HSBC UK Bank plc

Pillar 3 Disclosures at 31 December 2018

HSBC

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Presentation of information

This document comprises the 2018 Pillar 3 disclosures for HSBC UK Bank plc ('the bank') and its subsidiaries (together 'HSBC UK' or 'the group'). 'We', 'us' and 'our' refer to HSBC UK Bank plc together with its subsidiaries. References to 'HSBC Group' or 'the Group' within this document mean HSBC Holdings plc together with its subsidiaries.

When used in the terms 'shareholders' equity' and 'total shareholders' equity', 'shareholders' means holders of HSBC UK ordinary shares and capital securities issued by HSBC UK classified as equity.

The abbreviations '£m' and '£bn' represent millions and billions (thousands of millions) of GB pounds respectively.

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HSBC UK has adopted the European Union's ('EU') regulatory transitional arrangements for International Financial Reporting Standard ('IFRS') 9 Financial instruments.
A number of tables in this document report under this arrangement as follows:
a. Some figures, indicated with ^, within this table have been prepared on an IFRS 9 transitional basis
b. All figures within this table have been prepared on an IFRS 9 transitional basis
All other tables report numbers on the basis of full adoption of IFRS 9.

Introduction

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

		Footnotes	At 31 Dec 2018 ^
	Available capital (£m)	1	
1	Common equity tier 1 ('CET1') capital	^	**11,700**
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**11,687**
3	Tier 1 capital	^	**13,896**
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**13,883**
5	Total regulatory capital	^	**16,826**
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**16,813**
	Risk-weighted assets ('RWAs') (£m)		
7	Total RWAs	^	**91,839**
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**91,832**
	Capital ratios (%)	1	
9	CET1	^	**12.7**
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**12.7**
11	Total tier 1	^	**15.1**
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**15.1**
13	Total capital	^	**18.3**
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**18.3**
	Leverage ratio	2	
15	Total leverage ratio exposure measure (£m)	^	**246,659**
16	Leverage ratio (%)	^	**5.6**
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**5.6**

1 Capital figures and ratios are reported on the CRD IV transitional basis for additional tier 1 and tier 2 capital in accordance with articles 484-92 of the Capital Requirements Regulation.
2 Leverage ratio is calculated using the CRD IV end-point basis for additional tier 1 capital.

For regulatory reporting, HSBC UK has adopted the transitional arrangements (including paragraph 4 of CRR article 473a) published by the EU on 27 December 2017 for IFRS 9 'Financial Instruments'. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that banks may add back started at 95% in 2018, and reduces to 25% by 2022.

Table 2: Reconciliation of capital with and without IFRS 9 transitional arrangements applied

	At 31 Dec 2018		
	CET1	**T1**	**Total own funds**
	£m	**£m**	**£m**
Reported balance using IFRS 9 transitional arrangements	**11,700**	**13,896**	**16,826**
Expected credit losses ('ECL') reversed under transitional arrangements for IFRS 9	**13**	**13**	**13**
– Standardised approach	**8**	**8**	**8**
– Internal ratings based ('IRB') approach	**5**	**5**	**5**
Reported balance excluding IFRS 9 transitional arrangements	**11,687**	**13,883**	**16,813**

Table 3: Pillar 1 overview

		2018	
		RWAs	**Capital required[1]**
	Footnotes	**£m**	**£m**
Credit risk	2	**81,135**	**6,491**
Counterparty credit risk		**66**	**5**
Market risk		**38**	**3**
Operational risk		**10,600**	**848**
At 31 Dec		**91,839**	**7,347**

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

Table 4: RWAs by global business[1]

	2018	
	RWAs	Capital required
	£m	£m
Retail Banking and Wealth Management ('RBWM')	21,370	1,709
Commercial Banking ('CMB')	66,009	5,281
Global Banking and Markets ('GB&M')	60	5
Global Private Banking ('GPB')	1,924	154
Corporate Centre	2,476	198
At 31 Dec	**91,839**	**7,347**

1 *Please refer to page 3 of the HSBC UK Bank plc* Annual Report and Accounts 2018 *for a description of the activities of our global businesses.*

Regulatory framework for disclosures

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

At the HSBC UK level, we calculated capital for prudential regulatory reporting purposes throughout 2018 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Directive and Regulation, collectively known as CRD IV, and in the PRA's rulebook for the UK banking industry.

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

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

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

Pillar 3 disclosures

The HSBC UK Bank plc *Pillar 3 Disclosures 2018* comprise information required under Pillar 3, both quantitative and qualitative. They are made in accordance with Part 8 of the Capital Requirements Regulation within CRD IV, supplemented by any specific additional requirements of the PRA and discretionary disclosures on our part.

Key ratios and figures are included throughout this document and can also be found on page 44 of the HSBC UK Bank plc *Annual Report and Accounts 2018*.

The own funds disclosure in Table 6 tracks the position from a CRD IV transitional to an end-point basis.

We publish comprehensive Pillar 3 disclosures on the HSBC Group website, www.hsbc.com, simultaneously with the release of our HSBC UK Bank plc *Annual Report and Accounts*. Additionally, it is planned that limited regulatory information will be made available half-yearly, 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 2018* or other location.

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

Ring-fenced bank

The UK Financial Services (Banking Reform) Act 2013 and associated secondary legislation and regulatory rules require UK deposit-taking banks with more than £25bn of 'core deposits' (broadly from individuals and small to medium-sized businesses) to separate their UK retail banking activities from their other wholesale and investment banking activities by 1 January 2019. The resulting UK ring-fenced bank entities need to be legally distinct, operationally separate and economically independent from the non-ring-fenced bank entities.

HSBC Group completed the ring-fencing of its UK retail banking activities on 1 July 2018, six months in advance of the legal requirement coming into force, transferring circa 14.5 million qualifying RBWM, CMB and GPB customers from HSBC Bank plc to HSBC UK Bank plc. This included the transfer of relevant retail banking subsidiaries.

HSBC Bank plc has retained the non-qualifying components, primarily the UK GB&M business and the overseas branches and subsidiaries. The two banking entities will operate alongside each other, supported by services received from HSBC Global Services (UK) Limited.

On 1 July 2018, under an agreement between HSBC Holdings plc, HSBC Bank plc, HSBC UK Bank plc and HSBC UK Holdings Limited, the following transfers were executed contemporaneously:

- The qualifying components of HSBC Bank plc's UK RBWM and CMB businesses and related items were transferred to HSBC UK Bank plc through the ring-fencing transfer scheme;
- HSBC Bank plc's qualifying subsidiaries, notably Marks and Spencer Financial Services plc, HSBC Private Bank (UK) Limited and a number of asset finance entities, were also transferred to HSBC UK Bank plc as part of this scheme; and
- The capital supporting the above businesses and subsidiaries was transferred by HSBC Bank plc to HSBC UK Bank plc, in the case of CET1, through a capital contribution, and by way of legal transfer in the case of Additional Tier 1 and Tier 2 capital.

Further information regarding the accounting and regulatory impacts of ring-fencing can be found on page 70 of the HSBC UK Bank plc Annual Report and Accounts 2018.

Regulatory developments

The UK's withdrawal from the EU

In August 2018, Her Majesty's Treasury ('HMT') commenced the process of 'onshoring' the current European Union ('EU') legislation to ensure that there is legal continuity in the event of the UK leaving the EU. This involved the publication of draft Statutory Instruments across a wide range of financial services legislation; this included the key prudential legislation for banking groups: the Capital Requirements Directive ('CRD') and the Capital Requirements Regulation ('CRR').

