates. These include retail and wholesale credit models such as IFRS loss models, as well as capital models, traded risk models and models used in the asset/liability management process. This continues to require enhanced monitoring of model outputs and the use of model overlays, including management judgemental adjustments based on the expert judgement of senior credit risk managers and the recalibration of key loss models to take into account the impacts of higher rates on critical model inputs. See "*The Group could incur losses or be required to hold additional capital as a result of model limitations or failure*".

The impact from the Covid-19 pandemic also remains a continuing risk to the Group's customers and organisation. High Covid-19 vaccination rates and acquired population immunity in 2022 across the UK have reduced the public health risks and the need for restrictions. New Covid-19 variants and sub-variants pose a continuing risk and could result in the UK government reintroducing restrictions, potentially impacting the Group's personal and business customers.

The rapid introduction and varying nature of the government support schemes introduced throughout the Covid-19 pandemic have led to increased operational risks, including complex conduct considerations, increased reputational risk and increased risk of fraud. These events have also led to increased litigation risk.

The impact of the Covid-19 pandemic, any variant thereof or future pandemic on the long-term prospects of businesses in certain vulnerable sectors of the economy – such as retail, hospitality and commercial real estate – remains uncertain and may lead to significant credit losses on specific exposures, which may not be fully captured in ECL estimates. In addition, in times of stress, fraudulent activity is often more prevalent, leading to potentially significant credit or operational losses.

The operational support functions on which the Group relies are based in a number of countries worldwide, some of which have been particularly affected by the Covid-19 pandemic. The Group continues to monitor the situation, in particular in those countries and regions where Covid-19 infections are most prevalent.

Significant uncertainties remain in assessing the duration and impact of the Russia-Ukraine war and the Covid-19 pandemic, including where government restrictions are re-imposed as a result of further outbreaks of the virus, in particular those outbreaks which result from the emergence of new variants. There is a risk that the resulting impact on economic activity may last for a prolonged period and this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

3. ***The Group is likely to be affected by global geopolitical trends, including the risk of government intervention***

While economic globalisation appears to remain deeply embedded in the international system, it is increasingly challenged by nationalism and protectionism. Consequently, international institutions may be less capable of adapting to this trend. There remains an uncertain economic and political outlook, particularly in light of the UK's exit from the EU and the complexity of its future trading relationship with the EU (see "*The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect the Group's operating model and financial results*") and the Russia-Ukraine war. A dispersion of global economic power from the US and the EU towards China and emerging markets appears to be occurring, providing a backdrop for greater US-China competition. Being part of the wider HSBC Group, the Group may be adversely affected by increased geopolitical tensions across the different jurisdictions in which the HSBC Group operates and any broader economic pressures that the HSBC Group or parts of the HSBC Group may face.

A rise in nationalism and protectionism, including trade barriers, may be driven by populist sentiment and structural challenges facing developed and developing economies. Similarly, if capital flows are disrupted, some emerging markets may impose protectionist measures that could affect financial institutions and their clients, and other emerging, as well as developed, markets, may be tempted to follow suit. This rise could contribute to weaker global trade, potentially affecting the HSBC Group's business.

The HSBC Group's geographic footprint and coverage will make it and its customers susceptible to protectionist measures taken by national governments and authorities, including the imposition of trade tariffs, restrictions on market access, restrictions on the ability to transact on a cross border basis, expropriation, restrictions on foreign ownership, interest rate caps, limits on dividend flows and increases in taxation.

There may be uncertainty as to the conflicting nature of such measures, their duration, the potential for escalation, and their potential impact on global economies. Whether these emerging trends are cyclical or permanent is hard to determine, and their causes are likely to be difficult to address. The occurrence of any of these events or circumstances could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

4. ***The Group is subject to political, social and other risks***

The Group's operations are subject to potentially unfavourable political, social, environmental and economic developments in the UK and regionally, which may include:

- coups, civil wars or acts of terrorism;
- political and/or social instability;
- geopolitical tensions;
- climate change, acts of God, including epidemics and pandemics (such as Covid-19, further details on which can be found in "*The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results*") and natural disasters (such as floods and hurricanes); and
- infrastructure issues, such as transportation and power failures.

Each of the above could impact RWAs, and the financial losses caused by any of these risk events or developments could impair asset values and the creditworthiness of customers.

These risk events or developments could also give rise to disruption to the Group's services and some could result in physical damage to its operations and/or risks to the safety of its personnel and customers.

Geopolitical tensions could have significant ramifications for the Group and its customers. In particular:

- Negotiations between the UK and the EU over the operation of the Northern Ireland Protocol (the "**Protocol**") are continuing. While positive developments have been made, failure to reach

agreement could have implications for the future operation of the EU-UK Trade and Cooperation Agreement (the "TCA"). See *"The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect the Group's operating model and financial results"*;

- The Russia-Ukraine war along with related economic sanctions, trade restrictions and Russian countermeasures, have had far-reaching geopolitical and economic implications (for further details, see *"The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results"*);
- Global commodity markets have been significantly impacted, leading to supply chain disruptions and increased prices for both energy and raw materials. The continuation of, or any further escalation in the Russia-Ukraine war could have additional economic, social and political repercussions. These include further sanctions and trade restrictions, longer term changes in the macro-economic environment with the risk of higher and sustained inflation, and a continued increase in energy prices, impacting confidence in the UK economy through both reduced levels of consumer demand and corporate investment; and
- Further sanctions and counter sanctions could adversely affect the Group and its customers by creating regulatory, reputational and market risks.

While it is the Group's policy to comply with all applicable laws and regulations, geopolitical tensions, and potential ambiguities in the Group's compliance obligations, will continue to present challenges and risks for the Group and could have a material adverse impact on the Group's business, financial condition, results of operations, prospects, strategy and reputation, as well as on the Group's customers.

The occurrence of any of these events or circumstances could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

5. ***The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect the Group's operating model and financial results***

Following the UK's withdrawal from the EU, the EU and the UK agreed the TCA on 31 December 2020. The agreement mainly focused on goods and services but also covered a wide range of other areas, including competition, state aid, tax, fisheries, transport, data and security. While the agreement only addressed financial services in a limited manner, it was accompanied by a draft Memorandum of Understanding ("MoU"), setting out a framework for voluntary regulatory cooperation in financial services between the UK and EU, including through the establishment of a Joint UK-EU Financial Regulatory Forum. The draft MoU has now been formally adopted by the European Commission (the "EC"), although it still requires sign-off from the European Council before the EC can sign the MoU on behalf of the EU. Furthermore, on 27 February 2023, the EC and the UK government reached a new political agreement in principle, commonly referred to as the 'Windsor Framework'. The purpose of the Windsor Framework is to establish a set of joint solutions that would facilitate the implementation of the Protocol, allowing goods to be traded between Great Britain and Northern Ireland and between Northern Ireland and the Republic of Ireland. Both the Windsor Framework and the MoU are expected to provide a platform within which both parties will be able to discuss financial services-related issues, including future equivalence determinations.

Negotiations between the UK and the EU over the operation of the Protocol are nonetheless continuing and new legislation must be passed by the UK and the EU in order to implement the provisions of the Windsor Framework. Failure to reach agreement or to pass appropriate legislation could have implications for the future operation of the TCA and potentially prevent progress in areas such as the creation of a framework for voluntary regulatory cooperation in financial services.

As the financial passporting arrangement that existed prior to, and during, the transition period expired, the Group put in place new arrangements for the provision of cross-border banking and investment services to customers and counterparties in the European Economic Area. Notwithstanding the progress made in ensuring the Group was prepared for the end of the transition period, there remain risks, many of them linked to the uncertain outcome of ongoing negotiations relating to potential developments in the financial services trading relationship between the UK and EU, including the rules under which financial services may be provided on a cross-border basis into the EU and its member states. Significant uncertainty also remains as to the extent to which EU and UK laws will diverge in the future, as a result of the UK

government's ongoing review of retained EU law under the Financial Services and Markets Bill (the "FSM"), the UK financial services regulatory reform agenda announced in December 2022 (the "Edinburgh Reforms"), or further development of the EU's own regulatory regime. Any changes to the current rules in this respect and any further divergences in the legal regimes could require modifications to our UK and EU operating models, with resulting impacts to our clients and employees. The exact impacts on our clients will depend on the nature of any developments and their individual circumstances and, in a worst case scenario, could include disruption to the provision of products and services, and this could in turn increase operational complexity and/or costs for the Group.

More generally, over the medium to long term, the UK's withdrawal from the EU and the operation of the TCA (and any complexities that may result therefrom), may lead to increased market volatility and economic risk, particularly in the UK, which could adversely impact the Group's profitability and prospects for growth in this market.

In addition, the UK's future trading relationship with the EU and the rest of the world will likely take a number of years to fully stabilise. This may result in a prolonged period of uncertainty, unstable economic conditions and market volatility. This could include reduced international trade flows and loss of export market shares, as well as currency fluctuations which, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

6. ***The Group is subject to financial and non-financial risks associated with Environmental, Social and Governance ('ESG') related matters, such as climate change, nature-related and human rights issues***

ESG-related matters such as climate change, society's impact on nature and human rights issues bring risks to the Group's business, customers and wider society. If the Group fails to meet evolving regulatory expectations or requirements relating to these matters, this could have regulatory compliance and reputational impacts.

Climate change could have both financial and non-financial impacts on the Group either directly or indirectly through its customers. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding and chronic shifts in weather patterns, which could affect the Group's ability to conduct its day-to-day operations.

The Group currently expects that the following are the most likely ways in which climate risk may materialise for the Group:

- credit risk for the Group's customers may increase if climate-related regulatory, legislative or technological developments impact client business models, resulting in financial difficulties for customers and/or stranded assets or if extreme weather events disrupt operations. The Group's customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather;
- residential real estate may be affected by changes to the climate and extreme weather events which could impact both property values and the ability of borrowers to afford their mortgage payments;
- the Group may see an increase in operational risk if extreme weather events impact critical operations;
- regulatory compliance risk may result from the increasing pace, breadth and depth of climate-related regulatory expectations requiring implementation in short timeframes;
- conduct risks could develop in association with the increasing demand and development of "green" products, due to differing and developing standards or taxonomies, as well as how products are sold and marketed; and
- reputational risks may arise from how the Group decides to support its customers in high-emitting sectors, and if the HSBC Group makes insufficient progress in achieving climate-related ambitions, targets and commitments.

