HSBC France

Pillar 3 Disclosures at 31 December 2019

HSBC

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The abbreviations '€m' and '€bn' represent millions and billions (thousands of millions) of Euros, respectively.

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Introduction

Table 1: Pillar 1 Comparaison of own funds, capital and leverage ratios

	At		
	31 Dec	30 Jun	31 Dec
	2019	2019	2018
	€m	€m	€m
Available capital			
Common equity tier 1 ('CET1') capital	**6,464**	6,364	4,747
Tier 1 capital	**7,214**	6,864	5,247
Total regulatory capital	**8,120**	7,870	5,708
Risk-weighted assets ('RWAs')			
Total RWAs	**48,051**	47,482	36,248
Capital ratios (%)			
CET1	**13.5%**	13.4%	13.1%
Total tier 1	**15.0%**	14.5%	14.5%
Total capital	**16.9%**	16.6%	15.7%
Leverage ratio			
Total leveratio exposure	**192,380**	187,402	144,188
Leverage ratio %	**3.7%**	3,7%	3.6%

Table 2: Overview of RWAs

	At	
	31 Dec	
	2019	
	RWAs	**Capital requirement[1]**
	€m	**€m**
Credit risk	**36,025**	**2,882**
– standardised approach	**10,771**	**862**
– foundation IRB approach	**2,579**	**206**
– advanced IRB approach	**20,798**	**1,664**
– equity IRB	**1,877**	**150**
Counterparty credit risk	**3,982**	**319**
– mark-to-market	**996**	**80**
– original exposure		**–**
– standardised approach	**–**	**–**
– internal model method	**2,036**	**163**
– risk exposure amount for contributions to the default fund of a central counterparty	**65**	**5**
– credit valuation adjustment	**885**	**71**
Settlement risk	**1**	**–**
Securitisation exposures in the non-trading book	**400**	**32**
– IRB ratings based method	**73**	**6**
– IRB supervisory formula method	**–**	**–**
– IRB internal assessment approach	**163**	**13**
– standardised approach	**–**	**–**
– exposures subject to the new securitisation framework	**164**	**13**
Market risk	**4,494**	**359**
– standardised approach	**325**	**26**
– internal models approach	**4,169**	**333**
– large exposures	**–**	**–**
Operational risk	**3,149**	**252**
– basic indicator approach	**–**	**–**
– standardised approach	**3,149**	**252**
– advanced measurement approach	**–**	**–**
Total	**48,051**	**3,844**

1 'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.
2 'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.

Regulatory framework for disclosures

HSBC France is regulated on a consolidated basis by the ECB which sets and monitors capital adequacy requirements.

At the consolidated HSBC France level, we calculated capital for prudential regulatory reporting purposes throughout 2019 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Regulation and Directive, collectively known as CRR/CRD IV.

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.

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC France. It should be read in conjunction with HSBC France *Annual Report and Accounts 2019*.

These disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. HSBC France document has been subject to internal review process in accordance with its financial reporting and governance processes.

Basis of preparation

The financial information contained in this disclosure has been prepared on a consolidated basis.

In our disclosures, we provide comparative figures for the previous year to facilitate the analysis. Key ratios and figures are reflected throughout the *Pillar 3 2019 Disclosures* and are also available on page 78 of the HSBC France *Annual Reports and Accounts 2019*. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives.

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

The Pillar 3 disclosure for HSBC France is available on the HSBC websites, www.hsbc.com or www.hsbc.fr, simultaneously with the release of our HSBC France *Annual Report and Accounts*.

This Pillar 3 disclosure includes regulatory information complementing the financial and risk information presented there and is in line with the 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 2019* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 21 to 39 of the HSBC France *Annual Report and Accounts 2019.*

Regulatory developments

Basel Committee

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

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

As described in the successive EBA impact assessment for European banks, the Basel III reforms may lead to a potential increase in RWAs. However, the final outcome is uncertain both in impact and timing, given the high number of parameters that still need to be clarified: the definition of some features of the agreement such as the output floor is still under discussion and a significant number of national discretions are embedded within the international agreement.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the final rules amending the Capital Requirements Regulation, known as the CRR2. This was the EU's implementation of the Financial Stability Board's ('FSB') requirements for Total Loss Absorbing Capacity ('TLAC'), known in Europe as the Minimum Requirements for Own Funds and Eligible Liabilities ('MREL'). Furthermore, it also included changes to the own funds regime.

The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the FRTB, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in Q2 2021, in advance of Basel's timeline.

Since Basel's review of the calibration of the FRTB came too late to be included in the final CRR2 text, the changes are being incorporated by way of a Delegated Act, which was published in near final format in December 2019. This introduces the FRTB in the EU as a reporting requirement only until a full impact assessment can be performed. Reporting on the standardised approach will begin 12 months after the enactment of the Delegated Act; whereas reporting on the modelled approaches will begin 3 years after enactment. A final date for the implementation of the FRTB in the EU has yet to be agreed.

The EU's implementation of the Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the CRR ('CRR3'). In 2019, the European Commission ('EC') began consulting on the implementation of the CRR3, which will include reforms to credit risk, operational risk, and the output floor. The EC is expected to produce a draft CRR3 text in the second quarter of 2020. The EU implementation will then be subject to an extensive negotiation process with the EU Council and Parliament. As a result, the final form of the rules remains unclear.

The UK's withdrawal from the EU

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smooth the transition, the UK remains subject to EU law during a transition period, which is currently expected to end on 31 December 2020. This period may be extended by a further 2 years, subject to political agreement.

During that transition period, the UK will continue to be treated as a Member State from a prudential standpoint. At the end of the transition period, the UK will be treated as a non-EU third country, the treatment of which is subject to equivalence assessments. The European Commission aims to conclude its assessment of whether the UK applies equivalent regulatory standards by Q2 2020.

The end of the transition period will also trigger an additional MREL requirement under CRR2 for HSBC France as it becomes a subsidiary of a third-country parent entity

Other developments

In August 2019, the European Central Bank ('ECB') aligned its Pillar 2 expectations on non-performing loans ('NPLs'), the addendum to the ECB guidance on NPLs, with the Pillar I backstop which entered into force in April 2019. As a result, NPLs classified as such from 1 April 2018 are now subject to a single coverage expectation and overlapping between the ECB Pillar 2 expectations and the Pillar I backstop has been removed. The specific ECB requirements for the stock of NPLs as of 31 March 2018 remain unchanged.

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

In October 2019, the Single Resolution Board ('SRB') consulted banks for the first time on its expectation for banks' resolution capabilities. The SRB will take this into account in future work programmes. The SRB policy is also expected to update its policy early this year ahead of the entry into force of revisions to the Bank Recovery and Resolution Directive ('BRRD2').

In January 2020, the High Council for Financial Stability ('HCSF') confirmed its decision from April 2019 to increase the Countercyclical Capital Buffer applicable to French exposures from 0.25% to 0.50%, applicable as of April 2020, and also issued a set of recommendations to curtail lending for mortgages (especially loans longer than 25 years, and those that represent more than one third of borrowers' income).

Significant events

As part of the structural changes anticipating the consequences of the exit of the United Kingdom from the European Union and in order to simplify the organisation of activities in continental Europe, HSBC France acquired certain assets and liabilities of six HSBC Bank plc European branches (in Belgium, the Czech Republic, Ireland, Italy, the Netherlands and Spain).

The acquisition of the assets and liabilities of the branches is effective since 1 February 2019.

The significant events and the capital increase are detailed in the note 1 'significant events during the year' of the consolidated Financial Statements section on page 172 of the HSBC *France Annual Report and Accounts 2019*.

Linkage to the Annual Report and Accounts 2019

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRS, described in Note 1 of the Financial Statements, differs from that used for regulatory purposes.

The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation. 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 net asset value and deducted from CET1 (subject to thresholds).

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

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	**19,463**	—	—	**19,463**
Items in the course of collection from other banks	**775**	—	—	**775**
Trading assets	**14,837**	—	—	**14,837**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**11,957**	**(11,170)**	—	**787**
Financial assets designated at fair value	—	—	—	—
Derivatives	**45,724**	**(36)**	—	**45,688**
Loans and advances to banks	**6,798**	**(87)**	—	**6,711**
Loans and advances to customers	**56,956**	**470**	—	**57,426**
– of which:				
impairment allowances on IRB portfolios	***(516)***	—	—	***(516)***
impairment allowances on standardised portfolios	***(166)***	—	—	***(166)***
Reverse repurchase agreements – non-trading	**45,973**	—	—	**45,973**
Financial investments	**16,987**	**(12,093)**	—	**4,894**
Assets held for sale	**3**	—	—	**3**
Prepayments, accrued income and other assets	**16,820**	**(362)**	—	**16,458**
– of which: retirement benefit assets	—	—	—	—
Current tax assets	**164**	**(27)**	—	**137**
Interests in associates and joint ventures	**1**	—	—	**1**
Goodwill and intangible assets	**993**	**(613)**	—	**380**
Deferred tax assets	**229**	—	—	**229**
Total assets at 31 December 2019	**237,680**	**(23,918)**	—	**213,762**
Liabilities and equity				
Deposits by banks	**12,113**	**(13)**	—	**12,100**
Customer accounts	**57,550**	**416**	—	**57,966**
Repurchase agreements – non-trading	**20,213**	—	—	**20,213**
Items in the course of transmission to other banks	**396**	—	—	**396**
Trading liabilities	**23,262**	—	—	**23,262**
Financial liabilities designated at fair value	**18,953**	**1,075**	—	**20,028**
Derivatives	**45,115**	**4**	—	**45,119**
Debt securities in issue	**9,782**	—	—	**9,782**
Accruals, deferred income and other liabilities	**16,756**	**(1,238)**	—	**15,518**
– of which: retirement benefit liabilities	***189***	***(3)***	—	***186***
Current tax liabilities	**66**	**7**	—	**73**
Liabilities under insurance contracts	**23,292**	**(23,292)**	—	—
Provisions	**160**	**(3)**	—	**157**
– of which:				
credit-related provisions on IRB portfolios	—	—	—	—
credit-related provisions on standardised portfolios	—	—	—	—
Deferred tax liabilities	**175**	**(167)**	—	**8**
Subordinated liabilities	**1,376**	—	—	**1,376**
– of which:				
perpetual subordinated debt included in tier 2 capital	***16***	—	—	***16***
term subordinated debt included in tier 2 capital	***1,360***	—	—	***1,360***
Total liabilities at 31 December 2019	**229,209**	**(23,211)**	—	**205,998**
Called up share capital	**491**	—	—	**491**
Share premium account	**2,137**	—	—	**2,137**
Other equity instruments	**750**	—	—	**750**
Other reserves	**1,641**	**(30)**	—	**1,611**
Retained earnings	**3,424**	**(677)**	—	**2,747**
Total shareholders' equity	**8,443**	**(707)**	—	**7,736**
Non-controlling interests	**28**	—	—	**28**
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital	—	—	—	—
Total equity at 31 December 2019	**8,471**	**(707)**	—	**7,764**
Total liabilities and equity at 31 December 2019	**237,680**	**(23,918)**	—	**213,762**

Capital and Leverage

Capital management

Approach and policy

HSBC France's objective in managing the bank's capital is to maintain appropriate levels of capital to support its business strategy and meet regulatory and stress testing related requirements.