One of the key effects of onshoring will be to treat the EU in the same manner as the EU currently treats non-European Economic Area countries. Under the draft provisions published by HMT, the PRA will be given the power to grant transitional provisions to delay the implementation of these changes for up to two years, should the UK leave the EU without an agreement on 29 March 2019.

The Bank of England ('BoE') and the PRA published a package of consultations in October and December 2018, setting out the changes required to the PRA's rules and technical standards as a result of the UK's withdrawal. It also included proposals on the exercise of the transitional powers; however the precise scope of these remains uncertain.

There are certain pieces of EU legislation that are in progress, but are not yet live, that will not enter automatically into UK law if it withdraws from the EU without an agreement. The Financial Services (Implementation of Legislation) Bill is currently progressing through the UK Parliament to empower HMT to make regulations in the UK to bring into force certain specified EU legislation that remains in progress on 29 March 2019.

RWAs and leverage ratio

Basel Committee

In December 2017, the Basel Committee ('Basel') published revisions to the Basel III framework. The final package includes:

- widespread changes to the risk weights under the standardised approach to credit risk;
- a change in the scope of application of the internal ratings based ('IRB') approach to credit risk, together with changes to the IRB methodology;
- the replacement of the operational risk approaches with a single methodology;
- an aggregate output capital floor that ensures that banks' total RWAs are no lower than 72.5% of those generated by the standardised approaches; and
- changes to the exposure measure for the leverage ratio.

Further refinements to the leverage ratio including disclosure of daily-average exposure measures are under consideration.

Basel has announced that the package will be implemented on 1 January 2022, with a five-year transitional provision for the output floor, commencing at a rate of 50%. The final standards will need to be transposed into the relevant local law before coming into effect.

We continue to evaluate the final package. Given that the package contains a significant number of national discretions, the possible outcome is uncertain.

European Union

In the EU, Basel's reforms are being implemented through revisions to the CRR and CRD. It is understood that the first tranche of Basel's reforms, collectively referred to as CRR2, has been agreed and will follow a phased implementation commencing in 2019; however, it has yet to enter into law. It includes the revisions to the counterparty credit risk framework and the new leverage ratio rules.

The CRR2 is included within the scope of the Financial Services (Implementation of Legislation) Bill. If passed by the UK Parliament, this would empower HMT to bring CRR2 into UK law even if it is not in force in the EU on exit day.

In May 2018, the European Commission commenced the process of implementing the second tranche of Basel's reforms, collectively known as CRR3, by requesting that the European Banking Authority ('EBA') report on the adoption of the remaining reforms on the EU's banking sector and the wider economy. This tranche will include Basel's reforms in relation to credit risk and operational risk, together with the output floor. The EBA's final report on the details of the EU's adoption of the reforms is not due to be published until the end of June 2019.

Separately, in January 2019, the EU published final proposals for a prudential backstop for non-performing loans, which will result in a deduction from Common Equity Tier 1 ('CET1') capital when a minimum impairment coverage requirement is not met. The regime is expected to be implemented in the first half of 2019.

Furthermore, the EU continues to work on its 'IRB Repair' programme, issuing in November 2018 near final guidance on the specification of economic downturn for the purposes of the loss given default modelling and the final rules on the specification of the definition of default. The latter will reduce the number of days past due before an exposure goes into default from 180 to 90.

Bank of England

In June 2017, the PRA published its final policy statement setting out revisions to the way that firms model probability of default ('PD') and loss given default ('LGD') for residential mortgage exposures, in order to mitigate cyclicality. These will need to be implemented by the end of 2020.

In October 2018, the PRA published a consultation on its supervisory expectations and approach to the financial risks from climate change. This focused on its expectations of firms on the incorporation of the risk from climate change into risk management practices and stress testing, as well as firms' climate change disclosures and internal governance. The PRA has indicated that it expects that the material financial risks from climate change should be included within Pillar 2.

Capital resources, macroprudential, recovery & resolution and total loss absorbing capacity

European Union

In addition to the changes to RWAs, CRR2 will implement changes in the own funds calculation and eligibility criteria. Similar applicability issues will arise in relation to the UK's withdrawal from the EU.

Bank of England

In June 2018, the BoE published its approach to setting minimum requirements for own funds and eligible liabilities ('MREL') within groups, known as internal MREL, and its final policy on selected outstanding MREL policy matters. These requirements came into effect on 1 January 2019. The PRA also published its expectations for MREL reporting, which are also now in force.

The BoE is expected to publish policy proposals for the treatment of a firm's holdings of other institutions' MREL, pending their assessment of the development of the EU's requirements in this area. The BoE is also expected to review the calibration of MREL and the final compliance date by the end of 2020.

In December 2018, the BoE published a consultation on its approach to assessing resolvability. This outlines how it assesses resolvability through its established policies and further proposes new principles on funding and operational continuity in resolution and firms' restructuring capabilities, as well as management, governance and communication capabilities. Simultaneously, the PRA published a consultation on resolution assessments and public disclosure by firms. Together, these publications contain proposals to form a Resolvability Assessment Framework, presented as the final element in the UK's resolution regime.

In addition, a number of changes have come into effect since late 2018:

- The legislative framework for UK ring-fencing took effect on 1 January 2019.
- In November 2018, the PRA published a policy statement confirming that the UK leverage ratio framework will apply to ring-fenced bodies in scope, which includes HSBC UK, from 1 January 2019.
- In November 2018, the UK's Countercyclical Capital Buffer rate increased from 0.5% to 1%.

Linkage to the Annual Report and Accounts 2018

Structure of the regulatory group

Participating interests in banking associates / joint ventures are proportionally consolidated for regulatory purposes by including our share of assets, liabilities, profit and loss, and RWAs in accordance with the PRA's application of EU legislation.

Table 5: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation

	Ref †	Accounting balance sheet £m	Consolidation of banking associates / joint ventures £m	Regulatory balance sheet £m
Assets				
Cash and balances at central banks		**33,193**	**77**	**33,270**
Items in the course of collection from other banks		**603**	**—**	**603**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**35**	**—**	**35**
Derivatives		**66**	**—**	**66**
Loans and advances to banks		**1,263**	**—**	**1,263**
Loans and advances to customers		**174,807**	**—**	**174,807**
– of which: expected credit losses on IRB portfolios	*f*	***(1,444)***	**—**	***(1,444)***
Reverse repurchase agreements – non-trading		**3,422**	**—**	**3,422**
Financial investments		**13,203**	**—**	**13,203**
Prepayments, accrued income and other assets		**8,528**	**18**	**8,546**
– of which: retirement benefit assets	*g*	***5,841***	**—**	***5,841***
Interests in joint ventures		**9**	**(9)**	**—**
Goodwill and intangible assets	*d*	**3,810**	**—**	**3,810**
Total assets at 31 Dec 2018		**238,939**	**86**	**239,025**
Liabilities and equity				
Liabilities				
Deposits by banks		**1,027**	**79**	**1,106**
Customer accounts		**204,837**	**—**	**204,837**
Repurchase agreements – non-trading		**639**	**—**	**639**
Items in the course of transmission to other banks		**233**	**—**	**233**
Derivatives		**346**	**—**	**346**
Accruals, deferred income and other liabilities		**2,409**	**7**	**2,416**
Current tax liabilities		**359**	**—**	**359**
Provisions		**630**	**—**	**630**
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*f*	***85***	**—**	***85***
Deferred tax liabilities		**1,189**	**—**	**1,189**
Subordinated liabilities		**4,937**	**—**	**4,937**
– of which: included in tier 2	*k*	***2,930***	**—**	***2,930***
Total liabilities at 31 Dec 2018		**216,606**	**86**	**216,692**
Equity				
Share premium account	a	**9,015**	**—**	**9,015**
Other equity instruments	*h*	**2,196**	**—**	**2,196**
Other reserves	*b, c, e*	**7,657**	**—**	**7,657**
Retained earnings	*b, c*	**3,405**	**—**	**3,405**
Total shareholders' equity		**22,273**	**—**	**22,273**
Non-controlling interests		**60**	**—**	**60**
Total equity at 31 Dec 2018		**22,333**	**—**	**22,333**
Total liabilities and equity at 31 Dec 2018		**238,939**	**86**	**239,025**

† The references (a) – (k) identify balance sheet components which are used in the calculation of regulatory capital in table 6.

