HSBC Continental Europe

Pillar 3 Disclosures at 31 December 2023

HSBC

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The abbreviations ‘EURm’, ‘EURbn’ and EURtn represent millions, billions (thousands of millions) and trillions (millions of millions) of Euros, respectively. The abbreviation 'USD' is used for US dollars.

Introduction

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 2023 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 2023*.

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 2023 Disclosures* and are also available on page 3 of HSBC Continental Europe's *Universal Registration Document 2023*. 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 its *Pillar 3 Disclosures* on the HSBC websites, www.hsbc.com or www.hsbc.fr, concurrently with the release of its *Universal Registration Document*. These *Pillar 3 Disclosures* include regulatory information complementing the financial and risk information presented therein.

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 2023* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 25 to 51 of HSBC Continental Europe's *Universal Registration Document 2023.*

HSBC Continental Europe's *Pillar 3 Disclosures* at 31 December 2023 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 2024 and signed on its behalf by:

Joseph Swithenbank

Chief Financial Officer

Key regulatory developments

The Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') finalised its 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 to calculate RWAs. In Europe, after several rounds of negotiations between the co-legislators, near-final rules were published in December 2023. The final text is expected to be ratified in the course of 2024 and will apply from 1 January 2025. The rules include a transitional phase-in period of five years for the implementation of the output floor and a clause allowing the legislators to delay the application of the changes to market risk RWAs for up to two years.

In September 2023 the UK Prudential Regulation Authority ('PRA') confirmed its intention to delay the implementation of its rules by six months to July 2025. The new PRA rules will apply to HSBC Group at a consolidated level and may therefore affect HSBC Continental Europe indirectly.

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

In 2022, the European Banking Authority ('EBA') published its Regulatory Technical Standards ('RTS') on the IRRBB Supervisory Outlier Test, which will be used to identify institutions that might be subject to excessive losses in their banking book due to interest rate movements. The RTS defines a large decline in net interest income ('NII') as a one-year loss of NII in excess of 5 per cent of Tier 1 Capital. Following publication of the RTS, the EBA published new Implementing Technical Standards on IRRBB supervisory reporting including the new indicators introduced by the RTS.

In December 2023, Basel issued a consultation on proposed adjustments to its IRRBB standard in which it proposed to make adjustments to the interest rate shocks. It also proposed methodology changes to address concerns with the calculation of the shocks when interest rates are close to zero. The consultation will close in March 2024.

Environmental, social and governance ('ESG') risks

Globally, regulators and standard setters continue to publish proposals and discussion papers on ESG topics. Recently these have included multiple consultations on sustainability-related disclosures across jurisdictions, including the EU, and through the IFRS foundation and Basel.

The EU Corporate Sustainability Reporting Directive ('CSRD') came into force in January 2023. CSRD broadens the scope of EU entities subject to threshold criteria and impacts non-EU headquartered entities with at least one subsidiary in scope of CSRD reporting. The European Sustainability Reporting Standards under the CSRD were enacted in December 2023 with an effective date of 1 January 2024. In December 2023, France became the first EU Member State to transpose the CSRD into French law with an effective date of 1 January 2024.

The EBA published a consultation in January 2024 on the management of ESG risks and set out guidelines for the identification, measurement, management and monitoring of such risks, including detailed plans aimed at addressing the risks arising from the transition towards a climate-neutral economy in the EU. The guidelines are due to be finalised by the end of 2024 and expected to apply from January 2025.

Capital Buffers

From 2 January 2024, the French countercyclical buffer rate increased from 0.5 per cent to 1 per cent, as previously announced by the Haut Conseil de Stabilité Financière in December 2022.

Significant events

Repayments and new issuances

During 2023, HSBC Continental Europe issued Senior Non Preferred Notes as follows:

- In January 2023, with a maturity of six years for a notional amount of EUR 500 million.
- In June 2023, with maturities of six and twenty years for a total notional amount of EUR 585 million.
- In September 2023, with maturities of six years and twenty years for a total notional amount of EUR 865 million.
- In December 2023, HSBC Continental Europe redeemed two series of Senior Non Preferred Notes one year before maturity for EUR 300 million and 500 million respectively and issued new Senior Non Preferred Notes with maturity of seven years for a notional amount of EUR 800 million.

All were fully subscribed by HSBC Bank plc and recognised as debt securities in issue. Other repayments and new issuances during the year comprise:

- In March 2023, HSBC Continental Europe redeemed EUR 1.25 billion of Senior Preferred Bonds accounted as financial liabilities designated at fair value.
- In June 2023, HSBC Continental Europe repaid EUR 2.1 billion in Targeted Long-Term Refinancing Operations ('TLTRO') III funding, leaving EUR 1.1 billion as at 31 December 2023.
- In October 2023, HSBC Continental Europe repaid EUR 1.25 billion of Senior Preferred Bonds under the form of covered bonds.
- In December 2023, HSBC Continental Europe redeemed a Tier 2 Loan originally issued by HSBC Trinkaus & Burkhardt GmbH (German branch) five years before maturity for EUR 200 million and issued a new Tier 2 loan to HSBC Bank plc with maturity of eleven years for a notional amount of EUR 200 million.

Business disposals and changes of control

Sale of the retail banking operations in France

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking business in France to CCF, a subsidiary of Promontoria MMB SAS ('My Money Group'). The sale included: HSBC Continental Europe's French retail banking operations, its 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in Crédit Logement. As at 31 December 2023, the business was classified as held for sale in accordance with IFRS 5 and a net favourable impact on sale of EUR 143 million was recognised.

See Note 3 on page 211 of HSBC Continental Europe's Universal Registration Document 2023 *for the details of transaction and the accounting impacts.*

Sale of the Greece Branch operations

On 28 July 2023 HSBC Continental Europe completed the sale of its branch operations in Greece to Pancreta Bank SA. A loss of EUR 111 million was recognised upon reclassification to held for sale in accordance with IFRS 5 in the second quarter of 2022.

Planned sale of the hedge fund administration business operations in France

On 21 November 2023, HSBC entered into an exclusive agreement with BNP Paribas to transfer all HSBC's hedge fund administration business to BNP Paribas entities in several markets, including Hong Kong, Singapore, Ireland, and Luxembourg. As at 31 December 2023, the business was classified as held for sale in accordance with IFRS 5. Completion of the sale transaction is currently expected to finalise in the second half of 2024.

Acquisition of HSBC Private Bank (Luxembourg) SA

On 2 November 2023, HSBC Continental Europe acquired 100 per cent of the share capital of HSBC Private Bank (Luxembourg) SA, HSBC Group's Continental European private banking hub.

Table 1: Key metrics template ('KM1')

