HSBC Bank plc

Pillar 3 Disclosures at 31 December 2022
Registered number - 00014259

HSBC

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Appendices

Certain defined terms

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

Tables

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 2022*, which has been published on our website www.hsbc.com.

Introduction

Table 1: Key metrics (KM1/IFRS9-FL)

		At				
Ref*		**31 Dec 2022**	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
	Available capital (£m)[1,2]					
1	Common equity tier 1 ('CET1') capital^	**19,184**	18,180	18,797	18,586	18,963
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**19,165**	18,160	18,779	18,565	18,927
2	Tier 1 capital^	**23,077**	22,068	22,689	22,482	22,825
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**23,057**	22,048	22,672	22,461	22,789
3	Total capital^	**36,187**	34,908	35,168	34,014	33,992
	Total capital as if IFRS 9 transitional arrangements had not been applied	**36,167**	34,888	35,150	33,993	33,956
	Risk-weighted assets ('RWAs') (£m)[2]					
4	Total RWAs^	**114,171**	124,768	123,530	115,514	106,703
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**114,154**	124,751	123,513	115,494	106,670
	Capital ratios (%)[1,2]					
5	CET1^	**16.8**	14.6	15.2	16.1	17.8
	CET1 as if IFRS 9 transitional arrangements had not been applied	**16.8**	14.6	15.2	16.1	17.7
6	Tier 1^	**20.2**	17.7	18.4	19.5	21.4
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**20.2**	17.7	18.4	19.4	21.4
7	Total capital^	**31.7**	28.0	28.5	29.4	31.9
	Total capital as if IFRS 9 transitional arrangements had not been applied	**31.7**	28.0	28.5	29.4	31.8
	Additional own funds requirements based on supervisory review and evaluation process ('SREP') as a percentage of RWAs (%)[3]					
UK-7d	Total SREP own funds requirements	**8.0**	8.0	8.0	8.0	N/A
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	**2.5**	2.5	2.5	2.5	N/A
9	Institution specific countercyclical capital buffer	**0.3**	0.0	0.0	0.0	N/A
11	Combined buffer requirement	**2.8**	2.5	2.5	2.5	N/A
UK-11a	Overall capital requirements[3]	**10.8**	10.5	10.5	10.5	N/A
12	CET1 available after meeting the total SREP own funds requirements	**12.3**	10.1	10.7	11.6	N/A
	Leverage ratio [2,3]					
13	Total exposure measure excluding claims on central banks (£m)^	**417,587**	462,375	447,863	424,871	N/A
14	Leverage ratio excluding claims on central banks (%)^	**5.5**	4.8	5.1	5.3	N/A
	Leverage ratio (under Capital Requirements Regulation)^,4					
	Total leverage ratio exposure measure (£m)	**N/A**	N/A	N/A	N/A	536,518
	Leverage ratio (%)	**N/A**	N/A	N/A	N/A	4.2
	Liquidity coverage ratio ('LCR')[5,7]					
15	Total high-quality liquid assets (£m)	**104,491**	102,609	98,962	98,114	N/A
UK-16a	Cash outflows – total weighted value (£m)	**122,833**	118,095	112,046	108,705	N/A
UK-16b	Cash inflows – total weighted value (£m)	**49,831**	46,419	42,534	39,853	N/A
16	Total net cash outflow (£m)	**73,002**	71,675	69,512	68,852	N/A
17	LCR ratio (%)	**143.1**	143.2	142.4	142.5	N/A
	Net Stable Funding Ratio ('NSFR')[6,7]					
18	Total available stable funding (£m)	**107,679**	107,425	105,549	102,367	N/A
19	Total required stable funding (£m)	**93,310**	92,065	91,458	92,179	N/A
20	NSFR ratio (%)	**115.4**	116.7	115.4	111.1	N/A

* *The references in this and subsequent tables identify lines prescribed in the relevant PRA template where applicable and where there is a value.N/A in prior periods indicate that the disclosure is new or changed and no comparatives are provided.*
^ *Figures have been prepared on an IFRS 9 transitional basis.*
1 *Capital figures and ratios are reported using CRR II transitional basis for capital instruments.*
2 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements. Comparatives for prior periods have been represented on a consistent basis with the current year.*
3 *These disclosures have been implemented from 1 January 2022 and are based on the PRA's disclosure templates and instructions which came into force at that time.*
4 *Leverage ratio is calculated using the CRR II end point basis for capital. The comparative leverage exposures and ratios are separately reported based on the Capital Requirements Regulation rules in force at that time and include claims on central banks.*
5 *LCR disclosure is calculated based on 12 month-end averages. In December 2022, a strategic data enhancement was implemented which resulted in a reclassification of some securities. This reclassification drove a reduction in total High Quality Liquid Assets and corresponding LCR as of 31 Dec 2022. Prior period numbers have been re-presented for consistency.*
6 *NSFR is calculated in line with PRA guidance which came into effect on 1 January 2022. The disclosure for December 2022 is based on the average of preceding quarters.*
7 *These LCR and NSFR amounts relate to HSBC Bank plc as a single entity and are not produced on a consolidated basis.*

At 31 December 2022, our common equity tier 1 ('CET1') capital ratio decreased to 16.8% from 17.8% at 31 December 2021. The key drivers of the fall in our CET1 ratio were:

- a 1.6 percentage point impact from the expected loss on reclassification of our French retail operations to held for sale.
- a 1.2 percentage point impact from RWA growth due to implementation of new regulations and increased volatility in the market and due to impact of FX movement.

Share issuance, profits and other movements added 1.8 percentage points to the CET1 ratio.

Throughout 2022, 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 £24m under the STD approach with tax impacts of £5m which resulted in a net add-back of £19m.

Table 2: Overview of risk-weighted exposure amounts (OV1)

		At		
		31 Dec 2022	30 Sep 2022	**31 Dec 2022**
		RWAs	RWAs	**Total own funds requirement[1]**
		£m	£m	**£m**
1	**Credit risk (excluding counterparty credit risk)**	**65,365**	73,785	**5,229**
2	– standardised approach	**23,290**	23,313	**1,863**
3	– foundation internal ratings-based ('FIRB') approach	**17,362**	19,542	**1,389**
4	– slotting approach	**1,314**	1,786	**105**
5	– advanced IRB ('AIRB') approach	**23,399**	29,144	**1,872**
6	**Counterparty credit risk ('CCR')**	**17,834**	20,405	**1,427**
7	– standardised approach	**4,472**	5,285	**358**
8	– internal model method ('IMM')	**6,536**	8,137	**523**
UK-8a	– risk exposure amount for contributions to the default fund of a central counterparty	**199**	224	**16**
UK-8b	– credit valuation adjustment	**1,543**	1,777	**123**
9	– other counterparty credit risk[3]	**5,084**	4,982	**407**
15	**Settlement risk**	**147**	114	**12**
16	**Securitisation exposures in the non-trading book**	**3,456**	3,560	**277**
17	– internal ratings-based approach ('SEC-IRBA')	**794**	329	**64**
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))[2]	**1,764**	2,433	**141**
19	– standardised approach ('SEC-SA')	**785**	685	**63**
UK-19a	– 1250% deduction	**113**	113	**9**
20	**Position, foreign exchange and commodities risks (market risk)**	**15,822**	16,106	**1,266**
21	– standardised approach	**2,403**	2,258	**192**
22	– internal models approach ('IMA')	**13,419**	13,848	**1,074**
23	**Operational risk**	**11,547**	10,798	**924**
UK-23b	– standardised approach	**11,547**	10,798	**924**
29	**Total**	**114,171**	124,768	**9,134**
24	– *of which: Amounts below the thresholds for deduction (subject to 250% risk-weight)*	***6,025***	*5,858*	***482***

1 'Capital requirement' in this table represents the minimum capital charge set at 8% of RWAs by article 92 of the Capital Requirements Regulation.
2 External ratings-based approach ('SEC-ERBA') includes internal assessment approach ('IAA').
3 Other CCR includes RWAs on securities financing transactions and free deliveries.

Credit risk (including amounts below the thresholds for deduction)

Credit risk RWAs decreased by £8.4bn mainly driven by reduction of CIU investments, synthetic securitization and fall in corporate and retail lending.

Counterparty credit risk

Counterparty credit risk (including settlement risk) RWAs decreased by £2.6bn, largely due to management initiatives and mark-to-market movements.

Securitisation

Securitisation RWAs decreased by £0.1bn primarily due to the re-structuring of a swap position. This has been partially offset by new synthetic securitization positions.

Market risk

The £0.3bn decrease in market risk RWAs was largely due to appreciation of the British pound and management initiatives. These reductions were partially offset by heightened market risk volatility.

Operational risk

The £0.7bn increase is mainly due to higher average revenue in the annual recalculation of operational risk and foreign currency translation.