Capital and Leverage

Capital management

Approach and policy

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

HSBC UK manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2018, the group complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

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

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

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

Stress testing

Stress testing is incorporated into the capital management framework, and is an important component of understanding the sensitivity of the core assumptions in the group's capital plans to the adverse effect of extreme, but plausible, events. Stress testing allows senior management to formulate its response, including risk mitigating actions, in advance of conditions starting to reflect the stress scenarios identified.

Actual market stresses in the past and prevailing economic and political risks have been used to inform the capital planning process and further develop the scenarios employed by the group in its internal stress tests.

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

Risks to capital

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

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

Risk-weighted asset targets

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

Business performance against RWA targets is monitored through regular reporting to the Asset and Liability Management Committee ('ALCO').

Capital generation

HSBC UK Holdings Limited, a 100% subsidiary of HSBC Holdings plc, is the primary provider of equity capital to the group and provides non-equity capital where necessary. Capital generated in excess of planned requirements is returned to the shareholder in the form of dividends.

Overview of regulatory capital framework

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

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

Tier 1 capital ('T1')

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

Common Equity Tier 1 ('CET1')

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

Additional Tier 1 capital ('AT1')

Qualifying CRD IV AT1 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 AT1 instruments issued by the bank include a provision whereby the instrument will be written down in whole in the event the group's CET1 ratio falls below 7.00%.

These instruments are accounted for as equity. Further details of qualifying CRD IV AT1 instruments can be found in Note 23 – Called up share capital and other equity instruments of the Notes on the Financial Statements on page 99 of the HSBC UK Bank plc Annual Report and Accounts 2018.

Tier 2 capital ('T2')

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

Perpetual and term subordinated debt

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

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

maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

Further details of these instruments can be found in Note 20 – Subordinated Liabilities of the Notes on the Financial Statements on page 96 of the HSBC UK Bank plc Annual Report and Accounts 2018.

A list of the features of our capital instruments in accordance with Annex III of the Commission Implementing Regulation 1423/2013 is also being published on the HSBC Group website, www.hsbc.com with reference to our balance sheet on 31 December 2018.

Table 6: Own funds disclosure

Ref*		Ref †	At 31 Dec 2018 £m	CRD IV prescribed residual amount £m	Final CRD IV text £m
	Common equity tier 1 ('CET1') capital: instruments and reserves				
1	Capital instruments and the related share premium accounts		**9,015**	–	**9,015**
	– ordinary shares	*a*	**9,015**	–	**9,015**
2	Retained earnings	*b*	**10,713**	–	**10,713**
3	Accumulated other comprehensive income (and other reserves)	*c*	**(399)**	–	**(399)**
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	*b*	**562**	–	**562**
6	**Common equity tier 1 capital before regulatory adjustments**		**19,891**	–	**19,891**
	Common equity tier 1 capital: regulatory adjustments				
7	Additional value adjustments[1]		**(8)**	–	**(8)**
8	Intangible assets (net of related deferred tax liability)	*d*	**(3,808)**	–	**(3,808)**
11	Fair value reserves related to gains or losses on cash flow hedges	*e*	**31**	–	**31**
12	Negative amounts resulting from the calculation of expected loss amounts	*f*	**(25)**	–	**(25)**
15	Defined benefit pension fund assets (net of related deferred tax liability)	*g*	**(4,381)**	–	**(4,381)**
28	**Total regulatory adjustments to common equity tier 1**		**(8,191)**	–	**(8,191)**
29	**Common equity tier 1 capital**		**11,700**	–	**11,700**
	Additional tier 1 ('AT1') capital: instruments				
30	Capital instruments and the related share premium accounts		**2,196**	–	**2,196**
31	– classified as equity under IFRSs	*h*	**2,196**	–	**2,196**
36	**Additional tier 1 capital before regulatory adjustments**		**2,196**	–	**2,196**
44	**Additional tier 1 capital**		**2,196**	–	**2,196**
45	**Tier 1 capital (T1 = CET1 + AT1)**		**13,896**	–	**13,896**
	Tier 2 capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	*k*	**2,930**	–	**2,930**
51	**Tier 2 capital before regulatory adjustments**		**2,930**	–	**2,930**
58	**Tier 2 capital**		**2,930**	–	**2,930**
59	**Total capital (TC = T1 + T2)**		**16,826**	–	**16,826**
60	**Total risk-weighted assets**		**91,839**		**91,839**
	Capital ratios and buffers				
61	Common equity tier 1		**12.7%**	–	**12.7%**
62	Tier 1		**15.1%**	–	**15.1%**
63	Total capital		**18.3%**	–	**18.3%**
64	Institution specific buffer requirement		**2.84%**	–	**3.46%**
65	– capital conservation buffer requirement		**1.88%**	–	**2.50%**
66	– countercyclical buffer requirement		**0.96%**	–	**0.96%**
68	Common equity tier 1 available to meet buffers[2]		**8.2%**	–	**8.2%**
	Amounts below the threshold for deduction (before risk weighting)				
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**255**		
	Applicable caps on the inclusion of provisions in tier 2				
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**26**		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**465**		

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a) – (k) identify balance sheet components in table 5 that are used in the calculation of regulatory capital.*
1 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*
2 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

Leverage ratio

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

The PRA's leverage ratio requirement applies at the highest level of UK consolidation and from 1 January 2019 to UK ring-fenced banks.

The risk of excess leverage is managed as part of the global 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 UK 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').

The leverage exposure measure is also calculated and presented to the ALCO every month.

Our fully phased-in CRD IV leverage ratio was 5.6% at 31 December 2018.

Table 7: Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

Ref*		At 31 Dec 2018 £m
1	Total assets as per published financial statements	**238,939**
	Adjustments for:	
2	– consolidation of banking associates/joint ventures	**86**
4	– derivative financial instruments	**222**
5	– securities financing transactions ('SFT')	**4**
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**13,589**
7	– other	**(6,181)**
8	**Total leverage ratio exposure**	**246,659**

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

Table 8: Leverage ratio common disclosure (LRCom)

Ref*		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)	**237,571**
2	(Asset amounts deducted in determining Tier 1 capital)	**(8,214)**
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**229,357**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**13**
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**133**
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**141**
11	**Total derivative exposures**	**287**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**3,422**
14	Counterparty credit risk exposure for SFT assets	**4**
16	**Total securities financing transaction exposures**	**3,426**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	**73,311**
18	(Adjustments for conversion to credit equivalent amounts)	**(59,722)**
19	**Total off-balance sheet exposures**	**13,589**
	Capital and total exposures	
20	**Tier 1 capital**	**13,896**
21	**Total leverage ratio exposure**	**246,659**
22	**Leverage ratio (%)**	**5.6**
EU-23	Choice of transitional arrangements for the definition of the capital measure	**Fully phased-in**