HSBC France manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2019, HSBC France complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan which is approved by the Board and which determines the appropriate amount and mix of capital.

HSBC France has issued ordinary shares at a premium in January, February, June and September 2019 via four capital injections from HSBC Bank plc of respectively EUR 950 million, EUR 336 million, EUR 300 million and EUR 200 million.

HSBC France has increased Additional Tier 1 capital in December 2019 via an intragroup transaction with HSBC Bank plc of EUR 250 million. HSBC France has also increased Tier 2 capital in January and June 2019 via two transactions with HSBC Bank plc of EUR 400 million and EUR 100 million respectively.

Those capital injections aimed to cover for the increase in the capital demand arising from the strategic build-out of HSBC France related to Brexit and in particular the transfer of clients' exposures from HSBC Bank plc to HSBC France as well as for the purchase of the assets and liabilities previously booked in HSBC Bank plc branches in the European Economic Area transferred to newly-created HSBC France branches. The Tier 2 and Additional Tier 1 increases are in line with HSBC France's strategy to ensure an adequate combination of core and non-core capital as recommended in the EBA guidelines.

The policy on capital management is underpinned by the HSBC group capital management framework, which enables a consistent management of the capital.

The Internal Capital Adequacy Assessment Process ('ICAAP') which aims at assessing the adequacy of the bank's capital resources with regards its risk and requirements incorporates different assessment methods of the capital needs within HSBC France. These capital measures include economic capital and regulatory capital defined as follows:

- Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC France to support the risks to which it is exposed; and
- Regulatory capital is the level of capital which HSBC France is required to hold in accordance with the rules set by the legislation and the ECB.

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

Stress testing

Stress testing is incorporated in the capital management framework and is an important component of understanding the sensitivities of the core assumptions included in HSBC France'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 also been used to inform the capital planning process and further develop the stress scenarios employed within HSBC France.

Regulatory stress tests (carried out at the request of regulators using their prescribed assumptions), internal stress tests (using internally defined scenarios defined to capture the specific risks faced by HSBC France) and sensitivity analysis are performed. HSBC France takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond the stress testing framework, a list of the main risks with associated potential impacts on HSBC France's capital ratios is regularly reviewed. These risks are identified as possibly affecting Risk-Weighted Assets ('RWAs') and/or capital position. They can either result from expected regulatory and model changes, or from structural and activity related items. These risks are monitored regularly within the Asset & Liability Committee and the Risk Committee. For the relevant categories of risk, scenario analyses are performed. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

Further explanation on model risk can be found in Risk section on pages 96 and 143 of the HSBC France *Annual Report and Accounts* 2019.

HSBC France's approach to managing its capital position has been to ensure the bank complies with current regulatory requirements and internal risk appetite, as well as to ensure that future regulatory requirements are considered.

Risk-weighted asset targets

RWA targets for the global businesses are established in accordance with the Group's strategic direction and risk appetite, and approved through HSBC France's processes, and through the Bank's annual planning process.

A monitoring is performed at an operational level taking into account growth strategies; active portfolio management; business and/or customer-level reviews; RWA accuracy and allocation initiatives and risk mitigation.

Business performance against RWA targets is monitored through regular reporting discussed in the Asset & Liability Committee, Risk Management Meeting, Executive Committee, Risk Committee and Board of Directors.

Capital generation

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

Overview of regulatory capital framework

Main features of CET1, AT1 and T2 instruments issued by HSBC France

For regulatory purposes, HSBC France'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 HSBC France are described below.

Common Equity Tier 1 ('CET1')

Common Equity Tier 1 ('CET 1') capital is the highest quality form of capital, comprising shareholders' equity and related non-controlling interests (subject to limits). Under CRD IV/CRR various capital deductions and regulatory adjustments are made against these items – these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts under IRB.

Additional Tier 1 capital ('AT1')

Additional Tier 1 capital comprises eligible non-common equity capital securities such as Additional Tier 1 eligible subordinated debt as per CRR, and any related share premium. Holdings of additional Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital.

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 the event the bank's Common Equity Tier 1 ratio falls below 5.125%.

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.

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 ECB. 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.

A list of the main features of HSBC France's regulatory capital instruments prepared in accordance with the instructions provided in Annex III of the Regulation 1423/2013 is also being published on HSBC's website with reference to HSBC France's balance sheet as at 31 December 2019.

Table 4: Own funds disclosure

Ref*		At 31 Dec 2019 €m	At 31 Dec 2018 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	842
	– ordinary shares	**2,137**	475
2	Retained earnings	**3,546**	3,627
3	Accumulated other comprehensive income (and other reserves)	**1,545**	1,596
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(63)**	(32)
6	**Common equity tier 1 capital before regulatory adjustments**	**7,656**	6,032
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(214)**	(173)
8	Intangible assets (net of related deferred tax liability)	**(376)**	(420)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**(29)**	—
11	Fair value reserves related to gains or losses on cash flow hedges	**(34)**	23
12	Negative amounts resulting from the calculation of expected loss amounts	**(117)**	(107)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**84**	(57)
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(508)**	(553)
22	Amount exceeding the 15% threshold	**—**	—
28	**Total regulatory adjustments to common equity tier 1**	**(1,193)**	(1 286)
29	**Common equity tier 1 capital**	**6,464**	4,747
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**750**	500
36	**Additional tier 1 capital before regulatory adjustments**	**750**	500
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	—
44	**Additional tier 1 capital**	**750**	500
45	**Tier 1 capital (T1 = CET1 + AT1)**	**7,214**	5,247
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**1,376**	876
51	**Tier 2 capital before regulatory adjustments**	**1,376**	876
	Tier 2 capital: regulatory adjustments		
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)	**(470)**	(415)
57	**Total regulatory adjustments to tier 2 capital**	**(470)**	(415)
58	Tier 2 capital	**906**	461
59	**Total capital (TC = T1 + T2)**	**8,120**	5,708
60	**Total risk-weighted assets**	**48,051**	36,248
	Capital ratios and buffers		
61	Common equity tier 1	**13.5%**	13.1%
62	Tier 1	**15.0%**	14.5%
63	Total capital	**16.9%**	15.7%
64	Institution specific buffer requirement[2]	**2.8%**	1.9%
65	– capital conservation buffer requirement	**2.5%**	1.9%
66	– countercyclical buffer requirement	**0.3%**	0.0%
68	Common equity tier 1 available to meet buffers[1]	**9.0%**	8.6%
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**168**	8
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)	**680**	529
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**201**	156

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

1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*
2 *Figures reported in 2018 had been changed.*

Capital increase is detailed in the note 1 'significant events during the year' of the Consolidated Financial Statements section on page 172 of the HSBC France *Annual Report and Accounts 2019.*

A detailed breakdown of the HSBC France's CET1 capital, AT1 capital, Tier 2 capital and regulatory deductions can be viewed in the Capital instruments Main Features 31 December 2019 which will be available on our website https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

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 at constraining 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 weighted off-balance sheet exposures, and further netting possibilities on market instruments. 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. Although there is currently no binding leverage ratio requirement on the bank, the risk of excess leverage is managed as part of HSBC France's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC France 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 HSBC France, the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

The description of the processes used to manage the risk of excessive leverage is detailed in section Risk Appetite in page 93 of the HSBC France *Annual Report and Accounts* 2019.

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

Ref*		At 31 Dec 2019 €m	At 31 Dec 2018 €m
1	Total assets as per published financial statements	**237,680**	180,946
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(23,918)**	(22,078)
4	– derivative financial instruments	**(40,344)**	(24,085)
5	– securities financing transactions ('SFT')	**(4,966)**	(5,940)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**25,040**	16,235
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure)		—
7	– other adjustments	**(1,112)**	(890)
8	**Total leverage ratio exposure**	**192,380**	144,188

Table 6: Leverage ratio common disclosure

Ref*		At 31 Dec 2019 €m	At 31 Dec 2018 €m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**122,089**	94,667
2	(Asset amounts deducted in determining Tier 1 capital)	**(1,100)**	(1,233)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**120,989**	93,434
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**3,462**	1,040
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**12,904**	11,293
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**—**	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(10,090)**	(4,803)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(1,110)**	—
9	Adjusted effective notional amount of written credit derivatives	**5,583**	94
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(5,405)**	—
11	**Total derivative exposures**	**5,343**	7,624
	Securities financing transaction exposures	**—**	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**45,973**	32,835
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(50,109)**	(61,733)
14	Counterparty credit risk exposure for SFT assets	**45,143**	55,792
16	**Total securities financing transaction exposures**	**41,007**	26,895
	Other off-balance sheet exposures	**—**	
17	Off-balance sheet exposures at gross notional amount	**25,040**	16,235
18	(Adjustments for conversion to credit equivalent amounts)	**—**	—
19	**Total off-balance sheet exposures**	**25,040**	16,235
	Exempted exposures	**—**	—
	Capital and total exposures		
20	**Tier 1 capital**	**7,214**	5,247
21	**Total leverage ratio exposure**	**192,380**	144,188
22	**Leverage ratio % – transitional**	**N/A**	N/A
22b	**Leverage ratio % – fully-loaded**	**3,7%**	3.6%

* *The references identify the lines prescribed in the EBA template, when applicable.*