		At				
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023	31 Dec 2022
Ref*		**€m**	€m	€m	€m	€m
	Available own funds (amounts)					
1	Common Equity Tier 1 ('CET1') capital	**9,442**	9,198	9,042	9,066	8,970
2	Tier 1 capital	**10,887**	10,643	10,487	10,424	10,320
3	Total capital	**12,373**	12,142	12,030	11,902	11,806
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**59,538**	60,114	58,634	59,710	58,561
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)					
5	Common Equity Tier 1 ratio	**15.9**	15.3	15.4	15.2	15.3
6	Tier 1 ratio	**18.3**	17.7	17.9	17.5	17.6
7	Total capital ratio	**20.8**	20.2	20.5	19.9	20.2
	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	**3.4**	3.4	3.4	3.4	3.2
EU-7b	– *of which:* *to be made up of CET1 capital (percentage points)*	***1.9***	*1.9*	*1.9*	*1.9*	*1.8*
EU-7c	*to be made up of Tier 1 capital (percentage points)*	***2.6***	*2.6*	*2.6*	*2.6*	*2.4*
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	**11.4**	11.4	11.4	11.4	11.2
	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	**0.6**	0.6	0.6	0.3	0.1
EU-9a	Systemic risk buffer	**0.0**	0.0	0.0	0.0	0.0
EU-10a	Other Systemically Important Institution buffer	**0.3**	0.3	0.3	0.3	0.3
11	Combined buffer requirement	**3.4**	3.4	3.3	3.1	2.9
EU-11a	Overall capital requirements	**14.8**	14.8	14.7	14.4	14.1
12	CET1 available after meeting the total SREP own funds requirements	**4.5**	3.9	3.9	3.8	4.1
	Leverage ratio					
13	Total exposure measure	**257,470**	248,301	242,826	246,742	238,098
14	Leverage ratio (%)	**4.2**	4.3	4.3	4.2	4.3
	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	3.0	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)					
EU-14e	Overall leverage ratio requirements	**3.0**	3.0	3.0	3.0	3.0
	Liquidity Coverage Ratio ('LCR')[1,2]					
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**76,282**	73,359	66,383	59,582	52,713
EU-16a	Cash outflows – Total weighted value	**78,490**	75,524	67,001	58,707	50,733
EU-16b	Cash inflows – Total weighted value	**30,152**	29,625	25,335	20,332	15,792
16	Total net cash outflows (adjusted value)	**48,339**	45,899	41,666	38,375	34,940
17	Liquidity coverage ratio (%)	**158**	160	159	155	151
	Net Stable Funding Ratio ('NSFR')[1,3]					
18	Total available stable funding	**81,311**	102,216	99,689	98,755	99,388
19	Total required stable funding	**57,468**	75,241	70,484	74,525	70,352
20	NSFR ratio (%)	**141**	136	141	133	141

* *The references identify lines prescribed in the EBA template that are applicable and where there is a value.*
1 *In line with CRR requirements LCR is disclosed as an average over 12 months, whereas NSFR is disclosed as at reporting date.*
2 *The components of the LCR calculation have been represented to comply with EBA reporting requirements.*
3 *At 31 December 2023, these numbers include the impact of the sale of our retail banking operations in France.*

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

		At 31 Dec 2023		At 30 Sep 2023		At 31 Dec 2022	
		RWAs	**Capital requirement[1]**	RWAs	Capital requirement[1]	RWAs	Capital requirement[1]
		€m	**€m**	€m	€m	€m	€m
1	**Credit risk (excluding CCR)[2]**	**42,893**	**3,431**	42,302	3,384	42,303	3,384
2	– standardised approach	**9,168**	**733**	9,125	730	8,544	684
3	– foundation IRB approach	**7,691**	**615**	7,560	605	8,210	657
4	– slotting approach	**659**	**53**	724	58	350	28
EU 4a	– equities under the simple risk-weighted approach	**885**	**71**	893	71	884	71
5	– advanced IRB approach	**22,081**	**1,766**	21,672	1,734	20,801	1,664
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	**2,409**	**193**	2,328	186	3,514	281
6	**Counterparty credit risk ('CCR')**	**5,279**	**422**	6,157	493	6,036	483
7	– standardised approach	**1,879**	**150**	2,518	201	3,003	240
8	– internal model method ('IMM')	**1,983**	**159**	2,131	170	1,586	127
EU-8a	– exposures to a central counterparty ('CCP')	**180**	**14**	167	13	111	9
EU-8b	– credit valuation adjustment ('CVA')	**748**	**60**	810	65	777	62
9	– other CCR	**489**	**39**	531	42	559	45
15	**Settlement risk**	**1**	**—**	—	—	12	1
16	**Securitisation exposures in the non-trading book**	**1,185**	**95**	1,056	84	1,051	84
17	– internal ratings-based approach ('SEC-IRBA')	**629**	**50**	540	43	544	44
18	– external ratings-based approach ('SEC-ERBA') (including IAA)	**322**	**26**	310	25	332	27
19	– standardised approach ('SEC-SA')	**234**	**19**	206	16	174	14
EU-19a	– 1,250%/deduction	**—**	**—**	—	—	—	—
20	**Position, foreign exchange and commodities risks (Market risk)**	**3,992**	**320**	4,922	394	3,482	279
21	– standardised approach	**94**	**8**	88	7	122	10
22	– internal model approach	**3,898**	**312**	4,834	387	3,360	269
EU-22a	**Large exposures**	**—**	**—**	—	—	—	—
23	**Operational risk**	**6,188**	**495**	5,677	454	5,677	454
EU-23b	– standardised approach	**6,188**	**495**	5,677	454	5,677	454
29	**Total**	**59,538**	**4,763**	60,114	4,809	58,561	4,685

1 *'Capital required', here and in all tables where the term is used, represents the Pillar 1 capital charge at 8 per cent of RWAs.*
2 *'Credit Risk', here and in all tables where the term is used, excludes counterparty credit risk.*
3 *Row 24 'Amounts below the thresholds for deduction (subject to 250% risk weight)' are included in the totals in rows 1 'Credit risk (excluding CCR)' and 29 'Total'.*

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

		Quarter ended			
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
		€m	€m	€m	€m
1	**Opening RWAs at start of quarter**	**29,956**	29,802	30,922	29,361
2	Asset size	**187**	87	(1,597)	492
3	Asset quality	**114**	59	477	—
4	Model updates	**—**	—	—	—
5	Methodology and policy	**174**	70	—	1,069
6	Acquisitions and disposals	**—**	(62)	—	—
7	Foreign exchange movements	**—**	—	—	—
9	**Closing RWAs at end of quarter**	**30,431**	29,956	29,802	30,922

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

		Quarter ended			
		31 Dec 2023	30 Sep 2023	30 Jun 2023	31 Mar 2023
		€m	€m	€m	€m
1	**Opening RWAs at start of quarter**	**2,131**	1,435	1,504	1,586
2	Asset size	**(173)**	756	(46)	(69)
3	Asset quality	**18**	(43)	(22)	(20)
4	Model updates (IMM only)	**—**	—	—	—
5	Methodology and policy (IMM only)	**—**	—	—	—
6	Acquisitions and disposals	**—**	—	—	—
7	Foreign exchange movements	**7**	(17)	(1)	7
9	**Closing RWAs at end of quarter**	**1,983**	2,131	1,435	1,504

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

		VaR	SVaR	IRC	CRM	Other	Total RWAs	Total own funds requirements
		€m	€m	€m	€m	€m	€m	€m
1	**RWAs at 1 Oct 2023**	**1,043**	**2,224**	**682**	**—**	**885**	**4,834**	**387**
2	Movement in risk levels	**46**	**(426)**	**(267)**	**—**	**(160)**	**(807)**	**(65)**
3	Model updates/changes					**(129)**	**(129)**	**(10)**
8	**RWAs at 31 Dec 2023**	**1,089**	**1,798**	**415**	**0**	**596**	**3,898**	**312**
1	RWAs at 1 Jul 2023	918	1,565	582	—	628	3,693	296
2	Movement in risk levels	125	659	100	—	257	1,141	91
3	Model updates/changes							
8	RWAs at 30 Sep 2023	1,043	2,224	682	0	885	4,834	387
1	RWAs at 1 Apr 2023	1,163	1,717	432	—	843	4,155	332
2	Movement in risk levels	(245)	(152)	150	—	124	(123)	(36)
3	Model updates/changes					(339)	(339)	(27)
8	RWAs at 30 Jun 2023	918	1,565	582	0	628	3,693	296
1	RWAs at 1 Jan 2023	1,039	1,293	258	—	769	3,360	269
2	Movement in risk levels	124	424	174	—	74	795	63
3	Model updates/changes							
8	RWAs at 31 Mar 2023	1,163	1,717	432	—	843	4,155	332

Linkage to the Universal Registration Document 2023

Basis of consolidation

The basis of consolidation for the purpose of financial accounting under International Financial Reporting Standards ('IFRS'), described in Note 1 of HSBC Continental Europe's *Universal Registration Document 2023*, 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).