Table 3: RWA flow statements of credit risk exposures under IRB approach (CR8)

		Quarter ended			
		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
Ref		**£m**	£m	£m	£m
1	**RWAs at opening period[1]**	**48,860**	49,545	47,207	44,748
2	Asset size	**(5,130)**	(250)	2,040	1,400
3	Asset quality	**44**	(703)	(139)	896
4	Model updates	**(200)**	(1,113)	140	—
5	Methodology and policy	**(2,329)**	604	(869)	(91)
6	Acquisitions and disposals	**—**	—	—	—
7	Foreign exchange movement[2]	**(183)**	777	1,166	254
8	Other	**—**	—	—	—
9	**RWAs at the closing period[1]**	**41,062**	48,860	49,545	47,207

1 *Securitisation positions and NCOAs are not included in this table. Free deliveries are included.*
2 *Foreign exchange movements in this disclosure are computed by retranslating the RWAs into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates.*

Table 4: RWA flow statements of counterparty credit risk exposures under the IMM (CCR7)

		Quarter ended			
		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
Ref		**£m**	£m	£m	£m
1	**RWAs at opening period**	**8,137**	7,335	7,164	6,074
2	Asset size	**(957)**	1,052	207	985
3	Asset quality	**(12)**	(20)	(76)	98
4	Model updates	**—**	—	—	221
5	Methodology and policy	**(7)**	(153)	53	(246)
6	Acquisitions and disposals	**—**	—	—	—
7	Foreign exchange movement	**(635)**	(77)	(13)	32
8	Write-offs	**—**	—	—	—
9	**RWAs at the closing period**	**6,526**	8,137	7,335	7,164

Table 5: RWA flow statements of market risk exposures under IMA (MR2-B)

		VaR	**Stressed VaR**	**Incremental risk charge ('IRC')**	**Other**	**Total RWAs**	**Total own fund requirements**
Ref		**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
1	**RWAs at 1 Oct 2022**	**5,576**	**5,641**	**1,627**	**1,003**	**13,848**	**1,108**
2	Movement in risk levels	**(203)**	**(154)**	**29**	**220**	**(108)**	**(9)**
4	Methodology and policy	**—**	**—**	**(321)**	**—**	**(321)**	**(26)**
8	**RWAs at 31 Dec 2022**	**5,373**	**5,487**	**1,335**	**1,223**	**13,419**	**1,074**
1	RWAs at 1 Jul 2022	4,799	4,817	1,508	752	11,877	950
2	Movement in risk levels	777	824	(79)	251	1,773	142
4	Methodology and policy	—	—	198	—	198	16
8	RWAs at 30 Sep 2022	5,576	5,641	1,627	1,003	13,848	1,108
1	RWAs at 1 Apr 2022	2,864	5,202	904	900	9,870	789
2	Movement in risk levels	1,935	(385)	604	(123)	2,032	163
4	Methodology and policy	—	—	—	(25)	(25)	(2)
8	RWAs at 30 Jun 2022	4,799	4,817	1,508	752	11,877	950
1	RWAs at 1 Jan 2022	2,765	3,776	1,000	837	8,378	670
2	Movement in risk levels	96	1,415	(96)	63	1,478	118
4	Methodology and policy	3	11	—	—	14	1
8	RWAs at 31 Mar 2022	2,864	5,202	904	900	9,870	789

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 2022 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 2022*, the HSBC Holdings plc *Annual Report and Accounts 2022,* or the HSBC Holdings plc *Pillar 3 Disclosures at 31 December 2022* 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 2022*.

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

Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020. The reforms make significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types. Basel scheduled the implementation of its requirements for 1 January 2023.

In November 2022, the Prudential Regulation Authority ('PRA') issued a consultation on the implementation of the reforms with a proposed implementation date of 1 January 2025. While the PRA's proposals are generally consistent with Basel, it has proposed some limited adjustments to Basel's final rules, such as the treatment of unrated corporates under the standardised approach to credit risk, the removal of modelled approaches for sovereign exposures and the calibration of the exposure measure for counterparty risk. It has also proposed to remove certain of the EU's concessions under the current framework, such as the infrastructure supporting factor, in addition to amending the scope of the EU's exemptions from the credit valuation adjustment ('CVA') charges.

Alongside the PRA's consultation, His Majesty's Treasury ('HMT') published its own consultation on the implementation of the Basel III Reforms. HMT's consultation primarily focuses on the technical and legislative changes necessary to facilitate the implementation of the reforms by the PRA, including the proposed revocation of certain rules under the current regime that would be replaced by the new rules being proposed by the PRA. It is also consulting on the costs and benefits of improving ratings coverage in the UK.

PRA's future approach to policy-making

In September 2022, the PRA published a discussion paper on its approach to policy-making following the UK's withdrawal from the European Union. In the paper, the PRA committed to maintain strong prudential standards to support the stability of regulated firms. Furthermore, the PRA outlined that, while it would be proactive in its approach to facilitating the international competitiveness of the UK economy, it remained committed to the faithful implementation of international standards.

Capital buffers

In December 2022, the UK's countercyclical buffer ('CCyB') rate increased to 1%. A further increase to 2% is planned for July 2023.

Cryptoassets

In December 2022, Basel finalised its rules on the capital treatments for banks' exposures to cryptoassets, which are scheduled for implementation by 1 January 2025. The PRA has yet to consult on its implementation in the UK.

Environmental, Social and Governance ('ESG') risk

Globally, regulators and standard setters continue to publish multiple proposals and discussion papers on ESG topics. In 2022 this included multiple consultations on sustainability-related disclosure across jurisdictions including the UK, EU, US, and globally through the IFRS foundation.

In March 2022, the International Sustainability Standards Board ('ISSB') published a consultation on its first two sustainability related disclosure standards. The proposal is an important step towards the establishment of a global baseline standard and the ISSB is expected to finalise the standards in early 2023.

Also in March 2022, the US Securities and Exchange Commission published a consultation on its proposed climate-related disclosures required for both domestic and foreign private issuers. The proposed disclosure requirements cover the broad areas of governance, strategy, risk management and metrics and targets.

In April 2022, the European Financial Reporting Advisory Group launched a consultation on draft European Sustainability Reporting Standards ('ESRS') Exposure Drafts, the first set of standards required under the Corporate Sustainability Reporting Directive ('CSRD') which cover environmental, social and governance matters. The ESRS was finalised in November 2022 and the EU Commission is expected to adopt the final standards in June 2023. The CSRD entered into force in January 2023 and strengthens the existing rules on non-financial reporting introduced in the Accounting Directive by the 2014 Non-Financial Reporting Directive. It also broadens the scope for EU entities and includes non-EU entities subject to meeting certain criteria.

In November 2022, the Taskforce on Nature-related Financial Disclosures released its latest framework for nature-related risk management and disclosures with final recommendations expected in September 2023.

Also in November 2022, the UK Transition Plan Taskforce published a consultation on a draft disclosure framework and accompanying guidance which makes recommendations for companies and financial institutions to develop and disclose gold-standard transition plans.

In 2022, there has been growing interest and work underway by regulators and standard setters on the extent to which climate risks are captured and dealt with in the prudential framework. The initial work by Basel concluded that climate risk drivers, including physical and transition risks, can be captured in traditional financial risk categories such as credit, market, operational and liquidity risks.

Basel's work on this is ongoing and as part its wider efforts to improve ESG risk coverage, in December 2022, Basel published responses to Frequently Asked Questions which clarify how climate-related financial risks may be addressed in existing Pillar 1 requirements. The Bank of England is also considering how the regulatory capital framework can be adjusted to take account of climate-related risks and facilitated a climate and capital conference in October 2022 with the aim of providing more guidance on its approach.

Governance

The Board continued to oversee the governance, smooth operation and oversight of HSBC Bank Plc and its principal and material subsidiaries.

HSBC *Pillar 3 disclosures at 31 December 2022* are approved by the HSBC Bank Plc Board of Directors and are governed by the disclosure policy framework approved by the Group Audit Committee ('GAC').

This Pillar 3 Disclosure Report was approved by the HSBC Board on 20 February 2023 and signed on its behalf by:

David Watts

HSBC Bank Plc Chief Financial Officer

Linkage to the Annual Report and Accounts 2022

Structure of the regulatory group

Subsidiaries and participating interests in the entities engaged in insurance activities are equity accounted for the regulatory consolidation and then 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 6: Reconciliation of balance sheets – financial accounting to regulatory scope of consolidation (UK CC2)

