HSBC Bank plc

Pillar 3 Disclosures at 31 December 2019

HSBC

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Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc, and 'HSBC' and the 'Group' refer to HSBC Holdings together with its subsidiaries; similarly, 'HSBC Bank' and the 'bank' mean HSBC Bank plc, and the 'group' refers to HSBC Bank together with its subsidiaries. When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC Bank ordinary shares and those preference shares and capital securities issued by HSBC Bank classified as equity. The abbreviations '£m' and '£bn' represent millions and billions (thousands of millions) of GB pounds respectively.

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HSBC Bank plc has adopted the EU's regulatory transitional arrangements for International Financial Reporting Standard ('IFRS') 9 'Financial instruments'. A number of tables in this document report under this arrangement as follows:

a. Some figures (indicated with ^) within the table have been prepared on an IFRS 9 transitional basis.

b. All figures within the table have been prepared on an IFRS 9 transitional basis.

All other tables report numbers on the basis of full adoption of IFRS 9.

Introduction

Table 1: Comparison of own funds, capital and leverage ratios, with and without the application of transitional arrangements for IFRS 9 (IFRS9-FL)

			At		
			31 Dec	30 Jun	31 Dec
		Footnotes	**2019**	2019	2018
	Available capital (£bn)	1			
1	Common equity tier 1 ('CET1') capital	^	**17.8**	19.7	19.8
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**17.7**	19.7	19.8
3	Tier 1 capital	^	**22.1**	22.9	23.1
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**22.1**	22.9	23.0
5	Total regulatory capital	^	**34.9**	36.9	37.7
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**34.9**	36.9	37.6
	Risk-weighted assets ('RWAs') (£bn)				
7	Total RWAs		**125.4**	148.8	143.9
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**125.4**	148.7	143.8
	Capital ratios (%)	1			
9	CET1	^	**14.2**	13.3	13.8
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**14.1**	13.2	13.7
11	Total tier 1	^	**17.6**	15.4	16.0
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**17.6**	15.4	16.0
13	Total capital	^	**27.9**	24.8	26.2
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**27.8**	24.8	26.1
	Leverage ratio	2			
15	Total leverage ratio exposure (£bn)		**571.3**	621.9	570.0
16	Leverage ratio (%)	^	**3.8**	3.6	3.9
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**3.7**	3.6	3.9

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Effective 30 June 2019, the capital figures and ratios are reported in accordance with the revised Capital Requirements Regulation and Directive, as implemented ('CRR II'). Prior year capital figures and ratios are reported on a Capital Requirements Regulation and Directive ('CRD IV') transitional basis.*
2 *Effective 30 June 2019, the leverage ratio is calculated using the CRR II end point basis for capital. Prior leverage ratios are calculated using the CRD IV end point basis for capital.*

The group has adopted the regulatory transitional arrangements, including paragraph four within article 473a of the Capital Requirements Regulation, published by the EU on 27 December 2017 for IFRS 9 'Financial Instruments'. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that banks may add back starts at 95% in 2018, and reduces to 25% by 2022. The impact of IFRS 9 on loan loss allowances is defined as:

- the increase in loan loss allowances on day one of IFRS 9 adoption; and
- any subsequent increase in expected credit losses ('ECL') in the non-credit-impaired book thereafter.

The impact is calculated separately for portfolios using the standardised ('STD') and internal ratings based ('IRB') approaches and, for IRB portfolios, there is no add-back to capital unless loan loss allowances exceed regulatory 12-month expected losses.
Any add-back must be tax affected and accompanied by a recalculation of capital deduction thresholds, exposure and RWAs.

In the current period, the add-back to the capital base amounted to £(83)m under the STD approach with a tax impact of £21m which resulted in a net add-back of £(62)m.

Table 2: Overview of RWAs (OV1)

		At			
		31 Dec 2019		31 Dec 2018	
		RWAs	**Capital[1] required**	RWAs	Capital[1] required
		£m	**£m**	£m	£m
1	Credit risk (excluding counterparty credit risk)	**75,389**	**6,030**	84,135	6,731
2	– standardised approach	**24,130**	**1,930**	45,600	3,648
3	– foundation IRB approach	**11,605**	**928**	11,558	925
4	– advanced IRB approach	**39,654**	**3,172**	26,977	2,158
6	Counterparty credit risk	**21,173**	**1,694**	24,620	1,970
7	– mark-to-market	**9,973**	**798**	13,111	1,050
10	– internal model method	**9,017**	**721**	8,080	646
11	– risk exposure amount for contributions to the default fund of a central counterparty	**270**	**22**	185	15
12	– credit valuation adjustment	**1,913**	**153**	3,244	259
13	Settlement risk	**113**	**9**	49	4
14	Securitisation exposures in the non-trading book	**3,819**	**306**	4,687	374
15	– IRB ratings based method	**1,169**	**95**	3,173	253
16	– IRB supervisory formula method	**3**	**—**	9	1
17	– IRB internal assessment approach	**453**	**36**	965	77
18	– standardised approach	**440**	**35**	540	43
14a	– exposures subject to the new securitisation framework[2]	**1,754**	**140**	—	—
19	Market risk	**13,107**	**1,048**	17,534	1,403
20	– standardised approach	**1,567**	**125**	1,863	149
21	– internal models approach	**11,540**	**923**	15,671	1,254
23	Operational risk	**11,812**	**946**	12,850	1,028
25	– standardised approach	**11,812**	**946**	12,850	1,028
29	**Total**	**125,413**	**10,033**	143,875	11,510

1 *'Capital requirement' represents the minimum total capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.*
2 *On 1 January 2019, a new securitisation framework came into force in the EU for new transactions. Existing positions are subject to 'grandfathering' provisions and will transfer to the new framework on 1 January 2020. For further information see page 10.*

Regulatory framework for disclosures

HSBC is supervised on a consolidated basis in the UK by the Prudential Regulation Authority ('PRA'), which receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by their local banking supervisors, including the PRA itself in certain circumstances (for example, the bank), who set and monitor local capital adequacy requirements. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

At the HSBC Bank level, we calculated capital for prudential regulatory reporting purposes throughout 2019 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the European Union ('EU') in CRR II, and in the PRA's rulebook for the UK banking industry.

The Basel Committee's framework is structured around three 'pillars': Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

Pillar 3 disclosures

The HSBC Bank plc Pillar 3 Disclosures 2019 comprises both quantitative and qualitative information required under Pillar 3. They are made in accordance with Part Eight of CRR II and the European Banking Authority's ('EBA') guidelines on disclosure requirements.

These disclosures are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

In our disclosures, to give insight into movements during the year, we provide comparative figures for the previous year. Key ratios and figures are reflected throughout the HSBC Bank plc Pillar 3 Disclosures 2019 and are also available on page 75 of the HSBC Bank plc *Annual Report and Accounts 2019*.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior year comparatives. In these HSBC Bank plc Pillar 3 Disclosures 2019 we have adopted a number of tables from the European Banking Authority ('EBA') Pillar 3 guidelines to replace previously reported tables. We do not provide prior year comparatives for these tables in line with our stated approach and the EBA guidelines on adoption.

We publish comprehensive Pillar 3 disclosures annually on our website www.hsbc.com, concurrently with the release of our Annual Report and Accounts. Our Interim Reports also include regulatory information complementing the financial and risk information presented there and in line with the new requirements on the frequency of regulatory disclosures. Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the HSBC Bank plc *Annual Report and Accounts 2019*, the HSBC Holdings plc *Annual Report and Accounts 2019*, or the HSBC Holdings plc *Pillar 3 Disclosures at 31 December 2019* document. We continue to engage in the work of the UK authorities and industry associations to improve the transparency and comparability of UK banks' Pillar 3 disclosures.

Regulatory developments

The UK's withdrawal from the EU

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK remains subject to EU law during an

implementation period, which is currently expected to end on 31 December 2020. This implementation period may be extended by a further 2 years, subject to political agreement.

In preparation for the UK leaving without an agreement, a series of statutory instruments were made to transpose into UK law all of the EU laws and regulations that were directly applicable to UK firms on exit day. Although these statutory instruments were prepared for the UK leaving without a deal, it is anticipated that they will form the basis of the UK's regulation after the implementation period has ended; however, these may be subject to change to reflect the introduction of new EU law during the implementation period and the terms of any trade deal between the UK and the EU.

The Basel Committee

In December 2017, the Basel Committee on Banking Supervision ('Basel') published the Basel III Reforms. The package is broadly final, with Basel having completed a recalibration of the market risk RWA regime, the Fundamental Review of the Trading Book ('FRTB'), in January 2019. The remaining outstanding element is the revision of the calibration of the CVA framework, which Basel consulted on in November 2019.

The package aims for a 1 January 2022 implementation, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs are no lower than 72.5% of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the final rules amending the Capital Requirements Regulation, known as the CRR II. This was the EU's implementation of the Financial Stability Board's ('FSB') requirements for Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities ('MREL'). Furthermore, it also included changes to the own funds regime.

The CRR II will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the FRTB, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and the new leverage ratio rules. The CRR II rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

Since Basel's review of the calibration of the FRTB came too late to be included in the final CRR II text, the changes are being incorporated by way of a Delegated Act, which was published in near final format in December 2019. This introduces the FRTB in the EU as a reporting requirement only until a full impact assessment can be performed. Reporting on the standardised approach will begin 12 months after the enactment of the Delegated Act; whereas reporting on the modelled approaches will begin 3 years after enactment. A final date for the implementation of the FRTB in the EU has yet to be agreed.

The CRR II applies to HSBC's subsidiaries in the EU. In the UK, only the parts of the CRR II that are in force at the end of the Brexit implementation period will be transposed into UK law. As a result, any elements that are scheduled to enter into force after the end of the implementation period will need to be implemented separately by the UK.

The EU's implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation ('CRR III'). In 2019, the European Commission ('EC') began consulting on the implementation of the CRR III, which will include reforms to credit risk, operational risk, and the output floor. The EC is expected to produce a draft CRR III text in the second quarter of 2020. The EU implementation will then be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

It is expected that the Brexit implementation period will have been completed before the CRR III enters into EU law. As a result, the UK will have to implement the remaining Basel III Reforms independently under UK law.

Other developments

In December 2019, the UK's Financial Policy Committee ('FPC') issued the latest Financial Stability Report. In the report, the FPC announced that it will increase the UK's countercyclical buffer from 1% to 2% on 16 December 2020, in order to give the UK more flexibility in times of future stress. It considers that the UK remains in a standard risk environment and as a result, the total loss absorbing capacity in the banking system should remain unchanged, notwithstanding the buffer increase. To this end, the PRA will consult in 2020 on proposals to reduce Pillar 2A requirements to reflect the additional resilience associated with a higher buffer.

The FPC also announced a review of IFRS9 and stress testing to ensure that there is a permanent solution to avoid unwarranted capital increases as a result of the interaction between the two. This may result in amendments to minimum capital requirements and TLAC.

In October 2019, the EBA published a consultation paper on draft guidelines concerning the carve-out of "structural FX positions" from Pillar 1 market risk RWAs. The guidelines aim to ensure consistency in determining which positions qualify for the Pillar 1 carve out.

In July 2019, the BoE published its Resolvability Assessment Framework ('RAF'), which requires firms to develop capabilities to address eight identified barriers to resolvability. Banks are required to assess their resolvability in accordance with the BoE's criteria, submit this assessment by October 2020 and publish a summary by June 2021. Contemporaneously, the BoE will disclose its assessment of each firm's resolvability. The deadline for full compliance with the RAF framework is 1 January 2022.

In April 2019, the PRA issued statements setting out its expectations of how firms should manage the financial risks from climate change, focusing on governance, risk management, scenario analysis and disclosure areas. In particular, there is a requirement that the risk associated with climate change should be assessed and captured in firms' Pillar 2 assessments. The PRA also announced in December 2019 that the effects of climate change will be included in its 2021 stress test and are currently consulting on the form it might take.

Linkage to the Annual Report and Accounts 2019

Structure of the regulatory group

Assets, liabilities and post-acquisition reserves of subsidiaries engaged in insurance activities are excluded from the regulatory consolidation. The group's investments in these insurance subsidiaries are recorded at cost and deducted from common CET1 capital, subject to thresholds.

The regulatory consolidation also excludes special purpose entities ('SPEs') where significant risk has been transferred to third parties. Exposures to these SPEs are risk-weighted as securitisation positions for regulatory purposes.

