HSBC France

Pillar 3 Disclosures at 31 December 2018

HSBC

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The abbreviations '€m' and '€bn' represent millions and billions (thousands of millions) of Euros, respectively.

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Introduction

Table 1: Pillar 1 Overview

	Footnotes	RWAs		Capital required[1]	
		2018	2017	**2018**	2017
		€m	€m	**€m**	€m
Credit risk	2	**25,972**	22,446	**2,078**	1,796
Counterparty credit risk		**3,627**	3,036	**290**	243
Market risk		**3,455**	5,188	**276**	415
Operational risk		**3,194**	3,385	**256**	271
Basel 1 floor impact		**—**	1,324	**—**	106
At 31 Dec		**36,248**	35,379	**2,900**	2,831

Table 2: RWAs by global business[3]

	RWAs		Capital required[1]	
	2018	2017	**2018**	2017
	€m	€m	**€m**	€m
Retail Banking and Wealth Management ('RBWM')	**4,989**	4,615	**399**	369
Commercial Banking ('CMB')	**12,677**	11,133	**1,014**	891
Global Banking and Markets ('GB&M')	**15,915**	16,713	**1,273**	1,337
Global Private Banking ('GPB')	**1,213**	985	**97**	79
Corporate Centre	**1,454**	609	**116**	49
Basel 1 floor impact	**—**	1,324	**—**	106
At 31 Dec	**36,248**	35,379	**2,900**	2,831

1 *'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.*
2 *'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.*
3 *Please refer to pages 3 and 9 of the HSBC France* Annual Report and Accounts 2018 *for a description of the activities of our global businesses.*

Regulatory framework for disclosures

HSBC France is regulated on a consolidated basis by the ECB which sets and monitors capital adequacy requirements.

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

The Basel Committee's 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 Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

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

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC France . It should be read in conjunction with HSBC France *Annual Report and Accounts 2018*.

These disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to an independant review at Group level only and for HSBC France has been subject to internal review process in accordance with its financial reporting and governance processes.

Basis of preparation

The financial information contained in this disclosure has been prepared on a consolidated basis.

In our disclosures, we provide comparative figures for the previous year to facilitate the analysis. Key ratios and figures are reflected throughout the *Pillar 3 2018 Disclosures* and are also available on page 144 of the HSBC France *Annual Reports and Accounts 2018*. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives. The own funds disclosure in Table 4 tracks the position from a CRD IV transitional to an end-point basis.

Information relating to the rationale for withholding certain disclosures is provided in Appendix I.

The Pillar 3 disclosure for France is available on the HSBC website, www.hsbc.com or www.hsbc.fr, simultaneously with the release of our HSBC France *Annual Report and Accounts*.

This Pillar 3 disclosure includes regulatory information complementing the financial and risk information presented there and is in line with the new requirements on the frequency of regulatory disclosures.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Annual Report and Accounts 2018* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 19 to 48 of the HSBC France *Annual Report and Accounts 2018.*

Regulatory developments

The UK's withdrawal from the EU

The UK and the EU have agreed in principle the arrangements regarding the UK's withdrawal from the EU. If a final agreement is reached on this package, there will be an implementation period until 31 December 2020, during which the UK will continue to be subject to the EU's regulations. Following the implementation period, or in the event that the UK leaves the EU without an agreement, the UK will be treated as a non EU third country and no longer be bound by its laws. This may affect the treatment of exposures of HSBC France to UK counterparties. It is currently unclear if the EU will recognise the UK as applying equivalent regulatory standards.

RWAs and leverage ratio

Basel Committee

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

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

Further refinements to the leverage ratio exposure measure for centrally cleared derivatives and disclosure of daily-average exposure measures are also under consideration.

In January 2019, the final changes to the market risk RWA regime, the Fundamental Review of the Trading book ('FRTB') were published. The new regime has been recalibrated and contains a more clearly defined trading book boundary, the introduction of an internal models approach based upon expected shortfall models, capital requirements for non-modellable risk factors and a more risk-sensitive standardised approach that can serve as a fall-back for the internal models method.

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

The final package of Basel III reforms which contains a significant number of national discretions which will require transposition into EU law.

European Union

In the EU, the first tranche of the Basel III reforms are being implemented through revisions to the Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD'), collectively referred to as CRR2. It is understood that this has been agreed in principle but is yet to enter into law and will follow a phased implementation from 2019. It includes a number of provisions such as the changes to market risk under the FRTB, revisions to the counterparty credit risk framework and the new leverage ratio rules.

The European Commission has requested that the European Banking Authority ('EBA') prepare a report on the implementation of the remaining tranche of the Basel III's reforms on the EU's banking sector and the wider economy. This will include changes to credit, operational risk and the output floor. The EBA's final report on the details of the EU's adoption of the reforms is not due to be published until the summer.

In January 2019, a political agreement was reached between the EU Council and Parliament for a gradual prudential backstop for new non-performing loans, which will result in a deduction from Common Equity Tier 1 (CET1) capital when a minimum impairment coverage requirement is not met. The regime is expected to be implemented in the first half of 2019.

Also in January 2019, a revised securitisation framework came into force in the EU for newly issued securitisations. Existing transactions will be subject to the framework from 1 January 2020. This regime introduces changes to the methodology for determining RWAs for securitisation positions, with beneficial treatments for simple, transparent and standardised securitisation transactions.

Furthermore, the EU continued to work on its 'IRB Repair' programme, issuing near final guidance on the specification of economic downturn for the purposes of the loss given default modelling and final rules on the definition of default.

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

European Union

In addition to the changes to RWAs, alongside the Bank Recovery and Resolution Directive ('BRRD2'), CRR2 will implement changes in the own funds calculation and Minimum Requirements for Own Funds and Eligible Liabilities ('MREL').

In January the Single Resolution Board ('SRB') published updated policy on MREL for the second wave of resolution plans for the most complex groups, following earlier publication of the SRB policy statement for the first wave of resolution plans on 20 November 2018. The SRB is expected to review its MREL policy for any further updates in 2019, following the publication of CRR2/BRRD2 in the Official Journal of the EU.

France

In July 2018, the High Council for Financial Stability ('HCSF') decided to set a Countercyclical Capital Buffer of 0.25% applicable to France exposures as of July 2019.

Significant events on the period

Acquisition of the Greek activities of HSBC Bank plc

The acquisition of the Greek activities of HSBC Bank plc was completed on January 1, 2018.

Acquisition of two subsidiaries of HSBC Bank plc

On 1 August 2018, HSBC France acquired 100% ownership of two European subsidiaries of HSBC Bank plc HSBC : Polska Bank SA and HSBC Institutional Trust Services (Ireland) DAC.

Linkage to the Annual Report and Accounts 2018

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under IFRSs, described in Note 1 of the Financial Statements, differs from that used for regulatory purposes.

The following table provides a reconciliation of the financial accounting balance sheet to the regulatory scope of consolidation. Subsidiaries engaged in insurance activities are excluded from the regulatory consolidation by excluding assets, liabilities and post-acquisition reserves, leaving the investment of these insurance subsidiaries to be recorded at net asset value and deducted from CET1 (subject to thresholds).

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

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	**9,018**	–	–	**9,018**
Items in the course of collection from other banks	**437**	–	–	**437**
Trading assets	**16,966**	–	–	**16,966**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**10,495**	**(9,717)**	–	**778**
Financial assets designated at fair value	–	–	–	–
Derivatives	**31,777**	**(68)**	–	**31,709**
Loans and advances to banks	**6,197**	**(210)**	–	**5,987**
Loans and advances to customers	**46,997**	–	–	**46,997**
– of which: impairment allowances on IRB portfolios	***(461)***	–	–	***(461)***
impairment allowances on standardised portfolios	***(126)***	–	–	***(126)***
Reverse repurchase agreements – non-trading	**32,835**	–	–	**32,835**
Financial investments	**16,502**	**(11,287)**	–	**5,215**
Assets held for sale	**30**	–	–	**30**
Prepayments, accrued income and other assets	**8,460**	**(258)**	–	**8,202**
– of which: retirement benefit assets	–	–	–	–
Current tax assets	**154**	**(37)**	–	**117**
Interests in associates and joint ventures	**2**	–	–	**2**
Goodwill and intangible assets	**920**	**(501)**	–	**419**
Deferred tax assets	**156**	–	–	**156**
Total assets at 31 December 2018	**180,946**	**(22,078)**	–	**158,868**
Liabilities and equity				
Deposits by banks	**10,828**	–	–	**10,828**
Customer accounts	**41,906**	–	–	**41,906**
Repurchase agreements – non-trading	**18,921**	–	–	**18,921**
Items in the course of transmission to other banks	**269**	–	–	**269**
Trading liabilities	**23,145**	–	–	**23,145**
Financial liabilities designated at fair value	**14,584**	**827**	–	**15,411**
Derivatives	**31,298**	**(4)**	–	**31,294**
Debt securities in issue	**2,472**	–	–	**2,472**
Accruals, deferred income and other liabilities	**8,437**	**(871)**	–	**7,566**
– of which: retirement benefit liabilities	***165***	***(2)***	–	***163***
Current tax liabilities	**61**	**(2)**	–	**59**
Liabilities under insurance contracts	**21,335**	**(21,335)**	–	–
Provisions	**75**	**(1)**	–	**74**
– of which: credit-related provisions on IRB portfolios	***(32)***	–	–	***(32)***
credit-related provisions on standardised portfolios	–	–	–	–
Deferred tax liabilities	**155**	**(150)**	–	**5**
Subordinated liabilities	**876**	–	–	**876**
– of which: perpetual subordinated debt included in tier 2 capital	***16***	–	–	***16***
term subordinated debt included in tier 2 capital	***860***	–	–	***860***
Total liabilities at 31 December 2018	**174,362**	**(21,536)**	–	**152,826**
Called up share capital	**367**	–	–	**367**
Share premium account	**475**	–	–	**475**
Other equity instruments	**500**	–	–	**500**
Other reserves	**1,566**	**(22)**	–	**1,544**
Retained earnings	**3,647**	**(520)**	–	**3,127**
Total shareholders' equity	**6,555**	**(542)**	–	**6,013**
Non-controlling interests	**29**	–	–	**29**
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital	–	–	–	–
Total equity at 31 December 2018	**6,584**	**(542)**	–	**6,042**
Total liabilities and equity at 31 December 2018	**180,946**	**(22,078)**	–	**158,868**

