

Group Chief Financial Officer's review

• Back to growth and improving returns •

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Group Chief Financial Officer

Summary of financial performance

The Group delivered on its key financial objective for 2023, achieving a 10 per cent underlying return on tangible equity, supported by significant progress on the five strategic actions set out in 2022. Underlying profit before tax increased 27 per cent at constant currency as the Group delivered 4 per cent positive income-to-cost jaws. Income grew 13 per cent on a constant currency basis as the Group took advantage of the favourable interest rate environment. Expenses increased 8 per cent at constant currency, while the Group incurred a loan loss rate of 17 basis points, well below its historical average. The Group reduced the carrying value of its investment in China Bohai Bank ('Bohai') by \$850 million and booked a \$262 million net gain from selling its Aviation Finance business. The Group remains well-capitalised and highly liquid with a liquidity coverage ratio of 145 per cent and a CET1 ratio of 14.1 per cent, above its target range, enabling the Board to announce a further \$1 billion share buyback programme. The terms of the buyback will be published, and the programme will start shortly.

All commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2022 on a reported currency basis, unless otherwise stated.

- **Operating income** of \$17.4 billion increased by 10 per cent year-on-year or 13 per cent on a constant currency basis as the Group benefitted from the positive impact of rising interest rates, and a partial recovery in Wealth Management partly offset by losses from hedges
- **Underlying net interest income** increased 20 per cent or 23 per cent on a constant currency basis as the net interest margin increased 26 basis points or 18 per cent with the Group having increased its pricing on assets and the yield on its Treasury portfolio more quickly than it repriced its liability base, reflecting strong pricing discipline and passthrough rate management as interest rates increased in key footprint currencies. This was partly offset by an additional 15 basis points drag from short-term and structural hedges due to rising interest rates, 16 basis points headwind from migration into higher priced term deposits from lower rate paid current and savings accounts ('CASA') as well as adverse changes in the mix between Treasury and customer assets
- **Underlying non NII** was stable, or 2 per cent higher on a constant currency basis. This was in part due to a strong Wealth Management performance, which was up 10 per cent on a constant currency basis as it benefitted from a steady flow of new to bank clients and net new money. An accounting asymmetry resulting from Treasury management of business as usual FX positions also contributed to an increase in non NII, with a partial offset from reduced net interest income
- **Operating expenses** excluding the UK bank levy increased 7 per cent, or 8 per cent on a constant currency basis, reflecting the Group's continued investment into business growth initiatives, strategic investments and higher inflation partly funded by cost efficiency actions. The Group generated 4 per cent positive income-to-cost jaws at constant currency and the cost-to-income ratio improved by 2 percentage points to 63 per cent
- **Credit impairment** was a \$528 million charge, a reduction of \$308 million representing an annualised loan loss rate of 17 basis points. The impairment charge includes \$282 million in relation to the China commercial real estate sector, \$354 million in the Consumer, Private and Business Banking ('CPBB') portfolio and \$85 million from Ventures partly offset by a \$45 million net release from sovereign-related exposures and a net release in other Corporate exposures
- **Other impairment** increased by \$91 million to \$130 million primarily relating to write-off of software assets
- **Profit from associates and joint ventures** decreased 44 per cent to \$94 million reflecting a lower profit share from Bohai
- **Restructuring, other items and goodwill and other impairment** totalled \$585 million. This included an impairment charge of \$850 million reflecting a reduction in the carrying value of the Group's investment in Bohai following a refresh of the value-in-use calculation. Other items include the sale of the Aviation Finance business, of which there was a gain on sale of \$309 million on the leasing business and a loss of \$47 million in relation to a sale of a portfolio of Aviation loans. Restructuring charges of \$14 million include the impact of actions to transform the organisation to improve productivity, partly offset by profits from businesses classified as held-for-sale. Movements in the Debit Valuation Adjustment ('DVA') were a positive \$17 million
- **Taxation** was \$1,631 million on a reported basis, with an underlying effective tax rate of 29.1 per cent down from 29.9 per cent in the prior year reflecting a favourable change in the geographic mix of profits partly offset by increased losses in the United Kingdom where the Group currently does not recognise a tax benefit
- **Underlying return on tangible equity ('RoTE')** increased by 240 basis points to 10.1 per cent reflecting an increase in profits and lower average tangible equity benefitting from distributions to shareholders and movements in reserves primarily through the course of 2022
- **Underlying basic earnings per share ('EPS')** increased 32 per cent to 128.9 cents and reported EPS of 108.6 cents increased by 26 per cent
- A final **ordinary dividend** per share of 21 cents has been proposed taking the full-year total to 27 cents, a 50 per cent increase. The Group also completed two share buyback programmes totalling \$2 billion which along with a new share buyback programme of \$1 billion to start imminently. Since 1 January 2022, total shareholder distributions announced total \$5.5 billion

