HSBC Bank plc

Pillar 3 Disclosures at 31 December 2021

HSBC

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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.

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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 2021*, 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)

		At		
		31 Dec 2021	30 Jun 2021	31 Dec 2020
	Available capital (£m)[1]			
1	Common equity tier 1 ('CET1') capital^	**18,007**	17,835	18,042
2	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**17,971**	17,798	17,992
3	Tier 1 capital^	**21,869**	21,742	22,165
4	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**21,833**	21,705	22,115
5	Total regulatory capital^	**33,036**	33,444	33,438
6	Total capital as if IFRS 9 transitional arrangements had not been applied	**33,000**	33,407	33,388
	Risk-weighted assets ('RWAs') (£m)			
7	Total RWAs	**104,314**	110,769	122,392
8	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**104,281**	110,737	122,347
	Capital ratios (%)[1]			
9	CET1^	**17.3**	16.1	14.7
10	CET1 as if IFRS 9 transitional arrangements had not been applied	**17.2**	16.1	14.7
11	Total tier 1^	**21.0**	19.6	18.1
12	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**20.9**	19.6	18.1
13	Total capital^	**31.7**	30.2	27.3
14	Total capital as if IFRS 9 transitional arrangements had not been applied	**31.6**	30.2	27.3
	Leverage ratio[2]			
15	Total leverage ratio exposure (£m)^	**535,562**	560,264	565,049
16	Leverage ratio (%)^	**4.1**	3.8	3.8
17	Leverage ratio as if IFRS 9 transitional arrangements had not been applied (%)	**4.0**	3.8	3.8

^ *Figures have been prepared on an IFRS 9 transitional basis.*

1 *Capital figures and ratios are reported using the CRR II transitional basis for capital instruments.*

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

At 31 December 2021, our common equity tier 1 ('CET1') capital ratio increased to 17.3% from 14.7% at 31 December 2020. This was due to a decrease in RWAs.

Throughout 2021, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

Regulatory transitional arrangements for IFRS 9 'Financial Instruments'

We have adopted the regulatory transitional arrangements in CRR II for IFRS 9, including paragraph four of article 473a.

The IFRS 9 regulatory transitional arrangements allow 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.

In the current period, the add-back to the capital base amounted to £48m under the STD approach with a tax impact of £12m which resulted in a net add-back of £36m.

Table 2: Overview of RWAs

		At		
		31 Dec 2021	31 Dec 2020	**31 Dec 2021**
		RWAs	RWAs	**Capital required**
		£m	£m	**£m**
1	**Credit risk (excluding counterparty credit risk)**	**60,450**	69,671	**4,836**
2	– standardised approach	**14,272**	15,733	**1,142**
3	– foundation IRB approach	**19,275**	25,654	**1,542**
4	– advanced IRB approach	**26,903**	28,284	**2,152**
6	**Counterparty credit risk**	**16,389**	19,342	**1,311**
7	– mark-to-market	**8,429**	9,683	**674**
10	– internal model method	**6,074**	7,676	**486**
11	– risk exposure amount for contributions to the default fund of a central counterparty	**379**	305	**30**
12	– credit valuation adjustment	**1,507**	1,678	**121**
13	**Settlement risk**	**45**	2	**4**
14	**Securitisation exposures in the non-trading book**	**3,734**	4,744	**299**
14a	– internal ratings-based approach (‘SEC-IRBA’)	**449**	795	**36**
14b	– external ratings-based approach (‘SEC-ERBA’)	**1,845**	2,064	**148**
14c	– internal assessment approach (‘IAA’)	**835**	1,270	**67**
14d	– standardised approach (‘SEC-SA’)	**605**	615	**48**
19	**Market risk**	**9,828**	14,589	**786**
20	– standardised approach	**1,450**	1,859	**116**
21	– internal models approach	**8,378**	12,730	**670**
23	**Operational risk**	**10,512**	11,245	**841**
25	– standardised approach	**10,512**	11,245	**841**
27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**3,356**	2,799	**268**
29	**Total**	**104,314**	122,392	**8,345**

Credit risk (including amounts below the thresholds for deduction)

Credit risk RWAs decreased by £8.7bn mainly due to management initiatives, lower lending, risk parameter refinements and a reduction in exposures, offset by portfolio changes and credit migration.

Counterparty credit risk

Counterparty credit risk (including settlement risk) RWAs decreased by £2.9bn which was largely due to management initiatives and mark-to-market movements.

Securitisation

Securitisation RWAs decreased by £1.0bn primarily due to a fall in exposures.

Market risk

The £4.8bn decrease in market risk RWAs was due to management initiatives, a reduction in the equity and emerging markets bond portfolios, and the implementation of an options risk model. Our market risk RWAs increased by £0.2bn arising from the adoption of a Pillar 1 approach to the capitalisation of structural foreign exchange risk.

Operational risk

The £0.7bn decrease is mainly due to lower average revenue and expenses in the annual recalculation of operational risk.

Pillar 3 disclosures

Regulatory framework for disclosure

We are supervised on a consolidated basis in the United Kingdom ('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 ('Basel'), as implemented by the European Union ('EU') in CRR II, and in the PRA Rulebook for the UK banking industry.

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

Following the end of the transitional period following the UK's withdrawal from the EU, any reference to EU regulations and directives (including technical standards) should be read as a reference to the UK's version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, as amended.

Our *Pillar 3 Disclosures at 31 December 2021* comprises both quantitative and qualitative information required under Pillar 3. They are made in accordance with Part Eight of 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.

Comparatives

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. Table name references and row numbering in tables identify those prescribed in the relevant EBA guidelines where applicable and where there is a value.

Where disclosures have been enhanced, or are new, we do not generally restate or provide prior year 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 comparative disclosures.

Frequency and location

We publish comprehensive Pillar 3 disclosures annually and at interim on our website www.hsbc.com, concurrently with the release of our Annual Report and Accounts and Interim Report. 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 2021*, the HSBC Holdings plc *Annual Report and Accounts 2021*, or the HSBC Holdings plc *Pillar 3 Disclosures at 31 December 2021* 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.

Material risks

Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank's risk profile. In addition to the disclosure in this document, other information on material risks can be found in the HSBC Bank plc *Annual Report and Accounts 2021*.

Capital buffers

Our geographical breakdown and institution-specific countercyclical capital buffer ('CCyB') disclosure is provided in Appendix I. The HSBC Group G-SIB Indicators disclosure is published annually on our website, www.hsbc.com.

Regulatory developments

Amendments to the UK's Capital Requirements Regulation ('CRR II') and 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. In the UK, a two stage approach to implementation has been adopted for these changes.

The CRR II represents the first tranche of changes to implement the Basel III Reforms, including the changes to the market risk rules under the Fundamental Review of the Trading Book, the standardised approach for measuring counterparty risk, the equity investments in funds rules, the amendments to the large exposures rules, the new leverage ratio rules and the implementation of the net stable funding ratio. With the exception of the changes to the market risk framework, the CRR II was implemented on 1 January 2022. The market risk changes will be implemented with the remainder of the Basel III Reforms.

In addition, the PRA has reversed the beneficial changes to the treatment of software assets that were implemented as part of the EU's response to Covid-19. From 1 January 2022, software assets must be deducted in full from CET1 capital.

The remaining reforms are scheduled for implementation by Basel on 1 January 2023. This includes the changes to the RWA rules on credit risk, market risk, operational risk and credit valuation adjustments and the implementation of an RWA floor based upon the standardised approach. Given the PRA is not expected to consult on these other elements until the second half of 2022, this increases the likelihood that the UK's implementation will be delayed.

The UK's withdrawal from the EU

In 2020, the PRA granted transitional provisions which allowed firms to delay the effect of any rule changes arising from the UK's withdrawal from the EU, with limited exceptions, until 31 March 2022.

Credit risk

In order to address concerns about the variability and comparability of RWAs under the IRB approach, the EU developed a series of amendments to the framework, known as the IRB repair package. The majority of these were developed and finalised while the UK was a member of the EU and therefore were implemented in the UK by the PRA on 1 January 2022. However, there were some elements of the EU's package that were not in force when the UK ceased to be subject to EU law. These include the EU's technical standards on economic downturns, the European Banking Authority's ('EBA') guidelines on credit risk mitigation for the advanced IRB ('A-IRB') approach, and the EU's final technical standards on risk weighting specialised lending exposures.

The PRA has confirmed that it would not be implementing the technical standards on specialised lending. Similarly, it will not implement the EBA's guidelines on credit risk mitigation in the A-IRB approach in 2022, although it may consider reflecting the guidelines as part of its implementation of the Basel III Reforms.

Capital buffers

The FPC in its December 2021 Financial Stability Report confirmed that it is increasing the UK's countercyclical capital buffer rate from 0% to 1%. This rate will come into effect on 13 December 2022 in line with the usual 12-month implementation period. Absent a material change in the outlook for UK's financial stability, the FPC expects to increase the rate further to 2% in Q2 2022, which would take effect 12 months later.

Environmental, social and governance ('ESG') risk

Globally, regulators and standard setters continue to publish multiple proposals and discussion papers on ESG topics. These include publications in the UK by Her Majesty's Treasury ('HMT'), the Department for Business, Energy and Industrial Strategy and the Financial Conduct Authority on the implementation of climate-related financial disclosures that are aligned to the Taskforce on Climate-related Financial Disclosure ('TCFD'). This work is supported by the development of green taxonomies by bodies, such as the newly-formed Green Technical Advisory Group in the UK. Further work by the TCFD included the new disclosure guidance on metrics, targets and transition plans.