Participating interests in banking associates are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profits and losses, and risk-weighted assets in accordance with the PRA's application of EU legislation. Non-participating significant investments along with non-financial associates, are deducted from capital, subject to thresholds.

Table 3: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Ref †	Accounting balance sheet	Deconsolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
		£m	£m	£m	£m
Assets					
Cash and balances at central banks		**51,816**	–	14	51,830
Items in the course of collection from other banks		**707**	–	–	707
Trading assets		**98,249**	–	–	98,249
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**17,012**	(11,748)	392	5,656
– *of which: debt securities eligible as tier 2 issued by Group Financial Sector Entities ('FSEs') that are outside the regulatory scope of consolidation*	*r*	–	*399*	–	*399*
Derivatives		**164,538**	(21)	–	164,517
Loans and advances to banks		**11,467**	(72)	–	11,395
Loans and advances to customers		**108,391**	(956)	–	107,435
– *of which: expected credit losses on IRB portfolios*	*h*	*(779)*	–	–	*(779)*
Reverse repurchase agreements – non-trading		**85,756**	–	–	85,756
Financial investments		**46,464**	(10,354)	–	36,110
Capital invested in insurance and other entities		–	600	–	600
Prepayments, accrued income and other assets		**48,939**	(944)	21	48,016
– *of which: retirement benefit assets*	*j*	*22*	–	–	*22*
Current tax assets		**725**	10	–	735
Interests in associates and joint ventures		**437**	–	(425)	12
Goodwill and intangible assets	*e*	**1,582**	(715)	–	867
Deferred tax assets	*f*	**408**	158	2	568
Total assets at 31 Dec 2019		**636,491**	**(24,042)**	**4**	**612,453**
Liabilities and equity					
Liabilities					
Deposits by banks		**23,991**	(12)	–	23,979
Customer accounts		**177,236**	526	–	177,762
Repurchase agreements – non-trading		**49,385**	–	–	49,385
Items in the course of transmission to other banks		**403**	–	–	403
Trading liabilities		**48,026**	44	–	48,070
Financial liabilities designated at fair value		**41,642**	298	–	41,940
– *of which:*					
included in tier 1	*l*	*317*	–	–	*317*
included in tier 2	*n, o, q, i*	*2,268*	–	–	*2,268*
Derivatives		**161,083**	5	–	161,088
– *of which: debit valuation adjustment*	*i*	*29*	–	–	*29*
Debt securities in issue		**25,039**	(1,654)	–	23,385
Accruals, deferred income and other liabilities		**50,315**	(970)	4	49,349
Current tax liabilities		**106**	(7)	–	99
Liabilities under insurance contracts		**21,509**	(21,509)	–	–
Provisions		**540**	(3)	–	537
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	*h*	*77*	–	–	*77*
Deferred tax liabilities		**22**	(15)	–	7
Subordinated liabilities		**13,182**	–	–	13,182
– *of which:*					
included in tier 1	*l*	*700*	–	–	*700*
included in tier 2	*n, o, q*	*12,482*	–	–	*12,482*
Total liabilities at 31 Dec 2019		**612,479**	**(23,297)**	**4**	**589,186**
Equity					
Called up share capital	*a*	**797**	–	–	797
Other equity instruments	*k*	**3,722**	–	–	3,722
Other reserves	*c, g*	**(5,465)**	10	–	(5,455)
Retained earnings	*b, c*	**24,449**	(755)	–	23,694
Total shareholders' equity		**23,503**	**(745)**	**–**	**22,758**
Non-controlling interests	*d, m, p*	**509**	–	–	509
Total equity at 31 Dec 2019		**24,012**	**(745)**	**–**	**23,267**
Total liabilities and equity at 31 Dec 2019		**636,491**	**(24,042)**	**4**	**612,453**

† *The references (a) – (r) identify balance sheet components which are used in the calculation of regulatory capital on pages 7 to 8.*

Capital and Leverage

Capital management

Approach and policy

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is our objective to maintain a strong capital base to support the development of our business and to exceed regulatory capital requirements at all times. To achieve this, we manage our capital within the context of an annual capital plan that is approved by the Board and determines the optimal amount and mix of capital required to support planned business growth and meet local regulatory capital requirements.

Our policy on capital management is underpinned by the capital management framework and our internal capital adequacy assessment process, which enable the group to manage its capital in a consistent manner. The framework incorporates a number of different capital measures that govern the management and allocation of capital within the group. These capital measures are defined by the group as follows:

- invested capital is the equity capital provided to the bank by HSBC through the intermediary company HSBC UK Holdings Limited;
- economic capital is the internally calculated capital requirement that is deemed necessary by the group to support the risks to which it is exposed; and
- regulatory capital is the minimum level of capital that the group is required to hold in accordance with the rules established by the PRA for the bank and the group, and by the local regulators for individual subsidiary companies.

The following risks managed through the capital management framework have been identified as material: credit, market, operational, interest rate risk in the banking book, pensions, insurance and residual risks.

Stress testing

Stress testing is incorporated into the capital management framework, and is an important component of understanding the sensitivity of the core assumptions in the group's capital plans to the adverse effect of extreme, but plausible, events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified. The actual market stresses experienced by the financial system in recent years have been used to inform the capital planning process and further develop the scenarios employed by the group in its internal stress tests.

Other stress tests are also carried out, both at the request of regulators and by the regulators themselves, using their prescribed assumptions. The group takes into account the results of all such regulatory stress testing when assessing its internal capital requirements.

Risks to capital

Outside the stress testing framework, other risks may be identified that have the potential to affect our RWAs and/or capital position. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary. We closely monitor and consider future regulatory change. We continue to evaluate the impact upon our capital requirements of regulatory developments, including the amendments to the Capital Requirements Regulation, the Basel III reforms package, and the UK's withdrawal from the EU.

The group's approach to managing its capital position has been to ensure the bank, its regulated subsidiaries and the group exceed current regulatory requirements, and it is well placed to meet expected future capital requirements.

Planning and performance

Capital and RWA targets for our global businesses are established in accordance with the Group's strategic direction and risk appetite, and approved through the Group's annual planning process. As these targets are deployed to lower levels of management, action plans for implementation are developed. These may include growth strategies, active portfolio management, restructuring, business and/or customer-level reviews, RWA accuracy and allocation initiatives, and risk mitigation.

Business performance against RWA targets is monitored through regular reporting to the Asset, Liability and Capital Management Committee.

Capital generation

HSBC Holdings plc, through its intermediary company HSBC UK Holdings Limited, is the sole provider of equity capital to the group and also provides non-equity capital where necessary. Capital generated in excess of planned requirements is ultimately returned to HSBC Holdings plc in the form of dividends.

All capital securities included in the regulatory capital base of the group have either been issued as fully compliant CRD IV securities (on an end point basis) or in accordance with the rules and guidance in the PRA's previous General Prudential Sourcebook, which are included in the capital base by virtue of the application of the CRR II grandfathering provisions.

A list of the main features of our capital instruments, categorised as Tier 1 ('T1') capital and Tier 2 ('T2') capital, in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on HSBC's website with reference to our balance sheet on 31 December 2019.

The values disclosed are the IFRS balance sheet carrying amounts, not the amounts that these securities contribute to regulatory capital. For example, the IFRS accounting and the regulatory treatments differ in their approaches to issuance costs, regulatory amortisation and regulatory eligibility limits prescribed by the relevant regulatory legislation.

As at 31 December 2019, the bank holds sufficient amount of eligible regulatory total capital to meet the existing Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') requirements.

Table 4: Own funds disclosure

Ref*		Ref †	At 31 Dec 2019 £m	31 Dec 2018 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts		**797**	797
	– ordinary shares	a	**797**	797
2	Retained earnings	b	**19,272**	30,668
3	Accumulated other comprehensive income (and other reserves)	c	**2,048**	2,953
5	Minority interests (amount allowed in consolidated CET1)	d	**350**	372
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	b	**(3,019)**	(12,049)
6	**Common equity tier 1 capital before regulatory adjustments**		**19,448**	22,741
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(651)**	(623)
8	Intangible assets (net of related deferred tax liability)	e	**(854)**	(1,970)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	**(72)**	(40)
11	Fair value reserves related to gains or losses on cash flow hedges	g	**(65)**	7
12	Negative amounts resulting from the calculation of expected loss amounts	h	**(189)**	(183)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	i	**193**	(79)
15	Defined benefit pension fund assets	j	**(19)**	(22)
28	**Total regulatory adjustments to common equity tier 1**		**(1,657)**	(2,910)
29	**Common equity tier 1 capital**		**17,791**	19,831
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**3,722**	2,403
31	– classified as equity under IFRSs	k	**3,722**	2,403
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	l	**650**	866
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	m	**12**	26
36	**Additional tier 1 capital before regulatory adjustments**		**4,384**	3,295
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[3]		**(45)**	(47)
43	**Total regulatory adjustments to additional tier 1 capital**		**(45)**	(47)
44	**Additional tier 1 capital**		**4,339**	3,248
45	**Tier 1 capital (T1 = CET1 + AT1)**		**22,130**	23,079

Table 4: Own funds disclosure (continued)

Ref*		Ref †	At 31 Dec 2019 £m	31 Dec 2018 £m
	Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	n	**12,336**	13,757
	– *of which: instruments grandfathered under CRR II*		***1,399***	*N/A*
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	o	**661**	881
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties[4]	p, q	**232**	357
49	– *of which: instruments issued by subsidiaries subject to phase out*[5]	q	***57***	*107*
51	**Tier 2 capital before regulatory adjustments**		**13,229**	14,995
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[3]		**(31)**	(31)
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	r	**(399)**	(372)
57	**Total regulatory adjustments to tier 2 capital**		**(430)**	(403)
58	**Tier 2 capital**		**12,799**	14,592
59	**Total capital (TC = T1 + T2)**		**34,929**	37,671
60	**Total risk-weighted assets**		**125,413**	143,875
	Capital ratios and buffers			
61	Common equity tier 1		**14.2%**	13.8%
62	Tier 1		**17.6%**	16.0%
63	Total capital		**27.9%**	26.2%
64	Institution specific buffer requirement		**2.89%**	2.16%
65	– capital conservation buffer requirement		**2.50%**	1.88%
66	– countercyclical buffer requirement		**0.39%**	0.28%
68	Common equity tier 1 available to meet buffers		**9.7%**	9.3%
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,712**	1,383
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**600**	669
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**447**	723
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**330**	387
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**396**	459
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**695**	926
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**364**	581
84	Current cap on T2 instruments subject to phase-out arrangements		**759**	1,075
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**109**	103

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*

† *The references (a) – (r) identify balance sheet components on page 5 that are used in the calculation of regulatory capital.*

1 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*

2 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*

3 *As advised by the PRA a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*

4 *Eligible instruments issued by subsidiaries previously reported in row 46 'Capital instruments and the related share premium accounts' are now reported here. For comparative purposes, 2018 data have been re-presented to reflect this change.*

5 *The reported amount also represents instruments grandfathered under CRR II.*

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement.

The PRA's leverage ratio requirement applies at the highest level of UK consolidation. For HSBC, this applies at the Group level and not at the HSBC Bank plc level.

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM').

For the group, the leverage exposure measure is also calculated and presented to the Asset and Liability Management Committee every month.

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.8% at 31 December 2019, down from 3.9% at 31 December 2018. This was largely driven by a decrease in tier 1 capital.

Table 5: Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

		At	
		31 Dec 2019	31 Dec 2018
Ref*		**£m**	£m
1	Total assets as per published financial statements	**636,491**	604,958
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(24,038)**	(22,679)
4	– derivative financial instruments	**(93,974)**	(61,186)
5	– securities financing transactions ('SFT')	**(1,243)**	(8,350)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**49,188**	52,215
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(341)**	(517)
7	– other	**5,219**	5,560
8	**Total leverage ratio exposure**	**571,302**	570,001

Table 6: Leverage ratio common disclosure (LRCom)

		At	
		31 Dec 2019	31 Dec 2018
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**355,108**	352,866
2	(Asset amounts deducted in determining Tier 1 capital)	**(1,178)**	(2,262)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**353,930**	350,604
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**30,146**	25,418
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**86,906**	82,721
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**5,213**	4,269
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(28,285)**	(13,740)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(28,442)**	(19,566)
9	Adjusted effective notional amount of written credit derivatives	**117,851**	146,075
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(112,846)**	(141,887)
11	**Total derivative exposures**	**70,543**	83,290
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**217,376**	250,933
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(124,530)**	(171,313)
14	Counterparty credit risk exposure for SFT assets	**5,136**	4,789
16	**Total securities financing transaction exposures**	**97,982**	84,409
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**120,337**	128,523
18	(Adjustments for conversion to credit equivalent amounts)	**(71,149)**	(76,308)
19	**Total off-balance sheet exposures**	**49,188**	52,215
	Exempted exposures		
EU-19	(Exemption of intragroup exposures (solo basis))	**(341)**	(517)
	Capital and total exposures		
20	**Tier 1 capital**	**21,480**	22,213
21	**Total leverage ratio exposure**	**571,302**	570,001
22	**Leverage ratio (%)**	**3.8**	3.9
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**	Fully phased-in

* *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable and where there is a value.*

Capital buffers

The geographical breakdown and institution specific countercyclical buffer disclosures can be found in Appendix I of this document.