The Group also faces increased reputational, legal and regulatory risks as it makes progress towards the HSBC Group's net zero ambitions, with stakeholders likely to place greater focus on the Group's actions, such as the development of climate-related policies, the HSBC Group's disclosures, and both financing and investment decisions relating to the HSBC Group's ambition. The Group will face additional risks if it is perceived to mislead stakeholders in respect of the HSBC Group's climate strategy, the climate impact of a product or service, or the commitments of its customers.

Climate risk may also have an impact on model risk, as the uncertain impacts of climate change as well as data and methodology limitations present challenges to creating reliable and accurate model outputs.

In addition, there is increasing evidence that a number of nature-related risks beyond climate change – which include risks that can be represented more broadly by impact and dependency on nature – can and will have significant economic impact. These risks arise when the provision of natural services including water availability, air quality, and soil quality, is compromised by overpopulation, urban development, natural habitat and ecosystem loss, ecosystem degradation arising from economic activity and other environmental stresses beyond climate change. They can show themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both the Group and its customers.

In 2022, the HSBC Group conducted a comprehensive review of the human rights issues that are salient for the HSBC Group, which are the human rights at risk of most severe negative impact through the HSBC Group's business activities and relationships. These issues include the right to decent work, including freedom from slavery and forced labour and the right to equality and freedom from discrimination, amongst others. The HSBC Group's analysis focused on the risk to people, while recognising that where this risk is at its highest, it often converges with material risk to the business, specifically, in the HSBC Group's role as employer, buyer, investor, and provider of products and services to personal and business clients. Failure to manage this risk may negatively impact people and communities, which in turn may have reputational, legal, regulatory and financial consequences for the HSBC Group and the Group.

In respect of all ESG-related risks, the Group also needs to ensure that its strategy and business model, including the products and services it provides to customers and risk management processes (such as processes to measure and manage the various financial and non-financial risks the Group faces as a result of ESG-related matters) adapt to meet regulatory requirements and stakeholder and market expectations, which continue to evolve significantly and at pace. Achieving the HSBC Group's strategy with respect to ESG matters, including any ESG-related ambitions, commitments and targets that the HSBC Group may set, will depend on a number of different factors outside of the Group's control, such as advancements in technologies and supportive public policies in the UK. If these external factors and other changes do not occur, or do not occur on a timely basis, the Group may fail to assist the HSBC Group in achieving its ESG-related ambitions, commitments and targets.

In order to track and report on its progress against its ESG-related ambitions, commitments and targets, the HSBC Group relies on internal and, where appropriate and available, external data sources, guided by certain industry standards. While ESG-related reporting has improved over time, data remains of limited quality and consistency exposing the HSBC Group and the Group to the risk of using incomplete and inaccurate data and models which could result in sub-optimal decision making. Methodologies, data and industry standards that the Group and the HSBC Group have used may develop over time in line with market practice, regulation and/or developments in science, where applicable. Any such developments in methodologies, and changes in the availability and quality of data over time could result in revisions to the HSBC Group's and the Group's internal measurement frameworks as well as reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year. This could also result in the HSBC Group having to re-evaluate its progress towards its ESG-related ambitions, commitments and targets in the future, and this could result in reputational, legal and regulatory risks for the HSBC Group and the Group.

If any of the above risks materialise, this could have financial and non-financial impacts for the HSBC Group which could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations, reputation, prospects and strategy.

7. *The Group operates in markets that are highly competitive*

The Group competes with other financial institutions in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reform, including the Directive (EU) 2015/2366 (the EU's Second Payment Services Directive) ("**PSD2**") and its implementation in the UK, and the Competition and Markets Authority's directions on Open Banking ("**Open Banking**") in the UK, as well as increased public scrutiny and a continued challenging macro-economic environment.

The Group targets clients based on their outlook and attitudes towards financial health. The Group generally competes on the basis of the quality of its customer service; the wide variety of products and services that the Group can offer its customers; the ability of those products and services to satisfy its customers' needs; the extensive distribution channels available for its customers; its innovation; and its reputation. Continued and increased competition in any one or all of these areas may negatively affect the Group's market share and/or cause it to increase its capital investment in its businesses in order to remain competitive. Additionally, the Group's products and services may not be accepted by its targeted clients.

In many markets, there is increased competitive pressure to provide products and services at current or lower prices.

Consequently, the Group's ability to reposition or reprice its products and services from time to time may be limited, and could be influenced significantly by the actions of its competitors who may or may not charge similar fees for their products and services. Any changes in the types of products and services that the Group offers its customers, and/or the pricing for those products and services, could result in a loss of customers and market share.

Developments in technology and changes to regulations are enabling new entrants to the industry. This challenges the Group to continue innovating and taking advantage of new digital capabilities so that the Group can improve how it serves its customers, drives efficiency and adapts its products to attract and retain customers. As a result, the Group may need to increase its investment in its business to adapt or develop products and services to respond to its customers' evolving needs. The Group also needs to ensure that new digital capabilities do not weaken its resilience. If the Group fails to develop and adapt its products and services to take advantage of new digital capabilities, this could have an adverse impact on its business.

The digitisation of financial services continues to have an impact on the payments ecosystem, including new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as financial institutions. This presents ongoing challenges in terms of maintaining required levels of payment transparency, notably where financial institutions serve as intermediaries. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus.

Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

8. *Market fluctuations may reduce the Group's income or the value of its portfolios*

The Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that the Group's customers act in a manner inconsistent with its business, pricing and hedging assumptions.

Market pricing can be volatile, and ongoing market movements could significantly affect the Group in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. For example, a change in the interest rate environment could affect prepayment activity and this could change the weighted average lives of the Group's interest-earning assets, which could in turn have a material adverse effect on the Group's income. Further, changes in interest rates and credit spreads could impact the value of Group's investment portfolios. For example, changes in interest rates could have an adverse impact on the value of the Group's portfolio of financial investments measured at fair value through other comprehensive income, which are classified as hold-to-collect-and-sell. Any changes in the value of such instruments is recognised in the Group's equity and this could, therefore, have an impact on the Group's

capital position. The potential for future volatility and margin changes remains. See "*The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results*" regarding the impact of geopolitical and social developments on the interest rate environment.

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Group's ability to change interest rates applying to customers in response to changes in official and wholesale market rates.

The Group's pension plan is exposed to market risk from its assets and liabilities. The liability discount rate provides exposure to interest rate risk, credit spread risk and inflation risk which are only partially offset by fixed interest assets and swaps.

It is difficult to predict with any degree of accuracy changes in market conditions, and such changes could have a material adverse effect on the Group's business, financial condition, results of operations, capital position and prospects.

9. *Concentration of credit and market risk could increase the Group's potential for losses*

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or are engaged in similar activities, or operate in the same geographical areas/industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Group has exposure to concentration risk where its business activities focus particularly on a single obligor or a similar type of customer, product, industrial sector or geographic location.

In particular, the Group has significant exposure to UK residential mortgages, the UK commercial real estate sector and retail banking. The Group's UK mortgage and retail banking portfolios are strongly linked to the UK economy, and further deterioration in the UK's economic environment (including as a result of increases in inflation and interest rate rises or the Russia-Ukraine war) could materially and adversely affect the credit quality of such portfolios. See "*Current economic and market conditions may adversely affect the Group's results*" and "*The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results.*" Additionally, any decreases in property values may also reduce the collateral values against the mortgage portfolios, which could negatively impact recovery values in default situations and lead to higher impairment charges.

The Group's efforts to diversify or manage its credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in its credit portfolio. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

10. *Liquidity, or ready access to funds, is essential to the Group's businesses*

The Group's ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the Group or the banking sector, including the Group's perceived or actual creditworthiness.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Group's funding, and the Group places considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in the Group's capital strength and liquidity, and on comparable and transparent pricing. Although deposits have been a stable source of funding historically, this may not continue.

The Group also plans to increase its access to wholesale markets in order to maintain a diversified portfolio of funding sources, provide funding for entities that do not accept deposits, to align asset and liability maturities and currencies, and to maintain a presence in the local market.

An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have a material adverse effect on the Group's liquidity.

Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase the Group's funding costs or challenge the Group's ability to raise funds to support or expand the Group's businesses.

If the Group is unable to raise sufficient funds through deposits and/or in the capital markets, the Group's liquidity position could be adversely affected, and the Group might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet the Group's obligations under committed financing facilities or to fund new loans, investments and businesses.

The Group may need to liquidate unencumbered assets to meet its liabilities, including disposals of assets to reduce its funding commitments. In a time of reduced liquidity, the Group may be unable to sell some of its assets, or the Group may need to sell assets at reduced prices, which in any such case could materially adversely affect the Group's business, financial condition, capital position and results of operations and prospects.

11. ***A potential departure of Scotland from the UK could adversely affect the Group's operations***

A potential departure of Scotland from the UK could adversely affect the Group's operations in the UK, including Scotland. These operations could be adversely affected by a lack of legal harmonisation across the UK, including through the further devolution of powers to the Scottish Parliament. For example, differences in regulatory regimes or differing tax legislation between Scotland and England may result in additional compliance and other costs for the Group or adversely impact the financial performance and prospects of its customers.

The UK's exit from the EU and the political response to Covid-19 have also caused increased constitutional tension within the UK. The majority of voters in the May 2021 Scottish Parliament elections voted for parties campaigning for Scottish independence and the new First Minister of Scotland has committed to seek a second referendum on Scottish independence. If such a referendum resulted in Scotland leaving the UK, this could impact the Group's business and financial performance.

