

HSBC Continental Europe

Pillar 3 Disclosures at 31 December 2022

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Contents

	Page
Introduction	2
Regulatory framework for disclosures	4
Pillar 3 disclosures	4
Key regulatory developments	5
Significant events	6
Linkage to the Universal Registration Document 2022	6
Capital and Leverage	9
Capital management	9
Overview of regulatory capital framework	9
Leverage ratio	11
Capital buffers	13
Pillar 1	15
Pillar 2 and ICAAP	15
Minimum Requirement for own funds and Eligible Liabilities ('MREL') – Total Loss Absorbing Capacity ('TLAC')	16
Credit risk	17
Overview	17
Risk mitigation	24
Counterparty Credit Risk	35
Market risk	36
Non-Financial risk	36
Other risks	37
Interest rate risk in the banking book	40
Risk management of insurance operations	41
Remuneration	42
ESG Risks	47

Appendices

	Page
I Summary of disclosures with held due to their immateriality, confidentiality or proprietary nature	64
II Abbreviations	65
III Cautionary statement regarding forward-looking statements	67

Tables

	Page
1 Key metrics template ('KM1')	2
2 Overview of risk weighted exposure amounts ('OV1')	3
3 RWA flow statements of credit risk exposures under the IRB approach ('CR8')	3
4 RWA flow statements of CCR exposures under IMM ('CCR7')	3
5 RWA flow statements of market risk exposures under the IMA ('MR2-B')	4
6 Reconciliation of regulatory own funds to balance sheet in the audited financial statements ('CC2')	7
7 Composition of regulatory own funds ('CC1')	10
8 Summary reconciliation of accounting assets and leverage ratio exposures ('LRSum')	12
9 Leverage ratio common disclosure ('LRCom')	12
10 Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) ('LRSpl')	13
11 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1')	13
12 Amount of Institution specific countercyclical Capital buffer ('CCyB2')	14
13 Credit risk – summary	17
14 Credit quality of forborne exposures ('CQ1')	18
15 Credit quality of performing and non-performing exposures by past due days ('CQ3')	19
16 Collateral obtained by taking possession and execution processes ('CQ7') ¹	20
17 Performing and non-performing exposures and related provisions ('CR1')	20
18 Changes in the stock of non-performing loans and advances ('CR2')	22
19 Maturity of exposures ('CR1-A')	22
20 Specialised lending and equity exposures under the simple risk-weighted approach ('CR10')	22

21 CRM techniques overview: Disclosure of the use of credit risk mitigation techniques ('CR3')	26
22 Standardised approach – Credit risk exposure and CRM effects ('CR4')	26
23 IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques ('CR7')	27
24 IRB approach – Disclosure of the extent of the use of CRM techniques ('CR7-A')	27
25 IRB approach – Credit risk exposures by exposure class and PD range ('CR6')	29
26 Scope of the use of IRB and SA approaches ('CR6-A')	34
27 Analysis of CCR exposure by approach ('CCR1')	35
28 Transactions subject to own funds requirements for CVA risk ('CCR2')	35
29 Composition of collateral for CCR exposures ('CCR5')	35
30 Market risk under the standardised approach ('MR1')	36
31 Market risk under the Internal Model Approach ('IMA') ('MR2-A')	36
32 Operational risk – RWA	36
33 Quantitative information on LCR ('LIQ1')	38
34 Net Stable Funding Ratio ('LIQ2')	39
35 Interest rate risks of non-trading book activities ('IRRBB1')	41
36 Remuneration awarded for the financial year ('REM1')	44
37 Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM2')	45
38 Deferred remuneration ('REM3')	45
39 Remuneration of EUR 1 million or more per year ('REM4')	46
40 Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM5')	46
41 Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1)	57
42 Banking book - climate change transition risk: Loans collateralised by immovable property - Energy efficiency of collateral (Template 2)	60
43 Banking book - climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)	60
44 Banking book - climate change physical risk: Exposures subject to physical risk (Template 5)	62
45 Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)	63

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

Introduction

Table 1: Key metrics template ('KM1')

Ref*		At				
		31 Dec 2022 €m	30 Sep 2022 €m	30 Jun 2022 €m	31 Mar 2022 €m	31 Dec 2021 €m
	Available own funds (amounts)					
1	Common Equity Tier 1 ('CET1') capital	8,980	5,992	6,557	6,501	5,742
2	Tier 1 capital	10,330	6,989	7,554	7,499	6,492
3	Total capital	11,780	8,095	8,960	8,905	7,898
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	58,561	47,858	47,893	46,481	47,795
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	15.3	12.5	13.7	14.0	12.0
6	Tier 1 ratio	17.6	14.6	15.8	16.1	13.6
7	Total capital ratio	20.1	16.9	18.7	19.2	16.5
	Additional own funds requirements to address risks other than the risk of excessive leverage (%) (as a percentage of risk-weighted exposure amount) (%)					
EU-7a	Additional own funds requirements to address risks other than the risk of excessive leverage	3.2	3.2	3.2	3.2	3.0
EU-7b	– of which: to be made up of CET1 capital (percentage points)	1.8	1.8	1.8	1.8	1.7
EU-7c	to be made up of Tier 1 capital (percentage points)	2.4	2.4	2.4	2.4	2.3
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	11.2	11.2	11.2	11.2	11.0
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount) (%)					
8	Capital conservation buffer	2.5	2.5	2.5	2.5	2.5
9	Institution-specific countercyclical capital buffer	0.1	0.1	–	–	–
EU-10a	Other Systemically Important Institution buffer ¹	0.3	0.3	0.3	0.3	–
11	Combined buffer requirement	2.9	2.8	2.8	2.8	2.5
EU-11a	Overall capital requirements	14.0	14.0	14.0	14.0	13.5
12	CET1 available after meeting the total SREP own funds requirements	4.1	1.3	2.5	2.8	1.0
	Leverage ratio					
13	Total exposure measure	238,058	193,354	191,759	152,716	154,604
14	Leverage ratio (%)	4.3	3.6	3.9	4.9	4.2
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) (%)					
EU-14c	Total SREP leverage ratio requirements (%)	3.0	3.0	3.0	3.4	3.4
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)					
EU-14e	Overall leverage ratio requirements ²	3.0	3.0	3.0	3.4	3.4
	Liquidity Coverage Ratio ('LCR')					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	52,471	47,120	47,503	47,826	47,496
EU-16a	Cash outflows – Total weighted value	50,304	44,532	43,499	42,260	40,471
EU-16b	Cash inflows – Total weighted value	15,511	11,568	9,482	8,388	7,048
16	Total net cash outflows (adjusted value)	34,793	32,964	34,017	33,873	33,424
17	Liquidity coverage ratio (%)	150	144	140	141	142
	Net Stable Funding Ratio ('NSFR')					
18	Total available stable funding	87,799	84,338	84,316	83,405	81,925
19	Total required stable funding	64,882	63,882	63,014	61,891	60,219
20	NSFR ratio (%)	135	132	134	135	136

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

1 A Domestic-Systemically Important Bank (D-SIB, equivalent to O-SII) buffer of 0.25% is in force since 1 January 2022.

2 Until 31 March 2022, HSBC Continental Europe continued to exclude certain central bank exposures from the leverage exposure measure in application of the exemption granted by the European Central Bank which expired on 1 April 2022. Additionally, the recalibration of the leverage ratio requirement ended on the same date, returning to 3%.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

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

	At 31 Dec 2022		At 30 Sep 2022		At 31 Dec 2021	
	RWAs	Capital requirement ¹	RWAs	Capital requirement ¹	RWAs	Capital requirement ¹
	€m	€m	€m	€m	€m	€m
1 Credit risk (excluding CCR)²	42,303	3,384	35,593	2,847	35,857	2,868
2 – standardised approach	12,058	965	8,448	676	8,121	664
3 – foundation IRB approach	8,210	657	1,592	127	3,252	260
4 – slotting approach	350	28	850	68	–	–
EU 4a – equities under the simple risk-weighted approach	884	71	1,013	81	1,299	104
4 – advanced IRB approach	20,801	1,664	23,690	1,895	23,185	1,855
6 Counterparty credit risk ('CCR')	6,036	483	5,065	405	3,736	298
7 – standardised approach	3,003	240	1,064	85	1,102	88
8 – internal model method ('IMM')	1,586	127	2,745	220	2,176	174
EU-8a – exposures to a central counterparty ('CCP')	111	9	108	9	65	5
EU-8b – credit valuation adjustment ('CVA')	777	62	576	46	393	31
9 – other CCR	559	45	572	46	–	–
15 Settlement risk	12	1	30	2	–	–
16 Securitisation exposures in the non-trading book	1,051	84	510	41	574	46
17 – internal ratings-based approach ('SEC-IRBA')	544	44	–	–	–	–
18 – external ratings-based approach ('SEC-ERBA') (including IAA)	332	27	302	24	508	41
19 – standardised approach ('SEC-SA')	174	14	208	17	66	5
EU-19a – 1 250%/deduction	–	–	–	–	–	–
20 Position, foreign exchange and commodities risks (Market risk)	3,482	279	3,103	248	2,663	213
21 – standardised approach	122	10	79	6	339	27
22 – internal model approach	3,360	269	3,025	242	2,324	186
EU-22a Large exposures	–	–	–	–	–	–
23 Operational risk	5,677	454	3,557	285	3,283	263
EU-23a – basic indicator approach	–	–	–	–	–	–
EU-23b – standardised approach	5,677	454	3,557	285	3,283	263
EU-23c – advanced measurement approach	–	–	–	–	–	–
29 Total	58,561	4,685	47,858	3,829	46,113	3,688
24 Amounts below the thresholds for deduction (subject to 250% risk weight)	3,514	281	3,734	299	3,691	295

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.

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

	Quarter ended			
	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	€m	€m	€m	€m
1 Opening RWAs at start of quarter	26,132	26,115	25,798	26,219
2 Asset size	(1,348)	(36)	277	(565)
3 Asset quality	39	–	40	144
4 Model updates	–	(1,685)	–	–
6 Acquisitions and disposals	6,654	–	–	–
8 Other	(2,116)	1,738	–	–
9 Closing RWAs at end of quarter	29,361	26,132	26,115	25,798

Table 4: RWA flow statements of CCR exposures under IMM ('CCR7')

	Quarter ended			
	31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022
	€m	€m	€m	€m
1 Opening RWAs at start of quarter	2,784	2,428	2,532	2,372
2 Asset size	(1,106)	421	(69)	139
3 Asset quality	(90)	(65)	(35)	21
6 Acquisitions and disposals	–	–	–	–
9 Closing RWAs at end of quarter	1,588	2,784	2,428	2,532

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

	VaR €m	SVaR €m	IRC €m	Other €m	Total RWAs €m	Total own funds requirements €m
1 RWAs at 1 Oct 2022	602	1,158	407	857	3,024	242
2 Movement in risk levels	271	(157)	(149)	(105)	(139)	(11)
3 Model updates/changes	—	—	—	—	—	—
5 Acquisitions and disposals	166	292	—	17	475	38
8 RWAs at 31 Dec 2022	1,039	1,293	258	769	3,360	269
1 RWAs at 1 Jul 2022	468	1,319	502	921	3,210	257
2 Movement in risk levels	134	(161)	(95)	(64)	(185)	(15)
3 Model updates/changes	—	—	—	—	—	—
5 Acquisitions and disposals	—	—	—	—	—	—
8 RWAs at 30 Sep 2022	602	1,158	407	857	3,025	242
1 RWAs at 1 Apr 2022	432	1,202	417	756	2,807	225
2 Movement in risk levels	21	75	85	137	318	25
3 Model updates/changes	15	42	—	28	85	7
5 Acquisitions and disposals	—	—	—	—	—	—
8 RWAs at 30 Jun 2022	468	1,319	502	921	3,210	257
1 RWAs at 1 Jan 2022	481	1,483	444	899	3,307	265
2 Movement in risk levels	(49)	(281)	(27)	(143)	(500)	(40)
3 Model updates/changes	—	—	—	—	—	—
5 Acquisitions and disposals	—	—	—	—	—	—
8 RWAs at 31 Mar 2022	432	1,202	417	756	2,807	225

Regulatory framework for disclosures

HSBC Continental Europe is regulated on a consolidated basis by the European Central Bank ('ECB') which sets and monitors capital adequacy requirements.

Throughout 2022 HSBC Continental Europe calculated capital on a consolidated basis for prudential regulatory reporting purposes 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 CRR/CRD.

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 Continental Europe. It should be read in conjunction with HSBC Continental Europe's *Universal Registration Document 2022*.

These disclosures are governed by the HSBC 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. This Pillar 3 document has been subject to internal review process in accordance with HSBC Continental Europe's financial reporting and governance processes.

Basis of preparation

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

In its disclosures, HSBC Continental Europe provides comparative figures to facilitate analysis. Key ratios and figures are reflected throughout the *Pillar 3 2022 Disclosures* and are also available on

page 3 of the HSBC Continental Europe's *Universal Registration Document 2022*. Where disclosures have been enhanced or are new, prior-year comparatives are not generally restated or provided.

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

HSBC Continental Europe publishes these *Pillar 3* disclosures on the HSBC websites, www.hsbc.com or www.hsbc.fr, simultaneously with the release of its *Universal Registration Document*. These *Pillar 3* disclosures include regulatory information complementing the financial and risk information presented therein and is in line with the requirements on the frequency of regulatory disclosures.

Pillar 3 requirements may be met by inclusion in other disclosure media. Where HSBC Continental Europe adopts this approach, references are provided to the relevant pages of the *Universal Registration Document 2022* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 23 to 50 of HSBC Continental Europe's *Universal Registration Document 2022*.

HSBC Continental Europe's Pillar 3 disclosures at 31 December 2022 are approved by HSBC Continental Europe Board of Directors and are governed by HSBC Continental Europe's financial reporting and governance processes. This Pillar 3 Disclosure Report was approved by HSBC Continental Europe's Board on 20 February 2023 and signed on its behalf by:

Joseph Swithenbank
Chief Financial Officer

Key regulatory developments

Covid-19

The Covid-19 outbreak created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities responded with a number of measures related to customer support, operational capacity and amendments to the Risk Weighted Assets ('RWAs'), capital and liquidity frameworks which are now being gradually removed.

In the second half of 2021, the European Central Bank ('ECB') ended its restrictions on capital distribution as well as the liquidity relief allowing banks to operate below 100 per cent of the Liquidity Coverage Ratio ('LCR'). In February 2022, the ECB confirmed the end of the temporary leverage ratio relief measure; banks have therefore resumed inclusion of central bank exposures in their leverage ratio calculation from 1 April 2022. As stated in December 2021, the Single Resolution Board ('SRB') will review the Minimum Requirements for own funds and Eligible Liabilities ('MREL') targets for banks accordingly. The ECB also announced in February 2022 that banks are expected to operate again above their capital buffers and Pillar 2 guidance defined by the Supervisory Review and Evaluation Process ('SREP') from 1 January 2023.

A number of European regulators have announced increases to national countercyclical capital buffer rates taking effect in 2023. For further details, please refer to our Pillar 2 and ICAAP section on page 17.

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020. The reforms make significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types and include the implementation of an RWA floor for banks that use internal models.

In October 2021, the European Commission ('EC') published a first draft of the rules implementing the reforms in the EU (the third Capital Requirements Regulation 'CRR3' or the sixth Capital Requirements Directive 'CRD6') with a proposed implementation date of 1 January 2025 but an output floor phased-in until 2030. The draft rules include some significant deviations from the Basel III Reforms. These include:

- i. when calculating the output floor, a more beneficial approach to the risk weighting of unrated corporates and for high-quality mortgages will be applied on a transitional basis as well as an improved calibration of the standardised approach for counterparty credit risk;
- ii. while it is proposed that the output floor will apply at the highest level of consolidation, it will also apply to lower levels of consolidation via a reallocation mechanism;
- iii. with respect to credit risk, a new strategic investment category benefitting from a more favourable treatment and a phase-in of the 10 per cent credit conversion factors for unconditionally cancellable commitments. It is also proposed that the Small Medium-size Enterprise ('SME') and infrastructure supporting factors are maintained;
- iv. the retention of the option to neutralise the impact of past losses on operational risk RWAs;
- v. the retention of the exemptions from the Credit Valuation Adjustment ('CVA') capital charges;
- vi. options to mitigate the impact and timing of implementation of the new market risk framework, should other jurisdictions make amendments.

In November 2022, the Council agreed its positions on the proposals from the Commission. In January 2023, the Parliament adopted its own amendments to those proposals. The three institutions are now about to enter dialogue negotiations to agree on a final version of the texts.

In the United Kingdom ('UK'), the Prudential Regulation Authority ('PRA') issued a consultation in November 2022 on the implementation of the reforms with a proposed implementation date of 1 January 2025. The new rules will apply to HSBC Group at a consolidated level and may therefore impact indirectly HSBC Continental Europe.

Cryptoassets

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

Interest Rate Risk in the Banking Book ('IRRBB')

In October 2022, the European Banking Authority ('EBA') published final standards and guidelines on the treatment of interest rate risk and credit spread risk in the banking book. They reflect the final rules issued by Basel, implemented in 2019, and will replace the guidelines applicable under the Supervisory Review and Evaluation Process ('SREP') element of Pillar 2. The guidelines will apply from 30 June 2023, except for those related to credit spread risk, which will apply from 31 December 2023.

Environmental, social and governance ('ESG') risks

In the EU, regulators continue to publish multiple proposals and discussion papers on ESG topics and there has been growing interest and work on the part of regulators looking at the extent to which climate risks are captured and dealt with in the prudential framework.

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

In May 2022, the EBA published a discussion paper which explored whether and how environmental risks should be incorporated into the prudential framework. The responses to the discussion paper will be used by the EBA to finalise its report on this topic.

The proposed implementation of the Basel III Reforms mentioned above also includes additional EU-specific reforms covering ESG risk.

In November 2022, the European Central Bank published the results of its thematic review of banks' ability to adequately identify and manage climate and environmental risks. Based on the results of the review, the ECB has set staggered deadlines for banks to achieve full alignment with its supervisory expectations outlined in its 2020 guide on climate-related and environmental risks by the end of 2024, including full integration in the Internal Capital Adequacy Assessment Process ('ICAAP') and stress testing. Intermediate steps include adequate categorization and impact assessment of climate and environmental risks by March 2023 at the latest, and inclusion by the end of 2023 of those risks in their governance, strategy and risk management.

In December 2022, the European Commission ('EC') adopted and published in the EU Official Journal the Pillar 3 ITS on ESG risk disclosures. The template includes qualitative information on ESG risks as well as quantitative information's on climate change transitional and physical risks and associated mitigating actions.

Significant events

Repayments and new issuances

In addition to the ordinary shares issuances in March, September and November 2022 and to the Additional Tier 1 capital ('AT1') issuance in March 2022, HSBC Continental Europe issued in September 2022 two series of Senior Non Preferred Notes ('SNP') with maturities of six and seven years for a total notional amount of EUR 800 million and in November 2022 a tranche of SNP with maturity of six years for a total notional amount of EUR 500 million all subscribed by HSBC Bank plc and recognised as debt securities in issue. In September 2022, HSBC Continental Europe repaid a Tier 2 of EUR 300 million and in December 2022 a tranche of SNP of EUR 500 million.

Business disposals and changes of control

Planned sale of the retail banking operations in France

On 25 November 2021, HSBC Continental Europe signed a framework agreement with Promontoria MMB and its subsidiary Banque des Caraïbes SA, regarding the planned sale of HSBC Continental Europe's retail banking operations in France.

The sale, which is subject to regulatory approvals and the satisfaction of other relevant conditions, includes: HSBC Continental Europe's French retail banking operations; the Crédit Commercial de France brand; HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France); and its 3 per cent ownership interest in Crédit Logement.

Since 30 September 2022, these operations have been classified as held for sale in HSBC Continental Europe's financial reporting.

Planned sale of the Greece Branch operations

On 24 May 2022, HSBC Continental Europe signed a sale and purchase agreement for the planned sale of its Greece branch operations to Pancreta Bank SA. Completion of the sale is currently expected to finalise in the first half of 2023.

Acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c.

On 30 November 2022, HSBC Continental Europe completed the change of control transactions for HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. which became subsidiaries of HSBC Continental Europe.

For more details of these and other significant events please refer to Note 1 'significant events during the year' of the consolidated Financial Statements section on page 190 of the HSBC Continental Europe's *Universal Registration Document 2022*.

Synthetic securitisation

In December 2022, HSBC Continental Europe issued credit -linked notes, completing a synthetic securitisation from its originated corporate loan book. Net of its required risk-retention in the portfolio, this transaction has reduced HSBC Continental Europe's risk-weighted assets by approximately EUR 1.7bn.

Linkage to the Universal Registration Document 2022

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under International Financial Reporting Standards ('IFRS'), 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 their assets and liabilities, leaving HSBC Continental Europe's investment in these insurance subsidiaries to be recorded at net asset value and deducted from CET1 (subject to thresholds).

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 6: Reconciliation of regulatory own funds to balance sheet in the audited financial statements ('CC2')

	<i>Ref t</i>	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Equity accounting for insurance subsidiaries €m	Regulatory balance sheet €m
Assets					
Cash and balances at central banks		59,734	–	–	59,734
Items in the course of collection from other banks		476	–	–	476
Trading assets		13,777	–	–	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		12,170	(11,988)	–	182
Derivatives		59,960	(237)	–	59,723
Loans and advances to banks		7,233	(361)	–	6,872
Loans and advances to customers		42,340	–	–	42,340
– of which:					
<i>impairment allowances on IRB portfolios</i>		(720)	–	–	(720)
<i>impairment allowances on standardised portfolios</i>		(189)	–	–	(189)
Reverse repurchase agreements – non-trading		15,374	–	–	15,374
Financial investments		19,135	(8,589)	–	10,546
Assets held for sale		23,761	–	–	23,761
Prepayments, accrued income and other assets		23,532	(297)	1,081	24,316
Current tax assets		330	(34)	–	296
Interests in associates and joint ventures		–	–	–	–
Goodwill and intangible assets	<i>f</i>	983	(844)	–	139
Deferred tax assets	<i>g</i>	879	153	–	1,032
Total assets at 31 December 2022		279,684	(22,197)	1,081	258,568
Liabilities and equity					
Deposits by banks		11,182	(12)	–	11,170
Customer accounts		83,692	93	–	83,785
Repurchase agreements – non-trading		6,655	–	–	6,655
Items in the course of transmission to other banks		528	–	–	528
Trading liabilities		17,509	–	–	17,509
Financial liabilities designated at fair value		9,055	470	–	9,525
Derivatives		55,726	(20)	–	55,706
Debt securities in issue		6,861	–	–	6,861
Accruals, deferred income and other liabilities		25,629	(1,307)	–	24,322
– of which: <i>retirement benefit liabilities</i>					
Liabilities of disposal groups held for sale		27,855	–	–	27,855
Current tax liabilities		112	(1)	–	111
Liabilities under insurance contracts		20,364	(20,364)	–	–
Provisions		286	(4)	–	282
– of which:					
<i>credit-related provisions on IRB portfolios</i>		126	–	–	126
<i>credit-related provisions on standardised portfolios</i>		15	–	–	15
Deferred tax liabilities	<i>g</i>	16	(4)	–	12
Subordinated liabilities	<i>k</i>	2,023	–	–	2,023
– of which:					
<i>perpetual subordinated debt included in tier 2 capital</i>		16	–	–	16
<i>term subordinated debt included in tier 2 capital</i>		2,007	–	–	2,007
Total liabilities at 31 December 2022		267,493	(21,149)	–	246,344
Called up share capital	<i>a</i>	1,062	(28)	–	1,034
Share premium account	<i>a, b</i>	5,264	–	–	5,264
Other equity instruments	<i>j</i>	1,433	–	–	1,433
Other reserves	<i>c, d, e, h</i>	1,278	50	–	1,328
Retained earnings	<i>c, d, e, i</i>	2,998	(1,070)	1,081	3,009
Total shareholders' equity		12,035	(1,047)	1,081	12,069
Non-controlling interests	<i>l, m</i>	156	–	–	156
Total equity at 31 December 2022		12,191	(1,047)	1,081	12,225
Total liabilities and equity at 31 December 2022		279,684	(22,197)	1,081	258,568

Table 6: Reconciliation of regulatory own funds to balance sheet in the audited financial statements (CC2) (continued)

<i>Ref</i> †	Accounting balance sheet €m	De-consolidation of insurance/ other entities €m	Equity accounting for insurance subsidiaries €m	Regulatory balance sheet €m
Assets				
Cash and balances at central banks	38,063	—	—	38,063
Items in the course of collection from other banks	156	—	—	156
Trading assets	12,921	—	—	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	13,345	(13,020)	—	325
Derivatives	39,634	(41)	—	39,593
Loans and advances to banks	6,832	(1,019)	—	5,813
Loans and advances to customers	59,612	470	—	60,082
– of which:				
<i>impairment allowances on IRB portfolios</i>	(619)	—	—	(619)
<i>impairment allowances on standardised portfolios</i>	(68)	—	—	(68)
Reverse repurchase agreements – non-trading	20,487	—	—	20,487
Financial investments	16,110	(10,807)	—	5,303
Assets held for sale	2	—	—	2
Prepayments, accrued income and other assets	14,538	(343)	874	15,069
Current tax assets	162	(27)	—	135
Interests in associates and joint ventures	2	—	—	2
Goodwill and intangible assets	763	(677)	—	86
Deferred tax assets	37	170	—	207
Total assets at 31 December 2021	222,664	(25,294)	874	198,244
Liabilities and equity				
Deposits by banks	18,548	(20)	—	18,528
Customer accounts	70,144	69	—	70,213
Repurchase agreements – non-trading	8,731	—	—	8,731
Items in the course of transmission to other banks	280	—	—	280
Trading liabilities	16,247	—	—	16,247
Financial liabilities designated at fair value	13,733	971	—	14,704
Derivatives	35,895	(12)	—	35,883
Debt securities in issue	7,414	—	—	7,414
Accruals, deferred income and other liabilities	18,122	(1,702)	—	16,420
– of which: <i>retirement benefit liabilities</i>	126	(3)	—	123
Current tax liabilities	66	(1)	—	65
Liabilities under insurance contracts	23,698	(23,698)	—	—
Provisions	234	(5)	—	229
– of which:				
<i>credit-related provisions on IRB portfolios</i>	68	—	—	68
<i>credit-related provisions on standardised portfolios</i>	12	—	—	12
Deferred tax liabilities	—	4	—	4
Subordinated liabilities	1,876	—	—	1,876
– of which:				
<i>perpetual subordinated debt included in tier 2 capital</i>	16	—	—	16
<i>term subordinated debt included in tier 2 capital</i>	1,860	—	—	1,860
Total liabilities at 31 December 2021	214,988	(24,394)	—	190,594
Called up share capital	491	—	—	491
Share premium account	2,137	—	—	2,137
Other equity instruments	750	—	—	750
Other reserves	1,653	(27)	—	1,626
Retained earnings	2,636	(873)	874	2,637
Total shareholders' equity	7,667	(900)	874	7,641
Non-controlling interests	9	—	—	9
Total equity at 31 December 2021	7,676	(900)	874	7,650
Total liabilities and equity at 31 December 2021	222,664	(25,294)	874	198,244

† The references (a) – (m) identify balance sheet components that are used in the calculation of regulatory capital in Table 7: Composition of regulatory own funds. This table shows such items at their accounting values, which may be subject to analysis or adjustment in the calculation of regulatory capital shown in Table 7.

Capital and Leverage

Capital management

Approach and policy

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

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2022, HSBC Continental Europe complied with the ECB's regulatory capital adequacy requirements. To achieve this, HSBC Continental Europe 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.

Complementing this capital plan, regular forecasts of capital, leverage, RWA positions are produced throughout the year.

In order to comply with CRR regarding internal Total Loss Absorbing Capacity ('TLAC') requirements and with the Bank Recovery and Resolution Directive ('BRRD') regarding internal MREL requirements, HSBC Continental Europe issued two series of SNP in September 2022 and a tranche of SNP in November 2022.

Capital management is underpinned by the HSBC group capital management framework, which enables a consistent management of the capital.

The ICAAP aims to assess the adequacy of the bank's capital resources with regard to its risks and requirements and incorporates various methods of assessing capital needs within HSBC Continental Europe. 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 Continental Europe to support the risks to which it is exposed; and
- Regulatory capital is the level of capital which HSBC Continental Europe 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, FX risk, insurance risk, pension risk, capital risk, funding risk, strategic risk, climate change risk and model risk.

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 Continental Europe'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 Continental Europe.

Regulatory stress tests (carried out at the request of regulators using their prescribed assumptions), internal stress tests (using internally defined scenarios defined to capture the specific risks faced by HSBC Continental Europe) and sensitivity analysis are performed. HSBC Continental Europe takes into account the results of all such regulatory and internal stress testing when assessing internal capital requirements.

Risks to capital

In addition to the stress testing framework, a list of the main risks with associated potential impacts on HSBC Continental Europe'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 and model changes, or from structural and activity related items. These risks are monitored regularly within the Asset & Liability Committee and the Risk Committee. Where relevant, scenario analyses are performed, assessing downside or upside scenarios against our capital management objectives, and mitigating actions are assigned as necessary.