Summary of financial performance

	2023 \$million	2022 ⁴ \$million	Change %	Constant currency change ¹ %
Underlying net interest income ⁵	9,557	7,967	20	23
Underlying non NII ⁵	7,821	7,795	–	2
Underlying operating income	17,378	15,762	10	13
Other operating expenses	(11,025)	(10,307)	(7)	(8)
UK bank levy	(111)	(102)	(9)	(2)
Underlying operating expenses	(11,136)	(10,409)	(7)	(8)
Underlying operating profit before impairment and taxation	6,242	5,353	17	22
Credit impairment	(528)	(836)	37	32
Other impairment	(130)	(39)	nm ⁷	nm ⁷
Profit from associates and joint ventures	94	167	(44)	(43)
Underlying profit before taxation	5,678	4,645	22	27
Restructuring	(14)	(99)	86	89
Goodwill and other impairment ³	(850)	(322)	(164)	(164)
DVA	17	42	(60)	(60)
Other items ⁶	262	20	nm ⁷	nm ⁷
Reported profit before taxation	5,093	4,286	19	24
Taxation	(1,631)	(1,384)	(18)	(25)
Profit for the year	3,462	2,902	19	24
Net interest margin (%) ²	1.67	1.41	26	
Underlying return on tangible equity (%) ²	10.1	7.7	240	
Underlying earnings per share (cents)	128.9	97.9	32	

1. Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods
2. Change is the basis points ('bps') difference between the two periods rather than the percentage change
3. Goodwill and other impairment include \$850 million (2022: \$308 million) impairment charge relating to the Group's investment in its associate China Bohai Bank ('Bohai')
4. Underlying performance for relevant periods in 2022 has been restated for the removal of (i) exit markets and businesses in AME (ii) Aviation Finance and (iii) DVA. No change to reported performance
5. To be consistent with how we compute Net Interest Margin ('NIM'), and to align with the way we manage our business, we have changed our definition of Underlying Net Interest Income ('NII') and Underlying non NII. The adjustments made to NIM, including interest expense relating to funding our trading book, will now be shown against Underlying non NII rather than Underlying NII. Prior periods have been restated. There is no impact on total income
6. Other items includes the sale of the Aviation Finance business, of which there was a gain on sale of \$309 million on the leasing business and a loss of \$47 million in relation to a sale of a portfolio of Aviation loans
7. Not meaningful

Reported financial performance summary

	2023 \$million	2022 \$million	Change %	Constant currency change ¹ %
Net interest income	7,769	7,593	2	5
Non NII	10,250	8,725	17	20
Reported operating income	18,019	16,318	10	13
Reported operating expenses	(11,551)	(10,913)	(6)	(7)
Reported operating profit before impairment and taxation	6,468	5,405	20	25
Credit impairment	(508)	(836)	39	34
Goodwill and other impairment	(1,008)	(439)	(130)	(130)
Profit from associates and joint ventures	141	156	(10)	(10)
Reported profit before taxation	5,093	4,286	19	24
Taxation	(1,631)	(1,384)	(18)	(25)
Profit for the year	3,462	2,902	19	24
Reported return on tangible equity (%) ²	8.4	6.8	160	
Reported earnings per share (cents)	108.6	85.9	26	

1. Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods
2. Change is the basis points ('bps') difference between the two periods rather than the percentage change