Table 3: Reconciliation of balance sheets – financial accounting to regulatory scope of reconciliation (continued)

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	14,630	—	—	14,630
Items in the course of collection from other banks	435	—	—	435
Trading assets	22,401	(4)	—	22,397
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	N/A	N/A	N/A	N/A
Financial assets designated at fair value	8,605	(8,551)	—	54
Derivatives	34,407	(90)	—	34,317
Loans and advances to banks	4,843	(119)	—	4,724
Loans and advances to customers	44,856	—	—	44,856
– of which: impairment allowances on IRB portfolios	*(617)*	—	—	*(617)*
impairment allowances on standardised portfolios	*(14)*	—	—	*(14)*
Reverse repurchase agreements – non-trading	13,781	—	—	13,781
Financial investments	20,548	(13,217)	—	7,331
Assets held for sale	—	—	—	—
Prepayments, accrued income and other assets	1,915	(252)	—	1,663
– of which: retirement benefit assets	—	—	—	—
Current tax assets	130	(39)	—	91
Interests in associates and joint ventures	2	—	—	2
Goodwill and intangible assets	766	(457)	—	309
Deferred tax assets	225	—	—	225
Total assets at 31 December 2017	167,544	(22,729)	—	144,815
Liabilities and equity				
Deposits by banks	13,297	(49)	—	13,248
Customer accounts	38,277		—	38,277
Repurchase agreements – non-trading	6,586		—	6,586
Items in the course of transmission to other banks	490		—	490
Trading liabilities	32,436	703	—	33,139
Financial liabilities designated at fair value	7,565	(7)	—	7,558
Derivatives	33,229	18	—	33,247
Debt securities in issue	5,159		—	5,159
Accruals, deferred income and other liabilities	2,086	(850)	—	1,236
– of which: retirement benefit liabilities	*169*	*(2)*	—	*167*
Current tax liabilities	29	(43)	—	(14)
Liabilities under insurance contracts	21,853	(21,853)	—	—
Provisions	103	(1)	—	102
– of which: credit-related provisions on IRB portfolios	*7*		—	*7*
credit-related provisions on standardised portfolios	—			—
Deferred tax liabilities	152	(145)	—	7
Subordinated liabilities	576		—	576
– of which: perpetual subordinated debt included in tier 2 capital	*16*		—	*16*
term subordinated debt included in tier 2 capital	*560*		—	*560*
Total liabilities at 31 Dec Total liabilities at 31 December 2017	161,838	(22,227)	—	139,611
Total liabilities at 31 Dec Called up share capital	337	—	—	337
Share premium account	16	—	—	16
Other equity instruments	200	—	—	200
Other reserves	1,600	(32)	—	1,568
Retained earnings	3,523	(470)	—	3,053
Total shareholders' equity	5,676	(502)	—	5,174
Non-controlling interests	30	—	—	30
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital	—	—	—	—
Total equity at 31 December 2017	5,706	(502)	—	5,204
Total liabilities and equity at 31 December 2017	167,544	(22,729)	—	144,815

Capital and Leverage

Capital management

Approach and policy

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

HSBC France manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2018, HSBC France complied with the European Central Bank ('ECB') regulatory capital adequacy requirements. To achieve this, the bank manages its capital within the context of an annual capital plan which is approved by the Board and which determines the appropriate amount and mix of capital.

HSBC France has increased Additional Tier 1 and Tier 2 capital in March and June 2018 via two intragroup transactions with HSBC Bank plc of EUR 300 million and EUR 200 million respectively. In addition, HSBC France has issued ordinary shares at a premium in July and August for an amount totaling EUR 488 million.

These operations have strengthened HSBC France's total capital base and adjusted its balance sheet structure to its business strategy and applicable requirements.

HSBC France’s capital management policy is underpinned by the HSBC Group capital management framework, which enables us to manage our capital in a consistent manner, and by the Bank’s Annual Operation Plan, as validated by the Board of Directors.

The Internal Capital Adequacy Assessment Process (‘ICAAP’) which aims at assessing the adequacy of the bank's capital resources in regards of its risk and requirements incorporates different assessment methods of the capital needs within HSBC France. These capital measures include economic capital and regulatory capital defined as follows :

- Economic capital is the internally calculated capital requirement which is deemed necessary by HSBC France to support the risks to which it is exposed ; and
- Regulatory capital is the level of capital which HSBC France is required to hold in accordance with the rules set by the legislation and the ECB.

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

Stress testing

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

The actual market stresses experienced by the financial system in recent years have also been used to inform the capital planning process and further develop the stress scenarios employed within HSBC France.

Regulatory stress tests (carried out at the request of regulators using their prescribed assumptions) and sensitivity analysis are performed. HSBC France takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

Beyond the stress testing framework, a list of the main risks with associated potential impacts on HSBC France’s capital ratios is regularly reviewed. These risks are identified as possibly affecting Risk-Weighted Assets (‘RWAs’) and/or capital position. They can either result from expected regulatory changes, or from structural and activity related items. These risks are monitored regularly within the Asset & Liability Committee and the Risk Committee. For the relevant categories of risk, scenario analyses are performed. The downside or upside scenarios are assessed against our capital management objectives and mitigating actions are assigned as necessary.

HSBC France’s approach to managing its capital position has been to ensure the bank complies with current regulatory requirements and internal risk appetite, as well as to ensure that future regulatory requirements are considered.

Risk-weighted asset targets

RWA targets for the global businesses are established in accordance with the Group’s strategic direction and risk appetite, and approved through HSBC France's processes, and through the Bank’s annual planning process.

A monitoring is performed at an operational level taking into account growth strategies; active portfolio management; business and/or customer-level reviews; RWA accuracy and allocation initiatives and risk mitigation.

Business performance against RWA targets is monitored through regular reporting discussed in the Asset & Liability Committee, Risk Management Meeting, Executive Committee, Risk Committee and Board of Directors.

Capital generation

HSBC Bank plc is the sole provider of equity capital, and also provides non-equity capital where necessary. Capital generated in excess of planned requirements is returned to HSBC Bank plc in the form of dividends.

Overview of regulatory capital framework

Main features of CET1, AT1 and T2 instruments issued by the group

For regulatory purposes, HSBC France’s capital base is divided into three main categories, namely Common Equity Tier 1, Additional Tier 1 and Tier 2, depending on the degree of permanence and loss absorbency exhibited. The main features of capital securities issued by the group are described below.

Common Equity Tier 1 (‘CET1’)

Common Equity Tier 1 (‘CET 1’) capital is the highest quality form of capital, comprising shareholders’ equity and related non-controlling interests (subject to limits). Under CRD IV/CRR various capital deductions and regulatory adjustments are made against these items - these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, negative amounts resulting from the calculation of expected loss amounts under IRB.

Additional Tier 1 capital (‘AT1’)

Additional Tier 1 capital comprises eligible non-common equity capital securities such as Additional Tier 1 eligible subordinated debt as per CRR, and any related share premium. Holdings of additional Tier 1 securities of financial sector entities are deducted from additional Tier 1 capital.

Qualifying CRD IV Additional Tier 1 instruments are perpetual securities on which there is no obligation to apply a coupon and, if not paid, the coupon is not cumulative. Such securities do not carry voting rights but rank higher than ordinary shares for coupon payments and in the event of a winding up. Fully compliant CRD IV Additional Tier 1 instruments issued by the bank include a provision whereby the instrument will be written down in whole in the event the bank’s Common Equity Tier 1 ratio falls below 5.125 per cent.

Tier 2 capital ('T2')

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

Perpetual and term subordinated debt

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

These instruments or subordinated loans comprise dated loan capital repayable at par on maturity and must have an original maturity of at least five years. Some subordinated loan capital may be called and redeemed by the issuer subject to prior consent from the ECB. For regulatory purposes, it is a requirement that Tier 2 instruments are amortised on a straight line basis in their final five years to maturity, thus reducing the amount of capital that is recognised for regulatory purposes.

A list of the main features of HSBC France's capital instruments prepared in accordance with the instructions provided in Annex III of the Regulation 1423/2013 is also being published on HSBC's website with reference to HSBC France's balance sheet as at 31 December 2018.

Table 4: Own funds disclosure

Ref*		At 31 Dec 2018 €m	At 31 Dec 2017 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**842**	353
	– ordinary shares	**475**	16
2	Retained earnings	**3,627**	3,500
3	Accumulated other comprehensive income (and other reserves)	**1,596**	1,483
5	Transitional adjustments due to additional minority interests	**—**	6
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(32)**	60
6	**Common equity tier 1 capital before regulatory adjustments**	**6,032**	5,403
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(173)**	51
8	Intangible assets (net of related deferred tax liability)	**(420)**	(308)
11	Fair value reserves related to gains or losses on cash flow hedges	**23**	70
12	Negative amounts resulting from the calculation of expected loss amounts	**(107)**	(98)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**(57)**	113
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(553)**	(528)
22	Amount exceeding the 15% threshold	**—**	(59)
28	**Total regulatory adjustments to common equity tier 1**	**(1 286)**	(759)
29	**Common equity tier 1 capital**	**4,747**	4,644
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**500**	200
36	**Additional tier 1 capital before regulatory adjustments**	**500**	200
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	(53)
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	(53)
44	**Additional tier 1 capital**	**500**	147
45	**Tier 1 capital (T1 = CET1 + AT1)**	**5,247**	4,791
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**876**	576
51	**Tier 2 capital before regulatory adjustments**	**876**	576
	Tier 2 capital: regulatory adjustments		
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	**(415)**	(368)
57	**Total regulatory adjustments to tier 2 capital**	**(415)**	(368)
58	**Tier 2 capital**	**461**	208
59	**Total capital (TC = T1 + T2)**	**5,708**	5,000
60	**Total risk-weighted assets**	**36,248**	35,379
	Capital ratios and buffers		
61	Common equity tier 1	**13,1 %**	13.1%
62	Tier 1	**14,5 %**	13.5%
63	Total capital	**15,7 %**	14.1%
64	Institution specific buffer requirement	**6.4%**	5.8%
65	– capital conservation buffer requirement	**1.9%**	1.3%
68	Common equity tier 1 available to meet buffers1	**6.4%**	5.8%
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**8**	8
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**529**	506
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**156**	225

* *The references identify the lines prescribed in the EBA template that are applicable and where there is a value.*
Reported under transitionnal on 31 December 2017.