	Ref †	Accounting balance sheet £m	Deconsolidation of insurance/ other entities £m	Consolidation of banking associates £m	Equity accounting of Insurance Subsidiaries £m	Regulatory balance sheet £m
Assets						
Cash and balances at central banks		131,433	–	104	–	131,537
Items in the course of collection from other banks		2,285	–	–	–	2,285
Trading assets		79,878	–	–	–	79,878
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		15,881	(13,040)	588	–	3,429
Derivatives		225,238	(209)	–	–	225,029
Loans and advances to banks	k	17,109	(316)	–	–	16,793
Loans and advances to customers	k	72,614	(444)	–	–	72,170
– *of which: expected credit losses on IRB portfolios*	h	*(943)*	–	–	–	*(943)*
Reverse repurchase agreements – non-trading		53,949	–	–	–	53,949
Financial investments		32,604	(7,754)	–	–	24,850
– *of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation*	r	–	*416*	–	–	*416*
Assets held for sale		21,214	–	–	–	21,214
– *of which: expected credit losses on IRB portfolios*		*(76)*	–	–	–	*(76)*
Capital invested in insurance and other entities[1]		–	620	–	1,123	1,743
Prepayments, accrued income and other assets		61,379	(834)	40	–	60,585
– *of which: retirement benefit assets*	j	*73*	–	–	–	*73*
Current tax assets		595	(1)	–	–	594
Interests in associates and joint ventures		728	–	(684)	–	44
Goodwill and intangible assets	e	1,167	(1,077)	2	–	92
Deferred tax assets	f	1,279	228	–	–	1,507
Total assets at 31 Dec 2022		717,353	(22,827)	50	1,123	695,699
Liabilities and equity						
Liabilities						
Deposits by banks		20,836	(11)	–	–	20,825
Customer accounts		215,948	223	–	–	216,171
Repurchase agreements – non-trading		32,901	–	–	–	32,901
Items in the course of transmission to other banks		2,226	–	–	–	2,226
Trading liabilities		41,265	–	–	–	41,265
Financial liabilities designated at fair value		27,287	(137)	–	–	27,150
– *of which: included in tier 2*	n, i	*809*	–	–	–	*809*
Derivatives		218,867	(15)	–	–	218,852
– *of which: debit valuation adjustment*	k	*46*	–	–	–	*46*
Debt securities in issue		7,268	(717)	–	–	6,551
Liabilities of disposal groups held for sale		24,711	–	–	–	24,711
Accruals, deferred income and other liabilities		66,945	(1,034)	48	–	65,959
Current tax liabilities		130	(1)	–	–	129
Liabilities under insurance contracts[1]		19,987	(19,987)	–	–	–
Provisions		424	(3)	–	–	421
– *of which: credit-related contingent liabilities and contractual commitments on IRB portfolios*	h	*91*	–	–	–	*91*
Deferred tax liabilities		14	(11)	2	–	5
Subordinated liabilities		14,528	–	–	–	14,528
– *of which: included in tier 2*	n, o, p, q	*13,898*	–	–	–	*13,898*
Total liabilities at 31 Dec 2022		693,337	(21,693)	50	–	671,694
Equity						
Called up share capital	a	797	–	–	–	797
Share premium account	a	420	–	–	–	420
Other equity instruments	l	3,930	–	–	–	3,930
Other reserves	b, c, g	(6,368)	78	–	1,201	(5,089)
Retained earnings	b, c	25,096	(1,202)	–	(78)	23,816
Total shareholders' equity		23,875	(1,124)	–	1,123	23,874
Non-controlling interests	d, m	141	(10)	–	–	131
Total equity at 31 Dec 2022		24,016	(1,134)	–	1,123	24,005
Total liabilities and equity at 31 Dec 2022		717,353	(22,827)	50	1,123	695,699

† *The references (a)–(r) identify balance sheet components that are used in the calculation of regulatory capital in Table 7: 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 7.*

1 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements.*

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, Liability and Capital 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. We are progressing with a comprehensive programme to strengthen our processes, improve consistency and enhance controls across our prudential regulatory reporting, focussing on PRA requirements initially.

We commissioned a number of independent external reviews, some at the request of our regulators, including one on our credit risk RWA reporting process, which concluded in December 2022. These reviews have so far resulted in improvements in the accuracy of reported RWAs and LCR in accordance with policies, which have been reflected in our year-end reported regulatory ratios. Our prudential regulatory reporting programme is being phased over a number of years, prioritising RWA, capital and liquidity reporting in the early stages of the programme. While this programme continues, there may be further impacts on some of our regulatory ratios, such as the CET1, LCR and NSFR, as we implement recommended changes and continue to enhance our controls across the process.

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 75 of the HSBC Bank plc Annual Report and Accounts 2022*.*

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 2022. The full terms and conditions of our securities, also available at www.hsbc.com.

Capital and RWAs

Own Funds

Table 7: Own funds disclosure (UK CC1)

			At	
			31 Dec 2022	31 Dec 2021
Ref*		Ref †	£m	£m
	Common equity tier 1 (‘CET1’) capital: instruments and reserves			
1	Capital instruments and related share premium accounts		**1,217**	797
	– ordinary shares	a	**1,217**	797
2	Retained earnings[4,5]	b	**16,177**	15,511
3	Accumulated other comprehensive income (and other reserves)[4,5]	c	**4,010**	2,931
5	Minority interests (amount allowed in consolidated CET1)	d	**72**	57
UK-5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	b	**(1,459)**	625
6	**Common equity tier 1 capital before regulatory adjustments[5]**		**20,017**	19,921
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(560)**	(584)
8	Intangible assets (net of related deferred tax liability)	e	**(93)**	(53)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	**(587)**	(68)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	g	**912**	(25)
12	Negative amounts resulting from the calculation of expected loss amounts	h	**(95)**	(306)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing[4]	i	**(210)**	98
15	Defined benefit pension fund assets	j	**(73)**	(54)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)[4]	k	**(127)**	34
28	**Total regulatory adjustments to common equity tier 1**		**(833)**	(958)
29	**Common Equity Tier 1 (‘CET1’) capital[5]**		**19,184**	18,963
	Additional tier 1 (‘AT1’) capital: instruments			
30	Capital instruments and related share premium accounts		**3,930**	3,722
31	– classified as equity under IFRSs	l	**3,930**	3,722
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1		**—**	173
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in CET1) issued by subsidiaries and held by third parties	m	**12**	11
36	**Additional tier 1 capital before regulatory adjustments**		**3,942**	3,906
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[3]		**(49)**	(44)
43	**Total regulatory adjustments to additional tier 1 capital**		**(49)**	(44)
44	**Additional tier 1 capital**		**3,893**	3,862
45	**Tier 1 capital (T1 = CET1 + AT1)[5]**		**23,077**	22,825
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts[4]	n	**11,986**	9,881
47	Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR		**—**	220
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2[4]	o	**1,352**	1,293
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	p	**221**	197
	– of which: instruments issued by subsidiaries grandfathered under CRR II	q	***21***	*34*
51	**Tier 2 capital before regulatory adjustments**		**13,559**	11,591
	Tier 2 capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)[3]		**(33)**	(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)	r	**(416)**	(395)
57	**Total regulatory adjustments to tier 2 capital**		**(449)**	(424)
58	**Tier 2 capital**		**13,110**	11,167
59	**Total capital (TC = T1 + T2)[5]**		**36,187**	33,992
60	**Total risk-weighted assets[5]**		**114,171**	106,703
	Capital ratios and buffers (%)			
61	Common equity tier 1[5]		**16.80**	17.77
62	Tier 1[5]		**20.21**	21.39
63	Total capital[5]		**31.70**	31.86
64	Institution CET1 overall capital requirement (per Art 92 (1) CRR, plus additional requirement in accordance with point (a) of Article 104(1) CRD, and combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)[4]		**7.30**	2.53
65	– capital conservation buffer requirement		**2.50**	2.50
66	– countercyclical buffer requirement		**0.30**	0.03
68	Common equity tier 1 available to meet buffers[5]		**12.30**	13.27

Table 7: Own funds disclosure (UK CC1) (continued)

			At	
			31 Dec 2022	31 Dec 2021
Ref*		*Ref †*	**£m**	£m
	Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities 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)		**1,249**	1,182
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 17.65% threshold and net of eligible short positions)[5]		**1,819**	1,624
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)		**600**	675
	Applicable caps on the inclusion of provisions in tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach[5]		**329**	275
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		**322**	341
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase-out arrangements		**—**	188
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		**—**	527
84	Current cap on T2 instruments subject to phase-out arrangements		**—**	252
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		**—**	689

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

† *The references (a)–(r) identify balance sheet components in Table 6: 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 6 as a result of adjustment or analysis to apply regulatory definitions of capital.*

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

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

3 *The minimum deductions for holdings of own AT1 and T2 instruments are set by the PRA.*

4 *These disclosures are based on updated rules implemented from 1 January 2022 including the PRA's disclosure templates and instructions which came into force at that time. The presentation of comparatives has been amended only for CRR II grandfathered instruments to align to the updated template's rows and instructions.*

5 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements. Comparatives for prior periods have been represented on a consistent basis with the current year.*

Leverage

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.

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.

Table 8: Leverage ratio common disclosure (UK LR2 – LRCom)

Ref*		At 31 Dec 2022 £m
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**395,387**
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting	**7,279**
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(41,824)**
6	(Asset amounts deducted in determining tier 1 capital)	**(979)**
7	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**359,863**
	Derivative exposures	
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**22,398**
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions (mark-to-market method)	**58,429**
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**(10,236)**
11	Adjusted effective notional amount of written credit derivatives	**72,614**
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(70,049)**
13	**Total derivative exposures**	**73,156**
	SFT exposures	
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**154,661**
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(84,302)**
16	Counterparty credit risk exposure for SFT assets	**4,823**
18	**Total securities financing transaction exposures**	**75,182**
	Other off-balance sheet exposures	
19	Off-balance sheet exposures at gross notional amount	**118,580**
20	(Adjustments for conversion to credit equivalent amounts)	**(71,370)**
22	**Total off-balance sheet exposures**	**47,210**
	Excluded exposures	
UK-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**(288)**
UK-22k	**(Total exempted exposures)**	**(288)**
	Capital and total exposures measure	
23	**Tier 1 capital (leverage)**	**23,077**
24	Total exposure measure including claims on central banks	**555,123**
UK-24a	(—) Claims on central banks excluded	**(137,536)**
UK-24b	**Total exposure measure excluding claims on central banks**	**417,587**
	Leverage ratios	
25	Leverage ratio excluding claims on central banks (%)	**5.53**
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.52**
UK-25b	Leverage ratio excluding central bank reserves as if the temporary treatment of unrealised gains and losses measured at fair value through other comprehensive income had not been applied (%)	**5.53**
UK-25c	Leverage ratio including claims on central banks (%)	**4.16**

1 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements. Comparatives for prior periods have been re-presented on a consistent basis with the current year.*

Our leverage ratio is 5.5% at 31 December 2022, up from 4.2% at 31 December 2021. The improvement was primarily due to the exclusion of central bank claims and cash pooling netting following the implementation of the PRA UK leverage ratio framework of 1 January 2022 and a rise in tier1 capital.