Further explanation of model risk can be found in the Risk section on pages 92, 107 and 157 of HSBC Continental Europe's *Universal Registration Document 2022*.

HSBC Continental Europe'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 Continental Europe's planning processes.

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 HSBC Continental Europe

For regulatory purposes, HSBC Continental Europe'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 HSBC Continental Europe 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/CRR various capital deductions and regulatory adjustments are made to these items. These include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability, and negative amounts resulting from the calculation of expected loss amounts under Internal ratings based approach ('IRB').

Additional Tier 1 capital ('AT1')

Additional Tier 1 capital comprises eligible non-common equity capital instruments as defined in CRR, and any related share premium. Holdings of additional Tier 1 instruments of financial sector entities are deducted from additional Tier 1 capital.

Qualifying CRD Additional Tier 1 instruments are perpetual instruments on which there is no obligation to apply a coupon and, if not paid, the coupon is not cumulative.

Such instruments do not carry voting rights but rank higher than ordinary shares for coupon payments and in the event of a winding up.

CRD compliant Additional Tier 1 instruments issued by the bank include a provision whereby the instrument will be written down 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 instruments and any related share premium and other qualifying Tier 2 capital instruments. Holdings of Tier 2 instruments issued by financial sector entities are deducted from Tier 2 capital.

Tier 2 capital instruments may be either perpetual or dated subordinated instruments on which there is an obligation to pay coupons. Where dated, they must be issued with an original maturity exceeding five years.

For regulatory purposes, 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.

Some subordinated loan capital may be called and redeemed by the issuer, subject to prior consent from the ECB.

A list of the main features of HSBC Continental Europe's regulatory capital instruments prepared in accordance with the CRR is also published on HSBC's website.

Table 7: Composition of regulatory own funds ('CC1')

Ref*	Ref t	At	
		31 Dec 2022 €m	31 Dec 2021 €m
Common equity tier 1 ('CET1') capital: instruments and reserves			
1	a	6,327	2,628
	b	5,264	2,137
2	c	3,863	2,458
3	d	1,416	1,564
5	l	89	—
5a	e	(1,004)	239
6		10,691	6,890
Common equity tier 1 capital: regulatory adjustments			
7		(272)	(200)
8	f	(140)	(79)
10			
	g	(585)	(114)
11	h	232	(37)
12		(9)	(55)
14	i	(151)	77
15		(69)	—
19		(633)	(740)
22		(54)	—
23		(37)	—
25		(17)	—
27a		(30)	(1)
28		(1,711)	(1,149)
29		8,980	5,742
Additional tier 1 ('AT1') capital: instruments			
30		998	750
34	m	448	—
36	j	1,446	750
Additional tier 1 capital: regulatory adjustments			
37		(96)	—
42a		—	—
43		(96)	—
44		1,350	750
45		10,330	6,492
Tier 2 ('T2') capital: instruments			
46		1,576	1,876
48		447	—
51	k	2,023	1,876
Tier 2 capital: regulatory adjustments			
55		(573)	(470)
EU-56b		—	—
57		(573)	(470)
58		1,450	1,406
59		11,780	7,898
60		58,561	47,795

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 7: Composition of regulatory own funds ('CC1') (continued)

Ref*	Ref †	At	
		31 Dec 2022 €m	31 Dec 2021 €m
Capital ratios and buffers			
61	Common equity tier 1 (%)	15.3	12.0
62	Tier 1 (%)	17.6	13.6
63	Total capital (%)	20.1	16.5
64	Institution CET1 overall capital requirement (%) ²	9.2	2.5
65	– capital conservation buffer requirement (%)	2.5	2.5
66	– countercyclical buffer requirement (%)	0.11	0.03
EU-67a	– Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement ³	0.3	–
68	Common equity tier 1 available to meet buffers (%)	10.8	7.5
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	146	143
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	970	648
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	436	88

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

† The references (a) – (f) identify balance sheet components in Table 6: Reconciliation of regulatory own funds to balance sheet in the audited financial statements which is used in the calculation of regulatory capital. This table shows how they contribute to the regulatory capital calculation. Their contribution may differ from their accounting value in Table 6 as a result of adjustment or analysis to apply regulatory definitions of capital.

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

2 This row includes the updated rules implemented from 1 January 2022 and are based on EBA's disclosure templates and instructions which came into force at that time. Comparatives have not been restated.

3 A Domestic-Systemically Important Bank (D-SIB equivalent to O-SII) buffer of 0.25% is in force since 1 January 2022.

The main movements in own funds are described in Note 1 'Significant events during the year' of HSBC Continental Europe's *Universal Registration Document 2022*.

A detailed breakdown of HSBC Continental Europe's CET1 capital, AT1 capital and Tier 2 capital is provided in its Regulatory Capital Instruments 31 December 2022, which is available on HSBC 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 to constrain 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, allowing the exclusions of certain exposures and the netting of exposures on certain market instruments. During the first quarter of 2022, HSBC Continental Europe excluded certain central bank exposures from the leverage exposure measure in reliance on the exemption granted by the ECB due to exceptional macroeconomic circumstances caused by the COVID-19 pandemic. This exemption expired on 31 March 2022.

The leverage ratio has been implemented in the EU for reporting and disclosure purposes, and a binding minimum requirement of 3.0% has been in force since June 2021.

The risk of excessive leverage is managed as part of HSBC Continental Europe's risk appetite framework and monitored using the leverage ratio metric within the Risk Appetite Statement ('RAS').

The RAS articulates the aggregate level and types of risk that HSBC Continental Europe 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 Continental Europe, the leverage exposure measure is also calculated and presented to the Asset & Liability Management Committee ('ALCO') every month.

HSBC Continental Europe's approach to risk appetite is described on page 87 of HSBC Continental Europe's *Universal Registration Document 2022*.

Table 8: Summary reconciliation of accounting assets and leverage ratio exposures ('LRSum')

Ref*		At	
		31 Dec 2022	31 Dec 2021 ¹
		€m	€m
1	Total assets as per published financial statements	279,684	222,664
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	(22,247)	(25,294)
4	(Adjustment for temporary exemption of exposures to central bank (if applicable)) ¹	–	(38,063)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	(1,039)	(415)
8	Adjustments for derivative financial instruments	(34,728)	(18,772)
9	Adjustment for securities financing transactions ('SFTs')	4,659	(2,045)
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	38,457	34,167
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	(2,061)	(1,818)
12	Other adjustments ²	(24,576)	(15,820)
13	Leverage ratio total exposure measure	238,148	154,604

1 Reflects the impacts of restatement to comply with the EBA mapping of adjustments.

2 Our reporting for 31 December 2022 reflects the exclusion of the guaranteed part of exposures arising from export credit in accordance with Point (f) of Article 429a(1) CRR following implementation of CRR2 in June 2021.

Table 9: Leverage ratio common disclosure ('LRCom')

Ref*		At	
		31 Dec 2022	31 Dec 2021
		€m	€m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	178,045	96,201
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(17,073)	(8,919)
6	(Asset amounts deducted in determining Tier 1 capital)	(1,711)	(1,149)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	159,262	86,134
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	10,686	6,053
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	18,307	15,695
10	(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	(4,347)	(1,597)
11	Adjusted effective notional amount of written credit derivatives	4,249	2,492
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(3,907)	(1,824)
13	Total derivatives exposures	24,987	20,820
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	37,809	51,360
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(19,443)	(33,500)
18	Total securities financing transaction exposures	20,033	18,443
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	86,770	76,570
20	(Adjustments for conversion to credit equivalent amounts)	(49,428)	(43,997)
22	Off-balance sheet exposures	37,342	32,574
Excluded exposures			
EU-22b	(Exposures exempted (on- and off-balance sheet))	(2,061)	(1,818)
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	(1,415)	(1,548)
EU-22k	(Total exempted exposures)	(3,476)	(3,366)
Capital and total exposure measure			
23	Tier 1 capital	10,330	6,492
24	Leverage ratio total exposure measure	238,148	154,604
Leverage ratio			
25	Leverage ratio (%)	4.3	4.2
EU-25	Leverage ratio (without adjustment for excluded exposures of public development banks – Public sector investments) (%)	4.3	4.2
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	4.3	3.4
26	Regulatory minimum leverage ratio requirement (%)	3.0	3.4
EU-27a	Overall leverage ratio requirement (%)	3.0	3.4
Choice of transitional arrangements and relevant exposures			
EU-27	Choice of transitional arrangements for the definition of the capital measure	Fully phased in	Fully phased in
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	20,818	25,695
29	Quarter-end value of gross SFT assets, (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	18,367	17,860
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	240,599	162,440
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	240,599	200,502

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 9: Leverage ratio common disclosure ('LRCom') (continued)

Ref*		At	
		31 Dec 2022	31 Dec 2021
		€m	€m
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	4.3	4.0
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) (%)	4.3	3.2

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

Table 10: Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) ('LRSpl')

Ref*		At	
		31 Dec 2022	31 Dec 2021
		€m	€m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	157,496	83,917
EU-2	Trading book exposures	7,653	11,475
EU-3	Banking book exposures, of which:	149,844	72,442
EU-5	Exposures treated as sovereigns	75,870	7,375
EU-7	Institutions	2,976	820
EU-8	Secured by mortgages of immovable properties	23,117	21,593
EU-9	Retail exposures	3,463	3,460
EU-10	Corporate	32,130	32,062
EU-11	Exposures in default	2,418	1,213
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	9,869	5,885

Capital buffers

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broad macroprudential goal of protecting the banking sector in periods of excess aggregate credit growth. National macroprudential authorities set the countercyclical buffer rate, usually within a 0-2.5 per cent range. Increases are announced at least a year in advance under normal circumstances.

The buffer for exposure to the French economy is set by the French High Council for Financial Stability. Throughout 2022, this rate was 0 per cent.

The table below shows the make-up of HSBC Continental Europe's countercyclical capital buffer. The effective rate for 2022 countercyclical buffer rose to 0.11 per cent in 2022.

Table 11: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1')

Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements			Total	Own funds requirements weights	CCyB rate
	SA	IRB	Sum of long/short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	of which: General credit exposures	of which: General trading book	of which: Securitisation exposures	€m			
Andorra	–	104.0	–	–	–	3.0	–	–	3.0	–	–	
Algeria	7.0	0.1	–	–	–	0.3	–	–	0.3	–	–	
Argentina	1.0	0.4	–	–	–	–	–	–	–	–	–	
Armenia	14.3	–	–	–	–	1.1	–	–	1.1	–	–	
Australia	0.3	4.7	–	–	–	0.3	–	–	0.3	–	–	
Austria	–	591.9	–	–	–	26.4	–	–	26.4	0.9	–	
Azerbaijan	43.1	39.3	–	–	–	0.5	–	–	0.5	–	–	
Bahrain	2.6	0.1	–	–	–	0.1	–	–	0.1	–	–	
Bangladesh	–	21.0	–	–	–	0.2	–	–	0.2	–	–	
Barbados	–	26.2	–	–	–	1.0	–	–	1.0	–	–	
Belgium	47.6	849.4	–	–	–	33.9	–	–	33.9	1.2	–	
Bermuda	–	185.4	–	–	–	2.9	–	–	2.9	0.1	–	
Brazil	8.7	49.3	–	–	–	2.0	–	–	2.0	0.1	–	
Bulgaria	0.1	7.4	–	–	–	0.1	–	–	0.1	–	1.0	
Canada	1.2	18.9	–	–	–	2.2	–	–	2.2	0.1	–	
Cayman Islands	–	185.6	–	–	–	1.4	–	–	1.4	0.1	–	
Chile	–	2.4	–	–	–	–	–	–	–	–	–	
China	0.2	23.9	–	–	–	0.3	–	–	0.3	–	–	
Colombia	–	0.3	–	–	–	–	–	–	–	–	–	
Croatia	–	1.4	–	–	–	0.1	–	–	0.1	–	–	
Cyprus	0.4	25.2	–	–	–	1.6	–	–	1.6	0.1	–	
Czech Republic	38.4	348.7	–	–	–	19.3	–	–	19.3	0.7	1.5	
Denmark	–	1,328.7	–	–	–	60.6	–	–	60.6	2.1	2.0	
Egypt	169.0	39.2	–	–	–	1.7	–	–	1.7	0.1	–	
Faroe Islands	0.7	–	–	–	–	0.1	–	–	0.1	–	–	
Finland	–	105.7	–	–	–	1.9	–	–	1.9	0.1	–	

Table 11: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1') (continued)

Country	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements			Total	Own funds requirements weights	CCyB rate
	SA	IRB	Sum of long/short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	of which: General credit exposures	of which: General trading book	of which: Securitisation exposures	€m			
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
France	1,440.3	43,952.7	–	–	5,724.3	1,131.3	–	72.3	1,203.6	42.5	–	–
Germany	771.6	9,342.0	–	–	538.3	459.7	–	4.9	464.6	16.4	–	–
Ghana	–	193.5	–	–	–	12.5	–	–	12.5	0.4	–	–
Greece	289.7	380.8	–	–	–	33.1	–	–	33.1	1.2	–	–
Guadeloupe	–	0.3	–	–	–	–	–	–	–	–	–	–
Guernsey	–	41.1	–	–	–	1.7	–	–	1.7	0.1	–	–
Hong Kong	0.3	334.1	–	–	–	2.5	–	–	2.5	0.1	–	–
Hungary	2.4	19.9	–	–	–	0.7	–	–	0.7	–	–	–
India	–	3.0	–	–	–	–	–	–	–	–	–	–
Indonesia	10.8	83.5	–	–	–	0.9	–	–	0.9	–	–	–
Ireland	447.2	1,708.5	–	–	–	84.6	–	–	84.6	3.0	–	–
Isle Of Man	–	1.3	–	–	–	0.2	–	–	0.2	–	–	–
Israel	2.1	15.0	–	–	–	0.2	–	–	0.2	–	–	–
Italy	186.7	964.8	–	–	–	63.3	–	–	63.3	2.2	–	–
Jersey	49.9	5.7	–	–	–	4.0	–	–	4.0	0.1	–	–
Kazakhstan	–	70.2	–	–	–	0.3	–	–	0.3	–	–	–
Luxembourg	462.3	2,754.2	–	–	–	111.2	–	–	111.2	3.9	0.5	–
Malaysia	1.7	14.6	–	–	–	0.2	–	–	0.2	–	–	–
Malta	3,056.6	135.1	–	–	–	136.4	–	–	136.4	4.8	–	–
Mauritius	–	0.2	–	–	–	–	–	–	–	–	–	–
Mexico	5.5	81.2	–	–	–	1.4	–	–	1.4	0.1	–	–
Monaco	–	2.0	–	–	–	0.1	–	–	0.1	–	–	–
Montenegro	–	3.3	–	–	–	0.1	–	–	0.1	–	–	–
Netherlands	1,055.8	2,852.1	–	–	250.0	204.7	–	2.0	206.7	7.3	–	–
Norway	0.7	64.4	–	–	–	1.5	–	–	1.5	0.1	2.0	–
Panama	–	177.6	–	–	–	0.4	–	–	0.4	–	–	–
Paraguay	5.8	–	–	–	–	0.5	–	–	0.5	–	–	–
Poland	489.6	345.2	–	–	–	47.3	–	–	47.3	1.7	–	–
Portugal	25.5	54.5	–	–	–	3.5	–	–	3.5	0.1	–	–
Qatar	3.7	30.5	–	–	–	0.1	–	–	0.1	–	–	–
Romania	–	5.9	–	–	–	0.2	–	–	0.2	–	0.5	–
Russian Federation	1.9	0.7	–	–	–	0.3	–	–	0.3	–	–	–
Singapore	1.0	168.5	–	–	–	3.3	–	–	3.3	0.1	–	–
Slovakia	12.8	20.8	–	–	–	0.9	–	–	0.9	–	1.0	–
South Africa	1.8	1.4	–	–	–	0.1	–	–	0.1	–	–	–
Spain	380.1	1,421.7	–	–	133.3	70.8	–	1.8	72.5	2.6	–	–
Sweden	0.4	730.6	–	–	–	23.0	–	–	23.0	0.8	1.0	–
Switzerland	6.9	1,110.9	–	–	–	25.8	–	–	25.8	0.9	–	–
Taiwan, Province Of China	2.6	0.3	–	–	–	0.2	–	–	0.2	–	–	–
Thailand	–	98.6	–	–	–	–	–	–	–	–	–	–
Turkey	51.0	119.4	–	–	–	5.9	–	–	5.9	0.2	–	–
United Arab Emirates	101.2	435.1	–	–	–	11.1	–	–	11.1	0.4	–	–
United Kingdom	1,302.9	1,621.7	–	–	–	82.6	–	–	82.6	2.9	1.0	–
United States	221.7	2,320.8	–	–	–	63.5	–	–	63.5	2.2	–	–
Uruguay	0.9	–	–	–	–	0.1	–	–	0.1	–	–	–
Viet Nam	1.7	71.9	–	–	–	1.8	–	–	1.8	0.1	–	–
Total	10,730.5	75,616.6	–	–	6,645.8	2,750.2	–	80.9	2,831.1	100.0	–	–

Table 12: Amount of Institution specific countercyclical Capital buffer ('CCyB2')

	2022	2021
Total Risk Exposure Amount (€m)	58,561	47,795
Institution specific countercyclical capital buffer rate	0.11	0.03
Institution specific countercyclical capital buffer requirement (€m)	66	13

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Pillar 1

Pillar 1 (minimum capital requirements) 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 Continental Europe
Non-counterparty Credit risk	<p>CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements.</p> <p>The standardised approach requires banks to use external credit ratings to determine the risk weights applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories.</p> <p>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.</p> <p>Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD.</p> <p>On the IRB approaches, expected losses are calculated by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula which combines PD, LGD, EAD and other variables such as maturity and correlation.</p>	<p>HSBC Continental Europe has adopted the advanced IRB approach for the majority of its business. Some portfolios remain on the standardised or foundation IRB approaches pending model approval, following the supervisory prescription of a non-advanced approach or under exemption from IRB treatment.</p>
Counterparty credit risk	<p>Two approaches to calculating CCR and determining exposures are defined by the CRR: the Standardised Approach ('SA-CCR') and the Internal Model Method ('IMM'). These exposures are used to determine capital requirements using the applicable credit risk approach: standardised, IRB foundation or IRB advanced. CRR also sets two approaches for calculating Credit Valuation Adjustment ('CVA') risk capital charges: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.</p>	<p>In order to determine exposures at default, HSBC Continental Europe uses the mark-to-market and IMM approaches for counterparty credit risk for derivatives and the financial security-based method for deferred payment transactions. Permission to use IMM and CVA models was granted in 2021.</p>
Equity	<p>Non-trading book equity exposures can be assessed under the standardised or IRB approaches.</p>	<p>HSBC Continental Europe reports non-trading book equity exposures under the IRB simple risk-weight approach.</p>
Securitisation	<p>The securitisation framework under CRR prescribes the following approaches:</p> <ul style="list-style-type: none"> • internal ratings-based approach ('SEC-IRBA'); • external ratings-based approach ('SEC-ERBA'); • internal assessment approach ('IAA'); and • standardised approach ('SEC-SA'). 	<p>HSBC Continental Europe only holds securitisation positions in banking book and uses the RBM (Rating-Based Method) for exposures with the exception of liquidity facilities and programme-wide enhancements for asset-backed securitisations, for which the IAA is applied.</p>
Market risk	<p>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. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').</p>	<p>The majority of HSBC Continental Europe's market risk capital requirements are calculated using internal models approved by the ECB and the PRA. A small remaining portfolio is risk-weighted on the standardised approach.</p> <p>Internal market risk models are based on VaR, Stressed VaR and IRC. HSBC Continental Europe was granted the permission to use the internal model for Specific Risk of Debt instruments in 2021. A temporary permission was also granted for Equity risk, with the formal assessment expected to conclude in 2023.</p>
Operational risk	<p>The CRR includes a capital requirement for operational risk, 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. The advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.</p>	<p>HSBC Continental Europe uses the standardised approach in determining its operational risk capital requirements.</p>

Pillar 2 and ICAAP

Pillar 2

Pillar 2 (supervisory review process) aims to reinforce the minimum capital requirements of Pillar 1. This includes efforts by banks to assess their capital adequacy and by supervisors to review such assessment.

A major component of Pillar 2 is the annual ICAAP. The ICAAP conducted by HSBC Continental Europe aims to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. As part of the ICAAP, a range of stress tests are applied to the base capital plan. These tests, coupled with the economic capital framework, are used to assess the internal capital adequacy.

The results of this assessment process are summarised in an annual ICAAP report which is approved by the Board of HSBC Continental Europe before submission to the ECB. The ultimate responsibility for the governance of the ICAAP of HSBC Continental Europe rests with the CEO of HSBC Continental Europe.

The other key component of Pillar 2 is a Supervisory Review and Evaluation Process ('SREP') conducted by the regulator, which leads to an annual determination of individual capital requirement and guidance. This process can also include specific demands on all aspects of the bank's management.

The Pillar 2 reviews result in a Pillar 2 requirement ('P2R') and a Pillar 2 guidance ('P2G'), which are added to the Pillar 1 requirements ('P1R').

The Overall Capital Requirement ('OCR') applicable on total capital is composed of the P1R, the P2R, and the combined regulatory buffers. This is the applicable regulatory minimum on total capital for a bank under ECB supervision.

The Total SREP capital requirement, which is composed only of the P1R and the P2R, is applicable only to the total capital ratio and represents the minimum ratio that a bank should maintain under stressed scenarios. The P2G should be comprised entirely of CET1 capital and held over and above the OCR.

The P2R for HSBC Continental Europe on a consolidated basis is set at 3.24 per cent since 1 March 2022 and is expected to be revised in 2023 as a result of the 2022 SREP in the context of the acquisition of HSBC Trinkaus and Burkhardt GmbH and HSBC Bank Malta p.l.c. in November 2022. Under CRD, at least 56.25 per cent of the P2R should be held in the form of CET1 and 75 per cent as Tier 1.

At the end of 2022, HSBC Continental Europe is required to meet on a consolidated basis a minimum total capital ratio of at least 14.10 per cent. This requirement will increase in 2023 as a result of increases to national countercyclical capital buffer rates announced by:

- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) Board - increasing the German buffer rate from 0 per cent to 0.75 per cent from February 2023;
- the French High Council for Financial Stability - increasing the French buffer rate from 0 per cent to 0.5 per cent from April 2023;
- De Nederlandsche Bank (DNB) - increasing the Dutch buffer rate from 0 per cent to 1 per cent from May 2023; and
- the UK's Financial Policy Committee - increasing the UK buffer rate to 2 per cent from July 2023.

The OCR is composed of:

- the 8 per cent P1R;
- the 2.50 per cent Capital Conservation Buffer (CCB) in article 129 of the CRD IV;
- the 0.11 per cent Countercyclical buffer (CCyB)
- the 0.25 per cent Other Systematically Important Institution buffer (O-SII) in force since 1 January 2022 following the *Autorité de Contrôle Prudentiel et de Résolution* ('ACPR') decision; and
- the 3.24 per cent P2R mentioned above.

As at 31 December 2022, the requirement in respect of Common Equity Tier 1 is 9.18 per cent, excluding P2G.

Internal capital adequacy assessment

With support from the Risk Committee, the Board approves the ICAAP and reviews 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 Continental Europe is required to hold is determined by EU regulations, as well as the rules and guidance established by European Authorities, including the ECB's Joint Supervisory Team. These capital requirements are a primary influence shaping the business planning process, in which RWA and leverage 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 diversification of risk accruing from our operations. Both the regulatory and the economic capital assessments rely upon the use of internal 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 with a 99.95 per cent confidence level.

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 optimising 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 risk and operational risk, non-trading book interest rate risk, insurance risk, and pension risk.

Financial Conglomerate

HSBC Continental Europe owns subsidiaries engaged in insurance activity and has been identified by the ECB as a financial conglomerate. Therefore, the bank is subject to a supplementary conglomerate supervision by the ECB.

As a result, HSBC Continental Europe has to comply with a conglomerate ratio, defined as the ratio between:

- the total capital within the financial conglomerate; and
- the sum of the capital requirements it is subject to in its banking and its insurance businesses.

The required minimum is 100 per cent. HSBC Continental Europe exceeded this requirement by EUR 5.3 billion in 2022.

Minimum Requirement for own funds and Eligible Liabilities ('MREL') – Total Loss Absorbing Capacity ('TLAC')

HSBC Continental Europe became subject to MREL requirements for the first time on 30 March 2020 following notification from the ACPR. This MREL requirement can be met with own funds and eligible liabilities (as defined under the initial version of BRRD which was applicable at the date of notice).

In 2022, HSBC Continental Europe is subject to intermediate MREL targets set at:

- 4.79 per cent of leverage exposure; and
- 17.32 per cent of RWA.

HSBC Continental Europe should ensure a linear build-up of own funds and eligible liabilities to meet the fully loaded requirements applicable from 1 January 2024 set at:

- 5.93 per cent of leverage exposure; and
- 23.20 per cent of RWA.

An MREL maximum distributable amount also applies since 1 January 2022. This limits distributions by banks when they breach the combined buffer requirements which they must meet on top of their RWA-based MREL requirements.

At the end of the UK withdrawal from the European Union transition period, on 1 January 2021 HSBC Continental Europe became a material subsidiary (CRR article 4.1.135) of a third-country G-SII and is therefore also bound by new internal TLAC requirements (CRR article 92b) to be met with own funds and other internal eligible liabilities such as Senior Non Preferred Notes.

Since 1 January 2022, the requirement is set at the greater of:

- 16.2 per cent of RWAs (being 90 per cent of 18 per cent) to which the combined buffer requirement is added (2.77 per cent of RWAs as of Q4 2022); and
- 6.075 per cent of leverage exposures (90 per cent of 6.75 per cent).

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

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 HSBC Continental Europe's credit risk exposures by exposure class and approach. Further explanation of HSBC Continental Europe's approach to managing credit risk (including detail of past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 114 to 123 of its *Universal Registration Document 2022*.

Table 13: Credit risk – summary

	At 31 Dec 2022					At 31 Dec 2021				
	Exposure value	Average exposure value	RWAs	Capital required	RWA Density	Exposure value	Average exposure value	RWAs	Capital required	RWA Density
	€m	€m	€m	€m	%	€m	€m	€m	€m	%
IRB advanced approach	64,548	68,869	21,151	1,692	33	78,535	66,208	24,120	1,930	31
– central governments and central banks	2,026	1,711	174	14	9	1,687	1,492	141	11	8
– institutions	2,363	1,628	583	47	25	837	1,062	205	16	24
– corporates ²	36,364	41,068	16,315	1,305	45	51,458	38,958	17,898	1,432	35
– of which: specialised lending	952	678	714	57	75	392	475	282	23	72
– total retail	23,796	24,462	4,078	326	17	24,553	24,696	5,876	470	24
– of which:										
secured by mortgages on immovable property – small and medium sized enterprises ('SME')	338	358	184	15	54	391	415	249	20	64
secured by mortgages on immovable property non-SME	19,882	20,345	2,489	199	13	20,287	20,182	4,440	355	22
qualifying revolving retail	9	5	5	–	54	7	1	–	–	35
other SME	1,075	1,166	338	27	31	1,303	1,467	318	25	24
other non-SME	2,492	2,589	1,064	85	43	2,572	2,631	870	70	34
IRB securitisation positions	3,263	816	545	44	17	–	–	–	–	–
IRB equity	239	262	884	71	370	265	353	979	78	370
IRB foundation approach	13,231	5,585	8,210	657	62	3,154	3,270	2,099	168	67
– central governments and central banks	33	8	5	–	15	–	2	–	–	–
– institutions	199	257	130	10	65	324	320	185	15	57
– corporates	12,999	5,320	8,076	646	62	2,830	2,949	1,913	153	68
Standardised approach	95,483	70,912	12,572	1,006	13	60,311	61,825	8,821	706	15
– central governments and central banks	69,157	50,084	1,093	87	2	41,640	42,791	–	–	–
– regional governments or local authorities	1,757	725	2	–	–	390	384	2	–	–
– public sector entities	4,969	4,389	10	1	–	3,922	3,972	10	1	–
– multilateral development banks	167	42	–	–	–	–	–	–	–	–
– international organisations	595	360	–	–	–	293	371	–	–	–
– institutions	2,865	1,238	725	58	25	900	846	283	23	31
– corporates	5,902	6,179	4,668	373	79	5,884	6,012	3,870	310	66
– retail	513	265	369	30	72	164	152	104	8	63
– secured by mortgages on immovable property	2,981	1,733	1,160	93	39	1,355	1,387	571	46	42
– exposures in default	196	132	232	19	118	125	133	134	11	107
– items associated with particularly high risk	36	32	54	4	150	46	63	69	6	150
– securitisation positions	3,382	3,105	506	41	15	3,028	3,133	570	46	19
– equity ¹	970	773	2,424	194	250	647	476	1,618	129	250
– other items	1,993	1,857	1,328	106	67	1,916	2,105	1,588	127	83
At 31 Dec 2022	176,765	146,445	43,361	3,469	25	142,265	131,656	36,019	2,882	25

¹ At 31 December 2022, material holdings were reported in equity under the standard approach (in December 2021, EUR 1,558 million RWA in material holdings were reported in other items).