Capital buffers

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broader macroprudential goal of protecting the banking sector in periods of excess aggregate credit growth. National macroprudential authorities set the countercyclical buffer rate usually within a 0-2.5 % with rate increases announced at least a year in advance under normal circumstances.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	SA	IRB	Sumof long/ short positions for SA	Internal models	SA	IRB	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securitisation exposures*	Total	Own funds requirements weights	CCyB rate
Country	€m	€m	€m	€m	€m	€m	*€m*	*€m*	*€m*	€m	%	%
Algeria	5.1	3.9	–	–	–	–	*0.4*	–	–	0.4	–	–
Armenia	1.7	2.3	–	–	–	–	*0.3*	–	–	0.3	–	–
Australia	0.2	22.5	–	–	–	–	*1.2*	–	–	1.2	–	–
Austria	–	60.0	–	–	–	–	*4.2*	–	–	4.2	0.2	–
Azerbaijan	80.4	34.7	–	–	–	–	*0.6*	–	–	0.6	–	–
Bahrain	2.0	3.4	–	–	–	–	*0.1*	–	–	0.1	–	–
Bangladesh	–	32.4	–	–	–	–	*0.2*	–	–	0.2	–	–
Belgium	156.0	1,060.6	–	–	–	–	*48.7*	–	–	48.7	1.7	–
Bermuda	83.1	201.4	–	–	–	–	*2.4*	–	–	2.4	0.1	–
Brazil	0.1	366.3	–	–	–	–	*11.7*	–	–	11.7	0.4	–
Bulgaria	1.0	6.6	–	–	–	–	*0.1*	–	–	0.1	–	0.5
Cambodia	–	1.0	–	–	–	–	*0.1*	–	–	0.1	–	–
Canada	–	27.7	–	–	–	–	*0.7*	–	–	0.7	–	–
Cayman Islands	–	432.0	–	–	–	–	*8.2*	–	–	8.2	0.3	–
Chile	8.0	0.1	–	–	–	–	*0.7*	–	–	0.7	–	–
China	45.2	46.2	–	–	–	–	*3.0*	–	–	3.0	0.1	–
Colombia	–	5.2	–	–	–	–	*0.8*	–	–	0.8	–	–
Croatia	2.4	–	–	–	–	–	*0.2*	–	–	0.2	–	–
Cyprus	37.1	22.1	–	–	–	–	*4.0*	–	–	4.0	0.1	–
Czech Republic	338.3	125.0	–	–	–	–	*29.8*	–	–	29.8	1.0	1.8
Denmark	0.1	649.0	–	–	–	–	*21.2*	–	–	21.2	0.7	1.0
Egypt	72.5	35.6	–	–	–	–	*0.4*	–	–	0.4	–	–
Finland	1.5	91.1	–	–	–	–	*5.2*	–	–	5.2	0.2	–
France	6,288.3	49,226.1	–	–	428.0	964.7	*1,766.0*	–	*14.8*	1,780.8	61.3	0.3
French Guiana	–	0.1	–	–	–	–	–	–	–	–	–	–
French Southern Territories	0.1	–	–	–	–	–	–	–	–	–	–	–
Germany	62.2	953.0	–	–	222.6	254.1	*32.2*	–	*4.3*	36.5	1.3	–
Ghana	–	44.5	–	–	–	–	*0.8*	–	–	0.8	–	–
Greece	634.3	61.9	–	–	–	–	*38.5*	–	–	38.5	1.3	–
Guernsey	–	76.6	–	–	–	–	*2.6*	–	–	2.6	0.1	–
Hong Kong	1.0	5.2	–	–	–	–	*0.4*	–	–	0.4	–	2.0
Hungary	8.3	4.2	–	–	–	–	*0.7*	–	–	0.7	–	–
Iceland	–	–	–	–	–	–	–	–	–	–	–	1.8
India	–	22.4	–	–	–	–	*0.1*	–	–	0.1	–	–
Indonesia	18.4	4.7	–	–	–	–	*1.5*	–	–	1.5	0.1	–
Ireland	290.5	1,229.2	–	–	–	–	*53.4*	–	–	53.4	1.8	1.0
Isle Of Man	–	–	–	–	–	–	*0.1*	–	–	0.1	–	–
Israel	53.8	0.7	–	–	–	–	*2.5*	–	–	2.5	0.1	–
Italy	13.8	2,019.8	–	–	89.0	100.0	*118.2*	–	*2.9*	121.1	4.2	–
Jersey	30.0	4.5	–	–	–	–	*2.5*	–	–	2.5	0.1	–
Kazakhstan	–	66.0	–	–	–	–	*0.8*	–	–	0.8	–	–
Korea. Republic Of	–	11.0	–	–	–	–	*0.2*	–	–	0.2	–	–
Kuwait	5.7	0.1	–	–	–	–	*0.2*	–	–	0.2	–	–
Lebanon	–	3.1	–	–	–	–	*0.6*	–	–	0.6	–	–
Liberia	0.2	–	–	–	–	–	–	–	–	–	–	–
Lithuania	–	–	–	–	–	–	–	–	–	–	–	1.0
Luxembourg	169.9	1,527.7	–	–	132.0	–	*65.5*	–	*1.6*	67.1	2.3	–
Malaysia	16.2	0.9	–	–	–	–	*0.6*	–	–	0.6	–	–
Malta	1.6	1.0	–	–	–	–	–	–	–	–	–	–
Mauritius	0.2	0.1	–	–	–	–	–	–	–	–	–	–
Mexico	141.3	36.4	–	–	–	–	*10.3*	–	–	10.3	0.4	–
Monaco	–	36.8	–	–	–	–	*2.9*	–	–	2.9	0.1	–
Montenegro	3.2	–	–	–	–	–	*0.3*	–	–	0.3	–	–
Morocco	–	5.2	–	–	–	–	*0.4*	–	–	0.4	–	–
Netherlands	1,434.4	2,134.5	–	–	80.0	500.0	*219.6*	–	*4.6*	224.2	7.7	–

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (continued)

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	SA	IRB	Sumof long/ short positions for SA	Internal models	SA	IRB	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securitisation exposures*	Total	Own funds requirements weights	CCyB rate
Country	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	***€m***	***€m***	**€m**	**%**	**%**
New Zealand	**0.1**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Nigeria	**0.2**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Norway	**1.6**	**110.4**	**—**	**—**	**—**	**—**	***6.3***	***—***	***—***	**6.3**	**0.2**	**2.5**
Oman	**0.7**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Panama	**—**	**154.5**	**—**	**—**	**—**	**—**	***2.3***	***—***	***—***	**2.3**	**0.1**	**—**
Philippines	**4.3**	**0.1**	**—**	**—**	**—**	**—**	***0.1***	***—***	***—***	**0.1**	**—**	**—**
Poland	**774.7**	**149.2**	**—**	**—**	**—**	**—**	***59.9***	***—***	***—***	**59.9**	**2.1**	**—**
Portugal	**24.2**	**60.5**	**—**	**—**	**—**	**—**	***5.7***	***—***	***—***	**5.7**	**0.2**	**—**
Qatar	**9.4**	**31.9**	**—**	**—**	**—**	**—**	***0.4***	***—***	***—***	**0.4**	**—**	**—**
Romania	**—**	**0.7**	**—**	**—**	**—**	**—**	***0.1***	***—***	***—***	**0.1**	**—**	**—**
Russian Federation	**34.0**	**55.8**	**—**	**—**	**—**	**—**	***1.1***	***—***	***—***	**1.1**	**—**	**—**
Saudi Arabia	**0.1**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Singapore	**2.7**	**54.9**	**—**	**—**	**—**	**—**	***0.6***	***—***	***—***	**0.6**	**—**	**—**
Slovakia	**62.4**	**16.8**	**—**	**—**	**—**	**—**	***5.2***	***—***	***—***	**5.2**	**0.2**	**1.5**
Slovenia	**28.0**	**—**	**—**	**—**	**—**	**—**	***2.2***	***—***	***—***	**2.2**	**0.1**	**—**
South Africa	**83.3**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Spain	**1,079.1**	**1,085.3**	**—**	**—**	**—**	**235.7**	***136.2***	***—***	***1.6***	**137.8**	**4.7**	**—**
Sri Lanka	**0.1**	**8.4**	**—**	**—**	**—**	**—**	***0.1***	***—***	***—***	**0.1**	**—**	**—**
Sweden	**0.6**	**402.1**	**—**	**—**	**—**	**—**	***24.7***	***—***	***—***	**24.7**	**0.9**	**2.5**
Switzerland	**5.6**	**1,015.1**	**—**	**—**	**—**	**—**	***40.5***	***—***	***—***	**40.5**	**1.4**	**—**
Taiwan. Province Of China	**—**	**0.4**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Thailand	**—**	**113.2**	**—**	**—**	**—**	**—**	***1.5***	***—***	***—***	**1.5**	**0.1**	**—**
Tunisia	**—**	**0.1**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Turkey	**63.0**	**124.5**	**—**	**—**	**—**	**—**	***4.0***	***—***	***—***	**4.0**	**0.1**	**—**
United Arab Emirates	**51.2**	**714.0**	**—**	**—**	**—**	**—**	***14.6***	***—***	***—***	**14.6**	**0.5**	**—**
United Kingdom	**127.3**	**1,373.8**	**—**	**—**	**—**	**359.3**	***55.0***	***—***	***2.1***	**57.2**	**2.0**	**1.0**
United States	**235.6**	**1,251.1**	**—**	**—**	**—**	**—**	***49.0***	***—***	***—***	**49.0**	**1.7**	**—**
Uruguay	**0.1**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**—**
Viet Nam	**0.8**	**9.0**	**—**	**—**	**—**	**—**	***0.1***	***—***	***—***	**0.1**	**—**	**—**
Virgin Islands. British	**3.3**	**—**	**—**	**—**	**—**	**—**	***0.2***	***—***	***—***	**0.2**	**—**	**—**
Total	**12,602.5**	**67,436.5**	**—**	**—**	**951.6**	**2,413.7**	***2,875.1***	***—***	***32.0***	**2,907.1**	**100.0**	

Table 8: Amount of Institution specific countercyclical buffer

	2019
Total Risk Exposure Amount (€m)	**48,051**
Institution specific countercyclical capital buffer rate	**0.25%**
Institution specific countercyclical capital buffer requirement (€m)	**118**

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC France
Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('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'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject 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. Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	For consolidated France reporting, we have adopted the advanced IRB approach for the majority of our business. Some portfolios remain on the standardised or foundation IRB approaches pending 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 exposures are defined by the CRR: mark-to-market, standardised and Internal Model Method ('IMM'). These exposures are used to determine capital requirements under one of the credit risk approaches; standardised, IRB foundation and IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, HSBC France uses the mark-to-market and IMM approaches for counterparty credit risk for derivatives and the financial security-based method for deferred payment transactions. Temporary permission on IMM and CVA model has been granted in 2019 under tolerance period framework. Format assessment is ongoing.
Equity	For non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC France reporting purposes, all equity exposures are treated under the IRB simplified approach.
Securitisation	The CRR specifies two approaches for calculating credit risk requirements for securitisation positions in non-trading books: the standardised approach and the IRB approach, which incorporates the ratings based method ('RBM'), the internal assessment approach ('IAA') and the supervisory formula method ('SFM'). Securitisation positions in the trading book are treated within the market risk framework, using the CRD IV standard rules. On 1 January 2019, the new securitisation framework came into force in the EU for new transactions. This framework prescribes the following approaches: • internal ratings-based approach ('SEC-IRBA'); • external ratings-based approach ('SEC-ERBA'); • internal assessment approach ('IAA'); and • standardised approach ('SEC-SA'). From 1 January 2020, all transactions will be subject to the new framework.	HSBC France only holds securitisation positions in banking books. We use the IRB approach, and with in this principally the RBM and IAA. HSBC France uses the RBM except for liquidity facilities and programme-wide enhancements for asset-backed securitisations, for which the IAA is applied. Our exposures subject to new securitisation framework in 2019 include exposures under IAA and SEC-SA.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').	For HSBC France, the risks presented above are mainly measured by HSBC France via internal models when approved by the ECB and the PRA, and under the standardised approach for a small remaining portfolio. Internal Market Risk models are based on VaR, Stressed VaR and IRC. Temporary permission for internal models for specific risk has been granted in 2019 under tolerance period framework. Formal assessment is on going.
Operational risk	The CRR includes a capital requirement for operational risk, once again based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach; banks apply different percentages to the total operating income to each of eight defined business lines. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	We have historically adopted and currently use the standardised approach in determining our operational risk capital requirement.

Pillar 2 and ICAAP

Pillar 2

Pillar 2 (Supervisory and own funds management process) consists of the own assessment by banks and of the assessment from supervision authorities, of the need to allocate capital resources to risks that are not covered by the Pillar 1 framework. A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC France, to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates HSBC France's risk management processes and governance framework. As part of this ICAAP, a range of stress tests are applied to our base capital plan. These tests, coupled with its economic capital framework and other risk management practices, are used to assess our internal capital adequacy evaluation by HSBC France.

This evaluation process is summarised in an annual ICAAP report. The ICAAP is approved by the Board, which has the ultimate responsibility for the effective management of risk and approval of HSBC France's risk appetite. It is then submitted to the supervisory authorities.