Pillar 1

Pillar 1 covers the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes Counterparty credit risk ('CCR') and securitisation requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC
Credit risk	The Basel framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised ('STD') approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated group reporting, we have adopted the AIRB approach for the majority of our business. Some portfolios remain on the standardised or FIRB approaches: • pending the issuance of local regulations or model approval; • following the supervisory prescription of a non-advanced approach; or • under exemptions from IRB treatment. On 1 January 2020, corporate exposures subject to the UK loss-given-default model moved from the advanced to the foundation IRB approach.
Counterparty credit risk ('CCR')	Four approaches to calculating CCR and determining exposure values are defined by the BCBS: mark-to-market, original exposure, standardised and internal model method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches; standardised, FIRB or AIRB.	We use the mark-to-market and IMM approaches for CCR. Details of the IMM permission we have received from the PRA can be found in the Financial Services Register on the PRA website. Our aim is to increase the proportion of positions on IMM over time.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For group reporting purposes, all equity exposures are treated under the standardised approach.
Securitisation	Basel specifies two approaches for calculating credit risk requirements for securitisation positions in the non-trading books: the standardised approach and the IRB approach, which incorporates the ratings based method ('RBM'), the internal assessment approach ('IAA') and the supervisory formula method ('SFM'). Securitisation positions in the trading book are treated within market risk, using the CRD IV standard rules. On 1 January 2019, the new securitisation framework came into force in the EU for new transactions. This framework prescribes the following approaches: • internal ratings-based approach ('SEC-IRBA'); • external ratings-based approach ('SEC-ERBA'); • internal assessment approach ('IAA'); and • standardised approach ('SEC-SA'). From 1 January 2020, all transactions will be subject to the new framework.	For the majority of the non-trading book securitisation positions, we use the IRB approach, and within this principally the RBM, with lesser amounts on the IAA and the SFM. We also use the standardised approach for an immaterial amount of non-trading book positions. Our exposures subject to the new framework in 2019 include exposures under SEC-IRBA, SEC-ERBA, IAA and SEC-SA.
Market risk	Market risk capital requirements can be determined under either the standard rules or the internal models approach ('IMA'). The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include stressed VaR, incremental risk charge ('IRC') and comprehensive risk measure.	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. Our internal market risk models comprise VaR, stressed VaR and IRC. Non-proprietary details of the scope of our IMA permission are available in the Financial Services Register on the PRA website. We are in compliance with the requirements regarding i) rules and procedures for inclusion of positions within trading books and ii) application of prudent valuation adjustments to trading book positions.
Operational risk	Basel allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement. We have in place an operational risk model that is used for economic capital calculation purposes.

Pillar 2 and ICAAP

Pillar 2

We conduct an annual Internal Capital Adequacy Assessment Process ('ICAAP') to determine a forward-looking assessment of our capital requirements given our business strategy, risk profile, risk appetite and capital plan. This process incorporates the group's risk management processes and governance framework. As part of our ICAAP, a range of stress tests are applied to our base capital plan. Coupled with our economic capital framework and other risk management practices, these are used to assess our internal capital adequacy requirements and inform our view of our internal capital planning buffer. The ICAAP is formally approved by the Board, which has the ultimate responsibility for the effective management of risk and approval of the group's risk appetite.

The ICAAP is reviewed by the PRA as part of its Supervisory Review and Evaluation Process, which occurs periodically to enable the regulator to define the individual capital requirement ('ICR') (previously known as the individual capital guidance ('ICG')) or minimum capital requirements for the bank , and to define the PRA buffer, where required. The PRA buffer is not intended to duplicate the CRD IV buffers and, where necessary, will be set according to the vulnerability of a bank in a stress scenario, as assessed through the annual PRA stress testing exercise.

The processes of internal capital adequacy assessment and supervisory review lead to a final determination by the PRA of ICR and any PRA buffer that may be required.

Pillar 2 comprises Pillar 2A and Pillar 2B. Pillar 2A considers, in addition to the minimum capital requirements for Pillar 1 risks described above, any supplementary requirements for those risks and any requirements for risk categories not captured by Pillar 1. The risk categories to be covered under Pillar 2A depend on the specific circumstances of a firm and the nature and scale of its business.

Pillar 2B consists of guidance from the PRA on the capital buffer a firm would require in order to remain above its ICR in adverse circumstances that may be largely outside the firm's normal and direct control, for example during a period of severe but plausible downturn stress, when asset values and the firm's capital surplus may become strained. This is quantified via any PRA buffer requirement the PRA may consider necessary. The assessment of this is informed by stress tests and a rounded judgement of a firm's business model, also taking into account the PRA's view of a firm's options and capacity to protect its capital position under stress, for instance through capital generation. Where the PRA assesses that a firm's risk management and governance are significantly weak, it may also increase the PRA buffer to cover the risks posed by those weaknesses until they are addressed. The PRA buffer is intended to be drawn upon in times of stress, and its use is not of itself a breach of capital requirements that would trigger automatic restrictions on distributions. In specific circumstances, the PRA should agree a plan with a firm for its restoration over an agreed timescale.

Internal capital adequacy assessment

The Board approves the group ICAAP, and together with RMM, it examines the group's risk profile from both a regulatory and economic capital viewpoint. They aim to ensure that capital resources:

- remain sufficient to support our risk profile and outstanding commitments;
- exceed current regulatory requirements, and that the group is well placed to meet those expected in the future;
- allow the bank to remain adequately capitalised in the event of a severe economic downturn stress scenario; and
- remain consistent with our strategic and operational goals, and our shareholder and investor expectations.

The minimum regulatory capital that we are required to hold is determined by the rules and guidance established by the PRA for the consolidated group and by local regulators for individual group companies. These capital requirements are a primary factor in influencing and shaping the business planning process, in which RWA targets are established for our global businesses in accordance with the group's strategic direction and risk appetite.

Economic capital is the internally calculated capital requirement that we deem necessary to support the risks to which we are exposed. The economic capital assessment is a more risk-sensitive measure than the regulatory minimum, as it covers a wider range of risks and takes account of the diversification of risk accruing from our operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into our risk management processes. Our economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon to a 99.95% level of confidence for our banking and trading activities, and to a 99.5% level of confidence for our insurance activities and pension risks, and to a 99.9% level of confidence for our operational risks.

The ICAAP and its constituent economic capital calculations are examined by the PRA as part of its Supervisory Review and Evaluation Process. This examination informs the regulator's view of our Pillar 2 capital requirements.

Preserving our strong capital position remains a priority, and the level of integration of our risk and capital management helps to optimise our response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including CCR, market risk, operational risk, interest rate risk in the banking book ('IRRBB'), insurance risk, pension risk, residual risk and structural foreign exchange risk.

Credit risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from off-balance sheet products, such as guarantees and credit derivatives, and from the group's holdings of debt and other securities.

The tables below set out details of the group's credit risk exposures by exposure class and approach.

Further explanation of the group's approach to managing credit risk (including details of the group's past due and impaired exposure, and its approach to credit risk impairment) can be found:

- *on pages 29 to 57 of the HSBC Bank plc* Annual Report and Accounts 2019*;*
- *on pages 84 to 85 of the HSBC Holdings plc* Annual Report and Accounts 2019*; and*
- *on pages 26 to 54 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2019*.*

Table 7: Credit risk exposure – summary (CRB-B)

	Footnotes	At 31 Dec 2019					At 31 Dec 2018				
		Net carrying values	**Average net carrying values[3]**	**RWAs^**	**Capital required^**	**RWA density**	Net carrying values	Average net carrying values[3]	RWAs^	Capital required^	RWA density
		£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
IRB advanced approach		**173,204**	**183,231**	**37,679**	**3,014**	**30**	181,705	313,462	44,315	3,545	31
– central governments and central banks		**16,024**	**20,114**	**1,915**	**153**	**13**	19,293	20,967	2,420	194	13
– institutions		**13,984**	**14,886**	**2,439**	**195**	**21**	13,521	12,929	3,196	256	28
– corporates	1	**119,419**	**124,593**	**30,560**	**2,445**	**39**	126,154	169,964	35,732	2,859	40
– total retail		**23,777**	**23,638**	**2,765**	**221**	**12**	22,737	109,602	2,967	236	13
– *of which:*											
secured by mortgages on immovable property – small– and medium–sized enterprises ('SME')		***413***	***439***	***278***	***22***	***64***	*465*	*42,972*	*309*	*24*	*63*
secured by mortgages on immovable property non-SME		***4,359***	***4,466***	***586***	***47***	***13***	*4,530*	*19,859*	*648*	*52*	*14*
qualifying revolving retail		***564***	***535***	***38***	***3***	***21***	*559*	*23,277*	*36*	*3*	*21*
other SME		***1,665***	***1,670***	***507***	***41***	***38***	*1,518*	*4,675*	*607*	*48*	*40*
other non-SME		***16,776***	***16,529***	***1,356***	***108***	***8***	*15,665*	*18,819*	*1,367*	*109*	*9*
IRB securitisation positions		**10,370**	**13,349**	**2,084**	**167**	**20**	15,954	17,746	4,147	332	26
IRB non-credit obligation assets		**3,468**	**4,036**	**1,976**	**158**	**57**	3,300	5,761	1,284	103	39
IRB foundation approach		**30,069**	**29,121**	**11,605**	**928**	**59**	28,581	30,799	11,558	925	59
– central governments and central banks		**–**	**–**	**2**	**–**	**22**	–	–	4	–	35
– institutions		**–**	**–**	**17**	**1**	**28**	–	7	46	4	43
– corporates		**30,069**	**29,121**	**11,586**	**927**	**59**	28,581	30,792	11,508	921	60
STD approach		**121,224**	**124,804**	**25,864**	**2,069**	**22**	118,704	154,832	27,518	2,200	25
– central governments and central banks		**68,622**	**72,439**	**1,117**	**89**	**2**	68,894	99,285	1,831	146	3
– regional governments or local authorities		**1,849**	**1,916**	**2**	**–**	**–**	1,927	1,904	–	–	–
– public sector entities		**6,082**	**4,928**	**9**	**1**	**–**	4,111	5,036	9	1	–
– international organisations		**1,168**	**1,143**	**–**	**–**	**–**	1,256	1,484	–	–	–
– institutions		**3,855**	**5,358**	**1,085**	**87**	**28**	5,723	6,032	1,309	105	23
– corporates		**21,496**	**24,800**	**11,494**	**920**	**86**	25,769	28,921	14,251	1,140	89
– retail		**1,363**	**1,243**	**412**	**33**	**71**	1,367	2,121	395	31	70
– secured by mortgages on immovable property		**3,877**	**3,620**	**1,448**	**116**	**37**	3,042	3,358	1,064	85	35
– exposures in default		**448**	**503**	**470**	**38**	**119**	521	641	632	50	122
– items associated with particularly high risk		**3,743**	**3,640**	**5,481**	**438**	**150**	3,284	2,462	4,911	393	150
– securitisation positions		**6,410**	**2,800**	**1,735**	**139**	**27**	517	493	541	43	105
– collective investments undertakings ('CIU')		**6**	**11**	**6**	**–**	**–**	19	26	19	2	99
– equity	2	**1,428**	**1,354**	**2,327**	**186**	**163**	1,282	913	2,285	183	178
– other items		**877**	**1,049**	**278**	**22**	**32**	992	2,156	271	21	27
At 31 Dec		**338,335**	**354,541**	**79,208**	**6,336**	**29**	348,244	522,600	88,822	7,105	30

^ *Figures have been prepared on an IFRS 9 transitional basis.*

1 *Corporates includes specialised lending exposures subject to the supervisory slotting approach of £4,104m (2018: £4,442m) and RWAs of £2,699m (2018: £2,929m).*

2 *This includes investments in insurance companies that are risk weighted at 250%.*

3 *Average net carrying values are calculated by aggregating net carrying values of the last five quarters and dividing by five.*

Non-performing and forborne exposures

Tables 8 to 11 are presented in accordance with the EBA's 'Guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Annual Report and Accounts 2019* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Annual Report and Accounts 2019*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

Under the EBA definition, exposures cease to be reported as forborne if they pass three tests:

- the forborne exposure must have been considered to be performing for a 'probation period' of at least two years;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- no exposure to the debtor is more than 30 days past due at the end of the probation period.

