HSBC Bank plc

Pillar 3 Disclosures at 31 December 2023
Registered number - 00014259

HSBC

Contents

Certain defined terms

This document comprises the 31 December 2023 Pillar 3 disclosures for HSBC Bank plc.

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC' and the ' HSBC Group' refer to HSBC Holdings together with its subsidiaries; similarly, 'HSBC Bank' and the 'bank' mean HSBC Bank plc, and the 'group', 'we', 'us' and 'our' 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.

This document should be read in conjunction with the *Annual Report and Accounts 2023*, which has been published on our website at www.hsbc.com/investors.

Tables

HSBC Bank plc has adopted the regulatory transitional arrangements in CRR II for IFRS 9 'Financial Instruments', including paragraph four of article 473a. These arrangements permit banks to add back to their capital bases a proportion of the impact that IFRS 9 has upon their loan loss allowances. 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.

Introduction

Pillar 3 disclosure and Governance

Regulatory framework for disclosure

We are supervised on an individual basis in the United Kingdom ('UK') by the Prudential Regulation Authority (‘PRA’), which receives information on the capital and liquidity adequacy of, and sets capital and liquidity requirements for the bank. Individual banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their local capital and liquidity adequacy requirements. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital and liquidity requirements of local regulatory authorities.

Any references to European Union (‘EU’) regulations and directives (including technical standards) should, as applicable, be read as references to the UK’s version of such regulation and/or directive, as onshored into UK law under the European Union (Withdrawal) Act 2018, and may be subsequently amended under UK law. We refer to the regulatory requirements of the PRA Rulebook, Capital Requirements Regulation and Directive, and the CRR II regulation (EU 2019/876) as ‘CRR II’.

We calculate the bank's capital for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (‘Basel’), as implemented in the UK. The Basel III framework is structured around three ‘pillars’: the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel framework and the rules in their jurisdiction, their capital resources, risk exposures and risk management processes, and hence their capital adequacy.

Our Pillar 3 Disclosures at 31 December 2023 comprises both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with Part Eight of CRR II and use the PRA’s disclosure templates and instructions. They are supplemented by specific additional requirements of the PRA and discretionary disclosures on our part.

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 regulatory reports.

The ongoing programme of work focuses on our material regulatory reports and is being phased over a number of years. This programme includes data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process.

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.

Comparatives and references

To give insight into movements during the year, we provide comparative figures, commentary on variances and flow tables for capital requirements. 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(1) of CRR II. Narratives are included to explain quantitative disclosures where necessary.

The regulatory numbers and ratios presented in this document were accurate as at the date of reporting. Small changes may exist between these numbers and ratios and those submitted in regulatory filings. Where differences are significant, we will restate comparatives.

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

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2023* of HSBC Bank plc or to other documents.

The table below references where comparatives have been represented:

Page ref	Table Reference	Activity
4	Table 1 - UK KM1	Adoption of IFRS17
8	Table 3 - UK CC1	
10	Table 4 - UK LR2	
11	Table 5 - UK LR1	
11	Table 6 - UK LR3	
14	Table 10 - MR2-B	Internal review
4	Table 1 - UK KM1	
8	Table 3 - UK CC1	
13	Table 7 - UK OV1	
29	Table 23 - CR7	Disclosure requirements

Frequency and location

We publish our Pillar 3 disclosures quarterly on our website www.hsbc.com/investors.

Material risks

Pillar 3 requires all material risks to be disclosed to provide a comprehensive view of a bank’s risk profile.

Governance

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

HSBC Bank plc *Pillar 3 Disclosures at 31 December 2023* was approved by the Board on 21 February 2024 and signed on its behalf by:

Kavita Mahtani

HSBC Bank plc Chief Financial Officer

Key metrics

KM1 table below sets out the key regulatory metrics covering HSBC Bank plc available capital (including buffer requirements and ratios), RWAs, leverage ratios, liquidity coverage and net stable funding ratios.

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

		At				
Ref*		**31 Dec 2023**	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
	Available capital (£m)[1,2]					
1	Common equity tier 1 (‘CET1’) capital^	**19,230**	20,390	19,747	19,984	18,411
	CET1 capital as if IFRS 9 transitional arrangements had not been applied	**19,230**	20,390	19,747	19,984	18,392
2	Tier 1 capital^	**23,124**	24,281	23,642	23,876	22,304
	Tier 1 capital as if IFRS 9 transitional arrangements had not been applied	**23,124**	24,281	23,642	23,876	22,284
3	Total capital^	**37,131**	37,112	35,671	37,173	35,414
	Total capital as if IFRS 9 transitional arrangements had not been applied	**37,131**	37,112	35,671	37,173	35,394
	Risk-weighted assets (‘RWAs’) (£m)[2,3]					
4	Total RWAs^	**107,449**	109,000	106,627	112,001	113,241
	Total RWAs as if IFRS 9 transitional arrangements had not been applied	**107,449**	109,000	106,627	112,001	113,224
	Capital ratios (%)[1,2,3]					
5	CET1^	**17.9**	18.7	18.5	17.8	16.3
	CET1 as if IFRS 9 transitional arrangements had not been applied	**17.9**	18.7	18.5	17.8	16.2
6	Tier 1^	**21.5**	22.3	22.2	21.3	19.7
	Tier 1 as if IFRS 9 transitional arrangements had not been applied	**21.5**	22.3	22.2	21.3	19.7
7	Total capital^	**34.6**	34.0	33.5	33.2	31.3
	Total capital as if IFRS 9 transitional arrangements had not been applied	**34.6**	34.0	33.5	33.2	31.3
	Additional own funds requirements based on Supervisory Review and Evaluation Process (‘SREP’) as a percentage of RWAs (%)					
UK-7d	Total SREP own funds requirements	**8.0**	8.0	8.0	8.0	8.0
	Combined buffer requirement as a percentage of RWAs (%)					
8	Capital conservation buffer requirement	**2.5**	2.5	2.5	2.5	2.5
9	Institution specific countercyclical capital buffer	**0.9**	0.9	0.6	0.4	0.3
11	Combined buffer requirement	**3.4**	3.4	3.1	2.9	2.8
UK-11a	Overall capital requirements	**11.4**	11.4	11.1	10.9	10.8
12	CET1 available after meeting the total SREP own funds requirements[2]	**13.4**	14.2	14.0	13.3	11.8
	Leverage ratio^,[2,4]					
13	Total exposure measure excluding claims on central banks (£m)	**455,852**	447,967	431,714	431,255	416,814
14	Leverage ratio excluding claims on central banks (%)	**5.1**	5.4	5.5	5.5	5.4
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)^,[4,5]					
	Average exposure measure excluding claims on central banks (£m)	**449,733**	430,507	448,477	429,024	N/A
14a	Fully loaded loaded expected credit losses (‘ECL’) accounting model leverage ratio excluding claims on central banks (%)	**5.1**	5.4	5.5	5.5	N/A
14b	Leverage ratio including claims on central banks (%)	**4.0**	4.2	4.3	4.2	N/A
14c	Average leverage ratio excluding claims on central banks (%)	**5.3**	5.6	5.3	5.3	N/A
14d	Average leverage ratio including claims on central banks (%)	**4.1**	4.3	4.2	4.0	N/A
14e	Countercyclical leverage ratio buffer (%)	**0.3**	0.3	0.2	0.1	N/A
EU-14d	Leverage ratio buffer requirement (%)	**0.3**	0.3	0.2	0.1	N/A
EU-14e	Overall leverage ratio requirements (%)	**3.6**	3.6	3.5	3.4	N/A
	Liquidity coverage ratio (‘LCR’)[6,7]					
15	Total high-quality liquid assets (£m)	**105,524**	106,095	108,593	108,336	104,491
UK-16a	Cash outflows – total weighted value (£m)	**120,627**	123,613	126,649	126,430	122,833
UK-16b	Cash inflows – total weighted value (£m)	**49,517**	52,027	53,934	53,249	49,831
16	Total net cash outflow (£m)	**71,110**	71,586	72,715	73,181	73,002
17	LCR ratio (%)	**148**	148	149	148	143
	Net stable funding ratio (‘NSFR’)[7,8]					
18	Total available stable funding (£m)	**116,303**	114,368	112,860	111,775	107,679
19	Total required stable funding (£m)	**100,094**	98,662	96,646	94,279	93,310
20	NSFR ratio (%)	**116**	116	117	119	115

* *The references in this and subsequent tables identify lines prescribed in the relevant PRA template where applicable and where there is a value.*

^ *Figures have been prepared on an IFRS 9 transitional basis. At 31 December 2023, the add-back to CET1 capital and the related tax have been not applied as they were immaterial.*

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

2 *From 1 January 2023, we adopted IFRS17 ‘Insurance Contracts’, which replaced IFRS4 ‘Insurance Contracts’. Comparative data have been represented accordingly.*

3 *From November 2023, we reverted to the on-shored UK version of closely correlated currency list (CIR(EU) 2019/2091) from the previously applied EBA list (CIR(EU) 2021/249). Comparative data have been represented.*

4 *The leverage ratio is calculated using the CRR II end point basis for capital.*

5 *From 1 January 2023 HSBC Bank plc became an LREQ firm subject to Average leverage ratio requirement.*

6 *LCR disclosure is calculated based on 12 month-end averages.*

7 *These LCR and NSFR amounts relate to HSBC Bank plc as a single entity and are not produced on a consolidated basis.*

8 *NSFR is calculated in line with PRA guidance, which came into effect on 1 January 2022. NSFR disclosure is calculated based on the average of preceding quarters.*

At 31 December 2023, our common equity tier 1 ('CET1') capital ratio increased to 17.9% from 16.3% at 31 December 2022. The key drivers of the increase in our CET1 ratio were:

- 0.9 percentage point increase from lower RWA due to risk parameter refinements and balance sheet reduction mainly in corporate lending and overdrafts. This was further supplemented by favourable FX movements.
- a 0.9 percentage point increase from capital generation through profits and issuance of share capital net of dividend payment.
- a (0.2) percentage point decrease from unfavourable FX movement and other movements in own funds.

Throughout 2023, we complied with the PRA's regulatory capital adequacy requirements, including those relating to stress testing.

Regulatory developments

Basel 3.1

In November 2022, the PRA published a consultation on the implementation of Basel III Reforms ('Basel 3.1') in the UK. While the PRA's proposals were generally consistent with the Basel Committee's ('Basel') final rules, there were some limited adjustments to Basel's final rules, such as the treatment of unrated corporates under the standardised approach to credit risk and the removal of modelled approaches for sovereign exposures. It also proposed to remove certain EU's concessions under the current framework, such as the SME and infrastructure supporting factors, in addition to amending the scope of the EU's exemptions from the credit valuation adjustment ('CVA') charges.

In the consultation, the PRA set out its intention to implement the package on 1 January 2025; however, in September 2023, the PRA confirmed that it intended to move the final implementation date by six months to 1 July 2025. To ensure full implementation occurs by 1 January 2030, the PRA also confirmed that it will reduce the output floor transitional period from five to four-and-a-half years.

In October 2023, the PRA published a discussion paper on the securitisation framework. This includes policy options on the calibration of the standardised methodology for securitisation RWAs. Any changes will be implemented at the same time as the Basel 3.1 package.

Near-final rules in relation to the market risk, credit valuation adjustments, counterparty risk and operational risk elements of the Basel 3.1 package were published by the PRA in December 2023, together with information on the planned review of the Pillar 2 framework.

Near final rules on the remaining parts of Basel 3.1 package, namely credit risk, the output floor and reporting and disclosure, are expected to be published by the PRA in the second quarter of 2024. A further consultation on the securitisation framework is expected in the second half of 2024.

In December 2023, the EU published a near-final draft of the amendments to the CRR to implement Basel 3.1. The majority of the provisions are expected to apply from 1 January 2025.

Future Regulatory Framework

In December 2023, the PRA published a consultation paper on its approach to policymaking. While this broadly follows the proposals in its discussion paper issued in September 2022, a key addition is the PRA's proposal to be "largely compliant" with international standards in its policymaking.

Environmental, Social and Governance ('ESG') risk

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

The work by Basel on climate related financial risks across all three pillars of regulation, supervision and disclosure is ongoing. 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. As part of its wider efforts to improve ESG risk coverage, Basel published a consultation paper in November 2023 on a Pillar 3 disclosures framework for climate related financial risks with a proposed effective date of 1 January 2026.

Linkage to the Annual Report and Accounts 2023

This section demonstrates the links between the HSBC Bank plc audited financial balance sheet and its regulatory counterpart.

Structure of the regulatory group

The regulatory consolidation is consistent with the accounting consolidation, with the following exceptions:

- the subsidiaries engaged in insurance activities are equity accounted in the regulatory consolidation and then deducted from CET1 capital, subject to thresholds
- the 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;
- the 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 regulatory requirements; and
- non-participating significant investments are deducted from capital, subject to thresholds.

Table UK CC2 below presents the reconciliation between the HSBC Bank plc audited financial balance sheet and the regulatory scope of consolidation. The Regulatory balance sheet value cannot be directly reconciled to other tables within the regulatory scope of consolidation as it is not a measure of RWA; but rather, it is derived from an accounting measure.

Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (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		**110,618**	**—**	**67**	**—**	**110,685**
Items in the course of collection from other banks		**2,114**	**—**	**—**	**—**	**2,114**
Trading assets		**100,696**	**—**	**—**	**—**	**100,696**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss		**19,068**	**(14,752)**	**592**	**—**	**4,908**
Derivatives		**174,116**	**(39)**	**—**	**—**	**174,077**
Loans and advances to banks		**14,371**	**(230)**	**—**	**—**	**14,141**
Loans and advances to customers		**75,491**	**(321)**	**—**	**—**	**75,170**
– of which: expected credit losses on IRB portfolios	*h*	***(831)***	**—**	**—**	**—**	***(831)***
Reverse repurchase agreements – non-trading		**73,494**	**42**	**—**	**—**	**73,536**
Financial investments		**46,368**	**(7,373)**	**—**	**—**	**38,995**
– of which: debt securities eligible as tier 2 issued by group FSEs that are outside the regulatory scope of consolidation	*r*	**—**	***365***	**—**	**—**	***365***
Assets held for sale		**20,368**	**—**	**—**	**—**	**20,368**
– of which: expected credit losses on IRB portfolios	*h*	***(60)***	**—**	**—**	**—**	***(60)***
Capital invested in insurance and other entities		**—**	**610**	**—**	**539**	**1,149**
Prepayments, accrued income and other assets		**63,635**	**(989)**	**50**	**—**	**62,696**
– of which: retirement benefit assets	*j*	***51***	**—**	**—**	**—**	***51***
Current tax assets		**485**	**12**	**—**	**—**	**497**
Interests in associates and joint ventures		**665**	**—**	**(663)**	**—**	**2**
Goodwill and intangible assets	*e*	**203**	**(1)**	**2**	**—**	**204**
Deferred tax assets	*f*	**1,278**	**(129)**	**1**	**—**	**1,150**
Total assets at 31 Dec 2023		**702,970**	**(23,170)**	**49**	**539**	**680,388**
Liabilities and equity						
Liabilities						
Deposits by banks		**22,943**	**(9)**	**—**	**—**	**22,934**
Customer accounts		**222,941**	**195**	**—**	**—**	**223,136**
Repurchase agreements – non-trading		**53,416**	**—**	**—**	**—**	**53,416**
Items in the course of transmission to other banks		**2,116**	**—**	**—**	**—**	**2,116**
Trading liabilities		**42,276**	**—**	**—**	**—**	**42,276**
Financial liabilities designated at fair value		**32,545**	**(446)**	**—**	**—**	**32,099**
– of which: included in tier 2	*n, i*	***740***	**—**	**—**	**—**	***740***
Derivatives		**171,474**	**(46)**	**—**	**—**	**171,428**
– of which: debit valuation adjustment	*k*	***20***	**—**	**—**	**—**	***20***
Debt securities in issue		**13,443**	**(477)**	**—**	**—**	**12,966**
Liabilities of disposal groups held for sale		**20,684**	**—**	**—**	**—**	**20,684**
Accruals, deferred income and other liabilities		**60,444**	**(1,245)**	**49**	**—**	**59,248**
Current tax liabilities		**272**	**(2)**	**—**	**—**	**270**
Liabilities under insurance contracts		**20,595**	**(20,595)**	**—**	**—**	**—**
Provisions		**390**	**(2)**	**—**	**—**	**388**
– of which: credit-related contingent liabilities and contractual commitments on IRB portfolios	*h*	***68***	**—**	**—**	**—**	***68***
Deferred tax liabilities		**6**	**(2)**	**—**	**—**	**4**
Subordinated liabilities		**14,920**	**—**	**—**	**—**	**14,920**
– of which: included in tier 2	*n, o, p, q*	***14,314***	**—**	**—**	**—**	***14,314***
Total liabilities at 31 Dec 2023		**678,465**	**(22,629)**	**49**	**—**	**655,885**
Equity						
Called up share capital	*a*	**797**	**—**	**—**	**—**	**797**
Share premium account	*a*	**1,004**	**—**	**—**	**—**	**1,004**
Other equity instruments	*l*	**3,930**	**—**	**—**	**—**	**3,930**
Other reserves	*b, c, g*	**(6,096)**	**72**	**—**	**539**	**(5,485)**
Retained earnings	*b, c, i*	**24,724**	**(611)**	**—**	**—**	**24,113**
Total shareholders' equity		**24,359**	**(539)**	**—**	**539**	**24,359**
Non-controlling interests	*d, m*	**146**	**(2)**	**—**	**—**	**144**
Total equity at 31 Dec 2023		**24,505**	**(541)**	**—**	**539**	**24,503**
Total liabilities and equity at 31 Dec 2023		**702,970**	**(23,170)**	**49**	**539**	**680,388**

† *The references (a)–(r) identify balance sheet components that are used in the calculation of regulatory capital in Table 3: Composition of regulatory own funds (UK CC1). 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 3.*

Treasury Risk management

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures, as well as changes in market interest rates, together with pension and insurance risk.

