

Contents

	Page
Introduction	
Regulatory framework for disclosures	3
Pillar 3 disclosures	3
Regulatory developments	4
Linkage to the Annual Report and Accounts 2016	5
Capital and Leverage	
Capital management	7
Overview of regulatory capital framework	7
Leverage ratio	9
Capital buffers	11
Pillar 1	11
Pillar 2 and ICAAP	12
Credit risk	
Overview	12
Risk mitigation	22
Counterparty Credit Risk	25
Market risk	26
Operational risk	26
Other risks	
Interest rate risk in the banking book	27
Pension risk	27
Risk management of insurance operations	27
Liquidity and funding risk	28
Structural foreign exchange exposures	28
Reputational risk	28
Sustainability risk	28
Business risk	28
Dilution risk	29
Remuneration	29

Appendices

	Page
I Summary of disclosures withheld due to their immateriality, confidentiality or proprietary nature	31
II Abbreviations	32
III Cautionary statement regarding forward-looking statements	33

Certain defined terms

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

Tables

	Page
1 Pillar 1 Overview	3
2 RWAs by global business	3
3 Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation	5
4 Own funds disclosure	8
5 Summary reconciliation of accounting assets and leverage ratio exposures	10
6 Leverage ratio common disclosure	10
7 Credit risk exposure – summary	13
8 Credit risk exposure – by region	15
9 Credit risk exposure – by industry sector	16
10 Credit risk exposure – by maturity	18
11 Wholesale IRB exposures under the slotting approach	19
12 Amount of impaired exposures and related allowances by industry sector and geographical region	19
13 Movement in specific credit risk adjustments by industry sector and by geographical region	20
14 IRB expected loss and CRA – by exposure class	21
15 IRB expected loss and CRA – by region	22
16 IRB exposure – credit risk mitigation	24
17 Standardised exposure – credit risk mitigation	24
18 Counterparty credit risk – RWAs by exposure class and product	25
19 Market risk RWAs and capital required	26
20 Operational risk RWAs and capital required	26
21 Aggregate remuneration expenditure	29
22 Remuneration – fixed and variable amounts	29
23 Deferred remuneration	29
24 Sign-on and severance payments	30
25 Material risk-takers (MRT) remuneration by band	30

Introduction

Table 1: Pillar 1 Overview

	Footnotes	RWAs		Capital required ¹	
		2016	2015	2016	2015
		£m	£m	£m	£m
Credit risk	2	168,936	160,517	13,515	12,841
Counterparty credit risk		28,593	25,549	2,287	2,044
Market risk		24,975	20,654	1,999	1,652
Operational risk		22,733	22,662	1,819	1,813
At 31 Dec		245,237	229,382	19,619	18,350

Table 2: RWAs by global business³

	RWAs		Capital required ¹	
	2016	2015	2016	2015
	£m	£m	£m	£m
Retail Banking and Wealth Management ('RBWM')	25,849	25,484	2,068	2,039
Commercial Banking ('CMB')	81,958	75,001	6,557	6,000
Global Banking and Markets ('GB&M')	105,932	95,108	8,474	7,608
Global Private Banking ('GPB')	3,509	4,569	281	365
Corporate Centre	27,989	29,220	2,239	2,338
At 31 Dec	245,237	229,382	19,619	18,350

1 'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8% of RWAs.

2 'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.

3 Please refer to pages 3 and 4 of the HSBC Bank plc Annual Report and Accounts 2016 for a description of the activities of our global businesses.

Regulatory framework for disclosures

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

At the consolidated HSBC and bank level, we calculated capital for prudential regulatory reporting purposes throughout 2016 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Directive and Regulation, collectively 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 BCBS' framework, so local regulation in 2016 may have been on the basis of a previous framework.

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

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

The PRA's final rules adopted national discretions in order to accelerate significantly the transition timetable to full 'end point' CRD IV compliance.

Pillar 3 disclosures

The HSBC Bank Pillar 3 disclosures 2016 comprise all information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV, supplemented by any specific additional requirements of the PRA and discretionary disclosures on our part.

In our disclosures, to give insight into movements during the year, we provide comparative figures for the previous year. Key ratios and figures are reflected throughout the Pillar 3 2016 disclosures and are also available on page 55 of the HSBC Bank plc Annual Reports and Accounts 2016. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives. The own funds disclosure in Table 4 tracks the position from a CRD IV transitional to an end-point basis.

Information relating to the rationale for withholding certain disclosures is provided in Appendix I.

We publish comprehensive Pillar 3 disclosures annually on the HSBC website, www.hsbc.com, simultaneously with the release of our HSBC Bank plc Annual Report and Accounts. 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 disclosures.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the Annual Report and Accounts 2016 or other location.

We continue to engage constructively in the work of the UK authorities and industry associations to improve the transparency and comparability of UK banks' Pillar 3 disclosures.

Regulatory developments

Throughout 2016, the BCBS and the Financial Stability Board ('FSB') continued to develop their package of reforms to the existing Basel III regulatory capital framework. In particular, the BCBS has proposed modifications to the existing risk weighted asset and leverage frameworks. While many of these proposals are now finalised, certain key elements remain in draft subject to international agreement. These include:

- changes to the framework for credit risk capital requirements under both the internal ratings based ('IRB') and standardised ('STD') approaches;
- a new single operational risk methodology, replacing those currently available;
- changes to leverage ratio exposure calculation and a new leverage buffer for global systemically important banks ('G-SIBs'); and
- the introduction of a capital floor based on the new standardised approaches.

Separately, in response to the implementation of International Financial Reporting Standards 9 Financial Instruments ('IFRS9') into the accounting framework in 2018, the BCBS has consulted on the long term treatment of accounting provisions in the regulatory framework and the potential transitional arrangements. It is the BCBS's aim that all of the above proposals will be finalised in 2017.

Meanwhile in November 2016, the European Commission ('EC') proposed a number of revisions to CRD IV, which reflect some of the proposals already completed or under development by the BCBS. Together, these changes are known as the 'CRR2' package.

The CRR2 package includes the following:

- a new standardised approach for counterparty credit risk ('CCR') to replace the existing current exposure and standardised approach methods;
- changes to the methodologies for calculating market risk capital charges and the trading book boundary;
- a binding leverage ratio and changes to the exposure measure;
- the introduction of a new methodology for capital charges for equity investments in funds;
- restrictions to the capital base and changes to the exposure limits for the calculation of large exposures; and
- the final FSB Total Loss Absorbing Capacity ('TLAC') requirements in the EU in the form of Minimum requirements for own funds and eligible liabilities ('MREL'). In relation to MREL implementation in the UK, the Bank of England also published its final requirements in November 2016 which introduces MREL from 2019 onwards consistent with international timelines.

The CRR2 package is expected to apply from 1 January 2021, save for the rules on TLAC, which may apply from 1 January 2019, and the transitional provisions for IFRS9, which may apply from 1 January 2018.

All changes to the regulatory framework would need to be transposed into the relevant law before coming into effect.