1 *Common equity tier 1 available to meet buffers after Pillar 1 capital requirements.*

Capital increase is detailed in the note 1 "significant events during the year" of the Consolidated Financial Statements section on page 168 of the HSBC France *Annual Report and Accounts 2018.*

A detailed breakdown of the HSBC France's CET1 capital, AT1 capital, Tier 2 capital and regulatory deductions can be viewed in the Capital instruments Main Features 31 December 2018 which will be available on our website https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, and further netting possibilities on market instruments. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the Bank, the risk of excess leverage is managed as part of HSBC's appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC France is willing to accept in its business activities in order to achieve its strategic business objectives.

The RAS is monitored via the risk appetite profile report, which includes comparisons of actual performance against the risk appetite and tolerance thresholds assigned to each metric, to ensure that any excessive risk is highlighted, assessed and mitigated appropriately. The risk appetite profile report is presented monthly to the Risk Management Meeting ('RMM'). For HSBC France, the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee every month.

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

Ref*		At 31 Dec 2018 €m	At 31 Dec 2017 €m
1	Total assets as per published financial statements	180,946	167,544
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(22,078)	(22,729)
4	– derivative financial instruments	(24,085)	(27,578)
5	– securities financing transactions ('SFT')	(5,940)	(1,695)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	16,235	15,424
EU-6	– intragroup exposures excluded from the leverage ratio exposure measure)	—	—
7	– other adjustments	(890)	(386)
8	**Total leverage ratio exposure**	144,188	130,580

Table 6: Leverage ratio common disclosure

Ref*		At 31 Dec 2018 €m	At 31 Dec 2017 €m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	94,667	97,001
2	(Asset amounts deducted in determining Tier 1 capital)	(1,233)	(759)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	93,434	96,242
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	1,040	1,469
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	11,293	9,908
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	—	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(4,803)	(4,643)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	—	—
9	Adjusted effective notional amount of written credit derivatives	94	94
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	—	—
11	**Total derivative exposures**	7,624	6,828
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	32,835	13,781
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(61,733)	(1,925)
14	Counterparty credit risk exposure for SFT assets	55,792	230
16	**Total securities financing transaction exposures**	26,895	12,086
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	16,235	15,424
18	(Adjustments for conversion to credit equivalent amounts)	—	0
19	**Total off-balance sheet exposures**	16,235	15,424
	Exempted exposures	—	—
	Capital and total exposures		
20	**Tier 1 capital**	5,247	4,791
21	**Total leverage ratio exposure**[1]	144,188	130,580
22	**Leverage ratio % - transitional**	N/A	3.7%
22b	**Leverage ratio % - fully-loaded**	3.6%	3.6%

* *The references identify the lines prescribed in the EBA template, when applicable.*

1 *Reported under transitional on 31 December 2017.*

The increase in leverage ratio exposure is mainly driven by the increase in securities financing transactions resulting from two factors : increase of business and integration of the reverse repos and repos at amortised cost between the trade date and the settlement date which were taken into account in the calculations till 2018.

Capital buffers

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broader macroprudential goal of protecting the banking sector in periods of excess aggregate credit growth. National macroprudential authorities can set the the countercyclical buffer with discretion in the range of 0 percent to 2.5 percent after a transition period.

Table 7: Countercyclical capital buffer

Breakdown per country	Countercyclical Buffer Rate	Exposure €m	RWA €m	Countercyclical Buffer Rate specific to the institution	Own Funds requirements for countercyclical buffer of the institution €m
Czech Republic	1,00%	–	–		
France and Other countries at 0%	0,00%	64,438	24,206		
Hong Kong	1,88%	2	1		
Iceland	1,25%	–	–		
Norway	2,00%	20	2		
Slovakia	1,25%	–	–		
Sweden	2,00%	82	46		
United Kingdom	0,50%	1,097	300		
Total at 31 Dec 2018		**65,639**	**24,555**	**0,01%**	**2,83**

Pillar 1

Pillar 1 covers the capital requirements for credit risk, market risk and operational risk. Credit risk includes counterparty and non-counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC France
Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation 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'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	In order to assess its credit risk, HSBC France has been using an IRB advanced approach on sovereign, institutions, and retail customers' risks since the end of 2007, following ACPR approval. HSBC France has also been granted ACPR approval for the use of an IRBA advanced approach on commercial customers (LGD in 2009, EAD in 2012). Only few residual exposures are currently still assessed based on IRB foundation or standardised approaches. As regards the foreign branches and subsidiaries transferred from parent company HSBC Bank PLC to HSBC France, corporate exposures are treated under the standardised approach while sovereign and institution exposures are subject to an IRB advanced approach for the Greek branch and subject to the standardised approach for the Poland subsidiary.
Counterparty credit risk	Three approaches to calculating CCR and determining exposures are defined by the CRR: mark-to-market, standardised and Internal Model Method ('IMM'). These exposures are used to determine capital requirements under one of the credit risk approaches; standardised, IRB foundation and IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, HSBC France applies the mark-to-market evaluation method for derivatives and the financial security – based method for deferred payment transactions. HSBC France currently t determines the CVA risk charge according to a prescribed formula which is based on the exposure at default of the counterparty credit risk and the effective maturity of the transaction. Risk weights are applied in the calculation and are based on the external credit rating of the counterparty. As regards the foreign entities transferred from parent company HSBC Bank PLC to HSBC France, corporate exposures are treated under the standard approach while sovereign and institution exposures are subject to an IRB advanced approach for the Greek branch and subject to the standardised approach for the Poland subsidiary.
Equity	For non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC France reporting purposes, all equity exposures are treated under the IRB simplified approach, while previously in standard change till September 2017.

Risk category	Scope of permissible approaches	Approach adopted by HSBC France
Securitisation	The CRR Framework specifies two methods for calculating credit risk requirements for securitisation positions in the non-trading book: the standardised approach and the IRB approach, which incorporates the Ratings Based Method ('RBM'), the Internal Assessment Approach ('IAA') and the Supervisory Formula Method ('SFM').	HSBC France only holds securitisation positions in banking books. CRR specifies two methods for calculating relevant credit risk, the standardised approach and the IRB approach. They both rely on the mapping of rating agency credit ratings to risk weights, which range from 7 per cent to 1,250 per cent. HSBC France uses the ratings-based IRB method except for liquidity facilities and programme-wide enhancements for asset-backed securitisations, for which the full internal IRB assessment approach is applied.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement.	For HSBC France, the risks presented above are measured by HSBC France via internal models when approved by the ECB and the PRA, except the specific risk which is captured through the standardised approach. Internal Market Risk models are based on VaR and Stressed VaR. As regards the foreign entities transferred from the parent company HSBC Bank PLC, the market risk is capitalized only through the standardised approach.
Operational risk	The CRR includes a capital requirement for operational risk, once again based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach banks apply different percentages to the total operating income to each of eight defined business lines. Finally, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	We have historically adopted and currently use the standardised approach in determining our operational risk capital requirement.

Pillar 2 and ICAAP

Pillar 2

Pillar 2 (Supervisory and own funds management process) consists of the own assessment by banks and of the assessment from supervision authorities, of the need to allocate capital resources to risks that are not covered by the Pillar 1 framework. A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC France, to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates HSBC France's risk management processes and governance framework. As part of this ICAAP, a range of stress tests are applied to our base capital plan. These tests, coupled with its economic capital framework and other risk management practices, are used to assess our internal capital adequacy internal evaluation by HSBC France.

This evaluation process is summarised in an annual ICAAP report. The ICAAP is approved by the Board, which has the ultimate responsibility for the effective management of risk and approval of HSBC France's risk appetite. It is then submitted to the supervisory authorities.

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance under Pillar 2. This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement and a Pillar 2 guidance, which are added to the Pillar 1 requirements.

The Overall Capital Requirement, applicable on total capital is composed of the Pillar 1 requirement, the Pillar 2 requirement add-on, and the cumulated regulatory buffers. This stands as the applicable regulatory minimum on Total capital for a bank falling under ECB supervision.

The Total SREP capital requirement, which is composed only of the Pillar 1 requirement and the Pillar 2 requirement add-on, applicable on the total capital ratio as well, is the ratio that banks should respect under stressed scenarios.

The Pillar 2 guidance applies on CET1 ratio, and represents the applicable regulatory minimum on CET1 along with the Pillar 1 requirements, the Pillar 2 requirements and the combined buffer. The Pillar 2 requirement is binding, and breaches can have direct legal consequences for the bank, for example with regards to dividends as well as coupons payments.

HSBC France's Overall Capital Requirement was at 12.63 per cent in 2018 and has been defined at 13.50 per cent for the first semester of 2019. This change is a result of :

- The phase-in of the capital conservation buffer from 1.875 per cent in 2018 to 2.50 per cent in 2019 ;
- The change in Pillar II requirement from 2.75 per cent in 2018 to 3 per cent in 2019.

Internal capital adequacy assessment

The Board approves the ICAAP, and together with the Risk Committee, examines the Bank's regulatory and economic capital profiles, in order to ensure that capital resources :

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

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

The economic capital assessment is a more risk-sensitive measure , as it covers a wider range of risks and takes account of the substantial diversification of risk accruing from our operations. Both the regulatory and the economic capital assessments rely upon the use of models that are integrated into the management of risk.

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 per cent level of confidence.

The ICAAP and its constituent economic capital calculations are examined by the Joint Supervisory Team as part of its supervisory review and evaluation process. This examination informs the regulator's view of the Pillar 2 capital requirement and guidance.

A strong level of integration between risk and capital management frameworks helps to optimise the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including

counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk, and pension risk.

Financial Conglomerate

HSBC France holds an Insurance activity subsidiary, and as such, has been identified by the ECB as a financial conglomerate. Therefore, the bank is submitted to a supplementary conglomerate supervision by the ECB.

In this context, the conglomerate ratio is defined as the ratio between the total capital within the financial conglomerate, and the capital requirement due to banking status cumulated with the capital requirement due to insurance status. The required minimum for this indicator is 100 per cent. At HSBC France's level, the excess of capital towards this indicator is of EUR 2.2 billion for 2018.

Credit risk

Overview

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

The tables below set out details of the group's credit risk exposures by exposure class and approach. Further explanation of the HSBC France's approach to managing credit risk (including detail of the past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 87 to 107 of the HSBC France *Annual Report and Accounts 2018*.