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, with the exception of pension risk which is co-owned with the regional heads of Performance & Reward.

Capital risk, liquidity risk, interest rate risk in the banking book, structural foreign exchange risk and transactional foreign exchange risk are the responsibility of the Executive Committee and the Risk Committee ('RC'). Treasury actively manages these risks on an ongoing basis, supported by the Asset and Liability Management Committee ('ALCO'), overseen by Treasury Risk Management. Pension Risk is overseen by a pension risk management meeting.

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 68 of the HSBC Bank plc Annual Report and Accounts 2023*.*

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 regulatory requirements at all times.

HSBC Group is the sole primary provider of equity capital to the group and provides non-equity capital where necessary. Capital generated in excess of planned dividends is returned to the shareholder in the form of special dividends. Capital securities are regularly reviewed for compliance with regulatory requirements and guidelines. A list of the main features of our capital instruments in accordance with Annex VIII of CRR is also published on our website at www.hsbc.com with reference to our balance sheet on 31 December 2023. The full terms and conditions of our securities are also available at www.hsbc.com.

Liquidity risk

We aim to ensure that management have oversight of our liquidity and funding risks at group and entity level through robust governance. We maintain a strong 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. We manage liquidity and funding risk in accordance with globally consistent policies, procedures and reporting standards.

Interest rate risk in the banking book

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

The Global Treasury function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income sensitivity;
- banking net interest income sensitivity; and
- economic value of equity sensitivity.

Non-trading book foreign exchange exposures

Structural foreign exchange exposures arise from net assets or capital investments in foreign operations, together with any associated hedging. A foreign operation is defined as a subsidiary, associate, joint arrangement or branch where the activities are conducted in a currency other than that of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). We use the pound sterling as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between the pound sterling and all the non-pound sterling functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our most constraining capital ratio is largely protected from the effect of changes in exchange rates. For capital efficiency reasons, we rely on net investment hedges held at HSBC Holdings plc to manage our structural foreign exchange positions.

Transactional foreign exchange risk arises primarily from day-to-day transactions in the banking book generating profit and loss or FVOCI reserves in a currency other than the reporting currency of the operating entity. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Markets and Securities Services with the exception of limited residual foreign exchange exposure arising from timing differences or for other reasons. Transactional foreign exchange exposure generated through OCI reserves is managed by the Markets Treasury business within agreed limits.

Own Funds

Table UK CC1 below provides a detailed breakdown of the key components of our CET1, Tier 1 and Tier 2 Capital and the regulatory adjustments impacting our capital base on transitional basis.

Table 3: Composition of regulatory own funds (UK CC1)

			At	
			31 Dec 2023	31 Dec 2022
Ref*		Ref †	**£m**	£m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and related share premium accounts		**1,801**	1,217
	– ordinary shares	a	**1,801**	1,217
2,3	Retained earnings, accumulated other comprehensive income (and other reserves)[1]	b,c	**17,886**	19,414
5	Minority interests (amount allowed in consolidated CET1)	d	**77**	72
UK-5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	b	**742**	(1,459)
6	**Common equity tier 1 capital before regulatory adjustments[1]**		**20,506**	19,244
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments[2]		**(551)**	(560)
8	Intangible assets (net of related deferred tax liability)	e	**(203)**	(93)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	f	**(542)**	(587)
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	g	**313**	912
12	Negative amounts resulting from the calculation of expected loss amounts	h	**(130)**	(95)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	i	**(85)**	(210)
15	Defined benefit pension fund assets	j	**(51)**	(73)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)	k	**(27)**	(127)
28	**Total regulatory adjustments to common equity tier 1**		**(1,276)**	(833)
29	**Common Equity Tier 1 ('CET1') capital[1]**		**19,230**	18,411
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and related share premium accounts		**3,930**	3,930
31	– classified as equity under IFRSs	l	**3,930**	3,930
33	Amount of qualifying items and related share premium accounts subject to phase out from AT1		**—**	—
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	**11**	12
36	**Additional tier 1 capital before regulatory adjustments**		**3,941**	3,942
	Additional tier 1 capital: regulatory adjustments			
37	Direct and indirect holdings of own AT1 instruments[3]		**(47)**	(49)
43	**Total regulatory adjustments to additional tier 1 capital**		**(47)**	(49)
44	**Additional tier 1 capital**		**3,894**	3,893
45	**Tier 1 capital (T1 = CET1 + AT1)[1]**		**23,124**	22,304
	Tier 2 capital: instruments and provisions			
46	Capital instruments and related share premium accounts	n	**14,222**	11,986
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		**—**	—
UK-47b	Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2	o	**36**	1,352
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	**145**	221
	– of which: instruments issued by subsidiaries grandfathered under CRR II	q	***15***	*21*
51	**Tier 2 capital before regulatory adjustments**		**14,403**	13,559
	Tier 2 capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)[3]		**(31)**	(33)
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	**(365)**	(416)
57	**Total regulatory adjustments to tier 2 capital**		**(396)**	(449)
58	**Tier 2 capital**		**14,007**	13,110
59	**Total capital (TC = T1 + T2)[1]**		**37,131**	35,414

Table 3: Composition of regulatory own funds (UK CC1) (continued)

		At	
		31 Dec 2023	31 Dec 2022
60	**Total risk-weighted assets[1,4]**	**107,449**	113,241
	Capital ratios and buffers (%)		
61	Common equity tier 1[1,4]	**17.90**	16.26
62	Tier 1[1,4]	**21.52**	19.70
63	Total capital[1,4]	**34.56**	31.27
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)	**7.86**	7.30
65	– capital conservation buffer requirement	**2.50**	2.50
66	– countercyclical buffer requirement	**0.86**	0.30
68	Common equity tier 1 available to meet buffers[1,4]	**13.40**	11.76
	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)	**1,177**	1,249
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)[1]	**1,169**	1,046
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)	**507**	600
	Applicable caps on the inclusion of provisions in tier 2		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**249**	329
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	**325**	322

* *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 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2)', 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 2 as a result of adjustment or analysis to apply regulatory definitions of capital.*

1 *From 1 January 2023, we adopted IFRS17 'Insurance Contracts', which replaced IFRS4 'Insurance Contracts'. Comparative data have been represented accordingly.*

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 *From November 2023, we reverted to the on-shored UK version of closely correlated currency list (CIR(EU) 2019/2091) from the previously applied EBA list (CIR(EU) 2021/249). Comparative data have been represented.*

Leverage ratio

The risk of excessive leverage is managed as part of the group's global risk appetite framework and monitored using the leverage ratio metric within the RAS.

For further details of our approach to risk appetite, see page 22 of the Annual Report and Accounts 2023.

Table UK LR2 - LRCom below provides a detailed breakdown of the components of our leverage exposure, including the split of the on- and off-balance sheet exposures, leverage ratios, minimum requirements and buffers on an IFRS 9 transitional basis. The components of the leverage ratio on an average basis are also included below in accordance to UK leverage ratio framework.

Table 4: Leverage ratio common disclosure (UK LR2 – LRCom)

		At	
		31 Dec 2023	31 Dec 2022
Ref*		**£m**	£m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**402,780**	394,614
2	Gross-up for derivatives collateral provided, where deducted from the balance sheet assets pursuant to the applicable accounting framework	**4,296**	7,279
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(32,619)**	(41,824)
6	(Asset amounts deducted in determining tier 1 capital (leverage))	**(985)**	(979)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**373,472**	359,090
	Derivative exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**14,767**	22,398
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions (mark-to-market method)	**61,257**	58,429
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	**(10,170)**	(10,236)
11	Adjusted effective notional amount of written credit derivatives	**49,700**	72,614
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(48,013)**	(70,049)
13	**Total derivative exposures**	**67,541**	73,156
	Securities financing transaction (SFT) exposures		
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**189,789**	154,661
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(99,550)**	(84,302)
16	Counterparty credit risk exposure for SFT assets	**5,149**	4,823
18	**Total securities financing transaction exposures**	**95,388**	75,182
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**116,510**	118,580
20	(Adjustments for conversion to credit equivalent amounts)	**(71,863)**	(71,370)
22	**Total off-balance sheet exposures**	**44,647**	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)	**(200)**	(288)
UK-22k	**(Total exempted exposures)**	**(200)**	(288)
	Capital and total exposures measure[1]		
23	**Tier 1 capital (leverage)**	**23,124**	22,304
24	Total exposure measure including claims on central banks	**580,848**	554,350
UK-24a	(-) Claims on central banks excluded	**(124,996)**	(137,536)
UK-24b	**Total exposure measure excluding claims on central banks**	**455,852**	416,814
	Leverage ratios[1]		
25	Leverage ratio excluding claims on central banks (%)	**5.07**	5.35
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**5.07**	5.35
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 (%)	**5.07**	5.35
UK-25c	Leverage ratio including claims on central banks (%)	**3.98**	4.02
26	Regulatory minimum leverage ratio requirement (%)	**3.25**	N/A
	Additional leverage ratio disclosure requirements – leverage ratio buffers[2]		
27	Leverage ratio buffer (%)	**0.30**	N/A
UK-27a	of which: G-SII or O-SII additional leverage ratio buffer (%)	**—**	N/A
UK-27b	of which: countercyclical leverage ratio buffer (%)	**0.30**	N/A
	Additional leverage ratio disclosure requirements – disclosure of mean values[2]		
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	**90,448**	N/A
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**90,239**	N/A
UK-31	Average total exposure measure including claims on central banks	**579,905**	N/A
UK-32	Average total exposure measure excluding claims on central banks	**449,733**	N/A
UK-33	Average leverage ratio including claims on central banks	**4.10**	N/A
UK-34	Average leverage ratio excluding claims on central banks	**5.29**	N/A

1 *From 1 January 2023, we adopted IFRS17 'Insurance Contracts', which replaced IFRS4 'Insurance Contracts'. Comparative data have been represented accordingly.*

2 *New sections added as UK leverage ratio became a formal binding regulatory requirement at 1 January 2023.*

The following tables provide a reconciliation of the total assets in our published balance sheet under IFRS and the total leverage exposure (Table 5) and a breakdown of on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by asset class (Table 6):

Table 5: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1 – LRSum)

		At	
		31 Dec 2023	31 Dec 2022
Ref*		**£m**	£m
1	Total assets as per published financial statements[1]	**702,970**	716,646
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation[1]	**(22,582)**	(21,720)
4	(Adjustment for exemption of exposures to central banks)	**(124,996)**	(137,536)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(8,349)**	(3,106)
7	Adjustment for eligible cash pooling transactions	**(7,509)**	(7,005)
8	Adjustment for derivative financial instruments	**(134,860)**	(186,417)
9	Adjustment for securities financing transactions (SFTs)	**4,628**	6,669
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**44,647**	47,210
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced tier 1 capital (leverage))	**(985)**	(979)
UK-11a	(Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) of the CRR)	**(200)**	(288)
12	Other adjustments	**3,088**	3,340
13	**Total leverage ratio exposure[1]**	**455,852**	416,814

1 *From 1 January 2023, we adopted IFRS17 'Insurance Contracts', which replaced IFRS4 'Insurance Contracts'. Comparative data have been represented accordingly.*

Table 6: Leverage ratio – Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (UK LR3 – LRSpl)

		At	
		31 Dec 2023	31 Dec 2022
Ref*		**£m**	£m
UK-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) of which:[1]	**245,007**	214,993
UK-2	Trading book exposures	**82,692**	63,983
UK-3	Banking book exposures, of *which:*[1]	**162,315**	151,010
UK-4	*Covered bonds*	**559**	—
UK-5	*Exposures treated as sovereigns*	**38,165**	28,064
UK-6	*Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns*	**212**	—
UK-7	*Institutions*	**13,070**	13,227
UK-8	*Secured by mortgages of immovable properties*	**22,107**	23,152
UK-9	*Retail exposures*	**2,414**	3,182
UK-10	*Corporate*	**50,985**	48,049
UK-11	*Exposures in default*	**1,626**	1,493
UK-12	*Other exposures (e.g. equity, securitisations and other non-credit obligation assets)1,2*	**33,177**	33,843

1 *From 1 January 2023, we adopted IFRS17 'Insurance Contracts', which replaced IFRS4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *At 31 December 2023, covered bond exposures are presented separately. Previously these were included in exposures to institutions, comparatives are not re-presented.*

Our leverage ratio was 5.1% at 31 December 2023, down from 5.4% at 31 December 2022. The increase in leverage exposure is primarily due to growth in the balance sheet, which led to a fall of 0.5 percentage points in the leverage ratio. This is partly offset by a rise of 0.2 percentage points due to an increase in Tier 1 Capital.

At 31 December 2023, our average leverage ratio excluding central bank came to 5.3%, which is higher than quarter-end leverage ratio of 5.1%. The difference of 0.2 percentage point is primarily due to a higher average Tier 1 capital £0.7bn compounded by lower average leverage exposure £(5.9)bn.

Capital buffers

The geographical breakdown and institution specific countercyclical buffer ('CCyB') disclosures are provided in Appendix I on page 38 of this document.

