HSBC Bank plc

Pillar 3 Disclosures at 31 December 2020

HSBC

Contents

	Page
Introduction	**2**
Regulatory framework for disclosures	**3**
Pillar 3 disclosures	**3**
Regulatory developments	**4**
Linkage to the *Annual Report and Accounts 2020*	**5**
Capital and Leverage	**7**
Capital management	**7**
Leverage ratio	**9**
Capital buffers	**11**
Pillar 1	**11**
Pillar 2 and ICAAP	**12**
Credit risk	**13**
Overview	**13**
Risk mitigation	**24**
Counterparty Credit risk	**26**
Market risk	**27**
Non-Financial risk	**27**
Other risks	**27**
Liquidity	**27**
Structural foreign exchange exposures	**28**
Interest rate risk in the banking book	**28**
Risk management of insurance operations	**28**
Remuneration	**29**

Appendices

		Page
I	Countercyclical capital buffer	**31**
II	Abbreviations	**32**
III	Cautionary statement regarding forward-looking statements	**33**

Certain defined terms

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

Tables

		Ref	Page
1	Comparison of own funds, capital and leverage ratios, with and without the application of transitional arrangements for IFRS 9 (IFRS9-FL)	*a*	**2**
2	Overview of RWAs		**3**
3	Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation		**6**
4	Own funds disclosure	*b*	**8**
5	Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)	*a*	**9**
6	Leverage ratio common disclosure (LRCom)	*b*	**10**
7	Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (LRSpl)	*b*	**10**
8	Credit risk exposure – summary (CRB-B)	*a*	**13**
9	Credit quality of forborne exposures		**14**
10	Credit quality of performing and non-performing exposures by past due days		**15**
11	Collateral obtained by taking possession and execution processes		**16**
12	Performing and non-performing exposures and related provisions		**16**
13	Geographical breakdown of exposures (CRB-C)		**18**
14	Concentration of exposures by industry or counterparty types (CRB-D)		**20**
15	Maturity of on-balance sheet exposures (CRB-E)		**22**
16	Specialised lending on slotting approach (CR10)		**22**
17	Amount of past due, impaired exposures and related allowances by industry sector and geographical region		**23**
18	Movement in specific credit risk adjustments by industry sector and by geographical region		**23**
19	IRB expected loss and CRA – by exposure class and region	*b*	**24**
20	Credit risk mitigation techniques - IRB and Standardised		**26**
21	Counterparty credit risk – RWAs by exposure class and product		**26**
22	Market risk under standardised approach (MR1)		**27**
23	Market risk under IMA (MR2-A)		**27**
24	Remuneration – fixed and variable amounts (REM1)		**29**
25	Guaranteed bonus, sign-on and severance payments (REM2)		**29**
26	Deferred remuneration (REM3)		**30**
27	Material risk takers' remuneration by band		**30**
28	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer		**31**
29	Amount of Institution specific countercyclical capital buffer		**31**

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

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

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

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

This document should be read in conjunction with the *Annual Report and Accounts 2020*, which has been published on our website www.hsbc.com.

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 2020	30 Jun 2020	31 Dec 2019
	Available capital (£bn)	1			
1	Common equity tier 1 ('CET1') capital	^	**18.0**	18.7	17.8
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied		**18.0**	18.6	17.7
3	Tier 1 capital	^	**22.2**	22.8	22.1
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied		**22.1**	22.8	22.1
5	Total regulatory capital	^	**33.4**	35.5	34.9
6	Total capital as if IFRS 9 transitional arrangements had not been applied		**33.4**	35.4	34.9
	Risk-weighted assets ('RWAs') (£bn)				
7	Total RWAs		**122.4**	138.4	125.4
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied		**122.3**	138.3	125.4
	Capital ratios (%)	1			
9	CET1	^	**14.7**	13.5	14.2
10	CET1 as if IFRS 9 transitional arrangements had not been applied		**14.7**	13.5	14.1
11	Total tier 1	^	**18.1**	16.5	17.6
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied		**18.1**	16.5	17.6
13	Total capital	^	**27.3**	25.6	27.9
14	Total capital as if IFRS 9 transitional arrangements had not been applied		**27.3**	25.6	27.8
	Leverage ratio	2			
15	Total leverage ratio exposure (£bn)	^	**565.0**	600.3	571.3
16	Leverage ratio (%)	^	**3.8**	3.7	3.8
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)		**3.8**	3.7	3.7

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

At 31 December 2020, our common equity tier 1 ('CET1') capital ratio increased to 14.7% from 14.2% at 31 December 2019. This was due to a decrease in RWAs and an increase in capital during the year. CET1 capital increased by £0.2bn during the year, mainly as a result of a capital injection of £1bn by HSBC UK Holdings Limited, foreign exchange differences of £0.4bn, offset by loss for the period on a regulatory basis (adjusted for intangible impairments) of £1.0bn net of dividends.

We have applied the revised regulatory treatment of software assets, which became a UK requirement in December 2020. The impact of the change on our CET1 ratio was immaterial.

The group has adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a. These transitional arrangements 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 impact is defined as:

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

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

The EU's CRR 'Quick Fix' relief package enacted in June 2020 increased from 70% to 100% the relief that banks may take for loan loss allowances recognised since 1 January 2020 on the non-credit-impaired book.

In the current period, the add-back to the capital base amounted to £(113)m under the STD and IRB approaches (£(69)m and £(44)m respectively) with a tax impact of £63m which resulted in a net add-back of £(50)m.

Table 2: Overview of RWAs

		Footnotes	31 Dec 2020 RWAs £m	31 Dec 2019 RWAs £m	31 Dec 2020 Capital required £m
1	**Credit risk (excluding counterparty credit risk)**		**69,671**	72,773	**5,573**
2	– standardised approach		**15,733**	21,514	**1,258**
3	– foundation IRB approach	1	**25,654**	11,605	**2,052**
4	– advanced IRB approach	1	**28,284**	39,654	**2,263**
6	**Counterparty credit risk**		**19,342**	21,173	**1,548**
7	– mark-to-market		**9,683**	9,973	**775**
10	– internal model method		**7,676**	9,017	**614**
11	– risk exposure amount for contributions to the default fund of a central counterparty		**305**	270	**24**
12	– credit valuation adjustment		**1,678**	1,913	**135**
13	**Settlement risk**		**2**	113	**—**
14	**Securitisation exposures in the non-trading book**		**4,744**	3,819	**380**
14a	– internal ratings-based approach ('SEC-IRBA')		**795**	459	**64**
14b	– external ratings-based approach ('SEC-ERBA')		**2,064**	—	**165**
14c	– internal assessment approach ('IAA')		**1,270**	1,099	**102**
14d	– standardised approach ('SEC-SA')		**615**	196	**49**
14e	– exposures subject to the pre-existing securitisation framework	2	**—**	2,065	**—**
19	**Market risk**		**14,589**	13,107	**1,167**
20	– standardised approach		**1,859**	1,567	**149**
21	– internal models approach		**12,730**	11,540	**1,018**
23	**Operational risk**		**11,245**	11,812	**900**
25	– standardised approach		**11,245**	11,812	**900**
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**		**2,799**	2,616	**224**
29	**Total**		**122,392**	125,413	**9,792**

1 *On 1 January 2020, corporate exposures subject to the UK loss-given-default model moved from the advanced to the foundation IRB approach.*
2 *On 1 January 2020, existing transactions subject to 'grandfathering' provisions transferred to the new framework. For further information see page 11.*

Credit risk (including amounts below the thresholds for deduction)

Credit risk RWAs decreased by £2.9bn mainly due to management initiatives and fall in exposures. This was partly offset by an increase in RWAs arising from updates to our models and changes in methodology.

Counterparty credit risk

Counterparty credit risk (including settlement risk) RWAs decreased by £1.9bn which was largely due to management initiatives, partly offset by credit rating downgrades, foreign exchange movements and an increase in exposures.

Securitisation

Securitisation RWAs increased by £0.9bn primarily due to the application of the new framework, offset by a fall in legacy positions.

Market risk

The £1.5bn increase in market risk RWAs was mainly due to a £0.3bn increase in foreign exchange risk under the standardised approach and a £1.4bn increase arising from market volatility under the internal models approach.

Operational risk

The £0.6bn decrease in operational risk RWAs was mainly driven by a fall in operating income in 2020.

Regulatory framework for disclosures

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

We calculate the bank's capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision ('Basel'), as implemented by the European Union ('EU') in CRR II, and in the PRA Rulebook for the UK banking industry.

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

Following the end of the transitional period, any reference to EU regulation (including technical standards) should be read as a reference to the UK's version of that regulation as modified by Parliament, HM Treasury, or the relevant regulators.

Pillar 3 disclosures

Our *Pillar 3 Disclosures at 31 December 2020* comprises quantitative and qualitative information required under Pillar 3. They are made in accordance with Part Eight of the Capital Requirements Regulation, as implemented by CRR II and the European Banking Authority ('EBA') guidelines on disclosure requirements. These disclosures are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

The Pillar 3 disclosures are governed by the disclosure policy framework approved by the group Audit Committee.

To give insight into movements during the year, we provide comparative figures. In all tables where the term 'capital requirements' is used, this represents the minimum total capital charge set at 8% of risk-weighted assets ('RWAs') by article 92 of the Capital Requirements Regulation.

Where disclosures have been enhanced, or are new, we do not generally restate or provide comparatives. Wherever specific rows and columns in the tables prescribed by the EBA or Basel are not applicable or immaterial to our activities, we omit them and follow the same approach for comparatives.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the HSBC Bank plc *Annual Report and Accounts 2020*, the HSBC Holdings plc *Annual Report and Accounts 2020*, or the HSBC Holdings plc *Pillar 3 Disclosures at 31 December 2020* document.

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

Regulatory developments

The UK's withdrawal from the EU

At 11pm on 31 December 2020, the UK ceased to be subject to the EU's legal and regulatory framework. In preparation for this, Her Majesty's Treasury ('HMT'), the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') undertook an exercise of converting all of the EU's existing legislation into UK law, regulatory rules and guidance. Broadly, these entered into force on 31 December 2020.

Only those parts of the EU's framework that were published and in force on 31 December 2020 have been imported into the UK's framework. This includes any rules contained in EU Directives, Regulations, Regulatory Technical Standards ('RTS') and Implementing Technical Standards ('ITS'). In some circumstances, the EU's framework has been amended, principally to make the legislation operable in the UK, but also to reflect the EU's new status as a 'third country' under UK law. Any legislation that was published but not in force on or before the 31 December has not been incorporated into UK law.