Linkage to the Annual Report and Accounts 2016

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 of the *Annual Report and Accounts 2016*, differs from that used for regulatory purposes. Table 3 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.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

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

	Ref †	Accounting balance sheet £m	De-consolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		54,278	–	69	54,347
Items in the course of collection from other banks		1,363	–	–	1,363
Trading assets		125,069	74	106	125,249
Financial assets designated at fair value		8,345	(8,329)	–	16
Derivatives		199,419	(117)	–	199,302
Loans and advances to banks		21,363	(102)	7	21,268
Loans and advances to customers		272,760	(2,345)	–	270,415
– of which:					
<i>impairment allowances on IRB portfolios</i>	<i>h</i>	(1,735)	–	–	(1,735)
<i>impairment allowances on standardised portfolios</i>		(823)	–	–	(823)
Reverse repurchase agreements – non-trading		31,660	297	–	31,957
Financial investments		83,135	(12,032)	110	71,213
Assets held for sale		94	(6)	(13)	75
Capital invested in insurance and other entities		–	613	–	613
Current tax assets		114	(6)	–	108
Prepayments, accrued income and other assets		13,121	(892)	42	12,271
– of which: <i>retirement benefit assets</i>	<i>i</i>	3,480	–	–	3,480
Interests in associates and joint ventures		266	(3)	(231)	32
– of which: <i>positive goodwill on acquisition</i>	<i>e</i>	–	–	–	–
Goodwill and intangible assets	<i>e</i>	5,735	(595)	5	5,145
Deferred tax assets	<i>f</i>	107	150	4	261
Total assets at 31 Dec 2016	<i>o</i>	816,829	(23,293)	99	793,635
Liabilities and equity					
Deposits by banks		23,682	(21)	61	23,722
Customer accounts		375,252	1,159	–	376,411
Repurchase agreements – non-trading		19,709	–	–	19,709
Items in the course of transmission to other banks		657	–	–	657
Trading liabilities		93,934	519	1	94,454
Financial liabilities designated at fair value		18,486	(1,080)	–	17,406
– of which:					
<i>term subordinated debt included in tier 2 capital</i>	<i>l, m</i>	1,685	–	–	1,685
<i>preferred securities included in tier 1 capital</i>	<i>k</i>	333	–	–	333
Derivatives		190,092	151	–	190,243
Debt securities in issue		16,140	(3,144)	–	12,996
Current tax liabilities		400	(46)	1	355
Liabilities under insurance contracts		19,724	(19,724)	–	–
Accruals, deferred income and other liabilities		6,792	(480)	28	6,340
– of which: <i>retirement benefit liabilities</i>		364	(2)	7	369
Provisions		2,431	(5)	2	2,428
– of which: <i>contingent liabilities and contractual commitments</i>		53	–	–	53
– of which:					
<i>credit-related provisions on IRB portfolios</i>	<i>h</i>	50	–	–	50
<i>credit-related provisions on standardised portfolios</i>		3	–	–	3
Deferred tax liabilities		484	–	–	484
Subordinated liabilities		8,421	–	–	8,421
– of which:					
<i>preferred securities included in tier 1 capital</i>	<i>k</i>	700	–	–	700
<i>perpetual subordinated debt included in tier 2 capital</i>	<i>l, n</i>	1,271	–	–	1,271
<i>term subordinated debt included in tier 2 capital</i>	<i>l, m, n</i>	5,668	–	–	5,668
Total liabilities at 31 Dec 2016		776,204	(22,671)	93	753,626
Called up share capital	<i>a</i>	797	–	–	797
Share premium account	<i>a, k</i>	20,733	–	–	20,733
Other equity instruments	<i>j</i>	3,781	–	–	3,781
Other reserves	<i>c, g</i>	1,882	–	–	1,882
Retained earnings	<i>b, c</i>	12,737	(622)	6	12,121
Total shareholders' equity		39,930	(622)	6	39,314
Non-controlling interests	<i>d, k</i>	695	–	–	695
– of which: <i>non-cumulative preference shares issued by subsidiaries included in tier 1 capital</i>	<i>k</i>	150	–	–	150
Total equity at 31 Dec 2016		40,625	(622)	6	40,009
Total liabilities and equity at 31 Dec 2016		816,829	(23,293)	99	793,635

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

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

	Ref t	Accounting balance sheet £m	De-consolidation 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		258,506	(4,782)	–	253,724
– of which:					
impairment allowances on IRB portfolios ¹	h	(1,948)	–	–	(1,948)
impairment allowances on standardised portfolios ¹		(654)	–	–	(654)
Reverse repurchase agreements – non-trading		30,537	505	–	31,042
Financial investments		71,352	(10,960)	–	60,392
Assets held for sale		27	–	–	27
Capital invested in insurance and other entities		–	547	–	547
Current tax assets		126	(7)	–	119
Prepayments, accrued income and other assets		11,705	(688)	38	11,055
– of which: retirement benefit assets	i	3,376	–	–	3,376
Interests in associates and joint ventures		69	(5)	(22)	42
– of which: positive goodwill on acquisition	e	48	–	(48)	–
Goodwill and intangible assets	e	7,011	(562)	1	6,450
Deferred tax assets	f	110	142	–	252
Total assets at 31 Dec 2015	o	727,941	(22,880)	96	705,157
Liabilities and equity					
Deposits by banks		24,202	(7)	66	24,261
Customer accounts ²		332,830	1,317	–	334,147
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 ²		19,001	(941)	–	18,060
– of which:					
term subordinated debt included in tier 2 capital	l, m	316	–	–	316
preferred securities included in tier 1 capital	k	2,043	–	–	2,043
Derivatives		162,864	51	–	162,915
Debt securities in issue ²		26,069	(5,419)	–	20,650
Current tax liabilities		249	(63)	–	186
Liabilities under insurance contracts		16,664	(16,664)	–	–
Accruals, deferred income and other liabilities ²		5,775	(437)	27	5,365
– of which: retirement benefit liabilities		300	(1)	8	307
Provisions		2,057	(9)	3	2,051
– of which: contingent liabilities and contractual commitments		27	–	–	27
– of which:					
credit-related provisions on IRB portfolios	h	17	–	–	17
credit-related provisions on standardised portfolios		10	–	–	10
Deferred tax liabilities		506	–	–	506
Subordinated liabilities		8,527	–	–	8,527
– of which:					
preferred securities included in tier 1 capital	k	700	–	–	700
perpetual subordinated debt included in tier 2 capital	l, n	2,989	–	–	2,989
term subordinated debt included in tier 2 capital	l, m, n	3,760	–	–	3,760
Total liabilities at 31 Dec 2015		689,816	(22,218)	96	667,694
Called up share capital	a	797	–	–	797
Share premium account	a, k	20,733	–	–	20,733
Other equity instruments	j	3,584	–	–	3,584
Other reserves	c, g	(216)	–	–	(216)
Retained earnings	b, c	12,599	(662)	–	11,937
Total shareholders' equity		37,497	(662)	–	36,835
Non-controlling interests	d, k	628	–	–	628
– of which: non-cumulative preference shares issued by subsidiaries	k	150	–	–	150
Total equity at 31 Dec 2015		38,125	(662)	–	37,463
Total liabilities and equity at 31 Dec 2015		727,941	(22,280)	96	705,157

t The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital on page 8.

1 £81m of impairment allowances have been reallocated from standardised to IRB portfolios.

2 Customer account intercompany balances within De-consolidation of insurance/other entities have been reallocated from Accruals, deferred income and other liabilities. In addition, Financial liabilities designated at fair value have been reallocated from Debt securities in issue.

Capital and Leverage

Capital management

Approach and policy

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

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

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

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

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

Stress testing

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

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

Risks to capital

Outside of the stress testing framework, a list of principal risks is regularly evaluated for their effect on our capital ratios. In addition, other risks may be identified that have the potential to affect our RWAs and/or capital position. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

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

Risk-weighted asset targets

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

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

Capital generation

HSBC Holdings plc is the sole provider of equity capital to the group and also provides non-equity capital where necessary. Capital generated in excess of planned requirements is returned to HSBC Holdings plc in the form of dividends.

Overview of regulatory capital framework

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 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% annually, following an initial reduction of 20% on 1 January 2014, until they are fully phased out by 1 January 2022.