Pillar 1 minimum capital requirements and RWA flow

Pillar 1 covers the minimum capital resource requirements for credit risk, counterparty credit risk ('CCR'), equity, securitisation, market risk and operational risk. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Our approach
Credit risk	The Basel Committee's framework applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories, and standardised risk weightings are applied to these categories. The next level, the 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 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 supervisory prescription of a non-advanced approach; or – under exemptions from IRB treatment. Details of the Internal model method ('IMM') permission we have received from the PRA can be found in the Financial Services Register on the PRA website.
Counterparty credit risk ('CCR')	CCR covers the risk of counterparty default and potential mark-to-market losses in derivatives and SFTs. The potential for mark-to-market losses is known as CVA risk. The exposure value, for a given netting set, is determined either by the credit risk mitigation ('CRM') approach, Standardised Approach for Counterparty Risk ('SA-CCR'), or by IMM. For SFTs either the simple or comprehensive approach to recognition of collateral with SFTs or the Value at Risk ('VaR') approach. For CVA, permissible approaches are the Standardised Approach ('SA-CVA') and Advanced Approach ('AA-CVA').	We primarily use the SA-CCR and IMM approaches for CCR. For CVA, we apply an approach consistent with our permissions. Details of the IMM permission we have received from the PRA can be found in the Financial Services Register on the PRA's website.
Equity	Capital requirements for non-trading book holdings of equity can be assessed under the standardised or IRB approaches. Underlying equity positions within collective investment undertakings must be treated using the IRB equity simple risk-weight approach	We calculate capital requirements for: – non-trading book equity holdings using the standardised approach; and – underlying equity positions within collective investments undertakings using the IRB equity simple risk-weight 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').	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; and, – 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.
Market risk	Market risk capital requirements can be determined under either the standardised rules or the internal models approach ('IMA'). The latter involves the use of internal value at risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models permitted under IMA include stressed VaR, incremental risk charge ('IRC') and comprehensive risk measure.	The market risk capital requirement is measured using internal market risk models, where approved by the PRA, or under the standardised rules. Our internal market risk models comprise VaR, stressed VaR and IRC. Non-proprietary details of the scope of our IMA permissions are available in the Financial Services Register on the PRA's website.
Operational risk	The Basel Committee 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.

Table OV1 below shows the total RWAs split and the corresponding total own funds requirement split by risk type.

Table 7: Overview of risk-weighted exposure amounts (OV1)

		At		
		31 Dec 2023	30 Sep 2023	**31 Dec 2023**
		RWAs	RWAs	**Total own funds requirement[1]**
		£m	£m	**£m**
1	**Credit risk (excluding counterparty credit risk)[2]**	**58,620**	58,800	**4,689**
2	– standardised approach	**16,966**	15,522	**1,357**
3	– foundation internal ratings-based ('FIRB') approach	**15,315**	15,879	**1,225**
4	– slotting approach	**599**	602	**48**
UK-4a	– equities under the simple risk weighted approach[3]	**2,990**	2,909	**239**
5	– advanced IRB ('AIRB') approach	**22,750**	23,888	**1,820**
6	**Counterparty credit risk ('CCR')**	**17,037**	18,343	**1,363**
7	– standardised approach	**4,170**	4,793	**334**
8	– internal model method ('IMM')	**6,231**	6,530	**498**
UK-8a	– exposures to a central counterparty	**295**	443	**24**
UK-8b	– credit valuation adjustment – CVA	**1,441**	1,596	**115**
9	– other counterparty credit risk[4]	**4,900**	4,981	**392**
15	**Settlement risk**	**29**	20	**2**
16	**Securitisation exposures in the non-trading book (after the cap)**	**3,363**	3,284	**269**
17	– internal ratings-based approach ('SEC-IRBA')	**782**	738	**63**
18	– external ratings-based approach ('SEC-ERBA') (including internal assessment approach ('IAA'))	**1,600**	1,616	**128**
19	– standardised approach ('SEC-SA')	**868**	817	**69**
UK-19a	– 1250% deduction	**113**	113	**9**
20	**Position, foreign exchange and commodities risks (Market risk)[5]**	**15,525**	17,179	**1,242**
21	– standardised approach	**2,709**	3,419	**217**
22	– internal models approach ('IMA')	**12,816**	13,760	**1,025**
23	**Operational risk**	**12,875**	11,374	**1,030**
UK-23b	– standardised approach	**12,875**	11,374	**1,030**
29	**Total[5]**	**107,449**	109,000	**8,595**
24	*– of which: amounts below the thresholds for deduction (subject to 250% risk-weight)[6]*	***4,216***	*4,007*	***337***

1 *'Total own funds requirement' in this table represents the minimum capital charge set at 8% of RWAs by Article 92(1) of CRR II.*
2 *Credit risk includes RWAs on free deliveries amounting to £ 0.4bn.*
3 *This line includes off balance sheet collective investment undertakings ('CIU') equity exposures, calculated as per CRR II Article 132(c).*
4 *Other CCR includes RWAs on securities financing transaction.*
5 *From November 2023, we reverted to the on-shored UK version of closely correlated currency list (CIR(EU) 2019/2091) from the previously applied EBA list (CIR(EU) 2021/249). Comparative data have been represented.*
6 *These balances are included in rows 2 and 5 of the table and includes higher thresholds for the recognition of significant investments and deferred tax assets.*

Credit risk, including amounts below the thresholds for deduction

Credit risk RWAs fell by £(0.2)bn, mainly driven by balance sheet reductions in corporate lending and other financial assets and by favourable FX movements. These changes were partly offset by increases in exposure due to acquisitions of HSBC Bank Bermuda Limited in October 2023 and HSBC Private Bank Luxembourg in November 2023.

Counterparty credit risk, including settlement risk

Counterparty credit risk RWAs fell by £(1.3)bn, mainly driven by £(0.8)bn favourable FX movements and £(0.5)bn decrease due to mark-to-market movements and matured trades.

Market risk

Market Risk RWAs fell by £(1.7bn) primarily driven by favourable FX translation movements, lower structural foreign exchange exposure and implementation of a new model for Incremental Risk Charge (IRC). This was partially offset by an increase in transactional foreign exchange exposure due to acquisition of HSBC Bank Bermuda Limited.

Operational risk

Operational Risk RWA rose by £1.5b primarily due to higher average revenue in the annual recalculation of operational risk and an increase in exposure due to acquisition of HSBC Bank Bermuda Limited.

Table CR8 below presents the drivers of the quarterly movements of credit risk RWAs (excluding counterparty credit risk) under the IRB approach.

Table 8: RWA flow statements of credit risk exposures under IRB approach (CR8)

		Quarter ended			
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
Ref		**£m**	£m	£m	£m
1	**RWAs at opening period**	**41,529**	40,334	42,845	41,062
2	Asset size	**(718)**	1,018	(1,156)	237
3	Asset quality	**(557)**	379	(55)	(445)
4	Model updates	**—**	(239)	97	—
5	Methodology and policy	**(112)**	(570)	(398)	2,500
6	Acquisitions and disposals	**487**	(48)	—	—
7	Foreign exchange movements[2]	**(346)**	655	(999)	(509)
9	**RWAs at the closing period**	**40,283**	41,529	40,334	42,845

1 *Table excludes securitisation positions and non-credit obligation assets and includes free deliveries.*
2 *Foreign exchange movements in this disclosure are computed by retranslating the RWAs into sterling pounds for non-GBP branches, subsidiaries, joint ventures and associates.*

RWAs fell by £(1.2)bn under IRB approach was mainly driven by £(1.4)bn balance sheet reduction in corporate lending and other financial assets, RWA initiatives and risk parameter refinements, further supplemented by a £(0.3)bn decrease due to favourable FX movements. This was partly offset by an increase of £0.5bn due to acquisition of HSBC Bank Bermuda Limited and HSBC Private Bank Luxembourg.

Table CCR7 below shows the drivers of the quarterly movements of counterparty credit risk RWAs under the IMM.

Table 9: RWA flow statements of counterparty credit risk exposures under the IMM (CCR7)

		Quarter ended			
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
Ref		**£m**	£m	£m	£m
1	**RWAs at opening period**	**6,530**	6,246	5,945	6,526
2	Asset size	**12**	(18)	468	(372)
3	Credit quality of counterparties	**(21)**	26	(2)	(37)
7	Foreign exchange movement	**(290)**	276	(165)	(172)
9	**RWAs at the closing period**	**6,231**	6,530	6,246	5,945

RWAs under the IMM decreased by £(0.3)bn mainly due to favourable FX movements.

Table MR2-B below represents the drivers of the quarterly movements of market risk RWAs under the IMA, split by VaR, SVaR, IRC and other models.

Table 10: 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 2023**	**5,093**	**5,973**	**2,215**	**479**	**13,760**	**1,101**
2	Movement in risk levels	**(958)**	**702**	**(139)**	**205**	**(190)**	**(15)**
3	Model updates/changes	**—**	**—**	**(213)**	**69**	**(144)**	**(12)**
4	Methodology and policy	**—**	**—**	**—**	**—**	**—**	**—**
6	Foreign exchange movements	**(226)**	**(265)**	**(98)**	**(21)**	**(610)**	**(49)**
8	**RWAs at 31 Dec 2023**	**3,909**	**6,410**	**1,765**	**732**	**12,816**	**1,025**
1	RWAs at 1 Jul 2023	4,894	5,107	1,850	558	12,409	993
2	Movement in risk levels	(17)	640	283	(104)	802	64
3	Model updates/changes	—	—	—	—	—	—
4	Methodology and policy	—	—	—	—	—	—
6	Foreign exchange movements	216	226	82	25	549	44
8	RWAs at 30 Sep 2023	5,093	5,973	2,215	479	13,760	1,101
1	RWAs at 1 Apr 2023	4,606	6,178	1,812	860	13,456	1,076
2	Movement in risk levels	352	(964)	88	(208)	(732)	(58)
3	Model updates/changes	8	8	—	(70)	(54)	(4)
4	Methodology and policy	56	56	—	—	112	9
6	Foreign exchange movements	(128)	(171)	(50)	(24)	(373)	(30)
8	RWAs at 30 Jun 2023	4,894	5,107	1,850	558	12,409	993

Table 10: RWA flow statements of market risk exposures under IMA (MR2-B) (continued)

		VaR	Stressed VaR	Incremental risk charge ('IRC')	Other	Total RWAs	Total own fund requirements
		£m	£m	£m	£m	£m	£m
1	RWAs at 1 Jan 2023	5,373	5,487	1,335	1,223	13,419	1,074
2	Movement in risk levels	(625)	836	512	(331)	392	31
3	Model updates/changes	—	—	—	—	—	—
4	Methodology and policy	—	—	—	—	—	—
6	Foreign exchange movements	(142)	(145)	(35)	(32)	(354)	(28)
8	RWAs at 31 Mar 2023	4,606	6,178	1,812	860	13,457	1,077

RWAs under the IMA decreased by £(0.9)bn as a result of favourable FX translation movements, the implementation of a new model for IRC and a reduction in Value at Risk averages driven by rates volatility.

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 a sufficient unencumbered high-quality liquidity assets ('HQLA') to meet its liquidity needs in a 30 calendar days liquidity stress scenarios.

At 31 December 2023 our LCR increased to 148.4% from 148.2% at 30 September 2023, and remained above regulatory minimum levels and HSBC Bank plc's Risk Appetite.

Net stable funding ratio

HSBC Bank plc uses a regulatory Net stable funding ratio ('NSFR') as a basis for establishing stable funding needs. The 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.

At 31 December 2023, our NSFR ratio increased to 116.2% from 115.9% at 30 September 2023. We maintained sufficient stable funding relative to the required stable funding assessed using NSFR.

Internal Liquidity metric

In addition to regulatory metrics, HSBC Bank plc uses an internal liquidity metric (ILM) 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 foreign exchange swap markets. This continuous monitoring helps with the overall management of currency exposures, in line with our internal framework.

Sources of funding

Our primary sources of funding are customer current accounts, repo and wholesale securities.

More details on the concentration of funding and liquidity sources maybe found on page 74 of the Annual Report of Accounts.

Table LIQ1 below sets out the granular split of cash outflows and cash inflows, as well as the available high quality liquid assets ('HQLA') on both an unweighted and weighted basis, that are used to derive the liquidity coverage ratio ('LCR').

Table 11: Level and components of HSBC Bank plc liquidity coverage ratio (LIQ1)[1]

		Quarter ended							
UK-1a		**31 Dec 2023**		30 Sep 2023		30 Jun 2023		31 Mar 2023	
		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')		**105,524**	—	106,095	—	108,593	0	108,336
Cash outflows									
2	Retail deposits and small business funding	**18,419**	**2,661**	18,618	2,671	18,625	2,670	18,002	2,547
	– *of which:*								
3	*stable deposits*	***3,576***	***179***	*3,684*	*184*	*3,664*	*183*	*3,645*	*182*
4	*less stable deposits*	***14,843***	***2,482***	*14,909*	*2,487*	*14,938*	*2,487*	*14,338*	*2,365*
5	Unsecured wholesale funding	**140,282**	**75,905**	141,328	76,582	144,618	78,886	143,498	78,697
6	– operational deposits (all counterparties) and deposits in networks of cooperative banks	**49,727**	**12,387**	49,470	12,323	50,373	12,549	50,499	12,580
7	– non-operational deposits (all counterparties)	**88,807**	**61,770**	90,403	62,805	92,779	64,873	91,651	64,770
8	– unsecured debt	**1,748**	**1,748**	1,455	1,455	1,465	1,465	1,347	1,347
9	Secured wholesale funding		**9,216**		8,688	—	7,631		6,284
10	Additional requirements	**40,812**	**22,687**	43,201	24,766	45,411	26,372	47,500	28,048
11	– outflows related to derivative exposures and other collateral requirements	**19,893**	**17,078**	21,369	18,843	21,934	19,810	22,500	20,797
13	– credit and liquidity facilities	**20,919**	**5,609**	21,831	5,924	23,477	6,562	25,000	7,252
14	Other contractual funding obligations	**20,656**	**9,144**	21,672	10,035	23,442	10,294	24,908	10,146
15	Other contingent funding obligations	**39,468**	**1,014**	45,566	870	51,637	796	56,774	708
16	**Total cash outflows**		**120,627**		123,613	—	126,649		126,430
Cash inflows									
17	Secured lending transactions (including reverse repos)	**105,807**	**20,406**	100,569	19,880	94,075	20,136	85,748	18,734
18	Inflows from fully performing exposures	**8,788**	**8,418**	9,711	9,327	10,493	10,128	10,759	10,368
19	Other cash inflows	**40,259**	**20,693**	41,814	22,820	42,200	23,670	41,723	24,147
20	**Total cash inflows**	**154,854**	**49,517**	152,094	52,027	146,768	53,934	138,230	53,249
UK-20c	Inflows subject to 75% cap	**122,585**	**49,517**	122,069	52,027	122,044	53,934	118,972	53,249
Liquidity coverage ratio (adjusted value)									
UK-21	Liquidity buffer		**105,524**		106,095		108,593		108,336
22	Total net cash outflows		**71,110**		71,586		72,715		73,181
23	Liquidity coverage ratio (%)		**148**		148		149		148

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, HQLA and net outflows are based on 12 month-end averages ending respectively.*

Table LIQ2 below shows the components of the net stable funding ratio (NSFR) for unweighted values by residual maturity and the resultant weighted amounts.

Table 12: Net Stable Funding Ratio (LIQ2)[1]

		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
		£m	£m	£m	£m	£m
Available stable funding ('ASF') Items						
1	Capital items and instruments	22,157	763	330	12,738	34,896
2	– Own funds	22,157	763	330	12,200	34,357
3	– Other capital instruments		—	—	538	538
4	Retail deposits		18,400	—	—	16,726
5	– Stable deposits		3,304	—	—	3,139
6	– Less stable deposits		15,096	—	—	13,586
7	Wholesale funding:		199,090	8,723	11,192	64,681
8	– Operational deposits		47,266	40	—	23,653
9	– Other wholesale funding		151,824	8,683	11,192	41,028
10	Interdependent liabilities		2,485	—	—	—
11	Other liabilities:	1,001	38,798	—	—	—
12	– NSFR derivative liabilities	1,001				
13	– All other liabilities and capital instruments not included in the above categories		38,798	—	—	—
14	**Total available stable funding ('ASF')**					116,303
Required stable funding ('RSF') Items						
15	Total high-quality liquid assets ('HQLA')					16,122
16	Deposits held at other financial institutions for operational purposes		—	—	—	—
17	Performing loans and securities:		96,016	7,088	44,698	54,448
18	– Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		32,873	2,370	166	2,324
19	– Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		35,542	1,308	1,459	4,435
20	– Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		13,273	1,215	8,304	15,357
21	– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		*67*	*64*	*1,858*	*2,023*
22	– *Performing residential mortgages*		55	50	1,876	—
23	– of which: With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		*32*	*32*	*1,104*	—
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		14,272	2,145	32,893	32,332
25	Interdependent assets		—	—	2,485	—
26	Other assets:	—	58,155	—	17,049	27,616
27	– Physical traded commodities				2,093	1,779
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		10,465	—	—	8,895
29	– NSFR derivative assets		418	—	—	418
30	– NSFR derivative liabilities before deduction of variation margin posted		29,013	—	—	1,451
31	– All other assets not included in the above categories		18,259	—	14,956	15,073
32	Off-balance sheet items		25,564	10,534	19,993	1,908
33	**Total RSF**					100,094
34	**Net Stable Funding Ratio (%)**					116

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 2023 is based on the average of preceding quarters.*

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 our risk appetite.