In November 2020, the UK made a series of equivalence decisions in relation to the EU, which applied from 31 December 2020. The decisions serve to negate potential RWA uplifts in relation to risk weights for exposures to financial institutions in the EU and give clarity on the continued application of credit valuation adjustment ('CVA') exemptions for intra-group exposures between the UK and the EU.

In December 2020, the Bank of England and the PRA published changes to their rules and technical standards in preparation for the UK ceasing to be subject to EU law. As part of this, the PRA exercised temporary transitional powers to delay the implementation of any rule changes arising from the UK's withdrawal from the EU. The transitional provisions are wide reaching, with limited exemptions, and expire on 31 March 2022.

Covid-19

The Covid-19 pandemic has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of customer support and operational capacity measures, and amendments to the RWA, capital and liquidity frameworks.

In the EU, the measures included a package known as the 'CRR Quick Fixes' that was enacted in June 2020. This implemented some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR II'), which were originally scheduled for June 2021, together with other amendments to mitigate any undue volatility in capital ratios arising from the pandemic. This included the amended transitional provisions on the regulatory capital treatment of IFRS 9, the revised small and medium-sized enterprise ('SME') and infrastructure supporting factors, and changes to the capital treatment of software assets. In large part, the package came into effect in 2020 and therefore has been transposed into UK law, following the UK's withdrawal from the EU.

While the PRA confirmed in December 2020 that the revised treatment of software assets had been onshored into UK law, it issued a consultation in February 2021 on the CRR II, which includes a proposal to reverse the EU's changes on software assets. In the meantime, it has recommended that firms not base their distribution decisions on any capital increase from applying the EU's changes.

In addition to the CRR Quick Fix package, there were other changes to the regime during 2020 in response to Covid-19. This included the enactment by the EU of beneficial changes to the CET1 deduction for prudent valuation adjustments, which ceased to apply on 1 January 2021.

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to the CVA framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5% of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect.

In June 2019, the EU enacted the CRR II. This implemented changes to the own funds regime and to the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'). It also included the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk rules under the Fundamental Review of the Trading Book, revisions to the standardised approach for measuring counterparty risk, changes to the equity investments in funds rules, amendments to the large exposures rules, the new leverage ratio rules and the implementation of the net stable funding ratio.

Given that many of the CRR II changes do not enter into force until June 2021, these were not transposed into UK law on 31 December 2020 and therefore will be implemented separately in the UK. In February 2021, HMT issued a consultation paper clarifying certain elements of the implementation of the UK's version of the CRR II including in relation to the equivalence regime for equity investments in funds. Consequently, the PRA issued its own consultation on the implementation of the CRR II, which covers all of the key elements with the exception of the changes relating to the leverage ratio. Final rules are expected to be published by the end of June 2021, with a target implementation date of 1 January 2022.

The PRA has confirmed that its proposed changes to the leverage ratio will be published once a review by the Financial Policy Committee and Prudential Regulation Committee has been completed in the summer of 2021.

The remaining elements of the Basel III Reforms will be implemented separately in the UK; however, the PRA has yet to consult on these. There remains a significant degree of uncertainty in the impact of the Basel III Reforms due to the number of national discretions and the need for further supporting technical standards to be developed. The UK's implementation of the remaining elements of the Basel III Reforms is expected to be on 1 January 2023, consistent with Basel's timeline.

The Fifth Capital Requirements Directive ('CRD V') and the Second Bank Recovery and Resolution Directive ('BRRD II')

The CRD V and BRRD II were implemented in the EU on 28 December 2020. The UK's approach was to enact only those elements that came into force before it ceased to be subject to EU law.

In support of this, the PRA published its final CRD V rules in December 2020. This included the implementation of Basel's standards on interest rate risk in the banking book ('IRRBB'); changes to the calculation of the maximum distributable amount ('MDA'); and the introduction of regulation for bank holding companies. The changes are subject to a phased implementation with the IRRBB standards being implemented in December 2021.

Although the UK implemented the changes in BRRD II, a sunset clause was built into the legislation, so that some of the requirements were revoked when the UK ceased to be subject to EU law on 31 December 2020. This included the restrictions on dividends as a result of a breach of the combined buffer requirement, pre-resolution moratorium powers and the contractual recognition of bail-in. The restrictions on selling of subordinated eligible liabilities to retail clients were retained in UK law.

Credit Risk

In order to address concerns about the variability and comparability of the capital requirements under the IRB Approach to credit risk, the EU has undertaken a review of the requirements and proposed a series of changes to the framework. This includes changes to the definition of default and to the methodologies for risk parameter estimation. Broadly, these changes are being implemented in the UK and will take effect from 1 January 2022.

In October 2020, the PRA set out the criteria for when a firm may use models approved by overseas regulators in the calculation of a UK group's consolidated capital requirements. The PRA has proposed that the use of models approved by overseas regulators in a UK group's consolidated capital requirements is limited to retail exposures, subject to an overall limit. Where existing non-UK IRB models do not meet the new criteria by 1 July 2021, firms are required to remediate by 1 January 2023, in line with the planned implementation of the Basel III Reforms.

Capital Buffers

In its December 2020 Financial Stability Report ('FSR'), the Financial Policy Committee ('FPC') updated its guidance on the path for the UK Countercyclical Capital Buffer ('CCyB') rate. It now expects this rate to remain at 0% until at least the last quarter of 2021, meaning that any subsequent increase is not expected to take effect until the last quarter of 2022 at the earliest given the 12-month implementation lag.

Other Developments

In October 2020, HMT published a consultation launching the second phase of its Future Regulatory Framework ('FRF') review of how the UK's regulatory framework needs to adapt long term. This proposes a framework where detailed prudential rules are designed and implemented by the PRA, based upon high-level principles set by the UK's Parliament and government. Furthermore, there will be improvements to the accountability of the PRA to Parliament, HMT and the industry.

In December, the PRA published a Dear CEO letter setting out its six 2021 supervisory priorities; namely, financial and operational resilience, credit and operational risk, transition from LIBOR and financial risks arising from climate change. The PRA also stressed that the submission of complete, timely and accurate regulatory returns continues to be the foundation of effective supervision and that the pilot project it has been running to assess the standard of regulatory returns will continue into 2021.

In parallel with similar developments in Europe, it is anticipated that the PRA will review the requirements for the capitalisation of structural FX risk to align to a Pillar 1 approach.

Linkage to the Annual Report and Accounts 2020

Structure of the regulatory group

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

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

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

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

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Regulatory balance sheet £m
Assets					
Cash and balances at central banks		**85,092**	**–**	**18**	**85,110**
Items in the course of collection from other banks		**243**	**–**	**–**	**243**
Trading assets		**86,976**	**–**	**–**	**86,976**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**16,220**	**(12,618)**	**419**	**4,021**
– of which: debt securities eligible as tier 2 issued by Group Financial Sector Entities ('FSEs') that are outside the regulatory scope of consolidation	*r*	***–***	***422***	***–***	***422***
Derivatives		**201,210**	**(33)**	**–**	**201,177**
Loans and advances to banks		**12,646**	**(388)**	**–**	**12,258**
Loans and advances to customers		**101,491**	**(284)**	**–**	**101,207**
– of which: expected credit losses on IRB portfolios	*h*	***(1,177)***	***–***	***–***	***(1,177)***
Reverse repurchase agreements – non-trading		**67,577**	**–**	**–**	**67,577**
Financial investments		**51,826**	**(10,482)**	**–**	**41,344**
Capital invested in insurance and other entities		**–**	**626**	**–**	**626**
Prepayments, accrued income and other assets		**55,565**	**(957)**	**35**	**54,643**
– of which: retirement benefit assets	*j*	***30***	***–***	***–***	***30***
Current tax assets		**444**	**2**	**–**	**446**
Interests in associates and joint ventures		**497**	**–**	**(471)**	**26**
Goodwill and intangible assets	*e*	**766**	**(648)**	**–**	**118**
Deferred tax assets	*f*	**597**	**137**	**3**	**737**
Total assets at 31 Dec 2020		**681,150**	**(24,645)**	**4**	**656,509**
Liabilities and equity					
Liabilities					
Deposits by banks		**34,305**	**(3)**	**–**	**34,302**
Customer accounts		**195,184**	**629**	**–**	**195,813**
Repurchase agreements – non-trading		**34,903**	**–**	**–**	**34,903**
Items in the course of transmission to other banks		**290**	**–**	**–**	**290**
Trading liabilities		**44,229**	**–**	**–**	**44,229**
Financial liabilities designated at fair value		**40,792**	**377**	**–**	**41,169**
– of which:					
included in tier 1	*l*	***–***	***–***	***–***	***–***
included in tier 2	*n, o, q, i*	***2,347***	***–***	***–***	***2,347***
Derivatives		**199,232**	**3**	**–**	**199,235**
– of which: debit valuation adjustment	*i*	***28***	***–***	***–***	***28***
Debt securities in issue		**17,371**	**(957)**	**–**	**16,414**
Accruals, deferred income and other liabilities		**53,395**	**(1,076)**	**4**	**52,323**
Current tax liabilities		**139**	**(2)**	**–**	**137**
Liabilities under insurance contracts		**22,816**	**(22,816)**	**–**	**–**
Provisions		**861**	**(3)**	**–**	**858**
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*h*	***145***	***–***	***–***	***145***
Deferred tax liabilities		**20**	**(12)**	**–**	**8**
Subordinated liabilities		**13,764**	**–**	**–**	**13,764**
– of which:					
included in tier 1	*l*	***700***	***–***	***–***	***700***
included in tier 2	*n, o, q*	***13,064***	***–***	***–***	***13,064***
Total liabilities at 31 Dec 2020		**657,301**	**(23,860)**	**4**	**633,445**
Equity					
Called up share capital	*a*	**797**	**–**	**–**	**797**
Other equity instruments	*k*	**3,722**	**–**	**–**	**3,722**
Other reserves	*c, g*	**(4,682)**	**5**	**–**	**(4,677)**
Retained earnings	*b, c*	**23,829**	**(790)**	**–**	**23,039**
Total shareholders' equity		**23,666**	**(785)**	**–**	**22,881**
Non-controlling interests	*d, m, p*	**183**	**–**	**–**	**183**
Total equity at 31 Dec 2020		**23,849**	**(785)**	**–**	**23,064**
Total liabilities and equity at 31 Dec 2020		**681,150**	**(24,645)**	**4**	**656,509**

† *The references (a) – (r) identify balance sheet components that are used in the calculation of regulatory capital in Table 4: Own funds disclosure. This table shows such items at their accounting values, which may be subject to analysis or adjustment in the calculation of regulatory capital shown in Table 4.*

Capital and Leverage

Capital management

Approach and policy

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

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

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

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

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

Stress testing

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

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

Risks to capital

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

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

Planning and performance

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

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

Capital generation

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

All capital securities included in the capital base of the group have either been issued as fully compliant CRD IV securities (on an end point basis) or in accordance with the rules and guidance in the PRA's previous General Prudential Sourcebook, which are included in the capital base by virtue of the application of CRR II. The main features of capital securities issued by the Group, categorised as tier 1 ('T1') capital and tier 2 ('T2') capital, are set out on the HSBC website, www.hsbc.com.