Tier 1 capital ('T1')

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 ('CET1')

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 ('AT1')

Preference shares and related premium

Preference shares are securities that 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 27 – Called up share capital and other equity instruments of the Notes on the Financial Statements on pages 124 to 125 of the HSBC Bank plc Annual Report and Accounts 2016.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

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 24 to Subordinated Liabilities of the Notes on the Financial Statements on pages 119 to 120 of the HSBC Bank plc Annual Report and Accounts 2016.

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%.

These instruments are accounted for as equity. Further details of qualifying CRD IV Additional Tier 1 instruments can be found in Note 27 – Called up share capital and other equity instruments of the Notes on the Financial Statements on pages 124 to 125 of the HSBC Bank plc Annual Report and Accounts 2016.

Tier 2 capital ('T2')

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 24 – Subordinated Liabilities of the Notes on the Financial Statements on pages 119 to 120 of the HSBC Bank plc Annual Report and Accounts 2016.

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 2016.

Table 4: Own funds disclosure

Ref*	Ref †	At 31 Dec 2016 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
Common equity tier 1 ('CET1') capital: instruments and reserves				
1		21,099		21,099
		21,099		21,099
2	a	12,384		12,384
3	b	1,734		1,734
5	c	349		349
5a	d	(542)		(542)
6	e	35,024		35,024
Common equity tier 1 capital: regulatory adjustments				
7		(756)		(756)
8		(5,145)		(5,145)
10		(30)		(30)
11		(84)		(84)
12		(1,128)		(1,128)
14		(141)		(141)
15		(2,642)		(2,642)
28		(9,926)		(9,926)
29		25,098		25,098
Additional tier 1 ('AT1') capital: instruments				
30		3,781		3,781
31		3,781		3,781
33		1,389	(1,389)	–
34		56	(32)	24
36		5,226	(1,421)	3,805
Additional tier 1 capital: regulatory adjustments				
37		(49)		(49)
41b		(57)	57	–
		(57)	57	–
43		(106)	57	(49)
44		5,120	(1,364)	3,756

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 4: Own funds disclosure

		At 31 Dec 2016	CRD IV prescribed residual amount	Final CRD IV text	
45	Tier 1 capital (T1 = CET1 + AT1)	30,218	(1,364)	28,854	
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	<i>l</i> 7,058		7,058	
47	Amount of qualifying items and the related share premium accounts subject to phase out from T2	<i>m</i> 1,310	(1,310)	–	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties		196	(173)	23
49	– of which: instruments issued by subsidiaries subject to phase out	<i>n</i> 182	(182)	–	
51	Tier 2 capital before regulatory adjustments	8,564	(1,483)	7,081	
	Tier 2 capital: regulatory adjustments				
52	Direct and indirect holdings of own T2 instruments		(32)	(32)	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		(228)	(57)	(285)
57	Total regulatory adjustments to tier 2 capital		(260)	(57)	(317)
58	Tier 2 capital	8,304	(1,540)	6,764	
59	Total capital (TC = T1 + T2)	38,522	(2,904)	35,618	
60	Total risk-weighted assets	245,237		245,237	
	Capital ratios and buffers				
61	Common equity tier 1		10.2%		
62	Tier 1		12.3%		
63	Total capital		15.7%		
64	Institution specific buffer requirement		0.637%		
65	– capital conservation buffer requirement		0.625%		
66	– countercyclical buffer requirement		0.012%		
68	Common equity tier 1 available to meet buffers ¹		5.7%		
	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)		1,417		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		669		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		626		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		470		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		922		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)				
82	Current cap on AT1 instruments subject to phase-out arrangements		1,389		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		216		
84	Current cap on T2 instruments subject to phase-out arrangements		1,724		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		–		

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

† The references (a) – (n) identify balance sheet components on page 6 that are used in the calculation of regulatory capital.

1 Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as tier 1 capital divided by total on- and off-balance sheet 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.

In December 2015, the PRA published rules for 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 the Group level and not at the HSBC Bank plc level.

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is

managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM'). For the group, the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

Our leverage ratio, calculated on a 'transitional basis' under CRD IV was 4.1% at 31 December 2016, up from 4.0% at 31 December 2015. The increase in leverage ratio during the year was driven by an increase in Tier 1 Capital. This was partly offset by an increase in leverage exposures due to balance sheet growth.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

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

Ref*	Ref †	At 31 Dec 2016	At 31 Dec 2015
		£m	£m
1		816,829	727,941
Adjustments for:			
2	o	(23,194)	(22,784)
4		(125,721)	(98,170)
5		4,706	6,601
6		66,400	57,844
EU-6a		(6,095)	–
7		490	9,277
8		733,415	680,709

Table 6: Leverage ratio common disclosure

Ref*	At 31 Dec 2016	At 31 Dec 2015
	£m	£m
On-balance sheet exposures (excluding derivatives and SFTs)		
1	565,731	522,297
2	(9,785)	(10,764)
3	555,946	511,533
Derivative exposures		
4	19,939	14,578
5	68,336	63,276
6	4,406	–
7	(20,962)	(16,623)
8	(2,331)	–
9	168,700	141,760
10	(164,507)	(134,455)
11	73,581	68,536
Securities financing transaction exposures		
12	84,114	64,627
13	(45,237)	(28,432)
14	4,706	6,601
16	43,583	42,796
Other off-balance sheet exposures		
17	187,969	162,553
18	(121,569)	(104,709)
19	66,400	57,844
Exempted exposures		
EU-19	(6,095)	–
Capital and total exposures		
20	30,218	27,017
21	733,415	680,709
22	4.1%	4.0%
EU-23	Transitional	Transitional

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

† The reference (o) identifies balance sheet components on page 6.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Capital buffers

The geographical breakdown and institution specific countercyclical buffer disclosure is published annually on the HSBC website www.hsbc.com.

Pillar 1

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

Risk category	Scope of permissible approaches	Approach adopted by HSBC
Credit risk	The BCBS 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 IRB foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's Probability of Default ('PD'), but subjects their quantified estimates of Exposure At Default ('EAD') and Loss Given Default ('LGD') to standard supervisory parameters. Finally, the 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 advanced IRB approach for the majority of our business. Some portfolios remain on the standardised or foundation IRB approaches: <ul style="list-style-type: none"> pending the issuance of local regulations or model approval; following the supervisory prescription of a non-advanced approach; or under exemptions from IRB treatment.
Counterparty credit risk	Three approaches to calculating CCR and determining exposure values are defined by the BCBS: mark-to-market, standardised and Internal Model Method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches; standardised, IRB foundation or IRB advanced.	We use the mark-to-market and IMM approaches for CCR. Details of the IMM permission we have received from the PRA can be found in the Financial Services Register on the PRA website. Our aim is to increase the proportion of positions on IMM over time.
Equity	For non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For Group reporting purposes, all equity exposures are treated under the standardised approach.
Securitisation	The BCBS Framework 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 the majority of the securitisation non-trading book positions, we use the IRB approach, and within this principally the RBM, with lesser amounts on the IAA and the SFM. We also use the standardised approach for an immaterial amount of non-trading book positions. Securitisation positions in the trading book are treated within market risk, using the CRD IV standard rules.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR, Incremental Risk Charge ('IRC') and Comprehensive Risk Measure.	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. Our internal market risk models comprise VaR, stressed VaR and IRC. Non-proprietary details of the scope of our IMA permission are available in the Financial Services Register on the PRA website. We are in compliance with the requirements set out in Articles 104 and 105 of the Capital Requirements Regulation.
Operational risk	The BCBS framework allows 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. We are in the process of implementing an operational risk model, which we will use for economic capital calculation purposes.