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

Capital buffers

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

Pillar 1

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

Risk category	Scope of permissible approaches	Approach adopted by HSBC UK
Credit risk	The BCBS framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the IRB foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's PD, but subjects their quantified estimates of exposure at default ('EAD') and LGD to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	HSBC UK has adopted the advanced IRB approach for the majority of its business. Some portfolios remain on the standardised or foundation IRB approaches: • pending the issuance of local regulations or model approval; • following the supervisory prescription of a non-advanced approach; or • under exemptions from IRB treatment.
Counterparty credit risk	Four approaches to calculating CCR and determining exposure values are defined by the BCBS: mark-to-market, original exposure, standardised and Internal Model Method. These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, IRB foundation or IRB advanced.	HSBC UK uses the mark-to-market approach for CCR.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For HSBC UK, all equity exposures are assessed under the standardised approach.
Securitisation	The BCBS Framework specifies two methods for calculating credit risk requirements for securitisation positions in the non-trading book: the standardised approach and the IRB approach, which incorporates the Ratings Based Method, the Internal Assessment Approach and the Supervisory Formula Method. Securitisation positions in the trading book are treated within market risk, using the CRD IV standard rules.	For the positions in the securitisation non-trading book, HSBC UK uses the IRB approach, and within this the Ratings Based Method.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach. The latter involves the use of internal Value at Risk models to measure market risks and determine the appropriate capital requirement.	For HSBC UK, the market risk capital requirement is measured using the standardised rules.
Operational risk	The BCBS framework allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	HSBC UK uses the standardised approach in determining operational risk capital requirement.

Pillar 2 and ICAAP

Pillar 2

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

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

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

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

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

Internal capital adequacy assessment

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

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

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

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

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

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

Credit risk

Overview

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

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

Further explanation of the group's approach to managing credit risk (including details of past due and impaired exposures, and its approach to credit risk impairment) can be found on pages 21 to 23 of the HSBC UK Bank plc Annual Report and Accounts 2018;

Table 9: Credit risk exposure – summary (CRB-B)

	Footnotes	Net carrying value	Average net carrying values[2]	RWAs^	Capital required^
		£m	£m	£m	£m
IRB advanced approach		**244,482**	**239,490**	**72,618**	**5,809**
– central governments and central banks		**6,161**	**4,763**	**640**	**51**
– institutions		**683**	**756**	**167**	**13**
– corporates	1	**83,005**	**82,106**	**52,636**	**4,211**
– total retail		**154,633**	**151,865**	**19,175**	**1,534**
– *of which: secured by mortgages on immovable property – small and medium sized enterprises ('SME')*		***1,755***	***1,700***	***1,029***	***82***
secured by mortgages on immovable property non-SME		***102,104***	***100,266***	***4,886***	***391***
qualifying revolving retail		***40,169***	***39,182***	***5,577***	***446***
other SME		***4,140***	***4,338***	***3,004***	***240***
other non-SME		***6,465***	***6,379***	***4,679***	***375***
IRB securitisation positions		**1,053**	**1,108**	**153**	**12**
IRB non-credit obligation assets		**2,147**	**2,324**	**1,386**	**111**
IRB foundation approach		**9,533**	**9,259**	**4,931**	**394**
– corporates		**9,533**	**9,259**	**4,931**	**394**
Standardised approach		**43,052**	**44,401**	**2,047**	**165**
– central governments and central banks		**38,605**	**40,772**	**637**	**51**
– regional government or local authorities		**182**	**120**	**–**	**–**
– public sector entities		**832**	**598**	**–**	**–**
– institutions		**989**	**522**	**233**	**19**
– corporates		**614**	**379**	**494**	**40**
– retail		**848**	**863**	**320**	**26**
– secured by mortgages on immovable property		**294**	**258**	**123**	**10**
– exposures in default		**63**	**64**	**94**	**7**
– items associated with particularly high risk		**8**	**8**	**12**	**1**
– other items		**617**	**817**	**134**	**11**
At 31 Dec 2018		**300,267**	**296,582**	**81,135**	**6,491**

1 *Corporates includes specialised lending exposures which are reported in more detail in Table 13.*
2 *Average net carrying values are calculated by aggregating the net carrying value on transfer and the last two quarters of the period, and dividing by three.*

Table 10: Geographical breakdown of exposures (CRB-C)

		Net carrying values[1,2]				
		UK	Other Europe	United States of America	Other geographical areas	Total
		£m	£m	£m	£m	£m
	IRB advanced approach					
1	Central governments and central banks	—	—	4,423	1,738	6,161
2	Institutions	471	204	—	8	683
3	Corporates	86,272	3,700	1,175	1,391	92,538
4	Retail	154,132	162	118	221	154,633
6	**Total IRB approach**	240,875	4,066	5,716	3,358	254,015
	Standardised approach exposure classes					
7	Central governments and central banks	36,295	2,310	—	—	38,605
8	Regional governments or local authorities	—	182	—	—	182
9	Public sector entities	—	832	—	—	832
12	Institutions	467	8	214	300	989
13	Corporates	447	146	2	19	614
14	Retail	847	—	—	1	848
15	Secured by mortgages on immovable property	292	1	—	1	294
16	Exposures in default	60	3	—	—	63
17	Items associated with particularly high risk	8	—	—	—	8
22	Other items	617	—	—	—	617
23	**Total standardised approach**	39,033	3,482	216	321	43,052
	At 31 Dec 2018	279,908	7,548	5,932	3,679	297,067

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

Table 11: Concentration of exposures by industry or counterparty types (CRB-D)

	Net carrying values[1]	Agriculture	Mining and oil extraction	Manufac-turing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accom-modation & food services	Infor-mation & commun-ication	Financial & insurance
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB advanced approach											
1	Central governments and central banks	–	–	–	–	–	–	–	–	–	–	**232**
2	Institutions	–	–	–	–	–	–	–	–	–	–	**683**
3	Corporates	**3,486**	**1,680**	**14,007**	**788**	**638**	**3,935**	**15,394**	**2,628**	**7,841**	**510**	**2,083**
4	Retail	**728**	**6**	**283**	**9**	**1**	**76**	**469**	**63**	**230**	**8**	**89**
6	**Total IRB approach**	**4,214**	**1,686**	**14,290**	**797**	**639**	**4,011**	**15,863**	**2,691**	**8,071**	**518**	**3,087**
	Standardised approach											
7	Central governments and central banks	–	–	–	–	–	–	–	–	–	–	**33,352**
8	Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–
9	Public sector entities	–	–	–	–	–	–	–	–	–	–	**832**
12	Institutions	–	–	–	–	–	–	–	–	–	–	**989**
13	Corporates	**7**	–	**56**	–	–	**2**	**69**	**2**	**29**	–	**166**
14	Retail	**4**	–	**34**	–	–	**4**	**27**	**16**	**3**	**1**	–
15	Secured by mortgages on immovable property	–	–	–	–	–	–	–	–	–	–	**9**
16	Exposures in default	–	–	**3**	–	–	–	**5**	–	–	–	–
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
22	Other exposures	–	–	–	–	–	–	–	–	–	–	**617**
23	**Total STD approach**	**11**	–	**93**	–	–	**6**	**101**	**18**	**32**	**1**	**35,965**
24	**At 31 Dec 2018**	**4,225**	**1,686**	**14,383**	**797**	**639**	**4,017**	**15,964**	**2,709**	**8,103**	**519**	**39,052**

Table 11: Concentration of exposures by industry or counterparty types (CRB-D) (continued)