Moreover, a future departure of Scotland from the UK could impact the fiscal, monetary and regulatory landscape to which the Group is subject. While the operational consequences of independence remain uncertain, it could have an adverse effect on the Group's business, prospects and results of operations as a result of, for instance, (i) changes to the economic climate in Scotland and political and policy developments, (ii) changes to Scottish law, regulation accounting or administrative practice in Scotland, and/or (iii) Scotland not continuing to use pounds sterling as its base currency. Risks and uncertainties associated with a departure of Scotland from the UK could materialise both before any referendum for independence takes place and, in addition, in the case of a vote for independence, after the referendum but before independence. The final negotiated terms of independence, as well as the risks and uncertainty created, could have an adverse impact on the Group's business and financial performance more generally.

Macro-prudential, regulatory and legal risks to the Group's business model

12. ***The Group is subject to numerous new and existing legislative and regulatory requirements, and is subject to the risk of failure to comply with applicable regulations***

The Group's businesses are subject to ongoing regulation policies, voluntary codes of practice and interpretations in the UK and the EU. A number of regulatory changes impacting the Group's business have effects beyond the country in which they are enacted.

In recent years, regulators in the UK and EU have focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted, including Open Banking, the Financial Conduct Authority's ("FCA") call for input on Open Finance and resulting feedback statement, the FCA's "Retail Distribution Review", "Mortgage Market Review", and reforms to the way banks, including the Group, charge for overdrafts as part of its "High-Cost Credit Review", which are now in force.

Specific areas where regulatory changes could have a material effect on the Group's business, financial condition, results of operations, prospects, capital position, and reputation, strategy and current and anticipated areas of particular focus for the Group's regulators include, but are not limited to:

- the increasing focus by regulators, international bodies, organisations and unions on how institutions conduct business, particularly with regard to the delivery of fair outcomes for customers, promoting effective competition in the interests of consumers and ensuring the orderly and transparent operation of global financial markets. Relevant changes include measures resulting from ongoing thematic reviews into the workings of the retail, small to medium enterprises and wholesale banking sectors and the provision of financial advice to consumers in the UK, as well as the introduction of the FCA's new standards of consumer protection across financial services (the "**UK Consumer Duty**"). The UK Consumer Duty sets out a new FCA principle for businesses that will require the Issuer and other firms within the Group that are subject to FCA regulation to act to deliver good outcomes for retail customers in relation to their products and services, price and value, consumer understanding and consumer support. The principle is supplemented by specific conduct standards to act in good faith towards consumers, avoid foreseeable consumer harm and to enable customers to pursue their financial objectives. In order to implement the UK Consumer Duty, which will largely begin to apply to the Group from 31 July 2023, the Group has undertaken a review of, and made changes to, its products, services, policies, systems and procedures. Failure to comply with the requirements of the UK Consumer Duty may result in the FCA taking supervisory and enforcement measures against the Group. A number of the issues underlying these measures have been exacerbated by the cost of living crisis affecting the UK and the EU, and the Group may see further regulatory intervention as a result, in particular to protect vulnerable customers;
- the regulatory focus on policies and controls related to the unauthorised use by employees of electronic communications on non-business platforms;
- the implementation of conduct and other measures as a result of regulators' focus on organisational culture, employee behaviour and whistleblowing;
- the demise of certain interbank offered rates ("**Ibors**") and the transition to new replacement rates (as discussed further under "*The Group may not manage risks associated with the replacement of benchmark rates and indices effectively*");
- reviews of regulatory frameworks applicable to the wholesale financial markets, including reforms and other changes to conduct of business, listing, securitisation and derivatives related requirements;
- the focus globally on technology adoption and digital delivery, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, payments and related infrastructure, operational resilience, virtual currencies (including central bank digital currencies and global stablecoins) and cybersecurity. This also includes the introduction of new and/or enhanced regulatory standards in these areas;
- following the ongoing focus on the quality of regulatory reporting, the HSBC Group commissioned a number of independent external reviews which have so far resulted in enhancements to its RWAs and liquidity coverage ratio ("**LCR**") through improvements in reporting accuracy. The HSBC Group's prudential regulatory reporting programme is being phased in over a number of years, prioritising RWA, capital and liquidity reporting in the early stages of the programme. While this programme continues there may be further impacts on some of the Group's regulatory ratios, such as the common equity tier 1 ratio ("**CET1**"), LCR and the net stable funding ratio;
- the increased supervisory expectations arising from expanding and increasingly complex regulatory reporting obligations, including expectations on data integrity and associated governance and controls;
- increasing regulatory expectations of firms in relation to governance and risk management frameworks, particularly for the management of climate change, diversity and inclusion and other ESG risks as well as enhanced ESG disclosure and reporting obligations;
- the financial effects of climate risk and other ESG-related risks being incorporated within the global prudential framework, including the transition risks resulting from a shift to a low carbon economy;

- the focus by governments and regulators on ESG-related considerations around supply chains, including the introduction of requirements imposing associated due diligence obligations;
- the continued evolution of the UK's regulatory framework following the UK's withdrawal from the EU, including potential future changes to be introduced through the FSM, the Edinburgh Reforms, and similar changes regarding the access of UK and other non-EU financial institutions to EU markets, for example, in light of proposals within the EC's CRD VI package which could restrict cross border activity by non-EU firms without a branch in the EU. For further details, see "*The UK's trading relationship with the EU, following the UK's withdrawal from the EU, may adversely affect the Group's operating model and financial results*";
- the final report of the independent panel appointed by HM Treasury to undertake a statutory review of the UK regime for ring-fencing and proprietary trading which made a number of recommendations to improve the operation of ring-fencing that are now under further consideration by HM Treasury and which may impact the HSBC Group's operations;
- the implementation of the outstanding reforms to the Basel III standards in the UK ("**Basel 3.1**"), which include significant changes to the RWA approaches to credit risk, market risk, operational risk, and credit valuation adjustments, and the implementation of an RWA output floor for banks that use internal models to calculate RWA. The proposed changes will require the Group to carefully consider its business models and strategy, as well as due diligence, governance and external data requirements and may impact the Group's capital ratios. The PRA has proposed to implement Basel 3.1 in the UK from 1 January 2025, with a five-year transitional period to 2030 for the implementation of the RWA output floor and certain of the other reforms;
- requirements regarding remuneration arrangements and regarding senior management accountability more generally within the Group (for example, the requirements of the Senior Managers and Certification Regime in the UK and elsewhere that are either in effect or under consideration/implementation);
- changes in national or supra-national requirements regarding the ability to outsource the provision of services and resources offshore or to transfer material risk to financial institutions located in other countries, which impact the HSBC Group's ability to implement globally consistent and efficient operating models;
- ongoing expectations with respect to managing emerging financial crime risks, specifically as they relate to digital assets, an evolving payments infrastructure, national data privacy requirements, and fraud, and the unprecedented volume and diverse set of economic sanctions and trade restrictions adopted in response to the Russia-Ukraine war, as well as those emerging from challenging geopolitical conditions;
- the regulatory focus on the various risks and impacts from the Russia-Ukraine war, in relation to market reactions/volatility, credit exposures and cyber and resilience issues and the corresponding conduct risks;
- requirements flowing from arrangements for the resolution strategy of the HSBC Group's individual operating entities that may have different effects in different countries; and
- the increasing regulatory expectations and requirements relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions.

13. ***The Group may not manage risks associated with the replacement of benchmark rates and indices effectively***

Ibors have previously been used extensively to set interest rates on different types of financial transactions and for valuation purposes, risk measurement and performance benchmarking.

Key benchmark rates and indices, including Ibors such as the London interbank offered rate ("**Libor**") have been the subject of national, international and other regulatory scrutiny and reform for a number of years. This has resulted in significant changes to the methodology and operation of certain benchmarks and indices, the adoption of replacement near risk free rates ("**RFRs**") and the proposed discontinuation of

certain reference rates (including Libor). From the end of December 2021, the European Money Markets Institute ("EMMI") ceased publication of the Euro Overnight Index average ("Eonia") and ICE Benchmark Administration Limited ("IBA") ceased publication of all sterling, Euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar Libor settings and replacement RFRs have been adopted in their place. All remaining US dollar Libor settings will cease immediately after 30 June 2023. The FCA used its regulatory powers to compel IBA to publish a number of sterling and Japanese Yen Libor settings on an alternative methodology basis (so-called "synthetic Libor") from 1 January 2022 for an undetermined period of time. In September 2022, the FCA announced that the publication of three-month sterling synthetic Libor will cease at the end of March 2024. Based on its November 2022 consultation, the FCA decided to require Libor's administrator, ICE Benchmark Administration Limited, to continue the publication of the one-month, three-month and six-month US dollar Libor settings until 30 September 2024, using an unrepresentative 'synthetic' methodology.

The continued existence of legacy contracts in benchmark rates that demised from the end of 2021, so called 'tough legacy,' and legacy contracts referencing other Ibors that are expected to demise at a later date, notably a number of US dollar Libor settings, results in several risks for the Group, its clients, and the financial services industry more widely. These include but are not limited to:

- regulatory compliance, legal and conduct risks, that arise from the transition of legacy contracts to RFRs or alternative rates and from the sales of products referencing RFRs could lead to unintended or unfavourable outcomes for clients and market participants. These risks could be heightened if the Group's sales processes and procedures are not appropriately adapted or executed to detail the risks and complexity of the RFR market conventions;
- legal risks are associated with legacy contracts that the Group is unable to transition and legacy contracts that rely on the use of legislative solutions, such as 'synthetic' Libor. If the Group is unable to transition legacy contracts this could lead to reliance on fallback provisions which do not contemplate the permanent cessation of the relevant Ibor, and there is a risk that these fallback provisions will not work from a contractual, practical or financial perspective, potentially resulting in unintended outcomes for clients. While legislative solutions are (in some circumstances) expected to assist market participants and investors with transitioning contracts or mitigating risks associated with 'tough legacy' contracts, there remains some uncertainty around the operation, application and enforceability of such solutions as well as their longevity. For legacy contracts that utilise 'synthetic' Libor there is a risk that the Group is unable to transition such contracts to a new RFR or alternative rate before the relevant 'synthetic' Libor is discontinued. This could lead to reliance on the above mentioned fallback provisions. Each of these issues could result in unintended or unfavourable outcomes for clients and market participants and this could potentially increase the risk of disputes;
- resilience and operational risks, resulting from changes to manual and automated processes, made in support of new RFR methodologies, and the transition of large volumes of Ibor contracts may lead to operational issues. In particular, there is a risk that the Group's systems, processes and controls have not been appropriately adapted to account for new RFR methodology changes or fallback provisions, leading to complaints and disputes;
- financial and market risks result from differences in Ibors and their replacement RFRs, the RFR interest rate levels which create a basis risk in the trading book and banking book due to asymmetric adoption across assets, liabilities and products that the Group needs to actively manage through appropriate financial hedging. Additionally, the current stage of the term Secured Overnight Financing Rate ("SOFR") market presents challenges for certain hedge accounting strategies. There are also financial reporting and tax risks, relating to potential mis-statements that continue to exist due to the complexity in applying accounting reliefs relating to amendments of legacy contracts. An increased amount of loan contracts that could meet de-recognition criteria could increase the burden on business as usual processes, and monitoring. Additionally, for cleared derivatives the mechanisms used by clearing houses to transition trades could result in additional complexity to identify true contracts for financial reporting; and
- model risk resulting from changes to the Group's models, to replace Ibor-related data, which could adversely affect the accuracy of model outputs.

