HSBC Bank plc

Capital and Risk Management Pillar 3 Disclosures at 31 December 2015

HSBC

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Presentation of information

This document comprises the Capital and Risk Management Pillar 3 Disclosures as at 31 December 2015 ('Pillar 3 Disclosures 2015') for HSBC Bank plc ('the bank') and its subsidiary undertakings (together 'the group'). Its principal purpose is to meet regulatory disclosure requirements under European legislation (chiefly the Capital Requirements Directive 'CRD IV') and the rules of the United Kingdom ('UK') Prudential Regulation Authority ('PRA').

References to 'HSBC' within this document mean HSBC Holdings plc together with its subsidiaries.

Cautionary statement regarding forward-looking statements

The Capital and Risk Management Pillar 3 Disclosures contain certain forward-looking statements with respect to the financial condition, results of operations and business of the group.

Statements that are not historical facts, including statements about 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. The 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 to third parties (including financial analysts) by Directors, officers or employees of HSBC or the group.

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.

Frequency

The bank publishes its full Pillar 3 disclosures annually in accordance with Articles 13 and 433 of CRD IV Capital Requirements Regulation ('CRR'). In accordance with EBA Guidelines on frequency, materiality and confidentiality or proprietary nature of Pillar 3 disclosures, the bank intends to publish additional disclosures at the half year, with no disclosures in the intervening quarters. In determining the frequency of the disclosure, the bank took into consideration that the risk profile of the bank does not fluctuate significantly in a six-month period and that the Pillar 3 disclosures should be prepared in conjunction with financial reports to allow users to assess the risk of the bank.

Further Information

The HSBC Holdings plc Pillar 3 Disclosures 2015 and other financial information on HSBC and the bank are available at www.hsbc.com.

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Introduction

The bank is a wholly owned subsidiary of HSBC Holdings plc. HSBC is one of the largest banking and financial services organisations in the world.

The group provides a comprehensive range of banking and related financial services and divides its activities into four business segments: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Further details of the group's principal activities can be found on page 2 of the *HSBC Bank plc Annual Report and Accounts 2015.*

Regulatory framework for disclosures

HSBC is supervised on a consolidated basis in the UK by the Prudential Regulatory Authority ('PRA').

As the PRA supervises HSBC on a consolidated basis, it receives information on the capital adequacy of, and sets capital requirements for, HSBC 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 institutions are also subject to the supervision and capital requirements of local regulatory authorities.

At the consolidated HSBC and bank level, capital was calculated for prudential regulatory reporting purposes throughout 2015 using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee') as implemented by the European Union ('EU') in the amended Capital Requirements Directive, known as CRD IV, and in the PRA's Rulebook for the UK banking industry. The regulators of HSBC banking entities outside the EU are at varying stages of implementation of the Basel framework, so local regulation in 2015 may have been on the basis of Basel I, II or III.

Regulatory developments

The PRA's final rules deployed available national discretion in order to accelerate significantly the transitional timetable to full 'end-point' CRD IV compliance. Notwithstanding this, and other major developments in regulation during 2015, there remains continued uncertainty as to the amount of capital that UK banks will be required to hold. In particular, in December 2015, the Financial Policy Committee ('FPC') published its view of the capital framework as applicable to UK banks, which set out expectations in relation to Tier 1 capital across the industry. However, requirements applicable to individual banks are subject to PRA determination under the PRA's Pillar 2 framework. While there is emerging clarity around the interaction of capital buffers and the PRA's Pillar 2 framework, uncertainty remains around the broader capital framework, including Basel revisions to the RWA framework and capital floors. Furthermore, there remains a number of draft and unpublished EBA technical and implementation standards due in 2016. Details of the major continuing regulatory reforms are

set out in the *HSBC Bank plc Annual Report and Accounts 2015*.

Capital buffers

CRD IV established a number of capital buffers which apply in addition to Pillar 1 and Pillar 2 requirements, and are broadly aligned with the Basel III framework. This includes the Capital Conservation Buffer ('CCB'), the Countercyclical Capital Buffer ('CCyB') and the Globally/Other Systemically Important Institutions buffer ('G-SII/O-SII'). With the exception of the CCyB which applies with immediate effect, CRD IV capital buffers are being phased in from 1 January 2016. CRD IV also introduced other capital buffers such as the Systemic Risk Buffer ('SRB') which has not yet been fully implemented by the PRA.

Automatic restrictions on distributions apply if a bank's Common Equity Tier 1 ('CET1') capital falls below the level of its CRD IV combined buffer. The CRD IV combined buffer is defined as the total of the CCB, the CCyB, the G-SII or the O-SII buffer and the SRB as these become applicable.

Countercyclical capital buffer

At 31 December 2015, the CCyB rates in effect were 1 per cent set by Norway and Sweden, with the relevant credit exposures located in Norway and Sweden being £844m and £626m respectively. In November 2015, the FPC maintained a 0 per cent CCyB rate for UK exposures. As such, as at 31 December 2015, the group's institution-specific CCyB rate is 0.005 per cent.

CRD IV combined buffer

Based on the above requirements, at 1 January 2016, the CRD IV combined buffer applicable to the group is estimated to be the sum of 0.625 per cent (for the CCB) and the CCyB.

Leverage ratio requirements

The leverage ratio requirement 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. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet exposures, derivative exposures and securities financing transactions ('SFT') exposures. 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. However, in December 2015 the PRA published rules on a UK leverage ratio framework, including binding requirements which came into force on 1 January 2016. The PRA's leverage ratio requirement applies at the highest level of UK consolidation. For HSBC, this applies at HSBC Holdings plc level and not at HSBC Bank plc level.

The PRA's UK leverage ratio requirements are super-equivalent to the Basel and EU regimes. However, it is anticipated that a Basel minimum leverage ratio requirement will be consulted on by Basel in 2016 and become a formal Pillar 1 measure by 1 January 2018.

Other regulatory developments

A summary of recent and forthcoming developments in the regulation of the bank, the group and HSBC can be found:

- on pages 79-81 of the HSBC Bank plc Annual Report and Accounts 2015;
- on pages 239 – 242 of the HSBC Holdings plc Annual Report and Accounts 2015;
- on pages 28 - 31 of the HSBC Holdings plc Pillar 3 Disclosures 2015.

Pillar 3 disclosures 2015

The *Pillar 3 Disclosures 2015* comprise all information required under Pillar 3, both quantitative and qualitative. HSBC's disclosure requirements, pursuant to the Capital Requirements Regulation (CRR), are met by the *HSBC Holdings plc Pillar 3 Disclosures 2015*. They are made in accordance with Part 8 of CRR within CRD IV. HSBC Bank plc, as a significant subsidiary of HSBC Holdings plc, is required to publish certain limited Pillar 3 disclosures separately on a consolidated basis, pursuant to CRR Article 13.

In our disclosures, to give insight into movements during the year, in most cases, we provide comparative figures for the prior year.

Specific changes to disclosures are set out below:

The principal changes in our Pillar 3 Disclosures 2015, compared with the prior year, are:

- enhanced capital disclosures
- inclusion of leverage ratio disclosures
- enhanced disclosures on credit risk adjustments

In 2015, the PRA adopted EBA Guidelines on frequency, materiality, proprietary and confidentiality of Pillar 3 disclosures. HSBC implemented these guidelines by integrating them into HSBC policy and process for the governance of disclosures after approval by the bank's Audit Committee, who exercise oversight of controls over disclosures.

Our approach to transparency regarding where and how we have exercised discretion to withhold Pillar 3 disclosures is to provide the required information under the guidelines in Appendix II.

We publish comprehensive Pillar 3 disclosures annually on the HSBC internet site *www.hsbc.com*, simultaneously with the release of the *HSBC Bank plc Annual Report and Accounts 2015*. Our interim reports include regulatory information, complementing the financial and risk information presented there and in line with the new requirements on the frequency of regulatory disclosure.

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 2015* or other location.

Comparison with the HSBC Bank plc Annual Report and Accounts 2015

The *Pillar 3 Disclosures 2015* have been prepared in accordance with regulatory capital adequacy concepts and rules, rather than in accordance with International Financial Reporting Standards ('IFRS'). Therefore, some information in the Pillar 3 Disclosures 2015 is not directly comparable with the financial information in the *HSBC Bank plc Annual Report and Accounts 2015*. This is most pronounced for the credit risk disclosures, where credit exposure is defined as the amount estimated to be at risk under specified Basel III parameters. This differs from similar information in the *HSBC Bank plc Annual Report and Accounts 2015*, which is mainly reported at the balance sheet date and therefore does not reflect the likelihood of future drawings of committed credit lines.

Capital and Risk

Capital management

A description of the bank's approach to capital management can be found on pages 72 – 74 of the *HSBC Bank plc Annual Report and Accounts 2015*.

Pillar 1

Pillar 1 covers the capital resources requirements for credit risk, market risk and operational risk. Credit risk includes counterparty credit risk and securitisation requirements. These requirements are expressed in terms of risk-weighted assets ('RWA').

The table below sets out the Pillar 1 risk categories, their approaches available for calculating capital requirements and the approaches adopted by the group.

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 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 internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of 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. The IRB foundation (FIRB) approach may not be applied to Retail exposures. Finally, the IRB advanced 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 IRB advanced approach for the majority of our business. Certain portfolios remain on the standardised or foundation approaches: • pending the issuance of local regulations or model approval: • following supervisory prescription of a non-advanced approach; or • under exemptions from IRB treatment.
Counterparty credit risk	Three methods for calculating counterparty credit risk and determining exposure values are defined by Basel: standardised, mark-to-market and internal model method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation and IRB advanced.	We use the mark-to-market and IMM approaches for counterparty credit risk. 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	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 methods for calculating credit risk requirements for securitisation positions in the non-trading book: 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').	For securitisation non-trading book positions we use the IRB approach, and within this principally the RBM, with lesser amounts on IAA and SFM. Securitisation positions in the trading book are treated within Market Risk, using PRA standardised rules.
Market risk	Market risk capital requirements can be determined under either the standard rules or the internal models approach. The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. The incremental risk charge ('IRC') also applies.	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or the PRA 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 set out in Articles 104 and 105 of the Capital Requirements Regulation.
Operational risk	Basel allows for firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We have historically adopted and currently use the standardised approach in determining our operational risk capital requirement.

Consolidation basis

The basis of consolidation for the purpose of financial accounting under International Financial Reporting Standards is described in Note 1 of the *HSBC Bank plc Annual Report and Accounts 2015* and differs from that used for regulatory purposes. Table 1 below provides a reconciliation of the balance sheet from the financial accounting to the regulatory scope of consolidation.

The regulatory balance sheet forms the basis for the calculation of regulatory capital requirements.