In June 2021, the Bank of England launched the climate biennial exploratory scenario exercise. This aims to test the resilience of financial institutions and their business models to transition and physical risks depending upon the speed of government policy action. The impact is based on an end-2020 static balance sheet and is assumed to take place over the period 2021 to 2050 focusing on credit risk. The Bank of England is expected to publish the results of the exercise in May 2022.

In October 2021, HMT published a Roadmap setting out the government's long-term ambition to green the financial system and align it with the UK's net-zero commitment. This included the planned implementation of sustainable disclosure requirements and the implementation of a UK green taxonomy, which is subject to consultation in the first quarter of 2022.

Linkage to the Annual Report and Accounts 2021

Structure of the regulatory group

Assets, liabilities and post-acquisition reserves of subsidiaries engaged in insurance activities are excluded from the regulatory consolidation. Our 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 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		108,482	–	37	108,519
Items in the course of collection from other banks		346	–	–	346
Trading assets		83,706	–	–	83,706
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		18,649	(14,092)	634	5,191
– *of which: debt securities eligible as tier 2 issued by Group Financial Sector Entities ('FSEs') that are outside the regulatory scope of consolidation*	s	–	*395*	–	*395*
Derivatives		141,221	(23)	–	141,198
Loans and advances to banks	k	10,784	(855)	–	9,929
Loans and advances to customers	k	91,177	(213)	–	90,964
– *of which: expected credit losses on IRB portfolios*	h	*(909)*	–	–	*(909)*
Reverse repurchase agreements – non-trading		54,448	–	–	54,448
Financial investments		41,300	(9,074)	–	32,226
Capital invested in insurance and other entities		–	595	–	595
Prepayments, accrued income and other assets		43,127	(886)	37	42,278
– *of which: retirement benefit assets*	j	*54*	–	–	*54*
Current tax assets		1,135	1	–	1,136
Interests in associates and joint ventures		743	–	(702)	41
Goodwill and intangible assets	e	894	(812)	–	82
Deferred tax assets	f	599	175	–	774
Total assets at 31 Dec 2021		596,611	(25,184)	6	571,433
Liabilities and equity					
Liabilities					
Deposits by banks		32,188	(17)	–	32,171
Customer accounts		205,241	389	–	205,630
Repurchase agreements – non-trading		27,259	–	–	27,259
Items in the course of transmission to other banks		489	–	–	489
Trading liabilities		46,433	–	–	46,433
Financial liabilities designated at fair value		33,608	(116)	–	33,492
– *of which: included in tier 2*	o, i	*2,225*	–	–	*2,225*
Derivatives		139,368	(14)	–	139,354
– *of which: debit valuation adjustment*	i	*20*	–	–	*20*
Debt securities in issue		9,428	(850)	–	8,578
Accruals, deferred income and other liabilities		43,456	(1,331)	5	42,130
Current tax liabilities		97	(1)	–	96
Liabilities under insurance contracts		22,264	(22,264)	–	–
Provisions		562	(5)	–	557
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	h	*70*	–	–	*70*
Deferred tax liabilities		15	(10)	1	6
Subordinated liabilities		12,488	–	–	12,488
– *of which:*					
included in tier 1	m	*700*	–	–	*700*
included in tier 2	o, p, q, r	*11,788*	–	–	*11,788*
Total liabilities at 31 Dec 2021		572,896	(24,219)	6	548,683
Equity					
Called up share capital	a	797	–	–	797
Other equity instruments	l	3,722	–	–	3,722
Other reserves	c, g	(5,670)	12	–	(5,658)
Retained earnings	b, c	24,735	(968)	–	23,767
Total shareholders' equity		23,584	(956)	–	22,628
Non-controlling interests	d, n	131	(9)	–	122
Total equity at 31 Dec 2021		23,715	(965)	–	22,750
Total liabilities and equity at 31 Dec 2021		596,611	(25,184)	6	571,433

† *The references (a) – (s) 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.*

Treasury Risk management

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, together with the financial risks arising from the provision of pensions and other post-employment benefits to staff and their dependents. Treasury risk also includes the risk to our earnings or capital due to non-trading book foreign exchange exposures and changes in market interest rates. Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

The Chief Risk Officer is the accountable risk steward for all treasury risks. The Chief Financial Officer is the risk owner for all treasury risks.

The Treasury function actively manages capital, liquidity, interest rate risk in the banking book and non-trading book foreign exchange risk on an on-going basis, supported by the Asset and Liability Management Committee ('ALCO') and local ALCOs, overseen by Treasury Risk Management and the Risk

Management Meeting ('RMM'). Pension risk is overseen by a regional pension risk management meeting.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. Notably, the PRA published a Dear CEO letter addressed to UK regulated banks, which highlighted areas of concern over the processes firms use to deliver regulatory returns. Recent sanctions issued by the PRA demonstrate their intent in this respect. We are progressing with a comprehensive programme to strengthen our processes, improve consistency, and enhance controls on various aspects of regulatory reporting. We have commissioned a number of independent external reviews, some at the request of our regulators, including one of our credit risk RWA reporting process which is currently ongoing. As a result of these initiatives, there may be an impact on some of our regulatory ratios, such as the CET1 and LCR.

For further details of our approach to treasury risk management including capital, liquidity, interest rate in the banking book, non-trading foreign exchange exposure and pensions risk management, please see page 70 of the HSBC Bank plc Annual Report and Accounts 2021.

Capital management

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital base to support the risks inherent in our business and invest in accordance with our strategy, meeting local regulatory capital requirements at all times.

All capital securities included in the capital base of the group have been issued on a fully compliant or grandfathered basis in accordance with CRR II. Capital securities are regularly reviewed for compliance with the guidelines. 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 our website at www.hsbc.com with reference to our balance sheet on 31 December 2021. The full terms and conditions of our securities, also available at www.hsbc.com.

Capital and RWAs

Own Funds

Table 4: Own funds disclosure

Ref*		Ref †	At 31 Dec 2021 £m	31 Dec 2020 £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[1]	*b*	**15,511**	17,229
3	Accumulated other comprehensive income (and other reserves)	*c*	**1,975**	2,888
5	Minority interests (amount allowed in consolidated CET1)	*d*	**57**	66
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[2]	*b*	**625**	(1,755)
6	**Common equity tier 1 capital before regulatory adjustments**		**18,965**	19,225
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[3]		**(584)**	(569)
8	Intangible assets (net of related deferred tax liability)	*e*	**(53)**	(100)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	*f*	**(68)**	(305)
11	Fair value reserves related to gains or losses on cash flow hedges	*g*	**(25)**	(159)
12	Negative amounts resulting from the calculation of expected loss amounts	*h*	**(306)**	(303)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	*i*	**98**	105
15	Defined benefit pension fund assets	*j*	**(54)**	(30)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)[1]	*k*	**34**	178
28	**Total regulatory adjustments to common equity tier 1**		**(958)**	(1,183)
29	**Common equity tier 1 capital**		**18,007**	18,042
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and related share premium accounts		**3,722**	3,722
31	– classified as equity under IFRSs	*l*	**3,722**	3,722
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1	*m*	**173**	433
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	*n*	**11**	12
36	**Additional tier 1 capital before regulatory adjustments**		**3,906**	4,167
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[4]		**(44)**	(44)
43	**Total regulatory adjustments to additional tier 1 capital**		**(44)**	(44)
44	**Additional tier 1 capital**		**3,862**	4,123
45	**Tier 1 capital (T1 = CET1 + AT1)**		**21,869**	22,165
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts	*o*	**11,174**	11,079
	– *of which: instruments grandfathered under CRR II*		***1,293***	*1,326*
47	Amount of qualifying items and related share premium accounts subject to phase out from T2	*p*	**220**	441
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	*q, r*	**197**	204
49	– *of which: instruments issued by subsidiaries subject to phase out*	*r*	***34***	*46*
	– *of which: instruments issued by subsidiaries grandfathered under CRR II*		***34***	*32*
51	**Tier 2 capital before regulatory adjustments**		**11,591**	11,724
	Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings of own T2 instruments[4]		**(29)**	(29)
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)	*s*	**(395)**	(422)
57	**Total regulatory adjustments to tier 2 capital**		**(424)**	(451)
58	**Tier 2 capital**		**11,167**	11,273
59	**Total capital (TC = T1 + T2)**		**33,036**	33,438
60	**Total risk-weighted assets**		**104,314**	122,392
	Capital ratios and buffers			
61	Common equity tier 1		**17.3%**	14.7%
62	Tier 1		**21.0%**	18.1%
63	Total capital		**31.7%**	27.3%
64	Institution specific buffer requirement		**2.53%**	2.52%
65	– capital conservation buffer requirement		**2.50%**	2.50%
66	– countercyclical buffer requirement		**0.03%**	0.02%
68	Common equity tier 1 available to meet buffers		**12.8%**	10.2%

Table 4: Own funds disclosure (continued)

Ref*		Ref †	At 31 Dec 2021 £m	At 31 Dec 2020 £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)		**1,182**	1,069
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)		**668**	627
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)		**675**	493
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**245**	257
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**341**	404
	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		**188**	463
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**527**	267
84	Current cap on T2 instruments subject to phase-out arrangements		**252**	506
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**689**	237