	Net carrying values[1]	Real estate	Professional activities	Administ-rative service	Public admin & defence	Education	Human health & social work	Arts & entertain-ment	Other services	Personal	Extra-territorial bodies	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB approach exposure classes											
1	Central governments and central banks	–	–	–	**5,379**	–	–	–	–	–	**550**	**6,161**
2	Institutions	–	–	–	–	–	–	–	–	–	–	**683**
3	Corporates	**17,967**	**5,652**	**9,602**	**17**	**1,228**	**1,890**	**2,368**	**823**	–	**1**	**92,538**
4	Retail	**167**	**4**	**4**	**1**	**43**	**114**	**81**	**67**	**152,190**	–	**154,633**
6	**Total IRB approach**	**18,134**	**5,656**	**9,606**	**5,397**	**1,271**	**2,004**	**2,449**	**890**	**152,190**	**551**	**254,015**
	STD approach exposure classes											
7	Central governments and central banks	–	–	–	**5,252**	–	–	**1**	–	–	–	**38,605**
8	Regional governments or local authorities	–	–	–	**182**	–	–	–	–	–	–	**182**
9	Public sector entities	–	–	–	–	–	–	–	–	–	–	**832**
12	Institutions	–	–	–	–	–	–	–	–	–	–	**989**
13	Corporates	**16**	**96**	**155**	–	**1**	**13**	**1**	**1**	–	–	**614**
14	Retail	–	**6**	**10**	–	–	–	**1**	**4**	**738**	–	**848**
15	Secured by mortgages on immovable property	–	–	–	–	–	–	–	–	**285**	–	**294**
16	Exposures in default	–	–	–	–	–	–	–	–	**55**	–	**63**
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	**8**	–	**8**
22	Other exposures	–	–	–	–	–	–	–	–	–	–	**617**
23	**Total STD approach**	**16**	**102**	**165**	**5,434**	**1**	**13**	**3**	**5**	**1,086**	–	**43,052**
24	**At 31 Dec 2018**	**18,150**	**5,758**	**9,771**	**10,831**	**1,272**	**2,017**	**2,452**	**895**	**153,276**	**551**	**297,067**

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

Table 12: Maturity of on-balance sheet exposures (CRB-E)

		Net carrying values[1]					
		On demand	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
			£m	£m	£m	£m	£m
	IRB advanced approach						
1	Central governments and central banks	—	821	4,742	598	—	6,161
2	Institutions	131	85	407	—	—	623
3	Corporates	10,108	11,801	32,353	8,771	—	63,033
4	Retail	8,550	1,047	8,072	94,427	—	112,096
6	**Total IRB approach**	18,789	13,754	45,574	103,796	—	181,913
	Standardised approach						
7	Central governments and central banks	32,472	1,553	1,869	2,456	254	38,604
8	Regional government or local authorities	—	106	76	—	—	182
9	Public sector entities	—	133	662	37	—	832
12	Institutions	—	989	—	—	—	989
13	Corporates	105	105	316	13	—	539
14	Retail	80	58	293	13	—	444
15	Secured by mortgages on immovable property	—	29	23	200	—	252
16	Exposures in default	3	7	46	7	—	63
17	Items associated with particularly high risk	—	8	—	—	—	8
22	Other items	—	603	11	—	3	617
23	**Total standardised approach**	32,660	3,591	3,296	2,726	257	42,530
24	**At 31 Dec 2018**	51,449	17,345	48,870	106,522	257	224,443

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

Table 13: Specialised lending on slotting approach (CR10)

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	Risk weight %	Exposure amount £m	RWAs £m	Expected loss £m
Category 1 – Strong	Less than 2.5 years	4,130	912	50%	4,539	2,261	—
	Equal to or more than 2.5 years	4,001	750	70%	4,236	2,950	16
Category 2 – Good	Less than 2.5 years	648	78	70%	669	467	3
	Equal to or more than 2.5 years	351	31	90%	359	318	3
Category 3 – Satisfactory	Less than 2.5 years	121	17	115%	128	140	3
	Equal to or more than 2.5 years	206	4	115%	208	227	6
Category 4 – Weak	Less than 2.5 years	43	1	250%	45	103	4
	Equal to or more than 2.5 years	17	1	250%	19	43	2
Category 5 – Default	Less than 2.5 years	175	8	0%	313	—	156
	Equal to or more than 2.5 years	41	—	0%	50	—	25
At 31 Dec 2018	Less than 2.5 years	5,117	1,016		5,694	2,971	166
	Equal to or more than 2.5 years	4,616	786		4,872	3,538	52

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

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

Our approach for determining impairment allowances can be found on pages 30 to 34 of the HSBC UK Bank plc Annual Report and Accounts 2018*, and definitions for accounting purposes of 'past due' and 'impaired' are set out on pages 29 and 74 respectively.*

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

Table 14: Amount of past due, impaired exposures and related allowances by industry sector and geographical region

	Footnotes	United Kingdom[1] £m
At 31 Dec 2018		
Past due but not impaired exposures		**505**
– personal		**391**
– corporate and commercial		**114**
– financial		**–**
Impaired exposures		**3,048**
– personal		**1,230**
– corporate and commercial		**1,728**
– financial		**90**
Impairment allowances and other credit risk provisions	2	**(1,544)**
– personal		**(569)**
– corporate and commercial		**(941)**
– financial		**(34)**

1 Amounts shown by geographical region in this table are based on the country of the lender.
2 Figures presented using the EU's transitional arrangements for IFRS 9.

Table 15: Movement in specific credit risk adjustments by industry sector and by geographical region

	United Kingdom[1] £m
Specific credit risk adjustments at 1 Jan 2018	**–**
Amounts transferred from HSBC Bank plc	**1,404**
Amounts written off	**(233)**
– personal	**(131)**
– corporate and commercial	**(102)**
– financial	**–**
Recoveries of amounts written off in previous years	**52**
– personal	**44**
– corporate and commercial	**8**
– financial	**–**
Charge to income statement	**362**
– personal	**231**
– corporate and commercial	**130**
– financial	**1**
Exchange and other movements	**(41)**
Specific credit risk adjustments at 31 Dec 2018	**1,544**

1 Amounts shown by geographical region in this table are based on the country of the lender.

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 credit losses under IFRS, it is necessary to take into account differences in the definition and scope of each. Below are examples of matters that can give rise to material differences in the way economic, business and methodological drivers are reflected quantitatively in the accounting and regulatory measures of loss.

In general, HSBC UK calculates ECL using three main components, the PD, LGD and EAD.

ECL includes impairment allowances (or provision in the case of commitments and guarantees) for the 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 ('Lifetime ECL') are recognised for financial instruments in stages 2 & 3.

Changes in ECL 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.

CRAs encompass the impairment allowances or provisions balances, and changes in expected credit losses and other credit impairment charges.

Table 16 sets out for IRB credit exposures the EL, CRA balances and actual loss experience reflected in the charges for CRAs.