² Corporates includes specialised lending exposures subject to supervisory slotting approach.

Non-performing and forborne exposures

Tables 14 to 17 are presented in accordance with the EBA's 'Final guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures. The *Universal Registration Document 2022* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments. In the *Universal Registration Document 2022*, forborne exposures are reported as 'renegotiated

loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

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

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

In the *Universal Registration Document*, renegotiated loans retain this classification until maturity or de-recognition.

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

Table 14: Credit quality of forborne exposures ('CQ1')

	Gross carrying amount/ nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing €m	Non-performing forborne			On performing forborne exposures €m	On non-performing forborne exposures €m	Total €m	of which: forborne non-performing exposure €m
		Total €m	of which: defaulted €m	of which: impaired €m				
At 31 Dec 2022								
Loans and advances ¹	1,961	428	428	428	(29)	(109)	165	81
Other financial corporations	13	5	5	5	(1)	–	1	1
Non-financial corporations	1,917	396	396	396	(26)	(105)	112	57
Households	31	27	27	27	(2)	(4)	52	23
Loan commitments given	1	78	78	78	–	–	–	–
Total	1,962	506	506	506	(29)	(109)	165	81
At 31 Dec 2021								
Loans and advances	1,032	288	288	288	(10)	(99)	53	51
Other financial corporations	–	–	–	–	–	–	–	–
Non-financial corporations	1,032	203	203	203	(10)	(88)	14	12
Households	–	85	85	85	–	(11)	39	39
Loan commitments given	–	–	–	–	–	–	–	–
Total	1,032	288	288	288	(10)	(99)	53	51

¹ Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

The table below presents an analysis of performing and non-performing exposures by days past due.

Table 15: Credit quality of performing and non-performing exposures by past due days ('CO3')

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which: defaulted
€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2022												
Loans and advances	126,408	126,038	370	1,713	1,434	17	19	15	93	33	102	1,713
Central banks	65,245	65,245	–	–	–	–	–	–	–	–	–	–
General governments	1,027	1,027	–	–	–	–	–	–	–	–	–	–
Credit institutions	17,057	17,048	9	–	–	–	–	–	–	–	–	–
Other financial corporations	7,243	7,215	28	19	19	–	–	–	–	–	–	19
Non-financial corporations	33,332	33,003	329	1,590	1,364	12	9	11	88	31	75	1,590
– of which: SMEs	1,370	1,368	2	185	79	5	6	7	27	20	41	185
Households	2,504	2,500	4	104	51	5	10	4	5	2	27	104
Debt securities	10,394	10,394	–	–	–	–	–	–	–	–	–	–
Central banks	7	7	–	–	–	–	–	–	–	–	–	–
General governments	5,950	5,950	–	–	–	–	–	–	–	–	–	–
Credit institutions	3,674	3,674	–	–	–	–	–	–	–	–	–	–
Other financial corporations	652	652	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	111	111	–	–	–	–	–	–	–	–	–	–
Off-balance-sheet exposures	121,526	–	–	287	–	–	–	–	–	–	–	287
Central banks	–	–	–	–	–	–	–	–	–	–	–	–
General governments	1,592	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	39,149	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	12,517	–	–	1	–	–	–	–	–	–	–	1
Non-financial corporations	66,835	–	–	280	–	–	–	–	–	–	–	280
Households	1,433	–	–	6	–	–	–	–	–	–	–	6
Total	258,328	136,432	370	2,000	1,434	17	19	15	93	33	102	2,000
At 31 Dec 2021												
Loans and advances	124,460	124,198	262	1,294	894	21	21	68	79	58	153	1,294
Central banks	42,832	42,832	–	–	–	–	–	–	–	–	–	–
General governments	934	934	–	–	–	–	–	–	–	–	–	–
Credit institutions	14,644	14,644	–	–	–	–	–	–	–	–	–	–
Other financial corporations	11,760	11,755	5	–	–	–	–	–	–	–	–	–
Non-financial corporations	31,426	31,189	236	921	668	6	13	57	55	35	87	921
– of which: SMEs	1,826	1,825	1	164	36	4	6	8	34	24	52	164
Households	22,864	22,844	21	373	226	15	8	11	24	23	66	373
Debt securities	5,741	5,741	–	–	–	–	–	–	–	–	–	–
Central banks	7	7	–	–	–	–	–	–	–	–	–	–
General governments	2,582	2,582	–	–	–	–	–	–	–	–	–	–
Credit institutions	2,532	2,532	–	–	–	–	–	–	–	–	–	–
Other financial corporations	620	620	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance-sheet exposures	107,608	–	–	182	–	–	–	–	–	–	–	182
Central banks	11	–	–	–	–	–	–	–	–	–	–	–
General governments	566	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	36,621	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	12,128	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	56,917	–	–	179	–	–	–	–	–	–	–	179
Households	1,365	–	–	3	–	–	–	–	–	–	–	3
Total	237,809	129,939	262	1,476	894	21	21	68	79	58	153	1,476

The table below provides information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained. The value at initial recognition represents the gross carrying amount of the collateral obtained by taking possession at initial recognition on the balance

sheet, whilst the accumulated negative change is the accumulated impairment or negative change in the initial recognition value of the collateral obtained, including amortisation in the case of property plant and equipment ('PP&E') and investment properties.

Table 16: Collateral obtained by taking possession and execution processes ('CQ7')¹

	At 31 Dec 2022		At 31 Dec 2021	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition €m	Accumulated negative changes €m	Value at initial recognition €m	Accumulated negative changes €m
Property, plant and equipment ('PP&E')	–	–	–	–
Other than PP&E	13,111	(103)	–	–
– Residential immovable property	1,314	(42)	–	–
– Commercial Immovable property	2,036	(39)	–	–
– Other	9,761	(22)	–	–
Total	13,111	(103)	–	–

¹ The balance reported in December 22 relates to HSBC Bank Malta p.l.c. that became a subsidiary of HSBC Continental Europe on 30 November 2022 no balances were reportable at 31 December 2021.

Table 17: Performing and non-performing exposures and related provisions ('CR1')

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collaterals and financial guarantees received		
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off €m	On performing exposures €m	On non- performing exposures €m
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3			
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m			
At 31 Dec 2022															
Loans and advances	126,408	119,187	7,221	1,713	–	1,713	(156)	(34)	(122)	(674)	–	(674)	(24)	36,455	370
Central banks	65,245	65,230	15	–	–	–	–	–	–	–	–	–	–	3,100	–
General governments	1,027	979	48	–	–	–	–	–	–	–	–	–	–	234	–
Credit institutions	17,057	16,791	266	–	–	–	–	–	–	–	–	–	–	8,458	–
Other financial corporations	7,243	7,012	231	19	–	19	(4)	(1)	(3)	(3)	–	(3)	–	3,651	1
Non-financial corporations	33,332	26,821	6,511	1,590	–	1,590	(136)	(26)	(110)	(639)	–	(639)	(24)	18,638	306
– of which: SMEs	1,370	1,134	236	185	–	185	(12)	(4)	(8)	(94)	–	(94)	(24)	938	62
Households	2,504	2,354	150	104	–	104	(16)	(7)	(9)	(32)	–	(32)	–	2,374	63
Debt securities	10,394	10,198	186	–	–	–	(1)	–	(1)	–	–	–	–	811	–
Central banks	7	7	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	5,950	5,950	–	–	–	–	–	–	–	–	–	–	–	811	–
Credit institutions	3,674	3,537	137	–	–	–	(1)	–	(1)	–	–	–	–	–	–
Other financial corporations	652	624	22	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	111	80	27	–	–	–	–	–	–	–	–	–	–	–	–
Off-balance-sheet exposures	121,526	102,548	6,707	287	–	194	(33)	(5)	(19)	(30)	–	(24)	–	724	1
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	1,592	1,389	203	–	–	–	–	–	–	–	–	–	–	–	–
Credit institutions	39,149	37,253	70	–	–	–	(1)	–	(1)	–	–	–	–	–	–
Other financial corporations	12,517	11,306	690	1	–	1	(1)	–	–	–	–	–	–	180	–
Non-financial corporations	66,835	51,317	5,634	280	–	189	(31)	(5)	(18)	(30)	–	(24)	–	537	1
Households	1,433	1,283	110	6	–	4	–	–	–	–	–	–	–	7	–
Total	258,328	231,933	14,114	2,000	–	1,907	(190)	(39)	(142)	(704)	–	(698)	(24)	37,990	371

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 17: Performing and non-performing exposures and related provisions ('CR1') (continued)

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collaterals and financial guarantees received			
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumu- lated partial write-off	On per- forming expo- sures	On non- per- forming expo- sures	
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3				€m
At 31 Dec 2021																
Loans and advances ¹	124,460	115,789	8,538	1,294	–	1,294	(144)	(47)	(97)	(652)	–	(652)	–	57,525	329	
Central banks	42,832	42,817	15	–	–	–	–	–	–	–	–	–	–	2,940	–	
General governments	934	934	–	–	–	–	–	–	–	–	–	–	–	63	–	
Credit institutions	14,644	14,630	14	–	–	–	(1)	(1)	–	–	–	–	–	7,385	–	
Other financial corporations	11,760	11,715	45	–	–	–	(1)	(1)	–	–	–	–	–	8,661	–	
Non-financial corporations ¹	31,426	23,453	7,840	921	–	921	(115)	(32)	(83)	(516)	–	(516)	–	16,755	137	
– of which: SMEs	1,826	1,452	374	164	–	164	(17)	(7)	(10)	(108)	–	(108)	–	1,294	48	
Households	22,864	22,240	624	373	–	373	(27)	(13)	(14)	(136)	–	(136)	–	21,721	192	
Debt securities	5,741	5,741	–	–	–	–	–	–	–	–	–	–	–	–	–	
Central banks	7	7	–	–	–	–	–	–	–	–	–	–	–	–	–	
General governments	2,582	2,582	–	–	–	–	–	–	–	–	–	–	–	–	–	
Credit institutions	2,532	2,532	–	–	–	–	–	–	–	–	–	–	–	–	–	
Other financial corporations	620	620	–	–	–	–	–	–	–	–	–	–	–	–	–	
Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
Off-balance- sheet exposures	107,608	95,393	1,777	182	–	74	(19)	(7)	(12)	(36)	–	(7)	–	552	6	
Central banks	11	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
General governments	566	566	–	–	–	–	–	–	–	–	–	–	–	–	–	
Credit institutions	36,621	35,753	60	–	–	–	(2)	–	(2)	–	–	–	–	–	–	
Other financial corporations	12,128	11,002	38	–	–	–	(1)	(1)	–	–	–	–	–	27	–	
Non-financial corporations	56,917	46,749	1,655	179	–	72	(16)	(6)	(10)	(36)	–	(7)	–	452	6	
Households	1,365	1,323	24	3	–	2	–	–	–	–	–	–	–	73	–	
Total	237,809	216,923	10,315	1,476	–	1,368	(163)	(54)	(109)	(688)	–	(659)	–	58,077	335	

¹ EUR 3.7 billion were reclassified from stage 1 to stage 2 as at December 2021 following the application of post-model adjustments.

Table 17 provides information on the gross carrying amount of exposures and related impairment with further detail on the IFRS 9 stage, accumulated partial write off and collateral. The IFRS 9 stages have the following characteristics:

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

Table 18: Changes in the stock of non-performing loans and advances ('CR2')

	2022	2021
	Gross carrying amount	Gross carrying amount
	€m	€m
Initial stock of non-performing loans and advances	1,294	1,394
Inflows to non-performing portfolios	1,606	491
Outflows from non-performing portfolios	1,187	591
Outflows due to write-offs	93	83
Outflow due to other situations	1,094	508
Final stock of non-performing loans and advances	1,713	1,294

Table 19: Maturity of exposures ('CR1-A')

	Net exposure value				Total
	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	
1 Loans and advances	67,355	13,728	20,536	28,517	130,136
2 Debt securities	–	3,296	5,355	1,735	10,386
3 Total at 31 Dec 2022	67,355	17,024	25,891	30,252	140,522
1 Loans and advances	41,631	12,317	19,635	26,276	99,859
2 Debt securities	–	1,228	3,469	579	5,276
3 Total at 31 Dec 2021	41,631	13,545	23,104	26,855	105,135

Table 20: Specialised lending and equity exposures under the simple risk-weighted approach ('CR10')

		Specialised lending: Income-Producing Real Estate (Slotting approach)						
Regulatory categories	Remaining maturity	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount	
		€m	€m	%	€m	€m	€m	
Category 1	Less than 2.5 years	2	–	50	2	1	–	
	Equal to or more than 2.5 years	111	17	70	128	90	1	
Category 2	Less than 2.5 years	58	27	70	73	50	–	
	Equal to or more than 2.5 years	94	43	90	132	119	1	
Category 3	Less than 2.5 years	75	–	115	75	87	2	
	Equal to or more than 2.5 years	–	–	115	–	–	–	
Category 4	Less than 2.5 years	–	–	250	–	–	–	
	Equal to or more than 2.5 years	–	–	250	–	–	–	
Total at 31 Dec 2022	Less than 2.5 years	135	27		150	138	2	
	Equal to or more than 2.5 years	206	60		260	209	2	
		Specialised lending: Project Finance (Slotting approach)						
Regulatory categories	Remaining maturity	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount	
		€m	€m	%	€m	€m	€m	
Category 1	Less than 2.5 years	4	–	50	–	–	–	
	Equal to or more than 2.5 years	26	–	70	–	–	–	
Category 2	Less than 2.5 years	4	1	70	–	–	–	
	Equal to or more than 2.5 years	53	19	90	4	3	–	
Category 3	Less than 2.5 years	–	–	115	–	–	–	
	Equal to or more than 2.5 years	–	–	115	–	–	–	
Category 4	Less than 2.5 years	–	–	250	–	–	–	
	Equal to or more than 2.5 years	–	–	250	–	–	–	
Total at 31 Dec 2022	Less than 2.5 years	8	1		–	–	–	
	Equal to or more than 2.5 years	79	19		4	3	–	
		Equity exposures under the simple risk-weighted approach						
Categories		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount	
		€m	€m	%	€m	€m	€m	
	Other equity exposures	239	2	370	241	884	6	
	Total at 31 Dec 2022	239	2		241	884	6	

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 20: Specialised lending and equity exposures under the simple risk-weighted approach ('CR10') (continued)

Regulatory categories		Specialised lending: Income-Producing Real Estate (Slotting approach)					
		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
Remaining maturity		€m	€m	%	€m	€m	€m
Category 1	Less than 2.5 years	85	—	50	85	42	—
	Equal to or more than 2.5 years	114	24	70	138	87	1
Category 2	Less than 2.5 years	61	11	70	63	44	—
	Equal to or more than 2.5 years	—	—	90	—	—	—
Category 3	Less than 2.5 years	75	—	115	75	86	2
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Total at 31 Dec 2021	Less than 2.5 years	221	11		224	173	2
	Equal to or more than 2.5 years	114	24		138	87	1

Regulatory categories		Specialised lending: Project Finance (Slotting approach)					
		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
Remaining maturity		€m	€m	%	€m	€m	€m
Category 1	Less than 2.5 years	8	—	50	5	2	—
	Equal to or more than 2.5 years	41	—	70	15	11	—
Category 2	Less than 2.5 years	—	—	70	—	—	—
	Equal to or more than 2.5 years	23	49	90	7	5	—
Category 3	Less than 2.5 years	25	—	115	4	4	—
	Equal to or more than 2.5 years	—	—	115	—	—	—
Category 4	Less than 2.5 years	—	—	250	—	—	—
	Equal to or more than 2.5 years	—	—	250	—	—	—
Total at 31 Dec 2021	Less than 2.5 years	33	—		9	6	—
	Equal to or more than 2.5 years	64	49		22	16	—

Categories		Equity exposures under the simple risk-weighted approach					
		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
		€m	€m	%	€m	€m	€m
Other equity exposures		223	42	370	265	979	6
Total at 31 Dec 2021		223	42		265	979	6

1 The private equity portfolio is not sufficiently diversified and is therefore risk-weighted at 370 per cent as per article 155 of the CRR.

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

Past due but not impaired exposures, impaired exposures and impairment allowances, and other credit risk provisions are analysed using accounting values on a regulatory consolidation basis.

HSBC Continental Europe's approach for determining impairment allowances is explained in its *Universal Registration Document 2022*, and its definitions for accounting purposes of 'past due' and 'impaired' are set out on page 125.

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

Expected Loss ('EL') and credit risk adjustments

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

When comparing EL with measures of expected credit losses 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 Continental Europe 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 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 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.

The description of the approach and method adopted for determining credit risk adjustments is explained in page 12 of HSBC Continental Europe's *Universal Registration Document 2022*.

In addition, the reconciliation of changes in credit risk adjustments for impaired exposures are disclosed in page 131 of HSBC Continental Europe's Universal Registration Document 2022.

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

Model	Regulatory capital	IFRS 9
PD	<ul style="list-style-type: none"> 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 France home loans 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Cannot be lower than current balance 	<ul style="list-style-type: none"> Amortisation captured for term products
LGD	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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		<ul style="list-style-type: none"> Discounted back from point of default to balance sheet date

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 fulfill 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 in France 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 137 and about credit risk concentrations within the credit mitigation taken on page 117 of HSBC Continental Europe's Universal Registration Document 2022.

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 HSBC Continental Europe'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.

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

Other forms of Credit Risk Mitigation

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

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

In our corporate lending, HSBC Continental Europe also takes 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 Continental Europe 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 (above 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. Commercial Real Estate 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 Continental Europe, the nature of such customers and transactions is 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 in France is often secured via a guarantee provided by the third party financial institution: Crédit Logement. As Crédit Logement guarantees all unpaid instalments 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.

Table 25 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 23 below sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 21: CRM techniques overview: Disclosure of the use of credit risk mitigation techniques ('CR3')

	Unsecured carrying amount	Secured carrying amount	of which: secured by collateral	of which: secured by financial guarantees	of which: secured by credit derivatives
	€m	€m	€m	€m	€m
Loans and advances	93,097	37,036	28,539	8,497	–
Debt securities	8,244	2,142	320	1,822	–
Off-balance sheet exposures	63,476	15,034	2,484	8,493	4,057
Total at 31 Dec 2022	164,818	54,211	31,343	18,811	4,057
Loans and advances	61,944	37,916	11,014	26,902	–
Debt securities	5,185	91	–	91	–
Off-balance sheet exposures	48,426	25,221	2,773	16,854	5,594
Total at 31 Dec 2021	115,555	63,228	13,787	43,847	5,594

Table 22: Standardised approach – Credit risk exposure and CRM effects ('CR4')

Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
	On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet amount	RWAs	RWA density
	€m	€m	€m	€m	€m	%
Central governments or central banks	67,320	443	68,729	427	1,093	2
Regional government or local authorities	1,595	100	1,733	24	2	–
Public sector entities	4,770	1,103	4,669	299	10	–
Multilateral development banks	167	–	167	–	–	–
International organisations	595	–	595	–	–	–
Institutions	844	2,607	860	2,005	725	25
Corporates	5,551	6,384	4,524	1,379	4,668	79
Retail	499	730	469	45	369	72
Secured by mortgages on immovable property	2,977	16	2,977	4	1,160	39
Exposures in default	217	21	194	3	232	118
Exposures associated with particularly high risk	30	20	29	7	54	150
Equity ¹	970	–	970	–	2,424	250
Other items	1,986	–	1,986	–	1,320	66
Total at 31 Dec 2022	87,519	11,424	87,901	4,192	12,058	13
Central governments or central banks	41,053	264	41,446	194	–	–
Regional government or local authorities	257	100	340	50	2	–
Public sector entities	3,524	1,237	3,524	399	10	–
Multilateral development banks	–	–	–	–	–	–
International organisations	293	–	293	–	–	–
Institutions	167	1,126	181	718	283	31
Corporates	4,374	4,468	4,140	1,744	3,870	66
Retail	186	186	114	51	104	63
Secured by mortgages on immovable property	1,315	87	1,315	40	571	42
Exposures in default	150	17	122	3	134	107
Exposures associated with particularly high risk	29	47	29	17	69	150
Equity	647	–	647	–	1,618	250
Other items ¹	1,916	–	1,916	–	1,588	83
Total at 31 Dec 2021	53,911	7,532	54,067	3,216	8,251	14

¹ At 31 December 2022, material holdings were reported in equity under the standard approach (in December 2021, EUR 1,558 million RWA in material holdings were reported in other items).

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 23: IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques ('CR7')

	At 31 Dec 2022		At 31 Dec 2021	
	Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount	Pre-credit derivatives risk weighted exposure amount	Actual risk weighted exposure amount
	€m	€m	€m	€m
Exposures under FIRB				
Central governments and central banks	5	5	–	–
Institutions	130	130	185	185
Corporates	8,076	8,076	1,913	1,913
– of which:				
SMEs	–	–	4	4
specialised lending	–	–	–	–
Exposures under AIRB				
Central governments and central banks	174	174	142	142
Institutions	583	583	205	205
Corporates	16,367	16,315	17,983	17,898
– of which:				
SMEs	27	27	9	9
specialised lending	714	714	282	282
Retail	4,078	4,078	5,876	5,876
– of which:				
retail – SMEs – Secured by immovable property collateral	184	184	248	248
retail – non-SMEs – Secured by immovable property collateral	2,489	2,489	4,440	4,440
retail – Qualifying revolving	5	5	–	–
retail – SMEs – Other	338	338	318	318
retail – Non-SMEs – Other	1,064	1,064	870	870
Total (including FIRB exposures and AIRB exposures)	29,413	29,361	26,304	26,219

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

	Total exposures €m	Credit risk Mitigation techniques				
		Funded credit Protection ('FCP')				
		Part of exposures covered by Financial Collaterals %	Part of exposures covered by Other eligible collaterals %	Part of exposures covered by Immovable property Collaterals %	Part of exposures covered by Receivables %	Part of exposures covered by Other physical collateral %
A-IRB						
Central governments and central banks	2,026	–	–	–	–	–
Institutions	2,363	–	–	–	–	–
Corporates	36,364	6	18	12	4	2
– of which:						
Corporates – SMEs	46	1	100	100	–	48
Corporates – Specialised lending	952	–	–	–	–	–
Corporates – Other	35,366	6	19	13	4	2
Retail	23,796	7	32	31	–	–
– of which:						
Retail – Immovable property SMEs	338	8	100	100	–	–
Retail – Immovable property non-SMEs	19,882	1	34	34	–	–
Retail – Qualifying revolving	9	–	–	–	–	–
Retail – Other SMEs	1,075	11	1	–	–	–
Retail – Other non-SMEs	2,492	49	–	–	–	–
Total A-IRB at 31 Dec 2022	64,548	6	22	19	2	1
F-IRB						
Central governments and central banks	33	–	–	–	–	–
Institutions	199	–	–	–	–	–
Corporates	12,999	7	–	–	–	–
Corporates – Other	12,999	7	–	–	–	–
Total F-IRB at 31 Dec 2022	13,231	7	–	–	–	–

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

	Credit risk Mitigation techniques						Credit risk Mitigation methods in the calculation of RWAs	
	Funded credit Protection ('FCP')				Unfunded credit Protection ('UFCP')		RWAs without substitution effects (reduction effects only)	RWAs with substitution effects (both reduction and substitution effects)
	Part of exposures covered by Other funded credit protection	Part of exposures covered by Cash on deposit	Part of exposures covered by Life insurance policies	Part of exposures covered by Instruments held by a third party	Part of exposures covered by Guarantees	Part of exposures covered by Credit Derivatives		
							%	%
A-IRB								
Central governments and central banks	–	–	–	–	–	–	174	174
Institutions	–	–	–	–	–	–	583	583
Corporates	–	–	–	–	6	–	16,315	16,315
– of which:								
Corporates – SMEs	–	–	–	–	1	–	27	27
Corporates – Specialised lending	–	–	–	–	–	–	714	714
Corporates – Other	–	–	–	–	7	–	15,574	15,574
Retail	–	–	–	–	75	–	4,078	4,078
– of which:								
Retail – Immovable property SMEs	–	–	–	–	–	–	184	184
Retail – Immovable property non-SMEs	–	–	–	–	88	–	2,489	2,489
Retail – Qualifying revolving	–	–	–	–	–	–	5	5
Retail – Other SMEs	–	–	–	–	33	–	338	338
Retail – Other non-SMEs	–	–	–	–	1	–	1,064	1,064
Total A-IRB at 31 Dec 2022	–	–	–	–	31	–	21,151	21,151
F-IRB								
Central governments and central banks	–	–	–	–	–	–	5	5
Institutions	–	–	–	–	–	–	172	130
Corporates	–	–	–	–	22	–	8,397	8,076
Corporates – Other	–	–	–	–	22	–	8,397	8,076
Total F-IRB at 31 Dec 2022	–	–	–	–	21	–	8,574	8,210

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 25: IRB approach – Credit risk exposures by exposure class and PD range ('CR6')

PD scale	On-balance sheet exposures €m	Off-balance sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Central governments and central banks												
0.00 to <0.15	2,028	27	57.0	2,023	–	24	45.0	2.6	170	8	–	–
– 0.00 to <0.10	2,021	–	–	2,021	–	20	45.0	2.6	170	8	–	–
– 0.10 to <0.15	8	27	57.0	2	0.1	4	45.0	2.4	1	44	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	0.4	1	45.0	1.0	–	47	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.50	78	–	100.0	3	0.9	3	45.0	2.7	3	96	–	–
– 0.75 to <1.75	3	–	–	3	0.9	1	45.0	2.7	3	95	–	–
– 1.75 to <2.5	75	–	100.0	–	2.3	2	45.0	5.0	–	159	–	–
2.50 to <10.00	49	1	–	–	4.2	2	45.0	5.0	–	182	–	–
– 2.5 to <5	–	–	–	–	4.2	1	45.0	5.0	–	182	–	–
– 5 to <10	49	1	–	–	–	1	–	–	–	–	–	–
10.00 to <100.00	–	–	–	–	13.0	1	45.0	1.0	1	207	–	–
– 10 to <20	–	–	–	–	13.0	1	45.0	1.0	1	207	–	–
– 20 to <30	–	–	–	–	–	–	–	–	–	–	–	–
– 30 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	2,156	28	57.5	2,026	–	31	45.0	2.6	174	9	–	–
AIRB – Institutions												
0.00 to <0.15	1,851	1,016	21.7	1,885	0.1	291	33.6	2.8	324	17	–	–
– 0.00 to <0.10	1,756	903	21.9	1,768	–	176	34.5	2.9	306	17	–	–
– 0.10 to <0.15	94	113	20.3	117	0.1	115	20.5	2.4	18	15	–	–
0.15 to <0.25	127	8	20.0	128	0.2	14	13.4	2.9	22	17	–	–
0.25 to <0.50	235	101	63.2	299	0.4	13	45.0	1.3	202	68	1	–
0.50 to <0.75	22	–	20.0	22	0.6	13	17.3	1.8	8	35	–	–
0.75 to <2.5	1	139	20.2	29	2.2	10	45.0	0.2	28	96	–	–
– 0.75 to <1.75	–	1	75.0	–	1.6	4	45.0	1.0	–	96	–	–
– 1.75 to <2.5	1	138	20.0	29	2.3	6	45.0	0.2	27	96	–	–
2.5 to <10	–	–	89.7	–	3.1	1	44.8	1.0	–	118	–	–
– 2.5 to <5	–	–	89.7	–	3.1	1	44.8	1.0	–	118	–	–
– 5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	2,235	1,264	25.2	2,363	0.1	342	33.9	2.6	583	25	1	2
AIRB – Corporates – SME												
0.00 to <0.15	–	–	–	–	0.1	1	35.6	5.0	–	34	–	–
– 0.00 to <0.10	–	–	–	–	–	–	–	–	–	–	–	–
– 0.10 to <0.15	–	–	–	–	0.1	1	35.6	5.0	–	34	–	–
0.15 to <0.25	1	–	–	1	0.2	2	32.3	5.0	–	48	–	–
0.25 to <0.50	1	1	76.0	2	0.4	2	30.1	3.5	1	38	–	–
0.50 to <0.75	9	1	2.2	9	0.6	9	19.0	4.7	3	34	–	–
0.75 to <2.5	33	1	48.7	34	2.0	27	23.8	4.1	23	67	–	–
– 0.75 to <1.75	8	–	100.0	8	1.2	14	29.8	4.5	6	73	–	–
– 1.75 to <2.5	26	1	30.7	26	2.2	13	21.9	3.9	17	65	–	–
2.5 to <10	1	1	100.0	1	3.3	3	21.1	4.0	1	74	–	–
– 2.5 to <5	1	1	100.0	1	3.3	3	21.1	4.0	1	74	–	–
– 5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	45	3	57.8	46	1.7	44	23.3	4.2	27	59	–	1