Table 1: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

		At 31 December 2015			
	Ref	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		39,749	(1)	65	39,813
Items in the course of collection from other banks		1,328	–	–	1,328
Trading assets		110,585	751	–	111,336
Financial assets designated at fair value		6,829	(6,829)	–	–
Derivatives		166,785	(79)	–	166,706
Loans and advances to banks		23,222	(912)	14	22,324
Loans and advances to customers, of which:		258,506	(4,782)	–	253,724
- impairment allowances on IRB portfolios		(1,867)	–	–	(1,867)
- impairment allowances on standardised portfolios		(735)	–	–	(735)
Reverse repurchase agreements (non-trading)		30,537	505	–	31,042
Financial investments		71,352	(10,960)	–	60,392
Prepayments, accrued income and other assets, of which:		11,732	(141)	38	11,629
- goodwill and intangible assets in disposal groups held for sale		–	–	–	–
- retirement benefit assets		3,376	–	–	3,376
Current tax assets		126	(7)	–	119
Interests in associates and joint ventures		69	(5)	(22)	42
Goodwill and intangible assets		7,011	(562)	1	6,450
Deferred tax assets		110	142	–	252
Total assets	*f*	727,941	(22,880)	96	705,157
Liabilities and equity					
Liabilities					
Deposits by banks		24,202	(7)	66	24,261
Customer accounts		332,830	(78)	–	332,752
Repurchase agreements (non-trading)		17,000	–	–	17,000
Items in the course of transmission to other banks		583	–	–	583
Trading liabilities		73,489	(46)	–	73,443
Financial liabilities designated at fair value, of which:		19,001	–	–	19,001
- other instruments disallowed in tier 1 capital		316	–	–	316
- term subordinated debt included in tier 2 capital		2,043	–	–	2,043
Derivatives		162,864	51	–	162,915
Debt securities in issue		26,069	(6,360)	–	19,709
Accruals, deferred income and other liabilities, of which:		5,775	958	27	6,760
- retirement benefit liabilities		300	(1)	8	307
- contingent liabilities and contractual commitments, of which:		27	–	–	27
- credit-related provisions on IRB portfolios		17	–	–	17
- credit-related provisions on standardised portfolios		10	–	–	10
Current tax liabilities		249	(63)	–	186
Liabilities under insurance contracts issued		16,664	(16,664)	–	–
Provisions		2,057	(9)	3	2,051
Deferred tax liabilities		506	–	–	506
Subordinated liabilities, of which:		8,527	–	–	8,527
- other instruments included in tier 1 capital		700	–	–	700
- perpetual subordinated debt included in tier 2 capital		2,989	–	–	2,989
- term subordinated debt included in tier 2 capital		3,760	–	–	3,760
Total liabilities		689,816	(22,218)	96	667,694
Equity					
Called up share capital		797	–	–	797
Share premium account, of which:		20,733	–	–	20,733
- preference share premium included in tier 1 capital	*a*	431	–	–	431
Other equity instruments included in tier 1 capital		3,584	–	–	3,584
Other reserves		(216)	–	–	(216)
Retained earnings		12,599	(662)	–	11,937
Total equity attributable to the shareholders of the parent company	*b*	37,497	(662)	–	36,835
Non-controlling interests, of which:	*c*	628	–	–	628
- preference shares issued by subsidiaries included in tier 1 capital	*d*	150	–	–	150
- surplus non-controlling interest disallowed in CET 1	*e*	237	–	–	237
Total equity		38,125	(662)	–	37,463
Total equity and liabilities		727,941	(22,880)	96	705,157

1. The references (a) – (e) identify balance sheet components which are used inTable 2 on page 8. The reference (f) identifies balance sheet component which is used in Table 19 on page 25.

		At 31 December 2014			
		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		42,853	-	86	42,939
Items in the course of collection from other banks		973	-	-	973
Trading assets		130,127	1,213	-	131,340
Financial assets designated at fair value		6,899	-	-	6,899
Derivatives		187,736	(69)	-	187,667
Loans and advances to banks		25,262	(18)	14	25,258
Loans and advances to customers, of which:		257,252	(6,862)	-	250,390
- impairment allowances on IRB portfolios		(2,179)	-	-	(2,179)
- impairment allowances on standardised portfolios		(658)	-	-	(658)
Reverse repurchase agreements (non-trading)		41,945	-	-	41,945
Financial investments		76,194	(20,657)	-	55,537
Prepayments, accrued income and other assets, of which:		20,396	(1,446)	37	18,987
- goodwill and intangible assets in disposal groups held for sale		77	-	-	77
- retirement benefit assets		3,060	-	-	3,060
Current tax assets		190	-	-	190
Interests in associates and joint ventures		69	(6)	(22)	41
Goodwill and intangible assets		7,217	(474)	-	6,743
Deferred tax assets		176	-	-	176
Total assets		797,289	(28,319)	115	769,085
Liabilities and equity					
Liabilities					
Deposits by banks		27,590	-	87	27,677
Customer accounts		346,507	(91)	-	346,416
Repurchase agreements (non-trading)		23,353	-	-	23,353
Items in the course of transmission to other banks		667	-	-	667
Trading liabilities		82,600	(30)	-	82,570
Financial liabilities designated at fair value, of which:		22,552	-	-	22,552
- other instruments disallowed in tier 1 capital		317	-	-	317
- term subordinated debt included in tier 2 capital		2,503	-	-	2,503
Derivatives		188,278	17	-	188,295
Debt securities in issue		27,921	(6,262)	-	21,659
Accruals, deferred income and other liabilities, of which:		12,417	(3,589)	23	8,851
- retirement benefit liabilities		333	(1)	7	339
- contingent liabilities and contractual commitments, of which:		16	-	-	16
- credit-related provisions on IRB portfolios		14	-	-	14
- credit-related provisions on standardised portfolios		2	-	-	2
Current tax liabilities		255	(50)	1	206
Liabilities under insurance contracts issued		17,522	(17,522)	-	-
Provisions		1,707	(16)	4	1,695
Deferred tax liabilities		364	-	-	364
Subordinated liabilities, of which:		8,858	-	-	8,858
- other instruments included in tier 1 capital		1,402	-	-	1,402
- perpetual subordinated debt included in tier 2 capital		2,841	-	-	2,841
- term subordinated debt included in tier 2 capital		3,284	-	-	3,284
Total liabilities		760,591	(27,543)	115	733,163
Equity					
Called up share capital		797	-	-	797
Share premium account, of which:		20,733	-	-	20,733
- preference share premium included in tier 1 capital	*a*	431	-	-	431
Other equity instruments included in tier 1 capital		2,196	-	-	2,196
Other reserves		772	-	-	772
Retained earnings		11,580	(776)	-	10,804
Total equity attributable to the shareholders of the parent company	*b*	36,078	(776)	-	35,302
Non-controlling interests, of which:	*c*	620	-	-	620
- preference shares issued by subsidiaries included in tier 1 capital	*d*	150	-	-	150
- surplus non-controlling interest disallowed in CET 1	*e*	117	-	-	117
Total equity		36,698	(776)	-	35,922
Total equity and liabilities		797,289	(28,319)	115	769,085

Regulatory capital

Table 2 below sets out the composition of the group's regulatory capital and risk-weighted assets at 31 December 2015.

Table 2: Composition of regulatory capital – CRD IV transitional basis

	Ref	CRD IV year 2 transition At 31 December 2015 £m	CRD IV year 1 transition At 31 December 2014 £m
Tier 1 capital			
Shareholders' equity[1]		**32,548**	32,367
Shareholders' equity per balance sheet	*b*	**37,497**	36,079
Foreseeable interim dividend		**(272)**	(315)
Preference share premium	*a*	**(431)**	(431)
Other equity instruments[2]		**(3,584)**	(2,195)
Deconsolidation of special purpose entities		**(67)**	(86)
Deconsolidation of insurance entities		**(595)**	(685)
Non-controlling interests		**241**	353
Non-controlling interests per balance sheet	*c*	**628**	620
Preference share non-controlling interest	*d*	**(150)**	(150)
Surplus non-controlling interest disallowed in CET 1	*e*	**(237)**	(117)
Regulatory adjustments to the accounting basis		**(2,825)**	(3,249)
Unrealised gains on available-for-sale debt and equity securities[3]		**–**	(837)
Own credit spread		**62**	245
Debit valuation adjustment		**(148)**	(88)
Defined benefit pension fund adjustment		**(2,688)**	(2,400)
Cash flow hedging reserve		**(51)**	(163)
Other regulatory adjustments		**–**	(6)
Deductions		**(8,025)**	(8,380)
Goodwill capitalised & intangible assets		**(6,451)**	(6,822)
Deferred Tax assets that rely on future profitability (excludes those arising from temporary differences)		**(34)**	(21)
Additional valuation adjustment (referred to as PVA)		**(527)**	(588)
Negative amounts resulting from the calculation of expected loss amounts		**(1,013)**	(949)
Common equity tier 1 capital		**21,939**	21,091
Additional tier 1 capital			
Other tier 1 capital before deductions		**5,191**	4,047
Preference shares & related premium		**581**	464
Other tier 1 capital securities		**4,610**	3,583
Deductions		**(113)**	–
Unconsolidated investments		**(73)**	–
Holding of own additional tier 1 instruments		**(40)**	–
Tier 1 capital		**27,017**	25,138
Tier 2 capital			
Total qualifying tier 2 capital before deductions		**8,784**	8,628
Perpetual subordinated debt		**2,989**	2,844
Term subordinated debt		**5,795**	5,784
Total deductions other than from tier 1 capital		**(198)**	(210)
Unconsolidated investments		**(171)**	(210)
Holdings of own tier 2 instruments		**(27)**	–
Total regulatory capital		**35,603**	33,556

1 *Includes externally verified profits for the year to 31 December 2015 and the interim dividend of £272m declared by the Board of Directors after 31 December 2015.*
2 *This was previously presented under regulatory adjustments.*
3 *Effective 1 January 2015 under the PRA implementation of CRD IV transitional rules unrealised gains on available-for-sale securities are no longer deducted.*

Table 3: Capital ratios

	CRD IV year 2 transition At 31 December 2015 £m	CRD IV year 1 transition At 31 December 2014 £m
Risk-weighted assets	**229,382**	243,652
Credit risk	**160,517**	168,600
Counterparty credit risk	**25,549**	30,364
Market risk	**20,654**	22,437
Operational risk	**22,662**	22,251
Capital ratios		
Common equity tier 1 ratio	**9.6%**	8.7%
Tier 1 ratio	**11.8%**	10.3%
Total capital ratio	**15.5%**	13.8%

Table 4: Reconciliation of regulatory capital from transitional basis to an estimated CRD IV end point basis

	At 31 December 2015 £m	At 31 December 2014 £m
Common equity tier 1 capital on a transitional basis	**21,939**	21,091
Unrealised gains in available for sale reserves	**–**	837
Common equity tier 1 capital end point basis	**21,939**	21,928
Additional tier 1 capital on a transitional basis	**5,078**	4,047
Grandfathered instruments:		
Preference share premium	**(581)**	(345)
Other tier 1 capital securities	**(1,026)**	(1,507)
Transitional adjustments:		
Unconsolidated investments	**73**	–
Additional tier 1 capital end point basis	**3,544**	2,195
Tier 1 capital end point basis	**25,483**	24,123
Tier 2 capital on a transitional basis	**8,586**	8,418
Grandfathered instruments:		
Perpetual subordinated debt	**(12)**	(13)
Term subordinated debt	**(1,353)**	(2,313)
Transitional adjustments:		
Unconsolidated investments	**(73)**	–
Tier 2 capital end point basis	**7,148**	6,092
Total regulatory capital end point basis	**32,631**	30,215

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.

For credit risk, with the PRA's approval, the group has adopted the IRB advanced approach for the majority of its business, with the remainder on either IRB foundation or standardised approaches. A rollout plan is in place to extend coverage of the advanced approach over the next few years, leaving a residue of exposures on the standardised approach.

The environment for approval and operation of internal ratings-based ('IRB') analytical models remains challenging. The PRA has introduced a number of measures in recent years to constrain modelling approaches used to calculate RWAs; these generally have driven higher capital requirements. These measures included a 45 per cent floor for LGD on sovereign and bank IRB exposures and a requirement to adopt supervisory slotting for certain commercial real estate exposures. Given that the majority of European Economic Area ('EEA') sovereign exposures are treated under the standardised approach, the sovereign LGD floor in practice applies to non-EEA sovereign exposures.

The EBA issued a Discussion Paper in March 2015 setting out the future of the IRB approach. In this remediation plan the EBA will issue Regulatory Technical Standard ('RTS') and guidelines in four phases designed to improve consistency of the application of IRB across institutions and correct for perceived weaknesses in firms' IRB models and governance processes. The phases are 1) Assessment Methodology for approval by Competent Authorities (including Permanent Partial Use, IRB roll out plans and Internal Governance requirements); 2) Definition of Default - an RTS on the materiality of past due amounts (consultation completed in 2015) and guidelines around the interpretation of other parts of the definition of default (in consultation in 2015 and also subject to a quantitative impact study) - due to be completed by mid-2016; 3) Work on LGD and Conversion Factors - a consultation paper on an RTS around nature, severity and duration of economic downturn; and a number of guidelines to be issued around Downturn LGD, computation of PD and the treatment of LGD in default. This phase is due to be completed by the end of 2016; and finally 4) Credit Risk Mitigation - including an RTS on conditional guarantees, an RTS on liquid assets and another RTS on the Internal Model Approach for master netting agreements. This last section of the EBA IRB approach is due to be completed by end of 2017.