Pillar 2 and ICAAP

Pillar 2

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

The ICAAP is reviewed by the PRA as part of its supervisory review and evaluation process ('SREP'), which occurs periodically to enable the regulator to define the individual capital guidance ('ICG') or minimum capital, requirements for the group and our capital planning buffer where applicable. Under the PRA's revised Pillar 2 regime, which came into effect from 1 January 2016, the capital planning buffer has been replaced with a PRA buffer. This is not intended to duplicate the CRD IV buffers and, where necessary will be set according to the vulnerability of a bank in a stress scenario, as assessed through the annual PRA stress testing exercise.

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

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

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

Internal capital adequacy assessment

The Board approves the group ICAAP, and together with RMM, it examines the group's risk profile from both regulatory and economic capital viewpoints, aiming to ensure that capital resources:

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

- remain consistent with our strategic and operational goals, and our shareholder and investor expectations.

The minimum regulatory capital that we are required to hold is determined by the rules and guidance established by the PRA for the consolidated group and by local regulators for individual group companies. These capital requirements are a primary 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.

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 our operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into our management of risk. Our economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon to a 99.95% level of confidence for our banking and trading activities, and to a 99.5% level of confidence for our insurance activities and pension risks.

The ICAAP and its constituent economic capital calculations are examined by the PRA as part of its supervisory review and evaluation process. This examination informs the regulator's view of our Pillar 2 capital requirements.

A strong level of integration between our risk and our capital management framework helps to optimise our response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including CCR, market and operational risk, non-trading book interest rate risk, insurance risk, pension risk, residual risk and structural foreign exchange risk.

Credit risk

Overview

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

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 roll-out 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 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% floor for LGD on sovereign for senior unsecured exposure 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 Basel Committee has issued a number of consultation papers proposing changes to the regulatory capital framework on credit risk. In December 2015, the Committee issued its second consultation on the Standardised rules. The revised proposals reintroduce the use of external ratings (removed in the first draft) for the determination of wholesale credit risk, while retaining an alternative approach for jurisdictions that do not allow the use of external ratings. Other significant changes

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

from the first consultation include recognising Loan-to-Value ratio as the main driver of risk for real estate exposures (removing the requirement to use debt service coverage ratio as a risk driver).

In March 2016, the Basel Committee consulted on imposing constraints on the use of the IRB approaches. The proposals included the removal of the IRB approach for low default portfolios banks and large corporates and requiring the use of the IRB Foundation approach for a further tier of corporate exposures. The proposals also included parameter level floors for LGD and EAD where the IRB Advanced approach remains available.

Quantitative Impact Studies have been carried out on both these proposals. The industry and a number of European Governments have raised concerns that the impact of these proposals is that the sector will see a significant increase in capital. If implemented in their current form, these proposals could result in reduced lending to businesses and individuals. The approval of these proposals by the Global Heads of Supervision, the oversight body of the Basel Committee, has been postponed due to ongoing discussions on the final calibration.

The EBA's remediation of the IRB approach in Europe has continued during 2016. Final Draft Regulatory Technical Standards ('RTS') have been issued on a common assessment methodology for approval of the IRB approach by competent authorities and a further RTS and associated guidance note on the definition of default. The purpose of these standards, once enacted into European Law, is to improve consistency across banks in the application of the IRB approach.

The RTS on common assessment methodology touches on a wide range of issues, some directly related to the IRB approaches, but also covers topics such as governance (including independent model validation and audit), reporting of regulatory capital, stress testing and data maintenance.

The RTS on default definition introduces materiality thresholds – one absolute depending on whether the exposure is retail or wholesale, one relative to the amount of exposure that an obligor is past due. The guidelines introduce more formal determination of unlikelihood to pay. Firms have until 2021 to be compliant with these requirements – this reflects that it will take time to collect data on these new definitions and that firms can only embark on model redevelopment using these definitions once the minimum data period has been met.

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 33 to 42 of the HSBC Bank plc *Annual Report and Accounts 2016*;
- on pages 74 to 104 of the HSBC Holdings plc *Annual Report and Accounts 2016*; and
- on pages 37 to 53 of the HSBC Holdings plc *Pillar 3 Disclosures 2016*.

Table 7: Credit risk exposure – summary

	Exposure value £m	Average exposure value ^a £m	RWAs £m	Capital required £m
<i>Footnotes</i>				
IRB advanced approach	326,096	323,898	101,726	8,137
– central governments and central banks	22,344	21,422	3,141	251
– institutions	10,717	12,800	2,565	205
– corporates	147,245	146,746	78,640	6,291
– total retail	145,790	142,930	17,380	1,390
– of which:				
secured by mortgages on immovable property – small and medium sized enterprises ('SME')	507	1,053	150	12
secured by mortgages on immovable property non-SME	96,123	93,700	4,837	387
qualifying revolving retail	22,700	22,461	4,422	354
other SME	6,782	7,446	3,593	287
other non-SME	19,678	18,270	4,378	350
IRB securitisation positions	23,517	23,854	16,573	1,326
IRB non-credit obligation assets	6,182	6,971	3,787	303
IRB foundation approach	21,177	20,913	13,059	1,045
– central governments and central banks	10	2	3	–
– institutions	28	28	7	1
– corporates	21,139	20,883	13,049	1,044
Standardised approach	151,440	143,015	33,791	2,704
– central governments and central banks	102,394	95,076	1,593	127
– international organisations	2,229	2,048	–	–
– institutions	9,938	10,326	2,630	210
– corporates	27,052	25,503	21,877	1,750
– retail	2,644	3,017	1,910	153
– secured by mortgages on immovable property	3,045	2,894	1,113	89
– exposures in default	924	847	1,203	96
– items associated with particularly high risk	678	695	1,017	81
– claims in the form of collective investments undertakings	43	42	43	3
– equity	1,028	1,029	2,031	164
– other items	1,465	1,538	374	31
At 31 Dec 2016	528,412	518,651	168,936	13,515

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 7: Credit risk exposure - summary (continued)

Footnotes	Exposure value £m	Average exposure value ⁴ £m	RWAs £m	Capital required £m
IRB advanced approach	318,539	323,256	94,593	7,567
– central governments and central banks	17,643	17,785	3,104	248
– institutions	16,576	16,760	3,081	246
– corporates ¹	144,128	149,134	71,539	5,723
– total retail	140,192	139,577	16,869	1,350
– of which				
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
IRB securitisation positions	24,882	21,959	18,717	1,497
IRB non-credit obligation assets	5,655	6,347	2,818	225
IRB foundation approach	18,721	17,816	11,842	947
– central governments and central banks	–	–	–	–
– institutions	21	25	7	–
– corporates	18,700	17,791	11,835	947
Standardised approach	127,441	124,891	32,547	2,605
– central governments and central banks ²	80,415	81,476	72	6
– 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
– claims in the form of collective investments undertakings	47	104	47	4
– equity ³	1,013	795	1,930	154
– other items	2,003	1,966	1,848	148
At 31 Dec 2015	495,238	494,269	160,517	12,841

¹ 'Corporates' includes specialised lending exposures subject to supervisory slotting approach of £13,650m (2015: £12,031m) and RWAs of £9,202m (2015: £9,121m).

² 'Central governments and central banks' under the standardised approach includes exposures to regional governments and public sector entities.

³ 'Equity' includes investment in insurance companies that are risk weighted at 250%.