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

A list of the main features of our capital instruments in accordance with Annex III of Commission Implementing Regulation 1423/2013 is also published on HSBC's website with reference to our balance sheet on 31 December 2020. This is in addition to the full terms and conditions of our securities, also available on HSBC's website.

As at 31 December 2020, the bank holds sufficient amount of eligible regulatory total capital to meet the existing Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') requirements.

Table 4: Own funds disclosure

Ref*		Ref †	At 31 Dec 2020 £m	At 31 Dec 2019 £m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and related share premium accounts		**797**	797
	– ordinary shares	*a*	**797**	797
2	Retained earnings	*b*	**17,407**	19,272
3	Accumulated other comprehensive income (and other reserves)	*c*	**2,888**	2,048
5	Minority interests (amount allowed in consolidated CET1)	*d*	**66**	350
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	*b*	**(1,755)**	(3,019)
6	**Common equity tier 1 capital before regulatory adjustments**		**19,403**	19,448
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(569)**	(651)
8	Intangible assets (net of related deferred tax liability)	*e*	**(100)**	(854)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	**(305)**	(72)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	**(159)**	(65)
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	**(303)**	(189)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	*i*	**105**	193
15	Defined benefit pension fund assets	*j*	**(30)**	(19)
28	**Total regulatory adjustments to common equity tier 1**		**(1,361)**	(1,657)
29	**Common equity tier 1 capital**		**18,042**	17,791
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and related share premium accounts		**3,722**	3,722
31	– classified as equity under IFRSs	*k*	**3,722**	3,722
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1	*l*	**433**	650
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	*m*	**12**	12
36	**Additional tier 1 capital before regulatory adjustments**		**4,167**	4,384
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[3]		**(44)**	(45)
43	**Total regulatory adjustments to additional tier 1 capital**		**(44)**	(45)
44	**Additional tier 1 capital**		**4,123**	4,339
45	**Tier 1 capital (T1 = CET1 + AT1)**		**22,165**	22,130
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts	*n*	**11,079**	12,336
	– *of which: instruments grandfathered under CRR II*		***1,326***	*1,399*
47	Amount of qualifying items and related share premium accounts subject to phase out from T2	*o*	**441**	661
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	*p, q*	**204**	232
49	– *of which: instruments issued by subsidiaries subject to phase out*	*q*	***46***	*57*
	– *of which: instruments issued by subsidiaries grandfathered under CRR II*		***32***	*43*
51	**Tier 2 capital before regulatory adjustments**		**11,724**	13,229
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[3]		**(29)**	(31)
55	Direct and indirect holdings by the institution of T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	*r*	**(422)**	(399)
57	**Total regulatory adjustments to tier 2 capital**		**(451)**	(430)
58	**Tier 2 capital**		**11,273**	12,799
59	**Total capital (TC = T1 + T2)**		**33,438**	34,929
60	**Total risk-weighted assets**		**122,392**	125,413
	Capital ratios and buffers			
61	Common equity tier 1		**14.7%**	14.2%
62	Tier 1		**18.1%**	17.6%
63	Total capital		**27.3%**	27.9%
64	Institution specific buffer requirement		**2.52%**	2.89%
65	– capital conservation buffer requirement		**2.50%**	2.50%
66	– countercyclical buffer requirement		**0.02%**	0.39%
68	Common equity tier 1 available to meet buffers		**10.2%**	9.7%

Table 4: Own funds disclosure (continued)

Ref*		Ref †	At 31 Dec 2020 £m	31 Dec 2019 £m
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**1,069**	1,712
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		**627**	600
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**493**	447
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**257**	330
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**404**	396
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**463**	695
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**267**	364
84	Current cap on T2 instruments subject to phase-out arrangements		**506**	759
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**237**	109

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
† *The references (a) – (r) identify balance sheet components in Table 3: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation which is used in the calculation of regulatory capital. This table shows how they contribute to the regulatory capital calculation. Their contribution may differ from their accounting value in Table 3 as a result of adjustment or analysis to apply regulatory definitions of capital.*
1 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*
2 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*
3 *As advised by the PRA a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*

Leverage ratio

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

Although there is currently no binding leverage ratio requirement on the group, the risk of excess leverage is managed as part of HSBC's global risk appetite framework and monitored using a leverage ratio metric within our Risk Appetite Statement ('RAS'). The RAS articulates the aggregate level and types of risk that HSBC is willing to accept in its business activities in order to achieve its strategic business objectives. The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately.

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

Our leverage ratio calculated in accordance with the Capital Requirements Regulation was 3.8% at 31 December 2020, unchanged from 31 December 2019. The impact to our leverage ratio arising from the change in treatment of software assets was immaterial.

The following table provides a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure:

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

Ref*		At 31 Dec 2020 £m	31 Dec 2019 £m
1	Total assets as per published financial statements	**681,150**	636,491
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(24,641)**	(24,038)
4	– derivative financial instruments	**(151,753)**	(93,974)
5	– securities financing transactions ('SFT')	**7,030**	(1,243)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**49,620**	49,188
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(330)**	(341)
7	– other	**3,973**	5,219
8	**Total leverage ratio exposure**	**565,049**	571,302

Table 6: Leverage ratio common disclosure (LRCom)

Ref*		Footnotes	At 31 Dec 2020 £m	31 Dec 2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)		**379,994**	355,108
2	(Asset amounts deducted in determining Tier 1 capital)		**(603)**	(1,178)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**		**379,391**	353,930
	Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)		**45,347**	30,146
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)		**75,434**	86,906
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs		**10,622**	5,213
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		**(42,471)**	(28,285)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)		**(43,884)**	(28,442)
9	Adjusted effective notional amount of written credit derivatives		**95,483**	117,851
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		**(91,107)**	(112,846)
11	**Total derivative exposures**		**49,424**	70,543
	Securities financing transaction exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		**187,608**	217,376
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		**(106,479)**	(124,530)
14	Counterparty credit risk exposure for SFT assets		**5,815**	5,136
16	**Total securities financing transaction exposures**		**86,944**	97,982
	Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount		**126,409**	120,337
18	(Adjustments for conversion to credit equivalent amounts)		**(76,789)**	(71,149)
19	**Total off-balance sheet exposures**		**49,620**	49,188
	Exempted exposures			
EU-19a	(Exemption of intragroup exposures (solo basis))		**(330)**	(341)
	Capital and total exposures			
20	**Tier 1 capital**	1	**21,732**	21,480
21	**Total leverage ratio exposure**		**565,049**	571,302
22	**Leverage ratio (%)**	1	**3.8**	3.8
EU-23	Choice of transitional arrangements for the definition of the capital measure		**Fully phased-in**	Fully phased-in

1 *Leverage ratio is calculated using the CRR II end point basis for capital.*

The table below provides a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class:

Table 7: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (LRSpl)

Ref*		At 31 Dec 2020 £m	31 Dec 2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**337,523**	326,823
EU-2	– trading book exposures	**74,249**	83,656
EU-3	– banking book exposures	**263,274**	243,167
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**132,819**	93,555
EU-7	institutions	**11,384**	13,058
EU-8	secured by mortgages of immovable properties	**24,056**	8,462
EU-9	retail exposures	**4,118**	17,452
EU-10	corporate	**67,272**	74,726
EU-11	exposures in default	**1,963**	1,181
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**21,662**	34,733

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

Capital buffers

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

Pillar 1

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

Risk category	Scope of permissible approaches	Our approach
Credit risk	The Basel framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised ('STD') approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the foundation IRB ('FIRB') approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the advanced IRB ('AIRB') approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.	For consolidated group reporting, we have adopted the AIRB approach for the majority of our business. Some portfolios remain on the standardised or FIRB approaches: • pending the issuance of local regulations or model approval; • following the supervisory prescription of a non-advanced approach; or • under exemptions from IRB treatment.
Counterparty credit risk ('CCR')	Four approaches to calculating CCR and determining exposure values are defined by the Basel: mark-to-market, original exposure, standardised and internal model method ('IMM'). These exposure values are used to determine capital requirements under one of the credit risk approaches: standardised, FIRB or AIRB.	We use the mark-to-market and IMM approaches for CCR. Details of the IMM permission we have received from the PRA can be found in the Financial Services Register on the PRA website. Our aim is to increase the proportion of positions on IMM over time.
Equity	For the non-trading book, equity exposures can be assessed under standardised or IRB approaches.	For group reporting purposes, all equity exposures are treated under the standardised approach.
Securitisation	The framework prescribes the following approaches: • internal ratings-based approach ('SEC-IRBA'); • standardised approach ('SEC-SA'). • external ratings-based approach ('SEC-ERBA'); and • internal assessment approach ('IAA'). Where a split between IRB and standardised approaches is disclosed, exposures under the SEC-IRBA approach are mapped to IRB. Exposures under the other approaches are mapped to standardised.	Under the new framework: • Our originated positions are reported under SEC-IRBA. • Our positions in the sponsored Solitaire programme and our investment in third-party positions are reported under SEC-SA and SEC-ERBA. • Our sponsored positions in Regency are reported under IAA. Our IAA approach is audited annually by internal model review and is subject to review by the PRA. • Wherever broader approach categorisation is required, 'SEC-IRBA' is mapped to IRB approach and the remaining three approaches are mapped to standardised category.
Market risk	Market risk capital requirements can be determined under either the standard rules or the internal models approach ('IMA'). The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. The internal model approach also includes stressed VaR ('SVaR') and incremental risk charge ('IRC'). HSBC does not use or need a Comprehensive Risk Model ('CRM').	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standard rules. Our internal market risk models comprise VaR, stressed VaR and IRC. Non-proprietary details of the scope of our IMA permission are available in the Financial Services Register on the PRA website. We are in compliance with the requirements regarding: i. rules and procedures for inclusion of positions within trading books; and ii. application of prudent valuation adjustments to trading book positions.
Operational risk	Basel allows firms to calculate their operational risk capital requirement under the basic indicator approach, the standardised approach or the advanced measurement approach.	We currently use the standardised approach in determining our operational risk capital requirement. We have in place an operational risk model that is used for economic capital calculation purposes.