The group leverages the Basel IRB framework where possible, with re-calibration to meet the differing IFRS 9 requirements as follows:

Model	Regulatory capital	IFRS 9
PD	• Through the cycle (represents long-run average PD throughout a full economic cycle) • The definition of default includes a backstop of 90+ days past due, although this has been modified to 180+ days past due for some portfolios, particularly UK mortgages	• Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) • Default backstop of 90+ days past due for all portfolios
EAD	• Represents the current balance including any interest accrued to date plus the expected balance not currently utilised (off-balance sheet amount) that would be utilised at the time of default and appropriate for an economic downturn	• 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 16: IRB expected loss and CRA – by exposure class

	Expected loss[1]	CRA[1] Balances	CRA[1] Charge for the year
	£m	£m	£m
IRB exposure classes			
Corporates	905	826	135
Retail	651	710	218
– secured by mortgages on immovable property SME	21	18	(1)
– secured by mortgages on immovable property non-SME	65	108	(12)
– qualifying revolving retail	263	307	101
– other SME	176	130	43
– other non-SME	126	147	87
At 31 Dec 2018	1,556	1,536	353

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

Table 17: IRB expected loss and CRA – by region

	Expected loss[1]	CRA[1] Balances	CRA[1] Charge for the year
	£m	£m	£m
United Kingdom[2]	1,556	1,536	353
At 31 Dec 2018	1,556	1,536	353

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

Risk mitigation

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

Collateral

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

Further information regarding charges held over residential and commercial property can be found on pages 37 and 40 of the HSBC UK Bank plc Annual Report and Accounts 2018*.*

Financial collateral

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

Other forms of credit risk mitigation

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

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

Policy and procedures

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

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. In the residential mortgage business, HSBC UK policy prescribes revaluation at intervals of up to three years, or more frequently where market conditions are subject to significant change. Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

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

Recognition of risk mitigation under the IRB approach

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

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

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

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

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

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

Recognition of risk mitigation under the standardised approach

Where credit risk mitigation is available in the form of an eligible guarantee, non-financial collateral or credit derivatives, the exposure is divided into covered and uncovered portions. The covered portion, which is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission

of restructuring clauses for credit derivatives, where appropriate) to the amount of the protection provided, attracts the risk weight of the protection provider. The uncovered portion attracts the risk weight of the obligor. For exposures fully or partially covered by eligible financial collateral, the value of the exposure is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments, including those arising from currency mismatch, which are determined by the specific type of collateral (and, in the case of eligible debt securities, their credit quality) and its liquidation period. The adjusted exposure value is subject to the risk weight of the obligor.

Table 18: IRB exposure – credit risk mitigation

	2018		
	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total
	£m	£m	£m
Exposures under the IRB advanced approach	139,585	2,294	141,879
– institutions	18	–	18
– corporates	35,133	2,179	37,312
– retail	104,434	115	104,549
Exposures under the IRB foundation approach	4,760	5	4,765
– Corporates	4,760	5	4,765
At 31 Dec	**144,345**	**2,299**	**146,644**

Table 19: Standardised exposure – credit risk mitigation

	2018		
	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total
	£m	£m	£m
Exposures under the standardised approach			
Corporates	149	–	149
Retail	13	–	13
Secured by mortgages on immovable property	15	–	15
Exposures in default	6	–	6
Items associated with particularly high risk	8	–	8
At 31 Dec	**191**	**–**	**191**

Counterparty credit risk

Overview

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

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

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

	2018	
	RWAs	Capital required
	£m	£m
By exposure class		
IRB advanced approach	31	2
– institutions	14	1
– corporates	17	1
Standardised approach	7	1
– institutions	7	1
Credit valuation adjustment	23	2
CCP standardised	5	–
	66	5
By product		
– derivatives	40	3
– SFTs	3	–
– Credit valuation adjustment	23	2
At 31 Dec	66	5

Market risk

Overview

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

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

Further explanation of the group's approach to managing market risk can be found on pages 23 to 24 of the HSBC UK Bank plc Annual Report and Accounts 2018.

Table 21: Market risk under standardised approach (MR1)

		At 31 Dec 2018	
		RWAs	Capital required
		£m	£m
	Outright products		
1	Interest rate risk (general and specific)	1	–
3	Foreign exchange risk	37	3
9	**Total**	38	3

Operational risk

Overview

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

Operational risk is relevant to every aspect of our business. It covers a wide spectrum of issues, such as, compliance, operational resilience, legal, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

The HSBC UK lines of business have historically experienced operational risk losses in the following major categories:

- mis-selling of payment protection insurance;
- external criminal activities, including fraud;
- breakdowns in processes/procedures due to human error, misjudgement or malice;
- system failure or non-availability;
- breach of regulatory and/or legislative requirements; and
- information and cyber security;

Further explanation of the group's approach to managing operational risk can be found on page 25 of the HSBC UK Bank plc Annual Report and Accounts 2018*;*

HSBC UK has amended the calculation of its Operational Risk capital requirement to take into account the effects of the ring-fencing, in accordance with Article 317(4) of the CRR.

Table 22: Operational risk RWAs and capital required

	At 31 Dec 2018	
	RWAs	Capital required
	£m	£m
Own funds requirement for operational risk – assessed on the standardised approach	**10,600**	**848**

Other risks

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 ('BSM') to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the group aims to balance mitigating the impact of future interest rate movements against the cost of hedging.

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

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, i.e. the current book value of equity plus the present value of future net interest income in this 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 of our IRRBB can be found on page 24 of the HSBC UK Bank plc Annual Report and Accounts 2018*.*

Pension risk

HSBC UK operates a pension plan for current and former employees which provides both defined benefit and defined contribution pensions, which expose us to different types of risks. We have a global pension risk management framework, and accompanying global policies on the management of these risks, which are overseen at the European level by the European Pensions Oversight Forum.

Details of our management of pension risk can be found in 'Pension risk management' on page 27 of the HSBC UK Bank plc Annual Report and Accounts 2018.

Liquidity and funding risk

Strategies and processes in the management of liquidity risk

HSBC UK 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.

Structure and organisation of the liquidity risk management function

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

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

- ALCOs; and
- Annual internal liquidity adequacy assessment ('ILAA') process used to validate risk tolerance and set risk appetite.

Asset, Liability and Capital Management

Regional and local ALCM teams are responsible for the implementation of group-wide and local regulatory policy at a legal entity level.

Balance Sheet Management

Along with the Group's Global Business Lines, BSM teams form the first line of defence in the management of liquidity risk, ensuring continuous compliance with the firm's risk appetite operating within their risk mandates.

Liquidity Risk Assurance

Second line liquidity risk assurance, provided by the HSBC UK risk function, performs the following activities:

- reviews and challenges assumptions of current liquidity and funding risk management framework;
- reviews and challenges methods and calculation processes of all aspects of liquidity and funding risk;
- reviews results of liquidity and funding metrics against limits and proposed limit changes prior to approval at governance forums; and
- reviews risk items that require escalation.

Scope and nature of liquidity risk reporting and measurement

Where possible, the Group maintains standardised platforms utilising common data feeds in order to ensure consistency of standard internal and regulatory reporting and flexibility to deliver ad hoc requests.

Hedging and mitigating liquidity risk at HSBC UK

Management of liquidity and funding risk

Liquidity coverage ratio

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

The calculation of the LCR metric, involves an assumption on operational deposits. Operational deposits are principally defined as transactional accounts arising from the provision of custody services by Global Liquidity and Cash Management, where the operational component is assessed to be the lower of the current balance and the separate notional values of debits and credits across the account in the previous calculation period.

Net stable funding ratio

HSBC UK uses the Net Stable Funding Ratio ('NSFR') as a basis for establishing stable funding within the group. The NSFR requires institutions to maintain sufficient stable funding and reflects a bank's long-term funding profile (funding with a term of more than one year).

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Within HSBC UK, all liquid assets are held directly by BSM for the purpose of managing liquidity risk in line with the LFRF.

Liquid assets also include any unencumbered liquid assets held outside BSM for any other purpose. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to BSM.

Overall adequacy of liquidity risk management

HSBC UK is required to prepare an ILAA document, in order 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 ILAA process are to:

- demonstrate that all material liquidity and funding risks are captured within the internal framework; and
- validate HSBC UK's risk tolerance/appetite 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, is that HSBC UK:

- maintains liquidity resources which are adequate in both amount and quality at all times;
- 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

The group 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 group's business. The group also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the group 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 HSBC UK ALCO and Board and the results of the stress testing are presented through the ILAA to the Board.