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

		Accounting balance sheet	De-consolidation of insurance/ other entities	Equity accounting for insurance subsidiaries	Regulatory balance sheet
	Ref †	€m	€m	€m	€m
Assets					
Cash and balances at central banks		**56,894**	**—**	**—**	**56,894**
Items in the course of collection from other banks		**273**	**—**	**—**	**273**
Trading assets		**17,249**	**—**	**—**	**17,249**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss		**13,590**	**(13,425)**	**—**	**165**
		—	**—**	**—**	**—**
Derivatives		**45,522**	**(50)**	**—**	**45,472**
Loans and advances to banks		**5,816**	**(268)**	**—**	**5,548**
Loans and advances to customers		**50,127**	**—**	**—**	**50,127**
– *of which:* *impairment allowances on IRB portfolios*		***636***	**—**	**—**	***636***
impairment allowances on standardised portfolios		***141***	**—**	**—**	***141***
Reverse repurchase agreements – non-trading		**24,490**	**48**	**—**	**24,538**
Financial investments		**22,608**	**(8,323)**	**—**	**14,285**
Capital invested in insurance and other entities		**—**	**542**	**511**	**1,053**
Assets held for sale		**23,211**	**—**	**—**	**23,211**
Prepayments, accrued income and other assets		**21,453**	**(885)**	**—**	**20,568**
– *of which: retirement benefit assets*		**—**	**—**	**—**	**—**
Current tax assets		**599**	**(38)**	**—**	**561**
Interests in associates and joint ventures		**—**	**—**	**—**	**—**
Goodwill and intangible assets	*f*	**188**	**—**	**—**	**188**
Deferred tax assets	*g*	**957**	**(63)**	**—**	**894**
Total assets at 31 Dec 2023		**282,977**	**(22,462)**	**511**	**261,026**
Liabilities and equity					
Deposits by banks		**8,904**	**(10)**	**—**	**8,894**
Customer accounts		**95,247**	**145**	**—**	**95,392**
Repurchase agreements – non-trading		**11,153**	**—**	**—**	**11,153**
Items in the course of transmission to other banks		**320**	**—**	**—**	**320**
Trading liabilities		**19,877**	**—**	**—**	**19,877**
Financial liabilities designated at fair value		**9,696**	**424**	**—**	**10,120**

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

	Ref †	Accounting balance sheet	De-consolidation of insurance/ other entities	Equity accounting for insurance subsidiaries	Regulatory balance sheet
		€m	€m	€m	€m
– of which: term subordinated debt included in tier 2 capital		—	—	—	—
preferred securities included in tier 1 capital		—	—	—	—
Derivatives		43,630	(52)	—	43,578
Debt securities in issue		12,909	—	—	12,909
Accruals, deferred income and other liabilities		21,469	(1,487)	—	19,982
– of which: retirement benefit liabilities		*74*	*(2)*	—	*72*
Liabilities of disposal groups held for sale		23,817	—	—	23,817
Current tax liabilities		211	(2)	—	209
Liabilities under insurance contracts		21,035	(21,035)	—	—
Provisions		245	(3)	—	242
– of which: credit-related provisions on IRB portfolios		*98*	—	—	*98*
credit-related provisions on standardised portfolios		*13*	—	—	*13*
Deferred tax liabilities	g	5	(2)	—	3
Subordinated liabilities	k	1,951	—	—	1,951
– of which: preferred securities included in tier 1 capital		*0*	*0*	*0*	*0*
perpetual subordinated debt included in tier 2 capital		*41*	—	—	*41*
term subordinated debt included in tier 2 capital		*1,910*	—	—	*1,910*
Total liabilities at 31 Dec 2023		**270,469**	**(22,022)**	**—**	**248,447**
Called up share capital	a	1,062	—	—	1,062
Share premium account	a, b	5,264	—	—	5,264
Other equity instruments	j	1,433	—	—	1,433
Other reserves	c, d, e, h	1,480	45	—	1,525
Retained earnings	c, d, e, i	3,103	(485)	511	3,129
Total shareholders' equity		**12,341**	**(440)**	**511**	**12,412**
Non-controlling interests	l, m	166	—	—	166
– of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital		—	—	—	—
Total equity at 31 Dec 2023		**12,508**	**(440)**	**511**	**12,579**
Total liabilities and equity at 31 Dec 2023		**282,977**	**(22,462)**	**511**	**261,026**

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

	Ref †	Accounting balance sheet	De-consolidation of insurance/ other entities	Equity accounting for insurance subsidiaries	Regulatory balance sheet
		€m	€m	€m	€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
Financial assets designated at fair value					
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:* *impairment allowances on IRB portfolios*		(720)	—	—	(720)
impairment allowances on standardised portfolios		(189)	—	—	(189)
Reverse repurchase agreements – non-trading		15,374	—	—	15,374
Financial investments		19,135	(8,589)	—	10,546
Capital invested in insurance and other entities			514	395	909
Assets held for sale		23,761	—	—	23,761
Prepayments, accrued income and other assets		23,548	(826)		22,722
– *of which: retirement benefit assets*					—
Current tax assets		330	(34)	—	296
Interests in associates and joint ventures		—	—	—	—
Goodwill and intangible assets	f	140	(1)	—	139
Deferred tax assets	g	1,103	(79)	—	1,024
Total assets at 31 Dec 2022		279,081	(21,601)	395	257,875
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		9,049	474	—	9,523
– *of which:* *term subordinated debt included in tier 2 capital*				—	
preferred securities included in tier 1 capital				—	
Derivatives		55,726	(20)	—	55,706
Debt securities in issue		6,861	—	—	6,861
Accruals, deferred income and other liabilities		25,656	(1,330)	—	24,326
– *of which: retirement benefit liabilities*					
Liabilities of disposal groups held for sale		27,855	—	—	27,855
Current tax liabilities		112	(1)	—	111
Liabilities under insurance contracts		20,439	(20,439)	—	—
Provisions		286	(4)	—	282
– *of which:* *credit-related provisions on IRB portfolios*		*126*	—	—	*126*
credit-related provisions on standardised portfolios		*15*	—	—	*15*
Deferred tax liabilities	g	3		—	3
Subordinated liabilities	k	2,023	—	—	2,023
– *of which:* *perpetual subordinated debt included in tier 2 capital*		*16*	—	—	*16*
term subordinated debt included in tier 2 capital		*2,007*	—	—	*2,007*
Total liabilities at 31 Dec 2023		267,576	(21,238)	—	246,338
Called up share capital	a	1,062	(28)	—	1,034
Share premium account	a, b	5,264	—	—	5,264
Other equity instruments	j	1,433	—	—	1,433
Other reserves	c, d, e, h	1,262	65	—	1,327
Retained earnings	c, d, e, i	2,338	(400)	395	2,333
Total shareholders' equity		11,359	(363)	395	11,391
Non-controlling interests	l, m	146	—	—	146
– *of which: non-cumulative preference shares issued by subsidiaries included in tier 1 capital*					
Total equity at 31 Dec 2022		11,505	(363)	395	11,537
Total liabilities and equity at 31 Dec 2022		279,081	(21,601)	395	257,875

† *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.*

†† *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

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 meet regulatory requirements at all times. To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan approved by the Board of Directors which determines the appropriate amount and mix of capital. This is complemented by regular forecasts of capital, leverage and RWA positions throughout the year.

HSBC Continental Europe complied with the ECB's regulatory capital adequacy requirements throughout 2023. To comply with internal Total Loss Absorbing Capacity ('TLAC') requirements in CRR and with internal MREL requirements in the Bank Recovery and Resolution Directive ('BRRD'), HSBC Continental Europe issued Senior Non-Preferred bonds in January, June, September and December 2023.

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

The Internal Capital Adequacy Assessment Process ('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, counterparty 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 an important technique for understanding the sensitivity of the core assumptions 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 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 result from expected regulatory and model changes, or from structural and activity related items. These risks are monitored regularly by 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 122-3, 129, 177-8 and 184 of HSBC Continental Europe's* Universal Registration Document 2023.