The ICAAP is reviewed by the PRA as part of 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 the bank and to define the PRA buffer, where required. The PRA buffer is not intended to duplicate the Capital Requirements Regulation and Directive (CRD IV) buffers and, where necessary, will be set according to vulnerability in a stress scenario, as identified and assessed through the annual PRA stress testing exercise.

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 ALCO 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 the group 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 an obligation under a contract. It arises principally from direct lending, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives or from holding assets in the form of debt securities. Credit risk represents our largest regulatory capital requirement.

Table CR1 below breaks down the gross carrying amount of the performing and non-performing exposures and related impairments, and details of the collateral and financial guarantees received within each of the FINREP categories and definitions.

Table 13: Performing and non-performing exposures and related provisions (CR1)

		Gross carrying amount /nominal amount[1,2,3]					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		Accu-mulated partial write-off		
			of which: stage 1	of which: stage 2		of which: stage 3		of which: stage 1	of which: stage 2		of which stage 3		On performing exposures	On non-performing exposures
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	At 31 Dec 2023													
1	**Loans and advances**	290,818	279,789	7,987	2,343	2,343	(189)	(73)	(115)	(889)	(889)	(10)	102,420	443
2	Central banks	124,075	124,005	70	—	—	—	—	—	—	—	—	4,603	—
3	General governments	1,233	1,124	109	49	49	—	—	—	(2)	(2)	—	205	—
4	Credit institutions	47,771	47,724	47	—	—	(1)	(1)	—	—	—	—	31,528	—
5	Other financial corporations	55,946	52,748	530	316	316	(16)	(5)	(10)	(137)	(137)	—	37,619	1
6	Non-financial corporations	48,976	42,741	5,861	1,764	1,764	(136)	(48)	(88)	(679)	(679)	(10)	16,575	307
7	– of which: SMEs	1,305	1,094	211	160	160	(12)	(5)	(7)	(84)	(84)	(10)	837	67
8	Households	12,817	11,447	1,370	214	214	(36)	(19)	(17)	(71)	(71)	—	11,890	135
9	**Debt securities**	39,001	38,553	64	—	—	(28)	(3)	(25)	—	—	—	4,746	—
10	Central banks	29	29	—	—	—	—	—	—	—	—	—	—	—
11	General governments	28,160	28,088	—	—	—	(3)	(3)	—	—	—	—	2,925	—
12	Credit institutions	8,741	8,702	39	—	—	(1)	(1)	—	—	—	—	1,655	—
13	Other financial corporations	1,679	1,572	13	—	—	(12)	1	(13)	—	—	—	117	—
14	Non-financial corporations	392	162	12	—	—	(12)	—	(12)	—	—	—	49	—
15	**Off-balance-sheet exposures**	154,079	120,814	7,448	461	250	(45)	(15)	(22)	(37)	(21)	—	1,472	1
16	Central banks	650	650	—	—	—	(1)	(1)	—	—	—	—	—	—
17	General governments	2,029	1,743	1	—	—	—	—	—	—	—	—	—	—
18	Credit institutions	42,520	39,575	66	—	—	(1)	—	—	—	—	—	—	—
19	Other financial corporations	24,735	20,392	2,471	19	17	(9)	(2)	(4)	(1)	(1)	—	453	—
20	Non-financial corporations	82,590	57,176	4,882	438	229	(34)	(12)	(18)	(36)	(20)	—	971	1
21	Households	1,555	1,278	28	4	4	—	—	—	—	—	—	48	—
22	**Total**	483,898	439,156	15,499	2,804	2,593	(262)	(91)	(162)	(926)	(910)	(10)	108,638	444

Table 13: Performing and non-performing exposures and related provisions (CR1) (continued)

		Gross carrying amount /nominal amount[1,2,3]					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[1]	37,444	34,541	226	—	—	(6)	—	(1)	—	—	—	—	—
19	Other financial corporations[1]	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

1 Includes reverse repos and settlement accounts.
2 The staging analysis is non-additive as totals contain instruments not eligible for staging, such as those held at fair value through profit and loss.
3 On-balance sheet exposures exclude the assets held for sale.

Table 13 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 13.

Credit-impaired (stage 3) exposures are disclosed on page 61 and 66 of the Annual Report and Accounts 2023.

Table CR1-A below presents the residual maturity breakdown of on- and off-balance sheet loans and debt securities.

Table 14: Maturity of exposures (CR1-A)

		Net exposure value[1,2]					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£m	£m	£m	£m	£m	£m
1	Loans and advances	**38,447**	**127,809**	**71,640**	**29,885**	**—**	**267,780**
2	Debt securities	**—**	**6,519**	**21,522**	**9,991**	**—**	**38,032**
3	**Total at 31 Dec 2023**	**38,447**	**134,328**	**93,162**	**39,876**	**—**	**305,812**
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 at 31 Dec 2022**	34,626	115,738	83,221	33,172	—	266,757

1 *Includes on-balance sheet reverse repos and excludes assets held for sale, cash balances with central banks and other demand deposits, securitisation positions and settlement accounts.*
2 *This table includes free deliveries. Comparative data have not been represented.*

Table CR2 below shows changes in gross carrying amount of on-balance sheet non-performing loans and advances during the 12 months to December 2023.

Table 15: Changes in the stock of non-performing loans and advances (CR2)

		12 months to 31 Dec	
		2023	2022
		Gross carrying value	Gross carrying value
		£m	£m
010	**Initial stock of non-performing loans and advances**	**3,276**	2,538
020	Inflows to non-performing portfolios	**396**	951
030	Outflows from non-performing portfolios	**(547)**	(104)
040	Outflows due to write-offs	**(122)**	(152)
050	Outflow due to other situations[1]	**(644)**	43
060	**Final stock of non-performing loans and advances**	**2,359**	3,276

1 *Other changes include foreign exchange movements, repayments and assets held for sale in default.*

Non-performing and forborne exposures

Tables CQ1, CQ3 and CQ7 are presented in accordance with the European Banking Authority's ('EBA') '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. For our retail portfolios a past due credit obligation is recognised where any amount of principal, interest or fees has not been paid at the date it was due (or cycle date). 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 2023* definition of stage 3 credit-impaired is aligned to the EBA's definition of non-performing exposures.The IFRS 9 accounting standard Expected credit losses are classified as regulatory specific credit risk adjustments.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions to a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. Our definition of forborne captures non-payment related concessions.

In the *Annual Report and Accounts 2023*, forborne exposures are reported within the table 'Forborne loans and advances to customers at amortised cost by stage allocation'.

Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments ('financial difficulties').

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 during or at the end of the probation period.

The Prudential Regulation Authority's (PRA) has acknowledged that, whilst the EBA Guidelines relating to the management of non-performing exposures (NPEs) and forborne exposures (FBEs) are not applicable in the UK, the prudential aspects of these guidelines broadly represent good credit risk management standards.

Table CQ1 below breaks down performing and non-performing forborne exposures are classified by FINREP counterparty sector and showing the gross carrying amount, accumulated impairments and collateral and financial guarantees received against these exposures.

Table 16: 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 2023								
010	**Loans and advances**	**1,633**	**940**	***940***	***940***	**(19)**	**(313)**	**795**	***219***
050	Other financial corporations	**36**	**3**	***3***	***3***	**(1)**	**(3)**	**—**	***—***
060	Non-financial corporations	**1,509**	**809**	***809***	***809***	**(13)**	**(270)**	**626**	***132***
070	Households	**88**	**128**	***128***	***128***	**(5)**	**(40)**	**169**	***87***
090	**Loan commitments given**	**14**	**89**	***89***	***89***	**—**	**—**	**1**	***—***
100	**Total**	**1,647**	**1,029**	***1,029***	***1,029***	**(19)**	**(313)**	**796**	***219***
	At 31 Dec 2022								
010	Loans and advances	1,845	758	*758*	*758*	(26)	(257)	283	*104*
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*
090	Loan commitments given	—	—	—	—	—	—	—	—
100	Total	1,845	758	*758*	*758*	(26)	(257)	283	*104*

Table CQ3 presents an analysis of performing and non-performing exposures by days past due. The gross non-performing loan ('NPL') ratio at 31 Dec 2023 was 1.37% calculated in line with the EBA's guidelines.

Table 17: 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 2023												
1	**Loans and advances**	**290,818**	**290,510**	**308**	**2,343**	**1,741**	**32**	**55**	**362**	**40**	**27**	**86**	***2,343***
2	Central banks	**124,075**	**124,075**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
3	General governments	**1,233**	**1,233**	**—**	**49**	**16**	**—**	**—**	**33**	**—**	**—**	**—**	***49***
4	Credit institutions	**47,771**	**47,761**	**10**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
5	Other financial corporations	**55,946**	**55,942**	**4**	**316**	**32**	**—**	**2**	**273**	**1**	**2**	**6**	***316***
6	Non-financial corporations	**48,976**	**48,769**	**207**	**1,764**	**1,584**	**12**	**37**	**36**	**24**	**20**	**51**	***1,764***
7	*– of which: SMEs*	***1,305***	***1,303***	***2***	***160***	***67***	***4***	***7***	***14***	***19***	***11***	***38***	**160**
8	Households	**12,817**	**12,730**	**87**	**214**	**109**	**20**	**16**	**20**	**15**	**5**	**29**	***214***
9	**Debt securities**	**39,001**	**39,001**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10	Central banks	**29**	**29**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
11	General governments	**28,160**	**28,160**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	Credit institutions	**8,741**	**8,741**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
13	Other financial corporations	**1,679**	**1,679**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
14	Non-financial corporations	**392**	**392**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
15	**Off-balance-sheet exposures**	**154,079**	**—**	**—**	**461**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***461***
16	Central banks	**650**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
17	General governments	**2,029**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
18	Credit institutions	**42,520**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
19	Other financial corporations	**24,735**	**—**	**—**	**19**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***19***
20	Non-financial corporations	**82,590**	**—**	**—**	**438**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***438***
21	Households	**1,555**	**—**	**—**	**4**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***4***
22	**Total**	**483,898**	**329,511**	**308**	**2,804**	**1,741**	**32**	**55**	**362**	**40**	**27**	**86**	***2,804***

Table 17: Credit quality of performing and non-performing exposures by past due days (CQ3) (continued)

		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*
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*

Table CQ7 provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance sheet. The accumulated negative changes represents the accumulated impairment or negative change in the value of the collateral since initial recognition, including amortisation in the case of property, plant and equipment and investment properties.

Table 18: Collateral obtained by taking possession and execution processes (CQ7)

		At 31 Dec 2023		At 31 Dec 2022	
		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 (PP&E)	**3.7**	**(0.5)**	12.6	(0.1)
030	– Residential immovable property	**1.6**	**(0.4)**	1.7	—
040	– Commercial immovable property	**2.1**	**(0.1)**	2.2	—
050	– Movable property (auto, shipping, etc.)	**—**	**—**	—	—
060	– Equity and debt instruments	**—**	**—**	—	—
070	– Other	**—**	**—**	8.6	—
080	**Total**	**3.7**	**(0.5)**	12.6	(0.1)

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.

We have a number of global businesses with a broad range of products. We operate in a number of geographical markets with the majority of our exposures in Europe. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses.

These include portfolio and counterparty limits, approval and review controls, and stress testing. The following tables present information on the concentration of exposures by geography and industry.

Table CQ4 shows the credit quality of on and off balance sheet exposures by geography. The geographical breakdown is based on the country of residence of the immediate counterparty. The table below disclose countries in which the institution's exposure are material in accordance with Article 432 CRR. Countries that do not meet these criteria are disclosed in Other countries in the table.

Table 19: 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[1]**	**209,474**	***2,343***	**(1,105)**	**—**	**—**
020	United Kingdom	**47,778**	***166***	**(156)**	**—**	**—**
030	France	**33,167**	***891***	**(426)**	**—**	**—**
040	United States	**25,174**	***34***	**(12)**	**—**	**—**
050	Germany	**13,340**	***107***	**(51)**	**—**	**—**
060	Hong Kong	**8,701**	***—***	**—**	**—**	**—**
070	Other countries	**81,314**	***1,145***	**(460)**	**—**	**—**
080	**Off balance sheet exposures**	**154,541**	***461***	**—**	**83**	**—**
090	United Kingdom	**23,134**	***16***	**—**	**11**	**—**
100	France	**30,874**	***75***	**—**	**20**	**—**
110	United States	**5,091**	***7***	**—**	**3**	**—**
120	Germany	**23,941**	***118***	**—**	**6**	**—**
130	Hong Kong	**524**	***—***	**—**	**—**	**—**
140	Other countries	**70,977**	***245***	**—**	**43**	**—**
150	**Total at 31 Dec 2023**	**364,015**	***2,804***	**(1,105)**	**83**	**—**
010	On balance sheet exposures[1]	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 CQ5 below shows the gross carrying amount of loans and advances to non-financial corporations, the related accumulated impairment, and the accumulated changes in fair value to credit risk by industry types.

Table 20: Credit quality of loans and advances to non-financial corporations by industry (CQ5)

		Gross carrying amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Total	*of which: defaulted*		
		£m	*£m*	£m	£m
010	Agriculture, forestry and fishing	**342**	***28***	**(10)**	**—**
020	Mining and quarrying	**903**	***162***	**(4)**	**—**
030	Manufacturing	**10,855**	***349***	**(147)**	**—**
040	Electricity, gas, steam and air conditioning supply	**1,523**	***69***	**(9)**	**—**
050	Water supply	**406**	***5***	**(4)**	**—**
060	Construction	**653**	***39***	**(23)**	**—**
070	Wholesale and retail trade	**10,022**	***188***	**(119)**	**—**
080	Transport and storage	**3,218**	***151***	**(110)**	**—**
090	Accommodation and food service activities	**985**	***38***	**(17)**	**—**
100	Information and communication	**3,458**	***28***	**(33)**	**—**
110	Real estate activities	**4,591**	***184***	**(63)**	**—**
120	Financial and insurance activities[1]	**45**	***7***	**(2)**	**—**
130	Professional, scientific and technical activities	**6,015**	***327***	**(174)**	**—**
140	Administrative and support service activities	**5,587**	***115***	**(71)**	**—**
150	Public administration and defense, compulsory social security	**5**	***—***	**—**	**—**
160	Education	**46**	***1***	**—**	**—**
170	Human health services and social work activities	**166**	***5***	**(2)**	**—**
180	Arts, entertainment and recreation	**124**	***3***	**(3)**	**—**
190	Other services	**1,795**	***64***	**(23)**	**—**
200	**Total at 31 Dec 2023**	**50,739**	***1,763***	**(814)**	**—**
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

Our approach when granting credit facilities is to do so on the basis of capacity to repay, rather than placing primary reliance on credit risk mitigants. Depending on a customer's standing and the type of product, facilities may be provided unsecured.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of credit risk mitigation, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms with regard to the availability of credit risk mitigation such as 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 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. Facilities to small and medium-sized enterprises ('SMEs') are commonly granted against guarantees given by their owners and/or directors.

For credit risk mitigants in the form of immovable property, the key determinant of concentration at Group level is geographic. Use of immovable property mitigants for risk management purposes is predominantly in Asia and Europe.