In the *Annual Report and Accounts*, renegotiated loans retain this classification until maturity or de-recognition.

Table 8: Credit quality of forborne exposures

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposures*
			Total	*Of which: defaulted*	*Of which: impaired*				
		£m	£m	£m	£m	£m	£m	£m	£m
	At 31 Dec 2019								
1	**Loans and advances**	**487**	**483**	**483**	**483**	**(7)**	**(129)**	**298**	**101**
6	Non-financial corporations	**487**	**408**	**408**	**408**	**(7)**	**(115)**	**260**	**63**
7	Households	**—**	**75**	**75**	**75**	**—**	**(14)**	**38**	**38**
9	**Loan commitments given**	**—**	**63**	**63**	**63**	**—**	**—**	**62**	**62**
10	**Total**	**487**	**546**	**546**	**546**	**(7)**	**(129)**	**360**	**163**

Table 9: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which: defaulted*
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*
	At 31 Dec 2019												
1	**Loans and advances**	**265,40**	**262,608**	**98**	**2,024**	**1,332**	**222**	**19**	**21**	**416**	**6**	**8**	***2,024***
2	Central banks	**59,691**	**59,691**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
3	General governments	**1,473**	**1,473**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
4	Credit institutions	**36,648**	**36,648**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
5	Other financial corporations	**79,058**	**76,646**	**—**	**88**	**88**	**—**	**—**	**—**	**—**	**—**	**—**	***88***
6	Non-financial corporations	**64,170**	**63,828**	**56**	**1,492**	**1,040**	**169**	**5**	**11**	**260**	**3**	**4**	***1,492***
8	Households	**24,364**	**24,322**	**42**	**444**	**204**	**53**	**14**	**10**	**156**	**3**	**4**	***444***
9	**Debt securities**	**36,265**	**36,264**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	Central banks	**172**	**172**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
11	General governments	**25,863**	**25,863**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	Credit institutions	**6,858**	**6,858**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
13	Other financial corporations	**2,422**	**2,422**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
14	Non-financial corporations	**950**	**949**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
15	**Off-balance-sheet exposures**	**145,64 9**	**N/A**	**N/A**	**256**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***256***
16	Central banks	**57**	**N/A**	**N/A**	**—**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**—**
17	General governments	**1,133**	**N/A**	**N/A**	**—**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**—**
18	Credit institutions	**40,066**	**N/A**	**N/A**	**—**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**—**
19	Other financial corporations	**15,932**	**N/A**	**N/A**	**2**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***2***
20	Non-financial corporations	**86,320**	**N/A**	**N/A**	**250**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***250***
21	Households	**2,141**	**N/A**	**N/A**	**4**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***4***
22	**Total**	**447,31**	**298,872**	**98**	**2,280**	**1,332**	**222**	**19**	**21**	**416**	**6**	**8**	***2,280***

Table 10: Collateral obtained by taking possession and execution processes

		At 31 Dec 2019	
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		£m	£m
2	Other than PP&E	**11**	**—**
3	Residential immovable property	**3**	**—**
4	Commercial Immovable property	**8**	**—**
8	**Total**	**11**	**—**

Table 11: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures		Performing exposures			Non-performing exposures		On performing exposures	On non-performing exposures
			of which: stage 1	of which: stage 2		of which: stage 3		of which: stage 1	of which: stage 2		of which stage 3		
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	At 31 Dec 2019												
1	**Loans and advances**	265,404	255,856	6,850	2,024	2,024	(225)	(107)	(118)	(808)	(808)	129,926	452
2	Central banks	59,691	59,691	–	–	–	–	–	–	–	–	3,340	–
3	General governments	1,473	1,291	182	–	–	(1)	–	(1)	–	–	136	–
4	Credit institutions	36,648	36,610	38	–	–	(4)	(4)	–	–	–	25,268	–
5	Other financial corporations	79,058	76,304	342	88	88	(30)	(12)	(18)	(35)	(35)	57,399	–
6	Non-financial corporations	64,170	58,697	5,187	1,492	1,492	(152)	(79)	(73)	(638)	(638)	20,825	238
8	Households	24,364	23,263	1,101	444	444	(38)	(12)	(26)	(135)	(135)	22,958	214
9	**Debt securities**	36,265	35,917	75	–	–	(20)	(8)	(12)	–	–	–	–
10	Central banks	172	172	–	–	–	–	–	–	–	–	–	–
11	General governments	25,863	25,862	–	–	–	(1)	(1)	–	–	–	–	–
12	Credit institutions	6,858	6,813	43	–	–	–	–	–	–	–	–	–
13	Other financial corporations	2,422	2,147	26	–	–	(13)	(1)	(12)	–	–	–	–
14	Non-financial corporations	950	923	6	–	–	(6)	(6)	–	–	–	–	–
15	**Off-balance-sheet exposures**	145,649	126,545	3,352	256	199	(70)	(24)	(17)	(32)	(22)	1,932	33
16	Central banks	57	57	–	–	–	–	–	–	–	–	–	–
17	General governments	1,133	603	4	–	–	–	–	–	–	–	–	–
18	Credit institutions	40,066	38,605	14	–	–	(1)	–	–	–	–	–	–
19	Other financial corporations	15,932	14,521	256	2	2	(29)	(3)	(1)	(1)	(1)	352	–
20	Non-financial corporations	86,320	70,713	2,990	250	193	(39)	(21)	(16)	(31)	(21)	1,532	33
21	Households	2,141	2,046	88	4	4	(1)	–	–	–	–	48	–
22	**Total**	447,318	418,318	10,277	2,280	2,223	(315)	(139)	(147)	(840)	(830)	131,858	485

Table 12: Geographical breakdown of exposures (CRB-C)

		Net carrying values[1,2]						
			Of which:					
		Europe	*United Kingdom*	*France*	*Germany*	*Netherlands*	*Other Europe*	Asia
		£m	*£m*	*£m*	*£m*	*£m*	*£m*	£m
	IRB approach							
1	Central governments and central banks	909	—	—	—	—	909	1,144
2	Institutions	11,166	7,068	948	537	400	2,213	533
3	Corporates	126,751	38,570	34,839	17,376	5,074	30,892	2,997
4	Retail	23,367	2,879	20,032	2	9	445	6
6	**Total IRB approach**	162,193	48,517	55,819	17,915	5,483	34,459	4,680
	STD approach							
7	Central governments and central banks	68,622	24,493	34,038	5,243	278	4,570	—
8	Regional governments or local authorities	1,849	—	8	1,841	—	—	—
9	Public sector entities	6,082	—	1,938	4,010	—	134	—
11	International organisations	—	—	—	—	—	—	—
12	Institutions	1,017	742	10	—	—	265	1,427
13	Corporates	16,344	1,294	2,726	950	2,394	8,980	366
14	Retail	1,346	6	257	163	12	908	1
15	Secured by mortgages on immovable property	3,827	812	528	90	228	2,169	1
16	Exposures in default	330	3	71	25	26	205	—
17	Items associated with particularly high risk	2,675	902	702	—	—	1,071	—
20	Collective investment undertakings ('CIU')	6	—	—	6	—	—	—
21	Equity	1,356	1,185	129	33	—	9	1
22	Other items	877	157	672	3	—	45	—
23	**Total STD approach**	104,331	29,594	41,079	12,364	2,938	18,356	1,796
24	**At 31 Dec 2019**	266,524	78,111	96,898	30,279	8,421	52,815	6,476

		Net carrying values[1,2]						
				Of which:				
		MENA	North America	*United States of America*	*Other countries*	Latin America	Other geographical areas	Total
		£m	£m	*£m*	*£m*	£m	£m	£m
	IRB approach							
1	Central governments and central banks	2,681	8,981	8,782	199	23	2,286	16,024
2	Institutions	2,000	278	194	84	7	—	13,984
3	Corporates	4,634	13,918	11,195	2,723	1,188	—	149,488
4	Retail	132	271	12	259	1	—	23,777
6	**Total IRB approach**	9,447	23,448	20,183	3,265	1,219	2,286	203,273
	STD approach							
7	Central governments and central banks	—	—	—	—	—	—	68,622
8	Regional governments or local authorities	—	—	—	—	—	—	1,849
9	Public sector entities	—	—	—	—	—	—	6,082
11	International organisations	—	—	—	—	—	1,168	1,168
12	Institutions	167	1,190	1,000	190	54	—	3,855
13	Corporates	2,782	1,769	1,319	450	235	—	21,496
14	Retail	2	14	—	14	—	—	1,363
15	Secured by mortgages on immovable property	3	30	—	30	16	—	3,877
16	Exposures in default	55	46	—	46	17	—	448
17	Items associated with particularly high risk	16	1,052	411	641	—	—	3,743
20	Collective investment undertakings ('CIU')	—	—	—	—	—	—	6
21	Equity	—	71	42	29	—	—	1,428
22	Other items	—	—	—	—	—	—	877
23	**Total STD approach**	3,025	4,172	2,772	1,400	322	1,168	114,814
24	**At 31 Dec 2019**	12,472	27,620	22,955	4,665	1,541	3,454	318,087

1 Amounts shown by geographical region in this table are based on the country of residence of the counterparty.
2 Securitisation positions and non-credit obligation assets are not included in this table.

Table 12: Geographical breakdown of exposures (CRB-C) (continued)

		Net carrying values[1,2]						
			Of which:					
		Europe	*United Kingdom*	*France*	*Germany*	*Netherlands*	*Other Europe*	Asia
		£m	*£m*	*£m*	*£m*	*£m*	*£m*	£m
	IRB approach							
1	Central governments and central banks	1,373	—	—	—	—	1,373	2,566
2	Institutions	10,179	4,452	1,121	636	444	3,526	674
3	Corporates	132,678	44,392	36,051	17,489	5,870	28,876	3,154
4	Retail	22,621	2,700	19,537	1	9	374	5
6	Total IRB approach	166,851	51,544	56,709	18,126	6,323	34,149	6,399
	STD approach							
7	Central governments and central banks	68,894	24,180	31,126	3,971	6,270	3,347	—
8	Regional governments or local authorities	1,927	—	8	1,917	—	2	—
9	Public sector entities	4,101	—	105	3,779	—	217	—
11	International organisations	—	—	—	—	—	—	—
12	Institutions	1,830	1,577	—	—	—	253	1,043
13	Corporates	19,794	1,816	3,239	1,136	2,661	10,942	407
14	Retail	1,350	7	281	179	22	861	—
15	Secured by mortgages on immovable property	2,990	690	346	—	—	1,954	1
16	Exposures in default	407	3	24	29	23	328	—
17	Items associated with particularly high risk	2,250	1,005	422		—	823	—
20	Collective investment undertakings ('CIU')	19	—	—	5	—	14	—
21	Equity	1,217	1,079	87	41	—	10	1
22	Other items	991	486	466	1	—	38	1
23	Total STD approach	105,770	30,843	36,104	11,058	8,976	18,789	1,453
24	At 31 Dec 2018	272,621	82,387	92,813	29,184	15,299	52,938	7,852

		Net carrying values[1,2]						
				Of which:				
		MENA	North America	*United States of America*	*Other countries*	Latin America	Other geographical areas	Total
		£m	£m	*£m*	*£m*	£m	£m	£m
	IRB approach							
1	Central governments and central banks	2,731	9,366	9,269	97	6	3,251	19,293
2	Institutions	2,168	457	355	102	10	33	13,521
3	Corporates	5,315	12,526	9,926	2,600	1,062	—	154,735
4	Retail	2	108	16	92	1	—	22,737
6	Total IRB approach	10,216	22,457	19,566	2,891	1,079	3,284	210,286
	STD approach							
7	Central governments and central banks	—	—	—	—		—	68,894
8	Regional governments or local authorities	—	—	—	—		—	1,927
9	Public sector entities	10	—	—	—		—	4,111
11	International organisations	—	—	—	—		1,256	1,256
12	Institutions	189	2,406	2,159	247	255	—	5,723
13	Corporates	3,751	1,459	912	547	358	—	25,769
14	Retail	2	14	—	14	1	—	1,367
15	Secured by mortgages on immovable property	3	35	—	35	13	—	3,042
16	Exposures in default	55	50	—	50	9	—	521
17	Items associated with particularly high risk	13	1,021	423	598		—	3,284
20	Collective investment undertakings ('CIU')	—	—	—	—	—	—	19
21	Equity	—	64	24	40	—	—	1,282
22	Other items	—	—	—	—	—	—	992
23	Total STD approach	4,023	5,049	3,518	1,531	636	1,256	118,187
24	At 31 Dec 2018	14,239	27,506	23,084	4,422	1,715	4,540	328,473

1 Amounts shown by geographical region in this table are based on the country of residence of the counterparty.
2 Securitisation positions and non-credit obligation assets are not included in this table.