Operating income by product

	2023 \$million	2022 ^{2,3} \$million	Change %	Constant currency change ¹ %
Transaction Banking	5,837	3,874	51	54
Trade & Working capital	1,294	1,343	(4)	(1)
Cash Management	4,543	2,531	79	83
Financial Markets	5,099	5,345	(5)	(2)
Macro Trading	2,827	2,965	(5)	(1)
Credit Markets	1,803	1,761	2	5
Credit Trading	554	488	14	17
Financing Solutions & Issuance ³	1,249	1,273	(2)	–
Financing & Securities Services ³	469	619	(24)	(22)
Lending & Portfolio Management	498	558	(11)	(9)
Wealth Management	1,944	1,796	8	10
Retail Products	4,969	4,027	23	26
CCPL & other unsecured lending	1,161	1,202	(3)	(1)
Deposits	3,437	2,021	70	74
Mortgage & Auto	236	633	(63)	(62)
Other Retail Products	135	171	(21)	(19)
Treasury	(902)	337	nm ⁴	nm ⁴
Other	(67)	(175)	62	52
Total underlying operating income	17,378	15,762	10	13

1. Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2. Underlying performance for relevant periods in 2022 has been restated for the removal of (i) exit markets and businesses in AME (ii) Aviation Finance and (iii) DVA. No change to reported performance

3. Shipping Finance is now reported under Financing Solutions & Issuance which was reported under Financing & Securities Services in 2022

4. Not meaningful

The operating income by product commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2022 on a constant currency basis, unless otherwise stated.

Transaction Banking income increased 54 per cent with Cash Management income up 83 per cent reflecting strong pricing discipline and passthrough rate management to take advantage of a rising interest rate environment. Trade & Working Capital decreased 1 per cent, reflecting lower balance sheet and contingent volumes due to a reduction in economic activity and clients' preference for local currency financing provided by local banks. This was partly offset by higher margins as the Group focused on higher-returning trade products.

Financial Markets income decreased 2 per cent and was up 3 per cent excluding the non-repeat of \$244 million gain on mark-to-market liabilities in 2022. Flow income grew by 7 per cent which was more than offset by the 15 per cent reduction in episodic income, driven by subdued market volatility, reduced issuances and the non-repeat of prior year fair value gains on mark-to-market liabilities. Macro Trading was down 1 per cent with declines in FX and Commodities partly offset by a double-digit increase in Rates from an expanded product offering. Credit Markets income was up 5 per cent primarily from higher Credit Trading income. Financing & Securities Services income was down 22 per cent as the benefit of higher interest rates on Securities Services balances was offset by negative movements in XVA and the non-repeat of mark-to-market gains.

Lending and Portfolio Management income decreased 9 per cent reflecting the impact of risk-weighted assets optimisation actions which contributed to lower balances and an increase in portfolio management costs.

Wealth Management income grew 10 per cent with Bancassurance up 17 per cent and Treasury Products up 16 per cent partly offset by lower income from Wealth Management Lending which was down 15 per cent on the back of client deleveraging and margin compression. There was continued strong growth in net new sales, which totalled \$14 billion and offset adverse market movements as Wealth Management assets under management remained broadly stable.

Retail Products income increased 26 per cent. Deposits income was up 74 per cent due to active passthrough rate management in a rising interest rate environment partly offset by migration of Retail CASA balances into Time Deposits. Mortgage & Auto income decreased 62 per cent on the back of lower volumes and the impact of the Best Lending Rate cap in Hong Kong restricting the ability to reprice mortgages, despite an increase in funding costs from higher interest rates. CCPL income decreased 1 per cent reflecting reduced margins from increased funding costs partly offset by increased balances, driven by partnerships and the new digital banks.

Treasury income was a \$902 million loss primarily due to losses from structural and short-term hedges in a rising interest rate environment. The remaining short-term hedges mature in February 2024.

Profit before tax by client segment and geographic region

	2023 \$million	2022 ² \$million	Change %	Constant currency change ¹ %
Corporate, Commercial & Institutional Banking	5,436	3,990	36	42
Consumer Private & Business Banking	2,487	1,593	56	60
Ventures	(408)	(363)	(12)	(12)
Central & other items (segment)	(1,837)	(575)	nm ³	nm ³
Underlying profit before taxation	5,678	4,645	22	27
Asia	4,740	3,616	31	32
Africa & Middle East	1,311	792	66	90
Europe & Americas	(330)	834	(140)	(139)
Central & other items (region)	(43)	(597)	93	95
Underlying profit before taxation	5,678	4,645	22	27

1. Comparisons presented on the basis of the current period's transactional currency rate, ensuring like-for-like currency rates between the two periods

2. Underlying performance for relevant periods in 2022 has been restated for the removal of (i) exit markets and businesses in AME (ii) Aviation Finance and (iii) DVA. No change to reported performance

3. Not meaningful

The client segment and geographic region commentary that follows is on an underlying basis and comparisons are made to the equivalent period in 2022 on a constant currency basis, unless otherwise stated.