Table 8: Credit risk exposure – summary

	Footnotes	Exposure value	Average exposure value	RWAs	Capital required
		€m	€m	€m	€m
IRB advanced approach		55,168	53,946	18,014	1,441
– central governments and central banks		816	1,040	95	8
– institutions		1,046	1,115	310	25
– corporates	1	31,291	29,760	14,608	1,168
– total retail		22,015	22,031	3,001	240
– of which: secured by mortgages on immovable property – small- and medium-sized enterprises ('SME')		*549*	*529*	*344*	*28*
secured by mortgages on immovable property non-SME		*3,029*	*3,056*	*627*	*50*
qualifying revolving retail		*1*	*1*	*—*	*—*
other SME		*1,584*	*1,869*	*559*	*45*
other non-SME		*16,852*	*16,576*	*1,471*	*117*
IRB securitisation positions		3,300	2,359	308	25
IRB equity		585	509	1,335	107
IRB foundation approach		374	—	368	29
– central governments and central banks		—	—	—	—
– institutions		—	—	—	—
– corporates		374	349	368	29
Standardised approach		26,550	26,586	5,947	476
– central governments and central banks		15,261	16,598	—	—
– regional governments or local authorities		75	70	—	—
– public sector entities		1,468	1,360	1	—
– international organisations		990	1,226	—	—
– institutions		2,318	1,325	587	47
– corporates		3,545	3,148	2,607	208
– retail		216	199	133	11
– secured by mortgages on immovable property		671	661	234	19
– exposures in default		93	96	110	9
– items associated with particularly high risk		—	—	—	—
– claims in the form of collective investments undertakings		—	—	—	—
– equity		—	—	—	—
– other items	2	1,913	1,903	2,275	182
At 31 Dec 2018		**85,977**	**83,400**	**25,972**	**2,078**

Table 8: Credit risk exposure – summary (continued)

	Footnotes	Exposure value	Average exposure value[3]	RWAs	Capital required
		€m	€m	€m	€m
IRB advanced approach		52,669	—	16,549	1,324
– central governments and central banks		1,413	—	172	14
– institutions		1,392	—	450	36
– corporates	1	27,934	—	13,040	1,043
– total retail		21,930	—	2,887	231
– of which: secured by mortgages on immovable property SME		*528*	—	*329*	*26*
secured by mortgages on immovable property non-SME		*3,098*	—	*557*	*45*
qualifying revolving retail		*1*	—	—	—
other SME		*1,902*	—	*707*	*57*
other non-SME		*16,401*	—	*1,294*	*103*
IRB securitisation positions		2,076	—	194	16
IRB equity		387	—	853	68
IRB foundation approach		305	—	302	24
– central governments and central banks		—	—	—	—
– institutions		—	—	—	—
– corporates		305	—	302	24
Standardised approach		30,723	—	4,548	364
– central governments and central banks		23,977	—	—	—
– regional governments or local authorities		—	—	—	—
– public sector entities		10	—	2	—
– international organisations		1,391	—	—	—
– institutions		425	—	86	7
– corporates		2,130	—	1,431	114
– retail		503	—	334	27
– secured by mortgages on immovable property		278	—	97	8
– exposures in default		75	—	90	7
– items associated with particularly high risk		—	—	—	—
– claims in the form of collective investments undertakings		—	—	—	—
– equity		—	—	—	—
– other items	2	1,934	—	2,508	201
At 31 Dec 2017		86,160	—	22,446	1,796

1 'Corporates' includes specialised lending exposures subject to supervisory slotting approach.
2 'Other items' includes investment in insurance companies that are risk weighted at 250 per cent.
3 This information 'average exposure value' had not been disclosed in 2017 pillar 3 however HSBC France has started to disclose this information from 2018.

Table 9: Credit risk exposure – by region

	Footnotes	France €m	European Union €m	Other €m	Total €m
IRB advanced approach		**45,309**	**4,840**	**5,019**	**55,168**
– central governments and central banks		**—**	**152**	**664**	**816**
– institutions		**702**	**262**	**82**	**1,046**
– corporates	1	**22,601**	**4,418**	**4,272**	**31,291**
– total retail		**22,006**	**8**	**1**	**22,015**
– *of which: secured by mortgages on immovable property SME*		***549***	**—**	**—**	***549***
secured by mortgages on immovable property non-SME		***3,029***	**—**	**—**	***3,029***
qualifying revolving retail		***1***	**—**	**—**	***1***
other SME		***1,575***	***8***	***1***	***1,584***
other non-SME		***16,852***	**—**	**—**	***16,852***
IRB securitisation positions		**1,632**	**1,668**	**—**	**3,300**
IRB equity		**558**	**—**	**27**	**585**
IRB foundation approach		**368**	**5**	**1**	**374**
– central governments and central banks		**—**	**—**	**—**	**—**
– institutions		**—**	**—**	**—**	**—**
– corporates		**368**	**5**	**1**	**374**
Standardised approach		**18,523**	**6,677**	**1,350**	**26,550**
– central governments and central banks		**14,113**	**1,148**	**—**	**15,261**
– regional governments or local authorities		**9**	**66**	**—**	**75**
– public sector entities		**68**	**1,400**	**—**	**1,468**
– international organisations		**—**	**—**	**990**	**990**
– institutions		**51**	**1,987**	**280**	**2,318**
– corporates		**1,827**	**1,646**	**72**	**3,545**
– retail		**189**	**23**	**4**	**216**
– secured by mortgages on immovable property		**352**	**315**	**4**	**671**
– exposures in default		**21**	**72**	**—**	**93**
– items associated with particularly high risk		**—**	**—**	**—**	**—**
– claims in the form of CIU		**—**	**—**	**—**	**—**
– equity		**—**	**—**	**—**	**—**
– other items	2	**1,893**	**20**	**—**	**1,913**
At 31 Dec 2018		**66,390**	**13,190**	**6,397**	**85,977**
IRB advanced approach		44,070	3,252	5,347	52,669
– central governments and central banks		—	530	883	1,413
– institutions		754	253	385	1,392
– corporates	1	21,451	2,465	4,018	27,934
– total retail		21,865	4	61	21,930
– *of which: secured by mortgages on immovable property SME*		*527*	—	*1*	*528*
secured by mortgages on immovable property non-SME		*3,098*	—	—	*3,098*
qualifying revolving retail		*1*	—	—	*1*
other SME		*1,838*	*4*	*60*	*1,902*
other non-SME		*16,401*	—	—	*16,401*
IRB securitisation positions		1,529	547	—	2,076
IRB equity		315	64	8	387
IRB foundation approach		305	—	—	305
– central governments and central banks		—	—	—	—
– institutions		—	—	—	—
– corporates		305	—	—	305
Standardised approach		25,160	3,650	1,913	30,723
– central governments and central banks		20,836	3,103	38	23,977
– regional governments or local authorities		—	—	—	—
– public sector entities		10	—	—	10
– international organisations		—	—	1,391	1,391
– institutions		79	159	187	425
– corporates		1,450	383	297	2,130
– retail		498	5	—	503
– secured by mortgages on immovable property		278	—	—	278
– exposures in default		75	—	—	75
– items associated with particularly high risk		—	—	—	—
– claims in the form of CIU		—	—	—	—
– equity		—	—	—	—
– other items	2	1,934	—	—	1,934
At 31 Dec 2017		71,379	7,513	7,268	86,160

For footnotes, see page 13.

Table 10: Credit risk exposure – by industry sector

	Agricul-ture	Mining	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accom-modation & food services	Information & communica-tion	Financial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	**84**	**78**	**3,753**	**1,519**	**7**	**382**	**4,427**	**1,645**	**371**	**19**	**4,333**
– central governments and central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,046**
– corporates	**65**	**75**	**3,535**	**1,514**	**6**	**290**	**3,850**	**1,562**	**313**	**19**	**3,259**
– total retail	**19**	**3**	**218**	**5**	**1**	**92**	**577**	**83**	**58**	**–**	**28**
– *of which: secured by mortgages on immovable property SME*	***2***	***–***	***14***	***1***	***–***	***5***	***17***	***2***	***7***	***–***	***6***
secured by mortgages on immovable property non-SME	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***
qualifying revolving retail	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***
other SME	***17***	***3***	***204***	***4***	***1***	***87***	***560***	***81***	***51***	***–***	***22***
other non-SME	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***	***–***
IRB securitisation positions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,300**
IRB equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**373**
IRB foundation approach	**4**	**1**	**64**	**5**	**1**	**28**	**63**	**62**	**9**	**–**	**7**
– central governments and central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– corporates	**4**	**1**	**64**	**5**	**1**	**28**	**63**	**62**	**9**	**–**	**7**
Standardised approach	**16**	**4**	**391**	**70**	**–**	**85**	**247**	**110**	**24**	**52**	**17,481**
– central governments and central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,141**
– regional governments or local authorities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– public sector entities	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**613**
– international organisations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– institutions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,318**
– corporates	**10**	**3**	**365**	**70**	**–**	**69**	**228**	**75**	**21**	**52**	**1,517**
– retail	**6**	**1**	**17**	**–**	**–**	**13**	**11**	**32**	**–**	**–**	**2**
– secured by mortgages on immovable property	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– exposures in default	**–**	**–**	**8**	**–**	**–**	**3**	**8**	**3**	**3**	**–**	**1**
– items associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– claims in the form of CIU	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– equity	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– other items	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**889**
At 31 Dec 2018	**104**	**83**	**4,208**	**1,594**	**8**	**495**	**4,737**	**1,817**	**404**	**71**	**25,494**

Table 10 : Credit risk exposure – by industry (continued)