Pillar 2 and ICAAP

Pillar 2

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

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

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

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

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

Internal capital adequacy assessment

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

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

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

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

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

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

Credit risk

Overview

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

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

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

- *on pages 34 to 66 of the HSBC Bank plc* Annual Report and Accounts 2020*;*
- *on pages 119 to 121 of the HSBC Holdings plc* Annual Report and Accounts 2020*; and*
- *on pages 28 to 60 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2020*.*

Table 8: Credit risk exposure – summary (CRB-B)

		At 31 Dec 2020					At 31 Dec 2019				
		Net carrying values	**Average net carrying values[3]**	**RWAs^**	**Capital required^**	**RWA density**	Net carrying values	Average net carrying values[3]	RWAs^	Capital required^	RWA density
	Footnotes	**£m**	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
IRB advanced approach		**128,624**	**136,138**	**26,399**	**2,112**	**31**	173,204	183,231	37,679	3,014	30
– central governments and central banks		**20,191**	**18,970**	**2,770**	**222**	**13**	16,024	20,114	1,915	153	13
– institutions		**11,797**	**13,554**	**1,980**	**158**	**28**	13,984	14,886	2,439	195	21
– corporates	1	**70,891**	**78,173**	**16,167**	**1,293**	**40**	119,419	124,593	30,560	2,445	39
– total retail		**25,745**	**25,441**	**5,482**	**439**	**—**	23,777	23,638	2,765	221	12
– *of which:*											
secured by mortgages on immovable property - small - and medium - sized enterprises ('SME')		***401***	***411***	***270***	***22***	***14***	*413*	*439*	*278*	*22*	*64*
secured by mortgages on immovable property non-SME		***19,566***	***16,401***	***3,910***	***313***	***21***	*4,359*	*4,466*	*586*	*47*	*13*
qualifying revolving retail		***550***	***523***	***59***	***5***	***40***	*564*	*535*	*38*	*3*	*21*
other SME		***1,558***	***1,663***	***416***	***33***	***9***	*1,665*	*1,670*	*507*	*41*	*38*
other non-SME		***3,670***	***6,443***	***827***	***66***	***13***	*16,776*	*16,529*	*1,356*	*108*	*8*
IRB securitisation positions		**2,320**	**4,111**	**795**	**64**	**26**	10,370	13,349	2,084	167	20
IRB non-credit obligation assets		**2,812**	**3,482**	**1,885**	**151**	**39**	3,468	4,036	1,976	158	57
IRB foundation approach		**91,703**	**81,411**	**25,654**	**2,052**	**59**	30,069	29,121	11,605	928	59
– central governments and central banks		**—**	**—**	**6**	**—**	**35**	—	—	2	—	22
– institutions		**—**	**—**	**7**	**1**	**43**	—	—	17	1	28
– corporates		**91,703**	**81,411**	**25,641**	**2,051**	**60**	30,069	29,121	11,586	927	59
STD approach		**154,972**	**158,555**	**22,481**	**1,798**	**25**	121,224	124,804	25,864	2,069	22
– central governments and central banks		**102,661**	**98,665**	**1,232**	**99**	**3**	68,622	72,439	1,117	89	2
– regional governments or local authorities		**2,452**	**2,303**	**2**	**—**	**—**	1,849	1,916	2	—	—
– public sector entities		**7,540**	**6,813**	**9**	**1**	**—**	6,082	4,928	9	1	—
– international organisations		**1,204**	**1,168**	**—**	**—**	**—**	1,168	1,143	—	—	—
– institutions		**4,748**	**5,589**	**1,418**	**113**	**23**	3,855	5,358	1,085	87	28
– corporates		**13,770**	**20,214**	**7,340**	**587**	**89**	21,496	24,800	11,494	920	86
– retail		**1,200**	**1,415**	**305**	**24**	**70**	1,363	1,243	412	33	71
– secured by mortgages on immovable property		**4,458**	**4,315**	**1,666**	**133**	**35**	3,877	3,620	1,448	116	37
– exposures in default		**435**	**461**	**413**	**33**	**122**	448	503	470	38	119
– items associated with particularly high risk		**3,300**	**3,772**	**3,852**	**308**	**150**	3,743	3,640	5,481	438	150
– securitisation positions		**11,621**	**11,645**	**3,949**	**316**	**105**	6,410	2,800	1,735	139	27
– collective investments undertakings ('CIU')		**1**	**7**	**—**	**—**	**99**	6	11	6	—	—
– equity	2	**1,156**	**1,397**	**2,096**	**168**	**178**	1,428	1,354	2,327	186	163
– other items		**426**	**791**	**199**	**16**	**27**	877	1,049	278	22	32
At 31 Dec		**380,431**	**383,697**	**77,214**	**6,177**	**30**	338,335	354,541	79,208	6,336	29

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Corporates includes specialised lending exposures subject to the supervisory slotting approach of £4,475m (2019: £4,104m) and RWAs of £2,535m (2019: £2,699m).*
2 *This includes investments in insurance companies that are risk weighted at 250%.*
3 *Average net carrying values are calculated by aggregating net carrying values of the last five quarters and dividing by five.*

Non-performing and forborne exposures

Tables 9 to 12 are presented in accordance with the EBA's 'Guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Annual Report and Accounts 2020* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Annual Report and Accounts 2020*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

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

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

In the *Annual Report and Accounts 2020*, renegotiated loans retain this classification until maturity or de-recognition.

Under EBA and PRA guidelines, the use of support measures introduced as a result of the Covid-19 outbreak does not in itself trigger identification as non-performing or forborne. Borrower specific support measures are assessed under the existing rules to determine whether forbearance has been granted.

Table 9: Credit quality of forborne exposures

		Gross carrying amount/nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposures*
			Total	*Of which: defaulted*	*Of which: impaired*				
		£m	£m	*£m*	*£m*	£m	£m	£m	*£m*
	At 31 Dec 2020								
1	**Loans and advances**	**189**	**937**	***937***	***937***	**(7)**	**(242)**	**178**	***160***
5	Other financial corporations	**7**	**—**	***—***	***—***	**—**	**—**	**—**	***—***
6	Non-financial corporations	**182**	**816**	***816***	***816***	**(7)**	**(224)**	**99**	***81***
7	Households	**—**	**121**	***121***	***121***	**—**	**(18)**	**79**	***79***
9	**Loan commitments given**	**—**	**133**	***133***	***133***	**—**	**—**	**129**	***129***
10	**Total**	**189**	**1,070**	***1,070***	***1,070***	**(7)**	**(242)**	**307**	***289***
	At 31 Dec 2019								
1	Loans and advances	487	483	*483*	*483*	(7)	(129)	298	*101*
5	Other financial corporations	—	—	*—*	*—*	—	—	—	*—*
6	Non-financial corporations	487	408	*408*	*408*	(7)	(115)	260	*63*
7	Households	—	75	*75*	*75*	—	(14)	38	*38*
9	Loan commitments given	—	63	*63*	*63*	—	—	62	*62*
10	Total	487	546	*546*	*546*	(7)	(129)	360	*163*

Table 10 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 31 Dec 2020 was 1.4% calculated in line with the EBA guidelines.

Table 10: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which: defaulted*
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	*£m*
	At 31 Dec 2020												
1	**Loans and advances**	**273,809**	**273,763**	**46**	**2,719**	**2,222**	**20**	**29**	**21**	**413**	**4**	**10**	***2,719***
2	Central banks	**89,358**	**89,358**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
3	General governments	**1,675**	**1,675**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
4	Credit institutions	**40,669**	**40,669**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
5	Other financial corporations	**56,655**	**56,655**	**—**	**289**	**289**	**—**	**—**	**—**	**—**	**—**	**—**	***289***
6	Non-financial corporations	**59,439**	**59,428**	**11**	**1,986**	**1,710**	**1**	**1**	**10**	**262**	**1**	**1**	***1,986***
8	Households	**26,013**	**25,978**	**35**	**444**	**223**	**19**	**28**	**11**	**151**	**3**	**9**	***444***
9	**Debt securities**	**41,636**	**41,636**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	***1***
10	Central banks	**194**	**194**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
11	General governments	**30,378**	**30,378**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
12	Credit institutions	**8,092**	**8,092**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
13	Other financial corporations	**2,463**	**2,463**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
14	Non-financial corporations	**509**	**509**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	***1***
15	**Off-balance-sheet exposures**	**163,305**	**N/A**	**N/A**	**566**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***566***
16	Central banks	**1,246**	**N/A**	**N/A**	**—**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***—***
17	General governments	**1,795**	**N/A**	**N/A**	**—**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***—***
18	Credit institutions	**44,432**	**N/A**	**N/A**	**1**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***1***
19	Other financial corporations	**23,002**	**N/A**	**N/A**	**7**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***7***
20	Non-financial corporations	**90,555**	**N/A**	**N/A**	**554**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***554***
21	Households	**2,275**	**N/A**	**N/A**	**4**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	***4***
22	**Total**	**478,750**	**315,399**	**46**	**3,286**	**2,223**	**20**	**29**	**21**	**413**	**4**	**10**	***3,286***
	At 31 Dec 2019												
1	Loans and advances	265,404	262,608	98	2,024	1,332	222	19	21	416	6	8	*2,024*
2	Central banks	59,691	59,691	—	—	—	—	—	—	—	—	—	*—*
3	General governments	1,473	1,473	—	—	—	—	—	—	—	—	—	*—*
4	Credit institutions	36,648	36,648	—	—	—	—	—	—	—	—	—	*—*
5	Other financial corporations	79,058	76,646	—	88	88	—	—	—	—	—	—	*88*
6	Non-financial corporations	64,170	63,828	56	1,492	1,040	169	5	11	260	3	4	*1,492*
8	Households	24,364	24,322	42	444	204	53	14	10	156	3	4	*444*
9	Debt securities	36,265	36,264	—	—	—	—	—	—	—	—	—	*—*
10	Central banks	172	172	—	—	—	—	—	—	—	—	—	*—*
11	General governments	25,863	25,863	—	—	—	—	—	—	—	—	—	*—*
12	Credit institutions	6,858	6,858	—	—	—	—	—	—	—	—	—	*—*
13	Other financial corporations	2,422	2,422	—	—	—	—	—	—	—	—	—	*—*
14	Non-financial corporations	950	949	—	—	—	—	—	—	—	—	—	*—*
15	Off-balance-sheet exposures	145,649	N/A	N/A	256	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*256*
16	Central banks	57	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*—*
17	General governments	1,133	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*—*
18	Credit institutions	40,066	N/A	N/A	—	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*—*
19	Other financial corporations	15,932	N/A	N/A	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*2*
20	Non-financial corporations	86,320	N/A	N/A	250	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*250*
21	Households	2,141	N/A	N/A	4	N/A	N/A	N/A	N/A	N/A	N/A	N/A	*4*
22	Total	447,318	298,872	98	2,280	1,332	222	19	21	416	6	8	*2,280*

Table 11 provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained by taking possession. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet, whilst the accumulated negative change is the accumulated impairment or negative change on the initial recognition value of the collateral obtained by taking possession including amortisation in the case of PP&E and investment properties.