Corporate, Commercial & Institutional Banking ('CCIB') profit increased 42 per cent. Income grew 20 per cent with Cash Management benefitting from disciplined pricing initiatives in a rising interest rate environment partly offset by lower episodic income within Financial Markets and lower Lending income as CCIB delivered on its RWA optimisation initiatives. Expenses were 10 per cent higher while credit impairment decreased \$302 million with lower charges in relation to the China commercial real estate sector and releases on historic provisions within the remaining portfolio.

Consumer, Private & Business Banking ('CPBB') profit increased 60 per cent, with income up 22 per cent, benefitting from higher interest rates on Retail Deposits income and a recovery in Wealth Management. This was partly offset by lower Mortgage income negatively impacted by the Best Lending Rate cap in Hong Kong. Expenses increased 6 per cent while credit impairment was \$92 million higher.

Ventures loss increased 12 per cent to \$408 million, reflecting the Group's continued investment in transformational digital initiatives. Income increased five-fold to \$156 million while expenses grew by 27 per cent. This resulted in a lower operating loss before impairment year-on-year. The impairment charge increased \$69 million to \$85 million reflecting increased bankruptcy related write-offs in Mox where credit criteria have now been adjusted to reduce the current elevated delinquency rate.

Central & other items (segment) recorded a loss of \$1.8 billion as income declined by \$1.3 billion mostly reflecting the losses from structural and short-term hedges booked within Treasury. Expenses increased by \$43 million while there was a net release in credit impairment primarily relating to sovereign-related exposures. Associate income reduced by \$65 million reflecting lower profits at Bohai.

Asia profits increased 32 per cent as income grew 15 per cent, expenses increased by 8 per cent and credit impairments reduced by \$146 million. The income growth reflects strong double-digit increases across Cash Management, Retail Deposits and Wealth Management partly offset by lower Mortgage income and a loss in Treasury Markets. The profit share from Bohai reduced by \$65 million. The lower credit impairment charge reflects in part a lower level of impairments booked in the year relating to the China commercial real estate sector.

Africa & Middle East ('AME') profits increased 90 per cent as income increased 26 per cent with strong growth in Cash Management and Retail Deposits income partly offset by a loss in Treasury Markets following de-risking actions in certain markets. Expenses grew 6 per cent while credit impairment charges were a net release of \$91 million, a \$210 million reduction, reflecting a non-repeat of the prior year's sovereign-related impairments and releases relating to historic Corporate provisions.

Europe & Americas recorded a loss of \$330 million as income reduced by 40 per cent, reflecting the increased cost of hedges within Treasury whilst strong growth in Transaction Banking income was partly offset by lower Financial Markets income. Expenses increased 12 per cent reflecting the impact of inflation and higher investment spend. There was a \$59 million reduction in credit impairment releases.

Central & other items (region) recorded a loss of \$43 million compared to a \$597 million loss in the prior year. This improvement is mainly due to higher returns paid to Treasury on the equity provided to the regions in a rising interest rate environment while expenses increased by 8 per cent.

Adjusted net interest income and margin

	2023 \$million	2022 \$million	Change ¹ %
Adjusted net interest income ²	9,547	7,976	20
Average interest-earning assets	572,520	565,370	1
Average interest-bearing liabilities	540,350	525,351	3
Gross yield (%) ³	4.76	2.70	206
Rate paid (%) ³	3.27	1.38	189
Net yield (%) ³	1.49	1.32	17
Net interest margin (%) ^{3,4}	1.67	1.41	26

1 Variance is better/(worse) other than assets and liabilities which is increase/(decrease)

2 Adjusted net interest income is reported net interest income less financial markets trading book funding costs and financial guarantee fees on interest-earning assets

3 Change is the basis points (bps) difference between the two periods rather than the percentage change

4 Adjusted net interest income divided by average interest-earning assets, annualised

Adjusted net interest income increased 20 per cent driven by an 18 per cent increase in the net interest margin, which averaged 167 basis points in the year, 26 basis points year-on-year uplift benefiting from a rapid increase in policy interest rates across many of our markets slightly offset by an adverse change in asset mix. The net interest margin was also depressed by loss making hedges within Treasury and an accounting asymmetry from Treasury's business as usual management of FX positions within its portfolio.