In addition to the above, a number of Basel reviews and consultations is expected to be concluded over the next year or so that will have a significant impact on the banks' management of Credit Risk. These are expected to include the Basel Committee's thoughts on the future of IRB models, how banks determine Operational Risk; the fundamental review of the trading book (published on 14 January 2016) and the replacement of the existing Basel 1 floor by a floor based on revised Standardised Approaches.

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 26 – 46 of the HSBC Bank plc Annual Report and Accounts 2015;
- on pages 120 – 153 of the HSBC Holdings plc 2015 Annual Report and Accounts;
- on pages 34 – 89 of the HSBC Holdings plc Pillar 3 Disclosures 2015.

Table 5: Credit risk exposure - by exposure class

	Exposure value £m	Average exposure value £m	RWA £m	Capital required[1] £m
IRB advanced approach	**318,539**	**323,256**	**94,593**	**7,567**
Retail:				
- secured by mortgages on immovable property SME	**1,355**	**1,399**	**323**	**26**
- secured by mortgages on immovable property non-SME	**92,273**	**92,602**	**5,063**	**405**
- qualifying revolving retail	**22,395**	**22,381**	**4,137**	**331**
- other SME	**7,848**	**7,947**	**3,795**	**304**
- other non-SME	**16,321**	**15,248**	**3,551**	**284**
Total retail	**140,192**	**139,577**	**16,869**	**1,350**
Central governments and central banks	**17,643**	**17,785**	**3,104**	**248**
Institutions	**16,576**	**16,760**	**3,081**	**246**
Corporates	**144,128**	**149,134**	**71,539**	**5,723**
IRB foundation approach	**18,721**	**17,816**	**11,842**	**947**
Institutions	**21**	**25**	**7**	**–**
Corporates	**18,700**	**17,791**	**11,835**	**947**
IRB Securitisation positions	**24,882**	**21,959**	**18,717**	**1,497**
IRB Non-credit obligation assets	**5,655**	**6,347**	**2,818**	**225**
Standardised approach	**127,441**	**124,891**	**32,547**	**2,605**
Central governments or central banks	**80,415**	**81,476**	**72**	**6**
Public sector entities	**–**	**–**	**–**	**–**
International organisations	**1,732**	**1,884**	**–**	**–**
Institutions	**9,332**	**8,517**	**2,428**	**194**
Corporates	**25,636**	**24,527**	**20,994**	**1,680**
Retail	**3,266**	**1,753**	**2,315**	**185**
Secured by mortgages on immovable property	**2,594**	**2,543**	**985**	**79**
Exposures in default	**740**	**679**	**934**	**75**
Items associated with particularly high risk	**663**	**647**	**994**	**80**
Collective investment undertakings	**47**	**104**	**47**	**4**
Equity exposures	**1,013**	**795**	**1,930**	**154**
Other items[2]	**2,003**	**1,966**	**1,848**	**148**
At 31 December 2015	**495,238**	**494,269**	**160,517**	**12,841**
IRB advanced approach	333,742	366,480	100,014	8,000
Retail:				
- secured by mortgages on immovable property SME	1,550	1,599	376	30
- secured by mortgages on immovable property non-SME	92,450	93,366	5,130	410
- qualifying revolving retail	22,373	22,204	4,453	356
- other SME	8,438	9,089	3,788	303
- other non-SME	14,881	14,672	3,550	284
Total retail	139,692	140,930	17,297	1,383
Central governments and central banks	16,464	17,289	3,336	267
Institutions	18,537	20,706	7,451	596
Corporates	159,049	187,555	71,930	5,754
IRB foundation approach	12,268	11,087	8,208	656
Institutions	28	14	6	-
Corporates	12,240	11,073	8,202	656
IRB Securitisation positions	22,406	23,217	25,675	2,054
IRB Non-credit obligation assets	6,587	6,046	3,309	265
Standardised approach	126,809	136,352	31,394	2,512
Central governments or central banks	79,692	87,999	83	7
Public sector entities	25	19	5	-
International organisations	2,126	2,187	-	-
Institutions	10,305	10,235	2,800	224
Corporates	24,290	22,509	19,419	1,554
Retail	3,590	4,122	2,587	207
Secured by mortgages on immovable property	2,830	2,933	1,005	80
Exposures in default	696	761	876	70
Items associated with particularly high risk	673	672	1,009	81
Collective investment undertakings	133	98	133	11
Equity exposures	769	1,133	1,648	132
Other items[2]	1,680	3,684	1,829	146
At 31 December 2014	501,811	543,182	168,600	13,487

1. *In this, and all following tables where the term appears, capital required is calculated as 8 per cent of RWA.*
2. *Includes items such as tangible fixed assets, prepayments, deferred taxation under the standardised approach.*

Table 6: Credit risk exposure - by region

	United Kingdom £m	Continental Europe £m	Other £m	Total £m
IRB advanced approach	275,851	38,873	3,815	318,539
Retail:				
- secured by mortgages on immovable property SME	14	1,341	–	1,355
- secured by mortgages on immovable property non-SME	90,561	1,712	–	92,273
- qualifying revolving retail	22,394	1	–	22,395
- other SME	5,486	2,362	–	7,848
- other non-SME	5,696	10,625	–	16,321
Total retail	124,151	16,041	–	140,192
Central governments and central banks	11,614	3,296	2,733	17,643
Institutions	14,625	1,586	365	16,576
Corporates	125,461	17,950	717	144,128
IRB foundation approach	6,050	12,671	–	18,721
Institutions	17	4	–	21
Corporates	6,033	12,667	–	18,700
IRB Securitisation positions	22,806	2,076	–	24,882
IRB Non-credit obligation assets	4,619	844	192	5,655
Standardised approach	79,580	41,309	6,552	127,441
Central governments or central banks	56,182	24,172	61	80,415
Public sector entities	–	–	–	–
International organisations	–	1,732	–	1,732
Institutions	4,449	4,864	19	9,332
Corporates	15,400	6,004	4,232	25,636
Retail	467	1,134	1,665	3,266
Secured by mortgages on immovable property	567	1,616	411	2,594
Exposures in default	61	545	134	740
Items associated with particularly high risk	458	195	10	663
Collective investment undertakings	–	47	–	47
Equity exposures	381	632	–	1,013
Other items[2]	1,615	368	20	2,003
At 31 December 2015	**388,906**	**95,773**	**10,559**	**495,238**
IRB advanced approach	282,522	46,287	4,932	333,742
Retail:				
- secured by mortgages on immovable property SME	26	1,524	-	1,550
- secured by mortgages on immovable property non-SME	90,610	1,840	-	92,450
- qualifying revolving retail	22,372	1	-	22,373
- other SME	5,690	2,748	-	8,438
- other non-SME	4,244	10,637	-	14,881
Total retail	122,942	16,749	-	139,692
Central governments and central banks	10,801	2,351	3,312	16,464
Institutions	13,475	3,442	1,620	18,537
Corporates	135,304	23,745	-	159,049
IRB foundation approach	110	12,158	-	12,268
Institutions	-	28	-	28
Corporates	110	12,130	-	12,240
IRB Securitisation positions	20,332	2,073	-	22,406
IRB Non-credit obligation assets	5,453	944	190	6,587
Standardised approach	83,915	35,637	7,257	126,809
Central governments or central banks	64,516	15,118	58	79,692
Public sector entities	-	25	-	25
International organisations	-	2,126	-	2,126
Institutions	3,739	6,549	17	10,305
Corporates	12,567	7,447	4,276	24,290
Retail	559	857	2,174	3,590
Secured by mortgages on immovable property	576	1,716	538	2,830
Exposures in default	17	517	162	696
Items associated with particularly high risk	507	156	10	673
Collective investment undertakings	-	133	-	133
Equity exposures	151	618	-	769
Other items[2]	1,283	375	22	1,680
At 31 December 2014	392,332	97,099	12,380	501,811

Table 7: Credit risk exposure - by industry sector

	Personal £m	Manu-facturing £m	Inter-national trade and services £m	Property and other business activities £m	Government and public admin-istration £m	Other commercial £m	Financial £m	Non-customer assets £m	Total £m
IRB advanced approach	130,989	25,925	33,086	47,608	19,995	23,592	37,344	–	318,539
Retail:									
- secured by mortgages on immovable property SME	–	8	17	1,309	6	7	8	–	1,355
- secured by mortgages on immovable property non-SME	92,273	–	–	–	–	–	–	–	92,273
- qualifying revolving retail	22,395	–	–	–	–	–	–	–	22,395
- other SME	–	247	542	6,664	102	263	30	–	7,848
- other non-SME	16,321	–	–	–	–	–	–	–	16,321
Total retail	130,989	255	559	7,973	108	270	38	–	140,192
Central governments and central banks	–	–	–	–	13,952	–	3,691	–	17,643
Institutions	–	–	–	–	5	–	16,571	–	16,576
Corporates	–	25,670	32,527	39,635	5,930	23,322	17,044	–	144,128
IRB foundation approach	1	6,121	4,188	4,353	252	1,961	1,845	–	18,721
Institutions	–	–	–	–	–	–	21	–	21
Corporates	1	6,121	4,188	4,353	252	1,961	1,824	–	18,700
IRB Securitisation positions	–	–	–	–	–	–	24,882	–	24,882
IRB Non-credit obligation assets	–	–	–	–	–	–	3	5,652	5,655
Standardised approach	5,430	6,971	3,741	2,932	36,526	2,835	68,319	687	127,441
Central governments or central banks	–	–	–	–	34,135	–	46,280	–	80,415
Public sector entities	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	1,732	–	–	–	1,732
Institutions	–	–	–	–	–	–	9,332	–	9,332
Corporates	358	6,682	3,599	2,035	598	2,495	9,869	–	25,636
Retail	2,474	97	60	547	20	31	37	–	3,266
Secured by mortgages on immovable property	2,430	45	16	60	8	35	–	–	2,594
Exposures in default	168	147	66	48	33	251	27	–	740
Items associated with particularly high risk	–	–	–	182	–	23	458	–	663
Collective investment undertakings	–	–	–	–	–	–	48	–	48
Equity exposures	–	–	–	60	–	–	952	–	1,012
Other items[2]	–	–	–	–	–	–	1,316	687	2,003
At 31 December 2015	**136,420**	**39,017**	**41,015**	**54,893**	**56,773**	**28,388**	**132,393**	**6,339**	**495,238**

	Personal £m	Manu-facturing £m	Inter-national trade and services £m	Property and other business activities £m	Government and public admin-istration £m	Other commercial £m	Financial £m	Non-customer assets £m	Total £m
IRB advanced approach	129,705	27,482	40,407	57,212	19,045	21,982	37,907	-	333,742
Retail:									
- secured by mortgages on immovable property SME	-	8	20	1,485	7	13	17	-	1,550
- secured by mortgages on immovable property non-SME	92,450	-	-	-	-	-	-	-	92,450
- qualifying revolving retail	22,373	-	-	-	-	-	-	-	22,373
- other SME	-	528	1,484	4,608	437	1,230	151	-	8,438
- other non-SME	14,881	-	-	-	-	-	-	-	14,881
Total retail	129,704	536	1,504	6,093	444	1,243	168	-	139,692
Central governments and central banks	-	-	-	-	12,572	-	3,892	-	16,464
Institutions	-	-	-	-	-	-	18,537	-	18,537
Corporates	1	26,946	38,903	51,119	6,030	20,740	15,310	-	159,049
IRB foundation approach	145	5,017	2,952	737	252	1,433	1,732	-	12,268
Institutions	-	-	-	-	-	-	28	-	28
Corporates	145	5,017	2,952	737	252	1,433	1,704	-	12,240
IRB Securitisation positions	-	-	-	-	-	-	22,406	-	22,406
IRB Non-credit obligation assets	-	-	-	-	-	-	-	6,587	6,587
Standardised approach	7,029	6,005	3,657	2,724	36,229	2,604	67,760	801	126,809
Central governments or central banks	-	-	-	-	33,501	-	46,061	130	79,692
Public sector entities	-	-	-	-	25	-	-	-	25
International organisations	-	-	-	-	2,126	-	-	-	2,126
Institutions	-	-	-	-	-	-	10,305	-	10,305
Corporates	1,117	5,721	3,464	2,114	523	2,313	9,038	-	24,290
Retail	2,988	135	80	306	24	38	19	-	3,590
Secured by mortgages on immovable property	2,690	79	40	3	2	16	-	-	2,830
Exposures in default	234	70	72	83	28	205	4	-	696
Items associated with particularly high risk	-	-	1	134	-	32	506	-	673
Collective investment undertakings	-	-	-	--	-	-	133	-	133
Equity exposures	-	-	-	84	-	-	685	-	769
Other items[2]	-	-	-	-	-	-	1,009	671	1,680
At 31 December 2014	136,879	38,504	47,016	60,673	55,526	26,019	129,805	7,388	501,811