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance under Pillar 2. This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement ('P2R') and a Pillar 2 guidance ('P2G'), which are added to the Pillar 1 requirements ('P1R').

The Overall Capital Requirement ('OCR'), applicable on total capital is composed of the P1R, the P2R, and the combined regulatory buffers. This stands as the applicable regulatory minimum on Total capital for a bank falling under ECB supervision.

The Total SREP capital requirement, which is composed only of the P1R and the P2R, applicable only to the total capital ratio, is the ratio that banks should respect under stressed scenarios.

The P2G applies on CET1 ratio, and represents the applicable regulatory minimum on CET1 along with the P1R, the P2R and the combined buffers.

As a result of the annual SREP, the ECB has set to 3.00% the P2R for HSBC France for the year 2020.

HSBC France will be required to meet on a consolidated basis a minimum total capital ratio of at least 13.75%, from 1 January 2020. The OCR is composed of: the 8% P1R, the 3.00% P2R mentioned above, the 2.50% capital conservation buffer in respect of article 129 of the CRD IV and, as Q4 2019, a countercyclical capital buffer of 0.25%.

The requirement in respect of Common Equity Tier 1 is 10.25%, excluding P2G.

Internal capital adequacy assessment

The Board approves the ICAAP, and together with the Risk Committee, examines the Bank's regulatory and economic capital profiles, in order to ensure that capital resources:

- remain sufficient to support the bank's risk profile and outstanding commitments;
- exceed current regulatory requirements, and that the bank 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 the strategic and operational goals, and the shareholders and investors expectations.

The minimum regulatory capital that HSBC France is required to hold is determined by the rules and guidance established by the Joint Supervisory Team. These capital requirements are a primary influence shaping the business planning process, in which RWA targets are established for global businesses in accordance with the bank's strategic direction and risk appetite.

The economic capital assessment is a more risk-sensitive measure, 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 the management of risk.

Economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon with a 99.95% confidence level.

The ICAAP and its constituent economic capital calculations are examined by the Joint Supervisory Team as part of its supervisory review and evaluation process. This examination informs the regulator's view of the Pillar 2 capital requirement and guidance.

A strong level of integration between risk and capital management frameworks helps optimising the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk, and pension risk.

Financial Conglomerate

HSBC France holds an insurance activity subsidiary and as such has been identified by the ECB as a financial conglomerate. Therefore, the bank is subject to a supplementary conglomerate supervision by the ECB.

In this context, the conglomerate ratio is defined as the ratio between the total capital within the financial conglomerate, and the capital requirement due to banking status cumulated with the capital requirement due to insurance status. The required minimum for this indicator is 100%. At HSBC France's level, the excess of capital towards this indicator is of EUR 2.5 billion for 2019.

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 from the holding of debt and other securities.

The tables below set out details of the HSBC France's credit risk exposures by exposure class and approach. Further explanation of the HSBC France's approach to managing credit risk (including detail of the past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 97 to 116 of the HSBC France *Annual Report and Accounts 2019*.

Table 9: Credit risk exposure – summary

	Footnotes	Exposure value	Average exposure value	RWAs	Capital required	RWA Density
		€m	€m	€m	€m	%
IRB advanced approach		59,739	59,695	20,799	1,664	35
– central governments and central banks		584	816	86	7	15
– institutions		1,532	1,360	367	29	24
– corporates	1	34,100	34,637	17,053	1,364	50
– total retail		23,523	22,882	3,293	263	14
– *of which:*						
secured by mortgages on immovable property – small- and medium -sized enterprises ('SME')		*510*	*522*	*328*	*26*	*64*
secured by mortgages on immovable property non-SME		*2,929*	*2,953*	*575*	*46*	*20*
qualifying revolving retail		*1*	*1*	*—*	*—*	*43*
other SME		*1,494*	*1,605*	*512*	*41*	*34*
other non-SME		*18,589*	*17,801*	*1,878*	*150*	*10*
IRB securitisation positions		3,365	3,376	400	32	12
IRB equity		801	740	1,877	150	234
IRB foundation approach		3,342	2,641	2,578	206	77
– central governments and central banks		3	9	2	—	82
– institutions		319	324	210	17	66
– corporates		3,020	2,308	2,366	189	78
Standardised approach		43,778	43,099	10,771	862	25
– central governments and central banks		24,890	24,800	—	—	—
– regional governments or local authorities		92	79	2	—	2
– public sector entities		3,461	2,362	10	1	—
– international organisations		1,144	975	—	—	—
– institutions		1,981	2,391	506	40	26
– corporates		7,533	8,015	5,917	473	79
– retail		204	204	126	10	62
– secured by mortgages on immovable property		1,183	1,017	489	39	41
– exposures in default		179	191	203	16	114
– items associated with particularly high risk		153	146	230	18	150
– claims in the form of collective investments undertakings		—	—	—	—	—
– equity		—	—	—	—	100
– other items	2	2,959	2,919	3,288	263	111
At 31 Dec 2019		111,025	109,551	36,425	2,914	33

Table 9: Credit risk exposure – summary (continued)

	Footnotes	Exposure value	Average exposure value[3]	RWAs	Capital required	RWA Density
		€m	€m	€m	€m	%
IRB advanced approach		55,168	53,946	18,014	1,441	33
– central governments and central banks		816	1,040	95	8	12
– institutions		1,046	1,115	310	25	30
– corporates	1	31,291	29,760	14,608	1,168	47
– total retail		22,015	22,031	3,001	240	14
– *of which:*						
secured by mortgages on immovable property SME		*549*	*529*	*344*	*28*	*63*
secured by mortgages on immovable property non-SME		*3,029*	*3,056*	*627*	*50*	*21*
qualifying revolving retail		*1*	*1*	*—*	*—*	*—*
other SME		*1,584*	*1,869*	*559*	*45*	*35*
other non-SME		*16,852*	*16,576*	*1,471*	*117*	*9*
IRB securitisation positions		3,300	2,359	308	25	9
IRB equity		585	509	1,335	107	228
IRB foundation approach		374	—	368	29	98
– central governments and central banks		—	—	—	—	
– institutions		—	—	—	—	
– corporates		374	349	368	29	98
Standardised approach		26,550	26,586	5,947	476	22
– central governments and central banks		15,261	16,598	—	—	—
– regional governments or local authorities		75	70	—	—	—
– public sector entities		1,468	1,360	1	—	—
– international organisations		990	1,226	—	—	—
– institutions		2,318	1,325	587	47	25
– corporates		3,545	3,148	2,607	208	74
– retail		216	199	133	11	62
– secured by mortgages on immovable property		671	661	234	19	35
– exposures in default		93	96	110	9	118
– items associated with particularly high risk		—	—	—	—	—
– claims in the form of collective investments undertakings		—	—	—	—	—
– equity		—	—	—	—	—
– other items	2	1,913	1,903	2,275	182	119
At 31 Dec 2018		85,977	83,400	25,972	2,078	30

1 'Corporates' includes specialised lending exposures subject to supervisory slotting approach.
2 'Other items' includes investment in insurance companies that are risk weighted at 250%.

Non-performing and forborne exposures

Tables 10 to 13 are presented in accordance with the EBA's 'Final guidelines on disclosure of non-performing and forborne exposures'.

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

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

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

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

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

At 31 December 2019, the gross carrying amount for renegotiated loans comprised 86.5% for wholesale lending and 13.5% for personal lending of total loans and advances to customers.

Table 10: Credit quality of forborne exposures

	Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing	Total	*Of which: defaulted*	*Of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposure*
	€m	€m	*€m*	*€m*	€m	€m	€m	*€m*
At 31 Dec 2019								
Loans and advances	182	197	*197*	*197*	–	(69)	22	*18*
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–
Non-financial corporations	182	146	*146*	*146*	–	(56)	9	*5*
Households	–	51	*51*	*51*	–	(13)	13	*13*
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	182	197	*197*	*197*	–	(69)	22	*18*

Table 11: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which: defaulted*
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	*€m*
At 31 Dec 2019												
Loans and advances	131,402	131,044	40	1,239	506	245	11	2	474	–	–	*1,239*
Central banks	26,969	26,969	–	–	–	–	–	–	–	–	–	–
General governments	776	776	–	–	–	–	–	–	–	–	–	–
Credit institutions	25,765	25,765	–	–	–	–	–	–	–	–	–	–
Other financial corporations	24,089	24,089	–	7	7	–	–	–	–	–	–	*7*
Non-financial corporations	31,851	31,528	4	808	318	192	1	–	297	–	–	*808*
Of which: SMEs	–	–	–	–	–	–	–	–	–	–	–	–
Households	21,952	21,917	36	424	181	53	10	2	177	–	–	*424*
Debt securities	4,880	4,880	–	–	–	–	–	–	–	–	–	–
Central banks	6	6	–	–	–	–	–	–	–	–	–	–
General governments	3,080	3,080	–	–	–	–	–	–	–	–	–	–
Credit institutions	1,641	1,641	–	–	–	–	–	–	–	–	–	–
Other financial corporations	153	153	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance-sheet exposures	98,885			97								*97*
Central banks	39			–								–
General governments	324			–								–
Credit institutions	45,601			–								–
Other financial corporations	4,452			–								–
Non-financial corporations	47,276			93								*93*
Households	1,193			4								*4*
Total	235,168	135,924	40	1,336	506	245	11	2	474	–	–	*1,336*

Table 12: Collateral obtained by taking possession and execution processes

	At 31 Dec 2019	
	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
	€m	€m
Property, plant and equipment (PP&E)	—	—
Other than PP&E	—	—
Residential immovable property	—	—
Commercial Immovable property	—	—
Movable property (auto, shipping, etc.)	—	—
Equity and debt instruments	—	—
Other	—	—
Total	—	—

Table 13: Performing and non-performing exposures and related provisions

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures - accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accu-mu-lated partial write-off	On per-forming exposur es	On non-per-forming exposur es
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3			
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2019															
Loans and advances	131,402	127,605	3,479	1,239		1,239	(94)	(45)	(49)	(589)	—	(589)	—	78,931	281
Central banks	26,969	26,970	—	—		—	—	—	—	—	—	—	—	3,564	—
General governments	776	775	1	—		—	—	—	—	—	—	—	—	89	—
Credit institutions	25,765	25,754	11	—		—	—	—	—	—	—	—	—	19,444	—
Other financial corporations	24,089	24,072	17	7		7	(4)	(3)	(1)	—	—	—	—	22,088	—
Non-financial corporations	31,851	29,226	2,306	808		808	(55)	(31)	(24)	(442)	—	(442)	—	13,135	115
Of which: SMEs	—	—	—	—		—	—	—	—	—	—	—		—	—
Households	21,952	20,808	1,144	424		424	(35)	(11)	(24)	(147)	—	(147)	—	20,611	166
Debt securities	4,880	4,848	32	—		—	(1)	(1)	—	—	—	—	—	—	—
Central banks	6	6	—	—		—	—	—	—	—	—	—	—	—	—
General governments	3,080	3,080	1	—		—	—	—	—	—	—	—	—	—	—
Credit institutions	1,641	1,609	31	—		—	—	—	—	—	—	—	—	—	—
Other financial corporations	153	153	—	—		—	—	—	—	—	—	—	—	—	—
Non-financial corporations	—	—	—	—		—	(1)	(1)	—	—	—	—	—	—	—
Off-balance-sheet exposures	98,885	89,658	1,100	97		65	(43)	(8)	(7)	(17)	—	(14)		—	—
Central banks	39	39	—	—		—	—	—	—	—	—	—		—	—
General governments	324	324	—	—		—	—	—	—	—	—	—		—	—
Credit institutions	45,601	45,047	1	—		—	—	—	—	—	—	—		—	—
Other financial corporations	4,452	3,658	47	—		—	(29)	(2)	—	—	—	—		—	—
Non-financial corporations	47,276	39,442	1,011	93		61	(13)	(6)	(6)	(17)	—	(14)		—	—
Households	1,193	1,148	41	4		4	(1)	—	(1)	—	—	—		—	—
Total	235,168	222,111	4,611	1,336		1,304	(138)	(53)	(55)	(606)	—	(603)	—	78,931	281