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

† *The references (a) – (s) 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 *From 1H21, the new deduction for insufficient coverage for non-performing exposures has been combined with IFRS 9 transitional adjustments in row 27a. Comparatives have been restated.*

2 *This row includes losses that have been recognised and deducted as they arose and were therefore not subject to an independent review.*

3 *Additional value adjustments are calculated on all assets measured at fair value and subsequently deducted from CET1.*

4 *As advised by the PRA a market making waiver has been applied to the deduction of holdings of own T1 and T2 instruments.*

Leverage

Table 5: Leverage ratio common disclosure (LRCom)

Ref*		At 31 Dec 2021 £m	31 Dec 2020 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**367,196**	379,994
2	(Asset amounts deducted in determining Tier 1 capital)	**(492)**	(603)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**366,704**	379,391
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**32,340**	45,347
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**76,323**	75,434
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**6,180**	10,622
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(29,123)**	(42,471)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(39,002)**	(43,884)
9	Adjusted effective notional amount of written credit derivatives	**64,408**	95,483
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(62,432)**	(91,107)
11	**Total derivative exposures**	**48,694**	49,424
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**169,242**	187,608
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(105,759)**	(106,479)
14	Counterparty credit risk exposure for SFT assets	**4,752**	5,815
16	**Total securities financing transaction exposures**	**68,235**	86,944
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**121,029**	126,409
18	(Adjustments for conversion to credit equivalent amounts)	**(68,836)**	(76,789)
19	**Total off-balance sheet exposures**	**52,193**	49,620
	Exempted exposures		
EU-19a	(Exemption of intragroup exposures (solo basis))	**(264)**	(330)
	Capital and total exposures		
20	**Tier 1 capital**[1]	**21,696**	21,732
21	**Total leverage ratio exposure**	**535,562**	565,049
22	**Leverage ratio (%)**[1]	**4.1**	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 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 has not been set as a binding requirement for the group. The PRA's leverage ratio requirement applies at the highest level of UK consolidation. For HSBC, this applies at the Group level. Based on the PRA's recent policy statement on the UK leverage framework, it will become a binding requirement for HSBC Bank plc from 1 January 2023.

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 4.1% at 31 December 2021, up from 3.8% at 31 December 2020. This was mainly due to a decrease in the leverage exposure measure, primarily driven by a reduction in security finance transactions and on balance sheet exposures.

The following tables provide a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure (table 6) and a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class (table 7):

Table 6: Summary reconciliation of accounting assets and leverage ratio exposures (LRSum)

		At	
		31 Dec 2021	31 Dec 2020
Ref*		**£m**	£m
1	Total assets as per published financial statements	**596,611**	681,150
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(25,178)**	(24,641)
4	– derivative financial instruments	**(92,504)**	(151,753)
5	– securities financing transactions ('SFT')	**1,942**	7,030
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**52,193**	49,620
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure	**(264)**	(330)
7	– other	**2,762**	3,973
8	**Total leverage ratio exposure**	**535,562**	565,049

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

		At	
		31 Dec 2021	31 Dec 2020
Ref*		**£m**	£m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	**338,073**	337,523
EU-2	– trading book exposures	**71,861**	74,249
EU-3	– banking book exposures	**266,212**	263,274
	'banking book exposures' comprises:		
EU-5	exposures treated as sovereigns	**147,550**	132,819
EU-7	institutions	**8,341**	11,384
EU-8	secured by mortgages of immovable properties	**23,053**	24,056
EU-9	retail exposures	**3,542**	4,118
EU-10	corporate	**60,844**	67,272
EU-11	exposures in default	**1,465**	1,963
EU-12	other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**21,417**	21,662

* *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 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.
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 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. Our base capital plan undergoes stress testing. This, coupled with our economic capital framework and other risk management practices, is 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 HSBC's risk appetite.

The ICAAP is reviewed by the PRA during the Supervisory Review and Evaluation Process. This process occurs periodically to enable the regulator to set the individual capital requirement ('ICR') or minimum capital requirements for HSBC and to set 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 vulnerability in a stress scenario, as identified and assessed through the annual Bank of England stress testing exercise.

The processes of internal capital adequacy assessment and supervisory review lead to a final determination by the PRA of the 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 manages the ICAAP, and together with the RMM and Risk Committee, 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;
- meet current regulatory requirements, and that HSBC is well placed to meet those expected in the future;
- allow the group 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 Bank 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, and, amongst other things, takes account of the substantial diversification of risk accruing from our operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into our 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.

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 32 to 66 of the HSBC Bank plc* Annual Report and Accounts 2021*;*
- *on pages 137 to 138 of the HSBC Holdings plc* Annual Report and Accounts 2021*; and*
- *on pages 28 to 61 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2021*.*

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

	At 31 Dec 2021					At 31 Dec 2020				
	Net carrying values	Average net carrying values[4]	RWAs^	Capital required^	RWA density	Net carrying values	Average net carrying values[4]	RWAs^	Capital required^	RWA density
	£m	£m	£m	£m	%	£m	£m	£m	£m	%
IRB advanced approach	**132,829**	**129,839**	**25,089**	**2,007**	**26**	128,624	136,138	26,399	2,112	31
– central governments and central banks	18,839	20,151	2,313	185	13	20,191	18,970	2,770	222	13
– institutions	10,794	13,130	1,826	146	23	11,797	13,554	1,980	158	28
– corporates[1]	79,088	71,057	15,783	1,263	33	70,891	78,173	16,167	1,293	40
– *of which: small- and medium-sized enterprises ('SME')*[2]	*17*	*N/A*	*78*	*6*	*45*	—	—	—	—	—
– total retail	24,108	25,501	5,167	413	22	25,745	25,441	5,482	439	—
– *of which:*										
secured by mortgages on immovable property SME	*310*	*389*	*209*	*17*	*64*	*401*	*411*	*270*	*22*	*14*
secured by mortgages on immovable property non-SME	*19,128*	*19,354*	*3,840*	*307*	*20*	*19,566*	*16,401*	*3,910*	*313*	*21*
qualifying revolving retail	*571*	*524*	*64*	*5*	*34*	*550*	*523*	*59*	*5*	*40*
other SME	*1,028*	*1,535*	*276*	*22*	*25*	*1,558*	*1,663*	*416*	*33*	*9*
other non-SME	*3,071*	*3,699*	*778*	*62*	*25*	*3,670*	*6,443*	*827*	*66*	*13*
IRB securitisation positions	**1,728**	**2,383**	**449**	**36**	**26**	2,320	4,111	795	64	26
IRB non-credit obligation assets	**2,533**	**3,296**	**1,814**	**145**	**72**	2,812	3,482	1,885	151	39
IRB foundation approach	**72,061**	**91,419**	**19,275**	**1,542**	**41**	91,703	81,411	25,654	2,052	59
– central governments and central banks	—	—	5	—	20	—	—	6	—	35
– institutions	—	—	12	1	32	—	—	7	1	43
– corporates	72,061	91,419	19,258	1,541	41	91,703	81,411	25,641	2,051	60
– *of which: SME*[2]	*141*	*N/A*	*57*	*5*	*56*	—	—	—	—	—
STD approach	**165,013**	**163,788**	**20,913**	**1,673**	**13**	154,972	158,555	22,481	1,798	25
– central governments and central banks	119,849	108,292	1,491	119	1	102,661	98,665	1,232	99	3
– regional governments or local authorities	1,915	2,316	204	16	10	2,452	2,303	2	—	—
– public sector entities	6,720	6,940	9	1	—	7,540	6,813	9	1	—
– international organisations	495	1,034	—	—	—	1,204	1,168	—	—	—
– institutions	2,788	5,156	1,062	85	39	4,748	5,589	1,418	113	23
– corporates	13,387	15,946	7,084	567	105	13,770	20,214	7,340	587	89
– retail	1,130	1,367	302	24	71	1,200	1,415	305	24	70
– secured by mortgages on immovable property	4,183	4,373	1,622	130	39	4,458	4,315	1,666	133	35
– exposures in default	362	415	365	29	109	435	461	413	33	122
– items associated with particularly high risk	2,340	3,490	2,872	230	150	3,300	3,772	3,852	308	150
– securitisation positions	9,960	12,355	3,285	263	33	11,621	11,645	3,949	316	105
– collective investments undertakings ('CIU')	—	—	—	—	—	1	7	—	—	99
– equity exposures[3]	1,321	1,376	2,337	187	376	1,156	1,397	2,096	168	178
– other items	563	728	280	22	49	426	791	199	16	27
At 31 Dec	**374,164**	**390,725**	**67,540**	**5,403**	**22**	380,431	383,697	77,214	6,177	30

^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Corporates includes specialised lending exposures subject to the supervisory slotting approach of £2,673m (2020: £3,166m) and RWAs of £1,653m (2020: £2,007m).*
2 *We have started reporting Corporate SME exposures in our Q4 2021 disclosures.*
3 *This includes investments in insurance companies that are risk weighted at 250%.*
4 *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 2021* 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 HSBC Bank plc *Annual Report and Accounts 2021*, 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 HSBC Bank plc *Annual Report and Accounts 2021*, 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.

We have started to report Corporate SME disclosures in tables 10 and 12.