Table 25: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Corporates – specialised lending												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.5	531	44	12.1	537	0.9	1	35.6	4.1	363	68	2	–
– 0.75 to <1.75	531	44	12.1	537	0.9	1	35.6	4.1	363	68	2	–
– 1.75 to <2.5	–	–	–	–	–	–	–	–	–	–	–	–
2.5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	531	44	12.1	537	0.9	1	35.6	4.1	363	68	2	–
AIRB – Corporates – other												
0.00 to <0.15	5,208	28,652	29.9	14,817	0.1	927	30.2	2.2	3,048	21	4	–
– 0.00 to <0.10	3,971	21,084	32.0	11,635	0.1	605	29.5	2.1	1,935	17	2	–
– 0.10 to <0.15	1,237	7,567	23.9	3,181	0.1	322	32.7	2.6	1,114	35	2	–
0.15 to <0.25	2,254	5,657	27.8	4,111	0.2	522	32.7	2.5	1,806	44	4	–
0.25 to <0.50	1,227	1,846	31.0	2,163	0.4	217	32.4	2.1	1,218	56	4	–
0.50 to <0.75	2,367	2,061	31.3	3,100	0.6	1,393	26.7	2.5	1,781	57	7	–
0.75 to <2.5	5,967	6,416	34.5	6,268	1.4	3,285	24.8	2.1	4,033	64	26	–
– 0.75 to <1.75	4,405	3,251	33.3	5,177	1.3	2,590	23.5	2.2	3,108	60	18	–
– 1.75 to <2.5	1,562	3,165	40.2	1,091	2.2	695	30.7	1.7	925	85	8	–
2.5 to <10	2,301	1,145	23.3	2,566	4.5	1,583	22.0	2.6	2,116	82	29	–
– 2.5 to <5	1,455	877	23.0	1,661	3.6	1,013	22.8	2.4	1,319	79	15	–
– 5 to <10	846	268	24.1	906	6.3	570	20.6	2.9	796	88	13	–
10 to <100	714	433	21.1	804	18.5	329	18.7	3.0	915	114	44	–
– 10 to <20	579	206	21.2	630	12.3	175	16.2	3.1	609	97	17	–
– 20 to <30	–	–	–	–	–	–	–	–	–	–	–	–
– 30 to <100	135	227	21.0	174	40.8	154	27.7	2.6	306	176	27	–
100.00 (Default)	1,500	119	29.5	1,537	100.0	427	15.5	3.1	657	43	350	–
Subtotal	21,536	46,329	29.8	35,366	5.5	8,683	27.9	2.3	15,574	44	466	473
Wholesale AIRB – Total at 31 Dec 2022	26,503	47,668	30	40,338	5	9,099	29	2.4	16,722	41	470	476
AIRB – Secured by mortgages on immovable property SME												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	14	–	–	14	0.5	77	26.5	–	3	21	–	–
0.50 to <0.75	23	–	–	23	0.6	146	25.3	–	6	24	–	–
0.75 to <2.5	65	2	66.7	66	1.5	396	26.0	–	24	36	–	–
– 0.75 to <1.75	48	1	77.7	49	1.1	286	26.2	–	16	32	–	–
– 1.75 to <2.5	17	–	40.8	18	2.3	110	25.7	–	8	47	–	–
2.5 to <10	191	1	57.0	191	4.3	1,106	24.8	–	118	62	2	–
– 2.5 to <5	154	1	56.6	155	3.8	903	24.5	–	89	57	1	–
– 5 to <10	36	1	57.3	37	6.7	203	25.9	–	30	81	1	–
10 to <100	15	–	53.1	16	17.8	102	24.9	–	16	105	1	–
– 10 to <20	9	–	140.0	9	12.0	48	25.2	–	9	98	–	–
– 20 to <30	7	–	21.0	7	25.5	54	24.6	–	8	116	–	–
– 30 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	28	–	–	28	100.0	228	28.7	–	16	58	6	–
Subtotal	336	3	70.7	338	12.0	2,055	25.5	–	184	54	10	16

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 25: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Secured by mortgages on immovable property non-SME												
0.00 to <0.15	2,705	18	38.0	2,720	0.1	16,996	10.8	–	89	3	–	–
– 0.00 to <0.10	–	–	–	–	–	–	–	–	–	–	–	–
– 0.10 to <0.15	2,705	18	38.0	2,720	0.1	16,996	10.8	–	89	3	–	–
0.15 to <0.25	5,419	35	47.6	5,452	0.2	31,483	11.5	–	257	5	1	–
0.25 to <0.50	5,000	42	46.8	5,035	0.4	28,832	12.8	–	447	9	3	–
0.50 to <0.75	1,887	20	43.7	1,901	0.7	10,393	12.2	–	252	13	2	–
0.75 to <2.5	3,133	29	62.2	3,160	1.2	18,541	13.2	–	672	21	5	–
– 0.75 to <1.75	2,795	26	59.9	2,819	1.1	16,287	13.3	–	574	20	4	–
– 1.75 to <2.5	338	3	81.2	341	2.3	2,254	12.2	–	98	29	1	–
2.5 to <10	1,169	8	62.6	1,177	5.0	7,086	13.2	–	522	44	8	–
– 2.5 to <5	838	7	62.5	845	4.1	5,161	13.5	–	353	42	5	–
– 5 to <10	331	1	63.2	333	7.2	1,925	12.4	–	169	51	3	–
10 to <100	288	1	66.0	290	17.8	1,929	14.8	–	233	80	8	–
– 10 to <20	224	1	66.0	225	14.0	1,439	14.4	–	174	77	5	–
– 20 to <30	54	–	75.0	54	27.4	418	15.9	–	53	98	2	–
– 30 to <100	10	–	–	10	51.6	72	18.4	–	6	62	1	–
100.00 (Default)	145	–	714.2	148	100.0	1,157	30.7	–	17	12	44	–
Subtotal	19,744	152	50.8	19,882	1.7	116,417	12.4	–	2,489	13	70	39
AIRB – Qualifying revolving retail exposures												
0.00 to <0.15	90	–	–	–	0.1	86,447	30.0	–	–	2	–	–
– 0.00 to <0.10	13	–	–	–	0.1	15,950	30.0	–	–	1	–	–
– 0.10 to <0.15	77	–	–	–	0.1	70,497	30.0	–	–	2	–	–
0.15 to <0.25	81	–	–	–	0.2	66,578	30.0	–	–	3	–	–
0.25 to <0.50	48	–	–	–	0.4	38,795	30.0	–	–	6	–	–
0.50 to <0.75	23	–	–	–	0.7	17,974	30.0	–	–	9	–	–
0.75 to <2.5	50	–	–	–	1.5	40,281	30.0	–	–	16	–	–
– 0.75 to <1.75	39	–	–	–	1.2	31,394	30.0	–	–	14	–	–
– 1.75 to <2.5	11	–	–	–	2.5	8,887	30.0	–	–	24	–	–
2.5 to <10	27	–	–	7	4.5	21,029	30.0	–	3	36	–	–
– 2.5 to <5	16	–	–	6	4.2	12,107	30.0	–	2	34	–	–
– 5 to <10	11	–	–	1	6.1	8,922	30.0	–	1	44	–	–
10 to <100	11	–	–	–	21.0	8,329	30.0	–	–	82	–	–
– 10 to <20	7	–	–	–	14.3	5,016	30.0	–	–	71	–	–
– 20 to <30	4	–	–	–	27.8	3,270	30.0	–	–	93	–	–
– 30 to <100	–	–	–	–	–	43	–	–	–	–	–	–
100.00 (Default)	1	–	–	1	100.0	710	20.3	–	2	244	–	–
Subtotal	330	–	–	9	13.2	280,143	29.1	–	5	54	–	3
AIRB – Other SME												
0.00 to <0.15	2	–	99.7	2	–	31	20.2	–	–	2	–	–
– 0.00 to <0.10	2	–	99.7	2	–	31	20.2	–	–	2	–	–
– 0.10 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	29	18	72.2	44	0.5	1,717	22.2	–	5	12	–	–
0.50 to <0.75	70	40	78.9	106	0.6	3,995	23.5	–	16	15	–	–
0.75 to <2.5	226	93	85.7	319	1.5	12,216	21.7	–	63	20	1	–
– 0.75 to <1.75	156	70	84.5	226	1.1	8,663	21.9	–	42	19	1	–
– 1.75 to <2.5	70	23	89.6	93	2.3	3,553	21.0	–	21	23	1	–
2.5 to <10	335	357	20.9	431	4.9	21,548	21.5	–	111	26	4	–
– 2.5 to <5	197	321	15.3	262	3.7	14,876	22.9	–	70	27	2	–
– 5 to <10	138	35	72.4	170	6.7	6,672	19.4	–	41	24	2	–
10 to <100	46	6	72.5	52	21.4	1,761	16.5	–	15	30	2	–
– 10 to <20	13	3	80.0	16	12.1	666	18.8	–	4	27	–	–
– 20 to <30	33	3	64.4	36	25.5	1,095	15.5	–	11	31	1	–
– 30 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	115	206	2.2	121	100.0	3,520	25.9	–	127	105	21	–
Subtotal	822	720	28.9	1,075	14.8	44,788	22.0	–	338	31	29	74

Table 25: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
AIRB – Other non-SME												
0.00 to <0.15	94	94	2.8	312	0.1	123,378	48.5	–	44	14	–	–
– 0.00 to <0.10	–	9	2.3	30	0.1	19,147	59.9	–	3	10	–	–
– 0.10 to <0.15	93	85	2.9	283	0.1	104,231	47.3	–	41	15	–	–
0.15 to <0.25	176	102	2.2	482	0.2	192,146	47.6	–	95	20	–	–
0.25 to <0.50	221	83	2.3	430	0.4	137,836	45.1	–	128	30	1	–
0.50 to <0.75	139	48	2.4	224	0.7	54,070	40.2	–	87	39	1	–
0.75 to <2.5	316	106	6.9	578	1.4	198,605	43.8	–	319	55	4	–
– 0.75 to <1.75	278	77	7.4	487	1.2	164,435	43.1	–	256	53	3	–
– 1.75 to <2.5	38	29	5.6	90	2.4	34,170	47.4	–	62	69	1	–
2.5 to <10	162	46	5.9	275	5.1	104,872	43.6	–	194	71	6	–
– 2.5 to <5	114	25	9.1	165	4.1	44,358	40.0	–	106	64	3	–
– 5 to <10	48	21	2.0	110	6.7	60,514	49.2	–	88	80	4	–
10 to <100	76	19	1.2	136	19.3	49,302	48.3	–	148	109	13	–
– 10 to <20	49	12	1.5	89	14.1	27,416	47.9	–	87	98	6	–
– 20 to <30	25	7	0.6	44	27.8	21,395	49.5	–	58	131	6	–
– 30 to <100	2	–	1.9	3	51.6	491	41.6	–	3	113	1	–
100.00 (Default)	67	4	62.2	56	100.0	10,889	60.5	–	50	89	29	–
Subtotal	1,251	501	4.1	2,492	4.4	871,098	45.6	–	1,064	43	54	54
Retail AIRB – Total at 31 Dec 2022												
	22,483	1,377	22	23,796	3	1,314,501	17	–	4,079	17	162	185
FIRB – Central governments and central banks												
0.00 to <0.15	–	–	75.0	33	–	–	45.0	2.5	5	15	–	–
– 0.00 to <0.10	–	–	75.0	33	–	–	45.0	2.5	5	15	–	–
– 0.10 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.5	–	–	–	–	–	–	–	–	–	–	–	–
2.5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	75.0	33	–	–	45.0	2.5	5	15	–	–
FIRB – Institutions												
0.00 to <0.15	9	315	25.0	103	0.1	50	45.0	2.5	45	44	–	–
– 0.00 to <0.10	6	32	20.1	26	0.1	22	45.0	2.5	8	33	–	–
– 0.10 to <0.15	3	283	25.9	77	0.1	28	45.0	2.5	37	48	–	–
0.15 to <0.25	–	–	20.1	7	0.2	1	45.0	2.5	4	56	–	–
0.25 to <0.50	–	–	20.0	15	0.4	1	45.0	2.5	12	77	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.5	–	115	63.1	73	1.3	7	45.0	1.2	66	91	–	–
– 0.75 to <1.75	–	89	75.9	67	1.2	4	45.0	1.1	58	86	–	–
– 1.75 to <2.5	–	26	20.0	5	2.3	3	45.0	2.5	8	155	–	–
2.5 to <10	2	–	–	2	4.0	6	45.0	2.5	2	154	–	–
– 2.5 to <5	2	–	–	2	4.0	6	45.0	2.5	2	154	–	–
– 5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	11	430	33.9	200	0.6	65	45.0	2.0	130	65	1	–

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 25: IRB approach – Credit risk exposures by exposure class and PD range ('CR6') (continued)

PD scale	On-balance sheet exposures €m	Off-balance sheet exposures pre-CCF €m	Exposure weighted average CCF %	Exposure post CCF and post CRM €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	Risk weighted exposure amount after supporting factors €m	Density of risk weighted exposure amount %	Expected loss amount €m	Value adjustments and provisions €m
FIRB – Corporates – SME												
0.00 to <0.15	–	–	–	–	–	–	–	–	–	–	–	–
0.15 to <0.25	–	–	–	–	–	–	–	–	–	–	–	–
0.25 to <0.50	–	–	–	–	–	–	–	–	–	–	–	–
0.50 to <0.75	–	–	–	–	–	–	–	–	–	–	–	–
0.75 to <2.5	–	–	–	–	2.3	1	45.0	2.5	–	76	–	–
– 0.75 to <1.75	–	–	–	–	–	–	–	–	–	–	–	–
– 1.75 to <2.5	–	–	–	–	2.3	1	45.0	2.5	–	76	–	–
2.5 to <10	–	–	75.0	–	4.2	1	45.0	2.5	–	88	–	–
– 2.5 to <5	–	–	75.0	–	4.2	1	45.0	2.5	–	88	–	–
– 5 to <10	–	–	–	–	–	–	–	–	–	–	–	–
10 to <100	–	–	–	–	–	–	–	–	–	–	–	–
100.00 (Default)	–	–	–	–	–	–	–	–	–	–	–	–
Subtotal	–	–	75.0	–	3.9	2	45.0	2.5	–	86	–	–
FIRB – Corporates – other												
0.00 to <0.15	1,854	7,873	35.7	5,161	0.1	1,014	45.0	2.5	1,476	29	2	–
– 0.00 to <0.10	1,009	4,324	37.6	3,098	0.1	648	45.0	2.5	687	22	1	–
– 0.10 to <0.15	845	3,549	33.2	2,063	0.1	366	45.0	2.5	789	38	1	–
0.15 to <0.25	930	2,285	33.7	1,689	0.2	365	41.3	2.5	781	46	2	–
0.25 to <0.50	1,122	1,515	31.8	1,488	0.4	321	29.6	2.5	681	46	2	–
0.50 to <0.75	650	1,418	27.7	937	0.6	446	42.0	2.5	748	80	3	–
0.75 to <2.5	1,609	2,920	40.4	2,449	1.5	1,051	45.1	2.5	2,821	115	18	–
– 0.75 to <1.75	1,004	2,298	40.4	1,872	1.2	754	45.3	2.5	2,064	110	11	–
– 1.75 to <2.5	605	621	40.5	576	2.2	297	44.3	2.5	757	131	6	–
2.5 to <10	890	1,155	32.1	791	4.6	462	41.9	2.5	1,222	154	17	–
– 2.5 to <5	401	554	34.6	488	3.6	351	40.2	2.5	661	136	8	–
– 5 to <10	489	601	26.9	303	6.1	111	44.6	2.5	560	185	9	–
10 to <100	285	261	37.9	160	14.8	62	42.2	2.5	347	218	10	–
– 10 to <20	259	261	37.9	158	14.5	45	42.2	2.5	343	218	10	–
– 20 to <30	–	–	–	–	–	–	–	–	–	–	–	–
– 30 to <100	26	–	26.6	2	36.0	17	44.2	2.5	5	222	–	–
100.00 (Default)	349	199	47.5	325	100.0	76	44.5	2.4	–	–	145	–
Subtotal	7,689	17,626	35.2	12,999	3.4	3,797	42.3	2.5	8,076	62	197	181
FIRB – Total at 31 Dec 2022	7,699	18,056	35	13,231	3	3,864	42	2	8,210	62	198	181

Table 26: Scope of the use of IRB and SA approaches ('CR6-A')

	Exposure value subject to IRB approach	Total exposure value for exposures subject to the Standardised approach and to the IRB approach	Percentage of total exposure value subject to the permanent partial use of the SA	Percentage of total exposure value subject to IRB Approach	Percentage of total exposure value subject to a roll-out plan	
		€m	€m	%	%	%
1	Central governments or central banks	2,170	77,075	1.0	2.8	96.1
1.1	– of which:					
	Regional governments or local authorities	–	1,615	–	–	100.0
1.2	Public sector entities	–	5,107	–	–	100.0
2	Institutions	2,754	5,686	48.8	50.3	0.9
3	Corporates	50,681	62,929	13.4	86.6	–
3.1	– of which:					
	Corporates – Specialised lending, excluding slotting approach	541	542	–	100.0	–
3.2	Corporates – Specialised lending under slotting approach	513	526	–	100.0	–
4	Retail	23,177	26,134	10.9	89.1	–
4.1	– of which:					
	Retail – Secured by real estate SMEs	337	347	2.6	97.5	–
4.2	Retail – Secured by real estate non-SMEs	19,858	22,078	10.0	90.0	–
4.3	Retail – Qualifying revolving	330	330	–	100.0	–
4.4	Retail – Other SMEs	1,030	1,217	12.3	87.7	–
4.5	Retail – Other non-SMEs	1,622	2,163	22.2	77.8	–
5	Equity	–	970	100.0	–	–
6	Other non-credit obligation assets	–	1,986	100.0	–	–
7	Total at 31 Dec 2022	78,782	174,779	10.2	47.4	42.4

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 ('SFTs') and exposures to central counterparties ('CCP') in both the trading and non-trading books.

The table below sets out details of HSBC Continental Europe's counterparty credit risk exposures by exposure class and approach.

Further explanation of HSBC Continental Europe's approach to managing counterparty credit risk can be found on page 139 of HSBC Continental Europe's Universal Registration Document 2022.

Table 27: Analysis of CCR exposure by approach ('CCR1')

	Replacement cost ('RC')	Potential future exposure ('PFE')	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWAs
	€m	€m	€m		€m	€m	€m	€m
EU – Original Exposure Method (for derivatives)	–	–	–	–	–	–	–	–
EU – Simplified SA-CCR (for derivatives)	–	–	–	–	–	–	–	–
SA-CCR (for derivatives)	3,355	2,936	–	1.4	8,808	8,808	8,808	3,033
IMM (for derivatives and SFTs)	–	–	3,856	1.45	5,591	5,591	5,591	1,588
– of which:								
<i>securities financing transactions netting sets</i>	–	–	–	–	–	–	–	–
<i>derivatives and long settlement transactions netting sets</i>	–	–	3,856	1.45	5,591	5,591	5,591	1,588
<i>from contractual cross-product netting sets</i>	–	–	–	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	7,818	7,847	7,847	579
VaR for SFTs	–	–	–	–	–	–	–	–
Total at 31 Dec 2022	3,355	2,936	3,856		22,217	22,246	22,246	5,200

Table 28: Transactions subject to own funds requirements for CVA risk ('CCR2')

	At 31 Dec 2022		At 31 Dec 2021	
	Exposure value	RWAs	Exposure value	RWAs
	€m	€m	€m	€m
1 Total transactions subject to the Advanced method	2,690	264	4,828	415
2 (i) VaR component (including the 3x multiplier)		64		87
3 (ii) stressed VaR component (including the 3x multiplier)		200		328
4 Transactions subject to the Standardised method	2,463	513	1,238	478
5 Total transactions subject to own funds requirements for CVA risk	5,153	777	6,066	893

Table 29: Composition of collateral for CCR exposures ('CCR5')

Collateral type	Collateral used in derivative transactions				Collateral used in SFTs			
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
	€m	€m	€m	€m	€m	€m	€m	€m
1 Cash – domestic currency	–	35,466	–	29,055	–	164	–	–
2 Cash – other currencies	–	9,663	–	6,044	–	1	–	–
3 Domestic sovereign debt	10	1,509	–	492	–	10,844	–	10,271
4 Other sovereign debt	1,513	9,940	311	1,097	–	42,958	–	29,870
6 Corporate bonds	67	14,959	14	–	–	2,139	–	2,166
7 Equity securities	–	10,348	–	–	–	2,930	–	2,162
8 Other collateral	–	811	–	–	–	–	–	–
9 Total at 31 December 2022	1,590	82,695	325	36,689	–	59,036	–	44,469

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 264 of HSBC Continental Europe's Universal Registration Document 2022.

Credit Valuation Adjustment ('CVA') hedges

In the normal course of business, HSBC Continental Europe 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.

Credit rating downgrade

A credit rating downgrade clause in a master agreement or a credit rating downgrade threshold clause in a credit support annex ('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 HSBC Continental Europe's income or the value of its portfolios. Market risk is measured using internal market risk models approved by the ECB.

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

Further explanation of HSBC Continental Europe's approach to managing market risk can be found on page 149 of HSBC Continental Europe's Universal Registration Document 2022.

Table 30: Market risk under the standardised approach ('MR1')

	2022		2021	
	RWAs €m	Capital required €m	RWAs €m	Capital required €m
Outright products				
1 Interest rate risk (general and specific) ¹	5	—	3	—
2 Equity risk (general and specific)	—	—	—	—
3 Foreign exchange risk	118	9	473	38
4 Commodity risk	—	—	—	—
Options				
5 Simplified approach	—	—	—	—
6 Delta-plus method	—	—	1	—
7 Scenario approach	—	—	—	—
8 Securitisation (specific risk)	—	—	—	—
9 Total	123	10	477	38

¹ HSBC Continental Europe does not have specific risk positions related to securitisation at 31 December 2021 and 31 December 2022.

Table 31: Market risk under the Internal Model Approach ('IMA') ('MR2-A')

	2022		2021	
	RWAs €m	Capital required €m	RWAs €m	Capital required €m
1 VaR (higher of values a and b)	1,039	83	481	38
(a) Previous day's VaR ('VaRt-1')	274	22	93	7
(b) Multiplication factor (mc) x average of previous 60 working days ('VaRavg')	1,039	83	481	38
2 Stressed VaR (higher of values a and b)	1,294	104	1,483	119
(a) Latest available SVaR ('SVaRt-1')	274	22	247	20
(b) Multiplication factor (ms) x average of previous 60 working days ('sVaRavg')	1,294	104	1,483	119
3 Incremental risk charge (higher of values a and b)	258	21	444	36
(a) Most recent IRC value	252	20	266	21
(b) Average IRC value	258	21	444	36
5 Other	769	62	899	72
6 Total	3,360	270	3,307	265

Non-Financial Risk

Overview

In accordance with the French Order of 3 November 2014 as modified on 25 February 2021 and the Operational Risk Functional Instructions Manual, operational risk is defined within HSBC Group as a risk event which materialises due to:

- inadequate or failed internal processes, people and systems;
- external events, including Legal risk.

This risk includes notably external or internal fraud risk, non-authorised activities, errors and omissions - including low probability events that would result in a high value loss should they arise - and risks related to models.

HSBC Continental Europe classifies losses using the following taxonomy, comprising seven level 1 risk categories: Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk.

Further explanation of HSBC Continental Europe's approach to managing operational risk can be found on page 155 of HSBC Continental Europe's Universal Registration Document 2022.

Table 32: Operational risk – RWA

	2022		2021	
	RWAs €m	Capital required €m	RWAs €m	Capital required €m
Own funds requirement for operational risk	5,677	454	3,557	285

Other risks

Further details of the other risks identified by HSBC Continental Europe are described in the Risks section in particular the reputational risk, business risk and sustainability risk which can be found on pages 159 to 174 in HSBC Continental Europe's *Universal Registration Document 2022*.

Liquidity and funding

Liquidity management across the group

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risks are managed by HSBC Continental Europe on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed. HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

HSBC Continental Europe liquidity group manages its liquidity and funding risks in line with the HSBC Group framework.

Strategies and processes in the management of liquidity risk

Liquidity risk is the risk that HSBC Continental Europe does not have sufficient financial resources to meet its obligations as they fall due, or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows or when the funding needed for illiquid asset positions cannot be obtained at the expected terms as and when required.

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.

HSBC Continental Europe manages liquidity and funding in accordance with the Group's LFRF, and with practices and limits set by the RMM and approved by the Board. HSBC Continental Europe's policy is that it should be self-sufficient in funding its own activities.

Structure and organisation of the liquidity risk management function

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

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 Internal Liquidity Adequacy Assessment ('ILAA') process used to validate risk tolerance and set risk appetite.

Management of liquidity and funding risk

Liquidity coverage ratio

The LCR metric was designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has an adequate stock of unencumbered high-quality liquid assets ('HQLA') that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs for a 30 calendar days liquidity stress scenario. HSBC Continental Europe's LCR computed in respect of the EU Delegated act was 166 per cent as at 31 December 2022. In accordance with Regulation EU 2019/876 of the European Parliament ('CRR II'), published on 20 May 2019, the table below presents the average of the previous twelve month-end balances for each reporting date. As such, the LCR values reported below do not represent the point-in-time ratios at the end of the period.

Table 33: Quantitative information on LCR ('LIQ1')

	Quarter ended							
	31 Dec 2022		30 Sep 2022		30 Jun 2022		31 Mar 2022	
	Total unweighted value €m	Total weighted value €m	Total unweighted value €m	Total weighted value €m	Total unweighted value €m	Total weighted value €m	Total unweighted value €m	Total weighted value €m
Number of data points used in the calculation of averages	12		12		12		12	
High-quality liquid asset								
Total high-quality liquid assets (HQLA)	–	52,471	–	47,120	–	47,503	–	47,826
Cash – Outflows	–	–	–	–	–	–	–	–
Retail deposits and small business funding	27,196	2,242	26,389	2,162	26,301	2,144	26,056	2,113
– of which:								
stable deposits	16,093	805	15,654	783	15,686	784	15,679	784
less stable deposits	11,103	1,437	10,735	1,379	10,615	1,360	10,377	1,329
Unsecured wholesale funding	58,488	26,245	54,360	24,564	54,137	24,523	53,714	23,893
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	21,069	5,219	17,679	4,379	16,346	4,050	16,525	4,095
– Non-operational deposits (all counterparties)	36,909	20,516	36,203	19,707	37,167	19,850	36,609	19,218
– Unsecured debt	510	510	478	478	623	623	580	580
Secured wholesale funding	–	2,219	–	1,494	–	836	–	467
Additional requirements	53,831	13,797	52,073	12,393	53,073	12,089	54,732	12,081
– Outflows related to derivative exposures and other collateral requirements	3,766	3,675	2,682	2,682	2,329	2,329	2,254	2,254
– Outflows related to loss of funding on debt products	–	–	–	–	–	–	–	–
– Credit and liquidity facilities	50,065	10,122	49,391	9,710	50,744	9,761	52,478	9,828
Other contractual funding obligations	11,290	4,627	10,403	2,780	10,276	2,790	9,861	2,637
Other contingent funding obligations	19,490	1,175	18,225	1,139	17,207	1,116	16,035	1,069
Total cash outflows	–	50,304	–	44,532	–	43,499	–	42,260
Cash – Inflows	–	–	–	–	–	–	–	–
Secured lending transactions (including reverse repos)	40,405	3,941	42,728	3,151	43,614	1,990	45,369	1,264
Inflows from fully performing exposures	4,347	3,249	3,967	2,898	3,486	2,390	3,286	2,293
Other cash inflows	15,032	8,322	12,301	5,519	11,909	5,102	11,695	4,831
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	–	–	–	–	–	–	–	–
(Excess inflows from a related specialised credit institution)	–	–	–	–	–	–	–	–
Total cash inflows	59,784	15,511	58,996	11,568	59,009	9,482	60,349	8,388
Fully exempt inflows	–	–	–	–	–	–	–	–
Inflows subject to 90% cap	–	–	–	–	–	–	–	–
Inflows subject to 75% cap	59,784	15,511	58,704	11,568	57,878	9,482	58,354	8,388
Total adjusted value	–	–	–	–	–	–	–	–
Liquidity buffer	–	52,471	–	47,120	–	47,503	–	47,826
Total net cash outflows	–	34,793	–	32,964	–	34,017	–	33,873
Liquidity coverage ratio %¹		150		144		140		141

¹ Ratio derived based on the average of the previous twelve month-end balances for each reporting date and does not represent the point-in-time ratio at the end of the period.

Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding in relation to required stable funding. It is designed to give a picture of the bank's long-term funding profile (that is, funding with a term of over one year) and is therefore used as a complement to the LCR.