Table 8: Credit risk exposure - by residual maturity

	Less than 1 year £m	Between 1 and 5 years £m	More than 5 years £m	Undated £m	Total £m
IRB advanced approach	**109,083**	**87,888**	**121,568**	**–**	**318,539**
Retail:					
- secured by mortgages on immovable property SME	**27**	**135**	**1,193**	**–**	**1,355**
- secured by mortgages on immovable property non-SME	**1,400**	**1,701**	**89,172**	**–**	**92,273**
- qualifying revolving retail	**22,373**	**22**	**–**	**–**	**22,395**
- other SME	**1,491**	**4,191**	**2,166**	**–**	**7,848**
- other non-SME	**1,269**	**5,516**	**9,536**	**–**	**16,321**
Total retail	**26,560**	**11,565**	**102,067**	**–**	**140,192**
Central governments and central banks	**6,225**	**6,460**	**4,958**	**–**	**17,643**
Institutions	**10,850**	**5,294**	**432**	**–**	**16,576**
Corporates	**65,448**	**64,569**	**14,111**	**–**	**144,128**
IRB foundation approach	**8,017**	**9,624**	**1,080**	**–**	**18,721**
Institutions	**4**	**17**	**–**	**–**	**21**
Corporates	**8,013**	**9,607**	**1,080**	**–**	**18,700**
IRB Securitisation positions	**5,189**	**6,230**	**13,463**	**–**	**24,882**
IRB Non-credit obligation assets	**–**	**25**	**1**	**5,629**	**5,655**
Standardised approach	**73,523**	**35,901**	**16,278**	**1,739**	**127,441**
Central governments or central banks	**43,944**	**26,332**	**10,139**	**–**	**80,415**
Public sector entities	**–**	**–**	**–**	**–**	**–**
International organisations	**246**	**1,066**	**420**	**–**	**1,732**
Institutions	**7,902**	**10**	**1,420**	**–**	**9,332**
Corporates	**18,233**	**6,052**	**1,351**	**–**	**25,636**
Retail	**1,477**	**1,532**	**257**	**–**	**3,266**
Secured by mortgages on immovable property	**103**	**415**	**2,076**	**–**	**2,594**
Exposures in default	**268**	**313**	**159**	**–**	**740**
Items associated with particularly high risk	**22**	**181**	**456**	**4**	**663**
Collective investment undertakings	**–**	**–**	**–**	**48**	**48**
Equity exposures	**–**	**–**	**–**	**1,012**	**1,012**
Other items[2]	**1,328**	**–**	**–**	**675**	**2,003**
At 31 December 2015	**195,812**	**139,668**	**152,390**	**7,368**	**495,238**
IRB advanced approach	127,803	84,153	121,786	-	333,742
Retail:					
- secured by mortgages on immovable property SME	37	107	1,406	-	1,550
- secured by mortgages on immovable property non-SME	1,574	1,481	89,395	-	92,450
- qualifying revolving retail	22,363	9	1	-	22,373
- other SME	1,779	4,384	2,275	-	8,438
- other non-SME	860	4,710	9,311	-	14,881
Total retail	26,613	10,691	102,388	-	139,692
Central governments and central banks	6,359	6,831	3,274	-	16,464
Institutions	12,255	5,379	903	-	18,537
Corporates	82,576	61,252	15,221	-	159,049
IRB foundation approach	5,008	6,393	867	-	12,268
Institutions	28	-	-	-	28
Corporates	4,980	6,393	867	-	12,240
IRB Securitisation positions	5,862	2,868	13,676	-	22,406
IRB Non-credit obligation assets	-	-	-	6,587	6,587
Standardised approach	78,021	30,343	16,837	1,608	126,809
Central governments or central banks	46,245	21,817	11,630	-	79,692
Public sector entities	-	2	23	-	25
International organisations	183	1,109	834	-	2,126
Institutions	10,296	9	-	-	10,305
Corporates	18,143	4,899	1,248	-	24,290
Retail	1,712	1,599	279	-	3,590
Secured by mortgages on immovable property	138	467	2,225	-	2,830
Exposures in default	316	201	179	-	696
Items associated with particularly high risk	14	240	419	-	673
Collective investment undertakings	-	-	-	133	133
Equity exposures	-	-	-	769	769
Other items[2]	973	-	-	707	1,680
At 31 December 2014	216,694	123,757	153,166	8,195	501,811

Specialised lending exposures under the Slotting Approach

The table below sets out the group's specialised lending exposures under the Slotting Approach by credit rating category. Specialised lending relates to the financing of individual projects where repayment is dependent on the performance of the underlying assets or collateral. Where the Slotting Approach is used, the group aligns exposures to credit rating categories by taking into account the financial strength of the project, political and legal environment, asset characteristics, strength of the sponsor and developer.

Table 9: Specialised lending under the Slotting Approach – by credit rating

	Exposure	
	At 31 December 2015 £m	At 31 December 2014 £m
Category 1 - strong	**6,457**	6,447
Category 2 - good	**2,966**	4,255
Category 3 - satisfactory	**1,247**	1,686
Category 4 - weak	**566**	708
Category 5 - default	**795**	978
	12,031	14,074

Past due but not impaired, 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 27 of the *HSBC Bank plc Annual Report and Accounts 2015*, and HSBC's definitions for accounting purposes of 'past due' and 'impaired' are set out on page 37.

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 10: Past due but not impaired, impaired exposures and impairment allowances and other credit risk provisions by counterparty and by geographical region

	United Kingdom £m	Continental Europe £m	Other £m	Total £m
Past due but not impaired	603	699	–	1,302
Personal	490	288	–	778
Corporate and commercial	113	401	–	514
Financial	–	10	–	10
Impaired exposures	4,278	2,094	–	6,372
Personal	1,110	531	–	1,641
Corporate and commercial	3,033	1,505	–	4,538
Financial	135	58	–	193
Impairment allowances and other credit risk provisions	1,500	1,131	–	2,631
Personal	316	319	–	635
Corporate and commercial	1,083	780	–	1,863
Financial	101	32	–	133

Table 11: Movement in specific credit risk adjustments by counterparty and by geographical region

	United Kingdom £m	Continental Europe £m	Other £m	Total £m
Specific credit risk adjustments at 1 January 2015	1,677	1,159	–	2,836
Amounts written off	(620)	(240)	–	(860)
Personal	(285)	(118)	–	(403)
Corporate and commercial	(335)	(114)	–	(449)
Financial	–	(8)	–	(8)
Recoveries of amounts written off in previous years	233	16	–	249
Personal	205	14	–	219
Corporate and commercial	26	2	–	28
Financial	2	–	–	2
Charge to income statement	217	293	–	510
Personal	29	140	–	169
Corporate and commercial	196	138	–	334
Financial	(8)	15	–	7
Exchange and other movements	(7)	(97)	–	(104)
Specific credit risk adjustments at 31 December 2015	**1,500**	**1,131**	**–**	**2,631**

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.

This analysis includes comparison of the EL calculated in the use of IRB risk rating models, which drives part of the regulatory capital calculation, with other reported measures of credit loss within financial statements prepared under IFRS. These measures include loan impairment allowances, value adjustments and credit related provisions for off-balance sheet amounts, collectively referred to as credit risk adjustments. The excess of EL over CRAs is treated as a capital deduction in the composition of regulatory capital.

The disclosures below set out:

- commentary on aspects of the relationship between regulatory EL and CRAs recognised in our financial statements; and
- tables of EL and CRA balances and charges during the period by exposure class (within retail IRB, also by sub-class) and by region.

When comparing EL with measures of credit losses under IFRS, it is necessary to take into account differences in the definition and scope of each. Below are examples of matters that 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.

Tables 12 and 13 set out, for IRB credit exposures, the EL, CRA balances and the actual loss experience reflected in the charges for CRAs.

CRA balances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Charges for CRAs represent a movement in the CRA balance during the year, reflecting loss events which occurred during the financial year and changes in estimates of losses arising on events which occurred prior to the current year. EL represents the one-year regulatory expected loss accumulated in the book and is calculated at a point in time.

Examples of differences in definition and scope between EL and CRA balances

- Under IAS 39 our estimates of loss in impairment allowances are required to reflect the current circumstances and specific cash flow expectations of a customer. EL is based on modelled estimates and although the estimates may be individually assigned to specific exposures, the statistical nature of these models means that they are influenced by the behaviour of the overall portfolio;
- EL is based on exposure values that incorporate expected future drawings of committed credit lines, while CRAs are recognised in respect of financial assets recognised on the balance sheet and in respect of committed credit lines where a loss is probable;
- EL is generally based on through-the-cycle ('TTC') estimates of PD over a one-year future horizon, determined via statistical analysis of historical default experience. CRAs are recognised for losses that have been incurred at the balance sheet date;
- In the majority of cases, EL is based on economic downturn estimates of LGD, while CRAs are measured using estimated future cash flows as at the balance sheet date;
- EL incorporates LGD, which may discount recoveries at a different rate from the effective interest rate employed in discounted cash flow analysis for CRAs;
- LGDs typically include all costs associated with recovery, whereas the accounting measurement considers only the costs of obtaining and selling collateral;
- The LGD and EAD used for the EL calculation in the Foundation IRB approach is set by regulations and may differ significantly from the accounting assumptions about estimated cash flows used;
- For EL, certain exposures are subject to regulatory minimum thresholds for one or more parameters, whereas credit losses under IFRS are determined using management's judgement about estimated future cash flows; and
- In the case of EL, to meet regulatory prudential standards, HSBC's model philosophy favours the incorporation of conservative estimation to accommodate uncertainty, for instance where modelling portfolios with limited data. Under IFRS, uncertainty is considered when forming management's estimates of future cash flows, using balanced and neutral judgement.

Table 12: IRB expected loss and impairment – by exposure class

	Expected loss at 31 December £m	Impairment: Allowances at 31 December £m	Impairment: Charge for the year[1] £m
IRB exposure classes			
Central governments and central banks	**9**	**1**	**–**
Institutions	**34**	**–**	**–**
Corporates	**1,939**	**1,402**	**258**
Retail:	**903**	**562**	**38**
- secured by mortgages on immovable property SME	**19**	**11**	**–**
- secured by mortgages on immovable property non-SME	**114**	**144**	**(36)**
- qualifying revolving retail	**189**	**82**	**34**
- other SME	**435**	**208**	**–**
- other non-SME	**146**	**117**	**40**
2015	**2,885**	**1,965**	**296**
IRB exposure classes			
Central governments and central banks	9	1	1
Institutions	80	20	–
Corporates	1,893	1,534	406
Retail:	1,095	638	14
- secured by mortgages on immovable property SME	20	10	–
- secured by mortgages on immovable property non-SME	253	182	(51)
- qualifying revolving retail	223	103	(5)
- other SME	446	228	–
- other non-SME	153	115	70
2014	3,077	2,193	421

1. *Details of amounts written off and recoveries taken straight to the income statement can be found in the tables on page 41 of the HSBC Bank plc Annual Report and Accounts 2015.*

Table 13: IRB expected loss and impairment – by region

	Expected loss at 31 December £m	Impairment: Allowances at 31 December £m	Impairment: Charge for the year £m
United Kingdom	**2,259**	**1,436**	**217**
Continental Europe	**616**	**529**	**83**
Other	**10**	**–**	**(4)**
2015	**2,885**	**1,965**	**296**
United Kingdom	2,347	1,606	326
Continental Europe	710	582	95
Other	20	5	–
2014	3,077	2,193	421

Credit risk mitigation ('CRM')

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 page 147 and 139 of the *HSBC Holdings plc Annual Report and Accounts 2015.*

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 banking 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 which 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 CRM

Facilities to small and medium-sized enterprises ('SME') 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 Global Banking and Markets 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.