HSBC Continental Europe's approach to managing its capital position is to ensure the bank complies with current regulatory requirements and internal risk appetite, and considers future regulatory requirements.

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 measures, business and/or customer-level reviews 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 capital

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, for deferred tax assets that rely on future profitability, and for negative amounts resulting from the calculation of expected loss amounts under the 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 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 provide for them to 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')

			At	
			31 Dec 2023	**31 Dec 2022**
Ref*		Ref †	**€m**	€m
	Common equity tier 1 ('CET1') capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	a	**6,327**	6,327
	– *share premium account*	b	***5,264***	*5,264*
2	Retained earnings	c	**2,211**	3,863
3	Accumulated other comprehensive income (and other reserves)	d	**1,566**	1,416
5	Transitional adjustments due to additional minority interests	l	**90**	89
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	e	**883**	(965)
6	**Common equity tier 1 capital before regulatory adjustments**		**11,077**	10,730
	Common equity tier 1 capital: regulatory adjustments			
7	Additional value adjustments		**(109)**	(275)
8	Intangible assets (net of related deferred tax liability)	f	**(188)**	(140)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	g	**(586)**	(585)
11	Fair value reserves related to gains or losses on cash flow hedges	h	**65**	232
12	Negative amounts resulting from the calculation of expected loss amounts		**(91)**	(45)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	i	**(96)**	(151)
15	Defined-benefit pension fund assets (negative amount)		**(46)**	(69)
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)		**(36)**	(633)
22	Amount exceeding the 17.65% threshold		**—**	(54)
23	– *of which:* *direct indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities*		**—**	*(37)*
25	*deferred tax assets arising from temporary differences*		**—**	*(17)*
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)		**(548)**	(39)
28	**Total regulatory adjustments to Common Equity Tier 1 ('CET1')**		**(1,635)**	(1,760)
29	**Common Equity Tier 1 ('CET1') capital**		**9,442**	8,970
	Additional tier 1 ('AT1') capital: instruments			
30	Capital instruments and the related share premium accounts		**1,432**	998
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	m	**13**	448
36	**Additional tier 1 capital before regulatory adjustments**	j	**1,445**	1,446
	Additional tier 1 capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)		**—**	(96)
43	**Total regulatory adjustments to Additional Tier 1 ('AT1') capital**		**—**	(96)
44	**Additional Tier 1 (AT1) capital**		**1,445**	1,350
45	**Tier 1 capital (T1 = CET1 + AT1)**		**10,887**	10,320
	Tier 2 ('T2') capital: instruments			
46	Capital instruments and the related share premium accounts		**1,892**	1,576
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		**—**	447
50	**Credit risk adjustments**		**14**	—
51	**Tier 2 capital before regulatory adjustments**	k	**1,906**	2,023

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

Ref*		Ref †	At 31 Dec 2023 €m	31 Dec 2022 €m
	Tier 2 capital: regulatory adjustments			
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)		**(420)**	(573)
EU-56b	Other regulatory adjustments to T2 capital		**—**	36
57	**Total regulatory adjustments to tier 2 capital**		**(420)**	(537)
58	Tier 2 capital		**1,486**	1,486
59	**Total capital (TC = T1 + T2)**		**12,373**	11,806
60	**Total risk-weighted assets**		**59,538**	58,561
	Capital ratios and buffers			
61	Common equity tier 1 (%)		**15.9**	15.3
62	Tier 1 (%)		**18.3**	17.6
63	Total capital (%)		**20.8**	20.2
64	Institution CET1 overall capital requirement (%)		**9.8**	14.1
65	– capital conservation buffer requirement (%)		**2.5**	2.5
66	– countercyclical buffer requirement (%)		**0.62**	0.11
67	– systemic risk buffer requirement (%)		**0.003**	—
EU-67a	– Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement		**0.3**	0.3
68	Common equity tier 1 available to meet buffers (%)		**9.4**	10.8
	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)		**126**	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)		**964**	648
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	g	**308**	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.*

The main movements in own funds are described in Note 1 'Significant events during the year' of HSBC Continental Europe's *Universal Registration Document 2023*.

A detailed breakdown of HSBC Continental Europe's CET1 capital, AT1 capital and Tier 2 capital is provided in its Regulatory Capital Instruments at 31 December 2023, *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 exclusion of certain exposures and the netting of exposures on certain market instruments.

The leverage ratio has been implemented in the EU for reporting and disclosure purposes, and a binding minimum requirement of 3.0 per cent 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 113 of HSBC Continental Europe's Universal Registration Document 2023.

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

		At	
		31 Dec 2023	31 Dec 2022[1]
Ref*		**€m**	€m
1	Total assets as per published financial statements	**282,977**	279,081
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(22,521)**	(21,644)
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	**(885)**	(1,039)
8	Adjustments for derivative financial instruments	**(22,959)**	(34,728)
9	Adjustment for securities financing transactions ('SFTs')	**5,349**	4,659
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**37,143**	38,457
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure)	**(2,608)**	(2,061)
12	Other adjustments[2]	**(19,027)**	(24,626)
13	**Leverage ratio total exposure measure**	**257,470**	238,098

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
2 *Our reporting reflects the exclusion of the guaranteed part of exposures arising from export credit in accordance with Point (f) of CRR Article 429a(1).*

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

		At	
		31 Dec 2023	31 Dec 2022[1]
Ref		**€m**	€m
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**186,110**	178,045
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(10,619)**	(17,073)
6	(Asset amounts deducted in determining Tier 1 capital)	**(1,635)**	(1,760)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	**173,856**	159,212
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	**7,126**	10,686
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**18,230**	18,307
10	(Exempted CCP leg of client-cleared trade exposures) ('SA-CCR')	**(3,520)**	(4,347)
11	Adjusted effective notional amount of written credit derivatives	**4,595**	4,249
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(3,925)**	(3,907)
13	Total derivatives exposures	**22,507**	24,987
Securities financing transaction ('SFT') exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	**50,296**	37,809
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(21,017)**	(19,443)
16	Counterparty credit risk exposure for SFT assets	**608**	1,667
18	Total securities financing transaction exposures	**29,887**	20,033
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	**88,794**	86,770
20	(Adjustments for conversion to credit equivalent amounts)	**(53,953)**	(49,428)
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	Off-balance sheet exposures	**34,841**	37,342
Excluded exposures			
EU-22b	(Exposures exempted (on- and off-balance sheet))	**(2,608)**	(2,061)
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	**(1,013)**	(1,415)
EU-22k	(Total exempted exposures)	**(3,621)**	(3,476)
Capital and total exposure measure			
23	Tier 1 capital	**10,887**	10,320
24	Leverage ratio total exposure measure	**257,468**	238,098
Leverage ratio			
25	Leverage ratio (%)	**4.2**	4.3
EU-25	Leverage ratio (without adjustment for excluded exposures of public development banks – Public sector investments) (%)	**4.2**	4.3
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**4.2**	4.3
26	Regulatory minimum leverage ratio requirement (%)	**3.0**	3.0
EU-27a	Overall leverage ratio requirement (%)	**3.0**	3.0
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)	**32,008**	20,818
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)	**29,279**	18,367
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)	**260,199**	240,549
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)	**260,199**	240,549

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

		At	
		31 Dec 2023	31 Dec 2022[1]
Ref		**€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) (%)	**4.2**	4.3
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) (%)	**4.2**	4.3

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

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

		At	
		31 Dec 2023	31 Dec 2022
Ref		**€m**	€m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**171,869**	157,496
EU-2	Trading book exposures	**16,448**	7,653
EU-3	Banking book exposures, of which:	**155,422**	149,844
EU-5	Exposures treated as sovereigns	**83,417**	75,870
EU-7	Institutions	**2,631**	2,976
EU-8	Secured by mortgages of immovable properties	**21,833**	23,117
EU-9	Retail exposures	**3,095**	3,463
EU-10	Corporate	**33,866**	32,130
EU-11	Exposures in default	**1,876**	2,418
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**8,704**	9,869

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	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weights applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation approach allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. 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.	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.
Counterparty credit risk	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.	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.
Equity	Non-trading book equity exposures can be assessed under the standardised or IRB approaches.	HSBC Continental Europe reports the majority of its non-trading book equity exposures under the IRB simple risk-weight approach. The standardised approach is used by sites which have no IRB permission.
Securitisation	The securitisation framework under CRR prescribes the following approaches: – internal ratings-based approach ('SEC-IRBA'); – external ratings-based approach ('SEC-ERBA'); – internal assessment approach ('IAA'); and – standardised approach ('SEC-SA').	HSBC Continental Europe only holds securitisation positions in banking book and uses: – SEC-IRBA for originated positions – IAA for sponsored positions – SEC-SA or SEC-ERBA for investments in third party positions.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').	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. 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.
Operational risk	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.	HSBC Continental Europe uses the standardised approach in determining its operational risk capital requirements.