HSBC Continental Europe's NSFR was 140 per cent as at 31 December 2022. The below table shows the average NSFR over the last four quarters.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 34: Net Stable Funding Ratio ('LIQ2')

	Unweighted value by residual maturity				Weighted value €m
	No maturity €m	< 6 months €m	6 months to < 1yr €m	≥ 1yr €m	
At 31 Dec 2022					
Available stable funding ('ASF') Items					
Capital items and instruments					
Own funds	–	–	–	11,227	11,227
Retail deposits	–	27,294	–	–	25,060
Stable deposits	–	16,405	–	–	15,585
Less stable deposits	–	10,890	–	–	9,475
Wholesale funding	–	67,311	4,141	4,286	33,552
Operational deposits	–	26,923	–	–	10,438
Other wholesale funding	–	40,388	4,141	4,286	23,114
Interdependent liabilities	–	–	–	–	–
Other liabilities	–	–	–	–	–
All other liabilities and capital instruments not included in the above categories	–	32,515	1,556	17,167	17,945
Total available stable funding ('ASF')	–	–	–	–	87,784
Required stable funding ('RSF') Items					
Total high-quality liquid assets ('HQLA')	–	–	–	–	3,148
Assets encumbered for more than 12m in cover pool	–	–	–	22,423	21,755
Performing loans and securities:	–	–	–	–	–
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	–	47,564	–	–	–
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions	–	36,162	1,142	5,221	7,282
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs	–	10,050	3,473	23,287	25,804
– of which: with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	95	37	14,704	13,466
Performing residential mortgages	–	921	810	19,244	–
– of which: with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	–	–	–	–	–
Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products	–	3,949	–	178	281
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	–	1	–	–	1
NSFR derivative assets	–	1	–	–	1
NSFR derivative liabilities before deduction of variation margin posted	–	17	–	–	1
All other assets not included in the above categories	–	6	–	4	4
Off-balance sheet items	–	14	–	57	3
Total RSF	–	–	–	–	64,858
Net Stable Funding Ratio (%)					135

Internal Liquidity Metric (ILM)

HSBC Continental Europe has developed an internal metric to assess the liquidity position of the bank over a time frame between LCR and NSFR. The ILM is a 3-month scenario, mitigated by management actions, that models the combined impacts of a simultaneous market and idiosyncratic stress based on internally calibrated assumptions for outflows, inflows, and liquid asset buffer ('LAB') monetisation.

Liquid assets

Liquid assets comprise unencumbered liquid securities and available cash held by Markets Treasury and Global Markets. They are managed on a consolidated basis. The LFRF assigns ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

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.

Overall adequacy of liquidity risk management

HSBC Continental Europe is required to manage liquidity risk and funding risks in accordance with the LFRF, which includes the preparation of an 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 ILAA 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 Continental Europe'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 Continental Europe:

- maintains liquidity resources which are adequate in both amount and quality at all times,
- 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 HQLAs and maintains a prudent funding profile.

Liquidity stress testing

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is appropriate, 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. Stress-testing enables the management to make sure of the availability of the liquidity in a time of stress to continue to meet the liquidity requirements

HSBC Continental Europe also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead HSBC Continental Europe 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 ILAA to the Board and on a quarterly basis to the relevant ALCO.

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 Liquidity Monitoring Classification ('LMC') categorisation;
- minimum LCR requirement;
- minimum NSFR requirement;
- 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 146 of HSBC Continental Europe's Universal Registration Document 2022.

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') is the risk of an adverse impact to earnings or capital due to changes in market interest rates that affect the bank's banking book positions. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held with trading intent or held in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Markets Treasury business to manage, within Market Risk limits and in accordance with internal transfer pricing rules. All interest rate risk must be identified, measured, monitored, managed and controlled within metrics and limits. Key metrics to monitor IRRBB are projected Net Interest Income ('NII') and Economic Value of Equity ('EVE') sensitivities (' Δ ') under varying interest rate scenarios as prescribed by the regulators.

Within the Treasury function, ALCM monitors and controls interest rate risk in banking book. This includes reviewing and challenging the global businesses prior to the release of new products and proposed behavioural assumptions used for hedging activities. ALCM are also responsible for maintaining and updating the transfer pricing framework, informing the ALCO of the banking book interest rate risk exposure and managing the balance sheet

in conjunction with Markets Treasury. EVE and NII sensitivities are monitored against limits and triggers. Group IRRBB as part of Group Treasury, Markets Treasury and ALCO perform oversight over the management of IRRBB. IRRBB is also subject to independent oversight and challenge from Treasury Risk, Internal Audit and Model governance.

The principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios (i.e. simulation modelling), where all other economic variables are held constant. Sensitivity of net interest income reflects the bank's sensitivity of earnings due to changes in market interest rates. This is assessed over 1 year and 5 years and is calculated on a quarterly basis. Forecasts include business line rate pass-on assumptions, re-investment of maturing assets and liabilities at market rates per shock scenario, and prepayment risk. NII is modelled on the assumption that the risk profile at the month end remains constant throughout the forecast horizon.

An Δ EVE sensitivity represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. EVE represents the present value of the future banking book cash flows that could be distributed to equity providers in a managed run-off scenario. This equates to the current book value of equity plus the present value of future NII in this scenario. EVE provides a comprehensive view of the potential long-term effects of changes in interest rates. HSBC Continental Europe monitors EVE sensitivities as a percentage of capital resources and this is calculated quarterly.

Hold-to-collect-and-sell stressed value at risk ('HTC&S SVaR') is a quantification of the potential losses (to a 99 per cent confidence level) from the portfolio of securities held under a held-to-collect-and-sell business model in the Markets Treasury business. The portfolio is accounted for at fair value through other comprehensive income, together with the derivatives held in designated hedging relationships with these securities. This is quantified based on the worst losses over a one-year period going back to the beginning of 2007, with an assumed holding period of 60 days. HTC&S SVaR applies the same models as those used for trading book capitalisation to the portfolio managed by Markets Treasury under this business model. Sensitivities are measured and monitored daily against risk limits which include breakdowns by currency, tenor basis, curve and asset class whilst HTC&S SVaR is measured weekly.

The results of annual regulatory stress testing and our internal stress tests are used when assessing our internal capital requirements through the ICAAP for credit, market, operational, pension, non foreign book foreign exchange risk and interest rate risk in the banking book.

The Δ NII are indicative and based on scenarios and assumptions prescribed by the EBA Guidelines on the management of interest rate risk arising from non-trading book activities (EBA/GL/2018/02). This hypothetical base case projection of our NII (excluding insurance) under the following scenarios:

- an immediate shock of +/-25 basis points ('bps') to the current market-implied path of interest rates across all currencies (effects over one year and five years)
- an immediate shock of +/-100bps to the current market-implied path of interest rates across all currencies (effects over one year and five years). Where applicable, this scenario includes the effect of flooring the interest rates curve.

The Δ EVE are based on EBA Standard Outlier Test ('SOT') +/-200bps and the 6 BCBS Outlier Test shocks: Parallel Up, Parallel Down, Steeper, Flattener, Short rates shock up and Short rates shock down.

Interest rate risk that can be economically hedged is transferred to Markets Treasury. Hedging is generally managed through vanilla interest rate derivatives or fixed rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is transferred to dedicated ALCO books when possible or remain within the business. At HSBC Continental Europe, most of the interest rate derivatives are accounted under the macro cash flow hedging accounting framework.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Key modelling and parametric assumptions used in calculating Δ EVE and Δ NII include:

- for Δ EVE, commercial margins and other spread components have been excluded from the interest cash flow calculations and all balance sheet items are discounted at the risk free rate; all CET1 instruments are excluded; where applicable, flooring starting at -1.0 per cent for overnight tenor and increasing by 5bps per year to 0.0 per cent for the 20 year tenor, and; a requirement to net 100 per cent of the negative values with 50 per cent of the positive values by currency.
- for Δ NII a constant balance sheet is assumed; commercial margins are included; all forecast market rates are based on implied forward rates from the spot curves at each quarter-end; all interest rate shocks are parallel shocks; pass-on assumptions are applied for managed rate products; customer pricing includes flooring where there are contractual obligations, and; customer optionality including prepayment and early redemption risk is assumed.
- The repricing maturity of non maturity deposits is assessed using both:
 - a historical analysis at product level to confirm the stable part of deposits in respect of past interest rate environment;
 - business expectations of customer behaviour with respect to stressed scenarios.
 - as at end December 2022, repricing maturities for non-maturity deposits from retail and non-financial wholesale counterparties were:

in months	average repricing maturity	longest repricing maturity
Core part	17	60
Full amount	12	60

- Prior to the reclassification as Held for sale, the applied constant prepayment rates for home loans in France were challenged on a monthly basis with respect to:
 - the competition 'Best in class' rates;
 - expected interest rate environment;
 - experts' judgement.
- Behavioural assumptions are reviewed and challenged at least on an annual basis in line with the bank's policy and procedures.

An EVE value represents the present value of future banking book cashflows that could be distributed to equity providers under a managed run off scenario. EVE is a regulatory metric and limit of sensitivity are prescribed against Total Capital and Standard outlier test.

Interest rate risk in the banking book will give rise to volatility in expected NII due to movements in interest rates. One way to measure interest rate risk in the banking book is to assess this volatility using NII sensitivity analysis. There are no regulatory prescribed limits on NII sensitivity.

Table 35: Interest rate risks of non-trading book activities ('IRRBB1')

	Δ EVE		Δ NII	
	31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021
	€m	€m	€m	€m
Parallel shock up	(357)	(507)	184	187
Parallel shock down	197	13	(193)	(30)
Steepener shock	(6)	(74)		
Flattener shock	(60)	(77)		
Short rates shock up	(166)	(56)		
Short rates shock down	81	27		

In response to the requirement for an Intermediate Parent Undertaking ('IPU') in line with EU Capital Requirements Directive for European Union banking entities ('CRD V'), HBCE completed the change of control transactions for HTDE and HBMT on 30 November 2022 as they became subsidiaries of HBCE from this date. The IRRBB metrics include the impact of these two entities for 31 December 2022.

HBCE is exposed to a change of Eurozone interest rates curve on banking operations and structural elements of the balance sheet. Out of the set of Interest Rates scenarios that are run, the two most adverse ones are a decrease of 100 basis points with respect to Net Interest Income and an increase of 200 basis points with respect to Economic Value of Equity.

On a consolidated basis, HBCE would see its Net Interest Income on a 1Y horizon decrease by EUR 193 million for an immediate decrease of EUR Rates of 100 basis points. The bank would see a fall of EUR 357 million in the Economic value of Equity at 31 December 2022 in an up 200 basis point scenario.

Further details on our IRRBB may be found on page 149 of HSBC Continental Europe's Universal Registration Document 2022.

Risk management of insurance operations

HBCE operates an integrated bancassurance model which provides insurance products for customers with whom it has a banking relationship. Insurance products are sold by Wealth Management and Private Banking ('WPB') and Commercial Banking ('CMB') through our branches and direct channels.

The insurance contracts that HBCE sells relate to the underlying needs of its banking customers, which it can identify from point-of-sale contact and customer knowledge. The majority of sales are of savings and investment products and term and credit life contracts.

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

Where HSBC Continental Europe does not have the risk appetite or operational scale to be an effective insurance manufacturer, it engages 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 exclusive strategic partners and earn HSBC Continental Europe a combination of commissions and fees.

HSBC Continental Europe measures the risk profile of its 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 1 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 170 of HSBC Continental Europe's Universal Registration Document 2022.

Remuneration

As HSBC Continental Europe is part of an international banking group, its compensation policy is defined at the level of the parent company. As part of a delegation by the HSBC Group's Board of Directors, the HSBC Group's Remuneration Committee is responsible for approving the remuneration policy for the HSBC Group as a whole.

The remuneration policy in place in HSBC Continental Europe falls within the framework of this global policy, while also ensuring that it complies with local regulations, in particular Capital Requirement Directive V (CRDV) for the bank, Alternative Investment Fund Management (AIFM), and Undertakings for Collective Investments in Transferable Securities (UCITS) for our Asset Management company, Investment Firm Directive (IFD) and Investment Firm Regulation (IFR) for our Investment company and Solvency II for our Insurance company

In accordance with the article L 511-74 of the Code Monétaire et Financier, the remuneration policy is submitted to an independent audit, once a year, performed by the Internal Audit department. The compensation policy is also approved by the local Risk and Regulatory Compliance departments.

Governance

In accordance with local regulation, HSBC Continental Europe has set up a dedicated governance structure which on several bodies.

The Board of Directors of HSBC Continental Europe, in its supervisory function, approves, adopts and reviews at least once a year the general principles of the remuneration policy and controls its implementation and approves the remuneration of the members of the executive function.

The Remuneration Committee, composed of 2 independent non-executive Directors (Arnaud Poupard-Lafarge as chair and Paule Cellard as member) and a staff representative Director (Ludovic Benard), prepares the decisions concerning the remuneration and remuneration principles to be adopted by the Board of Directors, gives his view on the bank's policies and practices concerning compensation, ensuring that risk and compliance dimensions are fully taken into account.

Its scope of review covers all aspects of remuneration policies and practices in place within the company, although with a more in-depth review concerning professionals whose activities have a significant impact on the risk profile of the business and Executive Directors.

In this context, it reviews the remuneration policy by ensuring its consistency with general principles of the Group's remuneration policy, with the specific directives set by the global business lines, its compliance with local standards in force and with recommendations of banking supervisory bodies in France such as the Autorité de Contrôle Prudentiel et de Résolution, the European Central Bank, the Autorité des Marchés Financiers and the Fédération Bancaire Française.

- It evaluates the mechanisms and systems adopted to ensure that the remuneration system takes due account of all types of risk and liquidity and equity levels and that the overall remuneration policy is consistent and promotes sound and effective risk management and is consistent with HSBC Continental Europe's economic strategy, objectives, culture and values, risk culture and long-term interests.
- It reviews variable pay pools allocated by the global business lines to local teams with regards to global performance of the business lines and relative performance of local teams.
- It ensures that the remuneration policy is appropriate to attract, retain and motivate directors and senior management of the quality required to run HSBC Continental Europe successfully.
- It reviews the identification process of identified staff and approves the corresponding list.

- It reviews the 20 highest compensation package in collaboration with the HSBC Group's decision-making bodies and global business lines.
- It reviews the synthesis of individual breaches with respect to internal rules in terms of credit, compliance, reputation and social risks,

Finally it reviews the remuneration of any Executive Directors, the Chief Risk Officer and the Chief Compliance Officer, and submits its recommendations to the Board

- The Remuneration Committee collaborates with other Board committees whose activities may have an impact on the design and proper functioning of remuneration policies and practices (in particular, risk committee).
- In carrying out these duties and responsibilities, the remuneration committee may consult any adviser or expert as it deems appropriate.

The Remuneration Committee met on 28 January 2022, with attendance rate of 100 per cent. Its main work concerned the review of:

- HSBC's general remuneration policy in HSBC Continental Europe in respect of 2021 performance year, focusing mainly on context in which the remuneration policy applies, on regulations updates with regards to compensation, in particular the new Capital Risk Directive CRD V, on risk takers identification process and on incentivizing risk and compliance culture.
- the 20 highest remunerations in respect of the 2021 year;
- compensation proposals for the Chief Risk Officer and the Chief Compliance Officer;
- proposals to allow the Board to approve, the terms of the remuneration for Andrew Wild and Chris Davies in respect of 2021,
- the section of the corporate governance report on remuneration.

The Chairman of the Remuneration Committee reported to the Board on its work at the Board meeting on 9 February 2022.

No expert or external consultant advice was sought by the Remuneration Committee.

In respect of 2022 performance year, the Remuneration Committee met on 26 January 2023 and reviewed, in particular, the implementation in 2022 of the new regulation Capital Risk Requirement V ('CRD V').

Main characteristics of the remuneration policy

The remuneration policy strives to achieve the following strategic goals:

- To comply with the company's strategy and objectives, the long-term sustainable interests and results of the company as a whole, and its risk profile. This approach aims not to encourage risk-taking that is not aligned with the risk acceptance level approved by the Group or that could negatively impact the company or the Group's capital,
- To implement a remuneration policy that takes into account sustainability risks, particularly in the environmental field, in terms of governance and diversity and inclusion;
- To ensure that there are no conflicts of interest when implementing and executing the variable pay policy,
- To establish remuneration budgets (for fixed and variable pay) that ensure a prudent balance between sound and effective management of financial results and risks and an appropriate level of capital,
- To set bonus pools linked to the sustainable financial performance of the Group and each of the business lines/ functions at global, regional and local level, business competitiveness and the prudent management of risks for the Group and its various business lines,

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

- To offer competitive remuneration packages and neutral from a gender perspective,
- To ensure that the Remuneration Policy is based on the principle of equal pay for men and women for the same work or work of equal value;
- To adopt a total remuneration approach by clearly distinguishing between the fixed remuneration elements (basic salary, fixed bonuses, etc.), the variable remuneration elements (discretionary and/or collective individual variable remuneration) and any allowances paid in the event of departure from the company which must correspond to actual performance assessed over time and must not under any circumstances reward the failure;
- To establish a balanced and sufficient level of fixed remuneration that does not cause employees to be abnormally dependent on their variable pay,
- To apply a discretionary approach that allows for judgement in assessing individual performance and setting the level of variable pay individually with regard to the performance rating, rather than an automatic approach based on formulae that could encourage inappropriate behaviour in terms of risk-taking and/or unsuitable sales to our clients,
- To defer a significant portion of variable pay in the form of financial instruments (HSBC shares) in order to better align variable pay with the Group's performance, help retain our employees and meet our regulatory obligations,
- Not to implement methods or instruments to circumvent regulatory principles in terms of variable pay.

Principles applicable to fixed Pay

The base salary mainly rewards skills, expertise, technical know-how, the level of responsibility and seniority in the position. In this context, any potential increase may be justified by increased skills, expertise, by an internal promotion with new scope of responsibilities, by a growth in the size of the managed teams, by an increased influence on the organisation, by a lack of internal external competitiveness.

These increases, whether selective or collective, have to comply with the annual fixed pay budget, with any guidelines on their maximum level and must not be promised by anticipation.

Principles applicable to variable pay

The first step is to set the variable pay pool that will be allocated to the different business lines and functions with regards to their performance and their contribution to the Group and business lines' global performance.

The variable pay pool is set primarily at Group level, taking into account its sustainable financial performance and commercial competitiveness overall and in each of its business lines, its global performance in terms of risk management, and its affordability to fund this pool with its own results.

Variable pay pools on a global basis and by business lines are reviewed and approved by the Group Chief Risk Officer, the Group CEO, the Group Chief Financial Officer and the Group Remuneration Committee.

Once approved, these variable pay pools are allocated, for each business/segment/product/function by regions and countries depending on their respective performance and contribution. Local performances are measured through: financial metrics such as evolution of Profit Before Tax, growth in revenue, costs control, evolution in profitability through, in particular, return on risk weighted assets; and through non-financial metrics such as management of risks focused in particular on improvement of financial crime risk culture, implementation of regulator or Audit recommendations, operational risk management, appropriate application of 'Conduct' principles in order to act in the interest of customers, being compliant with financial markets integrity and avoiding any conflict of interests. Lastly the performance measure is based on more generic indicators such as customer experience improvement, implementation of reorganisation and

transformation projects, growth in women's representation in senior roles in the organisation, carbon path reduction or development of sustainable finance. These indicators are included in performance scorecards and are compared to objectives set at the start of the year.

These pools are then granted in a differentiating manner according to the individual performance of each employee which is assessed by the manager all year long through a four points rating scale aiming to encourage differentiation in performance and, as a result, variable pay:

- top performer;
- strong performer;
- good performer;
- inconsistent performer.

The performance appraisal is based on achieving targets set for the employee by the manager at the start of the year. These targets include, on a balanced manner, both qualitative criteria (observance of compliance and internal control rules, quality of sales or quality of service, risk management – especially in terms of operational risks and follow-up of audit points – customer recommendations, cross-businesses synergies, winning customers, etc.) and collective and/or individual financial criteria (income growth, cost control, growth of the profit before tax, etc.). They can also include, at the top of the organisation or in specific business lines, environmental criteria (such as carbon path reduction, sustainable finance development, support to Group's ambitions with regards to climate), and diversity and inclusion criteria (such as diversity of Executive Committee, number of women top managers or within highest internal grades etc).

The indicators, which underpin these objectives, are a function of the position held and the level of responsibility, and are appraised by comparison to the annual objectives embedded in balanced scorecards.

In parallel, subject to local regulation, an employee can receive a behaviour rating aligned on Group's values through a four rating scale (unacceptable, good, very good, role model)

Lastly, since the passing of the 'Loi Pacte', a 'Malus' system now applies to all employees receiving deferred bonuses. This allows the HSBC Group's Remuneration Committee to cancel, reduce or amend all or part of bonuses awarded on the basis of the employee's behaviour or factors justifying such action.

It should also be noted that all vested awards are subject to the Group 'Clawback' policy. This allows, in case of breaches, to get back *a posteriori* awarded or vested cash or shares.

Guaranteed bonuses are no longer awarded since 2020. They have been replaced by discretionary targeted bonuses still highly exceptional, limited to one year and only in a high profile hiring context.

Severance payments follow legal or collective bargaining agreements' rules.

Outside this Material Risk Takers population, the great majority of the company's senior managers are affected by the minimum deferred compensation rules laid down by the HSBC Group which, for 2022, provide for deferred compensation in the form of shares of between 10 per cent and 50 per cent of variable compensation, with three years vesting rules and no retention period.

Remuneration policy applicable to CRDV identified staff (risk takers)

The following information is published in accordance with article 266 of the order of 3 November 2014 on internal control of banking sector companies, based on articles L. 511-64, L. 511-71 and L. 511-72 of the French Monetary and Financial Code and article 450 of ('UE') regulation 575/2013.

In compliance with the rules under CRD V directive, some employee categories ('Identified Staff') are subject to specific rules regarding structure and award of variable pay. These employees,

considered to have an impact on the entity's risk profile ('Material Risk Takers'), are identified in the Regulatory Technical Standard ('RTS') rules set by the European Bank Authority. Pursuant to these criteria, 363 employees have been identified at Group and local level in 2022.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC Continental Europe shareholders' general meeting held on 23 May 2014. In order to maintain the competitiveness of Material Risk Takers remuneration, Group has modified the remuneration of several of them by allocating a monthly fixed pay allowance linked to their function. In addition their variable remuneration is deferred by 40 per cent and even by 60 per cent for the highest variable. Finally, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

It should be noted that if the variable remuneration amount is lower than 1/3 per cent of total remuneration and lower than EUR 50,000, the variable remuneration is granted in cash immediately paid.

For French employees, the deferred share-based portion is not vested by the employee until after either a period of two years for 50 per cent, three years for 25 per cent and after four years for the remaining 25 per cent or a period of two years for 40 per cent, three years for 20 per cent, four years for 20 per cent and five years for the remaining 20 per cent. This is furthermore subject to a one-year retention period (or 6 months for few 5 years deferral) starting from vesting. In addition, there is a prohibition on hedging.

For our employees working in our European branches or subsidiaries, deferred shares vest either over four years of 25 per cent each, or over five years of 20 per cent each.

The following tables show the remuneration awards made to Identified Staff in HSBC Continental Europe including its European subsidiaries and branches, for 2022.

Table 36: Remuneration awarded for the financial year ('REM1')

		2022					Total €m
		Management Body Supervisory function €m	Management Body Management function €m	Other Senior Management €m	Other identified staff €m		
Fixed remuneration	Number of identified staff	–	2.0	15.0	346.0	363.0	
	Total fixed remuneration	–	1.5	6.4	71.4	79.3	
	– of which:						
	<i>cash based</i> ¹	–	1.5	6.4	67.4	75.3	
	<i>shares</i>	–	–	–	–	–	
	<i>shares-linked instruments</i>	–	–	–	–	–	
	<i>other instruments</i>	–	–	–	–	–	
	<i>other forms</i>	–	0.5	–	3.5	4.0	
Variable Pay	Number of identified staff	–	2.0	15.0	336.0	353.0	
	Total variable pay ²	–	1.5	6.0	43.0	50.5	
	– of which:						
	<i>cash based</i>	–	0.8	3.0	22.6	26.4	
	<i>deferred</i>	–	0.4	1.4	8.7	10.5	
	– of which:						
	<i>shares</i> ³	–	0.8	2.8	19.5	23.1	
	<i>deferred</i>	–	0.4	1.4	9.4	11.2	
	<i>shares linked instruments</i>	–	–	–	–	–	
	– of which:						
	<i>deferred</i>	–	–	–	–	–	
	<i>other instruments</i>	–	–	–	–	–	
– of which:							
<i>deferred</i>	–	–	–	–	–		
<i>other forms</i> ⁴	–	–	0.2	0.9	1.1		
<i>deferred</i>	–	–	0.1	0.8	0.9		
Total remuneration	–	3.0	12.4	114.4	129.8		

1 Cash based fixed remuneration is paid immediately.

2 Variable pay awarded in respect of 2022. In accordance with shareholders' approval received on 23 May 2014 for each MRT the variable pay component of total remuneration for any one year is limited to 200 per cent of fixed component of the total remuneration of the MRT.

3 Share awards are made in HSBC shares. Vested shares are subject to a retention period up to one year.

4 Indexed cash awarded to AIFM UCITS Risk takers.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 37: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM2')

	2022					Total €m
	Management Body Supervisory function	Management Body Management function	Other Senior Management	Other identified staff		
	€m	€m	€m	€m	€m	
Guaranteed variable remuneration awards¹	–	–	–	–	–	–
Number of identified staff	–	–	–	–	–	–
Total amount	–	–	–	–	–	–
– of which: amount not taken into account in the bonus cap	–	–	–	–	–	–
Severance payments awarded in previous periods paid in 2022 (2)	–	–	–	–	–	–
Number of identified staff	–	–	1.0	8.0	9.0	9.0
Total amount	–	–	1.1	7.9	8.9	8.9
Severance payments awarded during 2022²	–	–	–	–	–	–
Number of identified staff	–	–	1.0	10.0	11.0	11.0
Total amount	–	–	0.4	7.4	7.8	7.8
– of which:						
paid during the financial year	–	–	0.4	1.9	2.3	2.3
deferred	–	–	–	5.5	5.5	5.5
amount not taken into account in the bonus cap	–	–	–	–	–	–
highest payment awarded to a single person	–	–	0.4	2.1	2.1	2.1

1 No guaranteed bonus awarded since 2020. They have been replaced by discretionary targeted bonuses awarded in exceptional circumstances for new hires and in the first year only. The circumstances where HSBC would offer a targeted 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 Severance payments are linked to both social plans implemented in 2021 and are based on rules embedded in a collective bargaining agreement.

Table 38: Deferred remuneration ('REM3')

	2022							
	Total amount of deferred remuneration awarded for previous performance periods	of which: due to vest in the financial year	of which: vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually Paid out in the financial year	Total amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
MB Supervisory function	–	–	–	–	–	–	–	–
Cash based	–	–	–	–	–	–	–	–
Shares	–	–	–	–	–	–	–	–
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	–	–	–	–	–	–	–	–
MB Management function	1.8	0.4	1.4	–	–	–	0.4	–
Cash based	0.9	0.2	0.7	–	–	–	0.2	–
Shares	0.9	0.2	0.7	–	–	–	0.2	–
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	–	–	–	–	–	–	–	–
Other senior management	8.1	2.2	6.0	–	–	–	2.2	0.3
Cash based	3.8	1.2	2.6	–	–	–	1.2	–
Shares	4.2	1.0	3.2	–	–	–	1.0	0.3
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	0.1	–	0.1	–	–	–	–	–
Other identified staff	62.2	23.0	39.2	–	–	2.3	8.9	15.0
Cash based	23.4	5.9	17.5	–	–	–	5.9	–
Shares	36.6	16.3	20.3	–	–	2.3	2.2	14.3
Shares linked instrument	–	–	–	–	–	–	–	–
Other instruments	–	–	–	–	–	–	–	–
Other forms	2.3	0.8	1.4	–	–	–	0.8	0.7
Total amount	72.1	25.5	46.5	–	–	2.3	11.5	15.3

Table 39: Remuneration of EUR 1 million or more per year ('REM4')

€	Number of identified staff	Identified staff that are high earners as set out in article 450 (j) CRR
€1.000.001 – €1.500.000	11	13,301,047
€1.500.001 – €2.000.000	6	10,956,668
€2.000.001 – €2.500.000		–

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

Table 40: Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM5')

€m	2022										
	Management Body remuneration			Business areas							Total
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other		
Total number of identified staff	–	2.0	2.0	145.0	50.0	28.0	47.0	78.0	13.0	363.0	
<i>– of which:</i>											
<i>members of the MB</i>	–	2.0	2.0	–	–	–	–	–	–	2.0	
<i>other senior management</i>	–	–	–	3.0	3.0	1.0	4.0	3.0	1.0	15.0	
<i>other identified staff</i>	–	–	–	142.0	47.0	27.0	43.0	75.0	12.0	346.0	
Total remuneration of identified staff	–	3.0	3.0	61.4	15.2	12.1	18.2	14.1	5.7	129.8	
<i>– of which:</i>											
<i>variable remuneration</i>	–	1.5	1.5	25.7	5.6	5.1	6.9	3.4	2.4	50.5	
<i>fixed remuneration</i>	–	1.5	1.5	35.6	9.6	7.1	11.3	10.8	3.3	79.3	

ESG Risks

Qualitative information on environmental risk

Strategy & Business processes

The HSBC Group's strategy centres around four pillars: i) focus on areas of strengths, ii) digitise at scale, iii) energise for growth, and iv) support the transition to a net zero global economy. As part of the net zero ambition, the HSBC Group is on a journey to integrate environmental, social and governance ('ESG') principles throughout its organisation, and important steps have been taken to embed sustainability into corporate strategy, financial planning and business model.