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	
			Non-performing forborne						
		Performing forborne	Total	*Of which: defaulted*	*Of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposures*
		£m	£m	*£m*	*£m*	£m	£m	£m	*£m*
	At 31 Dec 2021								
1	**Loans and advances**	**67**	**838**	***838***	***838***	**(3)**	**(235)**	**212**	***207***
5	Other financial corporations	**6**	**4**	***4***	***4***	**—**	**—**	**—**	**—**
6	Non-financial corporations	**61**	**704**	***704***	***704***	**(3)**	**(220)**	**127**	***122***
7	Households	**—**	**130**	***130***	***130***	**—**	**(15)**	**85**	***85***
9	**Loan commitments given**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	**Total**	**67**	**838**	***838***	***838***	**(3)**	**(235)**	**212**	***207***
	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[1]	—	—	—	—	—	—	—	—
10	Total	189	937	*937*	*937*	(7)	(242)	178	*160*

1 *The treatment of financial guarantees received against loan commitments has been revised following recent regulatory guidance. Data for 31 December 2020 has been restated to be on a consistent basis with the current year.*

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 2021 was 1.6% 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 2021												
1	**Loans and advances**	270,721	270,483	238	2,487	1,949	32	43	86	188	54	135	*2,487*
2	Central banks	113,919	113,919	—	—	—	—	—	—	—	—	—	—
3	General governments	1,540	1,540	—	—	—	—	—	—	—	—	—	—
4	Credit institutions	29,621	29,621	—	—	—	—	—	—	—	—	—	—
5	Other financial corporations	48,353	48,349	4	243	240	—	3	—	—	—	—	*243*
6	Non-financial corporations	52,347	52,142	205	1,791	1,412	12	28	68	164	32	75	*1,791*
7	*– of which: SMEs*	*1,929*	*1,928*	*1*	*200*	*56*	*10*	*21*	*7*	*39*	*23*	*44*	*200*
8	Households	24,941	24,912	29	453	297	20	12	18	24	22	60	*453*
9	**Debt securities**	32,676	32,676	—	1	1	—	—	—	—	—	—	*1*
10	Central banks	106	106	—	—	—	—	—	—	—	—	—	—
11	General governments	22,361	22,361	—	—	—	—	—	—	—	—	—	—
12	Credit institutions	6,612	6,612	—	—	—	—	—	—	—	—	—	—
13	Other financial corporations	2,822	2,822	—	—	—	—	—	—	—	—	—	—
14	Non-financial corporations	775	775	—	1	1	—	—	—	—	—	—	*1*
15	**Off-balance-sheet exposures**	144,287			416								*416*
16	Central banks	11			—								—
17	General governments	1,543			—								—
18	Credit institutions	34,402			—								—
19	Other financial corporations	21,547			1								*1*
20	Non-financial corporations	84,473			410								*410*
21	Households	2,311			5								*5*
22	**Total**	447,684	303,159	238	2,904	1,950	32	43	86	188	54	135	*2,904*
	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			566								*566*
16	Central banks	1,246			—								—
17	General governments	1,795			—								—
18	Credit institutions	44,432			1								*1*
19	Other financial corporations	23,002			7								*7*
20	Non-financial corporations	90,555			554								*554*
21	Households	2,275			4								*4*
22	Total	478,750	315,399	46	3,286	2,223	20	29	21	413	4	10	*3,286*

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 2021		At 31 Dec 2020	
		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	**5**	**–**	6	–
3	Residential immovable property	**2**	**–**	2	–
4	Commercial Immovable property	**3**	**–**	4	–
8	**Total**	**5**	**–**	6	–

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 2021												
1	**Loans and advances**	**270,721**	***258,648***	***9,163***	**2,487**	***2,487***	**(242)**	***(91)***	***(151)***	**(910)**	***(910)***	**97,102**	**626**
2	Central banks	**113,919**	***113,907***	***13***	**–**	***–***	**–**	***–***	***–***	**–**	***–***	**2,552**	**–**
3	General governments	**1,540**	***1,318***	***222***	**–**	***–***	**–**	***–***	***–***	**–**	***–***	**224**	**–**
4	Credit institutions	**29,621**	***29,595***	***26***	**–**	***–***	**(6)**	***(5)***	***(1)***	**–**	***–***	**17,849**	**–**
5	Other financial corporations	**48,353**	***45,188***	***369***	**243**	***243***	**(9)**	***(6)***	***(3)***	**(16)**	***(16)***	**32,713**	**–**
6	Non-financial corporations	**52,347**	***44,385***	***7,847***	**1,791**	***1,791***	**(189)**	***(58)***	***(131)***	**(769)**	***(769)***	**20,213**	**381**
7	*– of which: SMEs*	***1,929***	***1,535***	***394***	***200***	***200***	***(22)***	***(7)***	***(15)***	***(107)***	***(107)***	***1,294***	***58***
8	Households	**24,941**	***24,255***	***686***	**453**	***453***	**(38)**	***(22)***	***(16)***	**(125)**	***(125)***	**23,551**	**245**
9	**Debt securities**	**32,676**	***31,482***	***644***	**1**	***1***	**(19)**	***(2)***	***(17)***	**(1)**	***(1)***	**1,763**	**–**
10	Central banks	**106**	***106***	***–***	**–**	***–***	**–**	***–***	***–***	**–**	***–***	**–**	**–**
11	General governments	**22,361**	***22,361***	***–***	**–**	***–***	**(1)**	***(1)***	***–***	**–**	***–***	**281**	**–**
12	Credit institutions	**6,612**	***6,218***	***394***	**–**	***–***	**(2)**	***(1)***	***(1)***	**–**	***–***	**1,482**	**–**
13	Other financial corporations	**2,822**	***2,373***	***216***	**–**	***–***	**(10)**	***–***	***(10)***	**–**	***–***	**–**	**–**
14	Non-financial corporations	**775**	***424***	***34***	**1**	***1***	**(6)**	***–***	***(6)***	**(1)**	***(1)***	**–**	**–**
15	**Off-balance-sheet exposures**	**144,287**	***119,893***	***8,311***	**416**	***300***	**(67)**	***(27)***	***(30)***	**(35)**	***(15)***	**1,540**	**9**
16	Central banks	**11**	***2***	***–***	**–**	***–***	**–**	***–***	***–***	**–**	***–***	**–**	**–**
17	General governments	**1,543**	***1,148***	***23***	**–**	***–***	**–**	***–***	***–***	**–**	***–***	**–**	**–**
18	Credit institutions	**34,402**	***32,193***	***249***	**–**	***–***	**(9)**	***(3)***	***(1)***	**–**	***–***	**–**	**–**
19	Other financial corporations	**21,547**	***19,844***	***557***	**1**	***1***	**(2)**	***(1)***	***(1)***	**–**	***–***	**232**	**–**
20	Non-financial corporations	**84,473**	***64,530***	***7,366***	**410**	***295***	**(55)**	***(23)***	***(28)***	**(35)**	***(15)***	**1,167**	**9**
21	Households	**2,311**	***2,176***	***116***	**5**	***4***	**(1)**	***–***	***–***	**–**	***–***	**141**	**–**
22	**Total**	**447,684**	***410,023***	***18,118***	**2,904**	***2,788***	**(328)**	***(120)***	***(198)***	**(946)**	***(926)***	**100,405**	**635**

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 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 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 24 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 2021.

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	**2,462**	*89*	*—*	*—*	*—*	*2,373*	**1,463**
2	Institutions	**8,815**	*5,503*	*729*	*724*	*245*	*1,614*	**477**
3	Corporates	**134,251**	*34,997*	*41,115*	*16,435*	*9,101*	*32,603*	**2,227**
4	Retail	**23,959**	*621*	*20,215*	*3*	*7*	*3,113*	**23**
6	**Total IRB approach**	**169,487**	*41,210*	*62,059*	*17,162*	*9,353*	*39,703*	**4,190**
	STD approach							
7	Central governments and central banks	**119,823**	*47,695*	*54,799*	*12,643*	*404*	*4,282*	**26**
8	Regional governments or local authorities	**1,915**	*81*	*7*	*1,728*	*—*	*99*	**—**
9	Public sector entities	**6,720**	*—*	*3,031*	*3,265*	*48*	*376*	**—**
11	International organisations	**—**	*—*	*—*	*—*	*—*	*—*	**—**
12	Institutions	**832**	*780*	*2*	*—*	*—*	*50*	**1,347**
13	Corporates	**9,349**	*1,008*	*2,143*	*1,049*	*618*	*4,531*	**221**
14	Retail	**1,128**	*5*	*204*	*207*	*16*	*696*	**—**
15	Secured by mortgages on immovable property	**4,170**	*813*	*664*	*84*	*249*	*2,360*	**1**
16	Exposures in default	**313**	*3*	*42*	*21*	*—*	*247*	**—**
17	Items associated with particularly high risk	**1,780**	*1,091*	*91*	*—*	*—*	*598*	**—**
20	Collective investment undertakings ('CIU')	**—**	*—*	*—*	*—*	*—*	*—*	**—**
21	Equity exposures	**1,238**	*1,018*	*147*	*9*	*—*	*64*	**6**
22	Other items	**563**	*314*	*151*	*31*	*—*	*67*	**—**
23	**Total STD approach**	**147,831**	*52,808*	*61,281*	*19,037*	*1,335*	*13,370*	**1,601**
24	**At 31 Dec 2021**	**317,318**	*94,018*	*123,340*	*36,199*	*10,688*	*53,073*	**5,791**