Table 11: Collateral obtained by taking possession and execution processes

		At 31 Dec 2020		At 31 Dec 2019	
		Collateral obtained by taking possession		Collateral obtained by taking possession	
		Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
		£m	**£m**	£m	£m
2	Other than PP&E	6	—	11	—
3	Residential immovable property	2	—	3	—
4	Commercial Immovable property	4	—	8	—
8	**Total**	6	—	11	—

Table 12: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**					**Collaterals and financial guarantees received**	
		Performing exposures			**Non-performing exposures**		**Performing exposures**			**Non-performing exposures**			
			of which: stage 1	***of which: stage 2***		***of which: stage 3***		***of which: stage 1***	***of which: stage 2***		***of which stage 3***	**On performing exposures**	**On non-performing exposures**
		£m	***£m***	***£m***	**£m**	***£m***	**£m**	***£m***	***£m***	**£m**	***£m***	**£m**	**£m**
	At 31 Dec 2020												
1	**Loans and advances**	273,809	*257,184*	*15,026*	2,719	*2,719*	(433)	*(143)*	*(290)*	(1,044)	(1,044)	113,681	642
2	Central banks	89,358	*89,358*	—	—	—	(1)	*(1)*	—	—	—	1,727	—
3	General governments	1,675	*1,485*	*190*	—	—	(3)	*(1)*	*(2)*	—	—	123	—
4	Credit institutions	40,669	*40,605*	*64*	—	—	(16)	*(13)*	*(3)*	—	—	27,866	—
5	Other financial corporations	56,655	*53,614*	*1,575*	289	*289*	(49)	*(18)*	*(31)*	(30)	(30)	38,595	—
6	Non-financial corporations	59,439	*47,046*	*12,259*	1,986	*1,986*	(271)	*(48)*	*(223)*	(909)	(909)	20,928	358
8	Households	26,013	*25,076*	*938*	444	*444*	(93)	*(62)*	*(31)*	(105)	(105)	24,442	284
9	**Debt securities**	41,636	*41,090*	*134*	1	*1*	(26)	*(11)*	*(15)*	(1)	(1)	—	—
10	Central banks	194	*194*	—	—	—	—	—	—	—	—	—	—
11	General governments	30,378	*30,378*	—	—	—	(7)	*(7)*	—	—	—	—	—
12	Credit institutions	8,092	*8,000*	*90*	—	—	(3)	*(3)*	—	—	—	—	—
13	Other financial corporations	2,463	*2,185*	*30*	—	—	(12)	—	*(12)*	—	—	—	—
14	Non-financial corporations	509	*333*	*14*	1	*1*	(4)	*(1)*	*(3)*	(1)	(1)	—	—
15	**Off-balance-sheet exposures**	163,305	*133,920*	*14,824*	566	*386*	(127)	*(39)*	*(77)*	(60)	(19)	3,705	52
16	Central banks	1,246	*1,220*	—	—	—	—	—	—	—	—	—	—
17	General governments	1,795	*1,390*	*33*	—	—	(1)	—	—	—	—	—	—
18	Credit institutions	44,432	*42,469*	*324*	1	—	(19)	*(3)*	*(12)*	—	—	—	—
19	Other financial corporations	23,002	*19,113*	*2,957*	7	*3*	(11)	*(5)*	*(6)*	(2)	(1)	386	—
20	Non-financial corporations	90,555	*67,697*	*11,287*	554	*380*	(95)	*(31)*	*(59)*	(58)	(18)	3,108	52
21	Households	2,275	*2,031*	*223*	4	*3*	(1)	—	—	—	—	211	—
22	**Total**	478,750	*432,194*	*29,984*	3,286	3,106	(586)	*(193)*	*(382)*	(1,105)	(1,064)	117,386	694

Table 12: Performing and non-performing exposures and related provisions (continued)

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

Table 12 provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

- Stage 1: These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.
- Purchased or originated credit-impaired ('POCI'): Financial assets purchased or originated at a deep discount are seen to reflect incurred credit losses. A lifetime ECL is recognised. These exposures are included in Stage 3 in table 12.

Refer to the section 'EL and credit risk adjustments' on page 23 for further information on IFRS 9.

Credit-impaired (Stage 3) exposures are disclosed on pages 62 and 67 of the HSBC Bank plc Annual Report and Accounts 2020.

Table 13: Geographical breakdown of exposures (CRB-C)

		Net carrying values[1,2]						
			Of which:					
		Europe	*United Kingdom*	*France*	*Germany*	*Netherlands*	*Other Europe*	Asia
		£m	*£m*	*£m*	*£m*	*£m*	*£m*	£m
	IRB approach							
1	Central governments and central banks	1,490	*131*	*—*	*—*	*—*	*1,359*	2,103
2	Institutions	9,709	*5,821*	*861*	*785*	*441*	*1,801*	699
3	Corporates	144,602	*41,028*	*39,893*	*17,115*	*9,640*	*36,926*	1,741
4	Retail	25,415	*558*	*21,786*	*3*	*10*	*3,058*	27
6	**Total IRB approach**	181,216	*47,538*	*62,540*	*17,903*	*10,091*	*43,144*	4,570
	STD approach							
7	Central governments and central banks	102,661	*38,560*	*48,627*	*9,603*	*396*	*5,475*	—
8	Regional governments or local authorities	2,452	*—*	*8*	*2,444*	*—*	*—*	—
9	Public sector entities	7,540	*—*	*3,216*	*3,921*	*—*	*403*	—
11	International organisations	—	*—*	*—*	*—*	*—*	*—*	—
12	Institutions	642	*590*	*2*	*—*	*—*	*50*	1,494
13	Corporates	10,267	*731*	*2,739*	*1,163*	*775*	*4,859*	277
14	Retail	1,199	*4*	*249*	*223*	*16*	*707*	—
15	Secured by mortgages on immovable property	4,423	*808*	*627*	*101*	*282*	*2,605*	1
16	Exposures in default	361	*4*	*86*	*22*	*—*	*249*	—
17	Items associated with particularly high risk	2,459	*1,007*	*466*	*—*	*—*	*986*	1
20	Collective investment undertakings ('CIU')	1	*—*	*—*	*1*	*—*	*—*	—
21	Equity	1,136	*928*	*132*	*69*	*—*	*7*	1
22	Other items	425	*76*	*217*	*1*	*—*	*131*	—
23	**Total STD approach**	133,566	*42,708*	*56,369*	*17,548*	*1,469*	*15,472*	1,774
24	**At 31 Dec 2020**	314,782	*90,246*	*118,909*	*35,451*	*11,560*	*58,616*	6,344

		Net carrying values[1,2]						
				Of which:				
		MENA	North America	*United States of America*	*Other countries*	Latin America	Other geographical areas	Total
		£m	£m	*£m*	*£m*	£m	£m	£m
	IRB approach							
1	Central governments and central banks	3,361	10,319	*10,034*	*285*	2	2,916	20,191
2	Institutions	1,077	280	*88*	*192*	32	—	11,797
3	Corporates	5,098	9,456	*7,872*	*1,584*	1,697	—	162,594
4	Retail	157	142	*5*	*137*	4	—	25,745
6	**Total IRB approach**	9,693	20,197	*17,999*	*2,198*	1,735	2,916	220,327
	STD approach							
7	Central governments and central banks	—	—	*—*	*—*	—	—	102,661
8	Regional governments or local authorities	—	—	*—*	*—*	—	—	2,452
9	Public sector entities	—	—	*—*	*—*	—	—	7,540
11	International organisations	—	—	*—*	*—*	—	1,204	1,204
12	Institutions	248	2,289	*2,063*	*226*	75	—	4,748
13	Corporates	1,569	1,568	*1,192*	*376*	89	—	13,770
14	Retail	1	—	*—*	*—*	—	—	1,200
15	Secured by mortgages on immovable property	3	24	*—*	*24*	7	—	4,458
16	Exposures in default	55	12	*—*	*12*	7	—	435
17	Items associated with particularly high risk	2	838	*358*	*480*	—	—	3,300
20	Collective investment undertakings ('CIU')	—	—	*—*	*—*	—	—	1
21	Equity	—	19	*—*	*19*	—	—	1,156
22	Other items	1	—	*—*	*—*	—	—	426
23	**Total STD approach**	1,879	4,750	*3,613*	*1,137*	178	1,204	143,351
24	**At 31 Dec 2020**	11,572	24,947	*21,612*	*3,335*	1,913	4,120	363,678

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

Table 13: Geographical breakdown of exposures (CRB-C) (continued)

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

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

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

Table 14: Concentration of exposures by industry or counterparty types (CRB-D)