Further information on our use of CDS mitigants can be found on page 141 of the *HSBC Holdings plc Annual Report and Accounts 2015*.

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 which reduce the intrinsic PD of an obligor; and second, those which 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 and processing, including performance of calculations to apply the relevant CRD IV rules and approach. 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 ('FCCM') 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.

The table below sets out, for IRB exposures, the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigant. Further information on credit risk mitigation may be found on pages 201 – 203 of the *HSBC Holdings plc Annual Report and Accounts 2015*

Table 14: IRB exposure – credit risk mitigation

	2015			2014		
	Exposure value covered by eligible financial collateral £m	**Exposure value covered by credit derivatives or guarantees £m**	**Total IRB exposure value covered by CRM £m**	Exposure value covered by eligible financial collateral £m	Exposure value covered by credit derivatives or guarantees £m	Total IRB exposure value covered by CRM £m
IRB advanced approach		**10,152**	**10,152**		10,224	10,224
Central governments and central banks		**30**	**30**		189	189
Institutions		**2**	**2**		281	281
Corporates		**1,431**	**1,431**		1,240	1,240
Retail		**8,689**	**8,689**		8,514	8,514
IRB foundation approach	**249**	**228**	**477**	298	277	575
Institutions	**–**	**–**	**–**	-	-	-
Corporates	**249**	**228**	**477**	298	277	575
At 31 December	**249**	**10,380**	**10,629**	298	10,501	10,799

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 separated into covered and uncovered portions:

- the covered portion attracts the risk weight of the provider and is determined after applying an appropriate 'haircut' for currency and maturity mismatch (and for omission of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided.
- 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 FCCM 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 i) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 15 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 15: Standardised exposure – credit risk mitigation

	2015			2014		
	Exposure value covered by eligible financial and other collateral £m	Exposure value covered by credit derivatives or guarantees £m	Total standardised exposure value covered by CRM £m	Exposure value covered by eligible financial and other collateral £m	Exposure value covered by credit derivatives or guarantees £m	Total standardised exposure value covered by CRM £m
Standardised approach						
Central governments or central banks	7	–	7	1	-	1
Institutions	–	–	–	-	-	-
Corporates	1,036	600	1,636	850	517	1,367
Retail	61	–	61	118	-	118
Secured by mortgages on immovable property	–	–	–	-	-	-
Exposures in default	13	–	13	15	-	15
Items associated with particularly high risk	5	–	5	7	-	7
At 31 December	1,122	600	1,722	991	517	1,508

Counterparty credit risk

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 clearing 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 46 of the HSBC Bank plc Annual Report and Accounts 2015;
- on pages 141 – 142 of the HSBC Holdings plc Annual Report and Accounts 2015;
- on pages 78 - 85 of the HSBC Holdings plc Pillar 3 Disclosures 2015.

Table 16: Counterparty credit risk exposure – by exposure class and product

	At 31 December 2015		At 31 December 2014	
	Capital required £m	RWA £m	Capital required £m	RWA £m
By exposure class				
IRB advanced approach	1,176	14,697	1,459	18,237
Central governments and central banks	26	320	29	358
Institutions	418	5,220	636	7,951
Corporates	732	9,156	794	9,928
IRB foundation approach	89	1,115	110	1,373
Central governments and central banks	–	–	-	-
Institutions	–	–	-	-
Corporates	89	1,115	110	1,373
Standardised approach	315	3,932	326	4,069
Central governments or central banks	–	–	-	-
Institutions	263	3,284	285	3,558
Corporates	52	648	41	511
CVA Advanced approach	214	2,675	201	2,515
CVA Standardised approach	200	2,497	263	3,292
CCP Standardised approach	50	634	70	878
	2,044	25,549	2,429	30,364
By product				
Derivatives	1,257	15,716	1,586	19,819
Securities financing transactions	251	3,138	267	3,331
Other[1]	87	1,082	70	878
CVA Advanced approach	214	2,675	201	2,515
CVA Standardised approach	200	2,497	263	3,292
CCP default fund contribution	35	441	42	529
	2,044	25,549	2,429	30,364

1. Includes settlement risk and free deliveries not deducted from regulatory capital

Market risk

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 group's market risk exposures by type and approach. Further explanation of the group's approach to managing market risk can be found:

- on pages 56 – 63 of the HSBC Bank plc Annual Report and Accounts 2015;
- on pages 166 – 175 of the HSBC Holdings plc Annual Report and Accounts 2015;
- on pages 90 – 98 of the HSBC Holdings plc Pillar 3 Disclosures 2015.

Table 17: Market risk capital requirements

	2015		2014	
	Capital required £m	**RWA £m**	**Capital required £m**	**RWA £m**
Internal models based	**1,369**	**17,114**	1,401	17,510
VaR	**374**	**4,676**	310	3,870
Stressed VaR	**471**	**5,882**	443	5,540
Incremental risk charge	**288**	**3,601**	358	4,470
VaR and Stressed VaR from CRD-equivalent jurisdictions[1]	**236**	**2,955**	290	3,630
PRA standard rules	**283**	**3,540**	393	4,927
Interest rate position risk	**78**	**971**	108	1,351
Equity position risk	**69**	**862**	11	141
Commodity position risk	**0**	**6**	6	78
CIU	**–**	**–**	-	1
Securitisations	**136**	**1,701**	268	3,356
At 31 December	**1,652**	**20,654**	1,794	22,437

1. *Covers a) France and Germany (local VaR approval), and b) Turkey, Armenia, and Russia (treated as consolidaed by aggregation).*

Operational risk

The current Basel requirements include a capital requirement for operational risk. We have historically adopted, and currently use, the standardised approach in determining our operational risk capital requirements. We have implemented an operational risk capital model which we use for economic capital calculation purposes. The tables below set out the group's operational risk capital requirement. Further explanation of the group's approach to managing operational risk can be found:

- on pages 63 – 65 of the HSBC Bank plc Annual Report and Accounts 2015;
- on pages 176 – 179 of the HSBC Holdings plc Annual Report and Accounts 2015;
- on pages 99 – 100 of the HSBC Holdings plc Pillar 3 Disclosures 2015.

Table 18: Operational risk capital requirements

	At 31 December 2015		At 31 December 2014	
	Capital required £m	**RWA £m**	Capital required £m	RWA £m
Own funds requirements for operational risk	**1,813**	**22,662**	1,780	22,251

Internal capital adequacy assessment

Overview

The group assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, being those which it chooses to accept (such as credit risk and market risk), and from non-discretionary risks, being those which arise by virtue of its operations (such as operational risk and business risk). The group's capital management and allocation policy is underpinned by its capital management framework. The capital management framework and related policies define the Internal Capital Adequacy Assessment Process ('ICAAP') by which the Board of Directors of HSBC Bank plc ('the Board') and senior management examine the risk profile from both regulatory and economic capital viewpoints to ensure that the group's level of capital:

- remains sufficient to support the group's risk profile and outstanding commitments;
- exceeds the group's formal minimum regulatory capital requirements and is well placed to meet those expected in the future;
- is capable of withstanding a severe economic downturn stress scenario; and
- remains consistent with the group's strategic and operational goals, and its shareholder and investor expectations.

The minimum regulatory capital that the group is required to hold is determined by the rules and guidance established by the PRA for the bank and the consolidated group and by local regulators for individual subsidiary companies. These capital requirements are a primary influence 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 which the group deems necessary to support the risks to which it is 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 substantial diversification of risk accruing from the group's operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into the group's management of risk. The group's economic capital models, based on those developed by HSBC, 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 per cent level of confidence for its banking and trading activities and to a 99.5 per cent level of confidence for its insurance activities and pension risks. The group's approach to capital management is aligned to its corporate structure, business model and strategic direction.

The group's discipline around capital allocation is maintained within established processes and benchmarks, in particular the approved annual group capital plan.

Regulatory and economic capital are the metrics by which risk is measured and linked to capital within the group's risk appetite framework. The framework expresses the types and quantum of risks to which the group wishes to be exposed. It is approved and monitored by the Board and senior management.

The group identifies and manages risk through a defined risk management framework and continuous monitoring of the risk environment. It assesses and manages certain of these risks via the capital planning process.

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 the group's Pillar 2 capital requirements.

Preserving the group's 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 counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk, pension risk and structural foreign exchange risk.

Risks assessed via capital

Credit (including counterparty credit), market and operational risk

The group assesses economic capital requirements for these risk types utilising the embedded operational infrastructure used for the calculation of regulatory capital requirements, together with an additional suite of models that take into account, in particular:

- the increased level of confidence required to meet the group's strategic goals (99.95 per cent);
- the combination of historical loss data and the outputs of forward-looking scenario analysis; and
- internal assessments of diversification or concentration of risks within the group's portfolios.

The group maintains a prudent stance on capital coverage, ensuring that any model risk is mitigated.

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') management is described in detail on page 62 of the*HSBC Bank plc Annual Report and Accounts 2015*.

This risk arises principally from mismatches between the future yield on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by a number of factors including having to make assumptions on embedded optionality within certain product areas (such as the incidence of mortgage prepayments), from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand (such as current accounts), and the re-pricing behaviour of managed rate products.

The economic capital requirement generated by our banking book is measured by our Economic Value of

Equity ('EVE') sensitivity. EVE sensitivity considers all re-pricing mismatches assuming a run-off of the current balance sheet.

Insurance risk

The group operates a bancassurance model which primarily provides insurance products for customers with whom the group has a banking relationship. Many of these insurance products are manufactured by group subsidiaries but, where the group considers it operationally more effective, third parties are engaged to manufacture and provide insurance products which the group sells through its banking network. When manufacturing products, the group underwrites the insurance risk and retains the risks and rewards associated with writing insurance contracts. In appropriate circumstances, the group will reduce the amount of insurance risk retained via use of reinsurance contracts. The group works with a limited number of market-leading partners and reinsurers respectively to provide or reinsure these products. The group's risk management of insurance operations is described in more detail on pages 66 – 70 of the *HSBC Bank plc Annual Report and Accounts 2015*.

We measure the risk profile of our insurance manufacturing businesses across the group 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 1 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.

Pension risk

The group's management of pension risk is also described on page 71 of the *HSBC Bank plc Annual Report and Accounts 2015*.

We operate a number of pensions; some of them are defined benefit plans. Sponsoring HSBC companies (and in some instances, employees) make regular contributions in accordance with advice from actuaries and in consultation with the plans' trustees (where relevant). In situations where a funding deficit emerges, sponsoring HSBC companies agree to make additional contributions to the plans, to address the deficit over an appropriate repayment period.

The defined benefit plans invest these contributions in a range of investments designed to meet their long-term liabilities.

Pension risk principally arises from the potential for a deficit in a defined benefit plan from a number of factors, including:

- investments delivering a return below that required to provide the projected plan benefits. This could arise, for example, when there is a fall in the market value of equities, or when increases in long-term interest rates cause a fall in the value of fixed income securities held;
- the prevailing economic environment leading to corporate failures, thus triggering write-downs in asset values (both equity and debt);
- a change in either interest rates or inflation expectations causing an increase in the value of the plan liabilities; and
- plan members living longer than expected (known as longevity risk).