Further information regarding collateral held over CRE is provided on pages 63 and 67, respectively, of the Annual Report and Accounts 2023.

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 derivatives activities and in securities financing transactions, such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

Further information regarding collateral held for trading exposures is on page 65 of the Annual Report and Accounts 2023.

In the non-trading book, we provide customers with working capital management products. In some cases, these products combine loans and advances to customers with customer accounts over which we have right of offset which comply with the regulatory requirements for on-balance sheet netting. Where this applies, the customer accounts are treated as cash collateral and are reflected in our LGD estimates.

Under on-balance sheet netting agreements, the customer accounts are treated as though they are covered by cash collateral and the effects of this collateral are incorporated in our LGD estimates. For risk management purposes, the net amounts of such exposures are subject to limits and the relevant customer agreements are subject to review to ensure the legal right of offset remains appropriate.

Other forms of credit risk mitigation

Our Global Banking and Markets ('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 ('ECA'). Corporates would normally provide guarantees as part of a parent/subsidiary or common parent relationship and would span a number of credit grades. The ECAs will normally be investment grade.

Policy and procedures

Policies and procedures cover the end to end Credit lending process including the governance of 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 will continue to provide the anticipated secure secondary repayment source. The frequency of valuation increases with the volatility of the collateral. For market trading activities such as collateralised over-the-counter ('OTC') derivatives and securities financing transactions ('SFTs'), we typically carry out daily valuations. In the residential mortgage business, Group policy prescribes revaluation of the portfolio at intervals of up to three years, or more frequently as the need arises; for example, where market conditions are subject to significant change, and for non performing loans on a regular basis (at least annually) . Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

For commercial real estate, where the facility exceeds regulatory threshold requirements, Group policy requires an independent review of the valuation at least every three years, or more frequently as the need arises. Revaluations are sought where, for example, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly in circumstances where an obligor's credit quality has declined sufficiently to cause 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:

- those which reduce the intrinsic PD of an obligor and therefore operate as determinants of PD; and
- those which affect the estimated recoverability of obligations and require adjustment of LGD or, in certain limited circumstances, EAD.The first category typically includes full parental guarantees where one obligor within a group guarantees another. In these circumstances, the parent guarantor materially influences the PD of the guaranteed obligor. PD estimates are also subject to a 'sovereign ceiling', constraining the risk ratings assigned to obligors in countries of higher risk, and where only partial parental support exists. In certain jurisdictions, certain types of third-party guarantee are recognised by substituting the obligor's PD with that of the guarantor.

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 considered in LGD estimates where there is evidence that they reduce loss expectation.

The main types of guarantor are banks, other financial institutions and corporates. The creditworthiness of providers of unfunded credit risk mitigation is taken into consideration as part of the guarantor's risk profile. Internal limits for such contingent exposure are approved in the same way as direct exposures.

EAD and LGD values are calculated using regulatory approved models, where available. For those portfolios where models are not permitted under the Permanent Partial Use rules, or are in the development pipeline, then regulatory values are used. For retail portfolios, credit risk mitigation data is incorporated into the internal risk parameters for exposures and feeds into the calculation of the expected loss ('EL') band value summarising both customer delinquency and product or facility risk. Credit and credit risk mitigation data form inputs submitted by all Group 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. Under the Advanced IRB approach, recognition may be through PD or LGD.
- Eligible financial collateral under the Advanced IRB approach is recognised in LGD models. Under the Foundation IRB approach, regulatory LGD values are adjusted. The adjustment to LGD is based on the degree to which the exposure value would be adjusted notionally if the financial collateral comprehensive method were applied.
- For all other types of collateral, including real estate, the LGD for exposures under the IRB advanced approach is calculated by models. For Foundation IRB, regulatory LGDs are adjusted depending on the value and type of the asset taken as collateral relative to the exposure. The types of eligible mitigation recognised under the Foundation IRB approach are more limited.

Table CR3 sets out the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigant.

Recognition of risk mitigation under the standardised approach

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

Table CR3 provides a breakdown of loans and advances and debt securities by different credit risk mitigation techniques. The on-balance sheet exposures exclude assets held for sale.

Table 21: 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	**189,220**	**102,863**	**85,744**	**17,119**	**—**
2	Debt securities	**34,228**	**4,746**	**—**	**4,746**	**—**
3	**Total at 31 Dec 2023**	**223,448**	**107,609**	**85,744**	**21,865**	**—**
4	*– of which: non-performing exposures*	***1,011***	***443***	***253***	***190***	**—**
5	*– of which: defaulted*	***1,011***	***443***	**—**	**—**	**—**
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 CR4 presents the split of credit risk exposures under the standardised approach, reflecting EAD before and after the impact of CRM techniques and credit conversion factors ('CCF').

Table 22: 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 RWAs density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWAs density
		£m	£m	£m	£m	£m	%
	Asset classes[1,2,3]						
1	Central governments or central banks	**135,148**	**1,657**	**142,579**	**1,212**	**1,259**	**1**
2	Regional governments or local authorities	**1,426**	**87**	**3,054**	**31**	**1**	**—**
3	Public sector entities	**4,144**	**55**	**34**	**—**	**7**	**21**
4	International organisations	**2,071**	**—**	**2,071**	**—**	**—**	**—**
5	Institutions	**4,894**	**2,896**	**4,972**	**2,067**	**2,052**	**29**
6	Corporates	**6,884**	**4,012**	**5,873**	**848**	**6,212**	**92**
7	Retail	**538**	**1,184**	**484**	**151**	**452**	**71**
8	Secured by mortgages on immovable property	**4,209**	**103**	**4,209**	**24**	**1,967**	**46**
9	Exposures in default	**254**	**30**	**240**	**19**	**304**	**117**
10	Exposures associated with particularly high risk	**68**	**13**	**68**	**5**	**110**	**150**
11	Collective investment undertakings	**304**	**—**	**304**	**—**	**304**	**100**
12	Equity	**1,681**	**—**	**1,681**	**—**	**3,453**	**205**
13	Other items	**2,536**	**—**	**2,536**	**—**	**845**	**33**
14	**Total at 31 Dec 2023**	**167,663**	**10,399**	**171,818**	**4,549**	**16,966**	**10**

Table 22: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) (continued)

		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWAs density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWAs density
		£m	£m	£m	£m	£m	%
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	International organisations	568	—	568	—	—	—
5	Institutions	3,890	2,178	4,001	1,409	1,636	30
6	Corporates	9,047	7,142	8,052	1,684	7,981	82
7	Retail	462	665	436	49	348	72
8	Secured by mortgages on immovable property	3,607	17	3,607	5	1,823	50
9	Exposures in default	326	32	284	9	369	126
10	Exposures associated with particularly high risk	87	18	86	7	139	150
11	Collective investment undertakings	1,475	684	1,475	342	3,315	182
12	Equity	2,501	—	2,501	—	5,223	209
13	Other items	2,657	—	2,657	—	829	31
14	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 *This table includes free deliveries. Prior period balances have not been represented.*
3 *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 CR7 provides a breakdown of IRB credit risk RWAs before and after credit derivatives CRM effects. The table excludes securitisation positions, free deliveries and non-credit obligation assets.

Table 23: IRB – Effect on the RWA of credit derivatives used as CRM techniques (CR7)[1]

		At 31 Dec 2023		At 31 Dec 2022	
		Pre-credit derivatives RWAs	**Actual RWAs**	Pre-credit derivatives RWAs	Actual RWAs
		£m	**£m**	£m	£m
1	**Exposures under FIRB**	**15,668**	**15,315**	17,756	17,362
2	Central governments and central banks	**6**	**6**	6	6
3	Institutions	**2**	**2**	12	12
4	Corporates[2]	**15,659**	**15,306**	17,738	17,345
4.1	– *of which SMEs*	***54***	***54***	*69*	*69*
4.3	– *of which others*	***15,605***	***15,252***	*17,669*	*17,276*
5	**Exposures under AIRB[2,3]**	**21,447**	**21,380**	21,903	21,859
6	Central governments and central banks	**2,119**	**2,119**	1,926	1,926
7	Institutions	**1,803**	**1,788**	2,136	2,127
8	Corporates[2]	**14,014**	**13,962**	13,853	13,818
8.1	– *of which SMEs*	***30***	***30***	*24*	*24*
8.2	– *of which specialised lending[2]*	***535***	***535***	*484*	*484*
8.3	– *of which others*	***13,449***	***13,396***	*13,345*	*13,310*
9	Retail	**3,511**	**3,511**	3,988	3,988
9.1	– *of which immovable property SMEs*	***139***	***139***	*180*	*180*
9.2	– *of which immovable property non-SMEs*	***2,109***	***2,109***	*2,411*	*2,411*
9.3	– *of which qualifying revolving*	***68***	***68***	*66*	*66*
9.4	– *of which other SMEs*	***302***	***302***	*332*	*332*
9.5	– *of which other non-SMEs*	***894***	***894***	*999*	*999*
10	**Total (including FIRB exposures and AIRB exposures)[2]**	**37,115**	**36,695**	39,659	39,221

1 *This table includes free deliveries. Prior period balances have not been represented.*
2 *Specialised lending exposures under the slotting approach are not included in this table, prior period has been re-presented accordingly.*
3 *Securitisation exposures, non-credit obligation assets and equity exposures are not included in this table.*

The below table CR7-A discloses percentage of exposures secured by various CRM techniques, separately for each exposure class in AIRB and FIRB approaches.

Table 24: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)[1]

			Funded credit protection ('FCP')								
				Part of exposures covered by Other eligible collaterals (%)				Part of exposures covered by Other funded credit protection (%)			
AIRB		**Total exposures**	**Part of exposures covered by Financial Collaterals**	**Total**	**Part of exposures covered by Immovable property collaterals**	**Part of exposures covered by receivables**	**Part of exposures covered by Other physical collateral**	**Total**	**Part of exposures covered by cash on deposit**	**Part of exposures covered by life insurance policies**	**Part of exposures covered by instru-ments held by a third party**
		£m	%	%	%	%	%	%	%	%	%
1	Central governments and central banks	**17,022**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	—	—	—	—
2	Institutions	**10,553**	**13.40**	**0.00**	**0.00**	**0.00**	**0.00**	—	—	—	—
3	Corporates[2]	**36,387**	**2.40**	**6.90**	**5.50**	**1.00**	**0.40**	—	—	—	—
3.1	– *of which Corporates – SMEs*	***54***	***0.00***	***46.30***	***44.40***	***1.90***	***0.00***	—	—	—	—
3.2	*Corporates – Specialised lending*[2]	***1,342***	***0.00***	***0.00***	***0.00***	***0.00***	***0.00***	—	—	—	—
3.3	*Corporates – Other*	***34,991***	***2.60***	***7.30***	***5.70***	***1.10***	***0.50***	—	—	—	—
4	Retail	**21,437**	**5.50**	**29.70**	**29.50**	**0.10**	**0.00**	—	—	—	—
4.1	– *of which: Retail – Immovable property SMEs*	***251***	***4.20***	***93.90***	***92.60***	***1.20***	***0.00***	—	—	—	—
4.2	*Retail – Immovable property non-SMEs*	***17,970***	***0.90***	***33.90***	***33.90***	***0.00***	***0.00***	—	—	—	—
4.3	*Retail – Qualifying revolving*	***218***	***0.00***	***0.00***	***0.00***	***0.00***	***0.00***	—	—	—	—
4.4	*Retail – Other SMEs*	***855***	***10.30***	***3.40***	***0.00***	***3.20***	***0.20***	—	—	—	—
4.5	*Retail – Other non-SMEs*	***2,143***	***43.20***	***0.00***	***0.00***	***0.00***	***0.00***	—	—	—	—
5	**Total at 31 Dec 2023**[2]	**85,397**	**4.00**	**10.20**	**9.50**	**0.50**	**0.20**	—	—	—	—
FIRB											
1	Central governments and central banks	—	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	—	—	—	—
2	Institutions	—	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	—	—	—	—
3	Corporates	**53,425**	**36.90**	**1.60**	**1.20**	**0.40**	**0.00**	—	—	—	—
3.1	– *of which: Corporates – SMEs*	***118***	***14.40***	***4.50***	***4.50***	***0.00***	***0.00***	—	—	—	—
3.2	*Corporates – Specialised lending*	—	***0.00***	***0.00***	***0.00***	***0.00***	***0.00***	—	—	—	—
3.3	*Corporates – Other*	***53,307***	***37.00***	***1.60***	***1.20***	***0.40***	***0.00***	—	—	—	—
4	**Total at 31 Dec 2023**	**53,425**	**36.90**	**1.60**	**1.20**	**0.40**	**0.00**	—	—	—	—
IRB											
	Specialised lending under the slotting approach	***899***	—	—	—	—	—	—	—	—	—
	Equity Exposures[3]	***1,495***	—	—	—	—	—	—	—	—	—

Table 24: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)[1] (continued)

		Unfunded credit Protection		Credit risk mitigation methods in the calculation of RWAs	
AIRB		**Part of exposures covered by guarantees**	**Part of exposures covered by credit derivatives**	**RWA post- all CRM assigned to the obligor exposure class**	**RWA with substitution effects**
		%	**%**	**£m**	**£m**
1	Central governments and central banks	**0.00**	**0.00**	**2,083**	**2,119**
2	Institutions	**0.00**	**0.00**	**1,801**	**1,788**
3	Corporates[2]	**1.30**	**0.00**	**13,959**	**13,962**
3.1	– *of which:* *Corporates – SMEs*	***0.00***	**0.00**	***30***	***30***
3.2	*Corporates – specialised lending*[2]	***3.80***	**0.00**	***535***	***535***
3.3	*Corporates – other*	***1.20***	**0.00**	***13,394***	***13,396***
4	Retail	**54.80**	**0.00**	**3,511**	**3,511**
4.1	– *of which:* *Retail – immovable property SMEs*	***0.20***	**0.00**	***139***	***139***
4.2	*Retail – immovable property non-SMEs*	***65.20***	**0.00**	***2,109***	***2,109***
4.3	*Retail – qualifying revolving*	***0.00***	**0.00**	***68***	***68***
4.4	*Retail – other SMEs*	***1.60***	**0.00**	***302***	***302***
4.5	*Retail – other non-SMEs*	***0.60***	**0.00**	***894***	***894***
5	**Total at 31 Dec 2023**[2]	***13.90***	**0.00**	**21,354**	**21,380**
FIRB					
1	Central governments and central banks	**0.00**	**0.00**	**0**	**6**
2	Institutions	**0.00**	**0.00**	**0**	**2**
3	Corporates	**0.00**	**0.00**	**15,357**	**15,306**
3.1	– *of which:* *Corporates – SMEs*	***0.00***	***0.00***	***54***	***54***
3.2	*Corporates – specialised lending*	***0.00***	***0.00***	***0***	***0***
3.3	*Corporates – other*	***0.00***	***0.00***	***15,303***	***15,252***
4	**Total at 31 Dec 2023**	**0.00**	**0.00**	**15,357**	**15,315**
IRB					
	Specialised lending under the slotting approach	**0.00**	**0.00**	**599**	**599**
	Equity Exposures[3]	**0.00**	**0.00**	**2,990**	**2,990**

Table 24: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)[1] (continued)