	Net carrying values[1]	Agriculture	Mining & oil extraction	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transportation & storage	Accommodation & food services	Information & communication	Financial & insurance
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB approach											
1	Central governments and central banks	–	–	–	–	–	–	–	–	–	–	3,924
2	Institutions	–	–	–	–	–	–	–	–	–	–	11,591
3	Corporates	544	6,963	35,933	7,452	581	3,204	19,737	9,059	1,595	4,805	25,197
4	Retail	16	3	193	5	2	99	475	63	61	–	26
6	**Total IRB approach**	560	6,966	36,126	7,457	583	3,303	20,212	9,122	1,656	4,805	40,738
	STD approach											
7	Central governments and central banks	–	–	–	–	–	–	–	–	–	–	88,739
8	Regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–
9	Public sector entities	–	–	24	–	–	–	–	23	–	–	5,192
11	International organisations	–	–	–	–	–	–	–	–	–	–	–
12	Institutions	–	–	–	–	–	–	–	–	–	–	4,748
13	Corporates	33	50	2,469	662	6	248	824	430	152	91	3,415
14	Retail	6	–	45	1	–	19	21	22	1	–	11
15	Secured by mortgages on immovable property	–	–	26	4	–	7	51	10	257	–	84
16	Exposures in default	2	–	20	14	2	54	15	10	6	38	7
17	Items associated with particularly high risk	–	–	23	–	–	–	1	–	–	–	3,060
20	Collective investment undertakings ('CIU')	–	–	–	–	–	–	–	–	–	–	1
21	Equity exposures	–	–	29	–	–	–	–	–	–	–	1,065
22	Other exposures	–	–	–	–	–	–	–	–	–	–	426
23	**Total STD approach**	41	50	2,636	681	8	328	912	495	416	129	106,748
24	**At 31 Dec 2020**	601	7,016	38,762	8,138	591	3,631	21,124	9,617	2,072	4,934	147,486

	Net carrying values[1]	Real estate	Professional activities	Administrative services	Public admin & defence	Education	Human health & social work	Arts & entertainment	Other services	Personal	Extra-territorial bodies	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	IRB approach											
1	Central governments and central banks	–	–	–	12,981	–	205	–	5	–	3,076	20,191
2	Institutions	–	–	–	206	–	–	–	–	–	–	11,797
3	Corporates	8,680	3,007	32,892	262	84	679	884	897	139	–	162,594
4	Retail	407	20	451	–	9	43	42	38	23,792	–	25,745
6	**Total IRB approach**	9,087	3,027	33,343	13,449	93	927	926	940	23,931	3,076	220,327
	STD approach											
7	Central governments and central banks	–	–	–	13,922	–	–	–	–	–	–	102,661
8	Regional governments or local authorities	–	–	–	2,452	–	–	–	–	–	–	2,452
9	Public sector entities	–	–	11	1,991	–	24	269	6	–	–	7,540
11	International organisations	–	–	–	171	–	–	–	–	–	1,033	1,204
12	Institutions	–	–	–	–	–	–	–	–	–	–	4,748
13	Corporates	1,398	357	2,277	36	12	77	51	89	1,093	–	13,770
14	Retail	22	4	71	–	4	9	5	3	956	–	1,200
15	Secured by mortgages on immovable property	554	–	103	–	1	–	–	4	3,357	–	4,458
16	Exposures in default	38	13	12	–	–	3	–	1	200	–	435
17	Items associated with particularly high risk	194	–	20	–	–	–	–	–	2	–	3,300
20	CIU	–	–	–	–	–	–	–	–	–	–	1
21	Equity exposures	1	19	42	–	–	–	–	–	–	–	1,156
22	Other exposures	–	–	–	–	–	–	–	–	–	–	426
23	**Total STD approach**	2,207	393	2,536	18,572	17	113	325	103	5,608	1,033	143,351
24	**At 31 Dec 2020**	11,294	3,420	35,879	32,021	110	1,040	1,251	1,043	29,539	4,109	363,678

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

Table 14: Concentration of exposures by industry or counterparty types (CRB-D) (continued)

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

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

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

Table 15: Maturity of on-balance sheet exposures[1] (CRB-E)

		At											
		31 Dec 2020						31 Dec 2019					
		Net carrying values						Net carrying values					
		On demand	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Undated**	**Total**	On demand	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
	IRB approach												
1	Central governments and central banks	**869**	**5,076**	**10,049**	**3,454**	**—**	**19,448**	637	2,366	9,258	2,937	—	15,198
2	Institutions	**3,882**	**1,386**	**2,336**	**476**	**—**	**8,080**	5,950	1,051	2,567	687	—	10,255
3	Corporates	**18,121**	**11,504**	**25,307**	**6,495**	**2**	**61,429**	20,527	15,614	21,028	7,441	—	64,610
4	Retail	**404**	**310**	**2,179**	**20,587**	**—**	**23,480**	562	295	1,631	19,184	—	21,672
5	Equity	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—
6	**Total IRB approach**	**23,276**	**18,276**	**39,871**	**31,012**	**2**	**112,437**	27,676	19,326	34,484	30,249	—	111,735
	STD approach												
7	Central governments and central banks	**62,642**	**22,003**	**6,899**	**9,360**	**478**	**101,382**	35,044	18,048	6,146	8,523	445	68,206
8	Regional governments or local authorities	**—**	**269**	**1,213**	**970**	**—**	**2,452**	—	96	985	768	—	1,849
9	Public sector entities	**26**	**901**	**3,073**	**2,516**	**—**	**6,516**	13	461	2,898	2,677	—	6,049
10	Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—
11	International organisations	**—**	**262**	**602**	**341**	**—**	**1,205**	—	5	509	654	—	1,168
12	Institutions	**44**	**3,734**	**—**	**—**	**—**	**3,778**	50	2,136	—	760	—	2,946
13	Corporates	**1,384**	**3,683**	**2,648**	**1,190**	**1**	**8,906**	1,727	4,524	4,146	1,196	4	11,597
14	Retail	**97**	**62**	**123**	**219**	**—**	**501**	99	58	146	338	1	642
15	Secured by mortgages on immovable property	**—**	**176**	**1,002**	**3,199**	**—**	**4,377**	—	170	826	2,855	—	3,851
16	Exposures in default	**45**	**65**	**123**	**151**	**—**	**384**	34	184	76	102	—	396
17	Items associated with particularly high risk	**—**	**74**	**460**	**7**	**1,152**	**1,693**	—	97	415	4	1,469	1,985
18	Covered bonds	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	—	—
20	CIU	**—**	**—**	**—**	**—**	**1**	**1**	—	—	—	—	6	6
21	Equity	**—**	**—**	**—**	**—**	**1,156**	**1,156**	—	—	—	—	1,428	1,428
22	Other items	**—**	**242**	**2**	**—**	**182**	**426**	—	704	2	—	171	877
23	**Total STD approach**	**64,238**	**31,471**	**16,145**	**17,953**	**2,970**	**132,777**	36,967	26,483	16,149	17,877	3,524	101,000
24	**Total**	**87,514**	**49,747**	**56,016**	**48,965**	**2,972**	**245,214**	64,643	45,809	50,633	48,126	3,524	212,735

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

Table 16: Specialised lending on slotting approach (CR10)

Regulatory categories	Remaining maturity	On-balance sheet amount £m	Off-balance sheet amount £m	Risk weight %	Exposure amount £m	RWAs £m	Expected loss £m
Category 1 – Strong	Less than 2.5 years	**1,114**	**90**	**50**	**1,163**	**576**	**—**
	Equal to or more than 2.5 years	**1,153**	**14**	**70**	**1,173**	**797**	**5**
Category 2 – Good	Less than 2.5 years	**358**	**32**	**70**	**370**	**256**	**1**
	Equal to or more than 2.5 years	**289**	**6**	**90**	**298**	**263**	**2**
Category 3 – Satisfactory	Less than 2.5 years	**25**	**—**	**115**	**26**	**30**	**1**
	Equal to or more than 2.5 years	**71**	**—**	**115**	**75**	**85**	**2**
Category 4 – Weak	Less than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
Category 5 – Default	Less than 2.5 years	**44**	**—**	**—**	**48**	**—**	**24**
	Equal to or more than 2.5 years	**11**	**—**	**—**	**12**	**—**	**6**
At 31 Dec 2020	Less than 2.5 years	**1,541**	**122**		**1,607**	**862**	**26**
	Equal to or more than 2.5 years	**1,524**	**20**		**1,558**	**1,145**	**15**
Category 1 – Strong	Less than 2.5 years	1,300	294	50	1,374	687	—
	Equal to or more than 2.5 years	1,580	221	70	1,697	1,187	7
Category 2 – Good	Less than 2.5 years	474	37	70	479	336	2
	Equal to or more than 2.5 years	375	77	90	441	397	4
Category 3 – Satisfactory	Less than 2.5 years	53	6	115	56	64	2
	Equal to or more than 2.5 years	3	—	115	3	3	—
Category 4 – Weak	Less than 2.5 years	10	—	250	10	25	1
	Equal to or more than 2.5 years	—	—	250	—	—	—
Category 5 – Default	Less than 2.5 years	41	2	—	43	—	21
	Equal to or more than 2.5 years	1	—	—	2	—	1
At 31 Dec 2019	Less than 2.5 years	1,878	339		1,962	1,112	26
	Equal to or more than 2.5 years	1,959	298		2,143	1,587	12

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

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

Our approach for determining impairment allowances is explained on page 34 of the HSBC Bank plc Annual Report and Accounts 2020*.*

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

Table 17: Amount of past due, impaired exposures and related allowances by industry sector and geographical region

	At							
	31 Dec 2020				31 Dec 2019			
	United Kingdom	**Continental Europe**	**Other**	**Total**	United Kingdom	Continental Europe	Other	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Past due but not impaired exposures	**9**	**105**	**—**	**114**	6	167	—	173
– personal	**8**	**85**	**—**	**93**	6	96	—	102
– corporate and commercial	**1**	**19**	**—**	**20**	—	71	—	71
– financial	**—**	**1**	**—**	**1**	—	—	—	—
Impaired exposures	**1,277**	**2,142**	**193**	**3,612**	712	1,612	122	2,446
– personal	**18**	**519**	**1**	**538**	18	472	1	491
– corporate and commercial	**949**	**1,585**	**192**	**2,726**	662	1,045	121	1,828
– financial	**310**	**38**	**—**	**348**	32	95	—	127
Impairment allowances and other credit risk provisions	**(661)**	**(961)**	**(51)**	**(1,673)**	(348)	(695)	(57)	(1,100)
– personal	**(13)**	**(196)**	**—**	**(209)**	(9)	(166)	—	(175)
– corporate and commercial	**(570)**	**(738)**	**(47)**	**(1,355)**	(323)	(487)	(56)	(866)
– financial	**(78)**	**(27)**	**(4)**	**(109)**	(16)	(42)	(1)	(59)

Table 18: Movement in specific credit risk adjustments by industry sector and by geographical region

	United Kingdom	**Continental Europe**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
Specific credit risk adjustments at 1 Jan 2020	**348**	**695**	**57**	**1,100**
Amounts written off	**(141)**	**(134)**	**—**	**(275)**
– personal	**—**	**(11)**	**—**	**(11)**
– corporate and commercial	**(141)**	**(123)**	**—**	**(264)**
– financial	**—**	**—**	**—**	**—**
Recoveries of amounts written off in previous years	**—**	**2**	**—**	**2**
– personal	**—**	**1**	**—**	**1**
– corporate and commercial	**—**	**1**	**—**	**1**
– financial	**—**	**—**	**—**	**—**
Charge to income statement	**445**	**336**	**(1)**	**780**
– personal	**4**	**30**	**—**	**34**
– corporate and commercial	**351**	**323**	**(3)**	**671**
– financial	**90**	**(17)**	**2**	**75**
Exchange and other movements	**9**	**62**	**(5)**	**66**
Specific credit risk adjustments at 31 Dec 2020	**661**	**961**	**51**	**1,673**

Expected loss ('EL') and credit risk adjustments

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

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

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

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

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

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

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

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

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

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

Table 19 sets out for IRB credit exposures the EL, CRA balances and actual loss experience reflected in the charges for CRAs.