Pension risk is assessed by way of an economic capital model that takes into account potential variations in these factors. The impact of the variation on both pension assets and pension liabilities is modelled, using a VaR methodology, with a 99.5 per cent confidence interval and a one-year time horizon.

Risks not explicitly assessed via capital

Liquidity risk

Liquidity and funding risk management is described in detail on pages 48 – 56 of the *HSBC Bank plc Annual Report and Accounts 2015*.

The group uses cash-flow stress testing as part of its control processes to assess liquidity risk. The group does not manage liquidity through the explicit allocation of capital as, in common with standard industry practice, this is not considered to be an appropriate or adequate mechanism for managing these risks. However, the group recognises that a strong capital base can help to reduce the likelihood of a liquidity event occurring.

Structural foreign exchange risk

Structural foreign exchange risk is described in detail on page 62 of the *HSBC Bank plc Annual Report and Accounts 2015*.

Structural foreign exchange exposures represent the group's net investments in subsidiaries, branches and associates, the functional currencies of which are currencies other than the British Pound. Unrealised gains or losses due to revaluations of structural foreign exchange exposures are recognised in 'other comprehensive income', whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

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 the 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.

Reputational risk

Details of the group's management of reputational risk can be found on pages 70 – 71 of the *HSBC Bank plc Annual Report and Accounts 2015*.

As a banking group, the group's reputation depends upon the way in which it conducts its business, but it can also be affected by the way in which clients to whom it provides financial services conduct themselves. The group's reputation is paramount and safeguarding it is the responsibility of all members of staff, supported by a global risk management structure, underpinned by

relevant policies and practices, readily available guidance and regular training.

Business risk

The PRA specifies that banks, as part of their internal assessment of capital adequacy process, should review their exposure to business risk.

Business risk is the potential negative impact on profits and capital as a result of the group not meeting its strategic objectives, as set out in the rolling operating plan, owing to unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes. The group does not explicitly set aside capital against business risk as a distinct category.

Business risk is managed and mitigated through the business planning and stress testing processes, which ensure that the business model and planned activities are appropriately resourced and capitalised consistent with the commercial, economic and risk environment in which the group operates and that the potential vulnerability to the business plans are identified at an early stage so that mitigating actions can be taken proactively.

Stress testing

Stress testing and scenario analysis form a key component of the group's integrated risk management framework. They provide a forward-looking assessment of risk, identify key fault lines under a range of scenarios, and facilitate the monitoring of top and emerging risks, the development of appropriate mitigating actions and contingency plans across a range of stressed conditions. As part of the group's risk appetite process, stress testing and scenario analysis support the setting of Risk Appetite tolerances, and inform business, capital planning and strategic decision making allowing the group to formulate responses and mitigate risk in advance of actual conditions exhibiting the stresses identified in the scenarios.

The group is subject to regulatory stress testing in many jurisdictions. These exercises are designed to assess the resilience of banks to adverse economic or political developments and ensure that they have robust, forward-looking capital planning processes that account for their unique risks. They include the programmes of the Prudential Regulatory Authority (PRA), the European Banking Authority (EBA), and the European Central Bank (ECB). Assessment by regulators is on both a quantitative and qualitative basis, the latter focusing on our portfolio quality, data provision, stress testing capability and internal management processes. During 2015 the group participated in the successful completion of the 2015 Bank of England concurrent stress testing exercise.

The Group Stress Testing Management Board, chaired by the Group Finance Director, with appropriate subordinate Steering Committees at regional level, ensures appropriate senior management oversight and governance of stress testing exercises.

Leverage Ratio

The Basel III leverage ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. However, the PRA published rules on a UK leverage ratio framework, including binding requirements, in December 2015. These requirements are super-equivalent to the Basel and EU regimes, and came into force on 1 January 2016.

Although there is currently no binding leverage ratio requirement under CRD IV and the PRA's UK leverage ratio requirements are not binding on the group, the leverage exposure measure is calculated by the group each month, and presented to the Asset & Liability Management Committee ('ALCO'), which monitors the risk of excess leverage. Leverage ratio is currently monitored on a 'transitional basis' and is presented on this basis in the tables below.

During the period, one of the factors which had an impact on the leverage ratio was the issuance of new CRD IV-compliant additional tier 1 instruments. Furthermore, the Group's strategic actions to reduce RWAs also contributed to the change in leverage ratio during the year.

Table 19: Summary reconciliation of accounting assets and leverage ratio exposures

Ref[1]		*Ref*[2]	At 31 December 2015 £m
1	Total assets as per published financial statements	f	727,941
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	f	(22,784)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure		–
4	Adjustments for derivative financial instruments		(98,170)
5	Adjustments for securities financing transactions		6,601
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of of-balance sheet exposures)		57,844
	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure		–
	(Adjustment for exposures excluded from the leverage ratio exposure measure		–
7	Other adjustments		9,277
8	Total leverage ratio exposure		680,709

1 *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable.*
2 *The reference (f) identifies balance sheet components on page 6.*

Table 20: Leverage ratio common disclosure

Ref[1]		At 31 December 2015 £m
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral	522,297
2	(Asset amounts deducted in determining Tier 1 capital)	(10,764)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets**	**511,533**
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin	14,578
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	63,276
EU-5a	Exposure determined under Original Exposure Method	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions	(16,623)
8	(Exempted CCP leg of client-cleared trade exposures)	–
9	Adjusted effective notional amount of written credit derivatives	7,305
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–
11	**Total derivative exposures**	**68,536**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transaction	64,627
13	(Netted amounts of cash payables and cash receivables of gross SFT assets	(28,432)
14	Counterparty credit risk exposure for SFT assets	6,601
EU-14a	Derogation for SFTs: Counterparty credit risk exposure	–
15	Agent transaction exposures	–
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	–
16	**Total securities financing transaction exposures**	**42,796**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	162,553
18	(Adjustments for conversion to credit equivalent amounts	(104,709)
19	**Total off-balance sheet exposures**	**57,844**
	Exempted exposures	–
EU-19a	(Exemption of intragroup exposures (solo basis))	–
EU-19b	(Exposures exempted)	–
	Capital and total exposures	
20	**Tier 1 capital**	**27,017**
21	**Total leverage ratio exposures**	**680,709**
	Leverage ratios	
22	Leverage ratio	**4.0%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	–
EU-24	Amount of derecognised fiduciary items	–

1 *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable.*

Table 21: Leverage ratio - Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

Ref[1]		At 31 December 2015 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which	505,674
EU-2	Trading book exposures	105,096
EU-3	Banking book exposures, of which:	400,578
EU-4	– covered bonds	238
EU-5	– exposures treated as sovereigns	97,620
EU-6	– exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereign	6,765
EU-7	– institutions	14,251
EU-8	– secured by mortgages of immovable properties	83,679
EU-9	– retail exposures	31,533
EU-10	– corporate	141,793
EU-11	– exposures in default	4,267
EU-12	– other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	20,432

1 *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable.*

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, our remuneration strategy and tables showing the remuneration details of HSBC's Identified Staff and Material Risk-Takers ('MRT') may be found in the Remuneration Policy on our website (http://www.hsbc.com/investor-relations/governance) and in the Directors' Remuneration Report on pages 285 – 321 of the *HSBC Holdings plc Annual Report and Accounts 2015*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2015. Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 that came into force in June 2014, and was subsequently adopted in full for the purposes of the PRA's and the Financial Conduct Authority's ('FCA') Remuneration Code. The tables below include the total remuneration of HSBC Bank plc senior management and other individuals identified as HSBC MRTs based on their role and professional activities and whose remuneration costs are borne by HSBC Bank plc or its subsidiaries. This includes certain individuals employed by the group who have broader roles within HSBC, for example those with global roles.

These disclosures reflect the requirements of the FCA's Prudential Sourcebook for Banks.

Table 22: Aggregate remuneration expenditure

	By Global business					
	Retail Banking and Wealth Management £m	Commercial Banking £m	Global Banking and Markets £m	Global Private Banking £m	Other £m	Total £m
Aggregate remuneration expenditure[1]						
2015	**6.6**	**17.5**	**251.3**	**10.0**	**52.3**	**337.7**
2014	7.1	16.5	230.0	10.1	50.6	314.3

1. Includes base salary, any other form of fixed pay, incentives awarded in respect of the performance year (including deferred component) and any pension or benefits outside of policy.

Table 23: Remuneration – fixed and variable amounts

	2015 MRTs			2014 MRTs		
	Senior management	**Non-senior management**	**Total**	Senior management	Non-senior management	Total
Number of MRTs	**29**	**423**	**452**	27	408	435
	£m	**£m**	**£m**	£m	£m	£m
Fixed						
Cash-based	**11.3**	**130.3**	**141.6**	10.4	124.1	134.5
Shares-based	**11.1**	**22.1**	**33.2**	10.3	25.3	35.6
Total fixed	**22.4**	**152.4**	**174.8**	20.7	149.4	170.1
Variable[1]						
Cash	**3.9**	**38.4**	**42.3**	3.1	34.1	37.2
Non-deferred shares[2]	**3.9**	**36.0**	**39.9**	3.1	32.4	35.5
Deferred cash	**5.1**	**33.8**	**38.9**	4.3	30.3	34.6
Deferred shares	**7.2**	**34.7**	**41.9**	5.9	30.8	36.7
Total variable pay[3]	**20.1**	**142.9**	**163.0**	16.4	127.6	144.0

1. Variable pay awarded in respect of the performance year (including deferred component).

2. Vested shares, subject to a six-month retention period.

3. In accordance with HSBC Holdings plc shareholder approval received on 23 May 2014, for each MRT the variable component of remuneration for any one year is limited to 200 per cent of the fixed component of total remuneration of the MRT.

Table 24: Deferred remuneration[1]

	2015 MRTs			2014 MRTs		
	Senior management	**Non-senior management**	**Total**	Senior management	Non-senior management	Total
	£m	**£m**	**£m**	£m	£m	£m
Deferred remuneration at 31 December						
Outstanding, unvested	**42.2**	**136.0**	**178.2**	45.2	171.6	216.8
Awarded during the year	**10.4**	**60.6**	**71.0**	20.3	89.5	109.8
Paid out	**15.8**	**98.4**	**114.2**	7.4	51.0	58.4
Reduced through malus	**–**	**–**	**–**	–	–	–

1. This table provides details of actions taken during the performance year. For details of variable pay awards granted for the performance year, please refer to the Remuneration tables above.
2. Values for share-based deferred remuneration included in the "Outstanding, unvested" and "Awarded during the year" totals are calculated using the HSBC Holdings Plc ("HSBA" stock ticker) closing price on 31 December of the relevant year. Values for share-based deferred remuneration included in the "Paid out" or "Reduced through malus" totals are based on the fair market value of the award on the date of vest or reduction.

Table 25: Sign-on and severance payments

	MRTs			**MRTs**		
	Senior management	**Non-senior management**	**Total**	**Senior management**	**Non-senior management**	**Total**
Sign-on payments[1]						
Made during year (£m)	**–**	**1.6**	**1.6**	–	0.3	0.3
Number of beneficiaries	**–**	**3**	**3**	–	1	1
Severance payments[2]						
Awarded and paid during year (£m)	**–**	**0.3**	**0.3**	–	1.1	1.1
Number of beneficiaries	**–**	**2**	**2**	–	5	5
Highest such award to single person (£m)	**–**	**0.2**	**0.2**	–	0.3	0.3

1. Guaranteed variable pay awards granted to new hires and limited to their first year of service.
2. Represents non-standard termination payments made in excess of any local policies, standards or statutory amounts.