- Average interest-earning assets grew 1 per cent, or 2 per cent excluding the impact of currency translation and risk-weighted asset optimisation actions, reflecting an increase in cash and balances at central banks partly offset by lower customer loan balances. Gross yields increased 206 basis points compared with the average in the prior year
- Average interest-bearing liabilities increased 3 per cent, or 4 per cent excluding the impact of currency translation, reflecting an increase in customer accounts while the rate paid on liabilities increased 189 basis points compared with the average in the prior year

Credit risk summary

Income Statement (Underlying view)

	2023 \$million	2022 ² \$million	Change ¹ %
Total credit impairment charge/(release)³	528	836	(37)
Of which stage 1 and 2 ³	138	407	(66)
Of which stage 3 ³	390	429	(9)

1 Variance is increase/(decrease) comparing current reporting period to prior reporting period

2 Underlying credit impairment has been restated for the removal of (i) exit markets and businesses in AME and (ii) Aviation Finance. No change to reported credit impairment

3 Reconciliation from underlying to reported can be found on page 46

Balance sheet

	2023 \$million	2022 \$million	Change ¹ %
Gross loans and advances to customers²	292,145	316,107	(8)
Of which stage 1	273,692	295,219	(7)
Of which stage 2	11,225	13,043	(14)
Of which stage 3	7,228	7,845	(8)
Expected credit loss provisions	(5,170)	(5,460)	(5)
Of which stage 1	(430)	(559)	(23)
Of which stage 2	(420)	(444)	(5)
Of which stage 3	(4,320)	(4,457)	(3)
Net loans and advances to customers	286,975	310,647	(8)
Of which stage 1	273,262	294,660	(7)
Of which stage 2	10,805	12,599	(14)
Of which stage 3	2,908	3,388	(14)
Cover ratio of stage 3 before/after collateral (%) ³	60 / 76	57 / 76	3 / 0
Credit grade 12 accounts (\$million)	2,155	1,574	37
Early alerts (\$million)	5,512	4,967	11
Investment grade corporate exposures (%) ³	73	76	(3)

1 Variance is increase/(decrease) comparing current reporting period to prior reporting period

2 Includes reverse repurchase agreements and other similar secured lending held at amortised cost of \$13,996 million at 31 December 2023, \$10,267 million at 30 September 2023, \$10,950 million at 30 June 2023 and \$24,498 million at 31 December 2022

3 Change is the percentage points difference between the two points rather than the percentage change

Credit quality remained resilient, reflected in lower year-on-year credit impairment charges and an improvement in a number of underlying credit metrics. The Group continues to actively manage the credit portfolio whilst remaining alert to a volatile and challenging external environment including increased geopolitical tensions which has led to idiosyncratic stress in a select number of markets and industry sectors.

Credit impairment was a \$528 million charge, down 37 per cent year-on-year, representing a loan loss rate of 17 basis points. There was a \$282 million impairment charge relating to the China commercial real estate sector, including a \$32 million decrease in the management overlay which now totals \$141 million. The decrease in the management overlay reflects repayments and loans moving into stage 3. The Group has provided \$1.2 billion in total, in relation to China commercial real estate sector primarily over the last three years. There was a net release of \$45 million relating to sovereign downgrades. Excluding the China commercial real estate portfolio and sovereign-related exposures, there was a net release relating to Corporate exposures, primarily historical provisions. CPBB charge of \$354 million reflects an uptick in delinquency trends across the year and the \$85 million charge in Ventures is primarily from portfolio growth and increased bankruptcy related write-offs in Mox where credit criteria have now been adjusted to reduce the current elevated delinquency rate.

Gross stage 3 loans and advances to customers of \$7.2 billion were 8 per cent lower year-on-year as repayments, client upgrades and write-offs more than offset new inflows. Credit-impaired loans represented 2.5 per cent of gross loans and advances, flat on the prior year.