Table 13: Concentration of exposures by industry or counterparty types (CRB-D)

	Net carrying values[1]	Agri-culture £m	Mining & oil extrac-tion £m	Manufac-turing £m	Utilities £m	Water supply £m	Const-ruction £m	Whole-sale & retail trade £m	Trans-portation & storage £m	Accom-modation & food services £m	Infor-mation & commun-ication £m	Financial & insurance £m
	IRB approach											
1	Central governments and central banks	—	—	—	—	—	—	—	—	—	—	1,933
2	Institutions	—	—	—	—	—	—	—	—	—	—	12,936
3	Corporates	719	6,419	36,574	6,528	447	2,687	21,558	8,161	874	1,931	20,812
4	Retail	18	3	424	7	1	80	397	61	46	1	48
6	**Total IRB approach**	737	6,422	36,998	6,535	448	2,767	21,955	8,222	920	1,932	35,729
	STD approach											
7	Central governments and central banks	—	—	42	—	—	—	—	—	—	—	55,544
8	Regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	191
9	Public sector entities	—	—	18	—	—	—	—	19	—	—	4,915
11	International organisations	—	—	—	—	—	—	—	—	—	—	—
12	Institutions	—	—	—	—	—	—	—	—	—	—	3,826
13	Corporates	63	354	5,733	1,035	33	1,300	1,481	847	257	212	3,289
14	Retail	6	—	31	1	—	10	26	24	2	—	3
15	Secured by mortgages on immovable property	—	3	20	3	—	47	33	5	109	—	45
16	Exposures in default	3	—	80	11	—	58	13	9	4	—	47
17	Items associated with particularly high risk	3	—	—	—	—	—	—	—	—	—	3,380
20	Collective investment undertakings ('CIU')	—	—	1	—	—	—	—	—	—	—	5
21	Equity exposures	—	—	18	—	—	—	—	—	—	—	1,335
22	Other exposures	—	—	—	—	—	—	—	—	—	—	877
23	**Total STD approach**	75	357	5,943	1,050	33	1,415	1,553	904	372	212	73,457
24	**At 31 Dec 2019**	812	6,779	42,941	7,585	481	4,182	23,508	9,126	1,292	2,144	109,186

	Net carrying values[1]	Real estate £m	Profess-ional activities £m	Adminis-trative services £m	Public admin & defence £m	Edu-cation £m	Human health & social work £m	Arts & enter-tainment £m	Other services £m	Personal £m	Extra-territorial bodies £m	Total £m
	IRB approach											
1	Central governments and central banks	—	—	—	11,988	—	89	—	2	—	2,012	16,024
2	Institutions	—	—	—	51	—	—	—	—	—	997	13,984
3	Corporates	8,450	2,527	27,223	1,092	52	483	562	2,257	132	—	149,488
4	Retail	398	34	634	—	6	34	31	24	21,530	—	23,777
6	**Total IRB approach**	8,848	2,561	27,857	13,131	58	606	593	2,283	21,662	3,009	203,273
	STD approach											
7	Central governments and central banks	—	—	—	13,025	—	4	—	7	—	—	68,622
8	Regional governments or local authorities	—	—	—	1,658	—	—	—	—	—	—	1,849
9	Public sector entities	—	—	11	1,056	—	23	—	40	—	—	6,082
11	International organisations	—	—	—	—	—	—	—	—	—	1,168	1,168
12	Institutions	—	—	—	—	—	—	—	29	—	—	3,855
13	Corporates	1,591	730	2,857	46	5	90	56	266	1,251	—	21,496
14	Retail	28	4	73	—	3	8	7	3	1,134	—	1,363
15	Secured by mortgages on immovable property	352	1	126	—	1	1	5	4	3,122	—	3,877
16	Exposures in default	33	1	29	15	—	2	—	1	142	—	448
17	Items associated with particularly high risk	258	—	102	—	—	—	—	—	—	—	3,743
20	CIU	—	—	—	—	—	—	—	—	—	—	6
21	Equity exposures	1	18	52	—	—	—	—	—	—	4	1,428
22	Other exposures	—	—	—	—	—	—	—	—	—	—	877
23	**Total STD approach**	2,263	754	3,250	15,800	9	128	68	350	5,649	1,172	114,814
24	**At 31 Dec 2019**	11,111	3,315	31,107	28,931	67	734	661	2,633	27,311	4,181	318,087

1 *Securitisation positions and non-credit obligation assets are not included in this table.*

Table 13: Concentration of exposures by industry or counterparty types (CRB-D) (continued)

	Net carrying values[1]	Agri-culture	Mining & oil extrac-tion	Manufac-turing	Utilities	Water supply	Const-ruction	Whole-sale & retail trade	Trans-portation & storage	Accom-modation & food services	Infor-mation & commun-ication	Financial & insurance
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB approach											
1	Central governments and central banks	—	—	11	—	—	—	—	—	—	—	2,836
2	Institutions	—	—	—	—	—	—	—	—	—	—	13,438
3	Corporates	169	6,594	35,687	5,919	641	2,781	22,830	8,692	1,250	2,199	23,854
4	Retail	16	2	366	5	2	89	485	70	43	2	50
6	Total IRB approach	185	6,596	36,064	5,924	643	2,870	23,315	8,762	1,293	2,201	40,178
	STD approach											
7	Central governments and central banks	—	—	45	—	—	—	—	—	—	—	56,188
8	Regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	186
9	Public sector entities	—	—	4	47	9	—	—	10	—	—	3,645
10	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—
11	International organisations	—	—	—	—	—	—	—	—	—	—	—
12	Institutions	—	—	—	—	—	—	—	—	—	—	5,723
13	Corporates	136	555	6,630	1,674	45	1,403	2,053	1,585	452	438	3,157
14	Retail	7	1	37	—	—	18	16	30	3	—	5
15	Secured by mortgages on immovable property	—	—	—	—	—	—	—	—	—	—	—
16	Exposures in default	4	—	101	33	—	83	40	10	8	—	58
17	Items associated with particularly high risk	3	—	—	14	—	—	—	—	—	—	3,082
20	CIU	—	—	—	—	—	—	—	—	—	—	19
21	Equity exposures	—	—	17	—	—	—	—	—	—	—	1,193
22	Other exposures	—	—	—	—	—	—	—	—	—	—	992
23	Total STD approach	150	556	6,834	1,768	54	1,504	2,109	1,635	463	438	74,248
24	At 31 Dec 2018	335	7,152	42,898	7,692	697	4,374	25,424	10,397	1,756	2,639	114,426

	Net carrying values[1]	Real estate	Profess-ional activities	Adminis-trative services	Public admin & defence	Edu-cation	Human health & social work	Arts & enter-tainment	Other services	Personal	Extra-territorial bodies	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB approach											
1	Central governments and central banks	—	—	—	12,989	—	184	—	—	—	3,273	19,293
2	Institutions	—	—	6	45	—	—	—	—	—	32	13,521
3	Corporates	9,752	3,910	25,757	1,088	48	346	694	2,370	154	—	154,735
4	Retail	483	11	266	—	7	33	29	23	20,755	—	22,737
6	Total IRB approach	10,235	3,921	26,029	14,122	55	563	723	2,393	20,909	3,305	210,286
	STD approach											
7	Central governments and central banks	—	—	—	12,661	—	—	—	—	—	—	68,894
8	Regional governments or local authorities	—	—	—	1,741	—	—	—	—	—	—	1,927
9	Public sector entities	—	—	—	260	111	25	—	—	—	—	4,111
11	International organisations	—	—	—	—	—	—	—	—	—	1,256	1,256
12	Institutions	—	—	—	—	—	—	—	—	—	—	5,723
13	Corporates	2,041	1,031	2,930	6	7	97	206	252	1,071	—	25,769
14	Retail	31	5	82	—	4	8	6	2	1,112	—	1,367
15	Secured by mortgages on immovable property	—	—	—	—	—	—	—	3	3,039	—	3,042
16	Exposures in default	30	11	27	—	—	2	—	1	113	—	521
17	Items associated with particularly high risk	61	—	124	—	—	—	—	—	—	—	3,284
20	CIU	—	—	—	—	—	—	—	—	—	—	19
21	Equity exposures	1	18	50	—	—	—	—	—	—	3	1,282
22	Other exposures	—	—	—	—	—	—	—	—	—	—	992
23	Total STD approach	2,164	1,065	3,213	14,668	122	132	212	258	5,335	1,259	118,187
24	At 31 Dec 2018	12,399	4,986	29,242	28,790	177	695	935	2,651	26,244	4,564	328,473

1 *Securitisation positions and non-credit obligation assets are not included in this table.*

Table 14: Maturity of on-balance sheet exposures[1] (CRB-E)

		At											
		31 Dec 2019						31 Dec 2018					
		Net carrying values						Net carrying values					
		On demand	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Undated**	**Total**	On demand	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
	IRB approach												
1	Central governments and central banks	**637**	**2,366**	**9,258**	**2,937**	**—**	**15,198**	960	5,001	9,806	2,705	—	18,472
2	Institutions	**5,950**	**1,051**	**2,567**	**687**	**—**	**10,255**	5,278	2,318	1,569	466	—	9,631
3	Corporates	**20,527**	**15,614**	**21,028**	**7,441**	**—**	**64,610**	25,391	15,154	23,037	7,376	—	70,958
4	Retail	**562**	**295**	**1,631**	**19,184**	**—**	**21,672**	533	292	2,399	17,324	—	20,548
6	**Total IRB approach**	**27,676**	**19,326**	**34,484**	**30,249**	**—**	**111,735**	32,162	22,765	36,811	27,871	—	119,609
	STD approach												
7	Central governments and central banks	**35,044**	**18,048**	**6,146**	**8,523**	**445**	**68,206**	26,662	27,850	9,627	3,392	721	68,252
8	Regional governments or local authorities	**—**	**96**	**985**	**768**	**—**	**1,849**	—	156	1,093	678	—	1,927
9	Public sector entities	**13**	**461**	**2,898**	**2,677**	**—**	**6,049**	—	1,313	1,957	787	—	4,057
11	International organisations	**—**	**5**	**509**	**654**	**—**	**1,168**	—	626	278	352	—	1,256
12	Institutions	**50**	**2,136**	**—**	**760**	**—**	**2,946**	56	4,004	21	947	—	5,028
13	Corporates	**1,727**	**4,524**	**4,146**	**1,196**	**4**	**11,597**	1,635	6,098	5,441	1,441	—	14,615
14	Retail	**99**	**58**	**146**	**338**	**1**	**642**	108	55	295	158	—	616
15	Secured by mortgages on immovable property	**—**	**170**	**826**	**2,855**	**—**	**3,851**	—	69	409	2,563	—	3,041
16	Exposures in default	**34**	**184**	**76**	**102**	**—**	**396**	63	147	173	102	—	485
17	Items associated with particularly high risk	**—**	**97**	**415**	**4**	**1,469**	**1,985**	—	17	506	—	1,076	1,599
20	CIU	**—**	**—**	**—**	**—**	**6**	**6**	—	—	—	—	19	19
21	Equity	**—**	**—**	**—**	**—**	**1,428**	**1,428**	—	7	1	—	1,273	1,281
22	Other items	**—**	**704**	**2**	**—**	**171**	**877**	—	839	1	—	151	991
23	**Total STD approach**	**36,967**	**26,483**	**16,149**	**17,877**	**3,524**	**101,000**	28,524	41,181	19,802	10,420	3,240	103,167
24	**Total**	**64,643**	**45,809**	**50,633**	**48,126**	**3,524**	**212,735**	60,686	63,946	56,613	38,291	3,240	222,776