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Characterised by a deep and progressive ESG regulatory landscape, Europe as a region has a growing need to expand risk management and disclosure beyond climate to environmental risks (e.g. biodiversity) as well as other aspects of ESG beyond the environment (e.g. human rights).

One of the Group's strategic pillars is to support the transition to a net zero global economy. The Group's ambition is to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050. The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, above pre-industrial levels. The transition to net zero is one of the biggest challenges for this generation. Success will require governments, customers and finance providers to work together. The Group's global footprint means that many of its clients operate in high-emitting sectors and regions that face the greatest challenge in reducing emissions. This means that the Group's transition will be challenging, but is an opportunity to make an impact. The Group recognises that, to achieve its climate ambition it needs to be transparent on the opportunities, challenges, related risks and progress it makes. To deliver on this ambition, it requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources and skills, and to develop its business management process to integrate climate impacts. Until systems, processes, controls and governance are enhanced, certain aspects of the Group's reporting will rely on manual sourcing and categorisation of data. In 2023, the Group will continue to review its approach to disclosures. Reporting will need to evolve to keep pace with market developments. HSBC Continental Europe's approach to sustainability is aligned with that of HSBC Group.

HSBC Continental Europe shares this ambition to help individuals, governments and businesses achieve their aims of developing a sustainable future for all. In this context, HSBC Continental Europe supports the Group's ambition to transition to net zero and has developed a sustainability framework anchored on the HSBC Group's public commitments and aligned to local regulatory requirements.

Become a Net Zero bank in the bank's portfolio

In 2020, the HSBC Group set out ambitions to align its financed emissions to the Paris Agreement goal to achieve net zero by 2050 or sooner. To align with its net zero ambition, HSBC Continental Europe implements the science-based sustainability risk policies published by the HSBC Group, that define its appetite for business in specific sectors and encourage customers to meet international standards. Recently, the HSBC Group published two policies including the Coal Policy to phase out the financing of coal-fired power and thermal coal mining (by 2030 in the EU and in the Organisation for Economic Cooperation and Development ('OECD'), and by 2040 in all other markets); and the Energy Policy where HSBC states, the HSBC Group will no longer provide new finance or advisory services for the specific purpose of projects pertaining to new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields.

In addition to following HSBC Group's policies, HSBC Continental Europe seeks to analyse and track its financed emissions. Financed emissions link the financing provided to customers and

their activities in the real economy and provide an indication of the greenhouse gas emissions associated with those activities. They form part of the bank's scope 3 emissions, which include emissions associated with the use of a company's products and services. In 2021, HSBC Continental Europe started measuring its financed emissions for two emissions-intensive sectors: oil and gas, and power and utilities. In 2022, it has also started to measure the financed emissions for four additional sectors: cement; iron, steel and aluminium; automotive; and aviation. HSBC Continental Europe is assessing its exposure to thermal coal as part of HSBC's commitment to phase-out thermal coal financing in the EU and the OECD by 2030.

Financed emissions for the shipping sector were analysed to establish a baseline. During the analysis data gaps were noted in reported emissions and modelled data from external vendors at the company level. The HSBC Group has chosen to defer setting a baseline and target for this sector until there is sufficient reliable data to support the work, allowing the Group to accurately set a baseline and track progress towards net zero. In line with Group, HSBC Continental Europe will continue to engage with strategic clients within the sector to encourage disclosure.

HSBC analysis of financed emissions is based upon the availability of quality data and industry standards which inform its approach. The HSBC Group continues to engage with industry initiatives to help formulate a methodology for assessing and measuring financed emissions such as the Science Based Targets Initiative ('SBTI') and the Net-Zero Banking Alliance ('NZBA'), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies and targets for the banking sector.

Support customers on their transition to Net Zero

The HSBC Group aims to provide and facilitate between USD 750 billion and USD 1 trillion of sustainable finance and investment by 2030 to support customers in their transition to net zero and a sustainable future. Since 2020, HSBC Continental Europe has supported customers' transition to net zero and helped build a sustainable future by providing and facilitating USD 74.1 billion of sustainable finance, USD 1.8 billion of sustainable investment and USD 0.1 billion of sustainable infrastructure (as defined in HSBC Group's Sustainable Finance Data Dictionary 2022), accounting for 36 per cent of total HSBC Group volumes. This financing and investment contributes¹ towards the HSBC Group's ambition to provide and facilitate USD 750 billion to USD 1 trillion of sustainable financing and investment by 2030. The USD 74.1 billion of sustainable finance includes lending facilities and capital markets facilitated transactions.

1 These numbers include contributions from HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. since 2020.

To understand the impact of climate change on customers, HSBC Continental Europe is working with customers to capture holistic information on their exposure to the transition to net zero emissions, and the risks and opportunities in 5 key areas (emissions, reduction targets, plans, transition risks, physical risks). Together with external data sources, responses will feed into a new Climate Score element of the overall ESG score. The score will be used to support commercial decision-making, and will provide a quantitative value that will help embed climate risk into credit assessments.

To support this, HSBC Continental Europe has a training plan in place to build the culture and capabilities needed and to successfully embed climate considerations into daily decision making. The Sustainability Academy, which gathers all learning resources to develop the right skill set, was launched in 2022 and is available to all employees.

Become a Net Zero bank in its operations and supply chain by 2030 or sooner

In line with HSBC Group's ambition to reduce its energy consumption by 50% by 2030 and to achieve 100% renewable power across its operations by 2030, HSBC Continental Europe is focusing its action on four objectives: reduce operational greenhouse gas ('GHG') emissions, including those related to business travel, improve energy efficiency, reduce production of

non-recycled waste and reduce paper consumption. In 2022, greenhouse gas emissions per Full Time Employee were 0.43 tonnes equivalent CO₂, a 10 per cent decrease versus 2021.

In line with the HSBC Bank plc framework to deliver the HSBC Group's commitments, HSBC Continental Europe has structured a program of work to fulfil regulatory requirements with a particular focus on the European Central Bank ('ECB'). Work is underway with the global lines of business and functions to build tools, competencies, and targets to identify and assess the impact of the Climate-related and Environmental risks on the bank's activity and meet ECB expectations.

Governance

Responsibilities of the management body

The Board of HSBC Continental Europe has overall accountability for determining the strategy, including the environmental and climate transition strategy and oversight of the risk management framework including climate-related and environmental risks. Board members receive ESG-related training as part of their ongoing development. In 2022, two training sessions were provided on climate related topics. The Board oversees the development of the approach, execution and associated reporting by the executive management. The HSBC Continental Europe Risk Committee, a subcommittee of the HSBC Continental Europe Board, is responsible for overseeing and advising the Board on risk-related matters, including climate-related and environmental risks.

The Risk Committee has regularly reviewed, discussed and challenged climate-related and environmental risks throughout 2022 with dedicated presentations or exchange on ESG and climate risks. The Chairman of the Risk Committee has reported, on a regular basis the key points discussed during Risk Committee meetings and on recommendations formulated by the Risk Committee to the Board.

From an executive perspective, the HSBC Continental Europe CEO and Deputy CEO, the Executive Committee, recommend climate and environmental transition strategy and climate risk appetite to the Board for approval.

Integration of environmental factors, organisational structure both within business lines and internal control functions

The HSBC Continental Europe approach to climate and environmental risk management is aligned to the group-wide risk management framework and three lines of defence model, which sets out how HSBC Continental Europe identifies, assesses and manages its risks.

This approach ensures the Board and senior management have visibility and oversight of the key environmental and climate risks.

The Risk Appetite Statement has been enhanced in 2022 with the addition of new ESG risk indicators and will continue to be reinforced with the implementation of new additional indicators.

The initial measures are focused on the oversight and management of the key climate-related risks for the bank relative to transition risks (wholesale credit risk and retail credit risk) and physical risks.

Integration of measures to manage environmental risk

Significant improvements have been made throughout 2022 to further embed climate-related and environmental risks within governance. The governance framework has been strengthened to ensure that all upcoming sustainable finance regulations and obligations are understood and implemented whilst supporting the implementation of the net zero and business strategy. The ESG and Climate Governance Framework builds on existing governance structures with the addition of dedicated committees at executive level and working groups.

The HSBC Continental Europe governance replicates that in place at the Group's and HSBC Bank plc's level as appropriate, noting the Group's ambition to include ESG into the existing business framework where possible:

- The Head of Climate Change Europe was appointed to cover commercial and external engagements, reporting to the HBEU CEO and Group Chief Sustainability Officer ('CSO').
- The Head of Sustainability Europe leads internal execution and transformation, reporting to the HBEU Chief of Staff ('CoS') and the Group Sustainability CoS.
- The Head of Corporate Sustainability for HSBC Continental Europe leads the deployment and effective implementation of the sustainability strategy, reporting to the Head of Sustainability Europe and to the HSBC Continental Europe Chief Executive Officer. is the role is member of the HSBC Continental Europe Executive Committee.
- An ESG and climate risk manager for HSBC Continental Europe was appointed with responsibility for climate-related and environmental risks, reporting to the HSBC Continental Europe Head of Enterprise Risk Management.

Role of committees and lines of reporting

The HSBC Continental Europe Board has been informed at each quarterly meeting through the CEO report, the Risk Committee Chair's report and the CRO report on the climate-related and environmental risks in the overall business strategy and risk management framework.

At the management level, the ESG governance has been enhanced with the setup of two new Committees: the ESG Steering Committee and the Climate and ESG Risk Oversight Forum. This governance has been designed to ensure the HSBC Continental Europe Executive Committee and Board are fully aware of ESG topics and to strengthen the governance and management information ('MI') on climate-related risks.

ESG Steering Committee ('Steerco')

The ESG Steering Committee was established, chaired by the HSBC Continental Europe CEO, to set the strategic direction at entity level in respect of ESG and to oversee the remediation and implementation of the regulatory expectations. To ensure consistency, the ESG Steering Committee forms part of the considerations of the considerations of the HSBC Continental Europe Executive Committee and HSBC Bank plc (HBEU) sustainability governance.

Climate and ESG Risk Oversight Forum ('CESGROF')

The CESGROF has also been established, chaired by the Head of Enterprise Risk Management, to shape and oversee HSBC Continental Europe's approach to managing climate-related and environmental risks. The forum ensures a regular review of climate-related and environment risks across HSBC Continental Europe through the three lines of defence enabling an assessment of the risks involved in the HSBC Continental Europe perimeter and how they are controlled and monitored, giving clear, explicit and dedicated focus to current and forward-looking aspects of risks. This committee has an escalation path to the HSBC Continental Europe Risk Management Meeting and HSBC Bank plc sustainability governance, in addition to providing risk oversight to the ESG Steerco.

The roles and responsibilities of the governance structure for climate-related and environmental risks are defined in the terms of reference of each governance forum.

On the non-executive side, the Risk Committee's Terms of Reference were updated in 2022 to specifically mention the climate and environmental risks among risks related matters that are overseen by this committee. ESG governance approach will continue to develop in line with the evolving approach to ESG matters and stakeholders' expectations.

Alignment of remuneration policy

A number of climate-related metrics are used in HSBC Continental Europe within annual incentive scorecards, including those of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, and other senior managers in business and global functions. The completion of these weighted climate-related goals forms part of the annual performance assessment and the

associated performance rating basis of the variable remuneration. The goals are linked to the climate ambition of the bank of achieving net zero in its operations and supply chain by 2030, developing sustainable finance and supporting clients in their transition to net zero and a sustainable future.

This approach is currently expanded more widely across the organization in all businesses and functions with specific climate/environmental/social objectives assigned to all or part of the employees.

Risk management

Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework including definitions, methodologies, and international standards

The initial approach to managing climate risk was focused on understanding physical and transition impacts across five priority risk types: wholesale credit risk, retail credit risk, reputational risk, resilience risk and regulatory compliance risk.

Climate risk is managed across all HSBC businesses and climate considerations have been integrated into the Bank risk taxonomy in line with HSBC Group-wide risk management framework (via the policies and controls for the existing risks, where appropriate) and the three lines of defence model.

Greenwashing is considered to be an important emerging risk that is likely to increase over time, as HSBC looks to develop capabilities and products to achieve its net zero commitments, and work with its clients to help them transition to a low-carbon economy.

Stress testing and scenario analysis support the HSBC Continental Europe strategy by assessing its position under a range of climate scenarios. It helps to build Bank's awareness of the potential impact of climate change, plan for the future and meet growing regulatory requirements.

In 2022, HSBC Group (including HSBC Continental Europe) delivered its first internal climate scenario analysis exercise where four bespoke scenarios have been used. It was designed to articulate HSBC's view of the range of potential outcomes for global climate change.

These scenarios, which reflect different levels of physical and transition risk and are varied by severity and probability, were:

- the Net Zero scenario, which aligns with HSBC net zero strategy and is consistent with the Paris Agreement;
- the Current Commitments scenario, which assumes that climate action is limited to the current governmental commitments and pledges;
- the Downside Transition Risk scenario, which assumes that climate action is delayed until 2030; and
- the Downside Physical Risk scenario, which assumes climate action is limited to current governmental policies.

Climate scenario analysis allows HSBC Continental Europe to model how different potential climate pathways may affect its customers and portfolios, particularly in respect of credit losses.

In 2022, climate considerations are incorporated into HSBC mortgage origination processes for the retail business and new money request processes for the wholesale business. Climate risk scoring tool also continued to be enhanced, which will enable the Bank to assess its customers' exposures to climate risk.

HSBC Continental Europe climate risk appetite supports the oversight and management of the financial and non-financial risks from climate change and supports the business to deliver its climate ambition in a safe and sustainable way.

This approach gives the Board and senior management visibility and oversight of the climate risks impacting HSBC Continental Europe and helps in the identification of opportunities to deliver sustainable growth in support of the bank's climate ambition.

Description of the link between environmental risks and traditional banking risks

In September 2022, HSBC Continental Europe ran a qualitative entity level assessment of how climate and environmental risks may impact risk types within the HSBC taxonomy over a 12-month horizon. The most material risks identified are driven by regulatory and/or reputational impacts in the following risk area: Strategic Risk/Reputational Risk; Regulatory compliance/Breach of Regulatory Duty to Clients and Other Counterparties; Resilience risk/Third Party Risk and Financial Reporting Risk.

A specific quantitative assessment of the climate risk impacts on credit risk, liquidity risk and operational risk was also delivered. These results were used to begin to perform an assessment of the materiality of climate and environmental risks, across the entire risk map. This assessment will help to provide a holistic view of the most significant climate and environmental risks within HSBC Continental Europe.

In addition, in 2022, HSBC Continental Europe conducted its annual update of the analysis on the most material ESG-related risks impacting HSBC Continental Europe including an assessment of the environmental consequences of a number of activities including prevention/mitigation of pollution, circular economy, climate change and biodiversity.

The next steps are for HSBC Continental Europe to enhance the definition of environmental-related risks within this framework and consider further within day-to-day risk management practices.

In 2021, the Group joined several industry working groups dedicated to help in the assessment and management of nature-related risks, such as the Taskforce on Nature-related Financial Disclosure for which, HSBC Continental Europe is particularly involved with its participation to a pilot test.

In 2022, HSBC Continental Europe with the support of the HSBC Group has made progress in understanding how to assess and monitor nature-related risks, as well as creating effective transition plans with the aim of stopping HSBC's contribution to nature loss from its business activities.

- Analysis started in 4Q 2022, to assess corporate client's reliance on ecosystem services, including the nature-related benefits crucial for the provision of food and drinking water, which demonstrated customers highly dependency on water availability.
- Participation as pilot in draft version of the Taskforce on Nature-related Financial Disclosures framework for risk and opportunity management and disclosure, which helped HSBC Continental Europe to understand its implications and provide feedback ahead of its release in September 2023.
- The group continues to develop its sustainability policies, which were initially restricted to the forestry sector in 2004, to incorporate updated nature-related policies. A new deforestation policy is intended to be published, informed by scientific and international guidance, in 2023.

All these activities will ensure nature related issues are embedded into the HSBC transition plan and the definition of the risk management framework.

Activities, commitments and exposures contributing to mitigate environmental risks

The HSBC Group is accelerating in the deployment of new solutions to the climate crisis and supporting the transition of industries and markets to a net zero future, moving to net zero at its own level as HSBC helps its customers do so too.

Achieving net zero goes hand in hand with halting and reversing nature loss. Nature loss, which refers to the decline of natural capital, ecosystem services and biodiversity, is one of the greatest systemic risks to the global economy and the health of people and the planet.

In taking steps to halt nature loss, the HSBC Group will continue to make progress with the investment and financing of biodiversity

and nature-based solutions through client products and services and partnerships.

The HSBC Group published in October 2022 a Statement on Nature². This reconfirms the intent to integrate Nature-related actions into the HSBC transition plan and to publish a new deforestation policy informed by scientific and international guidance in 2023.

² <https://www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/221019-hsbc-statement-on-nature.pdf?download=1>

Implementation of tools and processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels

The HSBC Group recognises that businesses can have an impact on the environment and has developed, implemented and refined its approach to working with its business customers to understand and manage these issues.

The sectors identified as priorities, and for which an internal policy has been developed, are forestry and its derivative products, agricultural commodities, mining and metals, chemicals, energy, defence, UNESCO world heritage sites and Ramsar wetlands.

These policies define the appetite of the bank for business in these sectors and seek to encourage customers to meet good international standards of practice. Where HSBC identifies activities that could cause material negative impacts, it will only provide finance if it can confirm clients are managing these risks responsibly. Such customers are subject to greater due diligence and generally require additional approval by sustainability risk specialists. The bank's sustainability policies continue to be aligned with its approach to climate risk, and its net zero ambition.

In 2003, the bank became a signatory to the Equator Principles, which form a voluntary framework to be used by financial institutions in assessing and managing the social and environmental impact of infrastructure projects.

Climate risk is managed in HSBC Continental Europe banking portfolios through its risk appetite and policies for financial and non-financial risks. For wholesale customers, a corporate questionnaire is used as part of HSBC transition risk framework to understand the customer's climate strategies and risk. HSBC Continental Europe's climate change stress testing and scenario analysis are also used to provide insights on the long-term effects of transition and physical risks across retail and wholesale banking portfolios. In December 2022, the Group announced its revised energy policy which will be used to engage with customers in this sector to help them transition to cleaner, safer and cheaper energy alternatives.

The HSBC Group sustainability risk policies restrict financing activities which have a negative impact on nature. Whilst a number of Group sectoral policies have such restrictions, HSBC Forestry and Agricultural Commodities policies focus specifically on a key impact: deforestation. As already mentioned, the Group plans to strengthen its current policy protections in this area, and will release a revised Deforestation Policy, informed by scientific and international guidance, in 2023.

Relationship managers are the primary point of contact for HSBC Continental Europe customers and are responsible for checking annually whether customers meet applicable policies. A network of Sustainability Risk Managers (based in the Risk function both at HSBC Continental Europe and in the HSBC Group) provides local expertise, support, and guidance to the Businesses and to Risk (credit approvers). The sustainability risk analysis must be undertaken annually or more frequently if risk increases, with trigger events leading to re-assessment of sustainability risk.

Risk function takes into account the Sustainability Risk Rating when approving the overall risk on relation or transaction.

A wide-ranging stress testing programme is also deployed and is a key part of the HSBC Continental Europe risk management and capital and liquidity planning. Stress testing provides management

with key insights into the impact of severely adverse events on HSBC.

HSBC Continental Europe's stress testing programme assesses its capital and liquidity strength through a rigorous examination of its resilience to external shocks. As well as undertaking regulatory-driven stress tests, internal stress tests are conducted in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible business-as-usual mitigating actions.

Climate scenario analysis is used to enrich HSBC Continental Europe's understanding of the risks and opportunities, drivers, dependencies, and challenges HSBC Continental Europe faces in future climate pathways.

Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile

HSBC Continental Europe's liquidity risk profile has been analysed in 2022. During the first quarter, a qualitative assessment of the impacts that climate change risk could have on the Liquid Asset Buffer ('LAB') and net outflows, has been performed. Overall, the initial assessment is that the risk of climate change to liquidity and funding is low, meaning only minor expected impact with low likelihood.

In 4Q 2022, a quantitative assessment of how climate-related liquidity risks can arise and impact HSBC Continental Europe has been developed. The analysis showed that impacts are limited over a liquidity timeframe considering the market footprint of the bank combined with the relative limited exposure to risky sectors. This is a first step in the calibration of climate in HSBC Continental Europe risk testing framework and additional enhancement will be provided in 2023.

Data availability, quality and accuracy, and efforts to improve these aspects

HSBC Continental Europe has a holistic approach to data governance which includes all of risk as well as, other business lines and functions. This is set out within the Group Data Management Policy and Controls which covers Environmental Risk data. The HSBC Group's data management commitments are captured within its Data Management Procedures and also align to Basel Committee on Banking Supervision "Principles for Effective Risk Data Aggregation and Risk Reporting ('BCBS 239')" requirements. Further, Environmental Risk Data is also in scope for BCBS 239. The BCBS 239 compliance plan for environmental risk data will conclude at the end of 2023.

The Group Data Management Procedure seeks to embed effective data management in business activities and processes by articulating the activities that must be incorporated across the Group (including HSBC Continental Europe). The Procedure applies to all users and providers of data in the HSBC Group and assigns responsibility to all staff for managing the quality of data in the processes and systems that they own. Complementing the Data Management Procedure is the BCBS 239 Compliance Framework. This defines the minimum standards to be met when aggregating and reporting environmental risk data. The documents have been designed to reflect and implement the BCBS 239 principles, and adherence to the standards within the Framework is mandatory for all applicable HSBC Continental Europe areas.

Guidance is progressively provided in terms of reporting environmental risk which can be built with current data. When data gaps are identified, HSBC Continental Europe relies on external vendors when possible. Current internal data does not allow proper identification of green products under the EU taxonomy until the data is aligned (2023). Lists of green bonds and loans are gathered from specific teams, including prospectus documents for green bonds, allowing to identify the use of proceeds. Energy Performance Certificate ('EPC') ratings are not available in internal HSBC Continental Europe systems; therefore, calculation model is used to estimate the energy efficiency information. EPC ratings are gathered manually from relationship managers to capture the information in internal systems.

Qualitative information on social risk

HSBC Continental Europe, as a major banking and financial services organization, faces social risks. Social risks, as defined by the Official Journal of the European Union (Article 1, Amendments to Implementing Regulation (EU) 2021/637, p. 16), are understood as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of social factors on the institution's counterparties or invested assets. As defined by the European Banking Authority ('EBA'), social aspects include human rights violation, labour rights, income inequality, lack of human rights, customer safety and protection, privacy, poverty and non-discrimination. Furthermore, climate change and transition to a low carbon economy have social impacts that include changes to the job market. These include the decrease in the demand for certain jobs and skills, the emergence of new jobs and skills, consumers' changing preferences, shareholders' willingness to swiftly integrate climate, environmental and social changes in their companies.

HSBC Continental Europe's Board takes overall responsibility for ESG strategy, overseeing executive management in developing the approach, execution and associated reporting. Progress against ESG ambitions is reviewed through Board discussion and review of key topics such as update on net zero, customer experiences and employee sentiments. Board members receive ESG-related training as part of their ongoing development. Given the wide-ranging remit of ESG matters, the governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, where appropriate. These include the Disclosure Committee, which provides oversight for the scope and content of ESG disclosures, and the Group People Committee, which provides oversight support for the Group's approach to performance management.

Human Rights

Strategy and business processes

HSBC Continental Europe, as part of the HSBC Group, takes into account in its strategy, local contexts, laws and regulations of the countries in which it operates. Relevant international standards are used to determine appropriate framework to comply with human rights. HSBC Continental Europe seeks to raise awareness of human rights by promoting good practice through its business conduct.

As a financial services organization, HSBC Continental Europe can have an impact on the human rights of a range of stakeholders, including as an employer, a provider of financial services, a buyer of goods and services and an investor.

From an employee perspective, HSBC Continental Europe requires its employees to treat colleagues with dignity and respect, creating an inclusive environment. Employees are made aware of their employment rights and duties through a variety of channels, including written employment contracts and policies, procedures in employee handbooks, on employee websites and a code of conduct. Employees are trained on a range of human rights related topics including but not limited to diversity and inclusion, bullying and harassment, racism, data privacy. In addition, employees receive regular training as part of HSBC's broader financial crime control framework, covering anti-money laundering, anti-bribery and corruption and financial sanctions. Each of these interests intersects with human rights risk.

From a customer standpoint, the HSBC Group has developed sustainability risk policies which are also used at HSBC Continental Europe level. The policies apply to main financing products offered to customers. Customers are engaged, where appropriate, and supported in adopting more sustainable practices. The sustainability risk policies on forestry, agricultural commodities, metals and mining, and energy specifically refer to human right considerations. They include issues such as land rights, harmful or exploitative child labour or forced labour, rights of local communities, workers' rights and the health and safety of communities. An annual review is carried out of Global Banking and Markets and Commercial Banking clients operating in sectors

covered by the Group's sector policies, and all transactions in these sectors are also reviewed.

Finally, regarding suppliers, the code of conduct, revised in 2022, sets out HSBC's commitments to the environment, diversity and human rights, and which outlines the minimum commitments expected by suppliers on these issues. Commitment to the code is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

HSBC Continental Europe's Duty of Care Plan is supported by the framework defined by HSBC related to human rights. Commitments have been made and rules and procedures adopted at HSBC Group level to mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment.

Policies and risk management

In 2022, the process of adapting internal risk management procedures has begun to reflect key learnings from the work on salient human rights issues described above. This included the development of global guidance on human rights, which incorporates the salient human rights issues assessment and provides colleagues with clear principles and practical advice, including case studies, on how to identify, prevent, mitigate and account for how impacts on human rights are addressed. Additional human rights elements have been incorporated into existing procurement processes and supplier code of conduct, and existing human rights due diligence processes have been extended for suppliers and business customers.

HSBC Continental Europe has defined employment practices and relation policy set in Human Resources ('HR') procedure guideline within a Functional Instruction Manual ('FIM'). This manual aims to ensure that HSBC Continental Europe as an employer takes all appropriate steps to meet employment laws, regulatory commitments and obligations to workforce. These includes and are not limited to human rights violation, labour rights, income inequality, lack of human rights, privacy, poverty and non-discrimination matters.

Failure to comply with the policy could result in financial loss, legal or regulatory action, reputational damage or impacts on employees. In addition to employee impacts, failure to comply with the requirements in this policy could indirectly lead to negative impacts on the outcomes for customers. A set of controls has been defined under the Non-Financial Risk Framework and in line with non-financial risk management principles. These allow HSBC Continental Europe to identify and manage Risks and controls arising from social risks / aspects. The policy contains the minimum expectations and controls to manage non-financial risks within risk appetite.

Employee matters

Strategy and business processes

The HSBC Group promotes an inclusive organization that values differences, takes responsibility and seeks different perspectives for the overall benefit of HSBC's customers.

A dynamic culture is encouraged where employees can expect to be treated with dignity and respect. Understanding the experience of employees is critical. To do so, an annual employee survey Snapshot is conducted. This survey allows to measure employee engagement score, to capture views their perception, from strategy to wellbeing.

HSBC Continental Europe encourages people to speak up in particular when observing unlawful or unethical behaviour. A range of speak-up channels is offered to listen to concerns of employees. Nevertheless, it has been recognised that at times people may not feel comfortable speaking up through the usual channels. As a result, a global whistleblowing platform has been implemented. This platform allows employees to raise any concerns in confidence and, where preferred, anonymously. HSBC Confidential can be accessed in various ways, including telephone outlines, online portals and email. In this context, a yearly check is done on the way employees use HSBC Confidential channel from

a performance and remuneration standpoint. Concerns are investigated proportionately and independently, and can result in carrying out disciplinary actions.

Under the Exchange Meeting programme, agenda-free consultation meetings are held that managers attend without any seniority-based privileges. Staff members are free to discuss any issues they wish. Feedback from the meetings is sent to the HSBC Group. Since the programme was launched in 2012, it has been clear that employees taking part in an Exchange meeting had a more positive approach to their work and the bank's strategy and a better understanding of the changes affecting HSBC.

Difference among colleagues is valued to build an inclusive workforce. Having surpassed the target to reach 30 per cent women in senior leadership role, strong progress has been made towards the goal to achieve 35 per cent by 2025. Furthermore, HSBC Continental Europe signed up this year to the Financi'Elles charter, which contains 10 joint commitments aimed at fostering a more equitable gender balance and greater diversity in Finance sector. As part of its drive, the bank has undertaken to achieve a gender balance on HSBC Continental Europe's Executive Committee by 2024, as well as on the executive committees of its business lines and support functions. The gender balance of development programmes will help to accelerate progress towards gender equality in the talent pools. Lastly, gender balance is championed in all the bank's communications. As a result, HSBC Continental Europe has committed not to attend any event with an all-male line-up of speakers, and to make sure that gender balance and diversity are embraced at the bank's own internal events.