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 Internal Capital Adequacy Assessment Process ('ICAAP'). HSBC Continental Europe's ICAAP sets out a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. As part of the process, 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 report which is approved by the Board of Directors 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 SREP 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') for total capital is composed of the P1R, the P2R, and the combined regulatory buffers.

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 has been set at 3.4 per cent since February 2023 and will be reduced to 3 per cent from 2024. 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 2023, HSBC Continental Europe is required to meet on a consolidated basis a minimum total capital ratio of at least 14.77 per cent. This requirement will decrease in 2024 due to a revised P2R while the weighted countercyclical capital buffer ('CCyB') is expected to increase.

A number of changes in CCyB will impact HSBC Continental Europe in 2024. The main ones are:

- the French CCyB has increased from 0.5 per cent to 1 per cent in January 2024, as announced by the French High Council for Financial Stability;
- the Dutch CCyB will increase from 1 per cent to 2 per cent from 31 May 2024; and
- the Irish CCyB will increase from 1 per cent to 1.5 per cent from 7 June 2024.

HSBC Continental Europe's OCR of 14.77 per cent 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 0.62 per cent Countercyclical buffer (CCyB)
- the 0.25 per cent Other Systematically Important Institution buffer (O-SII) in force since 1 January 2022; and
- the 3.4 per cent P2R mentioned above.

As at 31 December 2023, the requirement in respect of Common Equity Tier 1 is 9.78 per cent, excluding P2G.

Internal capital adequacy assessment

With support from the Risk Committee, the Board of Directors 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 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.

Close integration between risk and capital management frameworks helps to optimise the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including counterparty credit risk, market 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 ratio is 100 per cent. HSBC Continental Europe exceeded this requirement by EUR 4.9bn in 2023.

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).

HSBC Continental Europe has met the fully loaded requirements for own funds and eligible liabilities applicable to it from 1 January 2024. These are set at:

- 5.91 per cent of leverage exposure; and
- 23.77 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.

HSBC Continental Europe is a material subsidiary (CRR article 4.1.135) of a third-country G-SII and is therefore also bound by internal TLAC requirements (CRR article 92b) to be met with own funds and other internal eligible liabilities such as Senior Non Preferred Notes.

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 (3.37 per cent of RWAs as of Q4 2023); and
- 6.075 per cent of leverage exposures (90 per cent of 6.75 per cent).

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 135 to 154 of its *Universal Registration Document 2023*.

Non-performing and forborne exposures

Tables 11 to 16 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 definition of credit impaired exposures (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 2023*, 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 2023*, 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 11: Credit quality of forborne exposures ('CQ1')

	Gross carrying amount/ nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing	Total	*of which: defaulted*	*of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*of which: forborne non-performing exposure*
	€m	€m	*€m*	*€m*	€m	€m	€m	*€m*
At 31 Dec 2023								
Loans and advances	**1,650**	**619**	***619***	***619***	**(14)**	**(158)**	**669**	***141***
Other financial corporations	**41**	**—**	***—***	***—***	**(1)**	**—**	**—**	***—***
Non-financial corporations	**1,554**	**591**	***591***	***591***	**(11)**	**(155)**	**591**	***116***
Households	**55**	**28**	***28***	***28***	**(2)**	**(2)**	**78**	***25***
Loan commitments given	**15**	**97**	***97***	***97***	**—**	**—**	**—**	***—***
Total	**1,665**	**717**	***717***	***717***	**(14)**	**(158)**	**669**	***141***
At 31 Dec 2022								
Loans and advances	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*

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

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

	Gross carrying amount/nominal amount											
	Performing exposures			**Non-performing exposures**								
	Total	**Not past due or past due ≤ 30 days**	**Past due > 30 days ≤ 90 days**	**Total**	**Unlikely to pay that are not past due or are past due ≤ 90 days**	**Past due > 90 days ≤ 180 days**	**Past due > 180 days ≤ 1 year**	**Past due > 1 year ≤ 2 years**	**Past due > 2 years ≤ 5 years**	**Past due > 5 years ≤ 7 years**	**Past due > 7 years**	***of which: defaulted***
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***
At 31 Dec 2023												
Cash balances at central banks and other demand deposits	**61,366**	**61,366**	—	—	—	—	—	—	—	—	—	—
Loans and advances	**80,005**	**79,759**	**246**	**1,659**	**1,454**	**18**	**47**	**18**	**29**	**15**	**78**	***1,659***
Central banks	**5,076**	**5,076**	—	—	—	—	—	—	—	—	—	—
General governments	**726**	**726**	—	—	—	—	—	—	—	—	—	—
Credit institutions	**17,827**	**17,827**	—	—	—	—	—	—	—	—	—	—
Other financial corporations	**13,374**	**13,369**	**5**	**20**	**19**	—	—	—	—	—	**1**	***20***
Non-financial corporations	**32,347**	**32,111**	**236**	**1,543**	**1,378**	**14**	**44**	**16**	**26**	**14**	**52**	***1,543***
– *of which: SMEs*	***1,435***	***1,433***	***2***	***184***	***78***	***5***	***8***	***16***	***21***	***12***	***44***	**184**
Households	**10,655**	**10,650**	**5**	**96**	**57**	**4**	**3**	**2**	**3**	**1**	**25**	***96***
Debt securities	**13,870**	**13,870**	—	—	—	—	—	—	—	—	—	—
Central banks	**3**	**3**	—	—	—	—	—	—	—	—	—	—
General governments	**9,368**	**9,368**	—	—	—	—	—	—	—	—	—	—
Credit institutions	**3,875**	**3,875**	—	—	—	—	—	—	—	—	—	—
Other financial corporations	**521**	**521**	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	**103**	**103**	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	**128,487**	—	—	**475**	—	—	—	—	—	—	—	***475***
Central banks	**117**	—	—	—	—	—	—	—	—	—	—	—
General governments	**1,797**	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	**43,796**	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	**12,394**	—	—	**13**	—	—	—	—	—	—	—	***13***
Non-financial corporations	**69,131**	—	—	**459**	—	—	—	—	—	—	—	***459***
Households	**1,252**	—	—	**3**	—	—	—	—	—	—	—	***3***
Total	**283,728**	**154,995**	**246**	**2,134**	**1,454**	**18**	**47**	**18**	**29**	**15**	**78**	***2,134***