The stage 3 cover ratio before collateral of 60 per cent increased by 3 percentage points, while the cover ratio post collateral at 76 per cent was flat on the prior year, with the cover ratio before collateral increasing due to an increase in stage 3 provisions in relation to the China commercial real estate sector and a reduction in gross stage 3 balances.

Credit grade 12 balances have increased by 37 per cent to \$2.2 billion substantially from a change in instrument on an existing sovereign exposure with no increase in risk. Excluding this temporary inflow, credit grade 12 balances declined 24 per cent reflecting both improvements into stronger credit grades and downgrades to stage 3. Early Alert accounts of \$5.5 billion have increased by 11 per cent, reflecting new inflows relating to a select number of clients including sovereign-related exposures. The Group is continuing to carefully monitor its exposures in vulnerable sectors and select markets, given the unusual stresses caused by the currently challenging macro-economic environment.

The proportion of investment grade corporate exposures fell by 3 percentage points to 73 per cent, mainly due to a reduction in repurchase agreement balances across various central clearing counterparties.

Restructuring, goodwill impairment and other items

	2023				2022 ¹			
	Restructuring \$million	Goodwill and other impairment ² \$million	DVA \$million	Other items ³ \$million	Restructuring \$million	Goodwill and other impairment ² \$million	DVA \$million	Other items \$million
Operating income	362	–	17	262	494	–	42	20
Operating expenses	(415)	–	–	–	(504)	–	–	–
Credit impairment	20	–	–	–	–	–	–	–
Other impairment	(28)	(850)	–	–	(78)	(322)	–	–
Profit from associates and joint ventures	47	–	–	–	(11)	–	–	–
Total	(14)	(850)	17	262	(99)	(322)	42	20

- Underlying performance for relevant periods in 2022 has been restated for the removal of (i) exit markets and businesses in AME (ii) Aviation Finance and (iii) DVA. No change to reported performance
- Goodwill and other impairment include \$850 million (2022: \$308 million) impairment charge relating to the Group's investment in its associate China Bohai Bank ('Bohai')
- Other items includes the sale of the Aviation Finance business, of which there was a gain on sale of \$309 million on the leasing business and a loss of \$47 million in relation to a sale of a portfolio of Aviation loans

The Group's reported performance is adjusted for profits or losses of a capital nature, amounts consequent to investment transactions driven by strategic intent, other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period and items which management and investors would ordinarily identify separately when assessing underlying performance period-by-period.

In 2022 the Group announced the exit of seven markets in the AME region and will focus solely on the CCIB segment in two more markets. In 2023, the Group completed the sale of its Jordan business, closed its Lebanon representative office and signed agreements for sale of the remaining exit markets. Additionally, the Group sold its global Aviation Finance leasing business to Aircraft Leasing Company ('AviLease') for proceeds of approximately \$3.6 billion including \$0.7 billion consideration and \$2.9 billion repayment of net-intra-group financing, giving rise to a gain on disposal of \$309 million. The \$1 billion Aviation loan businesses was sold separately, giving rise to a loss on disposal of \$47 million. Both of these transactions are recorded in Other items. As a result of these disposals, effective 1 January 2023, the Group has not included the exit markets and the Aviation Finance business within the Group's underlying operating profit before taxation but reported them within restructuring.

The Group has also classified movements in the debit valuation adjustment ('DVA') out of its underlying operating profit before taxation and into Other items. To aid comparisons with prior periods the Group has removed the exit markets, Aviation Finance business and DVA from its underlying operating profit before taxation for 2022.

Restructuring loss of \$14 million reflects the impact of actions to transform the organisation to improve productivity, primarily additional redundancy charges, technology simplification and optimising the Group's property footprint. This was partly offset by the profits from the AME exit markets and Aviation Finance business before the completion of their exit from the Group.

Other impairment of \$850 million is in relation to a further reduction in the carrying value of the Group's investment in its associate Bohai, to align to a lower value-in-use computation following banking industry challenges and property market uncertainties in Mainland China, that may impact Bohai's future profitability. The carrying value of the Group's investment in Bohai has reduced to \$0.7 billion from \$1.5 billion.

Movements in DVA were a positive \$17 million driven by the widening of the Group's asset swap spreads on derivative liability exposures. The portfolio subject to DVA did not change materially during the year.