If any of these risks materialises, this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and customers.

14. *The Group is subject to the risk of current and future legal, regulatory or administrative actions and investigations, the outcomes of which are inherently difficult to predict*

The Group faces significant risks in its business relating to legal, regulatory or administrative actions and investigations. The volume and complexity of litigation, regulatory proceedings, investigations, administrative actions and other adversarial proceedings against financial institutions remain high and the amount of damages claimed is increasing for many reasons, including a substantial increase in the number of regulatory changes taking place globally, increasing focus from regulators, investors and other stakeholders on ESG disclosures, including in relation to the measurement and reporting of such matters as both local and international standards in this area continue to significantly evolve and develop, increased media attention and higher expectations from regulators and the public. In addition, criminal prosecutions of financial institutions for, among other things, alleged conduct breaches, breaches of anti-money laundering, anti-bribery, anti-corruption and sanctions and counter-terrorist financing regulations, antitrust violations, market manipulation, and aiding and abetting tax evasion, have become more commonplace and may increase in frequency due to increased media attention and higher expectations from regulators and the public.

Any such legal, regulatory or administrative action or investigation against the Group or one or more of its subsidiaries could result in, among other things, substantial fines, civil penalties, criminal penalties, cease and desist orders, forfeitures, the suspension or revocation of key licences, requirements to exit certain businesses, other disciplinary actions and/or withdrawal of funding from depositors and other stakeholders. Any threatened or actual litigation, regulatory proceeding, administrative action, investigation or other adversarial proceedings against the Group or one or more of its subsidiaries could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation. Additionally, the Group's financial statements reflect provisioning for legal proceedings, regulatory and customer remediation matters. Provisions for legal proceedings, regulatory and customer remediation matters, such as, for example, the customer redress programme related to and any legal claims resulting from the mis-selling of payment protection insurance policies, typically require a higher degree of judgement than other types of provisions, and the actual costs resulting from such proceedings and matters may exceed existing provisioning.

Additionally, as described in Note 26 ("*Legal proceedings and regulatory matters*") on page 121 in the Issuer's 2022 Annual Report and Accounts (as defined in the "Documents Incorporated by Reference" section), the Group and its subsidiaries continue to be subject to a number of material legal proceedings, regulatory actions and investigations, the outcomes of which are inherently difficult to predict, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. Moreover, the Group may face additional legal proceedings, investigations or regulatory actions in the future, including in other jurisdictions and/or with respect to matters similar to, or broader than, the existing legal proceedings, investigations or regulatory actions. An unfavourable result in one or more of these proceedings could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

15. *The Group may fail to meet the requirements of regulatory stress tests*

As described under "Risk Review – How we manage our risks – Stress testing" on page 18 in the Issuer's 2022 Annual Report and Accounts, the Group is subject to regulatory stress testing. These exercises are designed to assess the resilience of banks to potential adverse economic or financial developments and ensure that they have robust, forward-looking capital planning processes that account for the risks associated with their business profile. Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on the Group's data provision, stress testing capability and internal management processes and controls.

Failure to meet quantitative or qualitative requirements of regulatory stress test programmes, or the failure by regulators to approve the Group's stress test results and capital plans, could result in the Group being required to enhance its capital position and/or position additional capital in specific subsidiaries, and this could, in turn, have a material adverse effect on the Group's business, financial condition, results of operations, prospects, capital position and reputation.

16. ***The Securities and the Issuer will be subject to certain bank resolution powers under the Banking Act***

Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (as amended, supplemented or replaced from time to time, the "**BRRD**") provides an EU-wide framework for the recovery and resolution of credit institutions and their parent companies and other group companies. The BRRD is designed to provide relevant authorities with a set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. In the UK, the Banking Act 2009, as amended (the "**Banking Act**"), has implemented the majority of the provisions of the BRRD, and was amended by, amongst other statutory instruments, The Bank Recovery and Resolution (Amendment) (EU Exit) Regulations 2020, which implement into UK law certain of the recent amendments to BRRD which were required to be implemented prior to IP completion day (as defined in the European Union (Withdrawal Agreement) Act 2020).

a. Statutory intervention powers

The Issuer is subject to the Banking Act, which gives wide powers in respect of UK financial institutions and their parent and other group companies to HM Treasury, the BoE, the Prudential Regulation Authority ("**PRA**") and/or the FCA (each a relevant UK resolution authority ("**relevant UKRA**") in circumstances where a UK bank has encountered or is likely to encounter financial difficulties. These powers include powers to: (a) transfer all or some of the securities issued by a UK bank or its parent, or all or some of the property, rights and liabilities of a UK bank or its parent (which would include Securities issued by the Issuer), to a commercial purchaser or, in the case of securities, to HM Treasury or an HM Treasury nominee, or, in the case of property, rights or liabilities, to an entity owned by the BoE; (b) override any default provisions, contracts, or other agreements, including provisions that would otherwise allow a party to terminate a contract or accelerate the payment of an obligation; (c) commence certain insolvency procedures in relation to a UK bank; and (d) override, vary or impose contractual obligations, for reasonable consideration, between a UK bank or its parent and its group undertakings (including undertakings which have ceased to be members of the group), in order to enable any transferee or successor bank of the UK bank to operate effectively. The Banking Act also gives power to HM Treasury to make further amendments to the law for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

b. Write-down and conversion of capital instruments and liabilities powers and/or bail-in powers

The powers granted to the relevant UKRA also include powers to vary or extinguish the claims of certain creditors. These powers include a "write-down and conversion of capital instruments and liabilities" power and a "bail-in" power.

The write-down and conversion of capital instruments and liabilities power may be used where the relevant UKRA has determined that the institution concerned has reached the point of non-viability, but that no bail-in of instruments other than capital instruments or (where the institution concerned is not a resolution entity) certain internal non-own funds liabilities ("**relevant internal liabilities**") is required (however the use of the write-down and conversion power does not preclude a subsequent use of the bail-in power) or where the conditions to resolution are met. Any write-down or conversion effected using this power must be carried out in a specific order such that common equity must be written off, cancelled or appropriated from the existing shareholders in full before additional tier 1 instruments are affected and additional tier 1 instruments must be written off or converted in full before tier 2 instruments are affected and (in the case of a non-resolution entity, such as the Issuer) tier 2 instruments must be written off or converted in full before relevant internal liabilities are affected. Where the write-down and conversion of capital instruments and liabilities power is used, the write-down is permanent and investors receive no compensation (save that common equity tier 1 ("**CET1**") instruments may be required to be issued to holders of written-down instruments). The write-down and conversion of capital instruments and liabilities power is not subject to the "no creditor worse off" safeguard (unlike the bail-in power described below).

The bail-in power gives the relevant UKRA the power to cancel all or a portion of the principal amount of, or interest on, certain unsecured liabilities (which could include any unsecured Securities) of a failing financial institution or its holding company, to convert certain debt claims (which could be amounts payable under any unsecured Securities) into another security, including ordinary shares of the surviving entity or

its holding company, if any and/or to amend or alter the terms of such claims, including the maturity of the Issuer's unsecured Securities or amendment of the amount of interest payable on the unsecured Securities, or the date on which interest becomes payable, including by suspending payment for a temporary period. The Banking Act requires the relevant UKRA to apply the bail-in power in accordance with a specified preference order which differs from the ordinary insolvency order. In particular, the relevant UKRA must write-down or convert debts in the following order: (i) additional tier 1, (ii) tier 2, (iii) other subordinated claims and (iv) certain senior claims. The claims of some creditors whose claims would rank equally with those of unsecured holders of Securities may be excluded from bail-in. The more of such creditors there are, the greater will be the impact of bail-in on such holders of Securities. The bail-in power is subject to the "no creditor worse off" safeguard, under which any shareholder or creditor which receives less favourable treatment following the exercise of the bail-in power than they would have had if the institution entered into insolvency may be entitled to compensation.

Moreover, pursuant to the exercise of the bail-in power, any securities that may be issued to holders of Securities upon conversion of any unsecured Securities may not meet the listing requirements of any securities exchange, and the Issuer's outstanding listed securities may be delisted from the securities exchanges on which they are listed. Any securities received by holders of Securities upon conversion of such unsecured Securities (whether debt or equity) may not be listed for at least an extended period of time, if at all, or may be on the verge of being delisted by the relevant exchange. Additionally, there may be limited, if any, disclosure with respect to the business, operations or financial statements of the issuer (which may be an entity other than the Issuer) of any securities issued upon conversion of such unsecured Securities, or the disclosure with respect to any existing issuer may not be current to reflect changes in the business, operations or financial statements as a result of the exercise of the bail-in power.

Furthermore, holders of Securities may have only limited rights to challenge and/or seek a suspension of any decision of the relevant UKRA to exercise the bail-in power (or any of its other resolution powers) or to have that decision reviewed by a judicial or administrative process or otherwise.