A comprehensive monitoring dashboard for progress in increasing the proportion of women in positions of responsibility is reviewed during the monthly meeting of HSBC Continental Europe's Executive Committee.

The bank works on unconscious bias by launching Inclusion workshops for all and continues to deliver the 'Inclusive Leadership' training programme for managers. In addition, part of the mandatory 'The Code of Conduct & me' training session deals with workplace bias and discrimination.

To broaden the reach of its inclusive business culture, HSBC Continental Europe continued its awareness building programme. This included discussions on diversity and inclusion, conferences, exchanges seminars and workshops, both directly and by drawing on its Employee Resources Group of committed employees. For France: 50/50 Partner of Balance, Pride Network France, WeHandicap! and Atypik. All those actions contribute to encourage dialogues, raise awareness and develop inclusive skills.

In addition, employees are offered internal and external tutoring and mentoring roles under voluntary programmes, giving them experience outside the confines of their day-to-day work and enabling them to develop new skills.

Attracting, integrating and retaining talented people is extremely important. Identifying and developing Talent involves both managers and employees themselves, so that the process is more coherent and consistent. Staff is recruited from a variety of backgrounds to contribute to the bank's various business lines and functions. In addition, every year, succession plans for positions considered as key are developed. There are clear guidelines to ensure that robust succession plans are in place and to promote gender balance and internal promotions. HSBC Continental Europe aims to have at least four potential replacements for each key position, with at least one female replacement for each position and an 80%/20% split of internal versus external recruits. HSBC Continental Europe requests for its recruitment service providers to provide a shortlist of candidates including at least one man and one woman and, where the position is a management or specialist position requiring more than 10 years of professional experience, at least one 'senior' candidate. A talent pool at Continental Europe level is built through various development programs like Accelerating into Leadership ('AIL') and Accelerating Female Leadership ('AFL'). In order to manage the risk of attrition of Talent, a set target attrition rate of 7 per cent has been defined.

Developing the skills of employees is critical to energising the organisation in a context where technology is developing at a rapid pace, where employability is key and a range of new and different skills (resilience, financial capability, climate knowledge, etc.) are now needed to succeed in the workplace. A culture of learning is encouraged through a range of resources, providing employees with a breadth of educational materials and opportunities. Digital, data, sustainability and personal skills are explored as part of future skills campaign. Employees identify specific skills they want to develop and assess them through a skills platform (HSBC University, Degreed learning platform, LinkedIn learning) to shape their development plan. A community of referents has been set up to share best practices and support the adoption of the platform within each business line in the group.

The learning department is offering a wide range of awareness-raising and training activities for employees in order to contribute to the ambition of a net-zero transition by 2050:

- launch of the new Sustainability Academy (dedicated online portal on HSBC University that brings together all sustainability learning, communications and policies in one central resource). This new Academy has been created to enable transformation and growth by creating a shared mindset, developing the right skills-set and building confidence by providing current HSBC actions;
- the new learning program named 'Test your skills about climate with the En-roads tool' deployed throughout HSBC Continental Europe with several sessions scheduled;
- promotion of the AMF Sustainable Finance certification for employees wishing to benefit from it.

Other actions will be proposed throughout the year in order to encourage employees to learn more about these sustainable development topics and to share several best practices within the organization and with customers. For instance, Commercial Banking has created a region-wide Sustainable Finance Country Representative Network and expanded the Sustainable Finance Ambassador community in France. These representatives and ambassadors obtain privileged access to information, training, and specific events. In turn, they are expected to drive the strategy on the ground and act as local experts within their countries and teams.

Employees' wellbeing remains a top priority. As an example, new ways of working have been implemented, enabling more employees to work flexibly and remotely. In addition, new tools and training have been launched to support mental, physical and financial health, remote management, appropriate use of digital tools, to encourage work life balance. Helping employees to be healthy and happy is a key enabler of HSBC Continental Europe strategy. Reason why, wellbeing questions have been added in the annual Snapshot survey to get feedbacks from employees and continue to improve the approach on this topic.

In a highly connected environment, and given the massive uptake of remote working, appropriate use of professional communication tools is a key challenge for maintaining quality of life at work.

Governance

In terms of governance, there is a whistleblowing policy and procedures. In addition, a whistleblowing oversight committee provides to the Group Audit Committee with periodic reports on the effectiveness of whistleblowing arrangements. The chair of the Group Audit Committee has responsibility for ensuring and overseeing the integrity, independence and effectiveness of whistleblowing policies.

Remuneration policy, being neutral and inclusive, is designed to motivate and retain the best employees and to make sure each and every employee is treated fairly. In order to reach these objectives, both attrition rate and retention rate of best performers are produced and followed per business on a monthly basis and shared with Executive Committee. In addition, pay gender analysis are performed every year to ensure consistency and fair treatment.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

HSBC Continental Europe is committed to managing change while maintaining a regular dialogue with bodies representing staff, supporting managers, redeploying impacted colleagues when possible, proposing, where appropriate, adapted financial and supporting measures.

Policies and Risk Management

Global principles overlay all group policies and procedures, connecting the organisation's purpose, values, strategy and approach to risk management. They guide HSBC Continental Europe in the decisions it takes and how it operates. The Risk management framework is underpinned by the group's values and governs the HSBC Group's overall approach to managing risk. In addition, a number of internal entity led controls are in place to ensure that risk management and corporate governance activities are carried out effectively across the bank. HSBC Continental Europe uses defined framework: the '4Cs' (Capacity, Capability, Conduct and Culture), and associated Employment practices and relations to manage employee matters. Two of the risks defined in HSBC Risk Taxonomy have been identified and considered as supporting the remediation of some of the social risks given their overarching coverage of people management guiding principles:

- Failure to comply with employment law and regulations. The risk of failing to comply with employment legislation, regulation or requirements throughout the employee journey, from hiring to leaving, which could result in HSBC Continental Europe being in breach of employment law by not treating employees in line with legislation and regulations. Following the policy will manage the risk of legal action, regulatory censure, reputational damage and financial loss.
- Failure to manage poor employee behaviours and employee concerns. The risk that concerns raised by employees or employees who demonstrate poor behaviours are not effectively managed. Where employee to employee behaviours are not in accordance with HSBC's values, code of conduct etc. or whereby employee concerns are not appropriately managed.

In the context of the 2022 analysis of the most material ESG-related risks impacting HSBC Continental Europe, two risks involving human capital have been identified:

- Risk of failure to recruit and retain talent – In a rapidly changing banking industry (digitalisation, regulatory developments, changes in the macroeconomic environment etc.), HSBC aims to accompany the shift in occupations by attracting, recruiting and integrating the best talent. Against a backdrop of global competition, organizations are predominantly focused on talent risks relating to capability and capacity. Capability and capacity-related talent risks include: a lack of depth of internal candidates for critical roles, an insufficient pipeline of future leaders, difficulties in retaining key people and in recruiting top talent, a failure to develop the skills and capabilities required by the business in the near future, a lack of compelling development opportunities for top talent.
- Risk of deterioration in the quality of life at work and psychosocial risks – Psycho-social risks are created by a poor working environment inadequate working conditions, insufficient human resources or inadequate managerial practices, leading to absenteeism. Work-related stress has the potential to negatively affect an individual's psychological and physical health, as well as an organisation's effectiveness. Mental health problems and other stress-related disorders are recognised to be among the leading causes of early retirement from work, high absence rates, overall health impairment and low organizational productivity.

The Functional Instruction Manual, which describes the employment practices and employee relations policy set in Human Resources procedure guideline, ensures that HSBC Continental Europe effectively manages cases where employees demonstrate poor behaviours towards each other (Personal Conduct cases). Personal Conduct Cases are taken into account in the performance review for HSBC Continental Europe's employees. Once a year, a dashboard of Personal Conduct Cases and mitigation actions is presented to Board members during the Risk Committee.

Compliance is required with all applicable anti-bribery and corruption laws in all markets and jurisdictions in which HSBC Continental Europe operates. A global anti-bribery and corruption policy exists, which requires compliance with the spirit of laws and regulations to demonstrate commitment to ethical behaviours and conduct as part of environmental, social and corporate governance.

The controls below are operated to ensure compliance with labour laws and regulations and anti-discrimination rules. The Policy applies to all Businesses, Functions, Digital Business Services ('DBS') and HSBC Continental Europe geographies. The minimum control requirements set out in the policy and detailed in the Operational Risk Control Library specifically relate to the HR Function. However, all HSBC employees and other worker groups have responsibility to adhere to and enforce this policy.

The following Human Resources owned entity level controls ('ELCs') are used to support HSBC Continental Europe's internal control environment as per the Risk Management Framework and may reflect control activities, which if not managed could impact the conduct outcomes linked to customers and markets. See below for some of the controls in place:

- Employment practices and relations: complying with employment laws, regulations and commitments to workforce
- Conduct: managing poor behaviours and employee concerns
- Permissions to work: completeness of work permission records
- Employment law and regulatory developments: implementation of legislative or regulatory changes
- External reporting submissions: quality checks on external reporting submissions
- Employee representative bodies: inventory of agreements and authority to create binding agreements
- Material risk taker remuneration: completeness of MRT population and accuracy of remuneration delivered
- Working hours and overtime: completeness and accuracy of working hours and overtime records
- Employee concerns and complaints handling procedure: annual review to confirm it remains valid and authorisation of changes
- Employee investigations: closure accuracy and completeness checks
- Performance and reward sanctions: accurate capture of performance and reward adjustments aligned to the conduct and consequence management guidelines

There is low risk appetite with regards to regulatory requirements.

Customer matters

Strategy and business processes

The conduct approach helps to focus on the impact HSBC Continental Europe has on its customers and financial markets. It focuses on five clear outcomes:

- understanding customers' needs,
- providing products and services that offer a fair exchange of value,
- serving customers' ongoing needs, and put it right in case of mistake,
- acting with integrity in the financial markets HSBC Continental Europe operates in,
- operating with resilience and security to avoid harm to customers and markets.

The conduct approach is embedded into the way HSBC Continental Europe develops, distributes, structures and executes products and services. The approach to product design and development – including how products are advertised – is set out in HSBC Continental Europe policies and provides a clear basis from which strategic product and service decisions can be made. Global businesses each take the following approach:

- carrying out robust testing during the design and development of a product to help ensure there is an identifiable need in the market,
- considering the complexity of products and the possible financial risks to customers when determining the target market,
- offering a carefully selected range of products that are managed through product inventories, helping to ensure they continue to meet customers' needs and continue to deliver a fair exchange of value,
- disconnecting variable pay of Relationship Managers from the volume of customers' sales,
- regularly reviewing products to help ensure they remain relevant and perform in line with expectations set,
- where products do not meet customers' needs or no longer meet high standards, improvements are made or they are withdrawn from sale,
- wherever possible, acting on feedback from customers to provide better and more accessible products and services,
- considering impact on the integrity of markets when introducing new products.

The strategy to support customers with enhanced care needs continues to be a core focus. Guidelines and procedures have been developed to ensure that the right outcomes are provided for customers who may require enhanced care. A number of improvements have been made to products, services, governance and oversight, as well as developed employees' skills and capabilities. To support this approach, post-sale controls and calls are performed with a sample of customers to ensure that needs have been fairly identified and supported.

Governance

Oversight of product design and sales is provided by governance committees chaired and attended by senior executives who are accountable for ensuring that risks are managed appropriately, and within appetite, to ensure fair customer outcomes. All markets businesses continue to focus on the development of HSBC's ESG product suite across all asset classes, ensuring that the position as an innovator of ESG products is maintained, and remain committed to helping mitigate against greenwashing risks.

Policies and risk management

Customers' interests are at the heart of HSBC Continental Europe's business, and policies and procedures are in place that set the standards required to protect them. These include:

- providing information on products and services that is clear, fair and not misleading,
- enabling customers to understand the key features, the risks, exclusions and limitations for all products and services including ESG-related products,
- enabling customers to make informed decisions before purchasing a product or service,
- checking that customers are offered appropriate products and, where relevant, received the right advice.

For example, in WPB, customers' financial needs and personal circumstances are considered to offer suitable product recommendations. This is achieved through measures such as:

- a globally consistent risk rating methodology for investment products, which is customised for local regulatory requirements; and
- a thorough customer risk profiling methodology to assess customers' financial objectives, attitudes towards risk, financial ability to bear investment risk, and knowledge and experience.

In addition, sales quality and mystery shopping reviews assess whether customers receive a fair outcome.

In CMB, focused sales outcome testing is operated to ensure that product features and pricing are correctly explained.

In Global Banking and Markets' ('GBM') markets business, sample-based testing on sales of products are undertaken to ensure that product features and pricing have been correctly explained and sales processes have been adhered to. Feedback is collated centrally and acted upon in a timely manner.

The net promoter score ('NPS') system is used to provide a consistent measure of the performance. NPS is measured by subtracting the percentage of Detractors from the percentage of Promoters. Customer feedback is managed when things go wrong and actions against key customer complaints are reported.

Tracking, recording and complaints management aim to be open and consistent. A consistent set of principles enables HSBC Continental Europe to remain customer focused throughout the complaints process. As an example, HSBC Continental Europe has adapted quickly to support customers facing new challenges and new ways of working. In addition, studies are run that allow HSBC Continental Europe to benchmark the performance on customer satisfaction against other banks.

Community and society

The Group has a long-standing commitment to support the communities in which it operates through charitable partnerships and volunteering opportunities. The HSBC Group aims to provide people with the skills and knowledge needed to thrive in the post pandemic environment, and through the transition to a sustainable future.

HSBC Continental Europe supports several organisations thanks to charitable donations programs.

The selection of charitable partnerships is carefully processed with due diligence to ensure that HSBC Continental Europe does not support wrong doers.

Examples of HSBC Continental Europe's engagement with communities in 2022 included:

- Article 1 and Association pour le Développement de l'Égalité des Chances, which encourage and support young people into further education and improve their chances in the labour market. In France 79 employees provided support to talented young people thanks to these programs aligned with the Future Skills strategy.
- With Article 1, HSBC Continental Europe in France offered training to 127 HSBC interns to develop and enhance their soft skills.
- Adie to increase employability among unprivileged communities thanks to entrepreneurship;
- Crésus to develop financial capability and support people in situations of financial fragility. In 2022, more than 20000 people benefited from the help of Crésus thanks to HSBC Continental Europe's support. 22 HSBC employees have been trained in the Dilemma financial education programme to run workshops with young people (14 to 21 years old) in particular. Finally, the "Springboard for the Future" programme supported by the Group, was deployed in the Hauts de France region. The goal is to give underprivileged young people the keys to better financial integration.

HSBC Continental Europe has supported initiatives in several countries to support Ukrainian refugees:

- In Czech Republic: charitable giving to a non-governmental organisation ('NGO') People in Need, collection of goods by employees
- In Belgium: collection of goods by employees and volunteering
- In Ireland, Italy, Spain: local charitable giving to support NGOs

HSBC Continental Europe also directly supported the community through a contribution with the Disaster relief fund in 2022 (Ukrainian refugees).

Qualitative information on Governance risk

The information in this section describes the governance in place relating to HSBC Continental Europe's counterparties, as opposed

to its own internal governance. HSBC Continental Europe manages this risk through its management of reputational risk and financial crime risk.

Reputational risk

The Group Reputational Risk Committee oversees global executive support for identification, management and ongoing monitoring of reputational risks, including those related to ESG matters. The responsibility is held by the Group Chief Risk and Compliance Officer.

The Sustainability Risk Oversight Forum, made up of senior members of the Global Risk and Compliance function and global businesses, continued to oversee the development and implementation of policies that identify, manage and mitigate the Group's sustainability risk, including an assurance framework. This framework has been designed to take a more holistic view of the ESG risks faced in HSBC sustainability risk policies, including:

- monitoring ESG news across the sustainability risk policies;
- overseeing clients considered to be of higher risk or under exit;
- reviewing client files across the sustainability risk policies and;
- setting and reporting against a defined set of key control indicators aligned to HSBC's risk appetite.

The framework is used to monitor the in-scope portfolio and keep track if there is any deterioration in the risk ratings. With the respective risk rating assigned, sustainability risk specialists will take the necessary actions to mitigate unacceptable risks. If necessary, client relationship can be proactively ended.

At HSBC Continental Europe level, Reputational Risk & Client Selection Committees ('RRCSC') are regular committees, established to provide recommendations and advice on clients and non-clients (e.g. third parties) with a focus on wider reputational risks for both Commercial Banking ('CMB'), Global Banking & Markets ('GBM') and Retail and Wealth. Cases with significant impact are escalated to the regional equivalent of this committee i.e. the HSBC Bank plc Regional RRCSC ('Regional RRCSC') and to the HSBC Continental Europe Risk Management Meeting ('RMM') if required.

Within the Global Risk and Compliance function, reputational and sustainability risk specialists are responsible for reviewing, implementing and managing sustainability risk policies. At HSBC Continental Europe, sustainability risk managers support the implementation of these policies. Local sustainability risk managers continued to be supported by regional reputational risk managers across the Group who have taken on additional oversight responsibilities for sustainability risk.

Financial crime risk

Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. HSBC Continental Europe aligns to the Groups and have a financial crime risk management framework that is applicable across all global businesses. The financial crime risk framework, which is overseen by the Group Board, is supported by financial crime policies that are designed to enable adherence to applicable laws and regulations.

Annual mandatory training is provided to all employees, with additional targeted training tailored to certain individuals. Regular risk assessments are carried out, to identify where a response is needed to evolving financial crime threats, as well as monitoring and testing the financial crime risk management programme

Anti-bribery and corruption policy states that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority

The HSBC Group global anti-bribery and corruption policy requires that all activity must be: conducted without intent to bribe or corrupt; reasonable and transparent; considered to not be lavish

nor disproportionate to the professional relationship; appropriately documented with business rationale; and authorised at an appropriate level of seniority. The global anti-bribery and corruption policy requires that the risk of customers and third parties committing bribery or corruption is identified and mitigated. Among other controls, the customer due diligence and transaction monitoring is used to identify and help mitigate the risk that the customers are involved in bribery or corruption. Anti-bribery and corruption risk assessments are performed third parties that expose HSBC to this risk.

Scope of ESG reporting

The information reported in Tables 41 to 45 below relates to the principal operating entities within HSBC Continental Europe's prudential scope of consolidation, including HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. at 31 December 2022. Subsidiaries engaged in insurance activities are excluded from the prudential consolidation. Within this scope, due to operational limitations, entities have been selected on the basis of their relative exposure to achieve overall material disclosure coverage at HSBC Continental Europe level. Consequently, the exposures of HSBC Continental Europe's asset management subsidiaries and European branches are not included in the tables below. These tables provide information on non-trading book exposures; assets held for trading or held for sale are excluded.

Banking book – Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity

In accordance with Article 449a of CRR, HSBC Continental Europe has disclosed those exposures which are more exposed to risks from the transition to a low-carbon and climate resilient economy as specified in Recital 6 of the Commission Delegated Regulation (EU) 2020/1818; and a subtotal for exposures to "other sectors" not mentioned therein.

The table sets out information on HSBC Continental Europe exposures to non-financial corporates operating in carbon-related sectors, and the quality of those exposures, including non-performing status, stage 2 classification, and related provisions, as well as maturity buckets. Counterparty NACE sector allocation is based on the nature of the immediate counterparty.

Identification of companies excluded from Paris aligned benchmark

HSBC Continental Europe is required to report the gross carrying amount of exposures to counterparties that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g), and Article 12.2 of Commission Delegated Regulation (EU) 2020/1818.

Counterparties are excluded based upon the criteria listed in Articles 12.1 and 12.2 of the Climate Benchmark Standards Regulation. The relevant articles and approach are set out below:

Approach to article 12.1

#12.1 Administrators of EU Paris-aligned Benchmarks shall exclude all of the following companies from those benchmarks:

- (a) – (c) companies involved in any activities related to controversial weapons; companies involved in the cultivation and production of tobacco; companies that benchmark administrators find in violation of the United Nations Global Compact ('UNGC') principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
- (d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- (e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
- (f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;

(g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

Criteria (a) – (c) are out of scope.

To identify companies under criteria (d) to (f), an external data source, Urgewald, has been used. Urgewald is a non-profit environmental and human rights organisation, which tracks and reports on corporates engaging in Coal and Oil & Gas. Counterparties have been reported against the two following lists: Global Coal Exit List ('GCEL'); Global Oil & Gas Exit List ('GOGEL').

A two step approach has been used to identify companies under criterion (g): i) a sector analysis to identify companies allocated to the electricity generation sector based on NACE code, and; ii) companies which declare their activities as fully renewable were removed from the list (based on their website). The remaining population is reported in the relevant column of the table.

Approach to article 12.2

#12.2 Administrators of EU Paris-aligned Benchmarks shall exclude from those benchmarks any companies that are found or estimated by them or by external data providers to significantly harm one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852 of the European Parliament and of the Council (8), in accordance with the rules on estimations laid down in Article 13(2) of this Regulation.

HSBC Continental Europe has not applied this in its year end 2022 reporting as counterparty alignment data under EU Taxonomy Regulation 2020/852 is not yet available.

Identification of environmentally sustainable exposures (CCM)

In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe is only expected to disclose information from 31 December 2023.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first year of reporting. HSBC Continental Europe does not currently disclose GHG financed emissions split by sector. HSBC Continental Europe's plans to implement methodologies to disclose financed emissions will evolve, with regular reassessment of methodology and necessary data to take account of new and upcoming regulatory requirements and climate science.

The HSBC Group announced in October 2020 its ambition to become a net zero bank, including an aim to align its financed emissions to net zero by 2050 or sooner. In May 2021, shareholders approved a climate change resolution at the Annual General Meeting ('AGM') that commits to set, disclose and implement a strategy with short- and medium-term targets to align provision of finance with the goals and timelines of the Paris Agreement.

The analysis of financed emissions considers on-balance sheet financing, including project finance and direct lending.

Financed emissions link the financing provided to customers with their activities in the real economy to help provide an indication of the greenhouse gas emissions associated with those activities. They form part of the HSBC Group's scope 3 emissions, which include emissions associated with the use of a company's products and services.

The HSBC Group is using the Net Zero Emissions ('NZE') by 2050 scenario provided by the International Energy Agency ('IEA') as a single-scenario reference benchmark to assess its financed emissions. It provides industry specific emissions projections from which HSBC constructs benchmark pathways. These benchmarks help the HSBC Group set targets that align the provision and facilitation of finance with the goals and timelines of the Paris Agreement at a portfolio level globally.

The HSBC Group started measuring its financed emissions for two emissions-intensive sectors: the oil and gas, and power and utilities sectors in 2021. The HSBC Group focused its analysis on the sectors that are most material in terms of emissions, and those where HSBC believes engagement and climate action have the greatest potential to effect change. In 2022, it has also started to measure the financed emissions for four additional sectors: cement; iron, steel and aluminium; automotive; and aviation.

HSBC Continental Europe (excluding HSBC Malta p.l.c. and HSBC Trinkaus & Burkhardt GmbH) reports information related to on-balance sheet financed emissions as part of its Déclaration de Performance Extra Financière ('DPEF') disclosure.

For further details of HSBC Continental Europe's approach please see its DPEF disclosure.

For the purpose of disclosures in accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe will continue to engage with industry initiatives to formulate a methodology for assessing and measuring financed emissions and to align with Article 449a of CRR.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 41: Banking book climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1)

Sector/Subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity years
	€m	of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation	of which: stage 2 exposures	of which: non-performing exposures	€m	of which: Stage 2 exposures	of which: non-performing exposures					
Exposures to sectors that highly contribute to climate change*	16,360	585	3,415	735	(276)	(35)	(229)	13,951	1,607	801	2	2.9
A – Agriculture, forestry and fishing	93	–	1	29	(12)	–	(12)	90	2	1	–	2.7
B – Mining and quarrying	323	–	2	183	–	–	–	140	–	183	–	6.4
B.05 – Mining of coal and lignite	–	–	–	–	–	–	–	–	–	–	–	–
B.06 – Extraction of crude petroleum and natural gas	292	–	–	183	–	–	–	110	–	183	–	6.9
B.07 – Mining of metal ores	–	–	–	–	–	–	–	–	–	–	–	–
B.08 – Other mining and quarrying	30	–	2	–	–	–	–	30	–	–	–	2.1
B.09 – Mining support service activities	–	–	–	–	–	–	–	–	–	–	–	–
C – Manufacturing	5,271	180	997	207	(65)	(7)	(55)	4,950	253	67	2	2.4
C.10 – Manufacture of food products	535	–	46	9	(7)	–	(7)	530	3	2	–	2.2
C.11 – Manufacture of beverages	52	–	16	1	(1)	–	(1)	44	–	7	–	3.4
C.12 – Manufacture of tobacco products	285	–	–	–	–	–	–	285	–	–	–	3.4
C.13 – Manufacture of textiles	115	–	18	14	(6)	–	(6)	73	42	–	–	5.1
C.14 – Manufacture of wearing apparel	37	–	6	16	(6)	–	(6)	36	1	–	–	2.3
C.15 – Manufacture of leather and related products	30	–	17	2	(1)	–	(1)	29	1	–	–	2.5
C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	29	–	16	2	(2)	–	(2)	28	1	–	–	3.4
C.17 – Manufacture of pulp, paper and paperboard	32	–	1	–	–	–	–	32	–	–	–	2.1
C.18 – Printing and service activities related to printing	75	–	6	3	(2)	–	(1)	74	1	–	–	3.8
C.19 – Manufacture of coke oven products	–	–	–	–	–	–	–	–	–	–	–	–
C.20 – Production of chemicals	571	–	36	21	(2)	–	(1)	542	29	–	–	1.9
C.21 – Manufacture of pharmaceutical preparations	253	–	–	–	–	–	–	211	43	–	–	4.4
C.22 – Manufacture of rubber products	249	–	22	2	(2)	(1)	(1)	236	13	–	–	2.8
C.23 – Manufacture of other non-metallic mineral products	197	–	8	6	(3)	–	(3)	186	8	2	–	2.5
C.24 – Manufacture of basic metals	235	–	8	3	(1)	–	–	228	7	–	–	1.0
C.25 – Manufacture of fabricated metal products, except machinery and equipment	228	–	14	47	(8)	–	(8)	186	41	1	–	2.8
C.26 – Manufacture of computer, electronic and optical products	276	–	31	3	(1)	–	(1)	276	–	–	–	1.9
C.27 – Manufacture of electrical equipment	215	–	7	19	(6)	–	(5)	214	1	–	–	2.7
C.28 – Manufacture of machinery and equipment n.e.c.	591	–	159	24	(11)	(3)	(7)	567	24	–	–	1.9

Table 41: Banking book climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

Sector/Subsector	Gross carrying amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity years
	€m	of which: exposures to companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation	of which: stage 2 exposures	of which: non-performing exposures	€m	of which: Stage 2 exposures	of which: non-performing exposures					
C.29 – Manufacture of motor vehicles, trailers and semi-trailers	194	–	12	3	(1)	–	(1)	194	–	–	–	1.1
C.30 – Manufacture of other transport equipment	558	–	375	25	(3)	(1)	(2)	485	21	52	–	2.9
C.31 – Manufacture of furniture	67	–	3	2	(2)	–	(2)	64	1	2	–	2.6
C.32 – Other manufacturing	447	180	196	6	(1)	(1)	(1)	428	17	–	2	0.9
C.33 – Repair and installation of machinery and equipment	–	–	–	–	–	–	–	–	–	–	–	0.7
D – Electricity, gas, steam and air conditioning supply	462	404	128	–	(1)	–	–	334	31	97	–	4.7
D35.1 – Electric power generation, transmission and distribution	364	354	124	–	–	–	–	327	31	6	–	2.8
D35.11 – Production of electricity	50	50	2	–	–	–	–	2	–	48	–	13.8
D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	48	–	2	–	–	–	–	5	–	43	–	10.2
D35.3 – Steam and air conditioning supply	–	–	–	–	–	–	–	–	–	–	–	–
E – Water supply; sewerage, waste management and remediation activities	28	–	–	–	–	–	–	28	–	–	–	2.6
F – Construction	344	–	21	20	(14)	–	(13)	336	3	5	–	2.6
F.41 – Construction of buildings	328	–	20	18	(13)	–	(12)	320	3	5	–	2.7
F.42 – Civil engineering	10	–	–	–	–	–	–	10	–	–	–	1.6
F.43 – Specialised construction activities	6	–	1	1	(1)	–	(1)	6	–	–	–	1.4
G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,494	–	502	167	(123)	(3)	(118)	3,404	80	11	–	1.7
H – Transportation and storage	1,996	–	1,041	11	(16)	(10)	(6)	1,366	427	203	–	4.2
H.49 – Land transport and transport via pipelines	230	–	10	6	(3)	–	(3)	205	17	7	–	1.9
H.50 – Water transport	1,140	–	964	–	(9)	(9)	–	628	322	190	–	5.3
H.51 – Air transport	308	–	1	–	–	–	–	226	81	–	–	3.4
H.52 – Warehousing and support activities for transportation	319	–	66	5	(4)	(1)	(3)	306	7	6	–	2.8
H.53 – Postal and courier activities	–	–	–	–	–	–	–	–	–	–	–	–
I – Accommodation and food service activities	453	–	142	52	(17)	(4)	(12)	392	58	2	–	3.4
L – Real estate activities	3,895	–	580	64	(27)	(10)	(13)	2,911	752	233	–	3.6
Exposures to other sectors*	13,118	–	1,839	701	(409)	(49)	(349)	11,969	946	74	130	2.7
K – Financial and insurance activities	–	–	–	–	–	–	–	–	–	–	–	–
Exposures to other sectors (NACE codes J, M – U)	13,118	–	1,839	701	(409)	(49)	(349)	11,969	946	74	130	2.7
TOTAL	29,478	585	5,254	1,436	(684)	(84)	(578)	25,920	2,553	874	132	2.8

* In accordance with the Commission delegated regulation (EU) 2020/1818 supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks - Climate Benchmark Standards Regulation - Recital 6: Sectors listed in Sections A to H and Section L of Annex I to Regulation (EC) No 1893/2006.