		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	**3,653**	**8,515**	*8,224*	*291*	**—**	**2,746**	**18,839**
2	Institutions	**940**	**553**	*216*	*337*	**9**	**—**	**10,794**
3	Corporates	**4,270**	**9,358**	*8,123*	*1,235*	**1,043**	**—**	**151,149**
4	Retail	**57**	**61**	*3*	*58*	**8**	**—**	**24,108**
6	**Total IRB approach**	**8,920**	**18,487**	*16,566*	*1,921*	**1,060**	**2,746**	**204,890**
	STD approach							
7	Central governments and central banks	**—**	**—**	*—*	*—*	**—**	**—**	**119,849**
8	Regional governments or local authorities	**—**	**—**	*—*	*—*	**—**	**—**	**1,915**
9	Public sector entities	**—**	**—**	*—*	*—*	**—**	**—**	**6,720**
11	International organisations	**—**	**—**	*—*	*—*	**—**	**495**	**495**
12	Institutions	**244**	**319**	*95*	*224*	**46**	**—**	**2,788**
13	Corporates	**1,517**	**2,267**	*2,165*	*102*	**33**	**—**	**13,387**
14	Retail	**2**	**—**	*—*	*—*	**—**	**—**	**1,130**
15	Secured by mortgages on immovable property	**3**	**—**	*—*	*—*	**9**	**—**	**4,183**
16	Exposures in default	**43**	**—**	*—*	*—*	**6**	**—**	**362**
17	Items associated with particularly high risk	**7**	**553**	*288*	*265*	**—**	**—**	**2,340**
20	Collective investment undertakings ('CIU')	**—**	**—**	*—*	*—*	**—**	**—**	**—**
21	Equity exposures	**—**	**77**	*60*	*17*	**—**	**—**	**1,321**
22	Other items	**—**	**—**	*—*	*—*	**—**	**—**	**563**
23	**Total STD approach**	**1,816**	**3,216**	*2,608*	*608*	**94**	**495**	**155,053**
24	**At 31 Dec 2021**	**10,736**	**21,703**	*19,174*	*2,529*	**1,154**	**3,241**	**359,943**

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

	Net carrying values[1]	Agriculture £m	Mining & oil extraction £m	Manufacturing £m	Utilities £m	Water supply £m	Construction £m	Wholesale & retail trade £m	Transportation & storage £m	Accommodation & food services £m	Information & communication £m	Financial & insurance £m
	IRB approach											
1	Central governments and central banks	—	—	—	—	—	—	—	—	—	—	4,310
2	Institutions	—	—	—	—	—	—	—	—	—	—	10,727
3	Corporates	620	5,081	29,279	7,584	528	2,879	16,801	9,674	1,350	3,707	23,826
4	Retail	10	2	121	1	1	88	289	45	59	54	21
6	**Total IRB approach**	630	5,083	29,400	7,585	529	2,967	17,090	9,719	1,409	3,761	38,884
	STD approach											
7	Central governments and central banks	—	—	—	—	—	—	—	—	—	—	108,915
8	Regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	81
9	Public sector entities	—	—	24	—	—	—	—	4	—	—	5,132
11	International organisations	—	—	—	—	—	—	—	—	—	—	—
12	Institutions	—	—	—	—	—	—	—	—	—	—	2,788
13	Corporates	68	103	2,616	489	10	166	817	303	130	150	4,110
14	Retail	5	—	48	—	—	17	11	13	2	1	8
15	Secured by mortgages on immovable property	2	—	14	3	—	8	47	5	195	—	19
16	Exposures in default	3	—	32	11	—	25	22	20	21	20	26
17	Items associated with particularly high risk	—	—	19	—	—	—	—	—	3	—	2,224
20	Collective investment undertakings ('CIU')	—	—	—	—	—	—	—	—	—	—	—
21	Equity exposures	—	—	9	—	—	—	—	—	—	—	1,239
22	Other exposures	—	—	—	—	—	—	—	—	—	—	563
23	**Total STD approach**	78	103	2,762	503	10	216	897	345	351	171	125,105
24	**At 31 Dec 2021**	708	5,186	32,162	8,088	539	3,183	17,987	10,064	1,760	3,932	163,989

	Net carrying values[1]	Real estate £m	Professional activities £m	Administrative services £m	Public admin & defence £m	Education £m	Human health & social work £m	Arts & entertainment £m	Other services £m	Personal £m	Extra-territorial bodies £m	Total £m
	IRB approach											
1	Central governments and central banks	—	—	—	11,532	—	26	—	—	—	2,971	18,839
2	Institutions	—	—	—	67	—	—	—	—	—	—	10,794
3	Corporates	7,712	2,619	35,553	275	85	1,821	830	796	129	—	151,149
4	Retail	316	7	178	—	7	34	43	19	22,813	—	24,108
6	**Total IRB approach**	8,028	2,626	35,731	11,874	92	1,881	873	815	22,942	2,971	204,890
	STD approach											
7	Central governments and central banks	—	—	—	10,819	—	85	—	—	—	30	119,849
8	Regional governments or local authorities	—	—	—	1,532	—	302	—	—	—	—	1,915
9	Public sector entities	—	—	—	1,535	—	22	—	3	—	—	6,720
11	International organisations	—	—	—	67	—	—	—	—	—	428	495
12	Institutions	—	—	—	—	—	—	—	—	—	—	2,788
13	Corporates	1,116	191	1,876	6	11	82	43	96	1,004	—	13,387
14	Retail	73	3	52	—	4	10	5	1	877	—	1,130
15	Secured by mortgages on immovable property	491	—	207	—	—	9	—	4	3,179	—	4,183
16	Exposures in default	26	—	17	3	3	1	—	1	131	—	362
17	Items associated with particularly high risk	86	—	7	—	—	—	—	—	1	—	2,340
20	CIU	—	—	—	—	—	—	—	—	—	—	—
21	Equity exposures	1	24	48	—	—	—	—	—	—	—	1,321
22	Other exposures	—	—	—	—	—	—	—	—	—	—	563
23	**Total STD approach**	1,793	218	2,207	13,962	18	511	48	105	5,192	458	155,053
24	**At 31 Dec 2021**	9,821	2,844	37,938	25,836	110	2,392	921	920	28,134	3,429	359,943

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	—	—	—	—	—	—	—	—	—	—	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
10	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—
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	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	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	—	—	—	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 15: Maturity of on-balance sheet exposures[1] (CRB-E)

		At											
		31 Dec 2021						31 Dec 2020					
		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	**1,885**	**5,001**	**7,810**	**3,434**	**—**	**18,130**	869	5,076	10,049	3,454	—	19,448
2	Institutions	**3,477**	**1,119**	**2,309**	**238**	**—**	**7,143**	3,882	1,386	2,336	476	—	8,080
3	Corporates	**14,902**	**14,378**	**20,200**	**5,482**	**—**	**54,962**	18,121	11,504	25,307	6,495	2	61,429
4	Retail	**393**	**200**	**1,927**	**19,663**	**—**	**22,183**	404	310	2,179	20,587	—	23,480
6	**Total IRB approach**	**20,657**	**20,698**	**32,246**	**28,817**	**—**	**102,418**	23,276	18,276	39,871	31,012	2	112,437
	STD approach												
7	Central governments and central banks	**85,454**	**23,632**	**5,034**	**4,677**	**554**	**119,351**	62,642	22,003	6,899	9,360	478	101,382
8	Regional governments or local authorities	**—**	**110**	**941**	**700**	**81**	**1,832**	—	269	1,213	970	—	2,452
9	Public sector entities	**11**	**797**	**2,708**	**2,077**	**—**	**5,593**	26	901	3,073	2,516	—	6,516
11	International organisations	**—**	**—**	**399**	**97**	**—**	**496**	—	262	602	341	—	1,205
12	Institutions	**36**	**1,570**	**—**	**—**	**—**	**1,606**	44	3,734	—	—	—	3,778
13	Corporates	**1,298**	**4,465**	**2,488**	**661**	**2**	**8,914**	1,384	3,683	2,648	1,190	1	8,906
14	Retail	**85**	**42**	**102**	**227**	**1**	**457**	97	62	123	219	—	501
15	Secured by mortgages on immovable property	**—**	**399**	**638**	**3,071**	**—**	**4,108**	—	176	1,002	3,199	—	4,377
16	Exposures in default	**38**	**60**	**79**	**148**	**—**	**325**	45	65	123	151	—	384
17	Items associated with particularly high risk	**—**	**30**	**658**	**3**	**775**	**1,466**	—	74	460	7	1,152	1,693
20	CIU	**—**	**—**	**—**	**—**	**—**	**—**	—	—	—	—	1	1
21	Equity exposures	**—**	**—**	**—**	**—**	**1,321**	**1,321**	—	—	—	—	1,156	1,156
22	Other items	**—**	**346**	**2**	**—**	**215**	**563**	—	242	2	—	182	426
23	**Total STD approach**	**86,922**	**31,451**	**13,049**	**11,661**	**2,949**	**146,032**	64,238	31,471	16,145	17,953	2,970	132,777
24	**Total**	**107,579**	**52,149**	**45,295**	**40,478**	**2,949**	**248,450**	87,514	49,747	56,016	48,965	2,972	245,214

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	**955**	**68**	**50**	**997**	**497**	**—**
	Equal to or more than 2.5 years	**903**	**81**	**70**	**963**	**661**	**4**
Category 2 – Good	Less than 2.5 years	**302**	**24**	**70**	**315**	**220**	**1**
	Equal to or more than 2.5 years	**157**	**59**	**90**	**178**	**159**	**1**
Category 3 – Satisfactory	Less than 2.5 years	**84**	**—**	**115**	**84**	**96**	**2**
	Equal to or more than 2.5 years	**—**	**—**	**115**	**—**	**—**	**—**
Category 4 – Weak	Less than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**8**	**—**	**250**	**8**	**19**	**1**
Category 5 – Default	Less than 2.5 years	**30**	**—**	**—**	**34**	**—**	**17**
	Equal to or more than 2.5 years	**—**	**1**	**—**	**2**	**—**	**1**
At 31 Dec 2021	Less than 2.5 years	**1,371**	**92**		**1,430**	**813**	**20**
	Equal to or more than 2.5 years	**1,068**	**141**		**1,151**	**839**	**7**
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

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 33 of the HSBC Bank plc Annual Report and Accounts 2021.