Although the exercise of the bail-in power under the Banking Act is subject to certain pre-conditions, there remains uncertainty regarding the specific factors (including, but not limited to, factors outside the control of the Group or not directly related to the Group) which the relevant UKRA would consider in deciding whether to exercise such power with respect to the Issuer and its securities (including any unsecured Securities). Moreover, as the relevant UKRA may have considerable discretion in relation to how and when it may exercise such power, holders of the Issuer's securities may not be able to refer to publicly available criteria in order to anticipate a potential exercise of such power and consequently its potential effect on the Issuer and its securities. In some circumstances, the relevant UKRA may decide to apply a deferred bail-in, where liabilities are not written down at the start of the resolution but are transferred to a depositary to hold during the bail-in period, with the terms of the write-down being determined at a later point in the bail-in period. Accordingly, it is not yet possible to assess the full impact of the exercise of the bail-in power pursuant to the Banking Act or otherwise on the Issuer.

c. Powers to direct restructuring of the Group

As well as a write-down and conversion of capital instruments and liabilities power and a bail-in power, the powers of the relevant UKRA under the Banking Act include the power to (i) direct the sale of the relevant financial institution or the whole or part of its business on commercial terms without requiring the consent of the shareholders or complying with the procedural requirements that would otherwise apply, (ii) transfer all or part of the business of the relevant financial institution to a "bridge institution" (an entity created for such purpose that is wholly or partially in public control) and (iii) separate assets by transferring impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only). In addition, the Banking Act gives the relevant UKRA power to amend the maturity date and/or any interest payment date of debt instruments or other eligible liabilities of the relevant financial institution, impose a temporary suspension of payments, discontinue the listing and admission to trading of debt instruments and/or transfer securities of the relevant financial institution to a third party appointed by the BoE.

The exercise by the relevant UKRA of any of the above powers under the Banking Act may limit the Issuer's capacity to meet its repayment obligation under the Securities and the exercise of any such powers (including especially the bail-in power) could lead to the holders of the Securities losing some or all of their investment.

Moreover, trading behaviour in relation to the securities of the Issuer, including market prices and volatility, may be affected by the use of, or any suggestion of the use of, these powers and accordingly, in such circumstances, the Securities are not necessarily expected to follow the trading behaviour associated with other types of securities. There can be no assurance that the taking of any actions under the Banking Act by the relevant UKRA or the manner in which its powers under the Banking Act are exercised will not materially adversely affect the rights of holders of the Securities, the market value of an investment in the Securities and/or the Issuer's ability to satisfy its obligations under the Securities.

Although the Banking Act also makes provision for public financial support to be provided to an institution in resolution subject to certain conditions, it provides that the financial public support should only be used as a last resort after the relevant UKRA has assessed and exploited, to the maximum extent practicable, all the resolution tools, including the bail-in power. Accordingly, it is unlikely that investors in the Securities will benefit from such support even if it were provided.

If any of these risks materialise, this could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, customers and reputation.

17. *The Group is subject to tax-related risks*

The Group is subject to the substance and interpretation of UK tax laws and is subject to routine review and audit by tax authorities in relation thereto. The Group's interpretation or application of these tax laws may differ from those of the relevant tax authorities, and the Group provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts provided depending on the ultimate resolution of such matters. In addition, potential changes to tax legislation and tax rates in the UK could increase the Group's effective tax rate in the future and have a material adverse effect on the Group's business, financial condition, results of operations, prospects and capital position.

Risks related to the Group's operations

18. *The Group's operations are highly dependent on the HSBC Group's information technology systems*

HSBC Group operates in an extensive and complex technology landscape, which must remain resilient in order to support customers, the Group and markets globally. Risks arise where technology is not understood, maintained, or developed appropriately. The reliability and security of the HSBC Group's information technology infrastructure is crucial to the Group's provision of financial services to its customers and protecting the HSBC brand. The effective functioning of the HSBC Group's payment systems (including the Group's payment systems), financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, the communication networks between the Group's branches and main data processing centres, and the ability of the Group's customers to access their accounts, are important to the Group's operations.

Critical system failure, prolonged service unavailability or a material breach of data security, particularly of confidential customer data, could compromise the Group's ability to serve its customers. This could breach regulations and could cause long-term damage to the Group's business and brand that could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

19. *The Group is susceptible to a wide range of cyber risks that impact and/or are facilitated by technology*

The threat of cyber-attacks remains a concern for the Group, as it does across the entire financial sector. As cyber-attacks continue to evolve, failure to protect the Group's operations may result in disruption for customers, manipulation of data or financial loss. This could have an adverse impact on the Group's customers and reputation.

Adversaries attempt to achieve their objectives by compromising the Group and related third party systems. They use techniques that include malware (including ransomware), exploitation of both known and unpublished (zero-day) vulnerabilities in software, phishing emails, distributed denial of service, as well as potentially physical compromise of premises, or coercion of staff. The Group's customers may also be subject to these constantly evolving cyber-attack techniques. The Group, like other financial institutions,

experiences numerous attempts to compromise its cyber security. The Group expects to continue to be the target of such attacks in the future.

Cybersecurity risks will continue to increase, due to continued increase of services delivered over the internet; increasing reliance on internet-based products, applications and data storage; and an increased use of hybrid working models by the Group's employees, contractors, third-party service providers and their sub-contractors.

A failure in the Group's adherence to its cyber security policies, procedures or controls, employee wrongdoing, or human, governance or technological error could also compromise the Group's ability to defend against cyber-attacks. Should any of these cybersecurity risks materialise, they could have a material adverse effect on the Group's customers, business, financial condition, results of operations, prospects, and reputation.

20. ***The Group could incur losses or be required to hold additional capital as a result of model limitations or failure***

The Group uses models for a range of purposes in managing its business, including regulatory capital calculations, stress testing, credit approvals, calculation of ECLs on an IFRS 9 basis, financial crime and fraud risk management and financial reporting. The Group could face adverse consequences as a result of decisions that may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed, or by inherent limitations arising from the uncertainty inherent in predicting or estimating future outcomes. Regulatory scrutiny and supervisory concerns over banks' use of models is considerable, particularly the internal models and assumptions used by banks in the calculation of regulatory capital. If regulatory approval for key capital models is not achieved in a timely manner or if those models are subject to review and challenge, the Group could be required to hold additional capital. Evolving regulatory requirements have resulted in changes to the Group's approach to model risk management, which poses execution challenges. The adoption of more sophisticated modelling approaches including artificial intelligence related risks and technology by both the Group and the financial services industry could also lead to increased model risk. The Group's commitment to changes to business activities due to climate and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate related risks. Challenges such as uncertainty of the long dated impacts of climate change and lack of robust and high quality climate related data present challenges to creating reliable and accurate model outputs for these models.

The economic consequences of higher global inflation and significant increases in interest rates have impacted the reliability of model outputs beyond how IFRS 9 models have been built and calibrated to operate. Consequently, IFRS 9 models under the current economic conditions are generating outputs that do not accurately assess the actual level of credit quality in all cases. In order to calculate more realistic valuation of assets, compensating controls, such as post-model management adjustments based on expert judgement are required. Such compensating controls require a significant degree of management judgement and assumptions. There is a risk that future actual results/performance may differ from such judgements and assumptions. Significant increases in global inflation and interest rates have impacted the reliability and accuracy of both credit and market risk models. This has required increased monitoring of the models and recalibration of some of the models. Longer term, the models are likely to require redevelopment to take into account the effects of changes in rates and financial markets.

Model risk remains a key area of focus given the regulatory scrutiny in this area, with further developments in policy expected from regulators, including the PRA. Risks arising from the use of models could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, capital position and reputation.

21. ***The Group's operations use third-party suppliers and service providers***

The Group relies on third-party suppliers and service providers to supply goods and services. The use of third-party suppliers and service providers by financial institutions is of particular focus to global regulators. This includes how outsourcing decisions are made, how key relationships are managed and the Group's understanding of third-party dependencies and their impact on service provision.

The inadequate management of third-party risk could impact the Group's ability to meet strategic, regulatory and customer expectations. This may lead to a range of impacts, including regulatory censure, penalties or damage to the Group's reputation. This could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, capital position and reputation.

Risks related to the Group's governance and internal controls

22. *The delivery of the Group's strategic actions is subject to execution risk and the Group may not achieve all of the expected benefits of its strategic initiatives*

Effective management of transformation projects is required to effectively deliver the HSBC Group's strategic priorities, involving delivering both on externally driven programmes and key business initiatives to deliver growth, operational resilience and efficiency outcomes. The magnitude, complexity and, at times, concurrent demands of the projects required to meet these can result in heightened execution risk.

Oversight from regulators has increased and is likely to intensify. The delivery of an effective ESG target operating model also carries execution risk amidst a sophisticated regulatory environment. The focus of both the PRA and FCA on legal entity governance within the Group is increasing. Continued focus on managing the relationships with regulators, meeting their timelines and managing their expectations will be essential.

Examples of deliverables include: implementation of the FCA's guidelines on the UK Consumer Duty, climate related risk and the Ibor transition.

The HSBC Group's strategy has been supported by global trends, the continued economic development in emerging markets, growth of international trade and capital flows, and wealth creation, particularly in faster-growing markets. The HSBC Group has taken into consideration global trends, such as technology, customer needs and competition, along with its strategic advantages to help it better deploy capital. The development and implementation of the HSBC Group's strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions. The HSBC Group may fail to correctly identify the relevant factors in making decisions as to capital deployment and cost reduction. The HSBC Group may also encounter unpredictable changes in the external environment that are unfavourable to its strategy, such as the Russia-Ukraine war.

The Group's ability to assist in executing the HSBC Group's strategy may be limited by its operational capacity, the effectiveness of its change management controls, challenges in integrating any newly acquired business, including HSBC Innovation Banking (formerly Silicon Valley Bank UK Limited) into the Group's business and instituting and maintaining appropriate transitional arrangements and the potential for unforeseen changes in the market and/or regulatory environment in which the Group operates.

The economic outlook globally and in the UK continues to remain uncertain due to the likelihood of economic recession, heightened inflation, changes in legislation, the UK's relationship with the EU and geopolitical tensions. Therefore, there remains a risk that, in the absence of an improvement in economic conditions, the Group's cost and investment actions may not be sufficient to achieve the expected benefits. The failure to successfully deliver or achieve any of the expected benefits of these key strategic initiatives could have a material adverse effect on the Group's customers, business, financial condition, results of operations, prospects, operational resilience and reputation.