Balance sheet and liquidity

	2023 \$million	2022 \$million	Increase/ (Decrease) ¹ \$million	Increase/ (Decrease) ¹ %
Assets				
Loans and advances to banks	44,977	39,519	5,458	14
Loans and advances to customers	286,975	310,647	(23,672)	(8)
Other assets	490,892	469,756	21,136	4
Total assets	822,844	819,922	2,922	-
Liabilities				
Deposits by banks	28,030	28,789	(759)	(3)
Customer accounts	469,418	461,677	7,741	2
Other liabilities	275,043	279,440	(4,397)	(2)
Total liabilities	772,491	769,906	2,585	-
Equity	50,353	50,016	337	1
Total equity and liabilities	822,844	819,922	2,922	-
Advances-to-deposits ratio (%) ²	53.3%	57.4%		
Liquidity coverage ratio (%)	145%	147%		

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

2 The Group now excludes \$20,710 million held with central banks (30.09.23: \$21,241 million, 30.06.23: \$24,749 million, 31.12.22: \$20,798 million) that has been confirmed as repayable at the point of stress.

The Group's balance sheet remains strong, liquid and well diversified.

- Loans and advances to customers decreased 8 per cent, or \$24 billion to \$287 billion as at 31 December 2023 but declined 1 per cent on an underlying basis. The underlying reduction excludes the impact of \$12 billion decrease in Treasury and securities backed loans held to collect, \$7 billion reduction from risk-weighted asset optimisation actions undertaken by CCIB and a \$1 billion reduction from currency translation
- Customer accounts increased \$8 billion to \$469 billion and up 2 per cent excluding the \$2 billion impact of currency translation. Retail Time Deposits increased \$18 billion and Cash Management balances increased \$11 billion partly offset by a \$18 billion decrease in Corporate Term Deposits
- Other assets increased 4 per cent, or \$21 billion from 31 December 2022 with a \$41 billion increase in financial assets held at fair value through profit or loss, primarily

reverse repurchase agreements and debt securities and other eligible bills. Cash and balances at central banks increased \$12 billion. This was partly offset by a \$13 billion reduction in derivative balances and a \$8 billion reduction in investment securities fair valued through other comprehensive income

- Other liabilities decreased 2 per cent, or \$4 billion from 31 December 2022 with a \$14 billion decrease in derivative balances partly offset by a \$10 billion increase in repurchase agreements

The advances-to-deposits ratio decreased to 53.3 per cent from 57.4 per cent at 31 December 2022 reflecting the reduction in loans and advances to customers. The liquidity coverage ratio decreased 2 percentage points to 145 per cent as at 31 December 2023 after increasing in the first half of the year as the banking industry as a whole navigated turbulent external market conditions and remains well above the minimum regulatory requirement of 100 per cent.

Risk-weighted assets

	2023 \$million	2022 \$million	Change ¹ \$million	Change ¹ %
By risk type				
Credit risk	191,423	196,855	(5,432)	(3)
Operational risk	27,861	27,177	684	3
Market risk	24,867	20,679	4,188	20
Total RWAs	244,151	244,711	(560)	-

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

Total risk-weighted assets ('RWA') of \$244.2 billion were broadly flat in comparison to 31 December 2022.

- Credit risk RWA decreased by \$5.4 billion to \$191.4 billion. There was a \$10.3 billion reduction from optimisation actions, relating to the CCIB low-returning portfolio, a \$2.1 billion reduction from other RWA efficiency actions, \$2.7 billion reduction from currency translation, and a \$1.1 billion reduction from model and methodology changes. The impairment of Bohai further reduced RWAs by \$2.1 billion and the sale of the Aviation Finance

business by a further \$1.6 billion. This was partly offset by a \$11.8 billion increase from asset mix and \$2.7 billion increase relating to adverse credit migration

- Operational risk RWA increased \$0.7 billion primarily due to an increase in average income as measured over a rolling three-year time horizon, with higher 2022 income replacing lower 2019 income
- Market risk RWA increased by \$4.2 billion to \$24.9 billion reflecting an increase in traded risk positions and market volatility

Capital base and ratios

	2023 \$million	2022 \$million	Change ¹ \$million	Change ¹ %
CET1 capital	34,314	34,157	157	–
Additional Tier 1 capital (AT1)	5,492	6,484	(992)	(15)
Tier 1 capital	39,806	40,641	(835)	(2)
Tier 2 capital	11,935	12,510	(575)	(5)
Total capital	51,741	53,151	(1,410)	(3)
CET1 capital ratio end point (%)²	14.1	14.0	0.1	
Total capital ratio transitional (%)²	21.2	21.7	(0.5)	
Leverage ratio (%)²	4.7	4.8	(0.1)	