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

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*of which: defaulted*
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	*€m*
At 31 Dec 2022[1]												
Cash balances at central banks and other demand deposits	64,412	64,412	—	—	—	—	—	—	—	—	—	—
Loans and advances	61,996	61,625	371	1,712	1,433	17	19	15	93	33	102	*1,712*
Central banks	3,164	3,164	—	—	—	—	—	—	—	—	—	—
General governments	1,027	1,027	—	—	—	—	—	—	—	—	—	—
Credit institutions	14,726	14,717	9	—	—	—	—	—	—	—	—	—
Other financial corporations	7,243	7,215	28	19	19	—	—	—	—	—	—	*19*
Non-financial corporations	33,332	33,002	330	1,589	1,363	12	9	11	88	31	75	*1,589*
– of which: SMEs	*1,370*	*1,368*	*2*	*185*	*78*	*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	3,543	3,543	—	—	—	—	—	—	—	—	—	—
Other financial corporations	784	784	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	110	110	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	121,526	—	—	287	—	—	—	—	—	—	—	*287*
Central banks	—	—	—	—	—	—	—	—	—	—	—	—
General governments	1,592	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	39,148	—	—	—	—	—	—	—	—	—	—	—
Other financial corporations	13,168	—	—	1	—	—	—	—	—	—	—	*1*
Non-financial corporations	66,185	—	—	280	—	—	—	—	—	—	—	*280*
Households	1,433	—	—	6	—	—	—	—	—	—	—	*6*
Total	258,328	136,431	371	1,999	1,433	17	19	15	93	33	102	*1,999*

1 *Counterparty sector classifications have been revised to present 'Cash balances at central banks and other demand deposits' separately from 'Loans and advances' to central banks and to credit institutions in both periods.*

Table 13: Quality of non-performing exposures by geography ('CQ4')

31 December 2023	Gross carrying/nominal amount		Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		of which: defaulted			
On-balance-sheet exposures	**95,534**	***1,659***	**(757)**		**—**
France	**37,368**	***1,026***	**(490)**		**—**
Germany	**12,593**	***123***	**(59)**		**—**
Spain	**6,238**	***30***	**(16)**		**—**
Netherlands	**4,490**	***15***	**(21)**		**—**
United States	**3,834**	***38***	**(9)**		**—**
Other countries	**31,011**	***427***	**(162)**		**—**
Off-balance-sheet exposures	**128,962**	***475***		**58**	
France	**35,412**	***86***		**23**	
Germany	**27,265**	***136***		**7**	
Italy	**12,651**	***73***		**6**	
Spain	**11,624**	***34***		**10**	
Netherlands	**9,044**	***—***		**1**	
Other countries	**32,966**	***146***		**11**	
Total	**224,496**	***2,134***	**(757)**	**58**	**—**
31 December 2022					
On-balance-sheet exposures	74,102	1,712	(831)		—
France	25,704	910	(521)		—
Germany	13,236	338	(139)		—
Netherlands	4,236	—	(6)		—
Malta	3,957	113	(51)		—
Czech Republic	2,867	—	(1)		—
Other countries	24,103	351	(112)		—
Off-balance-sheet exposures	121,813	287		63	
France	36,721	64		27	
Germany	30,028	122		13	
Italy	9,044	—		2	
Netherlands	8,143	—		1	
Spain	6,348	35		14	
Other countries	31,529	65		6	
Total	195,915	1,999	(831)	63	—

Table 14: Credit quality of loans and advances to non-financial corporations by industry ('CQ5')

31 December 2023	Gross carrying amount		Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		of which: defaulted		
Agriculture, forestry and fishing	**62**	***25***	**(9)**	**—**
Mining and quarrying	**338**	***187***	**—**	**—**
Manufacturing	**6,569**	***285***	**(132)**	**—**
Electricity, gas, steam and air conditioning supply	**876**	***5***	**(5)**	**—**
Water supply	**305**	***—***	**—**	**—**
Construction	**498**	***32***	**(18)**	**—**
Wholesale and retail trade	**4,315**	***191***	**(124)**	**—**
Transport and storage	**2,041**	***19***	**(17)**	**—**
Accommodation and food service activities	**486**	***43***	**(14)**	**—**
Information and communication	**1,391**	***24***	**(28)**	**—**
Financial and insurance actvities	**52**	***8***	**(2)**	**—**
Real estate activities	**4,621**	***141***	**(37)**	**—**
Professional, scientific and technical activities	**5,493**	***376***	**(198)**	**—**
Administrative and support service activities	**5,087**	***123***	**(77)**	**—**
Public administration and defense, compulsory social security	**5**	***—***	**—**	**—**
Education	**18**	***2***	**—**	**—**
Human health services and social work activities	**43**	***6***	**(3)**	**—**
Arts, entertainment and recreation	**98**	***3***	**(3)**	**—**
Other services	**1,592**	***73***	**(26)**	**—**
Total	**33,890**	***1,543***	**(693)**	**—**
31 December 2022[1]				
Agriculture, forestry and fishing	79	*27*	(12)	—
Mining and quarrying	493	*183*	—	—
Manufacturing	7,337	*236*	(81)	—
Electricity, gas, steam and air conditioning supply	1,038	*5*	(5)	—
Water supply	125	*—*	—	—
Construction	463	*21*	(16)	—
Wholesale and retail trade	4,232	*164*	(129)	—
Transport and storage	2,035	*14*	(18)	—
Accommodation and food service activities	593	*50*	(18)	—
Information and communication	1,029	*10*	(7)	—
Financial and insurance actvities	—	*—*	—	—
Real estate activities	4,563	*72*	(41)	—
Professional, scientific and technical activities	5,200	*427*	(242)	—
Administrative and support service activities	6,388	*189*	(124)	—
Public administration and defense, compulsory social security	83	*—*	—	—
Education	25	*3*	(1)	—
Human health services and social work activities	149	*98*	(54)	—
Arts, entertainment and recreation	133	*4*	(3)	—
Other services	957	*87*	(24)	—
Total	34,922	*1,590*	(775)	—

1 *HSBC Continental Europe has made changes to its classification of exposure by industry sector. The most significant impacts are in 'Professional, scientific and technical activities' and 'Administrative and support service activities'. Comparatives have been restated throughout.*

The table below provides information about 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 of property, plant and equipment ('PP&E') and investment properties.

Table 15: Collateral obtained by taking possession and execution processes ('CQ7')

	At 31 Dec 2023		At 31 Dec 2022[1]	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition	**Accumulated negative changes**	Value at initial recognition	Accumulated negative changes
	€m	**€m**	€m	€m
Property, plant and equipment ('PP&E')	**—**	**—**	—	—
Other than PP&E	**3**	**(1)**	13	—
– Residential immovable property	**1**	**—**	1	—
– Commercial Immovable property	**2**	**—**	2	—
– Other	**—**	**—**	10	—
Total	**3**	**(1)**	13	—

1 *Comparatives have been updated to reflect correct denomination in EUR millions.*

Table 16: 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**							**Collateral 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**					
	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***	**Accumulated partial write-off**	**On performing exposures**	**On non-performing exposures**
	€m	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	**€m**	**€m**
At 31 Dec 2023															
Cash balances at central banks and other demand deposits	**61,366**	***61,336***	***30***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**—**	**—**
Loans and advances	**80,005**	***74,842***	***5,163***	**1,659**	***—***	***1,659***	**(132)**	***(51)***	***(81)***	**(625)**	***—***	***(625)***	**(11)**	**52,911**	**319**
Central banks	**5,076**	***5,011***	***65***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**5,009**	**—**
General governments	**726**	***684***	***42***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**236**	**—**
Credit institutions	**17,827**	***17,817***	***10***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**10,733**	**—**
Other financial corporations	**13,374**	***13,213***	***161***	**20**	***—***	***20***	**(6)**	***(1)***	***(5)***	**(11)**	***—***	***(11)***	**—**	**9,579**	**—**
Non-financial corporations	**32,347**	***27,988***	***4,359***	**1,543**	***—***	***1,543***	**(108)**	***(41)***	***(67)***	**(586)**	***—***	***(586)***	**(11)**	**17,367**	**259**
– *of which: SMEs*	***1,435***	**1,195**	**240**	***184***	**—**	**184**	***(13)***	**(6)**	**(7)**	***(97)***	**—**	**(97)**	***(11)***	***931***	***77***
Households	**10,655**	***10,129***	***526***	**96**	***—***	***96***	**(18)**	***(9)***	***(9)***	**(28)**	***—***	***(28)***	**—**	**9,987**	**60**
Debt securities	**13,871**	***13,820***	***45***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**2,395**	**—**
Central banks	**3**	***3***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**—**	**—**
General governments	**9,368**	***9,368***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**1,594**	**—**
Credit institutions	**3,875**	***3,831***	***45***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**783**	**—**
Other financial corporations	**522**	***516***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**18**	**—**
Non-financial corporations	**103**	***103***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***	**—**	**—**	**—**
Off-balance-sheet exposures	**128,487**	***104,460***	***3,013***	**475**	***—***	***238***	**(26)**	***(9)***	***(9)***	**(32)**	***—***	***(13)***	**—**	**611**	**2**