	Real estate	Professional activities	Administ-rative service	Public admin & defence	Education	Human health & social work	Arts & entertai n-ment	Other services	Personal	Extra-territorial bodies	Non Customer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	**5,100**	**1,443**	**10,087**	**188**	**27**	**190**	**112**	**884**	**19,882**	**637**	**–**	**55,168**
– central governments and	–	–	–	179	–	–	–	–	–	637	–	816
– institutions	–	–	–	–	–	–	–	–	–	–	–	1,046
– corporates	4,542	1,427	9,719	9	18	147	85	856	–	–	–	31,291
– total retail	558	16	368	–	9	43	27	28	19,882	–	–	22,015
– *of which: secured by mortgages on immovable property SME*	*454*	*1*	*32*	*–*	*–*	*3*	*4*	*1*	*–*	*–*	*–*	*549*
secured by mortgages on immovable property non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*3,029*	*–*	*–*	*3,029*
qualifying revolving retail	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*1*	*–*	*–*	*1*
other SME	*104*	*15*	*336*	*–*	*9*	*40*	*23*	*27*	*–*	*–*	*–*	*1,584*
other non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*16,852*	*–*	*–*	*16,852*
IRB securitisation positions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,300**
IRB equity	**1**	**20**	**191**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**585**
IRB foundation approach	**1**	**46**	**77**	**–**	**–**	**2**	**3**	**1**	**–**	**–**	**–**	**374**
– central governments and	–	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	–	–
– corporates	1	46	77	–	–	2	3	1	–	–	–	374
Standardised approach	**572**	**33**	**255**	**4,183**	**4**	**43**	**33**	**32**	**1,057**	**990**	**868**	**26,550**
– central governments and central banks	–	–	–	3,120	–	–	–	–	–	–	–	15,261
– regional governments or local authorities	–	–	–	75	–	–	–	–	–	–	–	75
– public sector entities	–	–	–	826	–	28	–	–	–	–	–	1,468
– international	–	–	–	–	–	–	–	–	–	990	–	990
– institutions	–	–	–	–	–	–	–	–	–	–	–	2,318
– corporates	537	28	220	6	1	12	28	26	277	–	–	3,545
– retail	25	5	34	–	3	3	5	3	56	–	–	216
– secured by mortgages on immovable property	–	–	–	–	–	–	–	3	668	–	–	671
– exposures in default	10	–	1	–	–	–	–	–	56	–	–	93
– items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–	–
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–	–	–	–	–
– other items	–	–	–	156	–	–	–	–	–	–	868	1,913
At 31 Dec 2018	**5,674**	**1,542**	**10,610**	**4,371**	**31**	**235**	**148**	**917**	**20,939**	**1,627**	**868**	**85,977**

For footnotes, see page 13.

Table 11: Credit risk exposure – by maturity

	Footnotes	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total
		€m	€m	€m	€m	€m
IRB advanced approach		**13,637**	**18,322**	**23,209**	**—**	**55,168**
– central governments and central banks		**289**	**284**	**243**	**—**	**816**
– institutions		**543**	**380**	**123**	**—**	**1,046**
– corporates	1	**10,451**	**15,399**	**5,441**	**—**	**31,291**
– total retail		**2,354**	**2,259**	**17,402**	**—**	**22,015**
– of which: secured by mortgages on immovable property SME		***24***	***154***	***371***	**—**	***549***
secured by mortgages on immovable property non-SME		***24***	***352***	***2,653***	**—**	***3,029***
qualifying revolving retail		***1***	**—**	**—**	**—**	***1***
other SME		***824***	***594***	***166***	**—**	***1,584***
other non-SME		***1,481***	***1,159***	***14,212***	**—**	***16,852***
IRB securitisation positions		**223**	**3,077**	**—**	**—**	**3,300**
IRB equity		**—**	**—**	**585**	**—**	**585**
IRB foundation approach		**13**	**285**	**76**	**—**	**374**
– central governments and central banks		**—**	**—**	**—**	**—**	**—**
– institutions		**—**	**—**	**—**	**—**	**—**
– corporates		**13**	**285**	**76**	**—**	**374**
Standardised approach		**15,899**	**6,980**	**2,551**	**1,120**	**26,550**
– central governments and central banks		**10,562**	**4,012**	**687**	**—**	**15,261**
– regional governments or local authorities		**—**	**—**	**75**	**—**	**75**
– public sector entities		**625**	**269**	**574**	**—**	**1,468**
– international organisations		**494**	**203**	**293**	**—**	**990**
– institutions		**2,062**	**223**	**33**	**—**	**2,318**
– corporates		**1,564**	**1,567**	**414**	**—**	**3,545**
– retail		**52**	**113**	**51**	**—**	**216**
– secured by mortgages on immovable property		**76**	**215**	**380**	**—**	**671**
– exposures in default		**27**	**23**	**43**	**—**	**93**
– items associated with particularly high risk		**—**	**—**	**—**	**—**	**—**
– claims in the form of CIU		**—**	**—**	**—**	**—**	**—**
– equity		**—**	**—**	**—**	**—**	**—**
– other items	2	**437**	**355**	**1**	**1,120**	**1,913**
At 31 Dec 2018		**29,772**	**28,664**	**26,421**	**1,120**	**85,977**
IRB advanced approach		8,208	21,462	22,999	—	52,669
– central governments and central banks		406	944	63	—	1,413
– institutions		532	649	211	—	1,392
– corporates	1	6,255	15,913	5,766	—	27,934
– total retail		1,015	3,956	16,959	—	21,930
– of which: secured by mortgages on immovable property SME		*8*	*104*	*416*	—	*528*
secured by mortgages on immovable property non-SME		*19*	*367*	*2,712*	—	*3,098*
qualifying revolving retail		—	*1*	—	—	*1*
other SME		*804*	*911*	*187*	—	*1,902*
other non-SME		*184*	*2,573*	*13,644*	—	*16,401*
IRB securitisation positions		1,271	805	—	—	2,076
IRB equity		—	—	—	387	387
IRB foundation approach		10	234	61	—	305
– central governments and central banks		—	—	—	—	—
– institutions		—	—	—	—	—
– corporates		10	234	61	—	305
Standardised approach		18,266	8,692	1,887	1,878	30,723
– central governments and central banks		16,964	5,917	1,096	—	23,977
– regional governments or local authorities		—	—	—	—	—
– public sector entities		—	—	10	—	10
– international organisations		226	806	359	—	1,391
– institutions		279	132	14	—	425
– corporates		648	1,263	219	—	2,130
– retail		103	287	113	—	503
– secured by mortgages on immovable property		33	178	67	—	278
– exposures in default		13	53	9	—	75
– items associated with particularly high risk		—	—	—	—	—
– claims in the form of CIU		—	—	—	—	—
– equity		—	—	—	—	—
– other items	2	—	56	—	1,878	1,934
At 31 Dec 2017		27,755	31,193	24,947	2,265	86,160

For footnotes, see page 13.

Table 12: Wholesale IRB exposures under the slotting approach

	Exposure	
	2018	2017
	€m	€m
Supervisory Category		
Category 1 – Strong	**853**	902
Category 2 – Good	**327**	314
Category 3 – Satisfactory	**9**	–
Category 4 – Weak	**–**	–
Category 5 – Default	**–**	–
At 31 Dec	**1,189**	1,216

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

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

Our approach for determining impairment allowances is explained in the HSBC France *Annual Report and Accounts 2018*, and HSBC France's definitions for accounting purposes of 'past due' and 'impaired' are set out on page 93.

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

Table 13: Amount of impaired exposures and related allowances by industry sector

	Total
	€m
At 31 Dec 2018	
Past due but not impaired exposures	**218**
– personal	**113**
– corporate and commercial	**105**
– financial	**–**
Impaired exposures[1]	**1,081**
– personal	**482**
– corporate and commercial	**597**
– financial	**2**
Impairment allowances and other credit risk provisions[1]	**(617)**
– personal	**(206)**
– corporate and commercial	**(410)**
– financial	**(1)**
At 31 Dec 2017	
Past due but not impaired exposures	151
– personal	97
– corporate and commercial	54
– financial	–
Impaired exposures	971
– personal	302
– corporate and commercial	668
– financial	1
Impairment allowances and other credit risk provisions	(535)
– personal	(82)
– corporate and commercial	(452)
– financial	(1)

Related information on foreign subsidiaries country by country

Related information on foreign subsidiaries country by country required by the directive 2013/36/EU ('CRD IV') has been transposed in article L. 511-45 of the French Monetary and Financial Code.

Article R. 511-16-4, I of the French Monetary and Financial Code provides that undertakings are not required to disclose the information if these elements are already published by their parent company established within another Member State of the European Union and subject to a similar requirement.

This information is available on HSBC's website (www. hsbc.com) for December 2018. Thus, HSBC France is exempted from publishing such information on a single basis.

Table 14: Movement in specific credit risk adjustments by industry sector

	Total
	€m
Specific credit risk adjustments at 31 Dec 2017	**535**
Specific credit risk adjustments at 1 Jan Impact on transition to IFRS 9	**59**
Specific credit risk adjustments at 1 Jan 2018	**594**
Amounts written off	**(87)**
– personal	**(17)**
– corporate and commercial	**(70)**
– financial	**—**
Recoveries of amounts written off in previous years	**3**
– personal	**2**
– corporate and commercial	**1**
– financial	**—**
Charge to income statement	**(8)**
– personal	**12**
– corporate and commercial	**(13)**
– financial	**(7)**
Exchange and other movements [1]	**115**
Specific credit risk adjustments at 31 Dec 2018	**617**
Specific credit risk adjustments at 1 Jan 2017	624
Amounts written off	(170)
– personal	(13)
– corporate and commercial	(157)
– financial	—
Recoveries of amounts written off in previous years	(3)
– personal	(1)
– corporate and commercial	(2)
– financial	—
Charge to income statement	84
– personal	10
– corporate and commercial	77
– financial	(3)
Exchange and other movements	—
Specific credit risk adjustments at 31 Dec 2017	535

1 *Includes the opening balance of the foreign branch and subsidiaries transferred from the parent company HSBC Bank PLC.*

Expected Loss ('EL') and credit risk adjustments

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

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

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

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

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

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

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

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

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

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

Table 14 set out, for IRB credit exposures, the EL, CRA balances and the actual loss experience reflected in the charges for CRAs.