The following tables provide a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure (table 9) and a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class (table 10):

Table 9: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1 – LRSum)

		At 31 Dec 2022
Ref*		£m
1	Total assets as per published financial statements	**717,353**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**(21,654)**
4	(Adjustment for exemption of exposures to central banks)	**(137,536)**
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(3,106)**
7	Adjustment for eligible cash pooling transactions	**(7,005)**
8	Adjustment for derivative financial instruments	**(186,417)**
9	Adjustment for securities financing transactions ('SFTs')	**6,669**
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**47,210**
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**(979)**
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**(288)**
12	Other adjustments	**3,340**
13	**Total leverage ratio exposure**	**417,587**

1 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements.*

Table 10: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3 – LRSpl)

		At	
		31 Dec 2022	31 Dec 2021
Ref*		**£m**	£m
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) of which:[1,2]	**215,766**	339,029
UK-2	Trading book exposures	**63,983**	71,861
UK-3	Banking book exposures, of which:[2]	**151,783**	267,168
UK-5	Exposures treated as sovereigns	**28,064**	147,550
UK-7	Institutions	**13,227**	8,341
UK-8	Secured by mortgages of immovable properties	**23,152**	23,053
UK-9	Retail exposures	**3,182**	3,542
UK-10	Corporate	**48,049**	60,844
UK-11	Exposures in default	**1,493**	1,465
UK-12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)[2]	**34,616**	22,373

1 *This calculation is in line with the UK leverage rules that were implemented on 1 January 2022, and excludes central bank claims and cash pooling benefit. Comparatives for 2021 are reported based on the disclosure rules in force at that time, and include claims on central banks and without cash pooling benefit.*
2 *From 30 September 2022, investments in non-financial institution subsidiaries or participations have been measured on an equity accounting basis in compliance with UK regulatory requirements. Comparatives for prior periods have been re-presented on a consistent basis with the current year.*

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 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 define the individual capital requirement ('ICR') or minimum capital requirements for HSBC and to define the PRA buffer, where required. The PRA buffer is not intended to duplicate the CRD IV buffers and, where necessary, will be set according to 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 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 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, 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, 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 36 to 71 of the HSBC Bank plc* Annual Report and Accounts 2022*;*
- *on pages 145 to 146 of the HSBC Holdings plc* Annual Report and Accounts 2022*; and*
- *on pages 32 to 72 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2022*.*

Non-performing and forborne exposures

Tables 11 to 14 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 2022* 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 2022*, 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 2022*, 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 12 and 14.

Table 11: Credit quality of forborne exposures (CQ1)

		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 2022								
005	**Cash balances at central banks and other demand deposits**								
010	**Loans and advances**	**1,845**	**758**	***758***	***758***	**(26)**	**(257)**	**283**	***104***
020	Central banks	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
030	General governments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
040	Credit institutions	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
050	Other financial corporations	**12**	**4**	***4***	***4***	**(1)**	**—**	**1**	***1***
060	Non-financial corporations	**1,805**	**722**	***722***	***722***	**(23)**	**(252)**	**231**	***78***
070	Households	**28**	**32**	***32***	***32***	**(2)**	**(5)**	**51**	***25***
080	**Debt securities**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
090	**Loan commitments given**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
100	**Total**	**1,845**	**758**	***758***	***758***	**(26)**	**(257)**	**283**	***104***
	At 31 Dec 2021								
005	Cash balances at central banks and other demand deposits								
010	Loans and advances	67	838	*838*	*838*	(3)	(235)	212	*207*
020	Central banks	—	—	—	—	—	—	—	—
030	General governments	—	—	—	—	—	—	—	—
040	Credit institutions	—	—	—	—	—	—	—	—
050	Other financial corporations	6	4	*4*	*4*	—	—	—	—
060	Non-financial corporations	61	704	*704*	*704*	(3)	(220)	127	*122*
070	Households	—	130	*130*	*130*	—	(15)	85	*85*
080	Debt securities	—	—	—	—	—	—	—	—
090	Loan commitments given	—	—	—	—	—	—	—	—
100	Total	67	838	*838*	*838*	(3)	(235)	212	*207*

Table 12 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 31 Dec 2022 was 1.6% calculated in line with the EBA guidelines.

Table 12: Credit quality of performing and non-performing exposures by past due days (CQ3)

		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 2022												
1	**Loans and advances**	283,896	283,559	337	2,298	1,730	16	276	19	138	29	90	*2,298*
2	Central banks	141,268	141,268	–	65	65	–	–	–	–	–	–	*65*
3	General governments	1,431	1,431	–	64	64	–	–	–	–	–	–	*64*
4	Credit institutions	41,203	41,195	8	–	–	–	–	–	–	–	–	–
5	Other financial corporations	42,493	42,468	25	268	33	–	235	–	–	–	–	*268*
6	Non-financial corporations	51,592	51,297	295	1,796	1,517	11	30	11	134	27	66	*1,796*
7	*– of which: SMEs*	*1,363*	*1,362*	*1*	*164*	*69*	*5*	*5*	*6*	*24*	*18*	*37*	164
8	Households	5,909	5,900	9	105	51	5	11	8	4	2	24	*105*
9	**Debt securities**	25,062	25,062	–	–	–	–	–	–	–	–	–	–
10	Central banks	65	65	–	–	–	–	–	–	–	–	–	–
11	General governments	16,665	16,665	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	6,052	6,052	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	1,849	1,849	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	431	431	–	–	–	–	–	–	–	–	–	–
15	**Off-balance-sheet exposures**	151,779	–	–	339	–	–	–	–	–	–	–	*339*
16	Central banks	924	–	–	–	–	–	–	–	–	–	–	–
17	General governments	2,026	–	–	–	–	–	–	–	–	–	–	–
18	Credit institutions	37,444	–	–	–	–	–	–	–	–	–	–	–
19	Other financial corporations	24,448	–	–	2	–	–	–	–	–	–	–	*2*
20	Non-financial corporations	84,766	–	–	330	–	–	–	–	–	–	–	*330*
21	Households	2,171	–	–	7	–	–	–	–	–	–	–	*7*
22	**Total**	**460,737**	**308,621**	**337**	**2,637**	**1,730**	**16**	**276**	**19**	**138**	**29**	**90**	***2,637***
	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*
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*

Table 13 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 13: Collateral obtained by taking possession and execution processes (CQ7)

		At 31 Dec 2022		At 31 Dec 2021	
		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
010	Property plant and equipment (PP&E)	—	—	—	—
020	Other than property, plant and equipment	12	—	5	—
030	Residential immovable property	2	—	2	—
040	Commercial immovable property	2	—	3	—
050	Movable property (auto, shipping, etc.)	—	—	—	—
060	Equity and debt instruments	—	—	—	—
070	Other	8	—	—	—
080	**Total**	12	—	5	—

Table 14: Performing and non-performing exposures and related provisions (CR1)

		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*	Accumulated partial write-off	On performing exposures	On non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	At 31 Dec 2022													
1	**Loans and advances**	283,896	274,371	8,224	2,298	2,298	(212)	(57)	(155)	(925)	(925)	(22)	77,252	422
2	Central banks	141,268	141,255	13	65	65	(3)	(3)	—	(16)	(16)	—	3,140	—
3	General governments	1,431	1,294	137	64	64	(1)	(1)	—	(2)	(2)	—	208	—
4	Credit institutions	41,203	40,802	401	—	—	(25)	(4)	(21)	—	—	—	23,240	—
5	Other financial corporations	42,493	40,470	724	268	268	(5)	(1)	(4)	(103)	(103)	—	26,145	1
6	Non-financial corporations	51,592	45,256	6,335	1,796	1,796	(154)	(40)	(114)	(772)	(772)	(22)	18,951	356
7	*– of which: SMEs*	1,363	1,111	252	164	164	(11)	(3)	(8)	(83)	(83)	(22)	924	55
8	Households	5,909	5,294	614	105	105	(24)	(8)	(16)	(32)	(32)	—	5,568	65
9	**Debt securities**	25,062	24,505	189	—	—	(27)	(2)	(25)	—	—	—	1,227	—
10	Central banks	65	65	—	—	—	—	—	—	—	—	—	—	—
11	General governments	16,665	16,664	—	—	—	(1)	(1)	—	—	—	—	993	—
12	Credit institutions	6,052	5,930	121	—	—	(1)	(1)	—	—	—	—	234	—
13	Other financial corporations	1,849	1,690	33	—	—	(13)	1	(14)	—	—	—	—	—
14	Non-financial corporations	431	156	35	—	—	(12)	(1)	(11)	—	—	—	—	—
15	**Off-balance-sheet exposures**	151,779	123,097	9,828	339	247	(60)	(14)	(33)	(45)	(40)	—	1,664	4
16	Central banks	924	924	—	—	—	—	—	—	—	—	—	—	—
17	General governments	2,026	1,486	180	—	—	—	—	—	—	—	—	—	—
18	Credit institutions	37,444	34,541	226	—	—	(6)	—	(1)	—	—	—	—	—
19	Other financial corporations	24,448	22,005	1,482	2	2	(4)	(1)	(3)	—	—	—	358	—
20	Non-financial corporations	84,766	62,115	7,831	330	240	(50)	(13)	(29)	(45)	(40)	—	1,243	4
21	Households	2,171	2,026	109	7	5	—	—	—	—	—	—	63	—
22	**Total**	460,737	421,973	18,241	2,637	2,545	(299)	(73)	(213)	(970)	(965)	(22)	80,143	426