Table 14: Geographical breakdown of exposures[3]

	Footnotes	France	Other Europe	Other geographical areas	Total
		Of which:			
		€m	€m	€m	€m
IRB advanced approach		***46,238***	***5,541***	***7,960***	**59,739**
– central governments and central banks		***—***	***584***	***—***	**584**
– institutions		***582***	***238***	***712***	**1,532**
– corporates	1	***22,154***	***4,718***	***7,228***	**34,100**
– total retail		***23,502***	***1***	***20***	**23,523**
– *of which:*					
secured by mortgages on immovable property SME		***510***	***—***	***—***	***510***
secured by mortgages on immovable property non-SME		***2,929***	***—***	***—***	***2,929***
qualifying revolving retail		***1***	***—***	***—***	***1***
other SME		***1,473***	***1***	***20***	***1,494***
other non-SME		***18,589***	***—***	***—***	***18,589***
IRB securitisation positions		***1,392***	***1,973***	***—***	**3,365**
IRB equity		***801***	***—***	***—***	**801**
IRB foundation approach		***409***	***2,678***	***255***	**3,342**
– central governments and central banks		***—***	***2***	***1***	**3**
– institutions		***2***	***255***	***62***	**319**
– corporates		***407***	***2,421***	***192***	**3,020**
Standardised approach		***30,053***	***11,102***	***2,623***	**43,778**
– central governments and central banks		***22,244***	***2,646***	***—***	**24,890**
– regional governments or local authorities		***9***	***83***	***—***	**92**
– public sector entities		***2,226***	***1,235***	***—***	**3,461**
– international organisations		***—***	***—***	***1,144***	**1,144**
– institutions		***60***	***1,436***	***485***	**1,981**
– corporates		***1,646***	***4,903***	***485***	**7,034**
– retail		***174***	***26***	***4***	**204**
– secured by mortgages on immovable property		***589***	***589***	***504***	**1,682**
– exposures in default		***53***	***126***	***—***	**179**
– items associated with particularly high risk		***153***	***—***	***—***	**153**
– claims in the form of CIU		***—***	***—***	***—***	**—**
– equity		***—***	***—***	***—***	**—**
– other items	2	***2,899***	***58***	***1***	**2,959**
At 31 Dec 2019		***78,893***	***21,294***	***10,838***	**111,025**
IRB advanced approach		*45,309*	*4,840*	*5,019*	55,168
– central governments and central banks		*—*	*152*	*664*	816
– institutions		*702*	*262*	*82*	1,046
– corporates	1	*22,601*	*4,418*	*4,272*	31,291
– total retail		*22,006*	*8*	*1*	22,015
– *of which:*					
secured by mortgages on immovable property SME		*549*	*—*	*—*	*549*
secured by mortgages on immovable property non-SME		*3,029*	*—*	*—*	*3,029*
qualifying revolving retail		*1*	*—*	*—*	*1*
other SME		*1,575*	*8*	*1*	*1,584*
other non-SME		*16,852*	*—*	*—*	*16,852*
IRB securitisation positions		*1,632*	*1,668*	*—*	3,300
IRB equity		*558*	*—*	*27*	585
IRB foundation approach		*368*	*5*	*1*	374
– central governments and central banks		*—*	*—*	*—*	—
– institutions		*—*	*—*	*—*	—
– corporates		*368*	*5*	*1*	374
Standardised approach		*18,523*	*6,677*	*1,350*	26,550
– central governments and central banks		*14,113*	*1,148*	*—*	15,261
– regional governments or local authorities		*9*	*66*	*—*	75
– public sector entities		*68*	*1,400*	*—*	1,468
– international organisations		*—*	*—*	*990*	990
– institutions		*51*	*1,987*	*280*	2,318
– corporates		*1,827*	*1,646*	*72*	3,545
– retail		*189*	*23*	*4*	216
– secured by mortgages on immovable property		*352*	*315*	*4*	671
– exposures in default		*21*	*72*	*—*	93
– items associated with particularly high risk		*—*	*—*	*—*	—
– claims in the form of CIU		*—*	*—*	*—*	—
– equity		*—*	*—*	*—*	—
– other items	2	*1,893*	*20*	*—*	1,913
At 31 Dec 2018		*66,390*	*13,190*	*6,397*	85,977

For footnotes, see page 15.

3 Amounts shown by geographical region in this table is based on the country of residence of the counterparty.

Table 15: Credit risk exposure – by industry sector

	Agricul-ture	Mining	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accom-modation & food services	Information & communica-tion	Financial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	**76**	**218**	**4,607**	**2,026**	**8**	**499**	**4,190**	**2,039**	**303**	**–**	**5,719**
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	1,532
– corporates	57	216	4,437	2,021	7	419	3,711	1,978	243	–	4,159
– total retail	19	2	170	5	1	80	479	61	60	–	28
– *of which:*											
secured by mortgages on immovable property SME	*2*	*–*	*11*	*2*	*–*	*3*	*13*	*2*	*20*	*–*	*5*
secured by mortgages on immovable property non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
qualifying revolving retail	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
other SME	*17*	*2*	*160*	*4*	*1*	*77*	*466*	*58*	*40*	*–*	*23*
other non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*
IRB securitisation positions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,365**
IRB equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**599**
IRB foundation approach	**71**	**441**	**743**	**140**	**107**	**131**	**471**	**154**	**24**	**9**	**495**
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	319
– corporates	71	441	743	140	107	131	471	154	24	9	177
Standardised approach	**26**	**59**	**1,680**	**239**	**1**	**352**	**422**	**366**	**203**	**32**	**31,858**
– central governments and central banks	–	–	25	–	–	–	–	–	–	–	21,702
– regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–
– public sector entities	–	–	16	–	–	–	–	5	–	–	3,413
– international organisations	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	1,914
– corporates	21	59	1,586	235	1	247	408	331	127	32	2,486
– retail	5	–	17	1	–	11	11	28	–	–	2
– secured by mortgages on immovable property	–	–	–	–	–	50	–	–	76	–	53
– exposures in default	–	–	36	3	–	44	3	2	–	–	–
– items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–	–	–	–
– other items	–	–	–	–	–	–	–	–	–	–	2,288
At 31 Dec 2019	**173**	**718**	**7,030**	**2,405**	**116**	**982**	**5,083**	**2,559**	**530**	**41**	**42,036**

Table 15: Credit risk exposure – by industry sector (continued)

	Real estate	Professional activities	Adminis-trative service	Public admin & defence	Education	Human health & social work	Arts & entertain-ment	Other services	Personal	Extra-territorial bodies	Non Customer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	5,113	999	10,599	125	26	177	152	855	21,520	488	–	59,739
– central governments and central banks	–	–	–	96	–	–	–	–	–	488	–	584
– institutions	–	–	–	–	–	–	–	–	–	–	–	1,532
– corporates	4,624	985	10,107	29	18	133	125	831	–	–	–	34,100
– total retail	489	14	492	–	8	44	27	24	21,520	–	–	23,523
– *of which:*												
secured by mortgages on immovable property SME	*415*	*1*	*29*	–	–	*3*	*3*	*1*	–	–	–	*510*
secured by mortgages on immovable property non-SME	–	–	–	–	–	–	–	–	*2,929*	–	–	*2,929*
qualifying revolving	–	–	–	–	–	–	–	–	*1*	–	–	*1*
other SME	*74*	*13*	*463*	–	*8*	*41*	*24*	*23*	–	–	–	*1,494*
other non-SME	–	–	–	–	–	–	–	–	*18,589*	–	–	*18,589*
IRB securitisation positions	–	–	–	–	–	–	–	–	–	–	–	3,365
IRB equity	–	21	181	–	–	–	–	–	–	–	–	801
IRB foundation approach	109	103	335	1	–	3	2	3	–	–	–	3,342
– central governments and central banks	–	–	–	1	–	–	–	2	–	–	–	3
– institutions	–	–	–	–	–	–	–	–	–	–	–	319
– corporates	109	103	334	–	–	3	2	1	–	–	–	3,020
Standardised approach	1,195	92	985	2,957	3	42	52	162	916	1,384	752	43,778
– central governments and central banks	–	–	34	2,855	–	–	–	–	–	240	34	24,890
– regional governments or local authorities	–	–	–	92	–	–	–	–	–	–	–	92
– public sector entities	–	–	–	–	–	27	–	–	–	–	–	3,461
– international organisations	–	–	–	–	–	–	–	–	–	1,144	–	1,144
– institutions	–	–	67	–	–	–	–	–	–	–	–	1,981
– corporates	782	88	763	10	1	12	46	156	94	–	48	7,533
– retail	25	4	30	–	2	3	6	3	56	–	–	204
– secured by mortgages on immovable property	231	–	89	–	–	–	–	3	681	–	–	1,183
– exposures in default	4	–	2	–	–	–	–	–	85	–	–	179
– items associated with particularly high risk	153	–	–	–	–	–	–	–	–	–	–	153
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–	–	–	–	–
– other items	–	–	–	–	–	–	–	–	–	–	670	2,958
At 31 Dec 2019	6,417	1,215	12,100	3,083	29	222	206	1,020	22,436	1,872	752	111,025

Table 15: Credit risk exposure – by industry sector (continued)

	Agricul-ture	Mining	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accom-modation & food services	Information & communica-tion	Financial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	84	78	3,753	1,519	7	382	4,427	1,645	371	19	4,333
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	1,046
– corporates	65	75	3,535	1,514	6	290	3,850	1,562	313	19	3,259
– total retail	19	3	218	5	1	92	577	83	58	—	28
– of which:											
secured by mortgages on immovable property SME	*2*	—	*14*	*1*	—	*5*	*17*	*2*	*7*	—	*6*
secured by mortgages on immovable property non-SME	—	—	—	—	—	—	—	—	—	—	—
qualifying revolving retail	—	—	—	—	—	—	—	—	—	—	—
other SME	*17*	*3*	*204*	*4*	*1*	*87*	*560*	*81*	*51*	—	*22*
other non-SME	—	—	—	—	—	—	—	—	—	—	—
IRB securitisation positions	—	—	—	—	—	—	—	—	—	—	3,300
IRB equity	—	—	—	—	—	—	—	—	—	—	373
IRB foundation approach	4	1	64	5	1	28	63	62	9	—	7
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	—
– corporates	4	1	64	5	1	28	63	62	9	—	7
Standardised approach	16	4	391	70	—	85	247	110	24	52	17,481
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	12,141
– regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	—
– public sector entities	—	—	1	—	—	—	—	—	—	—	613
– international organisations	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	2,318
– corporates	10	3	365	70	—	69	228	75	21	52	1,517
– retail	6	1	17	—	—	13	11	32	—	—	2
– secured by mortgages on immovable property	—	—	—	—	—	—	—	—	—	—	—
– exposures in default	—	—	8	—	—	3	8	3	3	—	1
– items associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	—
– claims in the form of CIU	—	—	—	—	—	—	—	—	—	—	—
– equity	—	—	—	—	—	—	—	—	—	—	—
– other items	—	—	—	—	—	—	—	—	—	—	889
At 31 Dec 2018	104	83	4,208	1,594	8	495	4,737	1,817	404	71	25,494