1 Variance is increase/(decrease) comparing current reporting period to prior reporting periods

2 Change is percentage points difference between two points rather than percentage change

The Group's CET1 ratio of 14.1 per cent was 10 basis points higher than the ratio as at 31 December 2022. The Group was able to fund \$2.7 billion of capital returns to ordinary shareholders from underlying profits. The CET1 ratio remains 3.5 percentage points above the Group's latest regulatory minimum of 10.5 per cent and above the top of the 13-14 per cent target range.

As well as the 169 basis points of CET1 accretion from underlying profits, the Group's CET1 ratio decreased 34 basis points from a net \$5.9 billion increase in risk-weighted assets as the Group exercised tight control over capital consumption. A further 22 basis points uplift was the result of an increase in Other Comprehensive Income from fair value gains on debt instruments as long-term interest rates began to fall in the latter half of the year. The sale of the Group's Aviation Finance business increased the CET1 ratio by 20 basis points.

Ordinary shareholder distributions reduced the CET1 ratio by approximately 111 basis points. The Group spent \$2 billion purchasing 230 million ordinary shares of \$0.50 each during the year, representing a volume-weighted average price per share of £706. These shares were subsequently cancelled, reducing the total issued share capital by 7.9 per cent and the CET1 ratio by 82 basis points. The Board has recommended a final dividend of 21 cents per share resulting in a total 2023 ordinary dividend of 27 cents per share or \$728 million, reducing the CET1 ratio by approximately 30 basis points. Payments due to AT1 and preference shareholders cost approximately 17 basis points.

The Board has announced a share buyback for up to a maximum consideration of \$1 billion to further reduce the number of ordinary shares in issue by cancelling the repurchased shares. The terms of the buyback will be published, and the programme will start shortly and is expected to reduce the Group's CET1 ratio in the first quarter of 2024 by approximately 40 basis points.

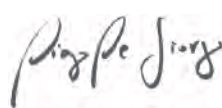
The \$850 million impairment of Bohai also resulted in a RWA reduction of \$2.1 billion, the net effect of which resulted in a reduction of the CET1 ratio by 23 basis points.

The Group's leverage ratio of 4.7 per cent is 6 basis points lower than at 31 December 2022. This is primarily driven by a decrease in Tier 1 capital of \$0.8 billion as CET1 capital increased by \$0.2 billion and was more than offset by the redemption of \$1.0 billion Additional Tier 1 securities. The reduction in Tier 1 capital was broadly offset by a \$7.2 billion reduction in leverage exposures. The Group's leverage ratio remains significantly above its minimum requirement of 3.7 per cent.

Outlook

We have updated our guidance for 2024 and have provided additional guidance for 2025 and 2026 as follows:

- Income:
 - Operating income to increase 5-7 per cent for 2024 to 2026 and around the top of 5-7 per cent range in 2024
 - Net interest income for 2024 of \$10 billion to \$10.25 billion, at constant currency
- Expenses:
 - Operating expenses to be below \$12 billion in 2026, at constant currency
 - Expense saves of around \$1.5 billion and cost to achieve of no more than \$1.5 billion from 2024 to 2026
 - Positive income-to-cost jaws, excluding UK bank levy, at constant currency in each year from 2024 to 2026
- Assets and RWA:
 - Low single-digit percentage growth in loans and advances to customers and RWA each year from 2024 to 2026 (pre-Basel 3.1 day-1 impact)
 - Basel 3.1 day-1 impact, pending clarification of rules, expected to add no more than 5 per cent incremental RWA
- Continue to expect the loan loss rate to normalise towards the historical through-the-cycle 30 to 35 basis points range
- Capital:
 - Continue to operate dynamically within the full 13-14 per cent CET1 target range
 - Plan to return at least \$5 billion to shareholders cumulative 2024 to 2026
 - Continue to increase full-year dividend per share over time
- RoTE increasing steadily from 10%, targeting 12% in 2026 and to progress thereafter



Diego De Giorgi

Group Chief Financial Officer

23 February 2024