Banking book – climate change transition risk: loans collateralised by immovable property – energy efficiency of collateral

This table presents the gross carrying amount¹ of loans collateralised with commercial and residential immovable property and of repossessed real estate collateral. The table also includes information on the level of energy efficiency of the underlying collateral measured in kWh/m² energy consumption and in terms of the label of the energy performance certificates ('EPC')² - where a mapping to the EU EPC label exists. In the absence of an EPC label, the energy consumption is estimated. This estimation methodology is set out below.

During the year, EPCs were requested from customers to enable reporting of the level of energy and the corresponding EPC labels, for both residential and commercial property collateral. Our Germany and France entities collected EPCs for 83% and 27% respectively of its current exposures on loans collateralised by immovable properties. Since the EPC label is not mandatory information in these countries, some EPCs do not incorporate a specific label and in these cases the level of energy consumption has been estimated. For Germany, since EPCs have been collected for majority of the exposures, the average level of energy of collected EPCs has been used for each portfolio for the remaining exposures. For France and Malta, the level of energy has been estimated based on a mapping of property types with government statistics. In this context, for Malta the information published in the paper "Long Term Renovation Strategy 2050", issued by Maltese Ministry for the environment-climate change and planning, has been leveraged while for French residential properties, information published in the paper "The housing stock by level of energy category as of January 1 2022" issued by French Ministry of Ecological Transition, which provides average level of energy consumption, has been used. However, for French commercial properties, the ADEME (Agence De l'Environnement et de la Maîtrise de l'Energie) database named "DPE Tertiaire depuis 2021", including EPCs established from July 2021, has been utilised to perform estimations on the level of energy consumption of commercial properties. The average level of energy consumption has been computed for each type of commercial asset (offices, education, restaurants, etc) to map and allocate them to the appropriate bucket of level of energy consumption.

- ¹ As defined in Part 1 of Annex V of Commission Implementing Regulation (EU) 2021/451.
- ² As defined in Article 2(12) of 2010/31/EU for EU countries, or in the relevant regulation for those exposures outside the EU. Energy Performance of Buildings Directive 2010/31/EU (EPBD) and the Energy Efficiency Directive 2012/27/EU promote policies that aim to achieve a highly energy efficient and decarbonised building stock by 2050. The EPBD introduced energy performance certificates (EPC) as instruments for improving the energy performance of buildings.

The methodology used for determining energy efficiency is primarily based on estimations and is mainly dependent on external sources (ADEME and Government Statistics). This approach has limitations. For example, it has been confirmed by ADEME that there was no consistency check to ensure that the energy consumption for commercial EPCs was correctly reported within the ADEME database. Since EPCs are not mandatory for commercial buildings in France except when there is a sale of a new construction, some EPCs are empty or report a very small level of energy (for example 0.1 kWh/m²/year), which may affect the computation of the average level of energy consumption used. Moreover, Maltese energy efficiency statistics are based on a reporting date of 2019 and energy level may have changed subsequently, for example where refurbishments have been made.

HSBC Continental Europe aims to continue to engage with business customers for the information needed and seeks to refine its methodology to align with the requirements.

Table 42: Banking book - climate change transition risk: Loans collateralised by immovable property - Energy efficiency of collateral (Template 2)

Counterparty sector	Total gross carrying amount														Without EPC label of collateral	of which: level of energy efficiency (EP score in kWh/m ² of collateral) estimated	
	Level of energy efficiency (EP score in kWh/m ² of collateral)						Level of energy efficiency (EPC label of collateral)						%	€m			
	0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F					G
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
1 Total EU area	6,369	740	2,526	2,183	484	101	336	330	106	186	74	49	62	18	87.0	5,543	
2 – of which: Loans collateralised by commercial immovable property	3,909	703	414	1,873	484	101	334	330	91	186	52	49	62	18	80.0	3,120	
3 – of which: Loans collateralised by residential immovable property	2,457	36	2,110	310	–	–	–	–	15	–	22	–	–	–	98.0	2,420	
4 – of which: Collateral obtained by taking possession: residential and commercial immovable properties	3	–	1	–	–	–	2	–	–	–	–	–	–	–	100.0	3	
5 – of which: Level of energy efficiency (EP score in kWh/m ² of collateral) estimated	5,543	346	2,251	2,149	461	58	278	–	–	–	–	–	–	–	100.0	5,543	
6 Total non-EU area	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
7 – of which: Loans collateralised by commercial immovable property	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
8 – of which: Loans collateralised by residential immovable property	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
9 – of which: Collateral obtained by taking possession: residential and commercial immovable properties	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
10 – of which: Level of energy efficiency (EP score in kWh/m ² of collateral) estimated	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	

Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms

This table provides information on exposures to the top 20 most carbon intensive firms in the world by comparing counterparties of the operating entities against a list of top 20 carbon-emitting companies, compiled using data from reports of the Carbon Disclosure Project ('CDP').

The gross carrying amount of exposure to the top 20 carbon-emitting companies is given as a proportion of the total gross carrying amount of exposures in the banking book. The gross carrying amount includes loans and advances, debt securities and equity instruments, excluding financial assets held for trading and held for sale assets.

To determine the top 20 carbon-emitting companies, CDP's full GHG Emissions Dataset was used. The data is derived from companies' responses to the 2022 CDP climate change questionnaire and publicly available self-reported sources. Where data is unavailable from these sources or are considered likely to be inaccurate, they have been estimated by CDP using modelling

techniques. However, due to the voluntary nature of the data collection, not all HSBC Continental Europe's counterparties are included in the data set. As such, there could be counterparties that would have fallen into the top 20 carbon-emitting companies list had their emissions been included in the dataset.

The top 20 list was based on the scope 1 emissions (the direct emissions created by a company), scope 2 emissions (the indirect emissions from the use of electricity and energy to run a business), and scope 3 emissions (indirect emissions attributed to upstream and downstream activities) combined for each company in the CDP dataset. For scope 1 and 2, reported emissions were used where available; estimates were only used where reported emissions were not provided. In keeping with the Greenhouse Gas Protocol, for scope 2 emissions, reported-market based data was used, where available, in preference to reported-location based data.

The methodology for determining exposures to the top 20 carbon-emitting companies is expected to evolve as data availability, industry guidance and market practice changes over time. We will seek to be transparent in our disclosures about the methodologies applied, but results may not be comparable year on year.

Table 43: Banking book - climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)

Gross carrying amount €m (aggregate)	Gross carrying amount to the counterparties compared to total gross carrying amount as % (aggregate) ¹	of which: environmentally sustainable (CCM) ²	Weighted average maturity in years	Number of top 20 polluting firms included
81	0.12	–	0.9	3

¹ For counterparties among the top 20 carbon emitting companies in the world

² In accordance with Commission Implementing Regulation (EU) 2022/2453, HSBC Continental Europe is only expected to disclose information from 31 December 2023.

Banking book - Climate change physical risk: Exposures subject to physical risk

Scope

This table provides information on exposures subject to climate change physical risk (chronic and acute risks) and includes a sectoral breakdown of gross exposures to non-financial corporations and by geography of location of the activity of the counterparty or of the collateral.

The exposures include loans and advances, debt securities and equity instruments other than those held for trading or for sale. In addition, loans secured by residential and commercial property and repossessed real estate, including exposures to both financial and non-financial counterparties, have been separately disclosed. Collateralised loans to non-financial counterparties are also included in the sectoral breakdown.

For those exposures identified as subject to climate change physical risk, the template provides further details on the type of physical risk (acute, chronic or both), the quality of those exposures, including non-performing status, stage 2 classification, related provisions and relevant maturity buckets. Those exposures identified as subject to both acute and chronic physical risk are required to be reported only in the combined column, covering both types of climate-related hazards.

Repossessed collateral is classified as held for sale under IFRS and as such is reported in the less than or equal to five years maturity bucket with an average weighted maturity of one year since we expect it to be sold within 12 months.

Methodology

In accordance with Commission Implementing Regulation (EU) 2022/2453, the ThinkHazard! dedicated portal has been used as the data source to assess whether exposures are subject to climate change physical risk. Geographical locations have been mapped to physical risk data provided by the ThinkHazard! database. The ThinkHazard! timelines target the short-horizon period of 2025 to 2030.

ThinkHazard! is developed and maintained by the Global Facility for Disaster Reduction and Recovery. It provides a general view of hazards for a given location including climate-related (Floods, water scarcity, wildfire, extreme heat, cyclone, landslide) and geophysical (Volcano, tsunami, earthquake). The tool estimates the likelihood of these hazards affecting the selected area (very low, low, medium or high). The four hazard levels are derived from hazard maps, which present the spatial distribution of hazard intensity at a given frequency, or 'return period'. ThinkHazard! uses the return periods and damage intensity thresholds, the intensity above which damage would be expected to occur, to define the risk levels for each hazard. The hazard levels provided are based on published hazard data, provided by a range of private, academic and public organisations.

The geographical location in the ThinkHazard! database includes three levels of granularity for any given location: district, state, or country, with each having a defined risk profile.

Data limitations

The disclosure is dependent on availability, accuracy and precision of geographical location information on the activity of counterparties, of their head office location, or of the properties securing loans. For loans secured by residential or commercial property, the geographical location was determined using the location of the collateral or the location of the counterparty's operations or head office based on the availability of data. For €2.6bn (8%) of the total balance sheet amount in our 31 December 2022 reporting, we had limited or no data available to clearly identify the geographical location and assess the impact of the associated physical risk.

Based on the available data, the geographical location of the collateral, or activity of the counterparty, or their head office location was mapped at the most granular district or state level where possible; country level mapping was only used as a last resort. For exposures in Malta, the physical risk impact data from

the ThinkHazard! database was overlaid with local risk assessment based on the location of buildings in these localities.

Availability and quality of data will evolve over time and may lead to differences in the data reported in future years.

Assumptions

In the absence of further guidance, the methodology adopted relies on a number of assumptions which may not be consistent with the approach adopted by other financial institutions and therefore lead to non-comparable results. These concern, for example, the following:

- The selection of acute and chronic risks;
- The inclusion of both climate and geophysical risks;
- The threshold for determining a location is subject to high physical risk.

In Article 18a of Commission Implementing Regulation (EU) 2021/637 on prudential disclosure of ESG risks in accordance with Article 449a CRR, physical risk is defined thus: 'As part of the overall environmental risk, the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts of the physical effects of environmental factors on the institution's counterparties or invested assets'. Based on this, HSBC considers both climate and geophysical hazards as meeting the definition of physical risk. Climate hazards are weather-related, hydro-meteorological events including floods, wildfire, cyclone, landslide, water scarcity and extreme heat. The geophysical hazards considered - earthquakes, tsunamis and volcanoes - originate from within the Earth and are not much influenced by climate variables or human actions.

Acute and chronic risks have been defined in accordance with European Bank for Reconstruction and Development ('EBRD') guidance produced for the Task Force on Climate-Related Financial Disclosures ('TCFD') in 2018, resulting in the following categorisation:

- (a) Acute risks (event-driven risks that last for a few days) – extreme weather events such as storms and cyclones, extreme rainfall and heatwaves;
- (b) Chronic risks (those due to longer-term shifts in climate patterns) – variability in precipitation, temperature, water stress and sea-level rise.

Acute risks refer to events or specific episodes that have the potential to inflict significant physical damage. The following climate and geophysical hazards are assumed to be acute: floods, wildfire, cyclone, landslide, earthquake, tsunami and volcanoes.

Chronic risks are those that carry a range of physical impacts of considerably longer duration than those posed by acute risks. They are best understood as processes, not events. The following climate hazards are assumed to be chronic: water scarcity (dry ground) and extreme heat from sustained long-term increase in air temperature.

The ThinkHazard! tool rates each hazard for a given location as either very low, low, medium, high or returns no data. The following assumptions are made:

- A climate risk rating of High is assumed to imply that all the assets in that location are sensitive to physical climate risk. We do not expect significant damage to assets from the risk intensity threshold values specified at Medium and Low risk;
- A combination of Medium and Low risks does not aggregate to a High Risk.
- Exposure to any one or more High climate risk perils is sufficient to expose all assets in that district to High physical risk. This is a conservative but rational approach as, in most cases, a high risk level from a single hazard such as wildfire, landslide, cyclone, volcanoes or earthquake would be expected to impact fully the value of a physical asset. However, for some hazards, such as extreme heat, water scarcity and floods, generally full damage or destruction of the asset would not be expected.

It is expected that this methodology will evolve over time to align with changes in market practice and regulation.

Table 44: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5)

	Variable: Geographical area subject to climate change physical risk - acute and chronic events	Gross carrying amount													
		of which exposures sensitive to impact from climate change physical events												Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
		Breakdown by maturity bucket						of which: exposures sensitive to impact from chronic climate change events	of which: exposures sensitive to impact from acute climate change events	of which: exposures sensitive to impact both from chronic and acute climate change events	of which: Stage 2 exposures	of which: non-performing exposures			
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	€m						€m		
€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m	€m	
1	A – Agriculture, forestry and fishing	93	62	2	1	–	2.5	–	65	–	1	2	(2)	–	(1)
2	B – Mining and quarrying	323	30	–	183	–	9.1	–	16	197	2	183	–	–	–
3	C – Manufacturing	5,271	4,196	252	62	–	2.6	–	4,002	508	975	201	(64)	(7)	(55)
4	D – Electricity, gas, steam and air conditioning supply	462	290	31	49	–	3.9	–	314	56	124	–	(1)	–	–
5	E – Water supply; sewerage, waste management and remediation activities	28	4	–	–	–	1.5	–	4	–	–	–	–	–	–
6	F – Construction	344	324	3	1	–	2.6	–	318	10	20	18	(13)	–	(12)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,494	3,094	72	3	–	1.8	–	3,154	15	455	157	(117)	(3)	(113)
8	H – Transportation and storage	1,996	1,330	416	203	–	4.2	–	1,705	244	1,041	11	(16)	(10)	(6)
9	L – Real estate activities	3,895	2,768	698	217	–	3.6	–	3,683	–	457	54	(22)	(6)	(12)
10	Loans collateralised by residential immovable property	2,457	232	8	40	124	12.0	–	404	–	39	40	(26)	(3)	(21)
11	Loans collateralised by commercial immovable property	3,909	2,614	558	239	–	3.7	–	3,411	–	512	37	(8)	(4)	(2)
12	Repossessed collateral	3	2	–	–	–	1.0	–	2	–	–	–	–	–	–
13	Other relevant sectors (breakdown below where relevant)	13,571	11,167	919	72	31	2.6	–	11,505	684	1,853	726	(392)	(28)	(356)
14	I - Accommodation and food service activities	453	319	31	1	–	3.4	–	351	–	103	31	(11)	(1)	(9)
15	J - Information and communication	978	528	29	14	–	2.6	–	550	21	43	9	(5)	–	(4)
16	M - Professional scientific and technical activities	2,532	2,119	275	4	28	2.7	–	2,250	176	566	237	(99)	(5)	(94)
17	N - Administrative and support service activities	9,016	7,905	567	34	1	2.5	–	8,020	487	1,045	347	(218)	(20)	(192)
18	O - Public administration and defence compulsory social security	1	1	–	–	–	3.5	–	1	–	–	–	–	–	–
19	P - Education	19	15	–	–	–	2.6	–	15	–	3	–	–	–	–
20	Q - Human health and social work activities	185	152	9	–	–	3.4	–	161	–	12	97	(55)	–	(55)
21	R - Arts, entertainment and recreation	146	118	8	19	2	4.8	–	147	–	81	5	(4)	(2)	(2)
22	S - Other service activities	241	10	–	–	–	0.3	–	10	–	–	–	–	–	–

Other climate change mitigating actions that are not covered in the EU Taxonomy

The table below reports other climate change mitigating actions that support counterparties in the transition and adaptation process for the objectives of climate change mitigation and adaptation. These mitigating actions include green bonds, sustainable bonds, sustainability-linked bonds, green loans and sustainability-linked loans, that are linked to aspects of climate change. The exposures reported in this table do not need to be aligned with the criteria laid out in the EU Taxonomy Regulation 2020/852 and would not be considered under the Green Asset Ratio ('GAR').

We have set out below our assessment of the actions to mitigate climate-related risks, and reported these on-balance sheet exposures in the table. These include loans invested in energy

efficiency, green buildings, clean transportation and renewable energy. Related exposures have been included where the use of proceeds is determined to be investments in projects that aim to mitigate climate transition or physical risk. Where it was not possible to fully determine whether sustainability-linked products are linked to aspects of climate change, these exposures have been excluded.

HSBC Continental Europe aims to continue to engage with business customers to increase contribution in projects which help to support the transition to a lower-carbon economy.

Capital and Risk Management Pillar 3 Disclosures at 31 December 2022

Table 45: Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

Type of financial instrument	Type of counterparty	Gross carrying amount €m	Type of risk mitigated (Climate change transition risk)	Type of risk mitigated (Climate change physical risk)	Qualitative information on the nature of the mitigating actions
Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	97	Y	N	These bonds are invested in acquisition, construction or refurbishment of green buildings, renewable energy and low carbon transportation, thereby mitigating transition risk that might arise from changing governmental, technological and social demands placed upon the more environmentally destructive practices. This financing is intended to help encourage a shift towards alternatives.
	Non-financial corporations	–	–	–	
	– of which: Loans collateralised by commercial immovable property	–	–	–	
	Other counterparties	117	Y	Y	These bonds are invested in projects whose aim is to mitigate both transition and physical risks. They finance renewable energy projects, energy efficient buildings, green transportation (electric rail infrastructure, electric buses), research & development and deployment of innovative low carbon technology, which help to reduce dependency on fossil fuel intensive energy and then highly contribute to mitigate transition risk. Some bonds support projects which contribute to mitigate climate physical risk, such as soil erosion prevention.
Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	19	Y	N	These loans are part of the ambition of investing/ financing \$750bn to \$1tn in sustainable projects by 2030. They mainly finance green buildings projects, which support the transition to a lower carbon economy.
	Non-financial corporations	240	Y	N	These loans are part of the ambition of investing/ financing \$750bn to \$1tn in sustainable projects by 2030. They finance green buildings projects (buildings refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
	– of which: Loans collateralised by commercial immovable property	–	–	–	
	Households	4	Y	N	These loans are invested in housing refurbishment and renewable energy projects in order to improve energy efficiency, which contributes to mitigate transition risk.
	– of which: Loans collateralised by residential immovable property	–	–	–	
	– of which: building renovation loans	–	–	–	
	Other counterparties	–	–	–	

Appendix I

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

CRR reference	Description	Rationale
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.

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A		Group	
ADEME	<i>Agence De l'Environnement et de la Maîtrise de l'Energie</i>		HSBC Holdings together with its subsidiary undertakings
AFL	Accelerating Female Leadership	H	
AFS ¹	Available-for-sale	HCSF	High Council for Financial Stability
AGM	Annual General Meeting	HR	Human Resources
AIL	Accelerating into Leadership	HSBC	HSBC Holdings together with its subsidiary undertakings
ALCM	Asset, Liability and Capital Management	HTC&S SVaR	Hold-to-collect-and-sell stressed value at risk
ALCO	Asset and Liability Management Committee	I	
AT1 capital	Additional tier 1 capital	IAA ¹	Internal Assessment Approach
B		ICAAP ¹	Internal Capital Adequacy Assessment Process
BCBS	Basel Committee on Banking Supervision	ICG	Individual capital guidance
bps	basis points	IEA	International Energy Agency
BSM	Balance Sheet Management	IFRSs	International Financial Reporting Standards
C		ILAA	Individual Liquidity Adequacy Assessment
CCM	Environmentally sustainable	ILR	Inherent Liquidity Risk
CCP	Central counterparty	IMA	Internal Models Approach
CCR ¹	Counterparty credit risk	IMM1	Internal Model Method
CDP	Carbon Disclosure Project	INSEE	Notary price index
CDS ¹	Credit default swap	IPU	Intermediate Parent Undertaking
CEO	Chief Executive Officer	IRB ¹	Internal ratings based approach
CESGROF	Environmental, Social and Governance Risk Oversight Forum	IRC ¹	Incremental risk charge
CET1 ¹	Common Equity Tier 1	ITS	Implementing Technical Standard
CIU	Collective investment undertakings	L	
CoS	Chief of Staff	LAB	Liquid Asset Buffer
CRA ¹	Credit risk adjustment	LCR	Liquidity Coverage Ratio
CRD IV ¹	Capital Requirements Directive	LFRF	Liquidity and Funding Risk Management Framework
CRE ¹	Commercial real estate	LGD ¹	Loss given default
CRM	Credit risk mitigation/mitigant	M	
CRO	Chief Risk Officer	MI	Management Information
CRR	Capital Requirements Regulation	MREL	Minimum requirements for own funds and eligible liabilities
CSA	Credit Support Annex	MRT	Material Risk Taker
CSO	Chief Sustainability Officer	MSS	Market Security Services
CSRD	Corporate Sustainability Reporting Directive	N	
CVA	Credit valuation adjustment	NACE	The Statistical Classification of Economic Activities in the European Community
D		NFRD	Non-financial Reporting Directive
D-SIB	Domestic-Systemically Important Bank	NGO	Non-Governmental Organisation
E		NPS	Net Promoter Score
EAD ¹	Exposure at default	NQH	Non Qualifying Hedge
EBA	European Banking Authority	NSFR	Net Stable Funding Ratio
EBRD	European Bank for Reconstruction and Development	NZBA	Net-Zero Banking Alliance
EC	European Commission	NZE	Net-Zero Emission
ECB	European Central Bank	O	
EEA	European Economic Area	OCR	Overall Capital Requirement
EL ¹	Expected loss	OECD	Organisation for Economic Cooperation and Development
ELCs	Entity Level Controls	OTC ¹	Over-the-counter
EPBD	Energy Performance of Building Directive	P	
EPC	Energy Performance Certificate	P1R	Pillar 1 requirement
ESG	Environmental, Social and Governance	P2G	Pillar 2 guidance
ESRS	European Sustainability Reporting Standards	P2R	Pillar 1 requirement
EU	European Union	PD ¹	Probability of default
EVE ¹	Economic value of equity	PFE ¹	Potential future exposure
F		POCI	Purchased or originated credit-impaired
FIM	Functional Instruction Manual	PP&E	Property plant and equipment
FPC ¹	Financial Policy Committee (UK)	PRA ¹	Prudential Regulation Authority (UK)
FSB	Financial Stability Board	R	
G		RAS	Risk appetite statement
GAR	Green Asset Ratio	RBM ¹	Ratings Based Method
GCEL	Global Coal Exit List	RMM	Risk Management Meeting of the Group Management Board
GB	Global Banking	RNIV	Risks not in VaR
GHG	Greenhouse gas	RRCS	Reputational Risk and Client Selection Committee
GOGEL	Global Oil and Gas Exit List	RWA ¹	Risk-weighted asset

S	
S&P	Standard and Poor's rating agency
SBTI	Science Based Targets Initiative
SOT	Standard Outlier Test
STD ¹	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
SFM ¹	Supervisory Formula Method
SFT ¹	Securities Financing Transactions
SME	Small and medium-sized enterprise
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
T	
TCFD	Task Force on Climate-related Financial Disclosure
TLAC ¹	Total Loss Absorbing Capacity
TNFD	Task Force on Nature-related Financial Disclosure
TTC ¹	Through-the-cycle
T1 capital	Tier 1 capital
T2 capital	Tier 2 capital
U	
UK	United Kingdom
UNGC	United Nations Global Compact
V	
VaR ¹	Value at risk
W	
WPB	Wealth Management and Private Banking

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

Appendix III

Cautionary statement regarding forward-looking statements

These *Pillar 3 Disclosures 2022* contain certain forward looking statements with respect to HSBC Continental Europe's ('the company') financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and the company's ability to contribute to the HSBC group's (the "Group") environmental, social and governance ('ESG') targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the company's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them.

Forward-looking statements speak only as of the date they are made. The company makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward looking statements. Written and/or oral forward-looking statements may also be made in the Group's periodic reports to the US Securities and Exchange Commission, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the company's Directors, officers or employees to third parties, including financial analysts.

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

- changes in general economic conditions in the markets in which the company operates, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment and creditworthy customers beyond those factored into consensus forecasts (including, without limitation, as a result of the Russia-Ukraine war and, to a lesser extent, the Covid-19 pandemic); the Russia-Ukraine war and the Covid-19 pandemic and their impact on global economies and the markets where the company operates, which could have a material adverse effect on (among other things) the company's financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for the company's ECL measurements (including, without limitation, as a result of the Russia-Ukraine war, inflationary pressures and the Covid-19 pandemic); changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding or capital markets, which may affect the company's ability to meet its obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments, both in Europe and in other regions such as Asia, producing social instability or legal uncertainty, such as the Russia-Ukraine war (including the continuation and escalation thereof) and the related imposition of sanctions and trade restrictions, the EU's relationship with the UK, supply chain restrictions and disruptions, sustained increases in energy prices and key commodities and diplomatic tensions between China and the US, extending to the EU and the UK, alongside other potential areas of tension, which may adversely affect the group by creating regulatory, reputational and market risks; the efficacy of government, customer, and the company's and the Group's actions in managing and mitigating ESG risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon

emissions, each of which can impact the company both directly and indirectly through its customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using the company as a conduit for illegal activities without the company's knowledge; the discontinuation of certain key lbors and the development of near risk-free benchmark rates, as well as the transition of legacy lbors contracts to near risk-free benchmark rates, which exposes the company to material execution risks, including in relation to the effectiveness of the Group's lbors remediation strategy, and increases some financial and non-financial risks; and price competition in the market segments that the company serves;

- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the company operates and the consequences thereof (including, without limitation, actions taken as a result of the impact of the Russia-Ukraine war on inflation and as a result of the Covid-19 pandemic); initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to the company, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; the EU's relationship with the UK, which continues to be characterised by uncertainty and political disagreement, particularly with respect to the regulation of financial services, despite the signing of the Trade and Cooperation Agreement between the EU and the UK; changes in macro-economic and fiscal policy, which may result in fluctuations in the value of currencies; general changes in government policy that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate, including increased competition from non-bank financial services companies; and
- factors specific to the company and the Group, including the company's success in adequately identifying the risks it faces, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); the company's ability to achieve its financial, investment, capital targets and the achievement of the Group's ESG targets, commitments and ambitions, which may result in the company's failure to achieve any of the expected benefits of its strategic priorities; model limitations or failure, including, without limitation, the impact that high inflationary pressures, rising interest rates and the consequences of the Covid-19 pandemic have had on the performance and usage of financial models, which may require the company to hold additional capital, incur losses and/or use compensating controls, such as judgemental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions the company bases its financial statements on; changes in the company's ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to the company or any of its subsidiaries, which could increase the cost or decrease the

availability of the company's funding and affect its liquidity position and net interest margin; changes to the reliability and security of the company's data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact its ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; the company's dependence on loan payments and dividends from subsidiaries to meet its obligations; changes in accounting standards, including the implementation of IFRS 17 'Insurance Contracts', which may have a material impact on the way the company prepares its financial statements and (with respect to IFRS 17) may negatively affect the profitability of HSBC's insurance business; changes in the company's ability to manage third-party, fraud and reputational risks inherent in its operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect the company's ability to recruit and retain senior management and diverse and skilled personnel; and changes in the company's ability to develop sustainable finance and climate-related products consistent with the evolving expectations of its regulators, and the company's capacity to measure the climate impact from its financing activity (including as a result of data limitations and changes in methodologies), which may affect the Group's ability to achieve its climate ambition, targets and commitments, and increase the risk of greenwashing. Effective risk management depends on, among other things, the company's ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; the company's success in addressing operational, legal and regulatory, and litigation challenges; and other risks and uncertainties we identify in 'Top and emerging risks' on page 87 of the Universal Registration Document 2022.

HSBC Continental Europe

38 Avenue Kléber

75116 Paris

France

Telephone: (33 1) 40 70 70 40

www.hsbc.fr