Table 15: Credit risk exposure – by industry sector (continued)

	Real estate	Professional activities	Administ-rative service	Public admin & defence	Education	Human health & social work	Arts & entertain-ment	Other services	Personal	Extra-territorial bodies	Non Customer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	5,100	1,443	10,087	188	27	190	112	884	19,882	637	—	55,168
– central governments and central banks	—	—	—	179	—	—	—	—	—	637	—	816
– institutions	—	—	—	—	—	—	—	—	—	—	—	1,046
– corporates	4,542	1,427	9,719	9	18	147	85	856	—	—	—	31,291
– total retail	558	16	368	—	9	43	27	28	19,882	—	—	22,015
– *of which:*												
secured by mortgages on immovable property SME	*454*	*1*	*32*	—	—	*3*	*4*	*1*	—	—	—	*549*
secured by mortgages on immovable property non-SME	—	—	—	—	—	—	—	—	*3,029*	—	—	*3,029*
qualifying revolving retail	—	—	—	—	—	—	—	—	*1*	—	—	*1*
other SME	*104*	*15*	*336*	—	*9*	*40*	*23*	*27*	—	—	—	*1,584*
other non-SME	—	—	—	—	—	—	—	—	*16,852*	—	—	*16,852*
IRB securitisation positions	—	—	—	—	—	—	—	—	—	—	—	3,300
IRB equity	1	20	191	—	—	—	—	—	—	—	—	585
IRB foundation approach	1	46	77	—	—	2	3	1	—	—	—	374
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	—	—
– corporates	1	46	77	—	—	2	3	1	—	—	—	374
Standardised approach	572	33	255	4,183	4	43	33	32	1,057	990	868	26,550
– central governments and central banks	—	—	—	3,120	—	—	—	—	—	—	—	15,261
– regional governments or local authorities	—	—	—	75	—	—	—	—	—	—	—	75
– public sector entities	—	—	—	826	—	28	—	—	—	—	—	1,468
– international organisations	—	—	—	—	—	—	—	—	—	990	—	990
– institutions	—	—	—	—	—	—	—	—	—	—	—	2,318
– corporates	537	28	220	6	1	12	28	26	277	—	—	3,545
– retail	25	5	34	—	3	3	5	3	56	—	—	216
– secured by mortgages on immovable property	—	—	—	—	—	—	—	3	668	—	—	671
– exposures in default	10	—	1	—	—	—	—	—	56	—	—	93
– items associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	—	—
– claims in the form of CIU	—	—	—	—	—	—	—	—	—	—	—	—
– equity	—	—	—	—	—	—	—	—	—	—	—	—
– other items	—	—	—	156	—	—	—	—	—	—	868	1,913
At 31 Dec 2018	5,674	1,542	10,610	4,371	31	235	148	917	20,939	1,627	868	85,977

Table 16: Credit risk exposure – by maturity

	Footnotes	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
		€m	€m	€m	€m	€m
IRB advanced approach		**12,457**	**22,708**	**24,575**	**—**	**59,739**
– central governments and central banks		**51**	**348**	**185**	**—**	**584**
– institutions		**974**	**409**	**149**	**—**	**1,532**
– corporates	1	**10,509**	**18,667**	**4,924**	**—**	**34,100**
– total retail		**923**	**3,284**	**19,317**	**—**	**23,523**
– of which:						
secured by mortgages on immovable property SME		***18***	***101***	***391***	***—***	***510***
secured by mortgages on immovable property non-SME		***22***	***296***	***2,611***	***—***	***2,929***
qualifying revolving retail		***—***	***1***	***—***	***—***	***1***
other SME		***734***	***446***	***314***	***—***	***1,494***
other non-SME		***149***	***2,440***	***16,000***	***—***	***18,589***
IRB securitisation positions		**—**	**1,391**	**1,974**	**—**	**3,365**
IRB equity		**—**	**—**	**—**	**801**	**801**
IRB foundation approach		**1,400**	**1,787**	**154**	**—**	**3,342**
– central governments and central banks		**—**	**3**	**—**	**—**	**3**
– institutions		**163**	**115**	**41**	**—**	**319**
– corporates		**1,237**	**1,669**	**113**	**—**	**3,020**
Standardised approach		**23,727**	**7,667**	**10,603**	**1,780**	**43,778**
– central governments and central banks		**18,258**	**1,548**	**5,084**	**—**	**24,890**
– regional governments or local authorities		**—**	**—**	**92**	**—**	**92**
– public sector entities		**108**	**594**	**2,759**	**—**	**3,461**
– international organisations		**—**	**538**	**606**	**—**	**1,144**
– institutions		**1,436**	**190**	**355**	**—**	**1,981**
– corporates		**2,838**	**3,667**	**1,028**	**—**	**7,533**
– retail		**43**	**104**	**56**	**—**	**204**
– secured by mortgages on immovable property		**73**	**570**	**540**	**—**	**1,183**
– exposures in default		**65**	**31**	**83**	**—**	**179**
– items associated with particularly high risk		**131**	**22**	**—**	**—**	**153**
– claims in the form of CIU		**—**	**—**	**—**	**—**	**—**
– equity		**—**	**—**	**—**	**—**	**—**
– other items	2	**775**	**403**	**—**	**1,780**	**2,958**
At 31 Dec 2019		**37,584**	**33,553**	**37,306**	**2,581**	**111,025**
IRB advanced approach		13,637	18,322	23,209	—	55,168
– central governments and central banks		289	284	243	—	816
– institutions		543	380	123	—	1,046
– corporates	1	10,451	15,399	5,441	—	31,291
– total retail		2,354	2,259	17,402	—	22,015
– of which:						
secured by mortgages on immovable property SME		*24*	*154*	*371*	*—*	*549*
secured by mortgages on immovable property non-SME		*24*	*352*	*2,653*	*—*	*3,029*
qualifying revolving retail		*1*	*—*	*—*	*—*	*1*
other SME		*824*	*594*	*166*	*—*	*1,584*
other non-SME		*1,481*	*1,159*	*14,212*	*—*	*16,852*
IRB securitisation positions		223	3,077	—	—	3,300
IRB equity		—	—	585	—	585
IRB foundation approach		13	285	76	—	374
– central governments and central banks		—	—	—	—	—
– institutions		—	—	—	—	—
– corporates		13	285	76	—	374
Standardised approach		15,899	6,980	2,551	1,120	26,550
– central governments and central banks		10,562	4,012	687	—	15,261
– regional governments or local authorities		—	—	75	—	75
– public sector entities		625	269	574	—	1,468
– international organisations		494	203	293	—	990
– institutions		2,062	223	33	—	2,318
– corporates		1,564	1,567	414	—	3,545
– retail		52	113	51	—	216
– secured by mortgages on immovable property		76	215	380	—	671
– exposures in default		27	23	43	—	93
– items associated with particularly high risk		—	—	—	—	—
– claims in the form of CIU		—	—	—	—	—
– equity		—	—	—	—	—
– other items	2	437	355	1	1,120	1,913
At 31 Dec 2018		29,772	28,664	26,421	1,120	85,977

For footnotes, see page 15.

Table 17: Wholesale IRB exposures under the slotting approach

	Exposure	
	2019	2018
	€m	€m
Supervisory Category		
Category 1 – Strong	**442**	902
Category 2 – Good	**345**	314
Category 3 – Satisfactory	**8**	—
Category 4 – Weak	**—**	—
Category 5 – Default	**—**	—
At 31 Dec	**795**	1,216

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

We analyse past due but not impaired exposures, 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 in the HSBC France *Annual Report and Accounts 2019*, and HSBC France's definitions for accounting purposes of 'past due' and 'impaired' are set out on page 104.

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

Table 18: Amount of impaired exposures and related allowances by industry sector and geographical region of booking

	At			
	31 Dec 2019			31 Dec 2018
	France	**European branches**	**Total**	Total
	€m	**€m**	**€m**	€m
Past due but not impaired exposures	**91**	**13**	**104**	218
– personal	**74**	**8**	**82**	113
– corporate and commercial	**17**	**5**	**22**	105
– financial	**—**	**—**	**—**	—
Impaired exposures	**1,104**	**299**	**1,403**	1,081
– personal	**384**	**93**	**477**	482
– corporate and commercial	**664**	**195**	**859**	597
– financial	**56**	**11**	**67**	2
Impairment allowances and other credit risk provisions	**(566)**	**(178)**	**(744)**	(617)
– personal	**(125)**	**(59)**	**(184)**	(206)
– corporate and commercial	**(395)**	**(118)**	**(513)**	(410)
– financial	**(46)**	**(1)**	**(47)**	(1)

Table 19: Movement in credit risk adjustments by industry sector and by geographical region of booking

	At			
	2019			2018
	France	**European branches**	**Total**	Total
	€m	**€m**	**€m**	€m
Credit risk adjustment at 31 Dec	**507**	**110**	**617**	535
Impact on transition to IFRS 9	**—**	**—**	**—**	59
Credit risk adjustment at 1 Jan	**507**	**110**	**617**	594
Amounts written off	**(61)**	**(125)**	**(186)**	(87)
– personal	**(11)**	**(11)**	**(22)**	(17)
– corporate and commercial	**(49)**	**(114)**	**(163)**	(70)
– financial	**(1)**	**—**	**(1)**	—
Recoveries of amounts written off in previous years	**3**	**1**	**4**	3
– personal	**1**	**—**	**1**	2
– corporate and commercial	**1**	**1**	**2**	1
– financial	**1**	**—**	**1**	—
Charge to income statement	**121**	**11**	**132**	(8)
– personal	**—**	**1**	**1**	12
– corporate and commercial	**75**	**11**	**86**	(13)
– financial	**46**	**(1)**	**45**	(7)
Exchange and other movements[1]	**(4)**	**181**	**177**	115
Credit risk adjustement at 31 Dec	**566**	**178**	**744**	617

1 *Includes the opening balance of the European branches transferred from the parent company HSBC Bank PLC.*

Expected Loss ('EL') and credit risk adjustments

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

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

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

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

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

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

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

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

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

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

The description of the approach and method adopted for determining credit risk adjustments is explained in page 109 of the HSBC France *Annual report and Accounts 2019*.

In addition, the reconciliation of changes in credit risk adjustments for impaired exposures are disclosed in page 110 of the HSBC France *Annual report and Accounts 2019*.

Table 20 set out, for IRB credit exposures, the EL, CRA balances and the actual loss experience reflected in the charges for CRAs.