Table 14: Performing and non-performing exposures and related provisions (CR1) (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		Accumulated partial write-off	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	£m
	At 31 Dec 2021													
1	Loans and advances	270,721	258,648	9,163	2,487	2,487	(242)	(91)	(151)	(910)	(910)	(19)	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)	(19)	20,213	381
7	– *of which: SMEs*	1,929	1,535	394	200	200	(22)	(7)	(15)	(107)	(107)	(19)	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	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	34,402	32,193	249	—	—	(9)	(3)	(1)	—	—		—	—
19	Other financial corporations[1]	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)	(19)	100,405	635

1 £28bn in off balance sheet exposures were reclassified as at December 2021 from 'Credit institution' to 'Other financial corporations' following a customer classification change.

Table 14 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 14.

Refer to the section 'EL and credit risk adjustments' on page 25 for further information on IFRS 9.

Credit-impaired (stage 3) exposures are disclosed on pages 67 and 72 of the HSBC Bank plc Annual Report and Accounts 2022.

Table 15: Maturity of exposures (CR1-A)

		Net exposure value					
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**No stated maturity**	**Total**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**
1	Loans and advances	**34,626**	**109,411**	**71,105**	**27,843**	**—**	**242,985**
2	Debt securities	**—**	**6,327**	**12,116**	**5,329**	**—**	**23,772**
3	**Total**	**34,626**	**115,738**	**83,221**	**33,172**	**—**	**266,757**

1 The table above includes reverse repos and excludes assets held for sale and cash balances with central banks and other demand deposits.

Table 16: Changes in the stock of non-performing loans and advances (CR2)

		12 months to 31Dec
		2022
		Gross carrying value
		$m
010	**Initial stock of non-performing loans and advances**	**2,538**
020	Inflows to non-performing portfolios	**951**
030	Outflows from non-performing portfolios	**(104)**
040	Outflows due to write-offs	**(152)**
050	Outflow due to other situations[1]	**43**
060	**Final stock of non-performing loans and advances**	**3,276**

1 *Other changes include foreign exchange movements and repayments.*

Concentration risk

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The following tables present information on the concentration of exposures by geography and industry.

Table 17: Quality of non-performing exposures by geography (CQ4)

		Gross carrying/ Nominal amount				
		Total	*of which: defaulted*	Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		£m	*£m*	£m	£m	£m
010	**On balance sheet exposures**	**166,887**	***2,233***	**(1,143)**	**—**	**—**
020	United Kingdom	**48,870**	***280***	**(191)**	**—**	**—**
030	France	**23,219**	***806***	**(462)**	**—**	**—**
040	United States	**15,045**	***9***	**(14)**	**—**	**—**
050	Germany	**13,191**	***301***	**(124)**	**—**	**—**
060	Hong Kong	**4,164**	***—***	**—**	**—**	**—**
070	Other countries	**62,398**	***837***	**(352)**	**—**	**—**
080	**Off balance sheet exposures**	**152,118**	***339***	**—**	**105**	**—**
090	United Kingdom	**25,565**	***69***	**—**	**20**	**—**
100	France	**32,544**	***57***	**—**	**24**	**—**
110	United States	**5,068**	***—***	**—**	**5**	**—**
120	Germany	**26,923**	***108***	**—**	**12**	**—**
130	Hong Kong	**530**	***—***	**—**	**—**	**—**
140	Other countries	**61,488**	***105***	**—**	**44**	**—**
150	**Total at 31 Dec 2022**	**319,005**	***2,572***	**(1,143)**	**105**	**—**

1 *Excludes cash and balances at central banks.*

Table 18: Credit quality of loans and advances to non-financial corporations by industry (CQ5)

		Gross carrying amount			
		Total	*of which: defaulted*	Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		£m	*£m*	£m	£m
010	Agriculture, forestry and fishing	**227**	***27***	**(14)**	**—**
020	Mining and quarrying	**1,000**	***—***	**(1)**	**—**
030	Manufacturing	**11,566**	***315***	**(96)**	**—**
040	Electricity, gas, steam and air conditioning supply	**2,081**	***78***	**(8)**	**—**
050	Water supply	**219**	***5***	**(5)**	**—**
060	Construction	**724**	***46***	**(18)**	**—**
070	Wholesale and retail trade	**9,270**	***174***	**(125)**	**—**
080	Transport and storage	**4,556**	***156***	**(75)**	**—**
090	Accommodation and food service activities	**893**	***45***	**(18)**	**—**
100	Information and communication	**3,126**	***36***	**(18)**	**—**
110	Real estate activities	**4,937**	***199***	**(145)**	**—**
120	Financial and insurance activities	**—**	***—***	**—**	**—**
130	Professional, scientific and technical activities	**3,342**	***211***	**(109)**	**—**
140	Administrative and support service activities	**9,446**	***332***	**(219)**	**—**
150	Public administration and defense, compulsory social security	**33**	***—***	**—**	**—**
160	Education	**37**	***3***	**(1)**	**—**
170	Human health services and social work activities	**266**	***88***	**(50)**	**—**
180	Arts, entertainment and recreation	**160**	***5***	**(4)**	**—**
190	Other services	**1,505**	***76***	**(20)**	**—**
200	**Total at 31 Dec 2022**	**53,388**	***1,796***	**(926)**	**—**

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 69 and 74 of the HSBC Bank plc Annual Report and Accounts 2022*.*

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 41 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 19: Credit risk mitigation techniques – overview (CR3)

		Exposures unsecured: carrying amount	Exposures secured: carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
		£m	£m	£m	£m	£m
1	Loans and advances	207,384	77,674	66,390	11,284	–
2	Debt securities	23,819	1,227	–	1,227	–
3	**Total at 31 Dec 2022**	231,203	78,901	66,390	12,511	–
4	– *of which: non-performing exposures*	*903*	*422*	*180*	*242*	–
5	– *of which: defaulted*	*903*	*422*	–	–	–

Table 20: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4)

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWAs and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
		£m	£m	£m	£m	£m	%
	Asset classes[1]						
1	Central governments or central banks	146,581	1,379	153,814	1,190	1,591	1
2	Regional governments or local authorities	1,710	89	3,054	23	1	–
3	Public sector entities	2,940	79	151	–	36	24
4	Multilateral development banks	–	–	–	–	–	–
5	International organisations	568	–	568	–	–	–
6	Institutions	3,890	2,178	4,001	1,409	1,636	30
7	Corporates	9,047	7,142	8,052	1,684	7,981	82
8	Retail	462	665	436	49	348	72
9	Secured by mortgages on immovable property	3,607	17	3,607	5	1,823	50
10	Exposures in default	326	32	284	9	369	126
11	Exposures associated with particularly high risk	87	18	86	7	139	150
12	Covered bonds	–	–	–	–	–	–
13	Institutions and corporates with a short-term credit	–	–	–	–	–	–
14	Collective investment undertakings	1,475	684	1,475	342	3,315	182
15	Equity	2,501	–	2,501	–	5,223	209
16	Other items	2,657	–	2,657	–	829	31
17	**Total at 31 Dec 2022**	175,851	12,283	180,686	4,718	23,291	13

1 *Securitisation positions are not included in this table.*
2 *These balance include capital requirements for underlying equity exposures within CIUs calculated under the look-through approach using the IRB simple risk-weight method.*

Table 21: IRB – Effect on the RWA of credit derivatives used as CRM techniques (CR7)