1 *Securitisation positions and non-credit obligation assets are not included in this table.*

Table 15: Specialised lending on slotting approach (CR10)

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	Risk weight %	Exposure amount £m	RWAs £m	Expected loss £m
Category 1 – Strong	Less than 2.5 years	**1,300**	**294**	**50**	**1,374**	**687**	**—**
	Equal to or more than 2.5 years	**1,580**	**221**	**70**	**1,697**	**1,187**	**7**
Category 2 – Good	Less than 2.5 years	**474**	**37**	**70**	**479**	**336**	**2**
	Equal to or more than 2.5 years	**375**	**77**	**90**	**441**	**397**	**4**
Category 3 – Satisfactory	Less than 2.5 years	**53**	**6**	**115**	**56**	**64**	**2**
	Equal to or more than 2.5 years	**3**	**—**	**115**	**3**	**3**	**—**
Category 4 – Weak	Less than 2.5 years	**10**	**—**	**250**	**10**	**25**	**1**
	Equal to or more than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
Category 5 – Default	Less than 2.5 years	**41**	**2**	**—**	**43**	**—**	**21**
	Equal to or more than 2.5 years	**1**	**—**	**—**	**2**	**—**	**1**
At 31 Dec 2019	Less than 2.5 years	**1,878**	**339**		**1,962**	**1,112**	**26**
	Equal to or more than 2.5 years	**1,959**	**298**		**2,143**	**1,587**	**12**
Category 1 – Strong	Less than 2.5 years	1,881	229	50	1,959	980	—
	Equal to or more than 2.5 years	1,124	270	70	1,210	847	5
Category 2 – Good	Less than 2.5 years	265	19	70	269	188	1
	Equal to or more than 2.5 years	644	114	90	689	618	5
Category 3 – Satisfactory	Less than 2.5 years	96	7	115	99	114	3
	Equal to or more than 2.5 years	96	31	115	116	133	3
Category 4 – Weak	Less than 2.5 years	2	—	250	2	5	—
	Equal to or more than 2.5 years	14	1	250	18	45	1
Category 5 – Default	Less than 2.5 years	28	2	—	43	—	22
	Equal to or more than 2.5 years	32	—	—	37	—	19
At 31 Dec 2018	Less than 2.5 years	2,272	257		2,372	1,287	26
	Equal to or more than 2.5 years	1,910	416		2,070	1,643	33

Past due but not impaired exposures, impaired exposures and credit risk adjustments ('CRA')

We analyse past due but not impaired, impaired exposures and impairment allowances, and other credit risk provisions using accounting values on a regulatory consolidation basis.

Our approach for determining impairment allowances is explained on page 29 of the HSBC Bank plc Annual Report and Accounts 2019*.*

Under the accounting standards currently adopted by HSBC, impairment allowances, value adjustments and credit-related provisions for off-balance sheet amounts are treated as specific CRAs.

Table 16: Amount of past due, impaired exposures and related allowances by industry sector and geographical region

	At							
	31 Dec 2019				31 Dec 2018			
	United Kingdom	**Continental Europe**	**Other**	**Total**	United Kingdom	Continental Europe	Other	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Past due but not impaired exposures	**6**	**167**	**—**	**173**	10	290	—	300
– personal	**6**	**96**	**—**	**102**	7	156	—	163
– corporate and commercial	**—**	**71**	**—**	**71**	3	134	—	137
– financial	**—**	**—**	**—**	**—**	—	—	—	—
Impaired exposures	**712**	**1,612**	**122**	**2,446**	926	1,748	115	2,789
– personal	**18**	**472**	**1**	**491**	20	510	1	531
– corporate and commercial	**662**	**1,045**	**121**	**1,828**	860	1,205	114	2,179
– financial	**32**	**95**	**—**	**127**	46	33	—	79
Impairment allowances and other credit risk provisions	**(348)**	**(695)**	**(57)**	**(1,100)**	(573)	(852)	(40)	(1,465)
– personal	**(9)**	**(166)**	**—**	**(175)**	(6)	(199)	—	(205)
– corporate and commercial	**(323)**	**(487)**	**(56)**	**(866)**	(538)	(649)	(39)	(1,226)
– financial	**(16)**	**(42)**	**(1)**	**(59)**	(29)	(4)	(1)	(34)

Table 17: Movement in specific credit risk adjustments by industry sector and by geographical region

	United Kingdom	**Continental Europe**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Specific credit risk adjustments at 1 Jan 2019	**573**	**852**	**40**	**1,465**
Amounts written off	**(144)**	**(234)**	**(4)**	**(382)**
– personal	**(1)**	**(20)**	**—**	**(21)**
– corporate and commercial	**(143)**	**(213)**	**(4)**	**(360)**
– financial	**—**	**(1)**	**—**	**(1)**
Recoveries of amounts written off in previous years	**2**	**4**	**—**	**6**
– personal	**—**	**2**	**—**	**2**
– corporate and commercial	**2**	**2**	**—**	**4**
– financial	**—**	**—**	**—**	**—**
Charge to income statement	**(29)**	**150**	**26**	**147**
– personal	**4**	**1**	**—**	**5**
– corporate and commercial	**(21)**	**110**	**25**	**114**
– financial	**(12)**	**39**	**1**	**28**
Exchange and other movements	**(54)**	**(77)**	**(5)**	**(136)**
Specific credit risk adjustments at 31 Dec 2019	**348**	**695**	**57**	**1,100**

Expected loss ('EL') and credit risk adjustments

We analyse credit loss experience in order to assess the performance of our risk measurement and control processes, and to inform our understanding of the implications for risk and capital management of dynamic changes occurring in the risk profile of our exposures.

When comparing regulatory EL with measures of expected credit losses ('ECL') under IFRS 9, differences in the definition and scope of each should be considered. These differences can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general HSBC calculates ECL using three main components, a probability of default, a loss given default, and the exposure at default.

Expected credit losses include impairment allowances (or provision in the case of commitments and guarantees) for the 12-month ECL ('12-month ECL') and lifetime ECL, and on financial assets that are considered to be in default or otherwise credit impaired.

ECL resulting from default events that are possible within the next 12 months are recognised for financial instruments in stage 1.

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

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

ECL resulting from default events that are possible beyond 12 months ('Life time ECL') are recognised for financial instruments in stages 2 & 3.

Change in expected credit losses and other credit impairment charges represent the movement in the ECL during the year including write-offs, recoveries and foreign exchange. EL represents the one-year regulatory expected loss accumulated in the book at the balance sheet date.

Credit risk adjustments ('CRAs') encompass the impairment allowances or provisions balances, and changes in expected credit losses and other credit impairment charges.

Table 18 sets out for IRB credit exposures the EL, CRA balances and actual loss experience reflected in the charges for CRAs.

HSBC leverages the Basel IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

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

Table 18: IRB expected loss and CRA – by exposure class and region

	2019			2018		
		CRA[1]			CRA[1]	
	Expected loss[1]	Balances	Charge for the year	Expected loss[1]	Balances	Charge for the year
	£m	£m	£m	£m	£m	£m
IRB exposure classes						
Central governments and central banks	3	2	(8)	4	7	(2)
Institutions	6	6	(1)	11	7	(2)
Corporates	791	644	168	902	787	77
Retail	254	234	6	298	283	227
– secured by mortgages on immovable property SME	25	23	(1)	30	28	36
– secured by mortgages on immovable property non-SME	41	38	3	44	42	(2)
– qualifying revolving retail	2	4	2	2	4	152
– other SME	117	100	1	143	127	265
– other non-SME	69	69	1	79	82	(224)
At 31 Dec	1,054	886	165	1,215	1,084	300
By region[2]						
United Kingdom	343	327	1	503	519	242
Continental Europe	706	554	169	706	554	56
Other	5	5	(5)	6	11	2
At 31 Dec	1,054	886	165	1,215	1,084	300

1 *Excludes securitisation exposures because EL is not calculated for this exposure class.*
2 *Amounts shown by geographical region in this table are based on the country of the lender.*

Risk mitigation

Mitigation of credit risk is a key aspect of effective risk management. Specific, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation; for example in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to private banking clients may be made against a pledge of eligible marketable securities, cash or real estate.

Further information regarding charges held over residential and commercial property is provided on pages 112 and 123 of the HSBC Holdings plc Annual Report and Accounts 2019.

Financial collateral

In the institutional sector, trading facilities are supported by charges over financial instruments such, as cash, debt securities and equities. Financial collateral in the form of marketable securities is used in much of the group's over-the-counter ('OTC') derivatives activities, and in SFTs such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

In the non-trading book, we provide customers with working capital management products. Some of these products have loans and advances to customers and customer accounts where we have rights of offset, and comply with the regulatory requirements for on-balance sheet netting. Under on-balance sheet netting, the customer accounts are treated as cash collateral and the effects of this collateral are incorporated in our LGD estimates. For risk management purposes, the net exposures are subject to limits that are monitored, and the relevant customer agreements are subject to review and update, as necessary, to ensure the legal right of offset remains appropriate.

Other forms of Credit Risk Mitigation

Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors. Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or

performance bond in favour of a non-customer at the request of another bank.

Our GB&M business utilises credit risk mitigation to manage the credit risk of its portfolios, with the goal of reducing concentrations in individual names, sectors or portfolios. The techniques in use include credit default swap ('CDS') purchases, structured credit notes and securitisation structures. Buying credit protection creates credit exposure against the protection provider, which is monitored as part of the overall credit exposure to them. Where applicable, the transaction is entered into directly with a central clearing house counterparty, otherwise our exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

In our corporate lending, we also take guarantees from corporates and Export Credit Agencies. Corporates normally provide guarantees as part of a parent/subsidiary or common parent relationship and span a number of credit grades. Export Credit Agencies will normally be investment grade.

Policy and procedures

Policies and procedures govern the protection of our position from the outset of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Market trading activities, such as collateralised OTC derivatives and SFTs, typically include daily valuations in support of margining arrangements. In the residential mortgage business, HSBC policy prescribes revaluation at intervals of up to three years, or more frequently where market conditions are subject to significant change. Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

Local market conditions determine the frequency of valuation for CRE. Revaluations are sought where, for example, as part of the regular credit assessment of the obligor, material concerns arise in relation to the performance of the collateral. CRE revaluation also commonly occurs where a decline in the obligor's credit quality gives cause for concern that the principal payment source may not fully meet the obligation.

Recognition of risk mitigation under the IRB approach

Within an IRB approach, risk mitigants are considered in two broad categories: first, those that reduce the intrinsic PD of an obligor; and second, those that affect the estimated recoverability of obligations and thus LGD.

The first typically include full parental guarantees – where one obligor within a group of companies guarantees another. This is usually factored into the estimate of the latter's PD, as it is expected that the guarantor will intervene to prevent a default. PD estimates are also subject to a 'sovereign ceiling', constraining the risk ratings assigned to obligors in higher risk countries if only partial parental support exists. In certain jurisdictions, typically those on the Foundation IRB approach, certain types of third-party guarantee are also recognised through substitution of the obligor's PD by the guarantor's PD.

In the second category, LGD estimates are affected by a wider range of collateral, including cash, charges over real estate property, fixed assets, trade goods, receivables and floating charges such as mortgage debentures. Unfunded mitigants, such as third-party guarantees, are also taken into consideration in LGD estimates where there is evidence that they reduce loss expectation.

The main providers of guarantees are banks, other financial institutions and corporates, the latter typically in support of subsidiaries of their company group. Across HSBC, the nature of such customers and transactions is very diverse and the creditworthiness of guarantors accordingly spans a wide spectrum. The creditworthiness of providers of unfunded credit risk mitigation is taken into consideration as part of the guarantor's risk profile when; for example, assessing the risk of other exposures such as direct lending to the guarantor. Internal limits for such contingent exposure are approved in the same way as direct exposures.

EAD and LGD values, in the case of individually assessed exposures, are determined by reference to regionally approved internal risk parameters based on the nature of the exposure. For retail portfolios, credit risk mitigation data is incorporated into the internal risk parameters for exposures and feeds into the calculation of the EL band value summarising both customer delinquency and product or facility risk. Credit and credit risk mitigation data form inputs submitted by all HSBC offices to centralised databases. A range of collateral recognition approaches are applied to IRB capital treatments:

- unfunded protection, which includes credit derivatives and guarantees, is reflected through adjustment or determination of PD or LGD;
- eligible financial collateral is taken into account in LGD models (under Advanced IRB) or by adjusting regulatory LGD values (under Foundation IRB). The adjustment to LGD for the latter is based on the degree to which the exposure value would be adjusted if the Financial Collateral Comprehensive Method were applied; and
- for all other types of collateral, including real estate, the LGD for exposures calculated under the IRB advanced approach is calculated by models. For IRB foundation, base regulatory LGDs are adjusted depending on the value and type of the asset taken as collateral relative to the exposure. The types of eligible mitigant recognised under the IRB foundation approach are more limited.