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

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

Table 19: IRB expected loss and CRA – by exposure class and region

	2020			2019		
		CRA[1]			CRA[1]	
	Expected loss[1]	**Balances**	**Charge for the year**	Expected loss[1]	Balances	Charge for the year
	£m	**£m**	**£m**	£m	£m	£m
By exposure class						
Central governments and central banks	**7**	**5**	**7**	3	2	(8)
Institutions	**6**	**28**	**33**	6	6	(1)
Corporates	**1,304**	**1,038**	**520**	791	644	168
Retail	**248**	**235**	**130**	254	234	6
– secured by mortgages on immovable property SME	**22**	**20**	**7**	25	23	(1)
– secured by mortgages on immovable property non-SME	**56**	**47**	**56**	41	38	3
– qualifying revolving retail	**3**	**2**	**3**	2	4	2
– other SME	**112**	**101**	**44**	117	100	1
– other non-SME	**55**	**65**	**20**	69	69	1
At 31 Dec	**1,565**	**1,306**	**690**	1,054	886	165
By region[2]						
United Kingdom	**650**	**564**	**379**	343	327	1
Continental Europe	**905**	**735**	**315**	706	554	169
Other	**10**	**7**	**(4)**	5	5	(5)
At 31 Dec	**1,565**	**1,306**	**690**	1,054	886	165

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

Risk mitigation

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

Collateral

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

Further information regarding charges held over residential and commercial property is provided on pages 150 and 162 of the HSBC Holdings plc Annual Report and Accounts 2020*.*

Financial collateral

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

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

Other forms of Credit Risk Mitigation

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

Our GBM business utilises credit risk mitigation to manage the credit risk of its portfolios, with the goal of reducing

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

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

Policy and procedures

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

Valuing collateral

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

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

Recognition of risk mitigation under the IRB approach

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

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

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

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

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

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

Recognition of risk mitigation under the standardised approach

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

For IRB and standardised approaches, table 20 sets out the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigant.

Table 20: Credit risk mitigation techniques - IRB and Standardised[1]

	2020			2019		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total
	£m	**£m**	**£m**	£m	£m	£m
Exposures under the IRB approach						
Central governments and central banks	**—**	**747**	**747**	—	763	763
Institutions	**—**	**340**	**340**	—	42	42
Corporates	**18,322**	**27,475**	**45,797**	734	16,013	16,747
Retail	**—**	**15,313**	**15,313**	—	13,170	13,170
Securitisation related	**—**	**—**	**—**	—	—	—
At 31 Dec	**18,322**	**43,875**	**62,197**	734	29,988	30,722
Exposures under the STD approach						
Central governments and central banks	**364**	**—**	**364**	105	—	105
Corporates	**1,284**	**2,203**	**3,487**	1,898	2,486	4,384
Retail	**272**	**1**	**273**	200	2	202
Secured by mortgages on immovable property	**86**	**—**	**86**	86	58	144
Exposures in default	**2**	**28**	**30**	5	44	49
Items associated with particularly high risk	**12**	**—**	**12**	5	—	5
Public sector entities	**21**	**241**	**262**	29	34	63
Securitisation related	**—**	**—**	**—**	—	348	348
At 31 Dec	**2,041**	**2,473**	**4,514**	2,328	2,972	5,300

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

Counterparty credit risk

Overview

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

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

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

- *on page 66 of the HSBC Bank plc* Annual Report and Accounts 2020*;*
- *on page 158 of the HSBC Holdings plc* Annual Report and Accounts 2020*; and*
- *on pages 61 to 63 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2020*.*

Table 21: Counterparty credit risk – RWAs by exposure class and product

		2020		2019	
		RWAs	**Capital required**	RWAs	Capital required
	Footnotes	**£m**	**£m**	£m	£m
By exposure class					
IRB advanced approach		**6,473**	**517**	15,258	1,221
– central governments and central banks		**229**	**18**	302	24
– institutions		**5,588**	**447**	5,878	470
– corporates		**656**	**52**	9,078	727
IRB foundation approach		**8,855**	**708**	1,553	124
– corporates		**8,855**	**708**	1,553	124
Standardised approach		**1,874**	**151**	2,087	167
– central governments and central banks		**19**	**2**	14	1
– institutions		**1,655**	**133**	1,869	150
– corporates		**200**	**16**	204	16
CVA advanced		**1,159**	**93**	1,375	110
CVA standardised		**519**	**42**	538	43
CCP standardised		**464**	**37**	475	38
At 31 Dec		**19,344**	**1,548**	21,286	1,703
By product					
– derivatives (OTC and exchange-traded derivatives)		**12,524**	**1,002**	14,581	1,167
– SFTs		**4,057**	**325**	3,916	313
– other	1	**780**	**62**	606	48
– CVA advanced		**1,159**	**93**	1,375	110
– CVA standardised		**519**	**42**	538	43
– CCP default funds	2	**305**	**24**	270	22
At 31 Dec		**19,344**	**1,548**	21,286	1,703

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

Market risk

Overview

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

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

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

- *on pages 76 to 79 of the HSBC Bank plc* Annual Report and Accounts 2020*;*
- *on pages 182 to 186 of the HSBC Holdings plc* Annual Report and Accounts 2020*; and*
- *on pages 69 to 74 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2020*.*

Table 22: Market risk under standardised approach (MR1)

		At 31 Dec 2020		At 31 Dec 2019	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**294**	**24**	377	30
2	Equity risk (general and specific)	**49**	**4**	44	3
3	Foreign exchange risk	**574**	**46**	194	16
4	Commodity risk	**62**	**5**	74	6
	Options				
6	Delta-plus method	**83**	**6**	59	5
8	**Securitisation**	**797**	**64**	819	65
9	**Total**	**1,859**	**149**	1,567	125

Table 23: Market risk under IMA (MR2-A)

		At 31 Dec 2020		At 31 Dec 2019	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
1	**VaR (higher of values a and b)**	**3,835**	**307**	3,404	272
(a)	Previous day's VaR		**63**		45
(b)	Average daily VaR[1]		**307**		272
2	**Stressed VaR (higher of values a and b)**	**5,785**	**463**	5,226	418
(a)	Latest SVaR		**74**		59
(b)	Average SVaR[1]		**463**		418
3	**Incremental risk charge (higher of values a and b)**	**2,154**	**172**	2,152	172
(a)	Most recent IRC value		**172**		144
(b)	Average IRC value[1]		**172**		172
5	**Other**	**956**	**76**	758	61
6	**Total**	**12,730**	**1,018**	11,540	923

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

Non-Financial Risk

Overview

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

Non-financial risk is relevant to every aspect of our business and is broadly managed through the Risk Management Framework ('RMF'). Non-financial risk covers a wide spectrum of issues, such as resilience risk, financial crime and fraud risk, regulatory compliance risk, financial reporting and tax risk, legal risk, model risk and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk. At 31 December 2020, operational risk RWAs amounted to £11,245m.

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

- *on page 79 of the HSBC Bank plc* Annual Report and Accounts 2020*;*
- *on page 109 of the HSBC Holdings plc* Annual Report and Accounts 2020*; and*
- *on page 75 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2020*.*

Other risks

Liquidity

Strategies and processes

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

Structure and organisation

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

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

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

All operating entities and Group are required to prepare an internal liquidity adequacy assessment ('ILAA') document at appropriate

frequency. The final objective of the ILAA, approved by the relevant Board of Directors, is to verify that the entity and subsidiaries maintain liquidity resources which are adequate in both amount and quality at all times, ensuring that there is no significant risk that its liabilities cannot be met as they fall due, maintaining a prudent funding profile.

Management of liquidity and funding risk

Liquidity coverage ratio

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

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

Net stable funding ratio

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

Liquidity stress testing

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

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

Currency mismatch in the LCR

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

Structural foreign exchange exposures

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

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

Details of our structural foreign exchange exposures are provided on page 74 of the HSBC Bank plc Annual Report and Accounts 2020.

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits, and financial instruments that are not held for trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate.

The ALCM function uses a number of measures to monitor and control interest rate risk in the banking book including the sensitivity of economic value of equity and projected net interest income under various interest rate scenarios, and the stressed value at risk of the portfolio of securities held by Markets Treasury that are accounted for at fair value through other comprehensive income.

Further details of our IRRBB may be found on page 71 of the HSBC Bank plc Annual Report and Accounts 2020.

Risk management of insurance operations

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

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

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

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

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

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

Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at cost and deducted from CET1

subject to thresholds (amounts below the thresholds are risk-weighted).

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided on page 82 of the HSBC Bank plc Annual Report and Accounts 2020.

Remuneration

As a wholly-owned subsidiary, HSBC Bank plc is subject to the remuneration policy established by HSBC. Details of HSBC's remuneration practices, including details on the Remuneration Committee membership and its activities, the remuneration strategy, and remuneration structure of HSBC's Identified Staff and Material Risk-Takers ('MRT') is available on the HSBC Group website (https://www.hsbc.com/who-we-are/leadership-and-governance/remuneration) and in the Directors' Remuneration Report on pages 229 to 255 of the HSBC Holdings plc *Annual Report and Accounts 2020*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2020. Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014. The tables below include the total remuneration of HSBC Bank plc senior management and other individuals identified as HSBC Bank plc MRTs based on their role and professional activities. This also includes certain individuals employed by the Group who have broader roles within HSBC, for example those with global roles.