			Funded credit protection ('FCP')								
				Part of exposures covered by Other eligible collaterals (%)				Part of exposures covered by Other funded credit protection (%)			
AIRB		Total exposures	Part of exposures covered by Financial Collaterals	Total	Part of exposures covered by Immovable property collaterals	Part of exposures covered by receivables	Part of exposures covered by Other physical collateral	Total	Part of exposures covered by cash on deposit	Part of exposures covered by life insurance policies	Part of exposures covered by instru-ments held by a third party
		£m	%	%	%	%	%	%	%	%	%
1	Central governments and central banks	14,021	4.9	0.0	0.0	0.0	0.0	—	—	—	—
2	Institutions	11,182	26.4	0.3	0.3	0.0	0.0	—	—	—	—
3	Corporates[2]	36,122	2.2	7.2	4.9	0.9	1.4	—	—	—	—
3.1	*– of which Corporates – SMEs*	*41*	*0.7*	*72.8*	*63.5*	*9.3*	*0.0*	—	—	—	—
3.2	*Corporates – Specialised lending*[2]	*1,175*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	—	—	—	—
3.3	*Corporates – Other*	*34,906*	*2.3*	*7.3*	*5.0*	*0.9*	*1.4*	—	—	—	—
4	Retail	23,877	7.2	28.0	27.9	0.0	0.0	—	—	—	—
4.1	*– of which: Retail – Immovable property SMEs*	*299*	*3.6*	*93.4*	*92.2*	*1.2*	*0.0*	—	—	—	—
4.2	*Retail – Immovable property non-SMEs*	*19,580*	*0.9*	*32.6*	*32.6*	*0.0*	*0.0*	—	—	—	—
4.3	*Retail – Qualifying revolving*	*583*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	—	—	—	—
4.4	*Retail – Other SMEs*	*928*	*10.7*	*0.8*	*0.0*	*0.4*	*0.4*	—	—	—	—
4.5	*Retail – Other non-SMEs*	*2,487*	*57.6*	*0.0*	*0.0*	*0.0*	*0.0*	—	—	—	—
5	Total at 31 Dec 2022[2]	85,202	7.2	10.9	10.0	0.4	0.6	—	—	—	—
FIRB											
1	Central governments and central banks	—	0.0	0.0	0.0	0.0	0.0	—	—	—	—
2	Institutions	—	0.0	0.0	0.0	0.0	0.0	—	—	—	—
3	Corporates	51,320	28.2	1.8	1.3	0.4	0.1	—	—	—	—
3.1	*– of which: Corporates – SMEs*	*113*	*15.8*	*6.4*	*6.4*	*0.0*	*0.0*	—	—	—	—
3.2	*Corporates – Specialised lending*	—	*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*	—	—	—	—
4	Total at 31 Dec 2022	51,320	28.2	1.8	1.3	0.4	0.1	—	—	—	—
IRB											
	Specialised lending under the slotting approach	*2,049*	—	—	—	—	—	—	—	—	—
	Equity Exposures[3]	—	—	—	—	—	—	—	—	—	—

Table 24: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A)[1] (continued)

		Unfunded credit Protection		Credit risk mitigation methods in the calculation of RWAs	
AIRB		Part of exposures covered by guarantees	Part of exposures covered by credit derivatives	RWA post- all CRM assigned to the obligor exposure class	RWA with substitution effects
		%	%	£m	£m
1	Central governments and central banks	0.5	—	1,926	1,926
2	Institutions	0.0	—	2,135	2,127
3	Corporates[2]	2.1	—	13,808	13,818
3.1	– *of which:* *Corporates – SMEs*	*0.0*	—	*24*	*24*
3.2	*Corporates – specialised lending*[2]	*4.5*	—	*484*	*484*
3.3	*Corporates – other*	*2.0*	—	*13,300*	*13,311*
4	Retail	54.7	—	3,988	3,988
4.1	– *of which:* *Retail – immovable property SMEs*	*0.2*	—	*180*	*180*
4.2	*Retail – immovable property non-SMEs*	*66.5*	—	*2,412*	*2,412*
4.3	*Retail – qualifying revolving*	*0.0*	—	*66*	*66*
4.4	*Retail – other SMEs*	*2.3*	—	*332*	*332*
4.5	*Retail – other non-SMEs*	*0.7*	—	*999*	*999*
5	Total at 31 Dec 2022[2]	16.3	—	21,856	21,859
FIRB					
1	Central governments and central banks	0.0	—	—	6
2	Institutions	0.0	—	—	12
3	Corporates	0.0	—	17,369	17,345
3.1	– *of which:* *Corporates – SMEs*	*0.0*	—	*69*	*69*
3.2	*Corporates – specialised lending*	*0.0*	—	—	—
3.3	*Corporates – other*	*0.0*	—	*17,301*	*17,277*
4	Total at 31 Dec 2022	0.0	—	17,369	17,362
IRB					
	Specialised lending under the slotting approach	—	—	*1,314*	*1,314*
	Equity Exposures[3]	—	—	—	—

1 This table includes free deliveries. Prior period balances have not been represented.
2 Specialised lending exposures under the slotting approach are disclosed separately in the table.
3 No comparatives are provided for December 2022, as disclosures were enhanced from June 2023.

Table CR10 sets out the specialised lending exposures by different regulatory slotting categories split by remaining maturity. It also includes a separate disclosure of equity exposures under the simple risk-weighted approach.

Table 25: 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	—	—	—
	Equal to or more than 2.5 years	—	—	70	—	—	—
Category 2	Less than 2.5 years	—	—	70	—	—	—
	Equal to or more than 2.5 years	3	—	90	3	2	—
Category 3	Less than 2.5 years	—	—	115	—	—	—
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Category 5	Less than 2.5 years	—	—	0	—	—	—
	Equal to or more than 2.5 years	—	—	0	—	—	—
Total at 31 Dec 2023	Less than 2.5 years	—	—	0	—	—	—
	Equal to or more than 2.5 years	3	—	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	239	26	50	262	131	—
	Equal to or more than 2.5 years	205	26	70	232	140	1
Category 2	Less than 2.5 years	206	36	70	233	163	1
	Equal to or more than 2.5 years	22	16	90	35	24	—
Category 3	Less than 2.5 years	108	2	115	108	124	3
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Category 5	Less than 2.5 years	—	—	—	—	—	—
	Equal to or more than 2.5 years	—	—	—	—	—	—
Total at 31 Dec 2023	Less than 2.5 years	554	64	—	604	418	4
	Equal to or more than 2.5 years	228	43	—	266	164	1

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	—	—	50	—	—	—
	Equal to or more than 2.5 years	22	—	70	22	15	—
Category 2	Less than 2.5 years	—	—	70	—	—	—
	Equal to or more than 2.5 years	—	—	90	—	—	—
Category 3	Less than 2.5 years	—	—	115	—	—	—
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Category 5	Less than 2.5 years	—	—	—	—	—	—
	Equal to or more than 2.5 years	2	—	—	2	—	1
Total at 31 Dec 2023	Less than 2.5 years	—	—	—	—	—	—
	Equal to or more than 2.5 years	24	—	—	24	15	1

Equity exposures under simple risk weighted approach[1]	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWAs	Expected losses
Regulatory categories	$m	$m	%	$m	$m	$m
Private equity exposures	1,224	—	190	1,224	2,326	10
Exchange-traded equity exposures	—	—	290	—	—	—
Other equity exposures	—	—	370	—	—	—
Off balance sheet CIU equity exposures[2]	—	541	—	271	664	2
Total at 31 Dec 2023	1,224	541		1,495	2,990	12

1 No comparatives are provided as disclosures were enhanced from June 2023.
2 Off-balance sheet collective investment undertakings ('CIU') equity exposures are calculated as per CRR II Article 132c.

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 279 to 303 of the *HSBC Holdings plc Annual Report 2023*.

The following tables show the remuneration awards made to Identified Staff and MRTs in HSBC Bank plc for 2023. 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 26: Remuneration awarded for the financial year (REM1)

		Supervisory function	Management function	Other senior management	Other identified staff
Fixed remuneration	Number of identified staff	**8.0**	**3.0**	**14.0**	**239.6**
	Total fixed pay (£m)	**1.6**	**3.2**	**11.8**	**112.7**
	– *of which: cash-based (£m)*[1]	***1.6***	***3.2***	***11.8***	***112.7***
	– *of which: shares or equivalent ownership interests (£m)*[2]	—	—	—	—
	– *of which: share-linked instruments or equivalent non-cash instruments (£m)*	—	—	—	—
	– *of which: other instruments (£m)*	—	—	—	—
	– *of which: other forms (£m)*	—	—	—	—
Variable remuneration[3]	Number of identified staff	**8.0**	**3.0**	**14.0**	**239.6**
	Total variable remuneration (£m)[4,5]	—	**5.5**	**15.7**	**133.9**
	– *of which: cash-based (£m)*	—	***3.1***	***7.2***	***70.1***
	– *of which: deferred (£m)*	—	***1.2***	***4.2***	***30.9***
	– *of which: shares or equivalent ownership interests (£m)*[2]	—	***2.4***	***8.5***	***62.3***
	– *of which: deferred (£m)*	—	***1.6***	***5.4***	***36.2***
	– *of which: share-linked instruments or equivalent non-cash instruments (£m)*	—	—	—	***0.7***
	– *of which: deferred (£m)*	—	—	—	***0.6***
	– *of which: other instruments (£m)*	—	—	—	—
	– *of which: deferred (£m)*	—	—	—	—
	– *of which: other forms (£m)*	—	—	—	***0.8***
	– *of which: deferred (£m)*	—	—	—	***0.7***
Total remuneration (£m)		**1.6**	**8.7**	**27.5**	**246.6**

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 2023. 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 three individuals for the purpose of calculating the ratio between fixed and variable components of 2023 total remuneration.*
5 *10 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 £1.6m, of which £1.3m is fixed pay and £0.3m is variable remuneration.*

Table 27: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (REM2)

	Supervisory function	Management function	Other senior management	Other identified staff
Guaranteed variable remuneration awards[1]				
Number of identified staff	—	—	—	—
Total amount (£m)	—	—	—	—
– *of which: guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap (£m)*	—	—	—	—
Severance payments awarded in previous periods, that have been paid out during the financial year[2]				
Number of identified staff	—	—	—	—
Total amount (£m)	—	—	—	—
Severance payments awarded during the financial year[2]				
Number of identified staff	—	**1**	—	**11.8**
Total amount (£m)	—	**1.1**	—	**12.2**
– *of which: paid during the financial year (£m)*	—	***1.1***	—	***9.2***
– *of which: deferred (£m)*	—	—	—	—
– *of which: severance payments paid during the financial year, that are not taken into account in the bonus cap (£m)*	—	***1.1***	—	***12.2***
– *of which: highest payment that has been awarded to a single person (£m)*	—	***1.1***	—	***2.8***

1 *No guaranteed variable remuneration awarded in 2023. 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 28: 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	10.7	*1.7*	*9.0*	—	—	0.8	1.7	0.3
Cash-based	4.0	*0.6*	*3.4*	—	—	—	0.6	—
Shares	6.7	*1.1*	*5.6*	—	—	0.8	1.1	0.3
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other senior management	24.8	*5.4*	*19.4*	—	—	1.6	5.4	0.7
Cash-based	9.2	*1.5*	*7.6*	—	—	—	1.5	—
Shares	15.6	*3.9*	*11.8*	—	—	1.6	3.9	0.7
Share-linked instruments	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Other identified staff	210.4	*51.2*	*159.2*	—	—	12.3	50.9	7.4
Cash-based	84.8	*18.2*	*66.6*	—	—	—	18.2	—
Shares	122.3	*31.5*	*90.8*	—	—	12.0	31.4	6.7
Share-linked instruments	1.2	*0.6*	*0.6*	—	—	0.2	0.6	0.3
Other instruments	—	—	—	—	—	—	—	—
Other forms	2.1	*0.9*	*1.2*	—	—	0.1	0.7	0.4
Total amount	245.9	*58.3*	*187.6*	—	—	14.7	58.0	8.4

1 *This table provides details of balances and movements during performance year 2023. For details of variable pay awards granted for 2023, 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 29: Remuneration of 1 million EUR or more per year (REM4)

	Identified staff that are high earners as set out in Article 450(i) CRR
€1,000,000 – 1,500,000	53
€1,500,000 – 2,000,000	37
€2,000,000 – 2,500,000	13
€2,500,000 – 3,000,000	5
€3,000,000 – 3,500,000	5
€3,500,000 – 4,000,000	3
€4,000,000 – 4,500,000	2
€4,500,000 – 5,000,000	3
€5,000,000 – 6,000,000	3
€6,000,000 – 7,000,000	1
€7,000,000 – 8,000,000	—
€8,000,000 – 9,000,000	—
€9,000,000 – 10,000,000	—
€10,000,000 – 11,000,000	—
€11,000,000 – 12,000,000	—

1 *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 30: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (REM5)

	Management body remuneration			Business areas				
£m	MB Supervisory function	MB Management function	Total MB	Retail banking	Corporate function	Independent internal control function	All other	Total
Total number of identified staff								264.6
– *of which:* *members of the MB*	***8.0***	***3.0***	***11.0***					
other senior management				***2.0***	***5.0***	***2.0***	***5.0***	
other identified staff				***21.0***	***20.0***	***44.0***	***154.6***	
Total remuneration of identified staff	**1.6**	**8.7**	**10.3**	**21.9**	**21.2**	**25.8**	**205.2**	
– *of which:* *variable remuneration*[1]	—	***5.5***	***5.5***	***10.9***	***9.9***	***10.9***	***117.9***	
fixed remuneration	***1.6***	***3.2***	***4.8***	***11.0***	***11.3***	***14.9***	***87.3***	

1 *Variable pay awarded in respect of 2023. 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

Table CCyB1 below discloses the geographical distribution of credit exposures relevant to the calculation of the countercyclical buffer ('CCyB') under Article 440 of CRR II. Exposures to central governments/banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions are excluded and therefore differ from those presented in the credit and counterparty credit risk sections.

Countries or territories that have a CCyB requirement, or have an own funds requirement of greater than 0.7%, or that are otherwise material in nature are disclosed below. Countries or territories that do not meet these criteria are disclosed in *Other* category in the table.