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

For IRB and standardised approaches, table 19 sets out the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigant.

Table 19: Credit risk mitigation techniques - IRB and Standardised[1]

	2019			2018		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total
	£m	**£m**	**£m**	£m	£m	£m
Exposures under the IRB approach						
Central governments and central banks	**–**	**763**	**763**	–	720	720
Institutions	**–**	**42**	**42**	–	55	55
Corporates	**734**	**16,013**	**16,747**	611	15,685	16,296
Retail	**–**	**13,170**	**13,170**	–	12,400	12,400
At 31 Dec	**734**	**29,988**	**30,722**	611	28,860	29,471
Exposures under the STD approach						
Central governments and central banks	**105**	**–**	**105**	36	195	231
Corporates	**1,898**	**2,486**	**4,384**	1,472	3,222	4,694
Retail	**200**	**2**	**202**	210	2	212
Secured by mortgages on immovable property	**86**	**58**	**144**	38	–	38
Exposures in default	**5**	**44**	**49**	2	52	54
Items associated with particularly high risk	**5**	**–**	**5**	1	–	1
Public sector entities	**29**	**34**	**63**	6	–	6
Securitisation related	**–**	**348**	**348**	–	–	–
At 31 Dec	**2,328**	**2,972**	**5,300**	1,765	3,471	5,236

1 *This table reports on- and off-balance sheet exposures which are fully or partially covered by credit risk mitigants.*

Counterparty credit risk

Overview

Counterparty credit risk is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction. It arises on derivatives, securities financing transactions and exposures to central counterparties ('CCP') in both the trading and non-trading books.

The table below sets out details of the group's counterparty credit risk exposures by exposure class and approach.

Further explanation of the group's approach to managing counterparty credit risk can be found:

- *on page 57 of the HSBC Bank plc* Annual Report and Accounts 2019*;*
- *on page 119 of the HSBC Holdings plc* Annual Report and Accounts 2019*; and*
- *on pages 55 to 57 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2019*.*

Table 20: Counterparty credit risk – RWAs by exposure class and product

		2019		2018	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**15,258**	**1,221**	16,923	1,355
– central governments and central banks		**302**	**24**	396	32
– institutions		**5,878**	**470**	6,543	523
– corporates		**9,078**	**727**	9,984	800
IRB foundation approach		**1,553**	**124**	1,312	105
– corporates		**1,553**	**124**	1,312	105
Standardised approach		**2,087**	**167**	2,679	214
– central governments and central banks		**14**	**1**	26	2
– institutions		**1,869**	**150**	2,326	186
– corporates		**204**	**16**	327	26
CVA advanced		**1,375**	**110**	2,438	195
CVA standardised		**538**	**43**	806	64
CCP standardised		**475**	**38**	511	41
By product					
– derivatives (OTC and exchange-traded derivatives)		**14,581**	**1,167**	14,953	1,197
– SFTs		**3,916**	**313**	5,448	436
– other	*1*	**606**	**48**	839	67
– CVA advanced		**1,375**	**110**	2,438	195
– CVA standardised		**538**	**43**	806	64
– CCP default funds	*2*	**270**	**22**	185	15
At 31 Dec		**21,286**	**1,703**	24,669	1,974

1 *Includes free deliveries not deducted from regulatory capital and settlements.*
2 *Default fund contributions are cash balances posted to CCPs by all members.*

Market risk

Overview

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the group's income or the value of its portfolios. Market risk is measured using internal market risk models where approved by the PRA, PRA approved local VaR models or the standardised approach for position risk under CRD IV.

The tables below set out details of the bank's market risk exposures by type and approach.

Further explanation of the group's approach to managing market risk can be found:

- *on pages 66 to 68 of the HSBC Bank plc* Annual Report and Accounts 2019*;*
- *on pages 135 to 143 of the HSBC Holdings plc* Annual Report and Accounts 2019*; and*
- *on pages 64 to 69 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2019*.*

Table 21: Market risk under standardised approach (MR1)

		At 31 Dec 2019		At 31 Dec 2018	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**377**	**30**	634	51
2	Equity risk (general and specific)	**44**	**3**	27	2
3	Foreign exchange risk	**194**	**16**	—	—
4	Commodity risk	**74**	**6**	36	3
	Options				
6	Delta-plus method	**59**	**5**	40	3
8	**Securitisation**	**819**	**65**	1,126	90
9	**Total**	**1,567**	**125**	1,863	149

Table 22: Market risk under IMA (MR2-A)

		At 31 Dec 2019		At 31 Dec 2018	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
1	**VaR (higher of values a and b)**	**3,404**	**272**	4,408	353
(a)	Previous day's VaR		**45**		89
(b)	Average daily VaR[1]		**272**		353
2	**Stressed VaR (higher of values a and b)**	**5,226**	**418**	6,641	531
(a)	Latest SVaR		**59**		135
(b)	Average SVaR[1]		**418**		531
3	**Incremental risk charge (higher of values a and b)**	**2,152**	**172**	2,991	239
(a)	Most recent IRC value		**144**		214
(b)	Average IRC value[1]		**172**		239
5	**Other**	**758**	**61**	1,631	131
6	**Total**	**11,540**	**923**	15,671	1,254

1 *VaR average values are calculated on a 60 business days basis. SVaR and IRC average values are calculated on a 12-week basis.*

Non-Financial Risk

Overview

Non-financial risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events. Sound non-financial risk management is central to achieving good outcomes for our customers.

Non-financial risk is relevant to every aspect of our business and is managed through the operational risk management framework ('ORMF'). It covers a wide spectrum of issues, such as resilience risk, financial crime and fraud, regulatory compliance, reporting and tax risk, legal risk, model risk, people risk and failure in other principle risk processing. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk. Operational risk is part of non-financial risk.

Further explanation of the group's approach to managing non-financial risk can be found:

- *on page 20 of the HSBC Bank plc* Annual Report and Accounts 2019*;*
- *on page 75 of the HSBC Holdings plc* Annual Report and Accounts 2019*; and*
- *on page 70 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2019*.*

Table 23: Operational risk RWAs and capital required

	At 31 Dec			
	2019		2018	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Own funds requirement for operational risk	**11,812**	**946**	12,850	1,028

Other risks

Liquidity

Strategies and processes

HSBC has an internal liquidity and funding risk management framework ('LFRF') which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is primarily undertaken locally in compliance with the Group's LFRF, and with practices and limits set by the GMB through the RMM and approved by the Board.

Structure and organisation

The Group Treasurer, who reports to the Group Finance Director, has responsibility for the oversight of the LFRF. The Asset, Liability and Capital Management ('ALCM') team are responsible for the application of the LFRF within HBEU.

The elements of the LFRF are underpinned by a robust governance framework, the two major elements of which are:

- Asset and liability management committees ('ALCOs'); and
- Annual individual liquidity adequacy assessment process ('ILAAP') used to validate risk tolerance and set risk appetite.

All operating entities and Group are required to prepare an internal liquidity adequacy assessment ('ILAA') document at appropriate frequency. The final objective of the ILAA, approved by the relevant Board of Directors, is to verify that the entity and subsidiaries maintain liquidity resources which are adequate in both amount and quality at all times, ensuring that there is no significant risk that its liabilities cannot be met as they fall due, maintaining a prudent funding profile.

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. For the calculation of the LCR, HSBC follows the guidelines set by the European Commission.

The calculation of the LCR metric, involves an assumption on operational deposits. Operational deposits are principally defined as transactional accounts arising from the provision of custody services by HSBC Security Services or Global Liquidity and Cash Management. To make an assessment of operational deposits both the balance history as well as the values of account debits and credits over a period time are referenced.

Net stable funding ratio

HSBC Bank plc uses an adjusted net stable funding ratio ('NSFR') as a basis for establishing stable funding. The adjusted NSFR requires HSBC Bank plc to maintain sufficient stable funding and reflects it's long-term funding profile (funding with a term of more than one year). The adjusted NSFR takes into account the anticipated regulatory changes approved under the CRR II and other internal adjustments commensurate with the risk profile of the balance sheet.

Liquidity stress testing

ALCM undertakes liquidity stress testing to ensure that its risk appetite is calibrated correctly, to validate that there is sufficient liquidity to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the group's business. ALCM also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the entity to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Currency mismatch in the LCR

The Group's internal liquidity and funding risk management framework requires all operating entities to monitor the LCR for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Structural foreign exchange exposures

Structural foreign exchange exposures represent the group's net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than sterling. An entity's functional currency is that of the primary economic environment in which the entity operates.

The group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. This is usually achieved by ensuring that, for each subsidiary bank, the ratio of structural exposures in a given currency to risk-weighted assets denominated in that currency is broadly equal to the capital ratio of the subsidiary in question.

Details of our structural foreign exchange exposures are provided on page 68 of the HSBC Bank plc Annual Report and Accounts 2019*.*

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') arises from timing mismatches in the repricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to Balance Sheet Management to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the group aims to balance mitigating the impact of future interest rate movements against the cost of hedging.

Key metrics to monitor the impact of future rate movements on the bank are the projected net interest income sensitivity and economic value of equity ('EVE') sensitivity, under varying interest rate scenarios.

Further details of our IRRBB may be found on page 65 of the HSBC Bank plc Annual Report and Accounts 2019*.*

Risk management of insurance operations

We operate an integrated bancassurance model which provides insurance products principally for customers with whom we have a banking relationship. Insurance products are sold through all global businesses, but predominantly by RBWM and CMB through our branches and direct channels worldwide.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts. By focusing largely on personal and SME lines of business we are able to optimise volumes and diversify individual insurance risks.

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

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of

leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits.

We distribute insurance products in all of our geographical regions. We have life insurance manufacturing subsidiaries in nine countries including the UK.

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach, where assets and liabilities are measured on a market value basis and a capital requirement is held to ensure that there is less than a one in 200 chance of insolvency over the next year, given the risks that the businesses are exposed to. The methodology for the economic capital calculation is largely aligned to the new pan-European Solvency II insurance capital regulations, which are applicable from 2016.

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1 subject to thresholds (amounts below the thresholds are risk-weighted).

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided on page 71 of the HSBC Bank plc Annual Report and Accounts 2019.

Remuneration

As a wholly-owned subsidiary, HSBC Bank plc is subject to the remuneration policy established by HSBC. Details of HSBC's remuneration policy, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration structure of HSBC's Identified Staff and Material Risk-Takers ('MRT') are set out in the Remuneration Policy on the HSBC Group website (https://www.hsbc.com/our-approach/corporate-governance/remuneration) and in the Directors' Remuneration Report on pages 184 to 210 of the HSBC Holdings plc *Annual Report and Accounts 2019*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2019. Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014. The tables below include the total remuneration of HSBC Bank plc senior management and other individuals identified as HSBC Bank plc MRTs based on their role and professional activities. This also includes certain individuals employed by the Group who have broader roles within HSBC, for example those with global roles.