Liquidity management across the group

The structure of the group means that liquidity and funding risk cannot practically be managed on a consolidated group basis and can only be managed by entity on a stand-alone basis. The group's liquidity and funding risk framework requires all operating entities to manage liquidity and funding risk on a stand-alone basis in accordance with the Group's liquidity and funding risk management framework and the liquidity and funding risk tolerances set out in the RAS.

The group's internal liquidity and funding risk management framework does not therefore seek to manage liquidity and funding risk on a consolidated basis, other than to ensure that the position of the consolidated group meets the minimum regulatory requirements.

HSBC UK's business strategy and overall liquidity risk profile

The key aspects of the LFRF which is used to ensure that HSBC UK maintains an appropriate overall liquidity risk profile are:

- stand-alone management of liquidity and funding;
- classification by inherent liquidity risk ('ILR') categorisation;
- minimum LCR requirement depending on ILR categorisation;
- minimum NSFR requirement depending on ILR categorisation;
- 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 internal liquidity adequacy assessment by principal operating entity;
- management and monitoring of 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.

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 Group, our employees or those with whom we are associated. Any material lapse in standards of integrity, compliance, customer service or operating efficiency may represent a potential reputational risk. Stakeholder expectations constantly evolve, and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operate at the high standards we set for ourselves in every jurisdiction.

For further details, please refer to the Reputational Risk section on pages 26 to 27 of the HSBC UK Bank plc Annual Report and Accounts 2018*.*

Sustainability risk

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

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

Business risk

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

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

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

Dilution risk

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

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

Structural foreign exchange exposures

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

The group does not have investments in subsidiaries in non-sterling currencies.

Remuneration

As a wholly-owned subsidiary, HSBC UK is subject to the remuneration policy established by HSBC Group. Details of HSBC Group's remuneration policy, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration details of HSBC Group's Identified Staff and Material Risk Takers ('MRT') are set out in the Remuneration Policy on the HSBC Group website, www.hsbc.com, and in the Directors' Remuneration Report on pages 172 to 201 of the HSBC Holdings plc *Annual Report and Accounts 2018*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC UK for 2018. Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 which came into force in June 2014 and was subsequently adopted in full for the purposes of the PRA's and the Financial Conduct Authority's ('FCA') Remuneration Code. The tables below include the total remuneration of HSBC UK senior management and other individuals identified as HSBC UK MRTs based on their role and professional activities. This also includes certain individuals employed by the Group who have broader roles within HSBC, for example those with global roles.

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

Table 23: Senior management remuneration – fixed and variable amounts (REM1)

	Executive Directors	Non-executive Directors	Senior management	Total
Number of MRTs	**3**	**8**	**16**	**27**
	£m	**£m**	**£m**	**£m**
Total fixed	**2.8**	**1.6**	**6.1**	**10.5**
Cash-based[1]	2.8	1.6	6.1	10.5
– of which: deferred cash	–	–	–	–
Share-based	–	–	–	–
– of which: deferred shares	–	–	–	–
Total variable[2]	**2.5**	**–**	**4.6**	**7.1**
Cash-based	1.2	–	2.2	3.4
– of which: deferred cash	*0.7*	–	*1.0*	*1.7*
Share-based[3]	1.3	–	2.4	3.7
– of which: deferred shares[3]	*0.8*	–	*1.3*	*2.1*
Other forms	–	–	–	–
– of which: deferred	–	–	–	–
Total remuneration	**5.3**	**1.6**	**10.7**	**17.6**

1 *Cash-based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2018. In accordance with shareholder approval received on 23 May 2014 (98% in favour) by HSBC Holdings plc, our ultimate parent company, the variable pay component of total remuneration for any one year is limited to 200% of the fixed pay component of the total remuneration for each MRT in the Group.*
3 *Share-based awards are made in HSBC Holdings plc shares. Vested shares are subject to a retention period of up to one year.*

Table 24: Senior management guaranteed bonus, sign-on and severance payments (REM2)

	Executive Directors	Non-executive Directors	Senior management	Total
Guaranteed bonus and sign-on payments[1]				
Made during year (£m)	–	–	–	–
Number of beneficiaries	–	–	–	–
Severance payments[2]				
Awarded and made during year (£m)	–	–	0.8	0.8
Number of beneficiaries	–	–	2	2
Highest such award to a single person (£m)	–	–	0.7	0.7
Made during year (£m)	–	–	0.7	0.7
Number of beneficiaries	–	–	1	1

1 *No sign-on payments were made in 2018. A guaranteed bonus is awarded in exceptional circumstances for new-hires, and in the first year only. The circumstances where HSBC Group would offer a guaranteed bonus would typically involve a critical new-hire and would also depend on factors such as the seniority of the individual, whether the new-hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefits triggered on termination).*

Table 25: Senior management deferred remuneration (REM3)[1]

£m	Executive Directors	Non-executive Directors	Senior management	Total
Cash				
Total outstanding deferred remuneration[2]	1.3	0.1	1.3	2.7
– of which: Unvested	*1.3*	*0.1*	*1.3*	*2.7*
– of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	*1.3*	*0.1*	*1.3*	*2.7*
Total amount of amendment during the year due to ex post implicit adjustment	—	—	—	—
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—
Total amount of deferred remuneration paid out in the financial year	0.5	0.7	0.5	1.7
Shares				
Total outstanding deferred remuneration[2]	1.6	1.3	2.4	5.3
– of which: Unvested	*1.4*	*1.3*	*1.9*	*4.6*
– of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	*1.6*	*1.3*	*2.4*	*5.3*
Total amount of amendment during the year due to ex post implicit adjustment	(0.2)	(0.2)	(0.4)	(0.8)
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—
Total amount of deferred remuneration paid out in the financial year[4]	1.0	1.5	1.9	4.4
Other forms				
Total outstanding deferred remuneration[2]	—	—	—	—
– of which: Unvested	—	—	—	—
– of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	—	—	—	—
Total amount of amendment during the year due to ex post implicit adjustment	—	—	—	—
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—
Total amount of deferred remuneration paid out in the financial year[4]	—	—	—	—

1 This table provides details of adjustments during performance year 2018. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC Holdings plc shares.
2 Includes unvested deferred awards, and vested awards subject to retention period at 31 December 2018.
3 Includes any amendments due to malus or clawback.
4 Shares are considered as paid when they vest. Vested shares are valued using the sale price or the closing share price on the business day immediately preceding the vesting day.

Table 26: Other MRTs remuneration – fixed and variable amounts (REM3)

	Retail banking	Asset management	Corporate functions	Independent control functions	All other	Total
Number of MRTs	17	—	14	26	2	59
	£m	£m	£m	£m	£m	£m
Total fixed	7.4	—	11.6	10.6	6.6	36.2
Cash-based[1]	7.4	—	10.6	9.6	3.2	30.8
– of which: deferred cash	—	—	—	—	—	—
Share-based	—	—	1.0	1.0	3.4	5.4
– of which: deferred shares	—	—	—	—	—	—
Total variable[2]	8.7	—	11.0	12.1	7.2	39.0
Cash-based	4.1	—	4.9	4.7	1.0	14.7
– of which: deferred cash	*2.3*	—	*2.6*	*1.8*	—	*6.7*
Share-based[3]	4.6	—	6.1	7.4	6.2	24.3
– of which: deferred shares[3]	*2.8*	—	*3.9*	*5.1*	*5.1*	*16.9*
Other forms[3]	—	—	—	—	—	—
– of which: deferred[3]	—	—	—	—	—	—
Total remuneration	16.1	—	22.6	22.7	13.8	75.2

1 Cash-based fixed remuneration is paid immediately.
2 Variable pay awarded in respect of 2018. For each MRT, the variable component of remuneration for any one year is limited to 200% of the fixed component of the total remuneration of the MRT.
3 Share-based awards are made in HSBC Holdings plc shares. Vested shares are subject to a retention period of up to one year.