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

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

Table 15: IRB expected loss and CRA – by exposure class

	Expected loss[1]	CRA[1]	
		Balances	Charge for the year
	€m	€m	€m
IRB exposure classes			
Central governments and central banks	**—**	**—**	**—**
Institutions	**1**	**(1)**	**(7)**
Corporates	**248**	**(186)**	**(3)**
Retail	**324**	**(307)**	
– secured by mortgages on immovable property SME	**34**	**(31)**	**22**
– secured by mortgages on immovable property non-SME	**48**	**(45)**	**2**
– qualifying revolving retail	**—**	**(2)**	**(1)**
– other SME	**155**	**(140)**	**(33)**
– other non-SME	**87**	**(89)**	**14**
At 31 Dec 2018	**573**	**(494)**	**(6)**
IRB exposure classes			
Central governments and central banks	—	—	—
Institutions	1	—	—
Corporates	252	(203)	72
Retail	365	(321)	7
– secured by mortgages on immovable property SME	9	(4)	—
– secured by mortgages on immovable property non-SME	51	(44)	3
– qualifying revolving retail	—	—	—
– other SME	222	(206)	(1)
– other non-SME	83	(67)	5
At 31 Dec 2017	618	(524)	79

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

Risk mitigation

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

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is often taken to help secure claims. Another common form of security for the Retail business is guarantees provided by a third party company; *Crédit Logement* (a *Société de Financement* regulated by the French Regulator ACPR). *Crédit Logement* guarantees 100 per cent of the amount of the residential home loan in case of default. Loans to private banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. 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.

Further information regarding charges held over residential and commercial property is provided on page 101 of the HSBC France Annual Report and Accounts 2018*.*

Financial collateral

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

Other forms of Credit Risk Mitigation

Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors. Guarantees may be taken from third parties where the group extends facilities without the benefit of any alternative form of security, e.g. where it issues a bid or performance bond in favour of a non-customer at the request of another bank.In our corporate lending, we also take guarantees from corporates and Export Credit Agencies. Corporates normally provide guarantees as part of a parent/subsidiary or common

parent relationship and span a number of credit grades. Export Credit Agencies will normally be investment grade.

Policy and procedures

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

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they continue to provide the anticipated secure secondary repayment source. Market trading activities, such as collateralised OTC derivatives and SFTs, typically include daily valuations in support of margining arrangements. In the residential mortgage business, collateral values are determined through a combination of professional appraisals, external valuation database companies or house price indices. Specifically, HSBC France utilises the notary price index (INSEE) to update its mortgage portfolio value on a monthly basis. In addition it obtains professional valuations for its high value mortgage loans (EUR 3 million) annually for any loan impaired.

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

Recognition of risk mitigation under the IRB approach

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

The first typically include full parental guarantees – where one obligor within a group of companies guarantees another. This is usually factored into the estimate of the latter's PD, as it is expected that the guarantor will intervene to prevent a default. PD estimates are also subject to a 'sovereign ceiling', constraining the risk ratings assigned to obligors in higher risk countries if only partial parental support exists.

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

The main providers of guarantees are banks, other financial institutions and corporates, the latter typically in support of subsidiaries of their company group. Across HSBC, the nature of such customers and transactions is very diverse and the creditworthiness of guarantors accordingly spans a wide spectrum. The creditworthiness of providers of unfunded credit risk mitigation is taken into consideration as part of the guarantor's risk profile when; for example, assessing the risk of other exposures such as direct lending to the guarantor. Internal limits for such contingent exposure are approved in the same way as direct exposures. As noted previously, Retail home loan lending is often secured via a guarantee provided by the third party financial institution; *Crédit Logement*. As *Crédit Logement* guarantees all unpaid installments and potential final losses, this has an impact on the observed LGD.

EAD and LGD values, in the case of individually assessed exposures, are determined by approved internal risk parameters based on the nature of the exposure. For retail portfolios, credit risk mitigation data is incorporated into the internal risk parameters for exposures and feeds into the calculation of the EL band.

A range of collateral recognition approaches are applied to IRB capital treatments:

- unfunded protection, which includes guarantees, is reflected through adjustment or determination of PD or LGD ;
- eligible financial collateral information is taken into account in LGD models (under Advanced IRB) ; and
- for all other types of collateral, including real estate, the LGD for exposures calculated under the IRB advanced approach is calculated by models. For IRB foundation, base regulatory LGDs are adjusted depending on the value and type of the asset taken as collateral relative to the exposure. The types of eligible mitigant recognised under the IRB foundation approach are more limited.

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

Table 18 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 16: IRB exposure – credit risk mitigation

	2018			2017		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value
	€m	**€m**	**€m**	€m	€m	€m
Exposures under the IRB advanced	**10,608**	**14,797**	**25,404**	9,662	14,504	24,166
– central governments and central banks	**—**	**—**	**—**	—	—	—
– institutions	**—**	**—**	**—**	—	1	1
– corporates	**6,253**	**985**	**7,238**	5,010	1,169	6,179
– retail	**4,355**	**13,812**	**18,166**	4,652	13,334	17,986
Exposures under the IRB foundation approach				—	—	—
– institutions	**—**	**—**	**—**	—	—	—
– corporates	**—**	**—**	**—**	—	—	—
At 31 Dec	**10,608**	**14,797**	**25,404**	9,662	14,504	24,166

Table 17: Standardised exposure – credit risk mitigation

	2018			2017 [1]		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value
	€m	**€m**	**€m**	€m	€m	€m
Exposures under the standardised approach						
– central governments and central banks	**—**	**—**	**—**	—	—	—
– institutions	**—**	**—**	**—**	—	—	—
– corporates	**1,623**	**44**	**1,667**	585	85	670
– retail	**89**	**—**	**89**	995	65	1,060
Secured by mortgages on immovable property	**—**	**—**	**—**	23	11	34
Exposures in default	**5**	**—**	**5**	11	—	11
Items associated with particularly high risk	**—**	**—**	**—**	—	—	—
At 31 Dec	**1,717**	**44**	**1,761**	1,614	161	1,775

1 The breakdown for 2017 between collateral and guarantees in the table above has been modified however no change on the total of exposure value.

To be noted, there has been a transfer of exposures from retail to corporate asset class in 2018 to comply with EBA article 123 (point c) as regards exposures above EUR 1 million.

Counterparty credit risk

Overview

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

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

Further explanation of the HSBC France's approach to managing counterparty credit risk can be found on page 107 of the HSBC France Annual Report and Accounts 2018*.*

Table 17: Counterparty credit risk[1] – RWAs by exposure class and product

	2018		2017	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
By exposure class				
IRB advanced approach	**1 383**	**111**	685	55
– central governments and central banks	**–**	**–**	–	–
– institutions [2]	**1 383**	**111**	685	55
– corporates	**–**	**–**	–	–
IRB foundation approach	**859**	**69**	638	51
– corporates	**859**	**69**	638	51
Standardised approach	**505**	**40**	422	34
– central governments and central banks	**1**	**–**	–	–
– regional government or local authorities	**5**	**–**	–	–
– institutions	**489**	**39**	419	34
– corporates	**10**	**1**	3	–
CVA advanced	**–**		–	–
CVA standardised	**683**	**55**	1,128	90
CCP standardised	**197**	**16**	163	13
By products				
– derivatives (OTC and Exchange traded derivatives)	**2 040**	**163**	1,784	143
– SFTs	**887**	**71**	73	6
– other	**–**	**–**	–	–
– CVA advanced	**–**	**–**	–	–
– CVA standardised	**683**	**55**	1,128	90
– CCP default funds	**17**	**1**	51	4
At 31 Dec	**3 627**	**290**	3,036	243

1 *Includes settlement risk*
2 *The increase observed against institutions under IRB Advanced approach is driven by the integration in the consolidated perimeter of the foreign branch and subsidiaries transferred from the parent company HSBC Bank PLC to HSBC France.*

Collateral arrangements

Our policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management function manages the collateral process including pledging and receiving collateral and investigating disputes and non-receipts.

Eligible collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement.

Further information on gross fair value exposure and the offset due to legally enforceable netting and collateral is set out on page 246 of the Annual Report and Accounts 2018*.*

Credit Valuation Adjustment (CVA) hedges

In the normal course of business, HSBC France enters into bilateral transactions that can generate risky exposure when there is no or only partial credit mitigants. For non CVA exempted counterparties, the bank computes own funds requirements for the credit valuation adjustment risk.

Credit derivatives allows to hedge this credit exposure. The responsibility for hedging and / or mitigating credit exposure lies within the remit of the Counterparty Exposure Management Desk. Since 2018, this desk trades CDS hedges which are eligible for the mitigation of the CVA own funds requirements which explains the CVA risk reduction in the table above.

Credit rating downgrade

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

Market risk

Overview

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

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

Further explanation of the HSBC France's approach to managing market risk can be found on page 113 of the HSBC France Annual Report and Accounts 2018.

Table 19: Market risk under standardised approach

		2018		2017	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Risk type				
1	Interest rate risk (general and specific)	**403**	**32**	356	28
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**142**	**11**	—	—
4	Commodity risk	**—**	**—**	—	—
	Options				
5	Simplified approach	**44**	**4**	45	4
6	Delta-plus method	**—**	**—**	—	—
7	Scenario approach	**—**	**—**	—	—
8	Securitisation	**—**	**—**	—	—
9	**Total**	**589**	**47**	401	32

Table 20: Market risk under internal model approach

		2018		2017	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**1 104**	**88**	1 191	95
(a)	Previous day's VaR	**299**	**24**	253	20
(b)	Average daily VaR	**1 104**	**88**	1 191	95
2	**Stressed VaR (higher of values**	**1 762**	**141**	3 596	288
(a)	Latest SVaR	**407**	**33**	504	40
(b)	Average SVaR	**1 762**	**141**	3 596	288
3	**Incremental risk charge (higher**	**—**	**—**	—	—
(a)	Most recent IRC value	**—**	**—**	—	—
(b)	Average IRC value	**—**	**—**	—	—
5	**Other**	**—**	**—**	—	—
6	**Total**	**2 866**	**229**	4,787	383

Operational risk

Overview

In accordance with the French Order of 3 November 2014 and the Operational Risk Functional Instructions Manual ('FIM') definition, operational risk is defined within HSBC Group as a risk that might be the result of:

Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically;

External events

This risk includes notably external or internal fraud risk (article 324 of EU regulation No. 575/2013), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

We have historically experienced operational risk losses in the following major categories:

- External Fraud event
- Transaction processing

Further explanation of HSBC France's approach to managing operational risk can be found on page 120 of the HSBC France Annual Report and Accounts 2018.

Table 21: Operational risk RWAs and capital required

	2018		2017	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,194**	**256**	3,385	271

Other risks

Further details of the other risks identified by HSBC France are described in the Top and Emerging Risks section which can be found on pages 63 to 121 in the HSBC France *Annual Report and Accounts 2018*.