Table 16: 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							Collateral 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					
	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***	**Accumu-lated partial write-off**	**On perfor-ming expo-sures**	**On non-perfor-ming expo-sures**
	€m	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	***€m***	***€m***	**€m**	**€m**	**€m**
Central banks	**117**	***117***	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
General governments	**1,797**	***1,793***	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Credit institutions	**43,796**	***41,810***	***3***	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial corporations	**12,394**	***11,018***	***149***	**13**	**—**	***10***	**(4)**	**—**	**—**	**—**	**—**	**—**	**—**	**212**	**—**
Non-financial corporations	**69,131**	***48,786***	***2,832***	**459**	**—**	***226***	**(22)**	***(9)***	***(9)***	**(32)**	**—**	***(13)***	**—**	**398**	**2**
Households	**1,252**	***936***	***29***	**3**	**—**	***2***	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**—**
Total	**283,729**	***254,458***	***8,251***	**2,134**	**—**	***1,897***	**(158)**	***(60)***	***(90)***	**(657)**	**—**	***(638)***	**(11)**	**55,917**	**321**
At 31 Dec 2022[1]															
Cash balances at central banks and other demand deposits	64,412	*64,144*	*268*	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances[1]	61,996	*55,043*	*6,953*	1,712	—	*1,712*	(156)	*(34)*	*(122)*	(674)	—	*(674)*	(24)	36,455	370
Central banks	3,164	*3,164*	—	—	—	—	—	—	—	—	—	—	—	3,100	—
General governments	1,027	*979*	*49*	—	—	—	—	—	—	—	—	—	—	234	—
Credit institutions	14,726	*14,714*	*12*	—	—	—	—	—	—	—	—	—	—	8,458	—
Other financial corporations	7,243	*7,012*	*231*	18	—	*18*	(4)	*(1)*	*(3)*	(3)	—	*(3)*	—	3,651	1
Non-financial corporations[1]	33,332	*26,820*	*6,512*	1,590	—	*1,590*	(136)	*(26)*	*(110)*	(639)	—	*(639)*	(24)	18,638	305
– of which: SMEs	*1,370*	1,134	236	*185*	—	185	*(117)*	(4)	(8)	*(94)*	—	(94)	*(24)*	*938*	*62*
Households	2,504	*2,354*	*149*	104	—	*104*	(16)	*(7)*	*(9)*	(32)	—	*(32)*	—	2,374	64
Debt securities	10,394	*10,199*	*185*	—	—	—	(1)	*(1)*	—	—	—	—	—	811	—
Central banks	7	*7*	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	5,950	*5,950*	—	—	—	—	—	—	—	—	—	—	—	811	—
Credit institutions	3,542	*3,405*	*138*	—	—	—	(1)	*(1)*	—	—	—	—	—	—	—
Other financial corporations	785	*757*	*21*	—	—	—	—	—	—	—	—	—	—	—	—
Non-financial corporations	110	*80*	*26*	—	—	—	—	—	—	—	—	—	—	—	—
Off-balance-sheet exposures	121,526	*102,548*	*6,707*	287	—	*193*	(33)	*(5)*	*(19)*	(30)	—	*(24)*	—	724	1
Central banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
General governments	1,592	*1,389*	*203*	—	—	—	—	—	—	—	—	—	—	—	—
Credit institutions	39,148	*37,253*	*71*	—	—	—	(1)	—	*(1)*	—	—	—	—	—	—
Other financial corporations	13,168	*11,957*	*690*	1	—	*1*	(1)	—	—	—	—	—	—	180	—
Non-financial corporations	66,185	*50,666*	*5,635*	280	—	*188*	(31)	*(5)*	*(18)*	(30)	—	*(24)*	—	537	1
Households	1,433	*1,283*	*110*	6	—	*4*	—	—	—	—	—	—	—	7	—
Total	258,328	*231,934*	*14,113*	1,999	—	*1,905*	(190)	*(40)*	*(141)*	(704)	—	*(698)*	(24)	37,990	371

1 *Counterparty sector classifications have been revised to present 'Cash balances at central banks and other demand deposits' separately from 'Loans and advances' to central banks and to credit institutions in both periods.*

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

	2023	2022
	Gross carrying amount	Gross carrying amount
	€m	€m
Initial stock of non-performing loans and advances	**1,713**	1,294
Inflows to non-performing portfolios	**1,264**	1,606
Outflows from non-performing portfolios	**1,319**	1,187
Outflows due to write-offs	**238**	93
Outflow due to other situations	**1,081**	1,094
Final stock of non-performing loans and advances	**1,658**	1,713

Table 18: Maturity of exposures ('CR1-A')

		Net exposure value				
		On demand	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**Total**
1	**Loans and advances**	**62,524**	**14,035**	**30,345**	**27,057**	**133,961**
2	**Debt securities**	**—**	**1,871**	**7,923**	**4,066**	**13,860**
3	**Total at 31 Dec 2023**	**62,524**	**15,906**	**38,268**	**31,123**	**147,821**
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

Table 19: 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 €m**	**Off-balance sheet exposure €m**	**Risk weight %**	**Exposure value €m**	**Risk weighted exposure amount €m**	**Expected loss amount €m**
Category 1	Less than 2.5 years	**54**	**14**	**50**	**68**	**34**	**—**
	Equal to or more than 2.5 years	**220**	**30**	**70**	**250**	**149**	**1**
Category 2	Less than 2.5 years	**135**	**42**	**70**	**166**	**116**	**1**
	Equal to or more than 2.5 years	**—**	**—**	**90**	**—**	**—**	**—**
Category 3	Less than 2.5 years	**101**	**2**	**115**	**102**	**117**	**3**
	Equal to or more than 2.5 years	**—**	**—**	**115**	**—**	**—**	**—**
Category 4	Less than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
Total at 31 Dec 2023	**Less than 2.5 years**	**290**	**58**		**336**	**267**	**4**
	Equal to or more than 2.5 years	**220**	**30**		**250**	**149**	**1**

		Specialised lending: Project Finance (Slotting approach)					
Regulatory categories	**Remaining maturity**	**On-balance sheet exposure €m**	**Off-balance sheet exposure €m**	**Risk weight %**	**Exposure value €m**	**Risk weighted exposure amount €m**	**Expected loss amount €m**
Category 1	Less than 2.5 years	**5**	**—**	**50**	**5**	**2**	**—**
	Equal to or more than 2.5 years	**23**	**—**	**70**	**23**	**16**	**—**
Category 2	Less than 2.5 years	**10**	**—**	**70**	**10**	**7**	**—**
	Equal to or more than 2.5 years	**64**	**—**	**90**	**64**	**57**	**1**
Category 3	Less than 2.5 years	**—**	**15**	**115**	**3**	**3**	**—**
	Equal to or more than 2.5 years	**175**	**54**	**115**	**183**	**158**	**5**
Category 4	Less than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
	Equal to or more than 2.5 years	**—**	**—**	**250**	**—**	**—**	**—**
Total at 31 Dec 2023	**Less than 2.5 years**	**15**	**15**		**18**	**12**	**—**
	Equal to or more than 2.5 years	**262**	**54**		**270**	**231**	**6**

Table 19: Specialised lending and equity exposures under the simple risk-weighted approach ('CR10') (continued)

	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**
Categories	**€m**	**€m**	**%**	**€m**	**€m**	**€m**
Equity exposures	**239**	**2**	**370**	**241**	**885**	**6**
Total at 31 Dec 2023	**239**	**2**		**241**	**885**	**6**

		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
Regulatory categories	Remaining maturity	€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)					
		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
Regulatory categories	Remaining maturity	€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					
	On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk weighted exposure amount	Expected loss amount
Categories	€m	€m	%	€m	€m	€m
Equity exposures	239	2	370	241	884	6
Total at 31 Dec 2022	239	2		241	884	6

1 *The private equity portfolio is not sufficiently diversified and is therefore risk-weighted at 370 per cent in accordance with 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 to determining impairment allowances is explained in its Universal Registration Document 2023, *and its definitions for accounting purposes of 'past due' and 'impaired' are set out on pages 135, 137 & 148.*

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 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 2023*.