⁴ 'Average exposures' are calculated by aggregating exposure value of the last five quarters and dividing by five.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 8: Credit risk exposure – by region

	United Kingdom	Continental Europe	Other	Total
	£m	£m	£m	£m
IRB advanced approach	277,219	44,934	3,943	326,096
– central governments and central banks	16,862	2,923	2,559	22,344
– institutions	8,280	1,810	627	10,717
– corporates	124,727	21,761	757	147,245
– total retail	127,350	18,440	–	145,790
– of which:				
secured by mortgages on immovable property SME	9	498	–	507
secured by mortgages on immovable property non-SME	93,290	2,833	–	96,123
qualifying revolving retail	22,699	1	–	22,700
other SME	4,944	1,838	–	6,782
other non-SME	6,408	13,270	–	19,678
IRB securitisation positions	21,185	2,332	–	23,517
IRB non-credit obligation assets	5,136	924	122	6,182
IRB foundation approach	6,691	14,486	–	21,177
– central governments and central banks	–	10	–	10
– institutions	12	16	–	28
– corporates	6,679	14,460	–	21,139
Standardised approach	90,998	55,172	5,270	151,440
– central governments and central banks	62,424	39,903	67	102,394
– international organisations	–	2,229	–	2,229
– institutions	9,303	550	85	9,938
– corporates	15,702	7,899	3,451	27,052
– retail	480	1,017	1,147	2,644
– secured by mortgages on immovable property	755	2,019	271	3,045
– exposures in default	110	573	241	924
– items associated with particularly high risk	369	308	1	678
– claims in the form of CIU	–	43	–	43
– equity	845	183	–	1,028
– other items	1,010	448	7	1,465
At 31 Dec 2016	401,229	117,848	9,335	528,412
IRB advanced approach	275,851	38,873	3,815	318,539
– 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
– total retail	124,151	16,041	–	140,192
– of which:				
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
IRB securitisation positions	22,806	2,076	–	24,882
IRB non-credit obligation assets	4,619	844	192	5,655
IRB foundation approach	6,050	12,671	–	18,721
– central governments and central banks	–	–	–	–
– institutions	17	4	–	21
– corporates	6,033	12,667	–	18,700
Standardised approach	79,580	41,309	6,552	127,441
– central governments and central banks	56,182	24,172	61	80,415
– 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
– claims in the form of CIU	–	47	–	47
– equity	381	632	–	1,013
– other items	1,615	368	20	2,003
At 31 Dec 2015	388,906	95,773	10,559	495,238

For footnotes, see page 14

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 9: Credit risk exposure – by industry sector

<i>Footnotes</i>	Personal £m	Manufacturing £m	International trade and services £m	Property and other business activities £m	Government and public administration £m	Other commercial £m	Financial £m	Non- customer assets £m	Total £m
IRB advanced approach	138,501	24,409	30,967	49,478	24,988	23,265	34,488	–	326,096
– central governments and central banks	–	–	–	–	18,761	–	3,583	–	22,344
– institutions	–	–	–	–	1	161	10,555	–	10,717
– corporates ¹	–	24,148	30,402	43,439	6,107	22,829	20,320	–	147,245
– total retail	138,501	261	565	6,039	119	275	30	–	145,790
– of which:									
secured by mortgages on immovable property SME	–	7	17	469	4	6	4	–	507
secured by mortgages on immovable property non-SME	96,123	–	–	–	–	–	–	–	96,123
qualifying revolving retail	22,700	–	–	–	–	–	–	–	22,700
other SME	–	254	548	5,570	115	269	26	–	6,782
other non-SME	19,678	–	–	–	–	–	–	–	19,678
IRB securitisation positions	–	–	–	–	–	–	23,517	–	23,517
IRB non-credit obligation assets	–	–	–	–	–	–	–	6,182	6,182
IRB foundation approach	122	8,546	4,783	2,740	398	2,401	2,187	–	21,177
– central governments and central banks	–	–	–	–	–	–	10	–	10
– institutions	–	–	–	–	–	–	28	–	28
– corporates	122	8,546	4,783	2,740	398	2,401	2,149	–	21,139
Standardised approach	5,395	6,501	3,782	4,140	43,348	3,712	84,562	–	151,440
– central governments and central banks ²	–	–	115	–	40,471	18	61,790	–	102,394
– international organisations	–	–	–	–	2,229	–	–	–	2,229
– institutions	–	–	–	–	–	–	9,938	–	9,938
– corporates	269	6,084	3,562	3,206	594	3,408	9,929	–	27,052
– retail	1,969	28	20	534	16	19	58	–	2,644
– secured by mortgages on immovable property	2,968	9	12	–	–	56	–	–	3,045
– exposures in default	189	263	73	113	38	210	38	–	924
– items associated with particularly high risk	–	–	–	175	–	1	502	–	678
– claims in the form of CIU	–	–	–	–	–	–	43	–	43
– equity ³	–	12	–	112	–	–	904	–	1,028
– other items	–	105	–	–	–	–	1,360	–	1,465
At 31 Dec 2016	144,018	39,456	39,532	56,358	68,734	29,378	144,754	6,182	528,412

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 9: Credit risk exposure - by industry sector (continued)

	Personal £m	Manufacturing £m	International trade and services £m	Property and other business activities £m	Government and public administration £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
– 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
– total retail	130,989	255	559	7,973	108	270	38	—	140,192
– of which:									
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
IRB securitisation positions	—	—	—	—	—	—	24,882	—	24,882
IRB non-credit obligation assets	—	—	—	—	—	—	3	5,652	5,655
IRB foundation approach	1	6,121	4,188	4,353	252	1,961	1,845	—	18,721
– central governments and central banks	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	21	—	21
– corporates	1	6,121	4,188	4,353	252	1,961	1,824	—	18,700
Standardised approach	5,430	6,971	3,741	2,932	36,526	2,835	68,319	687	127,441
– central governments and central banks	—	—	—	—	34,135	—	46,280	—	80,415
– international	—	—	—	—	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
– claims in the form of CIU	—	—	—	—	—	—	48	—	48
– equity	—	—	—	60	—	—	952	—	1,012
– other items	—	—	—	—	—	—	1,316	687	2,003
At 31 Dec 2015	136,420	39,017	41,015	54,893	56,773	28,388	132,393	6,339	495,238

For footnotes, see page 14

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 10: Credit risk exposure – by maturity

	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
Footnotes	£m	£m	£m	£m	£m
IRB advanced approach	108,088	88,815	129,193	–	326,096
– central governments and central banks	6,988	9,739	5,617	–	22,344
– institutions	7,099	3,126	492	–	10,717
– corporates	67,280	63,395	16,570	–	147,245
– total retail	26,721	12,555	106,514	–	145,790
– of which:					
secured by mortgages on immovable property SME	14	86	407	–	507
secured by mortgages on immovable property non-SME	1,148	1,847	93,128	–	96,123
qualifying revolving retail	22,700	–	–	–	22,700
other SME	1,513	3,901	1,368	–	6,782
other non-SME	1,346	6,721	11,611	–	19,678
IRB securitisation positions	6,056	5,282	12,179	–	23,517
IRB non-credit obligation assets	91	35	4	6,052	6,182
IRB foundation approach	9,313	10,623	1,241	–	21,177
– central governments and central banks	–	–	10	–	10
– institutions	16	12	–	–	28
– corporates	9,297	10,611	1,231	–	21,139
Standardised approach	96,284	33,081	19,407	2,668	151,440
– central governments and central banks	65,610	23,523	13,261	–	102,394
– international organisations	331	1,639	259	–	2,229
– institutions	8,150	80	1,708	–	9,938
– corporates	20,229	5,510	1,313	–	27,052
– retail	1,118	1,293	233	–	2,644
– secured by mortgages on immovable property	77	545	2,423	–	3,045
– exposures in default	435	318	171	–	924
– items associated with particularly high risk	228	131	39	280	678
– claims in the form of CIU	–	–	–	43	43
– equity	–	–	–	1,028	1,028
– other items	106	42	–	1,317	1,465
At 31 Dec 2016	219,832	137,836	162,024	8,720	528,412
IRB advanced approach	109,083	87,888	121,568	–	318,539
– 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
– total retail	26,560	11,565	102,067	–	140,192
– of which:					
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
IRB securitisation positions	5,189	6,230	13,463	–	24,882
IRB non-credit obligation assets	–	25	1	5,629	5,655
IRB foundation approach	8,017	9,624	1,080	–	18,721
– central governments and central banks	–	–	–	–	–
– institutions	4	17	–	–	21
– corporates	8,013	9,607	1,080	–	18,700
Standardised approach	73,523	35,901	16,278	1,739	127,441
– central governments and central banks	43,944	26,332	10,139	–	80,415
– 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
– claims in the form of CIU	–	–	–	48	48
– equity	–	–	–	1,012	1,012
– other items	1,328	–	–	675	2,003
At 31 Dec 2015	195,812	139,668	152,390	7,368	495,238