		At 31 Dec 2022	
		Pre-credit derivatives RWAs	**Actual RWAs**
		£m	**£m**
1	**Exposures under FIRB**	**17,756**	**17,362**
2	Central governments and central banks	**6**	**6**
3	Institutions	**12**	**12**
4	Corporates	**17,738**	**17,345**
4.1	– *of which:* *Corporates – SMEs*	***69***	***69***
4.2	*Corporates – specialised lending*	**—**	**—**
5	**Exposures under AIRB**[1]	**23,218**	**23,173**
6	Central governments and central banks	**1,926**	**1,926**
7	Institutions	**2,136**	**2,127**
8	Corporates	**15,169**	**15,133**
8.1	– *of which:* *Corporates – SMEs*	***24***	***24***
8.2	*Corporates – specialised lending*	***1,798***	***1,798***
9	Retail	**3,988**	**3,988**
9.1	– *of which:* *Retail – immovable property SMEs*	***180***	***180***
9.2	*Retail – immovable property non-SMEs*	***2,412***	***2,412***
9.3	*Retail – qualifying revolving*	***66***	***66***
9.4	*Retail – other SMEs*	***332***	***332***
9.5	*Retail – other non-SMEs*	***999***	***999***
10	**Total (including FIRB exposures and AIRB exposures)**	**40,974**	**40,535**

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

Table 22: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)

			Funded credit protection ('FCP')					Unfunded credit Protection ('UFCP')	Credit risk Mitigation methods in the calculation of RWAs	
				Part of exposures covered by Other eligible collaterals (%)						
AIRB		**Total exposures**	**Part of exposures covered by Financial Collaterals**	**Total**	**Part of exposures covered by Immovable property collaterals**	**Part of exposures overed by receivables**	**Part of exposures covered by Other physical collateral**	**Part of exposures covered by Guarantees (%)**	**RWA post all CRM assigned to the obligor exposure class**	**RWA with substitu-tion effects**
		£m	**%**	**%**	**%**	**%**	**%**		**£m**	**£m**
1	Central governments and central banks	14,021	4.9	0.0	0.0	0.0	0.0	0.5	1,926	1,926
2	Institutions	11,182	26.4	0.3	0.3	0.0	0.0	0.0	2,135	2,127
3	Corporates	38,171	2.1	6.8	4.7	0.8	1.3	2.0	15,122	15,133
3.1	*– of which Corporates – SMEs*	*41*	*0.7*	*72.8*	*63.5*	*9.3*	*0.0*	*0.0*	*24*	*24*
3.2	*Corporates – Specialised lending*	*3,224*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.6*	*1,798*	*1,798*
3.3	*Corporates – Other*	*34,906*	*2.3*	*7.3*	*5.0*	*0.9*	*1.4*	*2.0*	*13,300*	*13,311*
4	Retail	23,877	7.2	28.0	27.9	0.0	0.0	54.7	3,988	3,988
4.1	*– of which: Retail – Immovable property SMEs*	*299*	*3.6*	*93.4*	*92.2*	*1.2*	*0.0*	*0.2*	*180*	*180*
4.2	*Retail – Immovable property non-SMEs*	*19,580*	*0.9*	*32.6*	*32.6*	*0.0*	*0.0*	*66.5*	*2,412*	*2,412*
4.3	*Retail – Qualifying revolving*	*583*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*66*	*66*
4.4	*Retail – Other SMEs*	*928*	*10.7*	*0.8*	*0.0*	*0.4*	*0.4*	*2.3*	*332*	*332*
4.5	*Retail – Other non-SMEs*	*2,487*	*57.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.7*	*999*	*999*
5	**Total at 31 Dec 2022**	87,251	7.1	10.7	9.7	0.4	0.6	15.9	23,170	23,173
FIRB										
1	Central governments and central banks	–	0.0	0.0	0.0	0.0	0.0	0.0	–	6
2	Institutions	–	0.0	0.0	0.0	0.0	0.0	0.0	–	12
3	Corporates	51,320	28.2	1.8	1.3	0.4	0.1	0.0	17,369	17,345
3.1	*– of which: Corporates – SMEs*	*113*	*15.8*	*6.4*	*6.4*	*0.0*	*0.0*	*0.0*	*69*	*69*
3.2	*Corporates – Specialised lending*	*–*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*–*	*–*
3.3	*Corporates – Other*	*51,207*	*28.2*	*1.8*	*1.2*	*0.4*	*0.1*	*0.0*	*17,301*	*17,277*
4	**Total at 31 Dec 2022**	51,320	28.2	1.8	1.3	0.4	0.1	0.0	17,369	17,362

Table 23: Specialised lending and equity exposures under the simple risk-weighted approach (CR10)[1]

Specialised lending: Project finance (Slotting approach)		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected loss
Regulatory categories	**Remaining maturity**	**£m**	**£m**	**%**	**£m**	**£m**	**£m**
Category 1	Less than 2.5 years	—	—	50.0	—	—	—
	Equal to or more than 2.5 years	—	—	70.0	—	—	—
Category 2	Less than 2.5 years	—	—	70.0	—	—	—
	Equal to or more than 2.5 years	3	—	90.0	3	2	—
Category 3	Less than 2.5 years	—	—	115.0	—	—	—
	Equal to or more than 2.5 years	—	—	115.0	—	—	—
Category 4	Less than 2.5 years	—	—	250.0	—	—	—
	Equal to or more than 2.5 years	—	—	250.0	—	—	—
Category 5	Less than 2.5 years	—	—	0.0	—	—	—
	Equal to or more than 2.5 years	—	—	0.0	—	—	—
	Less than 2.5 years	—	—	0.0	—	—	—
Total at 31 Dec 2022	Equal to or more than 2.5 years	3	—	0.0	3	2	—

Specialised lending: Income-producing real estate and high volatility commercial real estate (Slotting approach)		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected loss
Regulatory categories	**Remaining maturity**	**£m**	**£m**	**%**	**£m**	**£m**	**£m**
Category 1	Less than 2.5 years	339	88	50.0	404	202	—
	Equal to or more than 2.5 years	211	76	70.0	272	191	1
Category 2	Less than 2.5 years	82	24	70.0	95	66	—
	Equal to or more than 2.5 years	84	38	90.0	117	106	1
Category 3	Less than 2.5 years	87	—	115.0	87	100	2
	Equal to or more than 2.5 years	—	—	115.0	—	—	—
Category 4	Less than 2.5 years	—	—	250.0	—	—	—
	Equal to or more than 2.5 years	—	—	250.0	—	—	—
Category 5	Less than 2.5 years	2	—	—	2	—	1
	Equal to or more than 2.5 years	—	—	—	—	—	—
	Less than 2.5 years	510	112	—	588	368	4
Total at 31 Dec 2022	Equal to or more than 2.5 years	295	114	—	389	297	2

Specialised lending: Object finance (Slotting approach)		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected loss
Regulatory categories	**Remaining maturity**	**£m**	**£m**	**%**	**£m**	**£m**	**£m**
Category 1	Less than 2.5 years	488	29	50.0	509	254	—
	Equal to or more than 2.5 years	450	24	70.0	467	327	2
Category 2	Less than 2.5 years	48	2	70.0	49	34	—
	Equal to or more than 2.5 years	32	—	90.0	32	28	—
Category 3	Less than 2.5 years	4	—	115.0	4	4	—
	Equal to or more than 2.5 years	—	—	115.0	—	—	—
Category 4	Less than 2.5 years	—	—	250.0	—	—	—
	Equal to or more than 2.5 years	—	—	250.0	—	—	—
Category 5	Less than 2.5 years	2	—	—	2	—	1
	Equal to or more than 2.5 years	—	—	—	—	—	—
	Less than 2.5 years	541	31	—	564	293	1
Total at 31 Dec 2022	Equal to or more than 2.5 years	481	24	—	499	355	2

1 *Capital requirements for equity exposures within collective investment undertakings ('CIUs') calculated using the IRB simple risk-weight method are included within the credit risk — standardised approach.*

Table 24: Scope of the use of IRB and SA approaches (UK CR6-A)

		Exposure value as defined in Article 166 CRR for exposures subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA (%)	Percentage of total exposure value subject to IRB Approach (%)	Percentage of total exposure value subject to a roll-out plan (%)[1]
		a	b	c	d	e
1	Central governments or central banks	14,021	166,248	29	8	63
1.1	– *of which:* *Regional governments or local authorities*		*1,728*	*–*	*–*	*100*
1.2	*Public sector entities*		*2,974*	*–*	*–*	*100*
2	Institutions	11,182	16,822	33	67	–
3	Corporates	89,491	102,814	12	88	–
3.1	– *of which:* *Corporates – Specialised lending, excluding slotting approach*		*1,173*	*–*	*100*	*–*
3.2	*Corporates – Specialised lending under slotting approach*		*2,040*	*–*	*100*	*–*
4	Retail	23,877	27,453	13	87	–
4.1	– *of which:* *Retail – Secured by real estate SMEs*		*307*	*3*	*97*	*–*
4.2	*Retail – Secured by real estate non-SMEs*		*22,497*	*13*	*87*	*–*
4.3	*Retail – Qualifying revolving*		*599*	*–*	*100*	*–*
4.4	*Retail – Other SMEs*		*1,063*	*10*	*90*	*–*
4.5	*Retail – Other non-SMEs*		*2,986*	*15*	*85*	*–*
5	Equity	–	4,022	100	–	–
6	Other non-credit obligation assets	2,739	5,396	49	51	–
7	**Total at 31 Dec 2022**	141,310	322,753	24	44	32

1 Percentage of total exposure value subject to a roll-out plan (%), includes other STD exposures which are not subject to permanent partial use ('PPU').

The key driver for difference in IRB exposure value is mainly due to the CCF applied to the off balance-sheet exposures.