Interest rate risk in the banking book

Interest Rate Risk in the Banking Book ('IRRBB') arises from timing mismatches in the repricing of non-traded assets and liabilities and is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to Balance Sheet Management to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, HSBC France aims to balance mitigating the effect of future interest rate movements which could reduce net interest income against the cost of hedging.

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

EVE represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario, i.e. the current book value of equity plus the present value of future net interest income in this scenario. EVE sensitivity is the extent to which the EVE value will change due to a specified movement in interest rates, where all other economic variables are held constant.

Further details on our IRRBB may be found on page 117 of HSBC France's Annual Report and Accounts 2018.

Risk management of insurance operations

We operate an integrated *bancassurance* model which provides insurance products for customers with whom we have a banking relationship. Insurance products are sold by RBWM and CMB through our branches and direct channels.

The insurance contracts we sell relate to the underlying needs of our banking customers, which we can identify from our point-of-sale contacts and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts.

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

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

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

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided from page 139 of the HSBC France Annual Report and Accounts 2018.

Liquidity and funding risk

Strategies and processes in the management of liquidity risk

HSBC Group 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 undertaken in France in compliance with the Group's LFRF, and with practices and limits set through by the RMM and approved by the Board. HSBC France's policy is that it should be self-sufficient in funding its own activities.

Structure and organisation of the liquidity risk management function

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

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

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

Asset, Liability & Capital Management ('ALCM')

HSBC France ALCM team is responsible for the implementation of group-wide and European regulatory policy at its own level.

Balance Sheet Management ('BSM')

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

Liquidity Risk Assurance

Second line liquidity risk assurance is provided through the Group's Risk function. This team performs the following activities:

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

Hedging and mitigating liquidity risk at HSBC Group

Management of liquidity and funding risk

Liquidity coverage ratio

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

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

Net stable funding ratio

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

Liquid assets

Liquid assets are held and managed at HSBC France's level. Most are held directly by BSM department, primarily for the purpose of managing liquidity risk in line with the LFRF.

The liquid asset buffer may also include securities in held-to maturity portfolios. To qualify as part of the liquid asset buffer, held-to-maturity portfolios must have a deep and liquid repo market in the underlying security.

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

Overall adequacy of liquidity risk management

HSBC France is required to manage liquidity risk and funding risks in accordance with the LFRF, which includes the preparation of an Individual Liquidity Adequacy Assessment ('ILAA') document, to ensure that :

- liquidity resources are adequate, both as to the amount and quality ;
- there is no significant risk that liabilities cannot be met as they fall due ;
- a prudent structural funding profile is maintained ;
- adequate liquidity resources continue to be maintained ; and
- that the liquidity risk framework is adequate and robust.

The two key objectives of the ILAAP process are to :

- demonstrate that all material liquidity and funding risks are captured within the internal framework ; and
- validate the risk tolerance/appetite set at HSBC France's level by demonstrating that reverse stress testing scenarios are acceptably remote; and vulnerabilities have been assessed through the use of severe stress scenarios.

The final conclusion of the ILAA, approved by the Board of Directors, is that HSBC France :

- maintains liquidity resources which are adequate in both amount and quality at all times, and ensures that
- there is no significant risk that its liabilities cannot be met as they fall due ; and
- ensures its liquidity resources contain an adequate amount of high quality liquid assets ('HQLA') and maintains a prudent funding profile.

Liquidity stress testing

HSBC France undertakes liquidity stress testing to test that its risk appetite is correct, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the business. HSBC France also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead the group to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

Liquidity management across the group

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

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

HSBC Group's business strategy and overall liquidity risk profile

The key aspects of the LFRF are :

- stand-alone management of liquidity and funding by operating entity ;
- operating entity classification by inherent liquidity risk ('ILR') categorisation ;
- minimum LCR requirement depending on ILR categorisation ;
- minimum NSFR requirement depending on ILR categorisation ;
- legal entity depositor concentration limit ;
- three-month and 12-month cumulative rolling term contractual maturity limits covering deposits from banks, deposits from non-bank financial institutions and securities issued ;
- annual individual liquidity adequacy assessment by principal operating entity ;
- minimum LCR requirement by currency ;
- intra-day liquidity ;
- liquidity funds transfer pricing ; and
- forward-looking funding assessments.

The internal LFRF and the risk tolerance limits were approved by the RMM and the Board on the basis of recommendations made by the Group Risk Committee.

Further details on our Liquidity and funding risk may be found on page 109 of HSBC France's Annual Report and Accounts 2018.

Structural foreign exchange exposures

The structural foreign exchange exposures of HSBC France are very limited. It concerns few investments, not significant, in the foreign subsidiaries, as structural foreign exchange exposure arising from banking operations is systematically transferred to the trading room which manages exchange rate risk according to the limits set by the Risk Management Meeting.

The foreign exchange risk on equity is due to investments in foreign currency that are not hedged by financing in foreign currency. Those exposures correspond to net investments in subsidiaries, branches or associated companies for which the euro is not the functional currency.

HSBC France monitors this risk through the measure of exposures and RWAs denominated in foreign currencies, and capital ratios sensitivity to movements in foreign exchange rates,

Further details of the Structural FX may be found on page 129 of HSBC France's Annual Report and Accounts 2018.

Reputational risk

Reputational risk is the risk of failing to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC, our employees or those with whom we are associated. This might cause stakeholders to form a negative view of HSBC and result in financial or non-financial effects, as well as loss of confidence in the Bank. Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise.

Stakeholders' expectations change constantly and so reputational risk is dynamic and highly variable. We have an unwavering commitment to operating at the high standards we set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk. We take measures to enhance our AML, sanctions and other regulatory compliance frameworks.

For further details, please refer to the Reputational Risk section on page 142 of the HSBC France Annual Report and Accounts 2018*.*

Sustainability risk

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

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

Climate-related risks are divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change.

Transition risk, in the context of climate change, is the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy. More information on how HSBC France is taking transition risk into account can be found in the 2018 annual report.

Business risk

Business risk is the potential negative impact on profits and capital as a result of HSBC France not meeting its strategic objectives, as set out in the strategic plan, caused by unforeseen changes in the business and regulatory environment, exposure to economic cycles and technological changes.

Business risk is assessed through particular macro-economic scenario, involving specific and relevant political items, within stress-testing exercises.

Remuneration

As a subsidiary of HSBC Group, the general remuneration principles implemented within HSBC France are very naturally part of the broader framework of the HSBC Group's remuneration policy which is subject to the rules laid down by the British regulators (i.e mainly Prudential Regulatory Authority). In addition, these remuneration principles are applied taking into account the local regulatory framework and any European specific regulations. Details of HSBC France remuneration policy may be found in the report on corporate governance on pages 38 to 48 of the HSBC France *Annual Report and Accounts 2018*.

The following tables show the remuneration awards made to MRTs in HSBC France and its subsidiaries and branches for 2018.

Individuals have been identified as MRTs based on the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014 which came into force in June 2014. The tables below include the total remuneration of individuals identified as HSBC MRTs based on their role and professional activities who could have a potential impact on the risk profile of the Bank.

Table 22: Senior management remuneration - fixed and variable amounts (REM1)

	2018			
	MRTs			
	Executive Director	Non-Executive Director	Senior Management	Total
Number of MRTs	**2**	**–**	**18**	**20**
	€m	**€m**	**€m**	**€m**
Total fixed	**1,6**	**–**	**6,0**	**7,6**
Cash-based [1]	**1,6**	**–**	**6,0**	**7,6**
– of which deferred cash	**–**	**–**	**–**	**–**
Share based	**–**	**–**		**–**
– of which deferred shares	**–**	**–**	**–**	**–**
Total Variable[2]	**1,8**	**–**	**6,4**	**8,2**
Cash-based	**0,9**	**–**	**3,5**	**4,4**
– of which deferred cash	***0,5***	**–**	***1,5***	***2,0***
Share based [3]	**0,9**	**–**	**2,9**	**3,8**
– of which deferred shares [3]	***0,5***	**–**	***1,4***	***1,9***
Other forms	**–**	**–**	**–**	**–**
– of which deferred	**–**	**–**	**–**	**–**
Total remuneration	**3,4**	**–**	**12,4**	**15,8**

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

Table 23: Senior management guaranteed bonus, sign-on and severance payments (REM2)

	2018			
	MRTs			
	Executive Director	Non-Executive Director	Senior Management	Total
Guaranteed bonus and sign-on payments [1]	**€m**	**€m**	**€m**	**€m**
Made during the year (€m)	–	–	**0,9**	**0,9**
Number of beneficiaries	–	–	**NC**	**NC**
Severance payments [2]	–	–	–	–
Awarded and made during year (€m)	–	–	–	–
Number of beneficiaries	–	–	–	–
Highest such award to a single person (€m)	–	–	–	–
Made during the year (€m)	–	–	–	–
Number of beneficiaries	–	–	–	–

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

Table 24: Senior management deferred remuneration (REM3)1

	2018			
	MRTs			
	Executive Director	Non-Executive Director	Senior Management	Total
€m				
Cash	**1,3**	–	**3,0**	**4,3**
Total outstanding deferred remuneration[2]	**0,9**	–	**2,2**	**3,1**
– of which: Unvested	***0,9***	–	***2,2***	***3,1***
– of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	–	–	–	–
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–
Total amount of deferred remuneration paid out in the financial year[4]	**0,4**	–	**0,8**	**1,2**
Shares	**2,5**	–	**5,0**	**7,5**
Total outstanding deferred remuneration[2]	**2,1**	–	**3,8**	**5,9**
– of which: Unvested	***1,7***	–	***2,7***	***4,4***
– of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	***0,4***	–	***1,1***	***1,5***
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–
Total amount of deferred remuneration paid out in the financial year	**0,4**	–	**1,2**	**1,6**
Other	–	–	–	–
Total outstanding deferred remuneration[2]	–	–	–	–
– of which: Unvested	–	–	–	–
– of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	–	–	–	–
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–
Total amount of deferred remuneration paid out in the financial year[4]	–	–	–	–

1 *The table provides details of adjustment during performance year 2018. For details of variable pay granted for 2018, please refer to both remuneration tables above. Deferred remuneration is made in cash and/or shares. Share bases awards are made in HSBC shares.*
2 *Includes unvested deferred awards and vested awards subject to retention period as at 31 December 2018.*
3 *Includes any adjustments due to malus or clawback.*
4 *Share are considered as paid when they vest. Vested shares are valued using the opening price on the business vesting day.*