Table 31: 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 requirements	CCyB rate
Country	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	***£m***	***£m***	***£m***	**£m**	**£m**	**%**	**%**
Australia	**3**	**471**	**—**	**13**	**—**	**487**	***12***	***1***	***—***	**13**	**167**	**0.24**	**1.00**
Belgium	**70**	**798**	**11**	**7**	**—**	**886**	***34***	***6***	***—***	**40**	**495**	**0.70**	**—**
Bermuda	**1,230**	**1,039**	**—**	**1**	**—**	**2,271**	***89***	***—***	***—***	**89**	**1,116**	**1.58**	**—**
Bulgaria	**1**	**6**	**—**	**—**	**—**	**7**	***—***	***—***	***—***	**—**	**3**	**0.00**	**2.00**
Cayman Islands	**60**	**1,873**	**—**	**—**	**—**	**1,933**	***98***	***—***	***—***	**98**	**1,225**	**1.74**	**—**
Cyprus	**7**	**99**	**—**	**—**	**—**	**106**	***20***	***—***	***—***	**20**	**251**	**0.36**	**0.50**
Croatia	**—**	**1**	**—**	**—**	**—**	**1**	***—***	***—***	***—***	**—**	**1**	**0.00**	**1.00**
Czech Republic	**33**	**394**	**—**	**6**	**—**	**434**	***15***	***—***	***—***	**15**	**190**	**0.27**	**2.00**
Denmark	**—**	**1,001**	**—**	**10**	**—**	**1,012**	***35***	***1***	***—***	**36**	**449**	**0.64**	**2.50**
Estonia	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**0.00**	**1.50**
France	**2,055**	**36,741**	**64**	**182**	**4,435**	**43,476**	***949***	***33***	***62***	**1,044**	**13,055**	**18.53**	**0.50**
Germany	**575**	**10,550**	**146**	**91**	**477**	**11,840**	***453***	***25***	***4***	**483**	**6,038**	**8.57**	**0.75**
Greece	**14**	**348**	**3**	**5**	**—**	**369**	***16***	***2***	***—***	**18**	**224**	**0.32**	**—**
Hong Kong	**8**	**474**	**—**	**2**	**—**	**484**	***11***	***1***	***—***	**12**	**150**	**0.21**	**1.00**
Iceland	**—**	**—**	**—**	**—**	**—**	**—**	***—***	***—***	***—***	**—**	**—**	**0.00**	**2.00**
Ireland	**396**	**3,477**	**677**	**7**	**557**	**5,114**	***114***	***17***	***7***	**137**	**1,715**	**2.43**	**1.00**
Israel	**125**	**1,277**	**—**	**22**	**—**	**1,423**	***56***	***7***	***—***	**63**	**788**	**1.12**	
Italy	**185**	**1,148**	**219**	**1**	**285**	**1,838**	***53***	***20***	***4***	**77**	**965**	**1.37**	**—**
Jersey	**17**	**1,974**	**—**	**—**	**—**	**1,990**	***55***	***—***	***—***	**55**	**686**	**0.97**	**—**
Luxembourg	**583**	**4,726**	**3**	**32**	**—**	**5,344**	***238***	***13***	***—***	**250**	**3,130**	**4.44**	**0.50**
Lithuania	**—**	**—**	**—**	**—**	**—**	**1**	***—***	***—***	***—***	**—**	**1**	**0.00**	**1.00**
Malta	**2,526**	**136**	**—**	**2**	**—**	**2,664**	***113***	***1***	***—***	**114**	**1,431**	**2.03**	**—**
Netherlands	**886**	**5,091**	**283**	**78**	**1,087**	**7,424**	***201***	***50***	***12***	**262**	**3,276**	**4.65**	**1.00**
Norway	**—**	**141**	**—**	**13**	**—**	**155**	***3***	***2***	***—***	**6**	**71**	**0.10**	**2.50**
Poland	**345**	**453**	**—**	**—**	**—**	**798**	***43***	***—***	***—***	**44**	**545**	**0.77**	**—**
Peru	**—**	**22**	**—**	**45**	**—**	**67**	***—***	***40***	***—***	**41**	**510**	**0.72**	
Romania	**—**	**6**	**—**	**1**	**—**	**7**	***—***	***—***	***—***	**—**	**3**	**0.00**	**1.00**
Slovenia	**4**	**—**	**—**	**1**	**—**	**5**	***—***	***1***	***—***	**1**	**16**	**0.02**	**0.50**
Slovakia	**4**	**44**	**—**	**2**	**—**	**50**	***1***	***—***	***—***	**1**	**18**	**0.02**	**1.50**
South Africa	**360**	**515**	**—**	**7**	**—**	**882**	***44***	***3***	***—***	**47**	**587**	**0.83**	**—**
Saudi Arabia	**3**	**354**	**—**	**94**	**—**	**452**	***7***	***46***	***—***	**53**	**668**	**0.95**	
Spain	**292**	**1,838**	**38**	**39**	**186**	**2,393**	***87***	***9***	***1***	**97**	**1,208**	**1.72**	**—**
Sweden	**1**	**741**	**—**	**4**	**—**	**746**	***70***	***7***	***—***	**77**	**962**	**1.37**	**2.00**
Switzerland	**131**	**4,033**	**—**	**34**	**—**	**4,199**	***104***	***4***	***—***	**108**	**1,346**	**1.91**	**—**
United Kingdom	**5,493**	**43,345**	**516**	**283**	**6,122**	**55,758**	***1,317***	***97***	***148***	**1,562**	**19,527**	**27.80**	**2.00**
United States	**507**	**11,120**	**8**	**117**	**770**	**12,523**	***335***	***37***	***25***	**396**	**4,954**	**7.03**	**—**
Other countries	**1,080**	**8,217**	**82**	**491**	**167**	**10,036**	***228***	***144***	***2***	**374**	**4,673**	**6.63**	
Total	**16,994**	**142,453**	**2,050**	**1,590**	**14,086**	**177,175**	***4,801***	***567***	***265***	**5,633**	**70,444**	**100**	

Table CCyB2 shows the total RWAs calculated in accordance with Article 92(3) of CRR II and provides an overview of institution-specific countercyclical capital exposure and buffer requirement.

Table 32: Amount of Institution specific countercyclical capital buffer (CCyB2)

	31 Dec 2023
Total risk exposure amount (£m)	**107,449**
Institution specific countercyclical capital buffer rate (%)	**0.86**
Institution specific countercyclical capital buffer requirement (£m)	**927**

Appendix II

Compliance with CRR II Pillar 3 Requirements

HSBC Bank plc Pillar 3 regular requirements are enclosed in CRR II level of application rule 2.3. The rule states that large subsidiaries of UK parent institutions as HSBC Bank plc, UK parent financial holding companies or UK parent mixed financial holding companies and large subsidiaries of parent undertakings established in a third country shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451, 451a and 453 on an individual basis or on a sub-consolidated basis.

Article	Regulatory Requirements	Compliance reference
Disclosure requirements and policies		
431(1)	Institutions shall publicly disclose the information referred to in Titles II and III in accordance with the provisions laid down in this Title, subject to the exceptions referred to in Article 432.	HSBC Bank plc publishes Pillar 3 disclosures as required
431 (2)	Institutions that have been granted permission by the competent authorities under Part Three for the instruments and methodologies referred to in Title III of this Part shall publicly disclose the information laid down therein.	Title III refers to the below articles, further information is provided within the compliance table. Article 453 Disclosure of the Use of Credit Risk Mitigation Techniques
431(3)	The management body or senior management shall adopt formal policies to comply with the disclosure requirements laid down in this Part and put in place and maintain internal processes, systems and controls to verify that the institution's disclosures are appropriate and in compliance with the requirements laid down in this Part. At least one member of the management body or senior management shall attest in writing that the relevant institution has made the disclosures required under this Part in accordance with the formal policies and internal processes, systems and controls. The written attestation and the key elements of the institution's formal policies to comply with the disclosure requirements shall be included in the institutions' disclosures. Information to be disclosed in accordance with this Part shall be subject to the same level of internal verification as that applicable to the management report included in the institution's financial report. Institutions shall also have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants. Where institutions find that the disclosures required under this Part do not convey the risk profile comprehensively to market participants, they shall publicly disclose information in addition to the information required to be disclosed under this Part. Nonetheless, institutions shall only be required to disclose information that is material and not proprietary or confidential in accordance with Article 432.	HSBC Bank plc has a Pillar 3 policy. Board members attest to the appropriateness of Pillar 3 Disclosures, and the Pillar 3 is governed by the Group's disclosure policy and internal controls framework as approved by the Board - Refer 'Governance' section on the page 3
431(4)	All quantitative disclosures shall be accompanied by a qualitative narrative and any other supplementary information that may be necessary in order for the users of that information to understand the quantitative disclosures, noting in particular any significant change in any given disclosure compared to the information contained in the previous disclosures.	Narratives are included to explain quantitative disclosures where required. Refer page 3 for the overarching statement.
431(5)	Institutions shall, if requested, explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of the explanation shall be proportionate to the size of the loan.	The HSBC Credit Risk Management process is disclosed in the HSBC Bank plc Annual Report and Accounts on page 30

Article	Regulatory Requirements	Compliance reference
Non-material, proprietary or confidential information		
432 (1)	With the exception of the disclosures laid down in point (c) of Article 435(2) and in Articles 437 and 450, institutions may omit one or more of the disclosures listed in Titles II and III where the information provided by those disclosures is not regarded as material. Information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions.	HSBC Bank plc complies with all relevant disclosure requirements.
432 (2)	Institutions may also omit one or more items of information referred to in Titles II and III where those items include information that is regarded as proprietary or confidential in accordance with this paragraph, except for the disclosures laid down in Articles 437 and 450. Information shall be regarded as proprietary to institutions where disclosing it publicly would undermine their competitive position. Proprietary information may include information on products or systems that would render the investments of institutions therein less valuable, if shared with competitors. Information shall be regarded as confidential where the institutions are obliged by customers or other counterparty relationships to keep that information confidential.	
432 (3)	In the exceptional cases referred to in paragraph 2, the institution concerned shall state in its disclosures the fact that the specific items of information are not disclosed and the reason for not disclosing those items, and publish more general information about the subject matter of the disclosure requirement, except where that subject matter is, in itself, proprietary or confidential.	
Frequency and scope of disclosures		
433	Institutions shall publish the disclosures required under Titles II and III in the manner set out in Articles 433a, 433b and 433c. Annual disclosures shall be published on the same date as the date on which institutions publish their financial statements or as soon as possible thereafter. Semi-annual and quarterly disclosures shall be published on the same date as the date on which the institutions publish their financial reports for the corresponding period where applicable or as soon as possible thereafter. Any delay between the date of publication of the disclosures required under this Part and the relevant financial statements shall be reasonable.	As a large institution, HSBC Bank plc complies with the frequency requirements set out in Article 433a. The annual Pillar 3 Disclosures are the same date as the Annual Report and Accounts. HSBC Bank plc semi-annual and quarterly Pillar 3 disclosures are published as soon as possible after the interim and quarterly financial statements.
433a.1	Large institutions shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) on a semi-annual basis the information referred to in: (i) point (a) of Article 437; (ii) point (e) of Article 438; (iii) points (e) to (l) of Article 439; (iv) Article 440; (v) points (c), (e), (f) and (g) of Article 442; (vi) point (e) of Article 444; (vii) Article 445; (viii) point (a) and (b) of Article 448(1); (ix) point (j) to (l) of Article 449; (x) points (a) and (c) of Article 451(1); (xi) Article 451a(3); (xii) point (g) of Article 452; (xiii) points (f) to (j) of Article 453; (xiv) points (d), (e) and (g) of Article 455; (c) on a quarterly basis the information referred to in: (i) points (d) and (h) of Article 438; (ii) the key metrics referred to in Article 447; (iii) Article 451a(2).	HSBC Bank plc comply with the frequency requirements set out in this article that are relevant for subsidiaries (in line with PRA paragraph 2.3.)
433a.2	By way of derogation from paragraph 1, large institutions other than GSIIs that are non-listed institutions shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) the key metrics referred to in Article 447 on a semi-annual basis.	HSBC Bank plc comply with the frequency requirements set out in this article that are relevant for subsidiaries (in line with PRA paragraph 2.3.)
433a.3	Large institutions that are subject to Article 92a or 92b shall disclose the information required under Article 437a on a semi-annual basis, except for the key metrics referred to in point (h) of Article 447, which are to be disclosed on a quarterly basis.	HSBC Bank plc is not subject to Article 92a or 92b
433a.4	Large institutions that are LREQ firms shall disclose the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.	HSBC Bank plc complies with this requirement and completes additional leverage disclosures on a quarterly basis.

Article	Regulatory Requirements	Compliance reference
Disclosures by small and non-complex institutions		
433b (1)	Small and non-complex institutions shall disclose the information outlined below with the following frequency: (a) on an annual basis the information referred to in: (i) points (a), (e) and (f) of Article 435(1); (ii) point (d) of Article 438; (iii) points (a) to (d), (h), and (i) of Article 450(1); (b) on a semi-annual basis the key metrics referred to in Article 447.	This disclosure is not applicable to HSBC Bank plc
433b (2)	By way of derogation from paragraph 1 of this Article, small and non-complex institutions that are non-listed institutions shall disclose the key metrics referred to in Article 447 on an annual basis.	This disclosure is not applicable to HSBC Bank plc
Disclosures by other institutions		
433c (1)	Institutions that are not subject to Article 433a or 433b shall disclose the information outlined below with the following frequency: (a) all the information required under this Part on an annual basis; (b) the key metrics referred to in Article 447 on a semi-annual basis; (c) for such institutions that are LREQ firms, the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.	This disclosure is not applicable to HSBC Bank plc
433c (2)	By way of derogation from paragraph 1 of this Article, other institutions that are non-listed institutions shall disclose the following information on an annual basis: (a) points (a), (e) and (f) of Article 435(1); (b) points (a), (b) and (c) of Article 435(2); (c) point (a) of Article 437; (d) points (c) and (d) of Article 438; (e) the key metrics referred to in Article 447; (f) points (a) to (d), (h) to (k) of Article 450(1).	This disclosure is not applicable to HSBC Bank plc
Means of disclosures		
434 (1)	Institutions shall disclose all the information required under Titles II and III in electronic format and in a single medium or location. The single medium or location shall be a standalone document that provides a readily accessible source of prudential information for users of that information or a distinctive section included in or appended to the institutions' financial statements or financial reports containing the required disclosures and being easily identifiable to those users.	HSBC Bank plc prepares Pillar 3 disclosures with clear references to the Annual Reporting and Accounts where distinctive sections provide regulatory disclosures.
434 (2)	Institutions shall make available on their website or, in the absence of a website, in any other appropriate location an archive of the information required to be disclosed in accordance with this Part. That archive shall be kept accessible for a period of time that shall be no less than the storage period set by national law for information included in the institutions' financial reports.	Pillar 3 disclosures are published on the HSBC Investors' - Results and Announcements website, www.hsbc.com/investors.
Timing and means of disclosures under Article 441		
434b (1)	By way of derogation from the second paragraph of Article 433, G-SIIs shall disclose the information required under Article 441 within four months after the end of the period to which the information relates.	This disclosures are not applicable to HSBC Bank plc
434b (2)	By way of derogation from Article 434(1), where a G-SII relies on the derogation in paragraph 1, it may disclose the information required under Article 441 in a separate medium or location from the standalone document mentioned in Article 434(1).	
434b (3)	If, in accordance with paragraphs 1 and 2, a G-SII does not disclose the information required under Article 441 at the same time as, and in the same medium or location as, the other information required to be disclosed under Titles II and III, it shall include in the standalone document mentioned in Article 434(1) a statement specifying when and in what medium or location the information required under Article 441 will be disclosed.	

Article	Regulatory Requirements	Compliance reference
Own funds		
437	Institutions shall disclose the following information regarding their own funds:	HSBC Bank plc complies with the requirement as set out below.
437 (a)	full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution	Table 3: Composition of Regulatory own funds (UK CC1) on page 8 Table 2: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (UK CC2) on page 6
437 (b) 437 (c)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Summary of terms and conditions of own funds in accordance with Annex VIII is available separately on HSBC's investor relations website, www.hsbc.com/investors.
437 (d)	a separate disclosure of the nature and amounts of the following: (i) each prudential filter applied pursuant to Articles 32 to 35; (ii) items deducted pursuant to Articles 36, 56 and 66; (iii) items not deducted pursuant to Articles 47, 48, 56, 66 and 79	Table 3: Composition of Regulatory own funds (UK CC1) on page 8
437 (e)	a description of all restrictions applied to the calculation of own funds in accordance with the Capital Regulation Requirements and the instruments, prudential filters and deductions to which those restrictions apply.	Table 3: Composition of Regulatory own funds (UK CC1) on page 8
437 (f)	a comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in the CRR II.	HSBC Bank plc follows own fund calculations set out in the CRR II rules
Own funds requirement and risk-weighted exposure amounts		
438	Institutions shall disclose the following information regarding their compliance with Article 92 and rules 3.1(1)(a) and 3.4 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook:	HSBC Bank plc complies with the requirement as set out below.
438 (a)	a summary of their approach to assessing the adequacy of their internal capital to support current and future activities	Refer to the 'Internal capital adequacy assessment' section on page 18
438 (b)	the amount of the additional own funds requirements based on the supervisory review and evaluation process (within the meaning of regulation 34A of the Capital Requirements Regulations) and its composition in terms of Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	Table 1: Key metrics (KM1/IFRS9-FL on page 4
438 (c)	the result of the institution's internal capital adequacy assessment process	Refer to the 'Internal capital adequacy assessment' section on page 18
438 (d)	the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds.	Table 7: Overview of risk-weighted exposure amounts (OV1) on page 13
438 (e)	the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) and the on- and off-balance-sheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2).	Table 25: Specialised lending and equity exposures under the simple risk-weight approach (CR10) on page 34
438 (f)	the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an individual, sub-consolidated and consolidated basis	This disclosure is not applicable to HSBC Bank plc.
438 (g)	the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with the provisions implementing Article 6 of Directive 2002/87/EC and Annex I to that Directive where method 1 or 2 set out in that Annex is applied	This disclosure is not applicable to HSBC Bank plc.
438 (h)	the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations	Table 8: RWA flow statements of credit risk exposures under the IRB approach (CR8) on page 14 Table 9: RWA flow statements of CCR exposures under IMM (CCR7) on page 14 Table 10: RWA flow statements of market risk exposures under IMA (MR2-B) on page 14