Table 26: Material risk-takers (MRT) remuneration by band[1]

	2015 Number of MRTs			2014 Number of MRTs		
	Senior management	**Non-senior management**	**Total**	Senior management	Non-senior management	Total
€0 – €1,000,000	**10**	**280**	**290**	10	298	308
€1,000,001 – €1,500,000	**5**	**84**	**89**	5	71	76
€1,500,001 – €2,000,000	**4**	**30**	**34**	3	16	19
€2,000,001 – €2,500,000	**2**	**14**	**16**	2	10	12
€2,500,001 – €3,000,000	**–**	**8**	**8**	2	6	8
€3,000,001 – €3,500,000	**–**	**3**	**3**	2	4	6
€3,500,001 – €4,000,000	**3**	**1**	**4**	–	2	2
€4,000,001 – €4,500,000	**1**	**–**	**1**	2	–	2
€4,500,001 – €5,000,000	**2**	**2**	**4**	–	1	1
€5,000,001 – €6,000,000	**1**	**1**	**2**	–	–	–
€6,000,001 – €7,000,000	**–**	**–**	**–**	–	–	–
€7,000,001 – €8,000,000	**–**	**–**	**–**	1	–	1
€8,000,001 – €9,000,000	**–**	**–**	**–**	–	–	–
€9,000,001 – €10,000,000	**1**	**–**	**1**	–	–	–

1. Table prepared in euros in accordance with Article 450 of the CRR, using the rates published by the European Commission for financial programming and budget for December 2015 and December 2014 respectively, as published on their website.

Main features of CET1, AT1 and T2 instruments issued by the group

All capital securities included in the regulatory capital base of the group have been issued either in accordance with the rules and guidance in the PRA's General Prudential Sourcebook ('GENPRU') and have been included in the capital base, either by virtue of the application of the CRD IV grandfathering provisions, or issued as fully-compliant CRD IV securities. For regulatory purposes, the group's capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on the degree of permanence and loss absorbency exhibited. The main features of capital securities issued by the group are described below.

Non-CRD IV compliant Additional Tier 1 and Tier 2 instruments benefit from a grandfathering period. This progressively reduces the eligible amount by 10 per cent annually, following an initial reduction of 20 per cent on 1 January 2014, until they are fully phased out by 1 January 2022.

Tier 1 capital

Tier 1 capital comprises shareholders' equity, related non-controlling interests (subject to limits) and qualifying capital instruments, after certain regulatory adjustments.

Common Equity Tier 1

Called up ordinary shares issued by the bank to its parent are fully paid-up and the proceeds of issuance are immediately and fully available. There is no obligation to pay a coupon or dividend to the shareholder arising from this type of capital. The share capital is available for unrestricted and immediate use to cover any risks and losses.

Additional Tier 1 capital

Preference shares and related premium

Preference shares are securities which rank higher than ordinary shares for dividend payments and in the event of a winding-up, but generally carry no voting rights. These instruments have no stated maturity date but may be called and redeemed by the issuer, subject to prior consent from the PRA, and, where applicable, the local banking regulator. There must also be no obligation to pay a dividend, and (if not paid) the dividend may not cumulate.

Further details of the HSBC Bank plc non-cumulative third dollar preference share capital can be found in note 32 – Called up share capital and other equity instruments of the Notes on the Financial Statements on pages 165 – 166 of the *HSBC Bank plc Annual Report and Accounts 2015*.

Other Tier 1 capital securities

Other Tier 1 capital securities are deeply subordinated securities with some equity features that may be included as Tier 1 capital. Other Tier 1 capital securities are instruments for which there is no obligation to pay a coupon and if not paid, the coupon is not cumulative. Such securities do not generally carry voting rights and rank higher than ordinary shares for coupon payments and in the event of a winding-up. The securities may be called and redeemed by the issuer, subject to prior consent from the PRA, and, where applicable, the local banking regulator. If not redeemed, coupons payable may step-up and become floating rate related to interbank offered rates.

Further details of these instruments can be found in note 28 – Subordinated Liabilities of the Notes on the Financial Statements on pages 159 – 160 of the *HSBC Bank plc Annual Report and Accounts 2015*.

Qualifying CRD IV Additional Tier 1 instruments are perpetual securities on which there is no obligation to apply a coupon and, if not paid, the coupon is not cumulative. Such securities do not carry voting rights but rank higher than ordinary shares for coupon payments and in the event of a winding-up. Fully-compliant CRD IV Additional Tier 1 instruments issued by the bank include a provision whereby the instrument will be written down in whole in the event the group's Common Equity Tier 1 ratio falls below 7.00 per cent.

These instruments are accounted for as equity. Further details of qualifying CRD IV Additional Tier 1 instruments can be found in note 32 – Called up share capital and other equity instruments of the Notes on the Financial Statements on pages 165 – 166 of the *HSBC Bank plc Annual Report and Accounts 2015*.

Tier 2 capital

Tier 2 capital comprises eligible capital securities and any related share premium and other qualifying Tier 2 capital securities subject to limits. Holdings of Tier 2 capital of financial sector entities are deducted.

Perpetual and Term Subordinated debt

Tier 2 capital securities are either perpetual subordinated securities or dated securities on which there is an obligation to pay coupons.

These instruments or subordinated loans comprise dated loan capital repayable at par on maturity and must have an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer subject to prior consent from the PRA and, where applicable, the consent of the local banking regulator. If not redeemed, interest coupons payable may step-up or become floating rate related to interbank offered rates. For regulatory purposes, it is a requirement that Tier 2 instruments are amortised on a straight-line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

Further details of these instruments can be found in note 28 – Subordinated Liabilities of the Notes on the Financial Statements on pages 159 – 160 of the *HSBC Bank plc Annual Report and Accounts 2015*.

A list of the features of our capital instruments 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 2015.

Appendix I

Table 27: Transitional own funds disclosure

Ref[1]		At 31 December 2015 £m	CRR prescribed residual amount £m	Final CRD IV text £m
	Common equity tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	21,100	–	21,100
2	Retained earnings	10,428	–	10,428
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under applicable accounting standards)	10	–	10
5	Minority interests (amount allowed in consolidated CET1	241	–	241
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	1,010	–	1,010
6	Common equity tier 1 capital before regulatory adjustments	32,789	–	32,789
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments	(527)	–	(527)
8	Intangible assets (net of related deferred tax liability)	(6,451)	–	(6,451)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(34)	–	(34)
11	Fair value reserves related to gains or losses on cash flow hedges	(51)	–	(51)
12	Negative amounts resulting from the calculation of expected loss amounts	(1,013)	–	(1,013)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(86)	–	(86)
15	Defined-benefit pension fund assets	(2,688)	–	(2,688)
28	**Total regulatory adjustments to Common equity tier 1 (CET1**	(10,850)	–	(10,850)
29	**Common equity tier 1 (CET1) capital**	21,939	–	21,939
	Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	3,584	–	3,584
33	Amount of qualifying items and the related share premium accounts subject to phase out from AT1	1,607	(1,607)	–
36	AT1 capital before regulatory adjustments	5,191	(1,607)	3,584
37	Direct and indirect holdings of own AT1 instruments	(40)	–	(40)
	Additional Tier 1 capital: regulatory adjustments			
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period	(73)	73	–
	of which: 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	(73)	73	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	(113)	73	(40)
44	**Additional Tier 1 (AT1) capital**	5,078	(1,534)	3,544
45	**Tier 1 capital (T1 = CET1 + AT1)**	27,017	(1,534)	25,483
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	7,419	–	7,419
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	1,365	(1,365)	–
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments) issued by subsidiaries and held by third parties, of which: instruments issued by subsidiaries subject to phase out	–	–	–
51	T2 capital before regulatory adjustments	8,784	(1,365)	7,419
52	Direct and indirect holdings of own Tier 2 (T2) instruments	(27)	–	(27)
55	**Tier 2 (T2) capital: regulatory adjustments**			
	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)	(171)	(73)	(244)
57	**Total regulatory adjustments to Tier 2 (T2) capital**	(198)	(73)	(271)
58	**Tier 2 (T2) capital**	8,586	(1,438)	7,148
59	**Total capital (TC = T1 + T2)**	35,603	(2,972)	32,631
60	**Total risk weighted assets**	229,382	–	229,382

Table 27: Transitional own funds disclosure (continued)

		At 31 December 2015	CRR prescribed residual amount	Final CRD IV text
		£m	£m	£m
	Capital ratios and buffers			
61	Common equity Tier 1	**9.6%**		**9.6%**
62	Tier 1	**11.8%**		**11.1%**
63	Total capital	**15.5%**		**14.2%**
64	Institution specific buffer requirement			
65	of which: capital conservation buffer requirement	**–**		
66	of which: countercyclical buffer requirement	**0.005%**		
67	of which: systemic risk buffer requirement	**–**		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**–**		
68	Common Equity Tier 1 available to meet buffer	**9.6%**		
	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	**1,737**		**1,737**
73	Direct and indirect holdings by the institution of the CET 1 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)	**855**		**855**
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**604**		**604**

1 *The references identify the lines prescribed in the EBA template. Lines represented in this table are those lines which are applicable.*

Appendix II

Summary of disclosures withheld due to their immateriality, confidentiality or proprietary nature

CRR reference	Description	Rationale
438(e)	Capital requirements – Own funds requirements for settlement risk	Materiality Settlement risk arises where certain transactions are unsettled after their due delivery date and is required to be separately disclosed. However, as settlement risk RWAs are not material and included within counterparty credit risk, they have not been separately disclosed.

Appendix III

Glossary

Term	Definition
A	
Additional value adjustment	See 'Prudent valuation adjustment'.
Arrears	Customers are said to be in arrears (or in a state of delinquency) when they are behind in fulfilling their obligations, with the result that an outstanding loan is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are described as delinquent.
Available-for-sale ('AFS')	Those non-derivative financial assets that are designated as available for sale or are no classified as a) loans and receivables b) held-to-maturity investments or c) financial assets at fair value through profit or loss.
B	
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards', amended by subsequent changes to the capital requirements for market risk and re-securitisations, commonly known as Basel 2.5, which took effect from 31 December 2011.
Basel III	In December 2010, the Basel Committee issued 'Basel III rules: a global regulatory framework for more resilient banks and banking systems' and 'International framework for liquidity risk measurement, standards and monitoring'. Together these documents present the Basel Committee's reforms to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In June 2011, the Basel Committee issued a revision to the former document setting out the finalised capital treatment for counterparty credit risk in bilateral trades.
C	
Capital conservation buffer ('CCB')	A capital buffer prescribed by regulators under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should a bank's capital levels fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.
Capital required	Capital required represents the Pillar 1 capital charge calculated at 8 per cent of RWAs.
Capital Requirements Directive ('CRD')	A capital adequacy legislative package adopted by EU member states. The CRD IV package comprises a recast Capital Requirements Directive and a new Capital Requirements Regulation. The package implements the Basel III capital proposals together with transitional arrangements for some of its requirements. CRD IV came into force on 1 January 2014.
Capital resources	Capital held on balance sheet that is eligible to satisfy capital requirements.
Central counterparty ('CCP')	An intermediary between a seller and a buyer (generally a clearing house)
Commercial real estate ('CRE')	Any real estate, comprising buildings or land, intended to generate a profit, either from capital gain or rental income.
Common equity tier 1 capital ('CET1')	The highest quality form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
CET 1 ratio	A Basel III measure, of CET 1 capital expressed as percentage of total risk exposure amount
Countercyclical capital buffer ('CCyB')	A capital buffer prescribed by regulators under Basel III which aims toensure that capital requirements take account of the macro-financial environment in which banks operate. This will provide the banking sector with additional capital to protect it against potential future losses, when excess credit growth in the financial system as a whole is associated with an increase in system-wide risk.
Counterparty credit risk ('CCR')	Counterparty credit risk, in both the trading and nor-trading books, is the risk that the counterparty to a transaction may default before completing the satisfactory settlement of the transaction.
Credit default swap ('CDS')	A derivative contract whereby a buyer pays a fee to a seller in return for receiving a payment in the event of a defined credit event (e.g. bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency) on an underlying obligation (which may or may not be held by the buyer).
Credit risk	Risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises mainly from direct lending, trade finance and leasing business but also from products such as guarantees, derivatives and debt securities.
Credit risk adjustment ('CRA')	Credit risk adjustments are all amounts by which CET1 has been reduced in order to reflect losses exclusively related to credit risk under IFRS, resulting from impairments, value adjustments or provisions for off-balance sheet items that are recognised in the profit or loss account.
Credit risk mitigation	A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.