For footnotes, see page 14

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 11: Wholesale IRB exposures under the slotting approach

	Exposure	
	2016 £m	2015 £m
Supervisory Category		
Category 1 – Strong	8,948	6,457
Category 2 – Good	2,721	2,966
Category 3 – Satisfactory	823	1,247
Category 4 – Weak	229	566
Category 5 – Default	929	795
At 31 Dec	13,650	12,031

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

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

Our approach for determining impairment allowances is explained on pages 24 and 79 of the HSBC Bank plc Annual Report and Accounts 2016, 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 12: Amount of impaired exposures and related allowances by industry sector and geographical region

	United Kingdom £m	Continental Europe £m	Other ¹ £m	Total £m
At 31 Dec 2016				
Past due but not impaired exposures	580	385	216	1,181
– personal	453	168	177	798
– corporate and commercial	124	210	34	368
– financial	3	7	5	15
Impaired exposures	5,306	1,882	462	7,650
– personal	1,105	402	232	1,739
– corporate and commercial	3,213	1,409	230	4,852
– financial	988	71	–	1,059
Impairment allowances and other credit risk provisions	(1,307)	(973)	(330)	(2,610)
– personal	(285)	(136)	(237)	(658)
– corporate and commercial	(913)	(769)	(93)	(1,775)
– financial	(109)	(68)	–	(177)
At 31 Dec 2015				
Past due but not impaired exposures	603	452	247	1,302
– personal	490	100	188	778
– corporate and commercial	113	348	53	514
– financial	–	4	6	10
Impaired exposures	4,278	1,759	335	6,372
– personal	1,110	333	198	1,641
– corporate and commercial	3,033	1,368	137	4,538
– financial	135	58	–	193
Impairment allowances and other credit risk provisions	(1,500)	(856)	(275)	(2,631)
– personal	(316)	(121)	(198)	(635)
– corporate and commercial	(1,083)	(703)	(77)	(1,863)
– financial	(101)	(32)	–	(133)

¹ In the comparative period, amounts primarily relating to Turkey have been reallocated from Continental Europe to Other.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 13: Movement in specific credit risk adjustments by industry sector and by geographical region

	United Kingdom	Continental Europe	Other ¹	Total
	£m	£m	£m	£m
Specific credit risk adjustments at 1 Jan 2016	1,500	856	275	2,631
Amounts written off	(683)	(143)	(82)	(908)
– personal	(284)	(19)	(44)	(347)
– corporate and commercial	(398)	(124)	(38)	(560)
– financial	(1)	–	–	(1)
Recoveries of amounts written off in previous years	188	(15)	4	177
– personal	165	1	5	171
– corporate and commercial	22	(16)	(1)	5
– financial	1	–	–	1
Charge to income statement	240	142	133	515
– personal	90	22	81	193
– corporate and commercial	156	89	52	297
– financial	(6)	31	–	25
Exchange and other movements	62	133	–	195
Specific credit risk adjustments at 31 Dec 2016	1,307	973	330	2,610
Specific credit risk adjustments at 1 Jan 2015	1,677	838	321	2,836
Amounts written off	(620)	(129)	(111)	(860)
– personal	(285)	(16)	(102)	(403)
– corporate and commercial	(335)	(105)	(9)	(449)
– financial	–	(8)	–	(8)
Recoveries of amounts written off in previous years	233	4	12	249
– personal	205	1	13	219
– corporate and commercial	26	3	(1)	28
– financial	2	–	–	2
Charge to income statement	217	181	112	510
– personal	29	40	100	169
– corporate and commercial	196	121	17	334
– financial	(8)	20	(5)	7
Exchange and other movements	(7)	(38)	(59)	(104)
Specific credit risk adjustments at 31 Dec 2015	1,500	856	275	2,631

¹ For footnote, see page 19.

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. Through this analysis we are able to understand changes occurring in the risk profile of our exposures and the implications of these changes for risk and capital management.

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 CRAs. 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 14 and 15 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 that occurred during the financial year and changes in estimates of losses arising on events that 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 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;
- In the foundation IRB approach, LGD and the conversion factors used to calculate EAD are set by regulations, and may differ significantly from the accounting assumptions about estimated cash flows;
- for EL, certain exposures are subject to regulatory minimum thresholds for one or more parameters, whereas credit losses under IFRSs 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 IFRSs, uncertainty is considered when forming management's estimates of future cash flows, using balanced and neutral judgement.

Table 14: IRB expected loss and CRA – by exposure class

IRB exposure classes	Expected loss ¹ £m	CRA ¹	
		Balances £m	Charge for the year £m
Central governments and central banks	6	1	–
Institutions	10	1	–
Corporates	1,915	1,191	178
Retail	931	592	99
– secured by mortgages on immovable property SME	9	3	–
– secured by mortgages on immovable property non-SME	117	146	(16)
– qualifying revolving retail	205	99	63
– other SME	441	226	8
– other non-SME	159	118	44
At 31 Dec 2016	2,862	1,785	277

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 14: IRB expected loss and CRA - by exposure class (continued)

IRB exposure classes	CRA ¹		
	Expected loss ¹	Balances	Charge for the year
	£m	£m	£m
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
At 31 Dec 2015	2,885	1,965	296

Table 15: IRB expected loss and CRA – by region

	CRA ¹		
	Expected loss ¹	Balances	Charge for the year
	£m	£m	£m
United Kingdom	2,172	1,207	223
Continental Europe	685	578	54
Other	5	–	–
At 31 Dec 2016	2,862	1,785	277
United Kingdom	2,259	1,436	217
Continental Europe	616	529	83
Other	10	–	(4)
At 31 Dec 2015	2,885	1,965	296

¹ Excludes securitisation exposures because EL is not calculated for this exposure class.

Risk mitigation

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

Collateral

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

Further information regarding charges held over residential and commercial property is provided on page 97 and 103 of the HSBC Holdings plc Annual Report and Accounts 2016.

Financial collateral

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

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

Other forms of Credit Risk Mitigation

Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors. Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank.

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

In our corporate lending, we also take guarantees from corporates and Export Credit Agencies. Corporates normally provide guarantees as part of a parent/subsidiary or common

parent relationship and span a number of credit grades. Export Credit Agencies will normally be investment grade.

Policy and procedures

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

Valuing collateral

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

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

Recognition of risk mitigation under the IRB approach

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

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

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

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

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

- unfunded protection, which includes credit derivatives and guarantees, is reflected through adjustment or determination of PD or LGD;
- eligible financial collateral is taken into account in LGD models (under Advanced IRB) or by adjusting regulatory LGD values (under Foundation IRB). The adjustment to LGD for the latter is based on the degree to which the exposure value would be adjusted if the Financial Collateral Comprehensive Method ('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.