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 38 of the HSBC Bank plc Annual Report and Accounts 2022*.*

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.

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 39 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

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.

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

- *on page 72 of the HSBC Bank plc* Annual Report and Accounts 2022*;*
- *on page 187 of the HSBC Holdings plc* Annual Report and Accounts 2022*; and*
- *on pages 68 to 71 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2022*.*

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.

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

- *on pages 84 to 79 of the HSBC Bank plc* Annual Report and Accounts 2022*;*
- *on pages 218 to 220 of the HSBC Holdings plc* Annual Report and Accounts 2022*; and*
- *on pages 80 to 84 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2022*.*

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 areas, such as technology and cyber security, transaction processing, data risk, third party risk, facilities availability, safety and security, business interruption and incident risk, 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, ineffective controls, fraud, systems failure or external events all fall within the definition of non-financial risk. At 31 December 2022, operational risk RWAs were £11,547m.

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

- *on page 87 onwards of the HSBC Bank plc* Annual Report and Accounts 2022*;*
- *on page 132 of the HSBC Holdings plc* Annual Report and Accounts 2022*; and*
- *on page 85 of the HSBC Holdings plc* Pillar 3 Disclosures 31 December 2022

Other risks

Liquidity

Strategies and processes

HSBC Bank plc 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 locally and approved by HSBC Bank Plc 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, Liability and Capital Management Committee ('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 process ('ILAAP') document at appropriate frequency. The final objective of the ILAAP, 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.

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 ILAAP 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.

Table 25: Level and components of HSBC Bank plc liquidity coverage ratio (LIQ1)[1]

		Quarter ended							
UK-1a		**31 Dec 2022**		30 Sep 2022		30 Jun 2022		31 Mar 2022	
		Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
		£m	**£m**	£m	£m	£m	£m	£m	£m
UK-1b	Number of data points used in the calculation of averages		**12**		12		12		12
High-quality liquid assets									
1	Total high-quality liquid assets ('HQLA')		**104,491**		102,609		98,962		98,114
Cash outflows									
2	Retail deposits and small business funding	**17,264**	**2,399**	16,631	2,274	16,147	2,187	15,827	2,255
	– *of which:*								
3	*stable deposits*	***3,699***	***185***	*3,882*	*194*	*4,047*	*202*	*3,718*	*186*
4	*less stable deposits*	***13,545***	***2,215***	*12,731*	*2,080*	*12,082*	*1,985*	*12,087*	*2,070*
5	Unsecured wholesale funding	**140,772**	**77,428**	138,906	76,715	135,606	74,782	133,217	74,085
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**50,093**	**12,477**	48,844	12,164	47,174	11,745	44,981	11,186
7	– non-operational deposits (all counterparties)	**89,096**	**63,368**	87,886	62,374	86,008	60,613	85,566	60,220
8	– unsecured debt	**1,584**	**1,584**	2,177	2,177	2,424	2,424	2,669	2,669
9	Secured wholesale funding		**5,273**		4,717		4,636		4,843
10	Additional requirements	**47,397**	**27,747**	45,466	25,906	43,157	23,173	41,792	21,177
11	– outflows related to derivative exposures and other collateral requirements	**21,298**	**19,981**	18,722	17,862	15,789	15,008	13,249	12,659
12	– outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
13	– credit and liquidity facilities	**26,100**	**7,766**	26,744	8,044	27,368	8,165	28,543	8,518
14	Other contractual funding obligations	**25,693**	**9,319**	24,781	7,802	22,974	6,576	21,051	5,642
15	Other contingent funding obligations	**57,422**	**666**	56,578	681	56,785	691	56,608	702
16	**Total cash outflows**		**122,833**		118,095		112,046		108,705
Cash inflows									
17	Secured lending transactions (including reverse repos)	**79,240**	**17,314**	76,003	17,164	76,143	17,442	77,625	18,170
18	Inflows from fully performing exposures	**10,284**	**9,913**	9,694	9,355	9,028	8,704	8,611	8,307
19	Other cash inflows	**39,738**	**22,605**	36,733	19,901	33,125	16,388	29,723	13,376
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)		**—**		—		—		—
UK-19b	(Excess inflows from a related specialised credit institution)		**—**		—		—		—
20	**Total cash inflows**	**129,262**	**49,831**	122,429	46,419	118,296	42,534	115,959	39,853
UK-20a	Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
UK-20b	Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
UK-20c	Inflows subject to 75% cap	**114,882**	**49,831**	110,998	46,419	106,221	42,534	102,564	39,853
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**104,491**		102,609		98,962		98,114
22	Total net cash outflows		**73,002**		71,675		69,512		68,852
23	Liquidity coverage ratio (%)		**143.1**		143.2		142.4		142.5

1 *These amounts relate to HSBC Bank plc as a single entity and are not produced on a consolidated basis. The LCR is reported as specified in the PRA Rulebook effective since 1 January 2022. LCR disclosure is calculated based on 12 month-end averages ending respectively. In December 2022, a strategic data enhancement was implemented which resulted in a reclassification of some securities. This reclassification drove a reduction in total High Quality Liquid Assets and corresponding LCR as of 31 December 2022. Prior period numbers have been re-presented for consistency.*

Table 26: Net Stable Funding Ratio (LIQ2)[1]

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
		£m	£m	£m	£m	£m
Available stable funding ('ASF') Items						
1	Capital items and instruments	18,589	893	879	11,693	30,282
2	Own funds	18,589	893	879	10,966	29,555
3	Other capital instruments		–	–	727	727
4	Retail deposits		17,515	–	–	15,946
5	Stable deposits		3,642	–	–	3,460
6	Less stable deposits		13,873	–	–	12,486
7	Wholesale funding:		188,672	5,797	9,306	61,451
8	Operational deposits		49,086	–	–	24,543
9	Other wholesale funding		139,586	5,797	9,306	36,908
10	Interdependent liabilities		2,723	–	–	–
11	Other liabilities:	466	37,902	–	–	–
12	NSFR derivative liabilities	466				
13	All other liabilities and capital instruments not included in the above categories		37,902	–	–	–
14	**Total available stable funding ('ASF')**					107,679
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					10,425
UK-15a	Assets encumbered for more than 12months in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		87,712	9,084	44,976	55,623
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		31,394	4,149	785	5,026
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		26,649	941	809	2,699
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		11,627	1,415	9,703	16,014
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*109*	*81*	*1,529*	*1,619*
22	Performing residential mortgages, of which:		66	62	1,933	–
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*23*	*24*	*779*	–
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		17,976	2,517	31,746	31,884
25	Interdependent assets		–	–	2,787	–
26	Other assets:	–	55,980	–	11,910	25,170
27	Physical traded commodities				1,888	1,605
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		10,334	–	–	8,784
29	NSFR derivative assets		1,184	–	–	1,184
30	NSFR derivative liabilities before deduction of variation margin posted		29,513	–	–	1,476
31	All other assets not included in the above categories		14,949	–	11,910	12,121
32	Off-balance sheet items		–	–	83,781	2,091
33	**Total RSF**					93,310
34	**Net Stable Funding Ratio (%)**					115.40

1 *These amounts relate to HSBC Bank plc as a single entity and are not produced on a consolidated basis. NSFR is calculated in line with PRA guidance which came into effect on 1 January 2022. The disclosure for December 2022 is based on the average of preceding quarters.*

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 81 of the HSBC Bank plc Annual Report and Accounts 2022.

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, Liability and Capital Management 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 one year and five 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 six 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 20-year 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 Q4'22 was 30 months. The longest repricing maturity for NMDs in Q4'22 was 60 months.

Further details of our IRRBB may be found on page 77 of the HSBC Bank plc *Annual Report and Accounts 2022*.

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 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 90 of the HSBC Bank plc Annual Report and Accounts 2022.

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 276 to 301 of the HSBC Holdings plc *Annual Report and Accounts 2022*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2022. 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 27: Remuneration – fixed and variable amounts (REM1)

		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	**9.0**	**2.0**	**16.0**	**295.7**
	Total fixed pay (£m)	**1.7**	**2.3**	**12.1**	**143.0**
	– *of which: cash-based (£m)*[1]	***1.7***	***2.3***	***12.1***	***143.0***
	– *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	**9.0**	**2.0**	**16.0**	**295.7**
	Total variable remuneration (£m)[4,5]	—	**2.6**	**12.0**	**145.0**
	– *of which: cash-based (£m)*	—	***1.2***	***5.6***	***73.1***
	– *of which: deferred (£m)*	—	***0.7***	***3.1***	***35.0***
	– *of which: shares or equivalent ownership interests (£m)*[2]	—	***1.4***	***6.4***	***69.8***
	– *of which: deferred (£m)*	—	***0.9***	***3.9***	***39.9***
	– *of which: share-linked instruments or equivalent non-cash instruments (£m)*	—	—	—	***1.2***
	– *of which: deferred (£m)*	—	—	—	***0.6***
	– *of which: other instruments (£m)*	—	—	—	—
	– *of which: deferred (£m)*	—	—	—	—
	– *of which: other forms (£m)*	—	—	—	***0.9***
	– *of which: deferred (£m)*	—	—	—	***0.7***
Total remuneration (£m)		**1.7**	**4.9**	**24.1**	**288.0**