23. *The Group's data management and data privacy controls must be sufficiently robust to support the increasing data volumes and evolving regulations*

As the HSBC Group becomes more data-driven and the Group's business processes move to digital channels, the volume of data that the Group relies on has increased. In addition, the focus on technology, underpinned by customer protection, including the use of artificial intelligence and digital assets (data, identity and disclosures), financial technology risks, operational resilience, virtual currencies (including central bank digital currencies and global stablecoin) and cybersecurity and the introduction of new and/or enhanced standards in this area has increased. As a result, management of data (including data retention and deletion, data quality, data privacy and data architecture) from creation to destruction must be robust and designed to identify quality and availability issues. Inadequate data management could result in negative impacts to customer service, business processes, or require manual intervention to reduce the risk of errors in reporting to senior management, executives or regulators.

Expanding data privacy, national security and cyber security laws in a number of markets could pose potential challenges to intra-group data sharing. These developments could increase financial institutions' compliance obligations in respect of cross-border transfers of personal information, and may affect the Group's ability to manage financial crime risks across markets.

In addition, failure to comply with data privacy laws and other legislation in the jurisdictions in which the Group operates may result in regulatory sanctions. Any of these failures could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

24. *Third parties may use the Group as a conduit for illegal activities without the Group's knowledge*

The Group is required to comply with applicable financial crime laws and regulations, and has adopted various policies, procedures and controls aimed at preventing the exploitation of the Group's products and services for criminal activity. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. There are instances, as permitted by regulation, where the Group may rely upon counterparties to undertake certain financial crime risk management activities on the Group's behalf. While permitted by regulation, such reliance may not prevent third parties from using the Group (and the Group's relevant counterparties) as a conduit for financial crime, without the Group's knowledge (and that of those counterparties).

Becoming a party to, associated with, or even accusations of being associated with, financial crime could damage the Group's reputation and could make it subject to fines, sanctions and/or legal enforcement. Any one of these outcomes could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

25. *The Group may suffer losses due to employee misconduct*

The Group's businesses are exposed to risk from potential non-compliance with the HSBC Group's policies, including the HSBC Values, and related behaviours and employee misconduct such as fraud, negligence or non-financial misconduct, all of which could result in regulatory sanctions and/or reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of rogue employees. It is not always possible to deter employee misconduct, and the precautions the Group takes to prevent and detect this activity may not always be effective. Misconduct risks could be increased if prevent-and-detect measures are less effective because of remote and home working. Employee misconduct, or regulatory sanctions if a regulator deems the Group's actions to deter such activity to be insufficient, could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

26. *The Group's risk management measures may not be successful*

The management of risk is an integral part of all the Group's activities. Risk constitutes the Group's exposure to uncertainty and the consequent variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including retail and wholesale credit risk, market risk, non-traded market risk, operational risk, concentration risk, liquidity and funding risk, litigation risk, conduct risk, reputational risk, strategic risk, pension risk and regulatory risk.

While the Group employs a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately or regulatory sanctions if a regulator deems the Group's risk management measures to be insufficient could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, capital position, strategy and reputation.

27. *The emergence of digital currencies and the potential for increased disintermediation pose a risk to the Group's business and operations*

Over the past few years, digital assets have been a growing part of the financial landscape bringing with them increased competition and financial risk. The range of these assets has expanded to include, among others, Central Bank Digital Currencies and cryptocurrencies. The increased development of digital currencies and the growing focus of monetary and regulatory authorities on cryptocurrencies pose significant disintermediation risk, particularly in relation to processes involving the transfer of money between parties. This could result in a more direct linkage between currency providers and payment

participants, reducing frictions existing in the current value chain, to the detriment of intermediaries such as the Group. Moreover, cryptocurrencies could reduce the requirement for foreign exchange and payment intermediaries (such as the Group) as peer-to-peer transactions can take place across borders using a common means of exchange, regardless of where in the world the participants in the transactions are situated. The occurrence of any of these circumstances could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Risks related to the Group's business

28. *The Group relies on recruiting, retaining and developing appropriate senior management and skilled personnel*

Meeting the demand to recruit, retain and develop appropriate senior management and skilled personnel remains subject to a number of challenges. These include rapidly changing skill requirements and ways of working, the evolving regulatory landscape plus increased requirements and expectations regarding diversity. Ongoing talent shortages and capabilities, particularly where those with the scarce capabilities are globally mobile, add to the complexity of the Group's supply challenge.

The Group's continued success and implementation of its growth strategy depends in part on the retention of key members of its management team and wider employee base, the availability of skilled management in each of its business units, and the ability to continue to attract, train, motivate and retain highly qualified professionals, each of which may depend on factors beyond the Group's control, including economic, market and regulatory conditions, and the impact of the cost of living crisis on financial health and well-being. In addition, the HSBC Group announced goals in relation to increasing the representation of women and Black heritage employees in senior leadership roles by 2025. If the HSBC Group fails to achieve these goals, the Group's ability to attract and retain qualified professionals may be negatively affected.

If one of the Group's business units fails to staff its operations appropriately or loses one or more of their key senior executives and fails to successfully replace them in a satisfactory and timely manner, or fails to implement successfully the organisational changes required to support the Group's strategy, the Group's business, financial condition, results of operations, reputation and prospects, including control and operational risks, could be materially adversely affected.

29. *The Group's business has inherent reputational risk*

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the Group or a member of the HSBC Group, the Group's employees or those with whom the Group is associated. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. Stakeholder expectations constantly evolve, and so reputational risk is dynamic and varies between geographical regions, groups and individuals. In addition, the Group's business faces increasing scrutiny in respect to ESG-related matters. If the Group fails to act responsibly, or to contribute to the achievement of the HSBC Group's announced targets, commitments, goals or ambitions, in a number of areas, such as diversity and inclusion, climate change, sustainability, workplace conduct, human rights, and support for local communities, the Group's reputation and the value of its brand may be negatively affected.

Modern technologies, in particular online social media channels and other broadcast tools that facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the distribution and effect of damaging information and allegations. Reputational risk could also arise from negative public opinion about the actual, or perceived, manner in which the Group conducts its business activities, or its financial performance, as well as actual or perceived practices in banking and the financial services industry generally. Negative public opinion may adversely affect the Group's ability to retain and attract customers, in particular, depositors, and to retain and motivate staff, and could have a material adverse effect on the Group's business, financial condition, results of operations, prospects and reputation.

30. *Non-financial risks are inherent in the Group's business, including the risk of fraudulent activity*

The Group is exposed to many types of non-financial risks that are inherent in its operations. Non-financial risk can be defined as the risk to the Group of achieving its strategy or objectives as a result of inadequate

or failed internal processes, people and systems, or from external events. It includes fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures, breaches of regulations or law, financial crime, and financial reporting, tax errors and external events and systems failure or non-availability. These risks are also present when the Group relies on outside suppliers or vendors to provide services to the Group and its customers.

In particular, fraudsters may target any of the Group's products, services and delivery channels, including lending, internet banking, payments, bank accounts and cards. These non-financial risks may result in financial losses to the Group and/or its customers, an adverse customer experience, reputational damage and potential litigation, regulatory proceeding, administrative action or other adversarial proceeding in any jurisdiction in which the Group operates, depending on the circumstances of the event. The adoption of the Contingent Reimbursement Code has increased customer protection from Authorised Push Payment scams which has the risk of significant additional costs, including contributions to industry funding of "no blame" claims.

These non-financial risks could have a material adverse effect on the Group's business, financial condition, results of operations, prospects, capital position, strategy and reputation. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Group will necessarily be unable to comply with its obligations as a company with securities admitted to the Official List or as a supervised firm regulated by the FCA and the PRA.

31. *Any reduction in the credit rating assigned to the Issuer or any of its Securities could increase the cost or decrease the availability of the Group's funding and materially adversely affect the Group's liquidity position and/or net interest margin*

Credit ratings affect the cost and other terms upon which the Group is able to obtain market funding. Rating agencies regularly evaluate the Issuer, as well as its Securities. Their ratings are based on a number of factors, including their assessment of the relative financial strength of the Issuer, as well as conditions affecting the financial services industry generally. There can be no assurance that the rating agencies will maintain the Issuer's current rating or outlook.

Any reductions in these ratings and outlook could increase the cost of the Group's funding, limit access to capital markets and require additional collateral to be placed and, consequently, materially adversely affect the Group's interest margins and its liquidity position.

32. *Risks concerning borrower credit quality are inherent in the Group's businesses*

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems, including from the impact of the macroeconomic developments caused by the Russia-Ukraine war and the Covid-19 pandemic (see "*The macroeconomic impact of significant geopolitical and social developments, including the Russia-Ukraine war and the Covid-19 pandemic, on the global economy and international markets may affect the Group's financial condition and results*"), the Group's exposure to vulnerable sectors of the economy, such as UK commercial real estate, as well as the evolution of other top risks, such as the current geopolitical and macro-economic risk environment (see "*Current economic and market conditions may adversely affect the Group's results*" and "*The Group is subject to political, social and other risks*") could reduce the recoverability and value of the Group's assets, and require an increase in the Group's ECLs.

The Group estimates and recognises ECLs in its credit exposure. This process, which is critical to the Group's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how the economic and geopolitical conditions, including the impact of sanctions, might impair the ability of the Group's borrowers to repay their loans and the ability of other counterparties to meet their obligations. This assessment considers multiple alternative forward-looking economic conditions (including GDP estimates) and incorporates this into the ECL estimates to meet the measurement objective of IFRS 9. As is the case with any such assessments, the Group may fail to estimate accurately the effect of factors that it identifies or fail to identify relevant factors. Further, the information the Group uses to assess the creditworthiness of its counterparties may be inaccurate or incorrect. Any failure by the Group to accurately estimate the ability of its counterparties to meet their obligations could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

33. ***The Group may be required to make substantial contributions to its pension plans***

The Group operates a pension plan, which has a defined benefit section and a defined contribution section. Defined benefit pension obligations fluctuate with changes in long-term interest rates, inflation, salary levels and the longevity of scheme members. They can also be affected by operational and legal risks. The level of contributions the Group makes to its pension plan has a direct effect on its cash flow. To the extent plan assets are insufficient to cover existing liabilities, higher levels of contributions may be required. As a result, deficits in the pension plan could have a material adverse effect on the Group's business, financial condition, results of operations, capital position, prospects and reputation.