Article	Regulatory Requirements	Compliance reference
Countercyclical capital buffers		
440	Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer referred to in regulation 2 of the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014:	HSBC Bank plc with the requirement as set out below.
440 (a)	the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer	Table 31: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (UK CCyB1) on page 38
440 (b)	the amount of their institution-specific countercyclical capital buffer	Table 32: Amount of institution-specific countercyclical capital buffer (UK CCyB2) on page 39
Credit risk adjustments		
442	Institutions shall disclose the following information regarding their exposure to credit risk and dilution risk:	HSBC Bank plc complies with the requirement as set out below.
442 (a)	the scope and definitions that they use for accounting purposes of 'past due' and 'impaired' and the differences, if any, between the definitions of 'past due' and 'default' for accounting and regulatory purposes	Refer to 'Non-performing and forborne exposures' section on page 21.
442 (b)	a description of the approaches and methods adopted for determining specific and general credit risk adjustments	Refer to 'Non-performing and forborne exposures' section on page 21.
442 (c)	information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received	Table 16: Credit quality of forborne exposures (CQ1) on page 22 Table 18: Collateral obtained by taking possession and execution processes (CQ7) on page 24 Table 19: Quality of non-performing exposures by geography (CQ4) on page 25 Table 20: Credit quality of loans and advances to non-financial corporations by industry (CQ5) on page 26
442 (d)	an ageing analysis of accounting past due exposures	Table 17: Credit quality of performing and non-performing exposures by past due days (CQ3) on page 23
442 (e)	the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and off-balance-sheet exposures	Table 13: Performing and non-performing exposures and related provisions (CR1) on page 19 Table 16: Credit quality of forborne exposures (CQ1) on page 22 Table 19: Quality of non-performing exposures by geography (CQ4) on page 25 Table 20: Credit quality of loans and advances to non-financial corporations by industry (CQ5) on page 26
442 (f)	any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off	Table 15: Changes in the stock of non-performing loans and advances (CR2) on page 21
442 (g)	the breakdown of loans and debt securities by residual maturity	Table 14: Maturity of exposures (CR1-A) on page 21
Remuneration disclosures		
450.1	Institutions shall disclose the following information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on risk profile of the institutions:	HSBC Bank plc complies with the requirement as set out below.
450 (1)(a)	information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;	HSBC's remuneration policy, including the remuneration committee membership and activities, remuneration strategy and remuneration details of HSBC's identified staff and material risk takers, is set out in the Directors' Remuneration Report of the *HSBC Holdings plc Annual Report and Accounts 2023* on page 279.
450 (1)(b)	information about the link between pay of the staff and their performance;	
450 (1)(c)	the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria;	
450 (1)(d)	the ratios between fixed and variable remuneration set in accordance with rules 15.9 to 15.13 of the Remuneration Part of the PRA Rulebook;	
450 (1)(e)	information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based;	
450 (1)(f)	the main parameters and rationale for any variable component scheme and any other non-cash benefits;	
450 (1)(g)	aggregate quantitative information on remuneration, broken down by business area;	Table 30: Information of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (REM5) on page 37.

Article	Regulatory Requirements	Compliance reference
450 (1)(h)	aggregate quantitative information on remuneration, broken down by senior management and members of staff whose professional activities have a material impact on the risk profile of the institutions, indicating the following: (i) the amounts of remuneration for the financial year, split into fixed remuneration including a description of the fixed components, and variable remuneration, and the number of beneficiaries; (ii) the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part; (iii) the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years; (iv) the amount of deferred remuneration due to vest in the financial year, and the number of beneficiaries of those awards; (v) the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards; (vi) severance payments awarded in previous periods, that have been paid out during the financial year; (vii) the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person;	Table 26: Remuneration awarded for the financial year (REM1) on page 35 Table 27: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (REM2) on page 35 Table 28: Deferred remuneration (REM3) on page 36
450 (1)(i)	the number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million;	Table 29: Remuneration of 1 million EUR or more per year (REM4) on page 36
450 (1)(k)	information on whether the institution benefits from a derogation laid down in the Remuneration Part of the PRA Rulebook at 5.3, and/or 12.2 (second subparagraph), and 15.A1(3). For the purposes of point (k) of the first subparagraph of this paragraph, institutions that benefit from such a derogation shall indicate whether they benefit from that derogation on the basis of the Remuneration Part of the PRA Rulebook at 5.3 (for small CRR II firms), and/or 12.2 (second subparagraph (pension policy, referring to small CRR II firms and small third country CRR II firms)), and 15.A1(3) (where an employee subject to a buy-out is a material risk-taker in their previous firm). They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable	HSBC Bank plc is not a small CRR firm or a small third country CRR firm, therefore the benefits of provision 5.3 in the PRA Rulebook do not apply to HSBC 12.2 of the PRA Rulebook applies to a firm that is not a small CRR firm or a small third country CRR firm. HSBC Bank doesn't offer discretionary pension benefits, therefore we don't take advantage of the exemption in the second paragraph. HSBC Bank does benefit from the exemption under 15.A1(3) and the requirements of Article 540(1)(k) is complied with through Note 5 to REM1
450 (2)	For large institutions, the quantitative information on the remuneration of institutions' collective management body referred to in this Article shall also be made available to the public, differentiating between executive and non-executive members. Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to the GDPR.	Refer to the Directors' Remuneration Report of the *HSBC Holdings plc Annual Report and Accounts 2023* on page 279.
Leverage		
451 (1)	Institutions shall disclose the following information regarding their leverage ratio as calculated in accordance with Article 429 of Chapter 3 of the Leverage Ratio (CRR II) Part and their management of the risk of excessive leverage:	HSBC Bank plc complies with the requirement as set out below.
451 (1) (a)	the leverage ratio;	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4
451 (1) (b)	the leverage ratio calculated as if central bank claims were required to be included in the total exposure measure;	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4
451 (1) (c)	a breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;	Table 5: Summary reconciliation of accounting assets and leverage ratio exposures (UK LR1- LRSum) on page 11
451 (1) (d)	a description of the processes used to manage the risk of excessive leverage;	Refer to Leverage ratio section on page 10
451 (1) (e)	a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers;	
451 (1) (f)	in relation to the quarterly periods up to 31 December 2022, the leverage ratio calculated as if Article 468 of the CRR II did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR II) Part;	No temporary treatment at HSBC level. In row UK-25b of template LR2-LRCom on page 10, leverage ratio is presented same as row UK-25
451 (1) (g)	in relation to the quarterly periods up to 31 December 2024, the leverage ratio calculated as if Article 473a of the CRR II did not apply for purposes of the capital measure under Article 429(3) of Chapter 3 of the Leverage Ratio (CRR II) Part.	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4

Article	Regulatory Requirements	Compliance reference
451 (2)	LREQ firm must disclose each of the following - a) average exposure measure; b) average leverage ratio; c) average leverage ratio calculated as if central bank claims were required to be included in the total exposure measure; and d) countercyclical leverage ratio buffer.	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4
451 (3)	An LREQ firm must disclose such information as is necessary to enable users to understand changes in the firm's total exposure measure and tier 1 capital (leverage) over the quarter that have affected the firm's average leverage ratio.	Refer to Leverage ratio commentary on page 11
451 (4)	Subject to paragraph 5 (see below):	See below
451 (4)(a)	for the purposes of paragraph 2(a) an LREQ firm must calculate its average exposure measure for a quarter as the sum of: (i) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and (ii) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4
451 (4)(b)	for the purposes of paragraphs 2(a) and 3, an LREQ firm must calculate its average leverage ratio for a quarter as its capital measure divided by its exposure measure where the: (i) capital measure is the arithmetic mean of the firm's tier 1 capital (leverage) on the last day of each month in the quarter; and (ii) exposure measure is the sum derived in accordance with (a), unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.	Table 4: Leverage ratio common disclosure (UK LR2-LRCom) on page 10 Table 1: Key metrics (KM1/IFRS9-FL) on page 4
Disclosure of liquidity requirement		
451a (1)	Institutions that are subject to Part Six shall disclose information on their liquidity coverage ratio, net stable funding ratio and liquidity risk management in accordance with this Article.	HSBC Bank plc complies with the requirement as set out below.
451a (2)	Institutions shall disclose the following information in relation to their liquidity coverage ratio as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR II) Part of the PRA Rulebook:	HSBC Bank plc complies with the requirement as set out below.
451a (2)(a)	the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period;	Table 11: Level and components of HSBC Bank plc consolidated liquidity coverage ratio (LIQ1) on page 16
451a (2)(b)	the average or averages, as applicable, of their total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the Chapter 2 of the Liquidity Coverage Ratio (CRR II) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer;	Table 11: Level and components of HSBC Bank plc consolidated liquidity coverage ratio (LIQ1) on page 16
451a (2)(c)	the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the Chapter 2 of the Liquidity Coverage Ratio (CRR II) Part of the PRA Rulebook, based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition.	Table 11: Level and components of HSBC Bank plc consolidated liquidity coverage ratio (LIQ1) on page 16
451a (3)	Institutions shall disclose the following information in relation to their net stable funding ratio as calculated in accordance with Title IV of Part Six:	HSBC Bank plc complies with the requirement as set out below.

Article	Regulatory Requirements	Compliance reference
451a (3)(a)	averages of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period, based on end-of-the-quarter observations over the preceding four quarters;	Table 12: Net stable funding ratio (LIQ2) on page 17
451a (3)(b)	an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the quarter observations over the preceding four quarters;	Table 12: Net stable funding ratio (LIQ2) on page 17
451a (3)(c)	an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six for each quarter of the relevant disclosure period, comprising averages based on end-of-the quarter observations over the preceding four quarter	Table 12: Net stable funding ratio (LIQ2) on page 17
451a (4)	Institutions shall disclose the arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk in accordance with the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook.	For details on our approach to managing Liquidity Risk, refer the Treasury Risk management section on page 7
Use of credit risk mitigation techniques		
453	Institutions using credit risk mitigation techniques shall disclose the following information:	HSBC Bank plc complies with the requirement as set out below.
453 (a)	the core features of the policies and processes for on- and off-balance sheet netting and an indication of the extent to which institutions make use of balance sheet netting;	Refer to the 'Risk Mitigation Policies and procedures' section on page 27
453 (b)	the core features of the policies and processes for eligible collateral evaluation and management;	
453 (c)	a description of the main types of collateral taken by the institution to mitigate credit risk;	
453 (d)	for guarantees and credit derivatives used as credit protection, the main types of guarantor and credit derivative counterparty and their creditworthiness used for the purpose of reducing capital requirements, excluding those used as part of synthetic securitisation structures;	
453 (e)	information about market or credit risk concentrations within the credit mitigation taken;	Refer to 'Concentration risk' section on page 25
453 (f)	or institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, the total exposure value not covered by any eligible credit protection and the total exposure value covered by eligible credit protection after applying volatility adjustments; the disclosure set out in this point shall be made separately for loans and debt securities and including a breakdown of defaulted exposures;	Table 21: Credit risk mitigation techniques – overview1 (CR3) on page 28
453 (g)	the corresponding conversion factor and the credit risk mitigation associated with the exposure and the incidence of credit risk mitigation techniques with and without substitution effect;	Table 22: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 28 Table 24: IRB approach – Disclosure of the extent of the use of CRM techniques (CR7-A) on page 30
453 (h)	for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation;	Table 22: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 28
453 (i)	or institutions calculating risk-weighted exposure amounts under the Standardised Approach, the risk-weighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class;	Table 22: Standardised approach – credit conversion factor ('CCF') and credit risk mitigation ('CRM') effects (CR4) on page 28
453 (j)	for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission.	Table 23: IRB – Effect on the RWA of credit derivatives used as CRM techniques (CR7) on page 29

Other Information

Abbreviations

The following abbreviated terms are used throughout this document.

A	
AIRB	Advanced internal ratings-based approach
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
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
LREQ	Leverage Ratio Requirements
M	
MSS	Markets and Securities Services
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
SVaR	Stressed Value at Risk
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.*

Cautionary statement regarding forward-looking statements

This *Pillar 3 Disclosure at 31 December 2023* contains certain forward-looking statements with respect to the company's financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and the company's ability to contribute to the HSBC Group's environmental, social and governance ('ESG') targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the company's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, 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. The company 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, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the company'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 the company operates, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment levels and the creditworthiness of customers beyond those factored into consensus forecasts; the Russia-Ukraine war and the Israel-Hamas war and their impact on global economies and the markets where the company operates, which could have a material adverse effect on (among other things) the company's financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for the company's ECL measurements (including, without limitation, as a result of the Russia-Ukraine war and the Israel-Hamas war and inflationary pressures and commodity price changes); changes and volatility in foreign exchange rates and interest rates levels; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect the company's ability to meet its obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments, both in Europe and in other regions such as Asia, producing social instability or legal uncertainty, such as the Russia-Ukraine war or the Israel-Hamas war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodity prices, claims of human rights violations and diplomatic tensions between China and the US, extending to the UK and the EU, alongside other potential areas of tension, which may adversely affect the group by creating regulatory, reputational and market risks; the efficacy of government, customer, and the company's and the HSBC Group's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon emissions, each of which can impact the company both directly and indirectly through its customers and which may result in potential financial and non-financial impacts; 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; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using the company as a conduit for illegal activities without the company's knowledge; the discontinuation of certain key Ibors and the transition of the remaining legacy Ibor contracts to near risk-free benchmark rates, which continues to expose the company to some financial and non-financial risks; and price competition in the market segments that the company serves;

– changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the company operates and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war on inflation); 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; changes to tax laws and tax rates applicable to the company, including the 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; the UK's relationship with the EU, which continues to be characterised by uncertainty and political disagreement, despite the signing of the Trade and Cooperation Agreement between the UK and the EU, particularly with respect to the potential divergence of UK and EU law on the regulation of financial services; changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets; changes in UK macroeconomic and fiscal policy, which may result in fluctuations in the value of the pound sterling; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where the company operates, including increased competition from non-bank financial services companies; and

– factors specific to the company and the HSBC Group, including the company's success in adequately identifying the risks it faces, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); the company's ability to achieve its financial, investment, capital targets and the HSBC Group's ESG targets, commitments and ambitions, which may result in the company's failure to achieve any of the expected benefits of its strategic priorities; evolving regulatory requirements and the development of new technologies, including artificial intelligence, affecting how the company manages model risk; model limitations or failure, including, without limitation, the impact that high inflationary pressures and rising interest rates have had on the performance and usage of financial models, which may require the company to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions the company bases its financial statements on; changes in the company's ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to the company or any of its subsidiaries, which could increase the cost or decrease the availability of the company's funding and affect its liquidity position and net interest margin; changes to the reliability and security of the company's data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact its ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; the company's dependence on loan payments and dividends from subsidiaries to meet its obligations; changes in the HSBC Group's reporting framework and accounting standards, which have had and may continue to have a material impact on the way the company prepares its financial statements; the company's ability to successfully execute planned strategic acquisitions and disposals; the company's success in adequately integrating acquired businesses into its business; changes in the company's ability to manage third-party, fraud, financial crime and reputational risks inherent in its operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect the company's ability to recruit and retain senior management and diverse and skilled personnel; and changes in the company's ability to develop sustainable finance and ESG-related products consistent with the evolving expectations of its regulators, and the company's capacity to measure the environmental and social impacts from its financing activity (including as a result of data limitations and changes in methodologies), which may affect HSBC Group's ability to achieve its ESG targets, commitments and ambitions, and increase the risk of greenwashing. Effective risk management depends on, among other things, the company's ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; the company's success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties that the company identifies in 'Top and emerging risks' on pages 23 to 28 of the *Annual Report and Accounts 2023*.

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