Table 24: Remuneration – fixed and variable amounts (REM1)

		Fixed (£m)			Variable[2] (£m)							
	Number of MRTs	Cash-based[1]	Share-based	Total	Cash-based	Of which: deferred	Share-based[3]	Of which: deferred	Other forms[3]	Of which: deferred	Total	Total (£m)
Executive Directors	2	1.9	—	1.9	0.5	*0.3*	0.6	*0.3*	—	—	1.1	3.0
Non-executive Directors	6	1.1	—	1.1	—	—	—	—	—	—	—	1.1
Senior management	16	9.7	—	9.7	4.7	*2.5*	5.5	*3.4*	—	—	10.2	19.9
Investment banking	274	151.6	—	151.6	66.3	*35.8*	71.3	*41.2*	—	—	137.6	289.2
Retail banking	29	10.3	—	10.3	3.6	*1.5*	3.7	*2.0*	—	—	7.3	17.6
Asset management	4	2.0	—	2.0	0.9	*0.2*	0.2	*0.2*	0.7	*0.6*	1.8	3.8
Corporate functions	8	3.5	—	3.5	1.2	*0.6*	1.2	*0.7*	—	—	2.4	5.9
Independent control functions	45	10.3	—	10.3	3.0	*1.0*	2.4	*1.2*	—	—	5.4	15.7
All other	14	7.0	—	7.0	1.6	*0.7*	1.7	*0.8*	—	—	3.3	10.3
Total	**398**	**197.4**	**—**	**197.4**	**81.8**	***42.6***	**86.6**	***49.8***	**0.7**	***0.6***	**169.1**	**366.5**

1 *Cash-based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2019. In accordance with shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration.*
3 *Share-based awards are made in HSBC shares. Vested shares are subject to a retention period of up to one year.*

Table 25: Guaranteed bonus, sign-on and severance payments (REM2)

	Guaranteed bonus and sign on payments[1]		Severance payments[2]				
	Made during year (£m)	Number of beneficiaries	Awarded during year (£m)	Number of beneficiaries	Highest such award to a single person (£m)	Paid during year (£m)	Number of beneficiaries
Executive Directors	—	—	—	—	—	—	—
Senior management	—	—	—	—	—	—	—
Investment banking	0.7	1	13.8	22	2.4	11.5	16
Retail banking	—	—	0.9	2	0.6	—	—
Asset management	—	—	—	—	—	—	—
Corporate functions	—	—	4.3	3	2.1	1.1	2
Independent control functions	—	—	0.4	1	0.4	0.4	1
All other	—	—	0.5	1	0.5	0.5	1
Total	**0.7**	**1**	**19.9**	**29**	**–**	**13.5**	**20**

1 *No sign-on payments were made in 2019. A guaranteed bonus is awarded in exceptional circumstances for new hires, and in the first year only. The circumstances where HSBC would offer a guaranteed bonus would typically involve a critical new-hire, and would also depend on factors such as the seniority of the individual, whether the new-hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefit entitlements triggered on terminations).*

Table 26: Deferred remuneration[1] (REM3)

£m	Total outstanding[2]	Of which: unvested	Of which: total outstanding deferred and retained exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustment[3]	Total amount of deferred paid out in the financial year[4]
Cash						
Executive Directors	0.4	0.4	0.4	—	—	0.1
Senior management	5.8	5.8	5.8	—	—	1.7
Investment banking	88.4	88.4	88.4	—	—	28.8
Retail banking	3.6	3.6	3.6	—	—	0.9
Asset management	0.6	0.6	0.6	—	—	0.4
Corporate functions	2.4	2.4	2.4	—	—	0.8
Independent control functions	2.3	2.3	2.3	—	—	0.6
All other	1.3	1.3	1.3	—	—	0.5
Shares						
Executive Directors	0.7	0.6	0.7	(0.1)	—	0.2
Senior management	7.7	6.6	7.7	(0.6)	—	2.8
Investment banking	112.1	97.7	112.1	(8.4)	—	50.0
Retail banking	4.5	4.0	4.5	(0.3)	—	2.1
Asset management	0.6	0.5	0.6	—	—	0.5
Corporate functions	3.3	3.0	3.3	(0.3)	—	1.4
Independent control functions	3	2.7	3.0	(0.2)	—	1.6
All other	1.9	1.4	1.9	(0.1)	—	0.7
Other forms						
Executive Directors	—	—	—	—	—	—
Senior management	—	—	—	—	—	—
Investment banking	—	—	—	—	—	—
Retail banking	—	—	—	—	—	—
Asset management	1.5	1.4	1.5	0.1	—	0.2
Corporate functions	—	—	—	—	—	—
Independent control functions	—	—	—	—	—	—
All other	—	—	—	—	—	—

1 *This table provides details of balances and movements during performance year 2019. For details of variable pay awards granted for 2019, please refer to the remuneration tables above. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC shares.*
2 *Includes unvested deferred awards, and vested deferred awards subject to retention period as at 31 December 2019.*
3 *Includes any amendments due to malus or clawback.*
4 *Shares are considered as paid when they vest. Vested shares are valued using the sale price or the closing share price on the business day immediately preceding the vesting day.*

Table 27: Material risk takers' remuneration by band[1]

	Management body	All other	Total
€0 – 1,000,000	6	237	243
€1,000,000 – 1,500,000	1	82	83
€1,500,000 – 2,000,000	—	31	31
€2,000,000 – 2,500,000	1	12	13
€2,500,000 – 3,000,000	—	9	9
€3,000,000 – 3,500,000	—	3	3
€3,500,000 – 4,000,000	—	7	7
€4,000,000 – 4,500,000	—	4	4
€4,500,000 – 5,000,000	—	2	2
€5,000,000 – 6,000,000	—	1	1
€6,000,000 – 7,000,000	—	1	1
€7,000,000 – 8,000,000	—	—	—
€8,000,000 – 9,000,000	—	—	—
€9,000,000 – 10,000,000	—	1	1
€10,000,000 – 11,000,000	—	—	—
€11,000,000 – 12,000,000	—	—	—

1 *Table prepared in euros in accordance with Article 450 of the European Union Capital Requirements Regulation, using the exchange rates published by the European Commission for financial programming and budget for December of the reported year as published on its website.*

Appendix I

Countercyclical capital buffer

The below table shows the geographical distribution of credit exposures relevant to the calculation of the countercyclical buffer under Article 440 of the Regulation (EU) 575/2013. Only countries or territories that have a CCyB requirement, or that have an own funds requirement greater than 0.5% of the total, or that are material in nature are disclosed below.

Table 28: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	SA	IRB	*of which: General credit exposures*	*of which: Trading book exposures*	*of which: Securitis-ation exposures*	Total	Share of total own funds require-ments	CCyB rate
Country	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**
Breakdown by country	10	20	30	40	50	60	70	80	90	100	110	120
Austria	—	841	—	4	—	—	*45*	*1*	—	46	0.7%	0.0
Belgium	269	973	—	31	—	—	*53*	*1*	—	54	0.8%	0.0
Bulgaria	1	12	—	2	—	—	—	—	—	—	0.0%	0.0
Canada	3	1,482	—	1	140	—	*32*	*3*	*2*	37	0.5%	0.0
Cayman Islands	760	2,308	3	10	—	—	*192*	*3*	—	195	2.8%	0.0
Czechia	285	125	—	—	—	—	*25*	*1*	—	26	0.4%	0.0
Denmark	—	1,776	—	47	—	—	*32*	*5*	—	37	0.5%	0.0
France	4,400	42,190	—	261	363	819	*1,330*	*15*	*13*	1,358	19.2%	0.0
Germany	782	13,907	—	484	189	217	*664*	*9*	*6*	679	9.6%	0.0
Greece	566	1,450	—	5	—	—	*105*	—	—	105	1.5%	0.0
Guernsey	451	269	—	—	—	—	*53*	—	—	53	0.7%	0.0
Hong Kong	30	367	—	8	—	—	*11*	—	—	11	0.2%	0.0
Iceland	—	—	—	3	—	—	—	*2*	—	2	0.0%	0.0
Ireland	524	3,302	6	144	353	81	*186*	*7*	*10*	203	2.9%	0.0
Israel	500	322	—	12	—	—	*51*	*1*	—	52	0.7%	0.0
Italy	19	2,050	—	282	303	94	*107*	*19*	*21*	147	2.1%	0.0
Jersey	416	1,119	—	—	—	—	*71*	—	—	71	1.0%	0.0
Lithuania	2	1	—	—	—	—	—	—	—	—	0.0%	0.0
Luxembourg	1,047	2,511	—	92	151	—	*218*	*5*	*4*	227	3.2%	0.0
Malta	2,693	154	—	—	—	—	*122*	—	—	122	1.7%	0.0
Netherlands	1,648	4,132	—	335	717	466	*318*	*9*	*19*	346	4.9%	0.0
Norway	2	790	—	1	—	—	*39*	*21*	—	60	0.8%	0.0
Poland	833	302	—	78	—	—	*76*	*20*	—	96	1.4%	0.0
Russia	307	466	—	54	—	—	*41*	*6*	—	47	0.7%	0.0
Slovakia	53	20	—	—	—	—	*5*	—	—	5	0.1%	0.0
South Africa	532	397	—	—	—	—	*52*	*1*	—	53	0.7%	0.0
Spain	760	1,574	—	125	—	200	*146*	*9*	*1*	156	2.2%	0.0
Sweden	2	1,048	—	90	—	—	*39*	*3*	—	42	0.6%	0.0
Switzerland	184	3,588	8	31	—	—	*131*	*6*	—	137	1.9%	0.0
United Arab Emirates	294	1,958	—	43	—	—	*43*	*11*	—	54	0.8%	0.0
United Kingdom	4,135	46,730	—	2,202	3,847	7,363	*1,558*	*74*	*195*	1,827	25.9%	0.0
United States	1,577	9,813	—	110	348	1,128	*307*	*51*	*35*	393	5.6%	0.0
Total	23,075	145,977	17	4,455	6,411	10,368	6,052	283	306	6,641	100.0%	

Table 29: Amount of Institution specific countercyclical capital buffer

	2019
Total Risk Exposure Amount (£m)	125,413
Institution specific countercyclical capital buffer rate	0.39%
Institution specific countercyclical capital buffer requirement (£m)	484

* *Table 28 and table 29 were previously disclosed in the Geographical Distribution of Credit Exposures Relevant for Calculation of the Countercyclical Capital Buffer document, which is published on our website, www.hsbc.com, under 'Investors'.*

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A	
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1 capital	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BSM	Balance Sheet Management
C	
CCP[1]	Central counterparty
CCR[1]	Counterparty credit risk
CDS[1]	Credit default swap
CET1[1]	Common equity tier 1
CIU	Collective investment undertakings
CMB	Commercial Banking
CRA	Credit risk adjustment
CRD IV[1]	Capital Requirements Regulation and Directive
CRE[1]	Commercial real estate
CRM[1]	Credit risk mitigation/mitigant
CRR II	Revised Capital Requirements Regulation, as implemented
CVA[1]	Credit valuation adjustment
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECL[1]	Expected credit losses
EEA	European Economic Area
EL[1]	Expected loss
EU	European Union
EVE	Economic value of equity
F	
FCA	Financial Conduct Authority's
FPC[1]	Financial Policy Committee (UK)
FRTB	Fundamental Review of the Trading book
FSB	Financial Stability Board
G	
GB&M	Global Banking and Markets, a global business
GPB	Global Private Banking, a global business
Group	HSBC Holdings together with its subsidiary undertakings
H	
HMT	Her Majesty's Treasury
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
I	
IAA	Internal Assessment Approach
ICAAP[1]	Internal Capital Adequacy Assessment Process
ICG	Individual capital guidance
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILR	Inherent Liquidity Risk
IMA[1]	Internal Models Approach
IMM[1]	Internal Model Method
IRB[1]	Internal ratings based approach
IRC	Incremental risk charge
IRRBB	Interest rate risk in the banking book
L	
LCR[1]	Liquidity Coverage Ratio
LFRF	Liquidity and Funding Risk Management Framework
LGD[1]	Loss given default
M	
MREL	Minimum requirements for own funds and eligible liabilities
MRT	Material Risk-Takers
N	
NQH	Non Qualifying Hedge
NSFR[1]	Net Stable Funding Ratio
O	
OTC[1]	Over-the-counter
P	
PD[1]	Probability of default
PFE	Potential future exposure
PRA[1]	Prudential Regulation Authority (UK)
R	
RAS	Risk appetite statement
RBM[1]	Ratings Based Method
RBWM	Retail Bank and Wealth Management, a global business
RFB	UK ring-fenced bank
RMM	Risk Management Meeting of the GMB
RNIV	Risks not in VaR
RWA[1]	Risk-weighted asset
S	
S&P	Standard and Poor's rating agency
SFM	Supervisory Formula Method
SFT	Securities Financing Transactions
SME	Small- and medium-sized enterprise
SPE[1]	Special Purpose Entity
SREP	Supervisory Review and Evaluation Process
STD[1]	Standardised approach
T	
TLAC[1]	Total Loss Absorbing Capacity
TTC	Through-the-cycle
T1 capital[1]	Tier 1 capital
T2 capital[1]	Tier 2 capital
U	
UK	United Kingdom
V	
VaR[1]	Value at risk

1 *Full definition included in Glossary on the HSBC website www.hsbc.com.*

Appendix III

Cautionary statement regarding forward-looking statements

The *Pillar 3 Disclosures at 31 December 2019* contains certain forward-looking statements with respect to the group's financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Bank makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

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

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;
- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and
- factors specific to HSBC Bank, including discretionary RWA growth and our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges.

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