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

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

Table 20: IRB expected loss and CRA – by exposure class

	Expected loss[1]	CRA[1]	
		Balances	Charge for the year
	€m	€m	€m
IRB exposure classes			
Central governments and central banks	–	(1)	6
Institutions	2	(2)	–
Corporates	380	(299)	(151)
Retail	289	(266)	(6)
– secured by mortgages on immovable property SME	30	(27)	1
– secured by mortgages on immovable property non-SME	47	(42)	(4)
– qualifying revolving retail	–	(2)	(1)
– other SME	133	(117)	(1)
– other non-SME	80	(79)	(1)
Equity and Private Equity	10	0	0
At 31 Dec 2019	**681**	**(568)**	**(151)**

Table 20: IRB expected loss and CRA – by exposure class (continued)

	Expected loss[1]	CRA[1]	
		Balances	Charge for the year
	€m	€m	€m
IRB exposure classes			
Central governments and central banks	—	—	—
Institutions	1	(1)	(7)
Corporates	248	(186)	(3)
Retail	324	(307)	
– secured by mortgages on immovable property SME	34	(31)	22
– secured by mortgages on immovable property non-SME	48	(45)	2
– qualifying revolving retail	—	(2)	(1)
– other SME	155	(140)	(33)
– other non-SME	87	(89)	14
Equity and Private Equity	7	0	0
At 31 Dec 2018	580	(494)	(6)

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 fulfill 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 often taken to help secure claims. Another common form of securities for the Retail business are guarantees provided by a third party company; *Crédit Logement* (a *Société de Financement* regulated by the French Regulator ACPR). *Crédit Logement* guarantees 100% of the amount of the residential home loan in case of default. Loans to private banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. 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.

Further information regarding charges held over residential and commercial property is provided on page 115 of the HSBC France Annual Report and Accounts 2019.

Financial collateral

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

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 HSBC France 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. 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.

Credit derivatives are also used as credit mitigant and are only executed against counterparties listed in portfolio management desk masterlist.

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, collateral values are determined through a combination of professional appraisals, external valuation database companies or house price indices. Specifically, HSBC France utilises the notary price index ('INSEE') to update its mortgage portfolio value on a monthly basis. In addition; it obtains professional valuations for its high value mortgage loans (EUR 3 million) annually for any loan impaired.

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 the second category, LGD estimates are affected by a wider range of collateral, including cash, guarantees provided by *Crédit Logement*, charges over real estate property, fixed assets, trade goods, receivables. 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 France, 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. As noted previously, retail home loan lending is often secured via a guarantee provided by the third party financial institution; *Crédit Logement*. As *Crédit Logement* guarantees all unpaid instalments and potential final losses, this has an impact on the observed LGD.

EAD and LGD values, in the case of individually assessed exposures, are determined by 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.

A range of collateral recognition approaches are applied to IRB capital treatments:

- unfunded protection, which includes guarantees, is reflected through adjustment or determination of PD or LGD;
- eligible financial collateral information is taken into account in LGD models (under Advanced IRB); 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 22 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 21: IRB exposure – credit risk mitigation

	2019			2018		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value [1]**	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	**10,191**	**16,725**	**26,916**	10,608	14,797	25,404
– central governments and central banks	**—**	**—**	**—**	—	—	—
– institutions	**2**	**—**	**2**	—	—	—
– corporates	**5,846**	**1,225**	**7,071**	6,253	985	7,238
– retail	**4,343**	**15,500**	**19,843**	4,355	13,812	18,166
Exposures under the IRB foundation approach	**402**	**625**	**1,027**			
– institutions	**—**	**—**	**—**	—	—	—
– corporates	**402**	**625**	**1,027**	—	—	—
Equity and Private Equity	—	—	—	—	—	—
At 31 Dec	**10,593**	**17,350**	**27,943**	10,608	14,797	25,404

1 *After on balance sheet netting and after the application of volatility adjustments.*

Table 22: Standardised exposure – credit risk mitigation

	2019			2018		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value** [1]	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	**—**	**—**	**—**	—	—	—
– International organisations	**—**	**—**	**—**	—	—	—
– Public sector entities	**27**	**—**	**27**	—	—	—
– Regional government and local authorities	**—**	**—**	**—**	—	—	—
– institutions	**43**	**—**	**43**	—	—	—
– corporates	**1,569**	**1,909**	**3 478**	1,623	44	1,667
– retail	**42**	**1**	**44**	89	—	89
Secured by mortgages on immovable property	**58**	**—**	**58**	—	—	—
Exposures in default	**6**	**82**	**88**	5	—	5
Items associated with particularly high risk	**—**	**—**	**—**	—	—	—
Equity and Private Equity	—	—	—	—	—	—
At 31 Dec	**1,746**	**1,992**	**3,738**	1,717	44	1,761

1 *After on balance sheet netting and after the application of volatility adjustments.*

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 ('SFTs') and exposures to central counterparties ('CCP') in both the trading and non-trading books.

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

Further explanation of the HSBC France's approach to managing counterparty credit risk can be found on page 117 of the HSBC France Annual Report and Accounts 2019*.*

Table 23: Counterparty credit risk– RWAs by exposure class and product

	2019		2018	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
By exposure class				
IRB advanced approach	**955**	**76**	1,383	111
– central governments and central banks	**75**	**6**	—	—
– institutions	**880**	**70**	1,383	111
– corporates	**—**	**—**	—	—
IRB foundation approach	**1,478**	**118**	859	69
– corporates	**1,478**	**118**	859	69
Standardised approach	**506**	**40**	505	40
– central governments and central banks	**6**	**—**	1	—
– regional government or local authorities	**—**	**—**	5	—
– institutions	**411**	**33**	489	39
– corporates	**89**	**7**	10	1
CVA advanced	**571**	**46**	—	
CVA standardised	**314**	**25**	683	55
CCP standardised	**159**	**13**	197	16
By product				
– derivatives (OTC and exchange-traded derivatives)	**2,710**	**217**	2,040	163
– SFTs	**322**	**26**	887	71
– Others	**1**	**—**	—	—
– CVA advanced	**571**	**46**	—	—
– CVA standardised	**314**	**25**	683	55
– CCP default funds	**65**	**5**	17	1
At 31 Dec	**3,983**	**319**	3,627	290

Collateral arrangements

Our policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management function manages the collateral process including pledging and receiving collateral and investigating disputes and non-receipts.

Eligible collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement.

Further information on gross fair value exposure and the offset due to legally enforceable netting and collateral is set out on page 246 of the Annual Report and Accounts 2019*.*

Credit Valuation Adjustment (CVA) hedges

In the normal course of business, HSBC France enters into bilateral transactions that can generate risky exposure when there is no or only partial credit mitigants. For non-CVA exempted counterparties, the bank computes own funds requirements for the credit valuation adjustment risk.

Credit derivatives allows to hedge this credit exposure. The responsibility for hedging and/or mitigating credit exposure lies within the remit of the Counterparty Exposure Management Desk.

Credit rating downgrade

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

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 HSBC France's income or the value of its portfolios. Market risk is measured using internal market risk models approved by the ECB, approved local VaR models.

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

Further explanation of the HSBC France's approach to managing market risk can be found on page 121 of the HSBC France Annual Report and Accounts 2019.

Table 24: Market risk under standardised approach

		2019		2018	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Risk type				
1	Interest rate risk (general and specific)	**128**	**10**	403	32
2	Equity risk (general and specific)	**–**	**–**	–	–
3	Foreign exchange risk	**127**	**10**	142	11
4	Commodity risk	**–**	**–**	–	–
	Options				
5	Simplified approach	**70**	**6**	44	4
6	Delta-plus method	**–**	**–**	–	–
7	Scenario approach	**–**	**–**	–	–
8	Securitisation	**–**	**–**	–	–
9	**Total**	**325**	**26**	589	47

Table 25: Market risk under internal model approach

		2019		2018	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
1	**VaR (higher of values a and b)**	**704**	**56**	764	61
(a)	Previous day's VaR	**214**	**17**	205	16
(b)	Average daily VaR	**704**	**56**	764	61
2	**Stressed VaR (higher of values a and b)**	**1,667**	**133**	1,212	97
(a)	Latest SVaR	**666**	**53**	275	22
(b)	Average SVaR	**1,667**	**133**	1,212	97
3	**Incremental risk charge (higher of values a and b)**	**891**	**71**	–	–
(a)	Most recent IRC value	**610**	**49**	–	–
(b)	Average IRC value	**891**	**71**	–	–
5	**Other**	**907**	**73**	891	71
6	**Total**	**4,169**	**333**	2,866	229

Operational risk

Overview

In accordance with the French Order of 3 November 2014 and the Operational Risk Functional Instructions Manual ('FIM') definition, operational risk is defined within HSBC France as a risk that might be the result of:

- Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically through information system;
- External events

This risk includes notably external or internal fraud risk (article 324 of CRR), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

We have historically experienced operational risk losses in the following major categories:

- External Fraud event
- Transaction processing

Further explanation of HSBC France's approach to managing operational risk can be found on page 128 of the HSBC France Annual Report and Accounts 2019.

Table 26: Operational risk RWAs and capital required

	2019		2018	
	RWAs	Capital required	RWAs	Capital required
	€m	€m	€m	€m
Own funds requirement for operational risk	**3,149**	**252**	3,194	256

Other risks

Further details of the other risks identified by HSBC France are described in the Top and Emerging Risks section which can be found on pages 78 to 150 in the HSBC France *Annual Report and Accounts 2019.*

Interest rate risk in the banking book

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

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

EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. EVE sensitivity is the extent to which the EVE value will change due to a specified movement in interest rates, where all other economic variables are held constant.

Further details on our IRRBB may be found on page 126 of HSBC France's Annual Report and Accounts 2019.

Risk management of insurance operations

We operate an integrated *bancassurance* model which provides insurance products for customers with whom we have a banking relationship. Insurance products are sold by RBWM and CMB through our branches and direct channels.

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.

We choose to manufacture these insurance products in HSBC France subsidiary 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 HSBC France.

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 HSBC France a combination of commissions and fees.

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 1 in 200 chance of insolvency over the next year, given the risks that the business is exposed to. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations, which are applicable from 2016.

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided from page 147 of the HSBC France Annual Report and Accounts 2019.

Liquidity and funding

Liquidity management across the group

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risks are managed by HSBC France on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

HSBC France liquidity group manages its liquidity and funding risks in line with the HSBC Group framework.

Strategies and processes in the management of liquidity risk

Liquidity risk is the risk that HSBC France 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 or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required.

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

Structure and organisation of the liquidity risk management function

Asset, Liability and Capital Management ('ALCM') team is responsible for the application of the LFRF within HSBC France.

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

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

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

The LCR is calculated as per Commission Delegated Regulation 2015/61 ('LCR Delegated Act') supplementing the CRR.

Net stable funding ratio

The Net Stable Funding Ratio ('NSFR') requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The NSFR is calculated on the BCBS 295 basis. Nevertheless, HSBC France now also considers the evolution on the NSFR as required by the CRR2, which will enter into force in June 2021.

Liquid assets

Liquid assets consist in any unencumbered liquid securities and available cash held by BSM and Global Markets. They are managed at HSBC France's level. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

The liquid asset buffer may also include securities in held-to maturity portfolios. To qualify as part of the liquid asset buffer, held-to-maturity portfolios must have a deep and liquid repo market in the underlying security.