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 2022. 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 two individuals for the purpose of calculating the ratio between fixed and variable components of 2022 total remuneration.*
5 *11 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 £1.8m, of which £1.4m is fixed pay and £0.3m is variable remuneration.*

Table 28: Guaranteed bonus, sign-on and severance payments (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	—	—	—	14
Total amount (£m)	—	—	—	6.7
– *of which: paid during the financial year (£m)*	—	—	—	*3.9*
– *of which: deferred (£m)*	—	—	—	—
– *of which: severance payments paid during the financial year, that are not taken into account in the bonus cap (£m)*	—	—	—	*6.7*
– *of which: highest payment that has been awarded to a single person (£m)*	—	—	—	*1.8*

1 *No guaranteed variable remuneration awarded in 2022. 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 29: Deferred remuneration (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	6.5	*0.7*	*5.8*	—	—	0.2	0.7	0.1
Cash-based	2.7	*0.3*	*2.4*	—	—	—	0.3	—
Shares	3.8	*0.4*	*3.4*	—	—	0.2	0.4	0.1
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management	22.0	*4.9*	*17.1*	—	—	0.7	4.9	0.3
Cash-based	8.7	*1.7*	*7.0*	—	—	—	1.7	—
Shares	13.3	*3.2*	*10.1*	—	—	0.7	3.2	0.3
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff	233.0	*53.1*	*179.9*	—	—	6.0	52.8	6.6
Cash-based	100.9	*21.9*	*79.0*	—	—	—	21.7	—
Shares	129.4	*30.1*	*99.3*	—	—	5.8	30.1	6.2
Share-linked instruments	1.0	*0.3*	*0.7*	—	—	0.1	0.3	0.1
Other instruments	—	—	—	—	—	—	—	—
Other forms	1.7	*0.8*	*0.9*	—	—	0.1	0.7	0.3
Total amount	261.5	*58.7*	*202.8*	—	—	6.9	58.4	7.0

1 *This table provides details of balances and movements during performance year 2022. For details of variable pay awards granted for 2022, 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 30: Material risk takers' remuneration by band (REM4)

	Identified staff that are high earners as set out in Article 450(i) CRR
€1,000,000 – 1,500,000	62
€1,500,000 – 2,000,000	25
€2,000,000 – 2,500,000	15
€2,500,000 – 3,000,000	7
€3,000,000 – 3,500,000	5
€3,500,000 – 4,000,000	4
€4,000,000 – 4,500,000	2
€4,500,000 – 5,000,000	3
€5,000,000 – 6,000,000	2
€6,000,000 – 7,000,000	1
€7,000,000 – 8,000,000	1
€8,000,000 – 9,000,000	1
€9,000,000 – 10,000,000	—
€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 31: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (REM5)

£m	Management body remuneration			Business areas				
	MB Supervisory function	**MB Management function**	**Total MB**	**Retail banking**	**Corporate function**	**Independent internal control function**	**All other**	**Total**
Total number of identified staff								**322.7**
– *of which:* *members of the MB*	***9.0***	***2.0***	***11.0***					
other senior management				***2.0***	***5.0***	***3.0***	***3.0***	
other identified staff				***34.0***	***15.9***	***45.0***	***11.0***	
Total remuneration of identified staff	**1.7**	**4.9**	**6.6**	**25.7**	**19.3**	**28.0**	**11.5**	
– *of which:* *variable remuneration*[1]	***—***	***2.6***	***2.6***	***11.7***	***8.3***	***12.6***	***4.3***	
fixed remuneration	***1.7***	***2.3***	***4.0***	***14.0***	***11.0***	***15.4***	***7.2***	

1 *Variable pay awarded in respect of 2022. 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 0.7% of the total, or that are material in nature are disclosed below.

Table 32: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (CCyB1)

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements						
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total exposure value in the banking book	Total exposure value	*of which: General credit exposures*	*of which: Trading book exposures*	*of which: Securitisation exposures*	Total	Risk-weighted exposure amounts	Share of total own funds require-ments	CCyB rate
Country	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	***£m***	***£m***	***£m***	**£m**	**£m**	**%**	**%**
Belgium	**72**	**1063**	**58**	**9**	**—**	**1,202**	***41***	***1***	***—***	**42**	**530**	**0.8**	**—**
Bulgaria	**—**	**7**	**—**	**1**	**—**	**7**	***—***	***—***	***—***	**—**	**1**	**0.0**	**1.0**
Cayman Islands	**245**	**1,093**	**—**	**—**	**—**	**1,337**	***78***	***—***	***—***	**78**	**978**	**1.4**	**—**
Czech Republic	**52**	**313**	**—**	**2**	**—**	**367**	***19***	***—***	***—***	**19**	**238**	**0.4**	**1.5**
Denmark	**—**	**1,419**	**—**	**18**	**—**	**1,438**	***57***	***1***	***—***	**58**	**731**	**1.1**	**2.0**
Estonia	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**0.0**	**1.0**
France	**1,612**	**40,682**	**42**	**35**	**5,072**	**47,443**	***1,120***	***6***	***64***	**1,190**	**14,878**	**22.0**	**—**
Germany	**678**	**10,486**	**143**	**33**	**503**	**11,843**	***452***	***6***	***5***	**462**	**5,777**	**8.6**	**—**
Greece	**272**	**1,477**	**3**	**1**	**—**	**1,753**	***85***	***—***	***—***	**86**	**1,070**	**1.6**	**—**
Hong Kong	**4**	**366**	**—**	**—**	**—**	**370**	***5***	***1***	***—***	**6**	**78**	**0.1**	**1.0**
Iceland	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**0.0**	**2.0**
Ireland	**540**	**3,092**	**476**	**4**	**467**	**4,580**	***117***	***13***	***6***	**136**	**1,699**	**2.5**	**—**
Italy	**166**	**1,088**	**184**	**36**	**6**	**1,480**	***61***	***10***	***—***	**72**	**898**	**1.3**	**—**
Jersey	**184**	**2,049**	**—**	**—**	**—**	**2,233**	***62***	***—***	***—***	**62**	**770**	**1.1**	**—**
Luxembourg	**812**	**3,762**	**2**	**10**	**—**	**4,587**	***190***	***2***	***—***	**192**	**2,398**	**3.6**	**0.5**
Malta	**2,733**	**130**	**—**	**2**	**—**	**2,865**	***123***	***—***	***—***	**123**	**1,543**	**2.3**	**—**
Netherlands	**940**	**3,964**	**312**	**43**	**791**	**6,050**	***221***	***8***	***10***	**240**	**2,995**	**4.4**	**—**
Norway	**1**	**256**	**—**	**25**	**—**	**282**	***5***	***1***	***—***	**6**	**74**	**0.1**	**2.0**
Poland	**467**	**330**	**—**	**18**	**—**	**815**	***45***	***1***	***—***	**46**	**575**	**0.9**	**—**
Romania	**—**	**6**	**—**	**4**	**—**	**10**	***—***	***—***	***—***	**—**	**4**	**0.0**	**0.5**
Slovakia	**11**	**19**	**—**	**1**	**—**	**31**	***1***	***—***	***—***	**1**	**11**	**0.0**	**1.0**
South Africa	**355**	**675**	**—**	**2**	**—**	**1,031**	***54***	***1***	***—***	**55**	**686**	**1.0**	**—**
Spain	**341**	**1,493**	**47**	**24**	**118**	**2,023**	***69***	***4***	***2***	**75**	**933**	**1.4**	**—**
Sweden	**1**	**893**	**—**	**14**	**—**	**908**	***24***	***1***	***—***	**25**	**312**	**0.5**	**1.0**
Switzerland	**134**	**4,675**	**—**	**42**	**—**	**4,851**	***91***	***2***	***—***	**93**	**1,156**	**1.7**	**—**
United Arab Emirates	**658**	**1,230**	**—**	**18**	**—**	**1,906**	***53***	***—***	***—***	**54**	**674**	**1.0**	**—**
United Kingdom	**5,571**	**39,253**	**776**	**272**	**6,832**	**52,703**	***1,148***	***44***	***153***	**1,345**	**16,813**	**24.9**	**1.0**
United States	**2,610**	**9,791**	**9**	**269**	**1,050**	**13,729**	***433***	***11***	***35***	**479**	**5,988**	**8.9**	**—**
Other	**2,019**	**11,025**	**92**	**400**	**156**	**13,692**	***379***	***73***	***2***	**454**	**5,681**	**8.4**	**—**
Total	**20,478**	**140,637**	**2,144**	**1,283**	**14,995**	**179,536**	***4,933***	***186***	***277***	**5,399**	**67,491**	**100.0**	

Table 33: Amount of Institution specific countercyclical capital buffer (CCyB2)

	2022
Total Risk Exposure Amount (£m)	**114,171**
Institution specific countercyclical capital buffer rate (%)	**0.30**
Institution specific countercyclical capital buffer requirement (£m)	**345**

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A	
ALCM	Asset, Liability and Capital Management
ALCO	Asset, Liability and Capital 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	His 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
ILAAP	Individual Liquidity Adequacy Assessment Process
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
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
SA/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 2022* 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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