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 2021				31 Dec 2020			
	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	**6**	**96**	**—**	**102**	9	105	—	114
– personal	**6**	**72**	**—**	**78**	8	85	—	93
– corporate and commercial	**—**	**19**	**—**	**19**	1	19	—	20
– financial	**—**	**5**	**—**	**5**	—	1	—	1
Impaired exposures	**971**	**1,772**	**162**	**2,905**	1,277	2,142	193	3,612
– personal	**13**	**443**	**1**	**457**	18	519	1	538
– corporate and commercial	**691**	**1,311**	**161**	**2,163**	949	1,585	192	2,726
– financial	**267**	**18**	**—**	**285**	310	38	—	348
Impairment allowances and other credit risk provisions	**(351)**	**(852)**	**(55)**	**(1,258)**	(661)	(961)	(51)	(1,673)
– personal	**(5)**	**(158)**	**—**	**(163)**	(13)	(196)	—	(209)
– corporate and commercial	**(322)**	**(686)**	**(54)**	**(1,062)**	(570)	(738)	(47)	(1,355)
– financial	**(24)**	**(8)**	**(1)**	**(33)**	(78)	(27)	(4)	(109)

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 2021	**661**	**961**	**51**	**1,673**
Amounts written off	**(79)**	**(79)**	**—**	**(158)**
– personal	**(2)**	**(12)**	**—**	**(14)**
– corporate and commercial	**(77)**	**(66)**	**—**	**(143)**
– financial	**—**	**(1)**	**—**	**(1)**
Recoveries of amounts written off in previous years	**1**	**2**	**—**	**3**
– personal	**—**	**1**	**—**	**1**
– corporate and commercial	**1**	**1**	**—**	**2**
– financial	**—**	**—**	**—**	**—**
(Release)/charge to income statement	**(217)**	**44**	**8**	**(165)**
– personal	**(5)**	**(15)**	**—**	**(20)**
– corporate and commercial	**(157)**	**75**	**10**	**(72)**
– financial	**(55)**	**(16)**	**(2)**	**(73)**
Exchange and other movements	**(15)**	**(76)**	**(4)**	**(95)**
Specific credit risk adjustments at 31 Dec 2021	**351**	**852**	**55**	**1,258**

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

	2021			2020		
		CRA[1]			CRA[1]	
	Expected loss[1]	Balances	(Release)/ charge for the year	Expected loss[1]	Balances	Charge/ (release) for the year
	£m	£m	£m	£m	£m	£m
By exposure class						
Central governments and central banks	**5**	**2**	**(5)**	7	5	7
Institutions	**6**	**16**	**(21)**	6	28	33
Corporates	**1,098**	**813**	**(144)**	1,304	1,038	520
Retail	**200**	**199**	**(12)**	248	235	130
– secured by mortgages on immovable property SME	**17**	**19**	**—**	22	20	7
– secured by mortgages on immovable property non-SME	**46**	**43**	**(3)**	56	47	56
– qualifying revolving retail	**3**	**1**	**—**	3	2	3
– other SME	**88**	**83**	**(3)**	112	101	44
– other non-SME	**46**	**53**	**(6)**	55	65	20
At 31 Dec	**1,309**	**1,030**	**(182)**	1,565	1,306	690
By region[2]						
United Kingdom	**495**	**323**	**(194)**	650	564	379
Continental Europe	**806**	**704**	**16**	905	735	315
Other	**8**	**3**	**(4)**	10	7	(4)
At 31 Dec	**1,309**	**1,030**	**(182)**	1,565	1,306	690

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 64 and 69 of the HSBC Bank plc Annual Report and Accounts 2021*.*

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]

	At 31 Dec 2021				
	Exposures unsecured: carrying amount	Exposures secured: carrying amount	*Secured by:*		
			collateral	*financial guarantees*	*credit derivatives*
	£m	£m	*£m*	*£m*	*£m*
Exposures under the IRB approach[1]					
Central governments and central banks	**18,204**	**635**	***—***	***635***	***—***
Institutions	**6,979**	**3,646**	***3,084***	***507***	***55***
Corporates	**87,995**	**63,014**	***22,031***	***32,196***	***8,787***
Retail	**3,500**	**20,608**	***5,307***	***15,301***	***—***
Total	**116,678**	**87,903**	***30,422***	***48,639***	***8,842***
Exposures under the STD approach[1]					
Central governments and central banks[2]	**118,855**	**400**	***400***	***—***	***—***
Institutions	**2,490**	**—**	***—***	***—***	***—***
Corporates	**9,570**	**4,122**	***1,237***	***2,885***	***—***
Retail	**757**	**374**	***362***	***12***	***—***
Secured by mortgages on immovable property	**—**	**4,186**	***4,186***	***—***	***—***
Exposures in default	**204**	**183**	***150***	***33***	***—***
Items associated with particularly high risk[3]	**904**	**6**	***6***	***—***	***—***
Regional governments or local authorities	**1,879**	**—**	***—***	***—***	***—***
Public sector entities	**4,843**	**1,877**	***23***	***1,854***	***—***
Securitisation positions	**28**	**—**	***—***	***—***	***—***
Total	**139,530**	**11,148**	***6,364***	***4,784***	***—***

1 *This table includes both on- and off-balance sheet exposures.*
2 *Deferred tax assets are excluded from the exposure.*
3 *Equities are excluded from the exposure.*

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 67 of the HSBC Bank plc* Annual Report and Accounts 2021*;*
- *on page 176 of the HSBC Holdings plc* Annual Report and Accounts 2021*; and*
- *on pages 62 to 64 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2021*.*

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

	2021		2020	
	RWAs	Capital required	RWAs	Capital required
	£m	£m	£m	£m
By exposure class				
IRB advanced approach	**5,299**	**424**	6,473	517
– central governments and central banks	**180**	**14**	229	18
– institutions	**4,902**	**393**	5,588	447
– corporates	**217**	**17**	656	52
IRB foundation approach	**7,208**	**577**	8,855	708
– corporates	**7,208**	**577**	8,855	708
Standardised approach	**1,920**	**153**	1,874	151
– central governments and central banks	**22**	**2**	19	2
– institutions	**1,706**	**136**	1,655	133
– corporates	**192**	**15**	200	16
CVA advanced	**944**	**76**	1,159	93
CVA standardised	**563**	**45**	519	42
CCP standardised	**500**	**40**	464	37
At 31 Dec	**16,434**	**1,315**	19,344	1,548
By product				
– derivatives (OTC and exchange-traded derivatives)	**10,808**	**865**	12,524	1,002
– SFTs	**3,198**	**256**	4,057	325
– other[1]	**542**	**43**	780	62
– CVA advanced	**944**	**76**	1,159	93
– CVA standardised	**563**	**45**	519	42
– CCP default funds[2]	**379**	**30**	305	24
At 31 Dec	**16,434**	**1,315**	19,344	1,548

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 77 to 80 of the HSBC Bank plc* Annual Report and Accounts 2021*;*
- *on pages 203 to 207 of the HSBC Holdings plc* Annual Report and Accounts 2021*; and*
- *on pages 70 to 74 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2021*.*

Table 22: Market risk under standardised approach (MR1)

		At 31 Dec 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
	Outright products				
1	Interest rate risk (general and specific)	**130**	**10**	294	24
2	Equity risk (general and specific)	**38**	**3**	49	4
3	Foreign exchange risk	**690**	**55**	574	46
4	Commodity risk	**34**	**3**	62	5
	Options				
6	Delta-plus method	**–**	**–**	83	6
8	**Securitisation**	**558**	**45**	797	64
9	**Total**	**1,450**	**116**	1,859	149

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

		At 31 Dec 2021		At 31 Dec 2020	
		RWAs	Capital required	RWAs	Capital required
		£m	£m	£m	£m
1	**VaR (higher of values a and b)**	**2,765**	**221**	3,835	307
(a)	Previous day's VaR		**52**		63
(b)	Average daily VaR[1]		**221**		307
2	**Stressed VaR (higher of values a and b)**	**3,776**	**302**	5,785	463
(a)	Latest SVaR		**66**		74
(b)	Average SVaR[1]		**302**		463
3	**Incremental risk charge (higher of values a and b)**	**1,000**	**80**	2,154	172
(a)	Most recent IRC value		**45**		172
(b)	Average IRC value[1]		**80**		172
5	**Other**	**837**	**67**	956	76
6	**Total**	**8,378**	**670**	12,730	1,018

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 technology and cyber security, transaction processing, data risk, failure to manage third parties, building unavailability, failure to protect people and place from physical malevolent acts, business interruption and incident risk, workplace safety, financial crime and fraud, regulatory compliance, 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 2021, operational risk RWAs were £10,512m.