Overall adequacy of liquidity risk management

HSBC France is required to manage liquidity risk and funding risks in accordance with the LFRF, which includes the preparation of an Individual Liquidity Adequacy Assessment ('ILAA') document, to ensure that:

- liquidity resources are adequate, both as to the amount and quality;
- there is no significant risk that liabilities cannot be met as they fall due;
- a prudent structural funding profile is maintained;
- adequate liquidity resources continue to be maintained; and
- that the liquidity risk framework is adequate and robust.

The two key objectives of the ILAAP process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate the risk tolerance/appetite set at HSBC France's level by demonstrating that reverse stress testing scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

The final conclusion of the ILAA, approved by the Board of Directors, is that HSBC France:

- maintains liquidity resources which are adequate in both amount and quality at all times, and ensures that
- there is no significant risk that its liabilities cannot be met as they fall due; and
- ensures its liquidity resources contain an adequate amount of high quality liquid assets ('HQLA') and maintains a prudent funding profile.

Liquidity stress testing

HSBC France undertakes liquidity stress testing to test that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the business.

HSBC France also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead HSBC France to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.

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

HSBC Group's business strategy and overall liquidity risk profile

The key aspects of the LFRF are:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- minimum 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 by principal operating entity;
- minimum LCR requirement by currency;
- intra-day liquidity;
- liquidity funds transfer pricing; and
- forward-looking funding assessments.

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

Further details on our Liquidity and funding risk may be found on page 119 of HSBC France's Annual Report and Accounts 2019.

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC France, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of HSBC France and result in financial or non-financial effects, as well as loss of confidence in the bank. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise.

Stakeholders' expectations change constantly and so reputational risk is dynamic and highly variable. 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 take measures to enhance our AML, sanctions and other regulatory compliance frameworks.

For further details, please refer to the Reputational Risk section on page 150 of the HSBC France Annual Report and Accounts 2019.

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; 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.

Climate-related risks are divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change.

Transition risk, in the context of climate change, is the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy. More information on how HSBC France is taking transition risk into account can be found in the 2019 annual report.

Business risk

Business risk is the potential negative impact on profits and capital as a result of HSBC France not meeting its strategic objectives, as set out in the strategic plan, caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

Business risk is assessed through particular macro-economic scenario, involving specific and relevant political items, within stress-testing exercises.

Remuneration

As a subsidiary of HSBC Group, the general remuneration principles implemented within HSBC France are very naturally part of the broader framework of the HSBC Group's remuneration policy which is subject to the rules laid down by the British regulators (i.e. mainly Prudential Regulatory Authority). In addition, these remuneration principles are applied taking into account the local regulatory framework and any European specific regulations. Details of HSBC France remuneration policy may be found in the report on corporate governance on pages 39 to 49 of the HSBC France *Annual Report and Accounts 2019*.

The following tables show the remuneration awards made to MRTs in HSBC France and its subsidiaries and branches for 2019.

Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 which came into force in June 2014. The tables below include the total remuneration of individuals identified as HSBC France MRTs based on their role and professional activities who could have a potential impact on the risk profile of the bank.

Table 27: Remuneration - fixed and variable amounts

	2019											
	MRTs											
	Fixed (Eur m)				Variable (2)(Eur m)							
	Number of MRTs	Cash based (1)	Share Based	Total	Cash Based	*of which: deferred*	Share Based (3)	*of which: deferred*	Other forms (4)	*of which: deferred*	Total	Total (Eur m)
Executive Directors	**3**	**2.3**	**–**	**2.3**	**1.1**	***0.6***	**1.1**	***0.6***			**2.2**	**4.5**
Non executive Directors	–	–	–	–	–	–	–	–	–	–	–	–
Senior Management	–	–	–	–	–	–	–	–	–	–	–	–
Investment Banking	**45**	**17.8**	**–**	**17.8**	**6.7**	***3.0***	**6.6**	***3.0***			**13.3**	**31.1**
Retail Banking	**12**	**3.6**	**–**	**3.6**	**1.6**	***0.4***	**2.0**	***1.5***			**3.5**	**7.1**
Private Banking	**5**	**1.1**	**–**	**1.1**	**0.6**	***0.2***	**0.5**	***0.2***			**1.1**	**2.3**
Commercial Banking	**9**	**1.8**	**–**	**1.8**	**0.6**	***0.2***	**0.7**	***0.3***			**1.2**	**3.0**
Control Functions	**22**	**3.1**	**–**	**3.1**	**1.0**	***0.2***	**0.5**	***0.3***			**1.5**	**4.6**
Corporate Functions	**12**	**2.8**	**–**	**2.8**	**0.8**	***0.3***	**0.8**	***0.3***			**1.7**	**4.5**
Total France	**108**	**32.5**	**–**	**32.5**	**12.5**	***4.8***	**12.2**	***6.1***			**24.7**	**57.1**
Total International perimeter	**22**	**6.1**	**–**	**6.1**	**2.5**	***1.0***	**2.3**	***1.0***			**4.8**	**10.9**
Total France and International	**130**	**38.6**	**–**	**38.6**	**14.9**	***5.8***	**14.5**	***7.1***			**29.4**	**68.0**

1 Cash based fixed remuneration is paid immediately

2 Variable pay awarded in respect of 2019. In accordance with shareholder approval received on 23 May 2014 (98 percent in favour) for each MRT the component of remuneration for any one year is limited to 200 percent of fixed component of the total remuneration of the MRT.

3 Share based awards are made in HSBC shares. Vested shares are subject to a retention period up to one year.

4 Deferred indexed cash awarded to AIFM UCITS Risk taker.

Table 28: Guaranteed bonus, sign-on and severance payments

	2019						
	MRTs						
	Guaranteed Bonus and sign on payments (1)		Severance Payments (2)				
	Made during year (Eur m)	Number of beneficiaries	Awarded during year (Eur m)	Number of beneficiaries	Highest such award to a single person (Eur m)	Paid during year (Eur m)	Number of beneficiaries
Executive Directors							
Non executive Directors							
Senior Management							
Investment Banking	**0.8**	**2**	**2.1**	**2**	**1.5**	**2.1**	**2**
Retail Banking							
Private Banking							
Wholesale Banking							
Control Functions							
Corporate Functions							
Total France Perimeter							
Total International perimeter							
Total France and International	**0.8**	**2**	**2.1**	**2**	**1.5**	**2.1**	**2**

1 No sign-on payment were made in 2019. A guaranteed bonus is awarded in exceptional circumstances for new hires and in the first year only. The circumstances where HSBC would offer a guaranteed bonus would typically involve a critical new hire and would also depend on factors such as the seniority of the individual. whether the new hire candidate has any competing offers and the timing of the hire during the performance year.

2 Includes payments such as payment in lieu and notice. statutory severance. outplacement services and legal fees if any. ex-gratia payments and settlement (exclude pre-existing benefits triggered on termination).

Table 29: Deferred remuneration

	2019					
	MRTs					
Eur m	Total outstanding (1)	*Of which unvested*	*Of which: total outstanding deferred and retained exposed to ex post explicit and/ or implicit adjustment*	Total amount of amendment during the year due to ex post implicit adjustement	Total amount of amendment during the year due to ex post explicit adjustement (2)	Total amount of deferred paid out in the financial year (3)
Cash						
Executive Directors	1.4	*1.4*	–	–	–	0.4
Non executive Directors	–	–	–	–	–	–
Senior Management	–	–	–	–	–	–
Investment Banking	6.4	*6.4*	–	–	–	2.6
Retail Banking	0.5	*0.5*	–	–	–	0.3
Private Banking	0.3	*0.3*	–	–	–	0.09
Wholesale Banking	0.3	*0.3*	–	–	–	0.07
Control Functions	0.4	*0.4*	–	–	–	0.1
Corporate Functions	0.5	*0.5*	–	–	–	0.2
Total (France Perimeter)	9.7	*9.7*	–	–	–	3.8
Total (International Perimeter)	1.2	*1.2*	–	–	–	0.3
Total (France + International Perimeter)	10.9	*10.9*				4.1
Shares						
Executive Directors	1.8	*1.7*	*0.1*	–	–	0.9
Non executive Directors	–	–	–	–	–	–
Senior Management	–	–	–	–	–	–
Investment Banking	7.4	*7.4*	–	–	–	2.5
Retail Banking	0.4	*0.4*	*0.01*	–	–	0.4
Private Banking	0.4	*0.4*	–	–	–	0.1
Wholesale Banking	0.4	*0.4*	–	–	–	0.1
Control Functions	0.5	*0.5*	–	–	–	0.2
Corporate Functions	0.7	*0.7*	–	–	–	0.3
Total (France Perimeter)	11.7	*11.6*	*0.1*	–	–	4.5
Total (International Perimeter)	2.1	*2.0*	*0.1*	–	–	1.0
Total (France + International Perimeter)	13.8	*13,6*	*0.2*	–	–	5.4
Other Forms						
Executive Directors	–	–	–	–	–	–
Non executive Directors	–	–	–	–	–	–
Senior Management	–	–	–	–	–	–
Investment Banking	–	–	–	–	–	–
Retail Banking	0.9	*0.9*	–	–	–	–
Private Banking	–	–	–	–	–	–
Wholesale Banking	–	–	–	–	–	–
Control Functions	–	–	–	–	–	–
Corporate Functions	–	–	–	–	–	–
Total (France Perimeter)	0.9	*0.9*	–	–	–	–
Total (International Perimeter)	–	–	–	–	–	–
Total (France + International Perimeter)	0.9	*0.9*	–	–	–	–

This table provides details of balances and movements during performance year 2019. For details of variable pay granted for 2019. please refer to remuneration tables above. Deferred remuneration is made in cash and/or shares. Share bases awards are made in HSBC shares.

1 *Includes unvested deferred awards and vested awards subject to retention period as at 31 December 2019.*
2 *Includes any adjustments due to malus or clawback.*
3 *Share are considered as paid when they vest. Vested shares are valued using the opening price on the business vesting day.*

Table 30: Material risk-takers remuneration by band

	Management body	Retail Banking and Wealth Management	Total (1)
€0 – €1.000.000		**119**	**119**
€1.000.001 – €1.500.000	**2**	**5**	**7**
€1.500.001 – €2.000.000		**3**	**3**
€2.000.001 – €2.500.000	**1**		**1**
€2.500.001 – €3.000.000			
€3.000.001 – €3.500.000			
€3.500.001 – €4.000.000			
€4.000.001 – €4.500.000			
€4.500.001 – €5.000.000			
€5.000.001 – €6.000.000			
€6.000.001 – €7.000.000			
€7.000.001 – €8.000.000			
€8.000.001 – €9.000.000			
€9.000.001 – €10.000.000			
€10.000.001 – €11.000.000			
€11.000.001 – €12.000.000			

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

1 *Includes International perimeter.*

Appendix I

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

CRR reference	Description	Rationale
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.

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

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

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

Appendix III

Cautionary statement regarding forward-looking statements

The Capital and Risk Management *Pillar 3 Disclosures 2019* contains certain forward-looking statements with respect to HSBC France's financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about HSBC France'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 France 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 proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC France'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 France, 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.

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