Table 27: Other MRTs guaranteed bonus, sign-on and severance payments (REM2)

	Retail banking	Asset management	Corporate functions	Independent control functions	All other	Total
Guaranteed bonus and sign-on payments[1]						
Made during year (£m)	—	—	—	—	—	—
Number of beneficiaries	—	—	—	—	—	—
Severance payments[2]						
Awarded and made during year (£m)	0.1	—	3.1	—	—	3.2
Number of beneficiaries	1	—	1	—	—	2
Highest such award to a single person (£m)	0.1	—	3.1	—	—	3.2
Made during year (£m)	0.1	—	3.1	—	—	3.2
Number of beneficiaries	1	—	1	—	—	2

1 No sign-on payments were made in 2018. A guaranteed bonus is awarded in exceptional circumstances for new hires, and in the first year only. The circumstances where HSBC Holdings plc would offer a guaranteed bonus would typically involve a critical new hire and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year.
2 Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefits triggered on termination).

Table 28: Other MRTs deferred remuneration (REM3)[1]

	Retail banking	Asset management	Corporate functions	Independent control functions	All other	Total
£m						
Cash						
Total outstanding deferred remuneration[2]	3.1	—	6.3	3.3	1.9	14.6
– of which: Unvested	*3.1*	—	*6.3*	*3.3*	*1.9*	*14.6*
Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	3.1	—	6.3	3.3	1.9	14.6
Total amount of amendment during the year due to ex post implicit adjustment	—	—	—	—	—	—
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—	—	—
Total amount of deferred remuneration paid out in the financial year	1.2	—	2.2	1.9	2.0	7.3
Shares						
Total outstanding deferred remuneration[2]	5.2	—	23.6	19.0	22.1	69.9
– of which: Unvested	*4.6*	—	*22.3*	*17.0*	*21.1*	*65.0*
Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	5.2	—	23.6	19.0	22.1	69.9
Total amount of amendment during the year due to ex post implicit adjustment	(0.8)	—	(3.6)	(3.2)	(3.9)	(11.5)
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—	—	—
Total amount of deferred remuneration paid out in the financial year[4]	3.3	—	9.4	7.8	8.2	28.7
Other forms						
Total outstanding deferred remuneration[2]	—	—	—	—	—	—
– of which: Unvested	—	—	—	—	—	—
Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	—	—	—	—	—	—
Total amount of amendment during the year due to ex post implicit adjustment	—	—	—	—	—	—
Total amount of amendment during the year due to ex post explicit adjustment[3]	—	—	—	—	—	—
Total amount of deferred remuneration paid out in the financial year	—	—	—	—	—	—

1 This table provides details of adjustments during performance year 2018. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC Holdings plc shares and/or linked to notional fund units in the HSBC World Selection Balanced Portfolio.
2 Includes unvested deferred awards, and vested deferred awards subject to retention period at 31 December 2018.
3 Includes any amendments due to malus or clawback.
4 Shares are considered as paid when they vest. Vested shares are valued using the sale price or the closing share price on the business day immediately preceding the vesting day.

Table 29: Material risk takers' remuneration by band[1]

	Management body[2]	All other	Total
€0 – 1,000,000	8	48	56
€1,000,000 – 1,500,000	2	12	14
€1,500,000 – 2,000,000	–	3	3
€2,000,000 – 2,500,000	–	3	3
€2,500,000 – 3,000,000	–	–	–
€3,000,000 – 3,500,000	–	1	1
€3,500,000 – 4,000,000	1	1	2
€4,000,000 – 4,500,000	–	3	3
€4,500,000 – 5,000,000	–	1	1
€5,000,000 – 6,000,000	–	1	1
€6,000,000 – 7,000,000	–	1	1
€7,000,000 – 8,000,000	–	–	–
€8,000,000 – 9,000,000	–	–	–
€9,000,000 – 10,000,000	–	–	–
€10,000,000 – 11,000,000	–	–	–
€11,000,000 – 12,000,000	–	1	1

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

2 *Management body represents the Board of HSBC UK Bank plc.*

Appendix I

Abbreviations

The following abbreviated terms are used throughout this document.

A	
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1 capital	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BOE	Bank of England
BSM	Balance Sheet Management
C	
CCP	Central counterparty
CCR[1]	Counterparty credit risk
CET1[1]	Common equity tier 1
CIU	Collective investment undertakings
CMB	Commercial Banking, a global business
CRA[1]	Credit risk adjustment
CRD IV[1]	Capital Requirements Regulation and Directive
CRE[1]	Commercial real estate
CRR	Capital Requirements Regulation
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECL	Expected Credit Losses
EL[1]	Expected loss
EU	European Union
EVE[1]	Economic value of equity
F	
FCA	Financial Conduct Authority
G	
GB&M	Global Banking and Markets, a global business
GPB	Global Private Banking, a global business
Group	HSBC Holdings together with its subsidiary undertakings
H	
HMT	Her Majesty's Treasury
HQLA	High-Quality LIquid Assets
HSBC	HSBC Holdings together with its subsidiary undertakings
I	
ICAAP[1]	Internal Capital Adequacy Assessment Process
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILR	Inherent Liquidity Risk
IRB[1]	Internal ratings based approach
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
MRT	Material Risk Taker
N	
NSFR	Net Stable Funding Ratio
P	
PD[1]	Probability of default
PFE[1]	Potential future exposure
PRA[1]	Prudential Regulation Authority
R	
RAS	Risk appetite statement
RBWM	Retail Bank and Wealth Management, a global business
RMM	Risk Management Meeting of the Group Management Board
RWA[1]	Risk-weighted asset
S	
STD[1]	Standardised approach
SFT[1]	Securities Financing Transactions
SME	Small- and medium-sized enterprise
T	
TCR	Total Capital Requirement
T1 capital	Tier 1 capital
T2 capital	Tier 2 capital
U	
UK	United Kingdom

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

Appendix II

Cautionary statement regarding forward-looking statements

The Pillar 3 disclosures at 31 December 2018 contain certain forward-looking statements with respect to HSBC UK's financial condition, strategy, plans, current goals, results of operations and business, including strategic priorities and financial, investment and capital targets described herein.

Statements that are not historical facts, including statements about HSBC UK's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'targets', '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 UK 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 offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC UK's Directors, officers or employees to third parties.

Forward-looking statements involve inherent risks and uncertainties because they relate to future events and circumstances. 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 UK and internationally such as instability in the global financial markets, including Eurozone instability and instability as a result of the exit by the UK from the European Union ('EU'), continuing or deepening recessions and fluctuations in employment beyond those factored into 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 real estate; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness; 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 and deviations from the market and economic assumptions that form the basis for our measurements;
- 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; 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 UK, EU and the principal markets in which HSBC UK operates 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; regulatory or competition scrutiny, legal, regulatory or competition investigations; actions or litigation, including any additional compliance requirements; and the effects of competition in the UK, EU and the markets where HSBC UK operates including increased competition from non bank financial services companies.
- Factors specific to HSBC UK, including 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; and other risks and uncertainties we identify in 'Top and emerging risks'

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