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

- *on page 80 of the HSBC Bank plc* Annual Report and Accounts 2021*;*
- *on page 121 of the HSBC Holdings plc* Annual Report and Accounts 2021*; and*
- *on page 76 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2021*.*

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. HSBC Bank Treasury is responsible for the application of the LFRF within bank.

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.

We 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 bank maintains 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.

Net stable funding ratio

HSBC Bank plc uses an internally adjusted net stable funding ratio ('NSFR') as a basis for establishing stable funding needs. The adjusted NSFR requires HSBC Bank plc to maintain sufficient stable funding and reflects its long-term funding profile (funding with a term of more than one year) commensurate with the risk profile of the balance sheet. From 2022, internally adjusted NSFR will be supplemented by regulatory NSFR as the final rules are published and start to apply to the UK regulated banks. The internally adjusted NSFR will be reassessed once regulatory NSFR interpretations are finalised.

Internal Liquidity metric

During 2021, in addition to regulatory metrics, HSBC Bank plc enhanced its liquidity framework to include an internal liquidity metric (ILM). ILM is used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity through available management actions.

Liquidity stress testing

Treasury 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 liquidity metrics are appropriate and conservative enough for the group's business.

A number of stress scenarios are run that test the quality of liquidity resources under stresses of varying nature. As part of this exercise, stress assumptions are approved by the relevant ALCO and the Board. Stress testing results are presented annually to the Board via ILAA document and quarterly 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 for stressed capacity in the FX swap markets.

Structural foreign exchange exposures

Structural foreign exchange exposures represent net assets or capital investments in subsidiaries, branches, joint arrangement or associates, together with any associated hedges, the functional currencies of which are currencies other than pound sterling. An entity's functional currency is that of the primary economic environment in which the entity operates. We use the pound sterling as our presentation currency in our consolidated financial statements because sterling forms the major currency in which we transact and fund our business. Exchange rate differences on structural exposures are recognised in other comprehensive income ('OCI').

The structural foreign exchange exposures are managed within limits such that the capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates. We may hedge certain structural foreign exchange positions, either at entity level, or by relying on hedges held in other group entities, subject to approved limits.

Details of our structural foreign exchange exposures are provided on page 74 of the HSBC Bank plc Annual Report and Accounts 2021*.*

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..

Risk Management and Governance

Treasury monitors and controls interest rate risk in the banking book. This includes reviewing and challenging the interest rate management impacts of new product releases and the proposed behavioural assumptions used for hedging activities. Treasury is also responsible for maintaining and updating the transfer pricing framework, informing the Asset and Liability Committee ('ALCO')

of the group's overall banking book interest rate risk exposure, and managing the balance sheet.

All interest rate risk must be identified, measured, monitored, managed and controlled by metrics within their respective limits. Key metrics used to monitor IRRBB include: projected net interest income ('NII') and economic value of equity ('EVE') sensitivities ('Δ') under varying interest rate scenarios as prescribed by the regulators. A stressed value at risk (VaR) is used for the portfolio of liquid securities held by Markets Treasury that are accounted for at fair value through other comprehensive income.

EVE and NII sensitivities are monitored against their respective thresholds. Treasury is subject to independent oversight and challenge from Treasury Risk, Internal Audit and Model governance.

Stress Testing is used to assess how the bank copes with severe economic scenarios, in particular looking at its resilience to make sure it has enough capital to withstand extreme shocks.

At HSBC stress testing forms a key part of our risk management framework. We run various internal and regulatory stress tests during the year which help us to identify the key economic risks the bank is exposed to, and how they may impact on the bank's financial and capital position in a severe economic shock. Identifying these risks allows the bank to actively assess and put in place effective risk management strategies to help mitigate those risks before they occur.

The results of the various stress tests also help to ensure that the bank has adequate capital to withstand extreme hypothetical economic shocks as defined in the stress scenarios and thus to help to determine our capital requirements under the ICAAP.

Economic Value of Equity and Net Interest Income Sensitivity

NII sensitivities apply varying interest rate scenarios (i.e. simulation modelling) whilst all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates. This is assessed over 1 year and 5 years and is calculated on a quarterly basis.

EVE sensitivities represent the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant representing the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. This can be used to assess the economic capital required to support interest rate risk in the banking book and provides a comprehensive view of the potential long-term effects of changes in interest rates. We monitor EVE sensitivities as a percentage of capital resources and this is calculated quarterly.

Active Management of IRRBB

IRRBB that can be hedged with marketable instruments is transferred, in accordance with Treasury's transfer pricing rules, to Markets Treasury to manage within market risk limits. IRRBB which cannot be managed with marketable instruments is managed between Treasury and the Global Businesses generating the interest rate risk. Markets Treasury safeguards the bank by ensuring risk remains within appetite and seeks to generate sustainable returns through the management of those risks within the risk appetite is set by Treasury Risk. Markets Treasury manages a variety of risks including duration, spread, cross currency basis, inflation and convexity, utilising products such as liquid fixed income securities, interest rate swaps, cross currency swaps, and money markets loans and deposits. Treasury Risk measures and monitors Markets Treasury activities against limits using metrics including PVBP, CS01 and VaR on an intraday basis and controlled daily.

The large majority of Markets Treasury activity is on a banking book basis. The only Markets Treasury activity treated as trading is the use of FX swaps to manage cash. All returns generated by Markets Treasury are transferred to the Global Businesses.

Interest Rate Shock and Stress Scenarios Applied

The NII sensitivities are indicative and based on scenarios and assumptions prescribed by the PRA instructions (Rule 9.4A of the PRA Rulebook: CRR Firms: Interest Rate Risk Arising from Non Trading Activities Instrument 2020 and in accordance with Article 448(1) CRR), which is completed and reported quarterly. This indicative base case projection of our NII is calculated under the following scenarios:

- an immediate shock of +/-200bps for USD, EUR and +/-250bps for GBP to the current market-implied path of interest rates across all currencies (effects over one year)
- other currency shocks as per regulatory guidelines (effects over one year)

EVE sensitivities are based on the EBA Standard Outlier Test (SOT) +/-200bps shocks and the 6 BCBS Outlier Test shocks which is completed and reported on a quarterly basis:

- Parallel Up
- Parallel Down
- Steepener
- Flattener
- Short rates shock up; and
- Short rates shock down

Key Modelling Assumptions

For EVE sensitivities, commercial margins and other spread components are excluded from the interest cash flows calculation and all balance sheet items are discounted at the risk free rate; all CET1 instruments are excluded; interest rates floors start at -100bps for the overnight tenor and increase 5bps per year to 0bps for the 20year tenor; and 100% of the negative values are netted with 50% of the positive values by currency as per regulatory guidelines; bases on a run off balance sheet with behavioural assumptions applied.

For NII sensitivities, we assume a constant balance sheet; commercial margins are included; all forecasted market rates are based on implied forward rates from the spot curves at each quarter-end; all interest rate shocks are parallel shocks; behavioural assumptions and pass on assumptions are applied for managed rate products; customer pricing includes flooring where there are contractual obligations; and customer optionality including prepayment and early redemption risk is included where present. Non-Maturing Deposits ('NMDs') are funds that have no explicit maturity dates thus behaviouralisation assumptions are applied.

Duration for NMDs may differ from internal IRRBB metrics due to regulatory prescribed rules around the identification of core deposits, hence there is a difference in methodology between the bank's *Annual Report and Accounts* and Pillar 3 disclosures. The average repricing maturity for NMDs in Q4'21 was 30 months. The longest repricing maturity for NMDs in Q4'21 was 60 months.

Table 24: Quantitative information on IRRBB for HSBC Bank plc (IRRBB1)

		a	b	c	d	e	f
	£m	ΔEVE		ΔNII		Tier 1 capital	
	Period	T	T-1	T	T-1	T	T-1
10	Parallel shock up	(1,235)		849			
20	Parallel shock down	404		(105)			
30	Steepener shock	(32)					
40	Flattener shock	(335)					
50	Short rates shock up	(548)					
60	Short rates shock down	303					
70	Maximum	(1,235)		(105)			
80	Tier 1 capital					21,869	

Further details of our IRRBB may be found on page 72 of the HSBC Bank plc Annual Report and Accounts 2021.

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 84 of the HSBC Bank plc Annual Report and Accounts 2021.