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

	Fixed (£m)				Variable[2] (£m)								
	Number of MRTs	Cash-based[1]	Share-based	Total	Cash-based	*Of which: deferred*	Share-based[3]	*Of which: deferred*	Other forms[3]	*Of which: deferred*	Total	Total (£m)
Executive Directors	2	2.4	–	2.4	0.8	*0.4*	0.9	*0.5*	–	–	1.7	4.1
Non-executive Directors	7	1.4	–	1.4	–	–	–	–	–	–	–	1.4
Senior management	20	13.3	–	13.3	4.8	*2.4*	5.2	*3.0*	–	–	10.0	23.3
Investment banking	274	152.4	–	152.4	60.2	*32.0*	64.7	*36.8*	–	–	124.9	277.3
Retail banking	29	12.8	–	12.8	3.9	*1.8*	3.9	*2.1*	–	–	7.8	20.6
Asset management	10	4.8	–	4.8	1.9	*0.7*	1.1	*0.6*	0.9	*0.7*	3.9	8.7
Corporate functions	3	2.0	–	2.0	1.0	*0.5*	1.0	*0.6*	–	–	2.0	4.0
Independent control functions	50	15.0	–	15.0	4.8	*1.5*	3.6	*2.0*	–	–	8.4	23.4
All other	14	5.4	–	5.4	1.0	*0.5*	1.0	*0.5*	–	–	2.0	7.4
Total	**409**	**209.5**	–	**209.5**	**78.4**	***39.8***	**81.4**	***46.1***	**0.9**	***0.7***	**160.7**	**370.2**

1 *Cash-based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2020. In accordance with HSBC Holdings plc's shareholder approval received on 23 May 2014 (98% in favour), for each MRT the variable component of remuneration for any one year is limited to 200% of fixed component of the total remuneration.*
3 *Share-based awards are made in HSBC shares. Vested shares are subject to a retention period of up to one year.*

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

	Guaranteed bonus and sign on payments[1]		Severance payments[2]				
	Made during year (£m)	Number of beneficiaries	Awarded during year (£m)	Number of beneficiaries	Highest such award to a single person (£m)	Paid during year (£m)	Number of beneficiaries
Executive Directors	–	–	–	–	–	–	–
Senior management	–	–	–	–	–	–	–
Investment banking	–	–	19.5	25	4.9	18.3	24
Retail banking	–	–	0.8	1	0.8	0.3	1
Asset management	–	–	0.3	1	0.3	0.3	1
Corporate functions	–	–	–	–	–	–	–
Independent control functions	–	–	–	–	–	–	–
All other	–	–	1.8	3	1.0	1.8	3
Total	–	–	**22.4**	**30**	–	**20.7**	**29**

1 *No sign-on payments were made in 2020. A guaranteed bonus is awarded in exceptional circumstances for new hires, and in the first year only. The circumstances where HSBC would offer a guaranteed bonus would typically involve a critical new-hire, and would also depend on factors such as the seniority of the individual, whether the new-hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Includes payments such as payment in lieu of notice, statutory severance, outplacement service, legal fees, ex-gratia payments and settlements (excludes pre-existing benefit entitlements triggered on terminations).*

Table 26: Deferred remuneration[1] (REM3)

£m	Total outstanding[2]	*Of which: unvested*	*Of which: total outstanding deferred and retained exposed to ex post explicit and/or implicit adjustment*	Total amount of amendment during the year due to expost implicit adjustment	Total amount of amendment during the year due to expost explicit adjustment[3]	Total amount of deferred paid out in the financial year[4]
Cash						
Executive Directors	**1.2**	***1.2***	***1.2***	**—**	**—**	**0.4**
Senior management	**8.3**	***8.3***	***8.3***	**—**	**—**	**1.6**
Investment banking	**94.1**	***94.1***	***94.1***	**—**	**—**	**28.6**
Retail banking	**5.0**	***5.0***	***5.0***	**—**	**—**	**1.2**
Asset management	**1.7**	***1.7***	***1.7***	**—**	**—**	**0.7**
Corporate functions	**1.6**	***1.6***	***1.6***	**—**	**—**	**0.3**
Independent control functions	**4.8**	***4.8***	***4.8***	**—**	**—**	**0.8**
All other	**2.1**	***2.1***	***2.1***	**—**	**—**	**0.9**
Shares						
Executive Directors	**1.1**	***0.8***	***1.1***	**(0.6)**	**—**	**0.7**
Senior management	**6.8**	***5.7***	***6.8***	**(3.6)**	**—**	**4.0**
Investment banking	**81.5**	***69.5***	***81.5***	**(43.0)**	**—**	**58.6**
Retail banking	**4.2**	***3.7***	***4.2***	**(2.2)**	**—**	**3.0**
Asset management	**1.2**	***1.0***	***1.2***	**(0.6)**	**—**	**0.9**
Corporate functions	**1.4**	***1.4***	***1.4***	**(0.8)**	**—**	**0.8**
Independent control functions	**4.1**	***3.8***	***4.1***	**(2.2)**	**—**	**2.8**
All other	**2.0**	***1.5***	***2.0***	**(1.0)**	**—**	**2.0**
Other forms						
Executive Directors	**—**	***—***	***—***	**—**	**—**	**—**
Senior management	**—**	***—***	***—***	**—**	**—**	**—**
Investment banking	**—**	***—***	***—***	**—**	**—**	**—**
Retail banking	**—**	***—***	***—***	**—**	**—**	**—**
Asset management	**2.4**	***2.0***	***2.4***	**—**	**—**	**0.5**
Corporate functions	**—**	***—***	***—***	**—**	**—**	**—**
Independent control functions	**—**	***—***	***—***	**—**	**—**	**—**
All other	**—**	***—***	***—***	**—**	**—**	**—**

1 *This table provides details of balances and movements during performance year 2020. For details of variable pay awards granted for 2020, please refer to the remuneration tables above. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC shares.*
2 *Includes unvested deferred awards, and vested deferred awards subject to retention period as at 31 December 2020.*
3 *Includes any amendments due to malus or clawback.*
4 *Shares are considered as paid when they vest. Vested shares are valued using the sale price or the closing share price on the business day immediately preceding the vesting day.*

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

	Management body	All other	Total
€0 – 1,000,000	**7**	**257**	**264**
€1,000,000 – 1,500,000	**1**	**72**	**73**
€1,500,000 – 2,000,000	**—**	**37**	**37**
€2,000,000 – 2,500,000	**—**	**13**	**13**
€2,500,000 – 3,000,000	**—**	**11**	**11**
€3,000,000 – 3,500,000	**1**	**1**	**2**
€3,500,000 – 4,000,000	**—**	**4**	**4**
€4,000,000 – 4,500,000	**—**	**1**	**1**
€4,500,000 – 5,000,000	**—**	**1**	**1**
€5,000,000 – 6,000,000	**—**	**1**	**1**
€6,000,000 – 7,000,000	**—**	**2**	**2**

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

Appendix I

Countercyclical capital buffer

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

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

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total exposure value in the banking book	*of which: General credit exposures*	*of which: Trading book exposures*	*of which: Securitis-ation exposures*	Total	Share of total own funds require-ments	CCyB rate
Country	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
Austria	—	944	2	5	—	40	1	—	41	0.6	—
Belgium	56	995	2	29	—	37	3	—	40	0.6	—
Brazil	5	871	—	24	—	33	10	—	43	0.6	—
Bulgaria	—	10	—	—	—	—	—	—	—	0.0	0.50
Canada	—	726	—	3	138	14	2	2	18	0.3	—
Cayman Islands	375	1,385	9	13	—	128	3	—	131	2.0	—
Czechia	93	286	—	5	—	20	1	—	21	0.3	0.50
Denmark	4	718	—	17	—	32	3	—	35	0.5	—
France	3,882	47,179	69	28	1,270	1,477	10	28	1,515	22.8	—
Germany	753	12,320	63	63	565	587	9	5	601	9.0	—
Greece	397	1,901	7	6	—	121	2	—	123	1.9	—
Guernsey	493	704	—	—	—	50	—	—	50	0.8	—
Hong Kong	1	137	—	8	—	7	—	—	7	0.1	1.00
Iceland	—	—	—	—	—	—	—	—	—	0.0	—
Ireland	254	3,328	161	13	399	115	7	10	132	2.0	—
Israel	134	447	—	14	—	29	2	—	31	0.5	—
Italy	208	1,499	191	74	299	89	16	14	119	1.8	—
Jersey	372	2,599	—	—	—	74	—	—	74	1.1	—
Lithuania	—	—	—	1	—	—	—	—	—	0.0	—
Luxembourg	954	2,564	18	12	29	224	3	2	229	3.4	0.25
Malta	2,878	151	—	1	—	118	—	—	118	1.8	—
Netherlands	865	6,797	250	111	1,071	285	7	16	308	4.6	—
Norway	1	608	—	19	—	17	6	—	23	0.3	1.00
Poland	520	352	—	66	—	52	16	—	68	1.0	—
Russia	73	372	—	58	—	16	6	—	22	0.3	—
Slovakia	29	44	—	2	—	3	—	—	3	0.0	1.00
South Africa	345	537	—	19	—	48	7	—	55	0.8	—
Spain	364	2,239	55	80	189	164	7	2	173	2.6	—
Sweden	19	791	2	39	—	34	1	—	35	0.5	—
Switzerland	94	4,214	37	36	—	135	5	—	140	2.1	—
United Arab Emirates	380	1,774	—	15	—	44	1	—	45	0.7	—
United Kingdom	3,189	44,917	1,148	554	8,738	1,430	60	255	1,745	26.3	—
United States	1,381	8,358	34	37	1,242	306	15	45	366	5.5	—
Total	18,119	149,767	2,048	1,352	13,940	5,729	203	379	6,311	100.0	

Table 29: Amount of Institution specific countercyclical capital buffer

	2020
Total Risk Exposure Amount (£m)	122,392
Institution specific countercyclical capital buffer rate	0.02%
Institution specific countercyclical capital buffer requirement (£m)	19

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

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

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

Appendix III

Cautionary statement regarding forward-looking statements

The *Pillar 3 Disclosures at 31 December 2020* contains certain forward-looking statements with respect to the group's financial condition, results of operations, capital position and business.

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

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

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

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

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