Risks related to the Group's financial statements and accounts

34. ***The Group's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty***

The preparation of financial information requires management to make judgements and use estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods could differ from those on which management's estimates are based. Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. The impacts of revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Accounting policies deemed critical to the Group's results and financial position are those that involve a high degree of uncertainty and could have a material impact on the financial statements. In 2022 these included goodwill, ECLs, provisions and post-employment benefit plans, which are discussed in detail in "*Critical accounting estimates and judgements*".

The recognition and measurement of provisions involve significant judgements due to the high degree of uncertainty in determining whether a present obligation exists, and in estimating the probability and amount of any outflows that may arise. The calculation of the defined benefit pension obligation involves the determination of key assumptions, including discount rate, inflation rate, pension payments and deferred pension and pay and mortality. The assessment of whether goodwill is impaired, and the measurement of any impairment, involves the application of judgement in determining key assumptions, including discount rates, estimated cash flows for the periods for which detailed cash flows are available and projecting the long term pattern of sustainable cash flows thereafter.

Given the uncertainty and subjectivity associated with the above critical accounting judgements and estimates, future outcomes may differ materially from those assumed using information available at the reporting date. The effect of these judgements on the future results of operations and the future financial position of the Group may be material, and could have a material adverse effect on the Group's business, financial condition, results of operations, capital position, prospects and reputation.

35. ***Changes in accounting standards may have a material impact on how the Group reports its financial results and financial condition***

The Group prepares its consolidated financial statements in conformity with the requirements of the Companies Act 2006 and in compliance with UK-adopted international accounting standards, and additionally, the International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"), including interpretations issued by the IFRS Interpretations Committee. From time to time, the IASB or the IFRS Interpretations Committee may issue new accounting standards or interpretations that could materially impact how the Group calculates, reports and discloses its financial results and financial condition, and which may affect the Group's capital ratios, including the CET1 ratio. The Group could also be required to apply new or revised standards retrospectively, resulting in the Group restating prior period financial statements in material amounts. This could have a material adverse effect on the Group's business, financial condition, results of operations, capital position, prospects and reputation.

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Registration Document. To the best of the knowledge of the Issuer, the information contained in this Registration Document is in accordance with the facts and this Registration Document makes no omission likely to affect its import.

This Registration Document is to be read and construed with all documents incorporated by reference into it.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document, including any documents incorporated by reference herein, and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, or any trustee or any dealer appointed in relation to any issue of Securities by the Issuer.

This Registration Document, including any documents incorporated by reference herein should not be considered as a recommendation by the Issuer, any trustee or any dealer appointed in relation to any issue of Securities by the Issuer that any recipient of this Registration Document, including any document incorporated by reference herein, should purchase any Securities issued by the Issuer. Each investor contemplating subscribing for or purchasing Securities issued by the Issuer should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. No part of this Registration Document, including any documents incorporated by reference herein, constitutes an offer or invitation by or on behalf of the Issuer, any trustee or any dealer appointed in relation to any issue of Securities by the Issuer or any of them to any person to subscribe for or to purchase any of the Securities issued by the Issuer.

None of the delivery of this Registration Document or any documents incorporated by reference herein or any prospectus prepared by the Issuer (a "**Prospectus**"), other offering document referring to this Registration Document or any relevant Final Terms or Pricing Supplement or the offering, sale or delivery of any Securities shall, in any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof, or that the information contained in this Registration Document including any documents incorporated by reference herein is correct at any time subsequent to the date hereof or that any other written information delivered in connection herewith or therewith is correct as of any time subsequent to the date indicated in such document. Any dealer or trustee appointed in relation to any issue of Securities by the Issuer expressly does not undertake to review the financial condition or affairs of the Issuer or its subsidiary undertakings during the life of such Securities.

The distribution of this Registration Document, including any document incorporated by reference herein, and the offer or sale of Securities issued by the Issuer may be restricted by law in certain jurisdictions. Persons into whose possession this Registration Document or any document incorporated by reference herein or any Securities issued by the Issuer come must inform themselves about, and observe, any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Securities issued by the Issuer and on the distribution of this Registration Document, including any document incorporated by reference herein, see the applicable description of arrangements relating to subscription and sale of the relevant Securities in the relevant Prospectus or other offering document.

In this Registration Document and in relation to any Securities issued by the Issuer, references to the "**relevant dealers**" are to whichever of the dealers enters into an agreement for the issue of such Securities issued by the Issuer as described in the applicable description of arrangements relating to subscription and sale of the relevant Securities in the relevant Prospectus or other offering document and references to the "**relevant Final Terms**" are to the Final Terms or Pricing Supplement relating to such Securities.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents shall be deemed to be incorporated in, and to form part of, this Registration Document:

- the 2022 Annual Report and Accounts of the Issuer and its subsidiary undertakings for the year ended 31 December 2022 submitted to and filed with the FCA (the "**2022 Annual Report and Accounts**"); and
- the 2021 Annual Report and Accounts of the Issuer and its subsidiary undertakings for the year ended 31 December 2021 submitted to and filed with the FCA (the "**2021 Annual Report and Accounts**").

The Issuer will, at its registered office, make available for inspection during normal business hours and free of charge, upon oral or written request, a copy of this Registration Document including any document incorporated by reference herein. Written or oral requests for inspection of such documents should be directed to the Issuer's registered office. Additionally, this Registration Document will be available for viewing at <https://www.hsbc.com/investors/issuance-programmes?page=1&take=20> and all the documents incorporated by reference herein will be available for viewing at <https://www.hsbc.com> (please follow links to 'Investors', 'Results and announcements', 'All reporting', 'Subsidiaries'). For the avoidance of doubt, unless specifically incorporated by reference into this Registration Document, any websites referred to in this Registration Document or any information appearing on such websites and pages do not form part of this Registration Document.

Any information incorporated by reference in the above documents does not form part of this Registration Document and, to the extent that only certain parts of the above documents are specified to be incorporated by reference hereunder, the non-incorporated parts of such documents are either not relevant for investors or are covered elsewhere in this Registration Document.

THE ISSUER AND ITS SUBSIDIARIES

Introduction

History and Development of the Issuer

The Issuer forms part of the HSBC Group (being HSBC Holdings plc and its subsidiaries). The Issuer and its subsidiaries (together, the "**Group**") largely comprise Wealth and Personal Banking ("**WPB**"), Commercial Banking ("**CMB**") and a restricted Global Banking and Markets business ("**GBM**"). The HSBC Group completed the ring-fencing of its UK retail banking activities on 1 July 2018, when it completed the transfer to the Issuer by HSBC Bank plc of the qualifying businesses and subsidiaries, together with supporting capital, following the Court approval of the ring-fenced transfer scheme to meet the regulatory ring-fencing requirements in accordance with the Financial Services (Banking Reform) Act 2013 and related legislation.

The Issuer is a public limited company registered in England and Wales under registration number 09928412. The liability of its members is limited. It has its registered and head office at 1 Centenary Square, Birmingham, B1 1HQ, United Kingdom; telephone number +44 3456 040 626. The Issuer was incorporated on 23 December 2015 under the Companies Act 2006 as a private limited company and then re-registered as a public limited company on 8 August 2017.

As at 31 December 2022, the Group had total consolidated assets of £342,441 million, and total consolidated equity of £22,226 million.

As at 31 December 2022, the Issuer had over 14 million customers being served by over 18,500 full time equivalent employees across the UK, supported by a further 5,000 full time equivalent employees based in its UK service company HSBC Global Services (UK) Limited who provide services to the Issuer and the wider HSBC Group.

Legislation

The Issuer is subject to primary and secondary legislation relating to financial services and banking regulation in the United Kingdom, including, *inter alia*, the Financial Services and Markets Act 2000, for the purposes of which the Issuer is an authorised person carrying on the business of financial services provision. In addition, as a public limited company, the Issuer is subject to the Companies Act 2006 (as amended).

Principal activities and markets

The Group manages its products and services through three businesses: WPB, CMB and GBM. In addition, certain central operations of the Group business lines are managed through the Corporate Centre.

WPB serves over 13.5 million active customers under three brands: HSBC UK, first direct and M&S Bank. WPB offers a comprehensive set of banking products and services to support customers' banking needs including current and savings accounts, mortgages, unsecured lending, wealth solutions and insurance services.

CMB serves over 700,000 active customers across the UK, ranging from start-ups to multi-national corporates: Business Banking (which incorporates Small Business Banking); Mid-Market Enterprises; and Large Corporates. CMB supports customers with tailored financial products and services to allow them to operate efficiently and to grow. These include credit and lending, global payments solutions, and global trade and receivables finance.

A restricted GBM business is able to offer restricted foreign exchange products and cash management services to its customer base and also making available other products from HSBC Bank plc.

Corporate Centre supports central operations of the Group's business lines and comprises Markets Treasury, interests in a joint venture, and stewardship costs.

The principal activities and markets of the Group are described in more detail on page 2 of the 2022 Annual Report and Accounts.

As at 31 December 2022, the Issuer's principal subsidiary undertakings and their country of incorporation were:

Name of Subsidiary Undertaking	Location
HSBC Equipment Finance (UK) Limited	England
HSBC Invoice Finance (UK) Limited.....	England
Marks and Spencer Financial Services plc	England

The subsidiaries and joint ventures of the Issuer are described in more detail on pages 124 and 125 of the 2022 Annual Report and Accounts. In March 2023, the Issuer acquired HSBC Innovation Bank Limited (formerly Silicon Valley Bank UK Limited).

Organisational Structure

The Issuer is a wholly and directly owned subsidiary of HSBC Holdings plc.