Term	Definition
Credit Valuation Adjustment ('CVA') risk capital charge	A capital charge under CRD IV to cover the risk of mark-to-market losses on expected counterparty risk to derivatives.
D	
Debit valuation adjustment	An adjustment made by an entity to the valuation of OTC derivative liabilities to reflect within fair value the entity's own credit risk.
Debt securities	Financial assets on the Group's balance sheet representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by central banks.
Delinquency	See 'Arrears'.
Derivatives	Financial instruments whose value is based or the performance of one or more underlying assets, for example bonds or currencies.
E	
Economic capital	The internally calculated capital requirement which is deemed necessary by HSBC to support the risks to which it is exposed.
Economic Value of Equity ('EVE')	Considers all re-pricing mismatches in the current balance sheet and calculates the change in market value that would result from a set of defined interest rate shocks.
Expected loss ('EL')	A regulatory calculation of the amount expected to be lost on an exposure using a 12-month time horizon and downturn loss estimates. EL is calculated by multiplying the PD (a percentage) by the EAD (an amount) and LGD (a percentage).
Exposure	A claim, contingent claim or position which carries a risk offinancial loss.
Exposure at default ('EAD')	Under the standardised approach, the amount expected to be outstanding after any credit risk mitigation, if and when the counterparty defaults. Under IRB, the amount outstanding if and when the counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
Exposures in default	'Exposures in default' is an exposure class under the standardised approach to credit risk. A financial asset falls into this exposure class if it is more than 90/180 days past due or the obligor is deemed unlikely to pay his credit obligations. A financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.
Exposure value	Exposure at default.
F	
Fair value	Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Financial collateral comprehensive method ('FCCM')	This method applies a volatility adjustment (or 'haircut') to the value of the collateral to allow for the fact that the collateral taken may fall in value when it comes to taking control of the collateral and selling it. This adjusted collateral value is then subtracted from the exposure to create an 'adjusted exposure'. Firms on the standardised approach will then apply the risk weight of the borrower to the adjusted exposure value, while firms using foundation IRB make a formulaic adjustment to the LGD number which has a similar effect. To calculate these 'haircuts', the firm can use either a table of supervisory numbers or its own numbers if it meets certain requirements.
Financial Conduct Authority ('FCA')	The Financial Conduct Authority regulates the conduct of financial firms and, for certain firms, prudential standards in the UK. It has a strategic objective to ensure that the relevant markets function well.
Financial Policy Committee ('FPC')	The Financial Policy Committee, at the Bank of England, is charged with a primary objective of identifying, monitoring and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC has a secondary objective to support the economic policy of the UK Government.
G	
Global Systemically Important Bank ('G-SIB')	The FSB established in November 2011 a methodology to identify G-SIBs based on 12 principal indicators. Designation will result in the application of a CET1 buffer between 1 per cent and 3.5 per cent, to be phased in by 1 January 2019. The list of G-SIBs is re-assessed through annual re-scoring of banks and a triennial review of the methodology. National regulators have discretion to introduce higher charges than the minima. In CRD IV this is implemented via the Global Systemically Important Institutions (G-SII) Buffer. The requirements, initially for those banks identified in November 2014 as G-SIBs, will be phased in from 1 January 2016, becoming fully effective on 1 January 2019. National regulators have discretion to introduce higher thresholds than the minima.
H	
Haircut	A discount applied by management when determining the amount at which an asset can be realised. The discount takes into account the method of realisation including the extent to which an active market for the asset exists. With respect to credit risk mitigation, a downward adjustment to collateral value to reflect any currency or maturity mismatches between the credit risk mitigant and the underlying exposure to which it is being applied. Also a valuation adjustment to reflect any fall in value between the date the collateral was called and the date of liquidation or enforcement.

Term	Definition
Held-to-maturity	An accounting classification for investments acquired with the intention and ability of being held until they mature.
I	
Impaired loans	Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.
Impairment allowances	Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.
Impairment charge	Impairment charges represent a movement in the impairment allowance balance during the year, reflecting loss events which occurred during the financial year and changes in estimates of losses arising on events which occurred prior to the current year.
Incremental risk charge ('IRC')	The IRC model captures the potential distribution of profit and loss due to default and migration for a portfolio of credit positions. For credit positions held on the trading book, and subject to specific interest rate risk VAR for regulatory capital, an IRC based on the 99.9th percentile of the IRC distribution, over a one-year capital horizon, is used as a capital add-on to VAR.
Institutions	Under the standardised approach, Institutions comprise credit institutions or investment firms. Under the IRB approach, Institutions also include regional governments and local authorities, public sector entities and multilateral development banks.
Insurance risk	A risk, other than financial risk, transferred from the holder of a contract to the insurance provider. The principal insurance risk is that, over time, the combined cost of claims, administration and acquisition of the contract may exceed the aggregate amount of premiums received and investment income.
Interest rate risk	Exposure to adverse movements in interest rates. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value.
Internal Assessment Approach ('IAA')	One of three calculation methods defined under the IRB approach for securitisations.
Internal Capital Adequacy Assessment Process ('ICAAP')	The Group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Model Method ('IMM')	One of three approaches defined in the Basel framework to determine exposure values for counterparty credit risk.
Internal ratings-based approach ('IRB')	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
IRB advanced approach	A method of calculating credit risk capital requirements using internal PD, LGD and EAD models.
IRB foundation approach	A method of calculating credit risk capital requirements using internal PD models but with supervisory estimates of LGD and conversion factors for the calculation of EAD.
L	
Leverage ratio	A measure, prescribed by regulators under Basel III, which is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items, derivative exposures and securities financing transaction exposures, and should generally follow the accounting measure of exposure. This supplementary measure to the risk-based capital requirements is intended to constrain the build-up of excess leverage in the banking sector.
Liquidity risk	The risk that HSBC does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.
Loss given default ('LGD')	The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default ('EAD') upon default of a counterparty.
M	
Market risk	The risk that movements in market risk factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce income or portfolio values.
Mark-to-market approach	One of three approaches to determine exposure values for counterparty credit risk
Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, market and operational risk. Also see 'capital required'.
Multilateral Development Bank ('MDB')	An institution created by a group of countries to provide financing for the purpose of development. Under the standardised approach to credit risk, eligible multilateral development banks attract a zero per cent risk weight.
N	
Net interest income	The amount of interest received or receivable on assets net of interest paid or payable on liabilities.
O	
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk.
Original exposure	Original exposure is the exposure value without taking into account value adjustments and provisions, credit conversion factors and the effect of credit risk mitigation techniques.

Term	Definition
Over-the-counter ('OTC')	A bilateral transaction (e.g. derivatives) that is not exchange traded and that is valued using valuation models.
P	
Pillar 1	Minimum capital requirements - the calculation of regulatory capital for credit, market, and operational risk.
Pillar 2	The supervisory review process - sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.
Pillar 3	Market discipline – sets out the disclosure requirements for banks to publish certain details of their risks, capital and risk management, with the aim of strengthening market discipline.
Point-in-time ('PIT')	Estimates of PD (or other measures) generally covering a short time horizon (usually a 12-month period) and that are sensitive to changes in the economic cycle.This differs from a TTC basis which uses long run average economic and risk data to reduce such sensitivity.
Potential future exposure ('PFE')	The potential future credit exposure on derivatives contracts, calculated using the mark-to-market approach.
PRA Standard rules	The method prescribed by the PRA for calculating market risk capital requirements in the absence of VAR model approval.
Probability of default ('PD')	The probability that an obligor will default within one year
Prudential Regulation Authority ('PRA')	The Prudential Regulation Authority in the UK is responsible for prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
Prudent Valuation Adjustment ('PVA')	A deduction from common equity tier 1 capital where the prudent value of trading assets or other financial assets measured at fair value is materially lower than the fair value recognised in the financial statements.
Q	
Qualifying revolving retail exposures	Retail IRB exposures that are revolving, unsecured, and, to the extent they are not drawn, immediately and unconditionally cancellable, such as credit cards.
R	
Ratings Based Method ('RBM')	One of three calculation methods defined under the IRB approach to securitisations. The approach uses risk weightings based on ECAI ratings, the granularity of the underlying pool and the seniority of the position and whether it is a re-securitisation.
Regulatory capital	The capital which HSBC holds, determined in accordance with rules established by the PRA for the consolidated Group and by local regulators for individual Group companies.
Repo/reverse repo (or sale and repurchase agreement)	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the party on the other end of the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Re-securitisation	A securitisation exposure, where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure.
Residual maturity	The period outstanding from the reporting date to the maturity or end date of an exposure
Retail Internal Ratings Based ('Retail IRB') approach	Retail exposures that are treated under the IRB approach.
Risk appetite	The aggregate level and types of risk a firm is willing to assume within its risk capacity to achieve its strategic objectives and business plan.
Risk-weighted assets ('RWAs')	Calculated by assigning a degree of risk expressed as a percentage (risk weight) to an exposure value in accordance with the applicable Standardised or IRB approach rules.
Run-off portfolios	Legacy credit in GB&M, the US CML portfolio and other US run-off portfolios, including the treasury services related to the US CML businesses and commercial operations in run-off. Origination of new business in the run-off portfolios has been discontinued and balances are being managed down through attrition and sale.
S	
Securities Financing Transactions ('SFT')	A repurchase or reverse repurchase transaction, a securities or commodities lending or borrowing transaction, or a margin lending transaction.
Securitisation	A transaction or scheme whereby the credit risk associated with an exposure, or pool of exposures, is tranched and where payments to investors in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures. A traditional securitisation involves the transfer of the exposures being securitised to a SPE which issues securities. In a synthetic securitisation, the tranching is achieved by the use of credit derivatives and the exposures are not removed from the balance sheet of the originator.
Securitisation position	Securitisation position means an exposure to a securitisation

Term	Definition
Specialised lending exposure	Specialised lending exposures are defined as exposures to an entity which was created specifically to finance and/or operate physical assets, where the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate and the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.
Special Purpose Entity ('SPE')	A corporation, trust or other non-bank entity, established for a narrowly defined purpose, including for carrying on securitisation activities. The structure of the SPE and its activities are intended to isolate its obligations from those of the originator and the holders of the beneficial interests in the securitisation.
Standardised approach ('STD')	In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stressed VaR	A market risk measure based on potential market movements for a continuous one-year period of stress for a trading portfolio.
Subordinated liabilities	Liabilities which rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.
Supervisory Formula Method ('SFM')	An alternative Ratings Based Method to be used primarily on HSBC sponsored securitisations. It is used to calculate the capital requirements of exposures to a securitisation as a function of the collateral pool and contractual properties of the tranche or tranches retained.
Supervisory slotting approach	A method for calculating capital requirements for specialised lending exposures where the internal rating of the obligor is mapped to one of five supervisory categories, each associated with a specific supervisory risk weight.
Systemic Risk Buffer ('SRB')	A capital buffer prescribed in the EU under CRD IV, to address risks in the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. In the UK this was transposed in January 2015 and is intended to apply to ring-fenced banks and building societies over a certain threshold.
T	
Through-the-cycle ('TTC')	A rating methodology which seeks to take cyclical volatility out of the estimation of default risk by assessing a borrower's performance over the business cycle.
Tier 2 capital	A component of regulatory capital, comprising eligible capital securities and any related share premium. Under Basel II, Tier 2 capital comprises of qualifying subordinated loan capital, related non-controlling interests, allowable collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale. Tier 2 capital also includes reserves arising from the revaluation of properties.
Trading book	Positions in financial instruments and commodities held either with intent to trade or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability or able to be hedged completely.
V	
Value at risk ('VaR')	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.
W	
Write-down/write-off	When a financial asset is written down or written off, a customer balance is partially or fully removed, respectively, from the balance sheet. Loans (and related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

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