Recognition of risk mitigation under the standardised approach

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

Table 17 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 16: IRB exposure – credit risk mitigation

	2016			2015		
	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value
	£m	£m	£m	£m	£m	£m
Exposures under the IRB advanced approach	–	15,002	15,002	–	10,152	10,152
– central governments and central banks	–	43	43	–	30	30
– institutions	–	1	1	–	2	2
– corporates	–	4,450	4,450	–	1,431	1,431
– retail	–	10,508	10,508	–	8,689	8,689
Exposures under the IRB foundation approach	344	403	747	249	228	477
– Institutions	–	–	–	–	–	–
– Corporates	344	403	747	249	228	477
At 31 Dec	344	15,405	15,749	249	10,380	10,629

Table 17: Standardised exposure – credit risk mitigation

	2016			2015		
	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total Exposure value
	£m	£m	£m	£m	£m	£m
Exposures under the standardised approach						
Central governments and central banks	108	424	532	7	–	7
Institutions	–	–	–	–	–	–
Corporates	2,428	1,191	3,619	1,036	600	1,636
Retail	1,276	–	1,276	61	–	61
Secured by mortgages on immovable property	7	–	7	–	–	–
Exposures in default	106	–	106	13	–	13
Items associated with particularly high risk	49	–	49	5	–	5
At 31 Dec	3,974	1,615	5,589	1,122	600	1,722

Counterparty credit risk

Overview

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

The table below sets out details of the group's counterparty credit risk exposures by exposure class and approach. Further explanation of the group's approach to managing counterparty credit risk can be found:

- on page 44 of the HSBC Bank plc *Annual Report and Accounts 2016*;
- on page 99 of the HSBC Holdings plc *Annual Report and Accounts 2016*; and
- on pages 50 to 53 of the HSBC Holdings plc *Pillar 3 Disclosures 2016*.

Table 18: Counterparty credit risk – RWAs by exposure class and product

	2016		2015	
	RWAs £m	Capital required £m	RWAs £m	Capital required £m
By exposure class				
IRB advanced approach	17,280	1,382	14,696	1,176
– central governments and central banks	773	62	320	26
– institutions	6,534	523	5,220	418
– corporates	9,973	797	9,156	732
IRB foundation approach	1,361	109	1,115	89
– corporates	1,361	109	1,115	89
Standardised approach	3,585	287	3,932	315
– central governments and central banks	–	–	–	–
– institutions	2,895	232	3,284	263
– corporates	690	55	648	52
CVA advanced	3,318	265	2,675	214
CVA standardised	2,492	199	2,497	200
CCP standardised	557	45	634	50
By product				
– derivatives (OTC and Exchange traded derivatives)	17,134	1,370	15,716	1,257
– SFTs	4,035	323	3,138	251
– other	1,269	102	1,082	87
– CVA advanced	3,318	265	2,675	214
– CVA standardised	2,492	199	2,497	200
– CCP default funds	345	28	441	35
At 31 Dec	28,593	2,287	25,549	2,044

¹ Includes free deliveries not deducted from regulatory capital.

² Default fund contributions are cash balances posted to CCPs by all members. These cash balances are not included in the total reported exposure.

Market risk

Overview

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

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

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

- on pages 52 and 53 of the HSBC Bank plc *Annual Report and Accounts 2016*;
- on pages 114 to 120 of the HSBC Holdings plc *Annual Report and Accounts 2016*; and
- on pages 56 to 61 of the HSBC Holdings plc *Pillar 3 Disclosures 2016*.

Table 19: Market risk – RWA and capital required

	Footnotes	2016		2015	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
Internal model based	1	21,745	1,740	17,114	1,369
– VaR		4,585	367	4,676	374
– stressed VaR		5,454	436	5,882	471
– incremental risk charge		3,538	283	3,601	288
– other VaR and stressed VaR	2	8,168	654	2,955	236
Standardised approach	3	3,230	258	3,540	283
– interest rate position risk		804	63	971	78
– foreign exchange position risk		–	–	–	–
– equity position risk		1,307	105	862	69
– commodity position risk		8	1	6	–
– securitisations		1,111	89	1,701	136
– options		–	–	–	–
At 31 Dec		24,975	1,999	20,654	1,652

1 Internal model based RWAs include £4.2bn of RWAs arising from Risks not in VAR ('RNIV') (December 2015: £5.7bn).

2 RWAs for countries that cannot be included in consolidated VaR because regulatory permission has not been received to do so. These must be aggregated rather than consolidated.

3 RWAs for products and sites that are not in the scope of the approved model permissions from the regulator are calculated using the Standardised approach specified in CRD IV.

Operational risk

Overview

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.

Operational risk is relevant to every aspect of our business. It covers a wide spectrum of issues, in particular legal,

compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

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

- on page 29 of the HSBC Bank plc *Annual Report and Accounts 2016*;
- on pages 80 and 81 of the HSBC Holdings plc *Annual Report and Accounts 2016*; and
- on pages 62 to 63 of the HSBC Holdings plc *Pillar 3 Disclosures 2016*.

Table 20: Operational risk RWA

	2016		2015	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
Own funds requirement for operational risk	22,733	1,819	22,662	1,813

Other risks

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') arises principally from mismatches between the future yield on assets and their funding cost as a result of interest rate changes. Analysis of this risk is complicated for products where the contractual terms do not determine either the economic duration or the price of the balance, due to embedded customer optionality as an example. For these products, assumptions are used to allow accurate analysis.

The aim through the management of IRRBB is to mitigate the effect of prospective interest rate movements that could reduce future net interest income, while balancing the cost of such hedging activities on the current net revenue stream.

The economic capital requirement for IRRBB is measured using a two-step approach:

- The economic capital requirement generated by our banking book is measured by our economic value of equity ('EVE') sensitivity. EVE sensitivity considers all repricing mismatches assuming a run-off of the current balance sheet, and quantifies the larger loss in economic value of the Group's net asset position (including off balance sheet positions) under a +/- 200bps shock to interest rates. We hold capital only to the extent that our EVE sensitivity metric is projecting a loss in our banking book (that is, the EVE sensitivity brings the economic value of our banking book below the book value of adjusted equity).
- Additionally, a management buffer is held that is informed by the potential downside risk to the CET1 ratio due to interest rate and credit spread risk in the available-for-sale ('AFS') and non qualifying hedge ('NQH') portfolios. This downside risk is measured by the portfolio's stressed VaR, using a 99% confidence level and an assumed holding period of a quarter.

The Asset, Liability and Capital Management ('ALCM') team is responsible for measuring and controlling IRRBB under the supervision of the RMM. Its primary responsibilities are:

- to define the rules governing the transfer of interest rate risk from the global businesses to Balance Sheet Management ('BSM');
- to ensure that all IRRBB that can be hedged is effectively transferred from the global businesses to BSM; and
- to define the rules and metrics for monitoring the residual interest rate risk in the global businesses.

The different types of IRRBB, and the controls that the group uses to quantify and limit its exposures to these risks, can be categorised as follows:

- risk that is transferred to BSM and managed by BSM within a defined risk mandate;
- risk that remains outside BSM because it cannot be hedged. This risk will be captured by our net interest income sensitivity and EVE sensitivity with corresponding limits as part of our risk appetite statement for IRRBB;
- basis risk that is transferred to BSM when it can be hedged. Any residual basis risk remaining in the global businesses is reported to the Asset and Liability Committee ('ALCO'); and
- model risks that cannot be captured by net interest income or EVE sensitivity but are controlled by our stress testing framework.