Table 25: Other MRTs remuneration - fixed and variable amounts (REM1)

	2018					
	By Global business					
	Retail Banking and Wealth Management (France area)	Commercial Banking (France area)	Global Banking and Markets (France area)	All other (France area)	International branches and subsidiaries[4]	Total
Number of MRTs	8	5	42	20	20	95
	€m	€m	€m	€m	€m	€m
Total fixed	2,3	1,1	15,1	3,3	3,1	24,9
Cash-based[1]	2,3	1,1	15,1	3,3	3,1	24,9
– of which deferred cash	—	—	—	—	—	—
Share based	—	—	—	—	—	—
– of which deferred shares	—	—	—	—	—	—
Total Variable[2]	1,9	0,8	13,6	1,2	1,7	19,1
Cash-based[1]	1,8	0,4	6,8	0,9	0,8	10,6
– of which deferred cash	*0,8*	*0,1*	*2,9*	*0,1*	*0,3*	*4,2*
Share based[3]	0,2	0,4	6,8	0,3	0,9	8,5
– of which deferred shares[3]	*0,1*	*0,1*	*2,9*	*0,1*	*0,3*	*3,5*
Other forms[3]	—	—	—	—	—	—
– of which deferred[3]	—	—	—	—	—	—
Total remuneration	4,2	1,9	28,7	4,4	4,8	44.0

1 *Cash based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2018. In accordance with shareholder approval received on 23 May 2014 (98% in favor) for each MRT the component of remuneration for any one year is limited to 200% of fixed component of the total remuneration of the MRT.*
3 *Share based awards are made in HSBC shares. Vested shares are subject to a retention period up to one year.*
4 *Includes HSBC France Athens branch and HSBC Bank Polska SA.*

Table 26: Other MRTs guaranteed bonus, sign-on and severance payments (REM2)

	2018					
	By Global business					
	Retail Banking and Wealth Management (France area)	Commercial Banking (France area)	Global Banking and Markets (France area)	All other (France area)	International branches and subsidiaries[3]	Total
Guaranteed bonus and sign-on payments[1]	€m	€m	€m	€m	€m	€m
Made during the year (€m)	—	—	—	—	—	—
Number of beneficiaries	—	—	—	—	—	—
Severance payments[2]						
Awarded and made during year (€m)	—	—	—	0,3	—	0,3
Number of beneficiaries	—	—	—	—	—	—
Highest such award to a single person (€m)	—	—	—	—	—	—
Made during the year (€m)	—	—	—	—	—	—
Number of beneficiaries	—	—	—	—	—	—

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

Table 27: Other MRTs deferred remuneration (REM3)1

	2018					
	By Global business					
	Retail Banking and Wealth Management (France area)	Commercial Banking (France area)	Global Banking and Markets (France area)	All other (France area)	International branches and subsidiaries[5]	Total
€m[1]						
Cash	1,6	0,2	7,8	0,3	0,1	10.0
Total outstanding deferred remuneration	1,2	0,2	5,4	0,2	0,1	7,1
– of which: Unvested[2]	1,2	0,2	5,4	0,2	0,1	7,1
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–	–	–
Total amount of deferred remuneration paid out in the financial year	0,4	0,0	2,4	0,1	–	2,9
Shares	1,4	0,4	14,3	0,8	0,1	17.0
Total outstanding deferred remuneration[2]	0,8	0,3	10,9	0,5	0,1	12,6
– of which: Unvested	*0,6*	*0,2*	*6,5*	*0,4*	*0,1*	*7,8*
– of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	*0,2*	*0,1*	*4,4*	*0,1*	–	*4,8*
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–	–	–
Total amount of deferred remuneration paid out in the financial year[4]	0,6	0,1	3,4	0,3	–	4,4
Other forms	–	–	–	–	–	–
Total outstanding deferred remuneration[2]	–	–	–	–	–	–
– of which: Unvested	–	–	–	–	–	–
– of which: total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	–	–	–	–	–	–
Total amount of amendment during the year due to ex post implicit adjustment	–	–	–	–	–	–
Total amount of amendment during the year due to ex post explicit adjustment[3]	–	–	–	–	–	–
Total amount of deferred remuneration paid out in the financial year[4]	–	–	–	–	–	–

1 *The table provides details of adjustment during performance year 2018. For details of variable pay granted for 2018, please refer to both remuneration tables above. Deferred remuneration is made in cash and/or shares. Share bases awards are made in HSBC shares.*
2 *Includes unvested deferred awards and vested awards subject to retention period as at 31 December 2018.*
3 *Includes any adjustments dur to malus or clawback.*
4 *Share are considered as paid when they vest. Vested shares are valued using the opening price on the business vesting day.*
5 *Includes HSBC France Athens branch and HSBC Bank Polska SA.*

Table 28: Material risk-takers (MRT) remuneration by band1

	2018						
	Number of MRTs						
	Executive Director	Retail Banking and Wealth Management	Commercial banking	Global Banking and Markets	All Other	International branches and subsidiaries[2]	Total
€0 – €1,000,000	1	12	6	40	28	20	107
€1,000,001 – €1,500,000				4			4
€1,500,001 – €2,000,000		1		2			3
€2,000,001 – €2,500,000	1						1
€2,500,001 – €3,000,000							
€3,000,001 – €3,500,000							
€3,500,001 – €4,000,000							
€4,000,001 – €4,500,000							
€4,500,001 – €5,000,000							
€5,000,001 – €6,000,000							
€6,000,001 – €7,000,000							
€7,000,001 – €8,000,000							
€8,000,001 – €9,000,000							
€9,000,001 – €10,000,000							
€10,000,001 – €11,000,000							

1 *Table prepared in euros in accordance with Article 450 of the Capital Requirements Regulation, using the rates published by the European Commission for financial programming and budget for December 2018, as published on their website.*
2 *Includes HSBC France Athens branch and HSBC Bank Polska SA.*

Appendix I

Summary of disclosures withheld due to their immateriality, confidentiality or proprietary nature

CRR reference	Description	Rationale
438(e) and 445	Capital requirements – Own funds requirements for settlement risk.	**Materiality** Settlement risk arises where certain transactions are unsettled after their due delivery date and is required to be separately disclosed. However, as settlement risk RWAs are not material and included within counterparty credit risk, they have not been separately disclosed.
442(c)	Credit Risk Adjustments – In relation to exposure to credit risk and dilution risk, the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation.	**Materiality** The disclosure has been made after taking into account the effects of credit risk mitigation; there are no significant differences between exposures pre- and post- credit risk mitigation at exposure class level.
448(a)	Key assumptions (including assumptions regarding loan prepayments and behaviour of non-maturity deposits) on their exposure to interest rate risk on positions not included in the trading book.	**Proprietary** Assumptions regarding fixed term loan repayments and term behaviouralisation of non-maturity deposits and capital drive HSBC's structural interest rates positioning and market hedging requirements. Disclosure could give key business strategy information to our competitors.

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A

Abbreviation	Term
AFS[1]	Available-for-sale
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1 capital	Additional tier 1 capital

B

Abbreviation	Term
BCBS	Basel Committee on Banking Supervision
BSM	Balance Sheet Management

C

Abbreviation	Term
CCP	Central counterparty
CCR[1]	Counterparty credit risk
CDS[1]	Credit default swap
CET1[1]	Common equity tier 1
CIU	Collective investment undertakings
CRA[1]	Credit risk adjustment
CRD IV[1]	Capital Requirements Regulation and Directive
CRE[1]	Commercial real estate
CRM	Credit risk mitigation/mitigant
CVA	Credit valuation adjustment

E

Abbreviation	Term
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EL[1]	Expected loss
EU	European Union
EVE[1]	Economic value of equity

F

Abbreviation	Term
FPC[1]	Financial Policy Committee (UK)
FSB	Financial Stability Board

G

Abbreviation	Term
GB&M	Global Banking and Markets, a global business
GPB	Global Private Banking, a global business
Group	HSBC Holdings together with its subsidiary undertakings

H

Abbreviation	Term
HSBC	HSBC Holdings together with its subsidiary undertakings

I

Abbreviation	Term
IAA[1]	Internal Assessment Approach
ICAAP[1]	Internal Capital Adequacy Assessment Process
ICG	Individual capital guidance
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILR	Inherent Liquidity Risk
IMA	Internal Models Approach
IMM[1]	Internal Model Method
IRB[1]	Internal ratings based approach
IRC[1]	Incremental risk charge

Abbreviation	Term
IMA	Internal Models Approach
IMM[1]	Internal Model Method
IRB[1]	Internal ratings based approach
IRC[1]	Incremental risk charge

L

Abbreviation	Term
LCR	Liquidity Coverage Ratio
LFRF	Liquidity and Funding Risk Management Framework
LGD[1]	Loss given default

M

Abbreviation	Term
MREL	Minimum requirements for own funds and eligible liabilities

N

Abbreviation	Term
NQH	Non Qualifying Hedge
NSFR	Net Stable Funding Ratio

O

Abbreviation	Term
OTC[1]	Over-the-counter

P

Abbreviation	Term
PD[1]	Probability of default
PFE[1]	Potential future exposure
PRA[1]	Prudential Regulation Authority (UK)

R

Abbreviation	Term
RAS	Risk appetite statement
RBM[1]	Ratings Based Method
RBWM	Retail Bank and Wealth Management, a global business
RMM	Risk Management Meeting of the Group Management Board
RNIV	Risks not in VaR
RWA[1]	Risk-weighted asset

S

Abbreviation	Term
S&P	Standard and Poor's rating agency
STD[1]	Standardised approach
CCR	Standardised approach for counterparty credit risk
SFM[1]	Supervisory Formula Method
SFT[1]	Securities Financing Transactions
SME	Small and medium-sized enterprise

T

Abbreviation	Term
TLAC[1]	Total Loss Absorbing Capacity
TTC[1]	Through-the-cycle
T1 capital	Tier 1 capital
T2 capital	Tier 2 capital

U

Abbreviation	Term
UK	United Kingdom

V

Abbreviation	Term
VaR[1]	Value at risk

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

Appendix III

Cautionary statement regarding forward-looking statements

The Capital and Risk Management *Pillar 3 Disclosures 2018* contains certain forward-looking statements with respect to HSBC's financial condition, results of operations, capital position and business.

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

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

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

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

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