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 in the Directors' Remuneration Report on pages 254 to 287 of the HSBC Holdings plc *Annual Report and Accounts 2021*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2021. Individuals have been identified as MRTs as set out in the European Union Regulatory Technical Standard ('RTS') 2021/923. 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 25: Remuneration awarded for the financial year (REM1)

		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	**8.0**	**3.0**	**21.0**	**322.4**
	Total fixed pay (£m)	**1.7**	**4.2**	**13.6**	**156.1**
	– *of which: cash-based (£m)*[1]	***1.7***	***4.2***	***13.6***	***156.1***
	– *of which: shares or equivalent ownership interests (£m)*[2]	–	–	–	–
	– *of which: share-linked instruments or equivalent non-cash instruments (£m)*	–	–	–	–
	– *of which: other instruments (£m)*	–	–	–	–
	– *of which: other forms (£m)*	–	–	–	–
Variable remuneration[3]	Number of identified staff	**8.0**	**3.0**	**21.0**	**322.4**
	Total variable remuneration (£m)[4,5]	–	**5.5**	**13.4**	**181.9**
	– *of which: cash-based (£m)*	–	***1.9***	***6.3***	***85.7***
	– *of which: deferred (£m)*	–	***1.1***	***3.6***	***46.9***
	– *of which: shares or equivalent ownership interests (£m)*[2]	–	***3.6***	***7.1***	***95.2***
	– *of which: deferred (£m)*	–	***2.8***	***4.4***	***57.3***
	– *of which: share-linked instruments or equivalent non-cash instruments (£m)*	–	–	–	***0.4***
	– *of which: deferred (£m)*	–	–	–	***0.2***
	– *of which: other instruments (£m)*	–	–	–	–
	– *of which: deferred (£m)*	–	–	–	–
	– *of which: other forms (£m)*	–	–	–	***0.6***
	– *of which: deferred (£m)*	–	–	–	***0.5***
Total remuneration (£m)		**1.7**	**9.7**	**27.0**	**338.0**

1 *Cash-based fixed remuneration is paid immediately.*
2 *Paid in HSBC shares. Vested shares are subject to a retention period of up to one year.*
3 *Variable pay awarded in respect of 2021. In accordance with 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.*
4 *The Group has used the discount rate under PRA remuneration rule 15.13 for 9 individuals for the purpose of calculating the ratio between fixed and variable components of 2021 total remuneration.*
5 *12 identified staff members were exempt from the application of the remuneration structure requirements for MRTs under the PRA and FCA remuneration rules. Their total remuneration is £1.7m, of which £1.4m is fixed pay and £0.3m is variable remuneration.*

Table 26: Special payments to staff whose professional activities have a material impact on institutions' risk profile (REM2)

	Supervisory function	Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards[1]				
Number of identified staff	–	–	–	–
Total amount (£m)	–	–	–	–
– *of which: guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap (£m)*	–	–	–	–
Severance payments awarded in previous periods, that have been paid out during the financial year[2]				
Number of identified staff	–	–	–	–
Total amount (£m)	–	–	–	–
Severance payments awarded during the financial year[2]				
Number of identified staff	–	**1**	**4**	**17**
Total amount (£m)	–	**1.5**	**4.3**	**23.3**
– *of which: paid during the financial year (£m)*	–	***1.5***	***3.8***	***21.6***
– *of which: deferred (£m)*	–	–	–	–
– *of which: severance payments paid during the financial year, that are not taken into account in the bonus cap (£m)*	–	***1.5***	***4.3***	***23.3***
– *of which: highest payment that has been awarded to a single person (£m)*	–	***1.5***	***2.4***	***3.6***

1 *No guaranteed variable remuneration awarded in 2021. HSBC would offer a guaranteed variable remuneration award in exceptional circumstances for new hires, and in the first year only. It 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 27: Deferred remuneration at 31 December[1] (REM3)

£m	Total amount of deferred remuneration awarded for previous performance periods	*Of which: due to vest in the financial year*	*Of which: vesting in subsequent financial years*	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
Supervisory function	—	—	—	—	—	—	—	—
Cash-based	—	—	—	—	—	—	—	—
Shares	—	—	—	—	—	—	—	—
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Management function	7.4	*1.5*	*5.9*	—	—	0.4	1.5	0.2
Cash-based	4.1	*1.2*	*2.9*	—	—	—	1.2	—
Shares	3.3	*0.3*	*3.0*	—	—	0.4	0.3	0.2
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management	21.8	*3.7*	*18.1*	—	—	1.2	3.7	0.4
Cash-based	11.4	*2.3*	*9.1*	—	—	—	2.3	—
Shares	10.3	*1.3*	*9.0*	—	—	1.2	1.3	0.4
Share-linked instruments	0.1	*0.1*	—	—	—	—	0.1	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff	208.9	*45.1*	*163.8*	—	—	10.8	45.1	6.6
Cash-based	104.1	*25.8*	*78.3*	—	—	—	25.8	—
Shares	102.0	*18.1*	*83.9*	—	—	10.6	18.1	6.1
Share-linked instruments	1.3	*0.5*	*0.8*	—	—	0.1	0.5	0.2
Other instruments	—	—	—	—	—	—	—	—
Other forms	1.5	*0.7*	*0.8*	—	—	0.1	0.7	0.3
Total amount	238.1	*50.3*	*187.8*	—	—	12.4	50.3	7.2

1 *This table provides details of balances and movements during performance year 2021. For details of variable pay awards granted for 2021, refer to the 'Remuneration awarded for the financial year' table. Deferred remuneration is made in cash and/or shares. Share-based awards are made in HSBC shares.*

Table 28: Identified staff - remuneration by band[1] (REM4)

	Identified staff that are high earners as set out in Article 450(i) CRR
€1,000,000 – 1,500,000	77
€1,500,000 – 2,000,000	37
€2,000,000 – 2,500,000	18
€2,500,000 – 3,000,000	8
€3,000,000 – 3,500,000	8
€3,500,000 – 4,000,000	6
€4,000,000 – 4,500,000	3
€4,500,000 – 5,000,000	2
€5,000,000 – 6,000,000	2
€6,000,000 – 7,000,000	2
€7,000,000 – 8,000,000	—
€8,000,000 – 9,000,000	—
€9,000,000 – 10,000,000	2
€10,000,000 – 11,000,000	—
€11,000,000 – 12,000,000	—

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.*

Table 29: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (REM5)

	Management body			Business areas						
	Supervisory function	Manage-ment function	Total	Investment banking	Retail banking	Asset manage-ment	Corporate function	Independent internal control function	All other	Total
Total number of identified staff										**354.4**
– *of which: members of the board*	***8.0***	***3.0***	***11.0***							
– *of which: senior management*				***4.0***	***4.0***	***—***	***6.0***	***4.0***	***3.0***	
– *of which: other identified staff*				***223.5***	***29.0***	***3.0***	***6.9***	***48.0***	***12.0***	
Total remuneration of identified staff (£m)	**1.7**	**9.7**	**11.4**	**286.1**	**24.8**	**3.9**	**11.1**	**27.9**	**11.2**	
– *of which: variable remuneration (£m)*[1]	***—***	***5.5***	***5.5***	***161.5***	***10.3***	***2.0***	***5.3***	***12.5***	***3.7***	
– *of which: fixed remuneration (£m)*	***1.7***	***4.2***	***5.9***	***124.6***	***14.5***	***1.9***	***5.8***	***15.4***	***7.5***	

1 *Variable pay awarded in respect of 2021. In accordance with 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.*

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 30: 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				Share of total own funds require-ments	CCyB rate
	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		
Country	£m	£m	£m	£m	£m	£m	£m	£m	£m	%	%
United Arab Emirates	641	1386	—	26	—	*48*	*2*	—	50	1.0	—
Austria	17	567	—	33	—	*27*	*9*	—	36	1.0	—
Belgium	46	706	—	2	—	*28*	*1*	—	29	0.0	—
Brazil	4	587	—	73	—	*12*	*21*	—	33	1.0	—
Bulgaria	—	6	—	—	—	—	—	—	—	0.0	0.50
Switzerland	123	3,602	—	26	—	*91*	*2*	—	93	2.0	—
Czech Republic	72	632	—	6	—	*33*	*1*	—	34	1.0	0.50
Germany	610	11,322	246	155	543	*481*	*12*	*5*	498	9.0	—
Spain	347	1,519	56	15	119	*85*	*16*	*2*	103	2.0	—
France	3,017	49,522	110	1	1,591	*1,292*	*13*	*25*	1,330	23.0	—
United Kingdom	3,977	35,070	1,018	256	7,029	*1,320*	*45*	*211*	1,576	27.0	—
Guernsey	351	856	—	—	—	*49*	—	—	49	1.0	—
Greece	294	1,764	5	3	—	*112*	*2*	—	114	2.0	—
Hong Kong	7	404	—	7	—	*9*	*1*	—	10	0.0	1.00
Ireland	269	2,710	462	13	348	*85*	*11*	*6*	102	2.0	—
Israel	160	703	—	37	—	*39*	*5*	—	44	1.0	—
Italy	86	1,745	280	13	32	*68*	*18*	*1*	87	1.0	—
Jersey	297	2,285	—	—	—	*59*	—	—	59	1.0	—
Cayman Islands	217	1,421	—	19	—	*91*	*3*	—	94	2.0	—
Luxembourg	801	4,353	—	45	15	*197*	*5*	*1*	203	3.0	0.50
Malta	2,621	125	—	—	—	*109*	—	—	109	2.0	—
Mexico	1	233	—	113	—	*6*	*30*	—	36	1.0	—
Netherlands	663	6,626	190	81	726	*218*	*9*	*10*	237	4.0	—
Norway	—	324	—	14	—	*9*	*6*	—	15	0.0	1.00
Poland	435	340	—	19	—	*41*	*5*	—	46	1.0	—
Slovakia	14	39	—	—	—	*2*	—	—	2	0.0	1.00
Sweden	2	808	2	40	—	*26*	*5*	—	31	1.0	—
United States	2,449	8,555	12	382	1,145	*361*	*31*	*37*	429	7.0	—
South Africa	279	464	—	12	—	*40*	*2*	—	42	1.0	—
Other Countries	1,222	7,433	98	410	140	*236*	*93*	—	329		
Total	19,022	146,107	2,479	1,801	11,688	5,174	348	298	5,820	100.0	

Table 31: Amount of Institution specific countercyclical capital buffer

	2021
Total Risk Exposure Amount (£m)	104,314
Institution specific countercyclical capital buffer rate	0.03%
Institution specific countercyclical capital buffer requirement (£m)	26

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

Abbreviation	Description
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	
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

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 2021* 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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