Pension risk

We operate a number of pension plans throughout Europe for our employees. Our plans are either defined benefit or defined contribution plans, which expose the group to different types of risks. We have a global pension risk management framework, and accompanying global policies on the management of these risks, which is overseen at the European level by the HBEU Pension Oversight Forum.

Details of our management of pension risk can be found in 'Pension risk management' on page 32 of the HSBC Bank plc Annual Report and Accounts 2016.

Risk management of insurance operations

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

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

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

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits.

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

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

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

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided from page 31 of the HSBC Bank plc Annual Report and Accounts 2016.

Liquidity and funding risk

Liquidity risk is the risk that the group does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows.

The objective of the group's internal liquidity and funding risk management framework ('LFRF') is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

The LFRF is delivered using the following key aspects:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk ('ILR') categorisation;
- minimum liquidity coverage ratio ('LCR') requirement depending on ILR categorisation;
- minimum net stable funding ratio ('NSFR') requirement depending on ILR categorisation;
- legal entity depositor concentration limit;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued;
- annual individual liquidity adequacy assessment ('ILAA') by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity; and
- forward-looking funding assessments.

The new internal LFRF and the risk tolerance limits were approved by the Group Board on the basis of recommendations made by the Group Risk Committee.

Our ILAA process aims to:

- identify risks that are not reflected in the LFRF and, where required, to assess additional limits required locally; and
- validate the risk tolerance at the operating entity level by demonstrating that reverse stress testing scenarios are acceptably remote, and ensuring vulnerabilities have been assessed through the use of severe stress scenarios.

Liquidity is not managed 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, HSBC recognises that a strong capital base can help to mitigate liquidity risk.

Funding risk is a form of liquidity risk arising when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required. Our primary sources of funding are customer current and savings accounts payable on demand or at short notice. Wholesale securities are issued to supplement our customer deposits and change the currency mix, maturity profile or location of our liabilities.

Structural foreign exchange exposures

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

The group's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. This is usually achieved by

ensuring that, for each subsidiary bank, the ratio of structural exposures in a given currency to risk-weighted assets denominated in that currency is broadly equal to the capital ratio of the subsidiary in question.

Details of our structural foreign exchange exposures are provided on Page 50 of the HSBC Bank plc Annual Report and Accounts 2016.

Reputational risk

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk. We have taken, and are taking, measures to address the requirements of the US DPA and enhance our AML, sanctions and other regulatory compliance frameworks. These measures should also enhance our reputational risk management in the future.

For further details, please refer to the Reputational Risk section on page 83 of the HSBC Holdings plc Annual Report and Accounts 2016.

Sustainability risk

Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment. Sustainability risk is:

- measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high-risk transactions;
- monitored quarterly by the RMM and monthly by the Group's Sustainability Risk function; and
- managed using sustainability risk policies covering project finance lending and sector-based sustainability policies for sectors and themes with potentially large environmental or social impacts.

Business risk

The PRA specifies that banks, as part of their ICAAP, should review their exposure to business risk.

Business risk is the potential negative effect on profits and capital from the group not meeting our strategic objectives, as a result of unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

We manage and mitigate business risk through our risk appetite, business planning and stress testing processes. This ensures that our business model and planned activities are monitored, resourced and capitalised consistent with the commercial, economic and risk environment in which the group operates. Consequently any potential vulnerabilities of our business plans are identified at an early stage so that mitigating actions can be taken.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio, we do not report any dilution risk as we obtain an indemnity from the seller that indemnifies us against this risk. Moreover, factoring transactions involve lending at a discount to the face value of the receivables that provides protection against dilution risk.

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 153 to 170 of the HSBC Holdings plc *Annual Report and Accounts 2016*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2016.

Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 which 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, including those individuals for whom remuneration costs have been charged to HSBC Bank plc or its subsidiaries. This also 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 21: Aggregate remuneration expenditure

	By Global business					Total £m
	Retail Banking and Wealth Management £m	Commercial Banking £m	Global Banking and Markets £m	Global Private Banking £m	Corporate Centre £m	
Aggregate remuneration expenditure ¹						
2016	15.9	17.9	298.2	13.7	96.5	442.2

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 22: Remuneration – fixed and variable amounts

	2016		
	MRTs		Total
Number of MRTs	Senior management	Non-senior management	Total
	50	443	493
	£m	£m	£m
Fixed			
Cash-based	43.2	176.7	219.9
Shares-based	7.7	3.8	11.5
Total fixed	50.9	180.5	231.4
Variable¹			
Cash	8.0	41.6	49.6
Non-deferred shares ²	11.7	39.1	50.8
Deferred cash	11.5	39.3	50.8
Deferred shares	20.0	39.7	59.7
Total variable pay³	51.2	159.7	210.9

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% of the fixed component of total remuneration of the MRT.

Table 23: Deferred remuneration^{1, 2}

	2016		
	MRTs		Total
	Senior management £m	Non-senior management £m	Total £m
Deferred remuneration at 31 Dec			
Outstanding, unvested	142.0	230.3	372.3
Awarded during the year	36.9	106.5	143.4
Paid out	21.3	74.6	96.0
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 2016. 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.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2016

Table 24: Sign-on and severance payments

	2016		
	MRTs		
	Senior management	Non-senior management	Total
Sign-on payments¹			
Made during year (£m)	1.2	3.6	4.7
Number of beneficiaries	1	6	7
Severance payments²			
Awarded and made during year (£m)	–	2.0	2.0
Number of beneficiaries	–	3	3
Highest such award to single person (£m)	–	1.3	1.3

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 25: Material risk-takers (MRT) remuneration by band¹

	2016		
	Number of MRTs		
	Senior management	Non-senior management	Total
€0 – €1,000,000	16	322	338
€1,000,001 – €1,500,000	5	64	69
€1,500,001 – €2,000,000	5	25	30
€2,000,001 – €2,500,000	3	17	20
€2,500,001 – €3,000,000	7	7	14
€3,000,001 – €3,500,000	2	3	5
€3,500,001 – €4,000,000	2	1	3
€4,000,001 – €4,500,000	2	3	5
€4,500,001 – €5,000,000	1	–	1
€5,000,001 – €6,000,000	4	1	5
€6,000,001 – €7,000,000	1	–	1
€7,000,001 – €8,000,000	–	–	–
€8,000,001 – €9,000,000	1	–	1
€9,000,001 – €10,000,000	–	–	–
€10,000,001 – €11,000,000	1	–	1

1 Table prepared in euros in accordance with Article 450 of the Capital Requirements Regulation, using the rates published by the European Commission for financial programming and budget for December 2016, as published on their website.

Appendix I

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

CRD IV reference	Description	Rationale
438(e) and 445	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.
442(c)	Credit Risk Adjustments – In relation to exposure to credit risk and dilution risk, the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation.	Materiality The disclosure has been made after taking into account the effects of credit risk mitigation; there are no significant differences between exposures pre- and post- credit risk mitigation at exposure class level.
448(a)	Key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits) on their exposure to interest rate risk on positions not included in the trading book.	Proprietary Assumptions regarding fixed term loan repayments and term behaviouralisation of non-maturity deposits and capital drive HSBC's structural interest rates positioning and market hedging requirements. Disclosure could give key business strategy information to our competitors.

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

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

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

Appendix III

Cautionary statement regarding forward-looking statements

The Capital and Risk Management Pillar 3 Disclosures 2016 contains certain forward-looking statements with respect to HSBC's financial condition, results of operations, capital position and business.

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

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

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

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