The HSBC Group is one of the largest banking and financial services organisations in the world with an international network which covers 62 countries and territories. Within these regions, a comprehensive range of banking and related financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. As at 31 March 2023 the total assets of the HSBC Group were U.S.\$ 2,989,696 million.

Ratings

The Issuer has been assigned the following long-term credit ratings:

- A+ by S&P. This means that S&P is of the opinion that the Issuer has a strong capacity to meet its financial commitments;
- A1 by Moody's. This means that Moody's is of the opinion that the Issuer is judged to be of high quality and is subject to very low credit risk; and
- AA- by Fitch. This means that Fitch is of the opinion that the Issuer poses expectations of very low default risk, indicates very strong capacity for payment of financial commitments and this capacity is not significantly vulnerable to foreseeable events.

The Issuer has also been assigned the following short-term credit ratings:

- A-1 by S&P. This means that S&P is of the opinion that the Issuer's capacity to meet its financial commitments on its short-term obligations is strong;
- P-1 by Moody's. This means that Moody's is of the opinion that the Issuer has a superior ability to repay short-term debt obligations; and
- F1+ by Fitch. This means that Fitch is of the opinion that the Issuer has an exceptionally strong credit feature and the strongest intrinsic capacity for timely payment of financial commitments.

Each of S&P, Moody's and Fitch is established in the United Kingdom and is registered as a credit rating agency under the UK CRA Regulation.

A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Capital

The following table presents the Group's common equity tier 1 requirement as at 31 December 2022 for the purposes of Capital Requirements Regulation and Directive, as implemented ("CRR II") including the IFRS9 transitional arrangements.

	As at 31 December 2022
Common equity tier 1 CRR II end point requirement (%)	
Pillar 1.....	4.5%
Pillar 2A.....	2.2%
Capital conservation buffer.....	2.5%
Countercyclical buffer	1.0%
O-SII buffer.....	1.0%
Common equity tier 1 requirement.....	11.2%

DIRECTORS OF THE ISSUER

The directors of the Issuer, each of whose business address is 1 Centenary Square, Birmingham, B1 1HQ, United Kingdom, their functions in relation to the Group and their principal outside activities (if any) of significance to the Group are as follows:

<u>Name</u>	<u>Function(s) within the Group</u>	<u>Principal Outside Activities</u>
Dame Clara Furse	Chairman	Non-executive director of Vodafone Group plc and Assicurazioni Generali S.p.A.
	Independent non-executive Director	Member of the Panel of Senior Advisors to Chatham House and of Bocconi University's International Advisory Council
	Chairman of the Chairman's Nominations and Remuneration Committee	Chairman of the UK Voluntary Carbon Markets Forum
John David Stuart (known as Ian Stuart)	Executive Director and Chief Executive Officer	Group Managing Director of HSBC Holdings plc
	Chairman of the Executive Committee	Member of the: Economic Crime Strategic Board; Working Group on Productive Finance SteerCo, FCA; HMG's Economic Crime Strategic Board; Midlands Engine Business Council; GREAT Private Sector Council; Lord Mayors Appeal Advisory Board and UK Finance Limited Board
Claire Baird	Chief Financial Officer	Group General Manager, HSBC Holdings plc and Chief Financial Officer Wealth and Personal Banking
Simon Calver	Independent non-executive Director	Non-executive director of Marks and Spencer Financial Services plc
		Non-executive director and Chairman of Fenwick and Vinterior
James Coyle	Independent non-executive Director	Chairman of Marks & Spencer Unit Trust Management Limited and HSBC Trust Company (UK) Limited. Non-executive director of Marks and Spencer Financial Services plc
	Chairman of the Audit Committee	
	Member of the Risk Committee and Chairman's Nominations and Remuneration Committee	Senior independent director and chairman of the Audit and Risk Committee of Pollen Street PLC; and deputy chairman of the Oversight Board and a member of the Audit Governance Board of Deloitte LLP

<u>Name</u>	<u>Function(s) within the Group</u>	<u>Principal Outside Activities</u>
Jenny Goldie-Scot	Independent non-executive Director	Non-executive director of Marks and Spencer Unit Trust Management Limited
Mridul Hegde CB	Independent non-executive Director Chairman of the Risk Committee Member of the Audit Committee and the Chairman's Nominations and Remuneration Committee	Member of the Public Interest Board and UK Audit Board, Ernst & Young LLP Director of HSBC Innovation Bank Limited
Janet Henry	Non-executive Director	Chief Global Economist, HSBC Holdings plc Governor of the UK's National Institute of Economic and Social Research and a member of the World Economic Forum's Chief Economists Community
David Lister	Independent non-executive Director Member of the Risk Committee and Audit Committee	Chairman and non-executive director of HSBC Private Bank (UK) Limited, Marks and Spencer Financial Services plc and FDM Group (Holdings) plc Non-executive director of The Caledonian Club Trust Limited and a member of the board of governors at Nuffield Health

Management Committees

Executive Committee

The Issuer's Executive Committee, whose business address is 1 Centenary Square, Birmingham, B1 1HQ, United Kingdom, meets regularly and operates as a management committee under the direct authority of the board of directors of the Issuer. The members of the Executive Committee and their functions in relation to the Issuer's Executive Committee and their principal outside activities (if any) of significance to the Issuer are as follows:

<u>Name</u>	<u>Function(s) within the Group</u>	<u>Principal Outside Activities</u>
John David Stuart (known as Ian Stuart)	Chief Executive Officer and Chairman of the Executive Committee	Group Managing Director of HSBC Holdings plc Member of the: Economic Crime Strategic Board; Working Group on Productive Finance SteerCo, FCA; HMG's Economic Crime Strategic Board; Midlands Engine Business Council; GREAT Private Sector Council; Lord Mayors Appeal Advisory Board and UK Finance Limited Board

Name	Function(s) within the Group	Principal Outside Activities
Claire Baird	Chief Financial Officer	General Manager, HSBC Holdings plc and Chief Financial Officer Wealth and Personal Banking
Ian Banks	Head of Global Markets and Markets Treasury	Member of the UK Finance Capital Markets and Wholesale Product and Services Board
Nicola Black	Company Secretary	Director, HSBC UK Societal Projects Limited
Charles Boulton	Chief Executive Officer, UK Private Banking	Director, HSBC Private Bank (UK) Limited
Cheryl Bosi	Head of HR	—
Jose Carvalho	Head of Wealth and Personal Banking	General Manager, HSBC Holdings plc
Julia Dunn	Chief Risk Officer	General Manager, HSBC Holdings plc
Kate Epworth	Head of Communications	—
Ralph Nash	Chief Compliance Officer	General Manager, HSBC Holdings plc
Erin Plats	Chief Executive Officer, HSBC Innovation Bank Limited	—
Hugh Pugsley	General Counsel	Director, HSBC Bank Pension Trust (UK) Limited; Director, HSBC UK Societal Projects Limited
Jennifer Strybel	Chief Operating Officer	Director, HSBC UK Societal Projects Limited
Stuart Tait	Head of Commercial Banking	General Manager, HSBC Holdings plc Director of UK-Asean Business Council Director of HSBC Innovation Bank Limited

Conflicts of interest

There are no existing or potential conflicts of interest between any duties owed to the Issuer by its directors or its Executive Committee (each as described above) and the private interests and/or external duties owed by these individuals.

GENERAL INFORMATION

1. There has been no significant change in the financial position or financial performance of the Group nor any material adverse change in the prospects of the Issuer since 31 December 2022.
2. Save as disclosed in the section entitled "*Customer Remediation*" on page 112 and in Note 26 (*Legal proceedings and regulatory matters*) on page 121 of the 2022 Annual Report and Accounts, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened against the Issuer or any of its subsidiary undertakings of which the Issuer is aware) during the 12 months prior to the date of this Registration Document, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer and/or the Group.
3. The consolidated annual financial statements of the Issuer contained within the 2022 Annual Report and Accounts and the 2021 Annual Report and Accounts comply with UK-adopted International Accounting Standards and with the requirements of the UK Companies Act 2006. Such financial statements are also prepared in accordance with IFRS 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 issued by the IASB for the periods presented.
4. PricewaterhouseCoopers LLP, Chartered Accountants and Statutory Auditors, of One Chamberlain Square, Birmingham, B3 3AX has audited without qualification the financial statements of the Issuer contained in the 2021 Annual Report and Accounts and the 2022 Annual Report and Accounts for the financial years ended 31 December 2021 and 2022.
5. For so long as the Issuer may issue Securities with respect to which this Registration Document forms part of a prospectus prepared by the Issuer relating to such Securities, (a "**Prospectus**"), the following documents may be inspected during normal business hours at the registered office of the Issuer or at the website set out by each relevant document listed below for the 12 months from the date of this Registration Document:
 - (a) the up to date articles of the Issuer (website: www.hsbc.com (please follow links to 'Investors', 'Fixed income investors', 'Issuance programmes')); and
 - (b) the 2021 Annual Report and Accounts and the 2022 Annual Report and Accounts (website: www.hsbc.com (please follow links to 'Investors', 'Results and announcements', 'All reporting', 'Subsidiaries')).
6. The Issuer will, at its registered office, make available for inspection during normal office hours, free of charge, upon oral or written request, a copy of this Registration Document and any Prospectus (as defined above). Written or oral requests for inspection of such documents should be directed to the Issuer's registered office.
7. This Registration Document will be available for viewing at <https://www.hsbc.com/investors/fixed-income-investors/issuance-programmes?page=1&take=20> and all the documents incorporated by reference herein will be available for viewing at www.hsbc.com (please follow links to 'Investors', 'Results and announcements', 'All reporting', 'Subsidiaries'). For the avoidance of doubt, unless specifically incorporated by reference into this Registration Document, information contained on the website does not form part of this Registration Document.
8. The Legal Entity Identifier (LEI) code of the Issuer is 21380081EP12LC86CB82.

HEAD AND REGISTERED OFFICE OF THE ISSUER

HSBC UK Bank plc
1 Centenary Square
Birmingham B1 1HQ
United Kingdom

AUDITORS TO THE ISSUER

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Birmingham B3 3AX
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