In addition, the reconciliation of changes in credit risk adjustments for impaired exposures is disclosed in page 131 of HSBC Continental Europe's *Universal Registration Document 2023*.

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	– 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.	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD). – Default backstop of 90+ days past due for all portfolios.
EAD	– Cannot be lower than current balance.	– Amortisation captured for term products.
LGD	– Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn). – Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. – Discounted using cost of capital. – All collection costs included.	– Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral). – No floors. – Discounted using the original effective interest rate of the loan. – Only costs associated with obtaining/selling collateral included.
Other		– Discounted back from point of default to balance sheet date.

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 153 and about credit risk concentrations within the credit mitigation taken on page 130 of HSBC Continental Europe's Universal Registration Document 2023.

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 utilise 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 24 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 21 below reports the extent of credit risk mitigation techniques applicable to exposures under the standardised approach.

Table 20: 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	**89,044**	**53,230**	***34,825***	***18,405***	**—**
Debt securities	**11,475**	**2,395**	***—***	***2,395***	**—**
Total at 31 Dec 2023	**100,519**	**55,625**	***34,825***	***20,800***	**—**
– *of which: NPE*	***715***	***319***	***156***	***163***	**—**
– *of which: defaulted*	***715***	***319***	***156***	***163***	**—**
Loans and advances	90,466	36,825	*24,265*	*12,559*	—
Debt securities	9,582	811	—	*811*	—
Total at 31 Dec 2022	100,048	37,636	*24,265*	*13,370*	—
– *of which: NPE*	*669*	*370*	*162*	*208*	—
– *of which: defaulted*	*669*	*370*	*162*	*208*	—

Table 21: Standardised approach – Credit risk exposure and CRM effects ('CR4')

	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
Exposure classes	€m	€m	€m	€m	€m	%
Central governments or central banks	**72,250**	**774**	**73,480**	**614**	**751**	**1**
Regional government or local authorities	**1,398**	**100**	**1,479**	**32**	**5**	**—**
Public sector entities	**6,550**	**1,078**	**6,414**	**302**	**—**	**—**
Multilateral development banks	**460**	**—**	**460**	**—**	**—**	**—**
International organisations	**2,039**	**—**	**2,039**	**—**	**—**	**—**
Institutions	**359**	**1,840**	**366**	**996**	**396**	**29**
Corporates	**6,133**	**4,474**	**5,359**	**1,096**	**5,269**	**82**
Retail	**477**	**1,214**	**415**	**180**	**419**	**70**
Secured by mortgages on immovable property	**3,167**	**52**	**3,167**	**18**	**1,227**	**39**
Exposures in default	**128**	**18**	**127**	**11**	**169**	**122**
Exposures associated with particularly high risk	**9**	**12**	**9**	**5**	**22**	**150**
Equity[1]	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**1,426**	**—**	**1,426**	**—**	**909**	**64**
Total at 31 Dec 2023	**94,397**	**9,562**	**94,742**	**3,253**	**9,168**	**9**
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]	—	—	—	—	—	—
Other items	1,986	—	1,986	—	1,320	66
Total at 31 Dec 2022	86,551	11,424	86,932	4,193	9,633	11

1 *HSBC Continental Europe's significant equity investments in financial sector entities are now reported under the IRB approach and have therefore been removed from the comparatives in this and other tables.*

Table 22: Standardised approach – Exposures by asset classes and risk weights ('CR5')

	Risk weight							
Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**75%**
Central governments or central banks	**73,790**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Regional government or local authorities	**1,484**	**—**	**—**	**—**	**26**	**—**	**—**	**—**
Public sector entities	**6,716**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Multilateral development banks	**460**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
International organisations	**2,039**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Institutions	**—**	**78**	**—**	**—**	**923**	**—**	**303**	**—**
Corporates	**—**	**—**	**—**	**—**	**501**	**388**	**1,006**	**—**
Retail exposures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**596**
Exposures secured by mortgages on immovable property	**—**	**—**	**—**	**—**	**—**	**2,377**	**808**	**—**
Exposures in default	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exposures associated with particularly high risk	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Equity exposures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**105**	**—**	**—**	**—**	**514**	**—**	**—**	**—**
Total at 31 Dec 2023	**84,595**	**78**	**—**	**—**	**1,964**	**2,765**	**2,117**	**596**
Central governments or central banks	68,716	—	—	—	1	—	—	—
Regional government or local authorities	1,749	—	—	—	8	—	—	—
Public sector entities	4,948	—	—	—	—	—	20	—
Multilateral development banks	167	—	—	—	—	—	—	—
International organisations	595	—	—	—	—	—	—	—
Institutions	—	—	—	—	2,483	—	311	—
Corporates	—	—	—	—	704	—	1,210	—
Retail exposures	—	—	—	—	—	—	—	514
Exposures secured by mortgages on immovable property	—	—	—	—	—	2,074	907	—
Exposures in default	—	—	—	—	—	—	—	—
Exposures associated with particularly high risk	—	—	—	—	—	—	—	—
Equity exposures	—	—	—	—	—	—	—	—
Other items	94	—	—	—	715	—	—	—
Total at 31 Dec 2022	76,269	—	—	—	3,911	2,074	2,448	514

	Risk weight							
Exposure classes	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**	**Total**	***of which: unrated***
Central governments or central banks	**5**	**—**	**299**	**—**	**—**	**—**	**74,093**	**51,042**
Regional government or local authorities	**—**	**—**	**—**	**—**	**—**	**—**	**1,511**	**124**
Public sector entities	**—**	**—**	**—**	**—**	**—**	**—**	**6,716**	**3,695**
Multilateral development banks	**—**	**—**	**—**	**—**	**—**	**—**	**460**	**267**
International organisations	**—**	**—**	**—**	**—**	**—**	**—**	**2,039**	**1,591**
Institutions	**57**	**1**	**—**	**—**	**—**	**—**	**1,362**	**117**
Corporates	**4,518**	**42**	**—**	**—**	**—**	**—**	**6,455**	**4,440**
Retail exposures	**—**	**—**	**—**	**—**	**—**	**—**	**596**	**596**
Exposures secured by mortgages on immovable property	**—**	**—**	**—**	**—**	**—**	**—**	**3,185**	**3,185**
Exposures in default	**77**	**61**	**—**	**—**	**—**	**—**	**138**	**138**
Equity exposures[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other items	**807**	**—**	**—**	**—**	**—**	**—**	**1,426**	**458**
Total at 31 Dec 2023	**5,464**	**119**	**299**	**—**	**—**	**—**	**97,996**	**65,669**
Central governments or central banks	3	—	436	—	—	—	69,157	439
Regional government or local authorities	—	—	—	—	—	—	1,757	—
Public sector entities	—	—	—	—	—	—	4,969	3,099
Multilateral development banks	—	—	—	—	—	—	167	132
International organisations	—	—	—	—	—	—	595	72
Institutions	64	6	—	—	—	—	2,865	116
Corporates	3,987	2	—	—	—	—	5,902	4,010
Retail exposures	—	—	—	—	—	—	514	514
Exposures secured by mortgages on immovable property	—	—	—	—	—	—	2,981	2,981
Exposures in default	125	72	—	—	—	—	196	196
Equity exposures[1]	—	—	—	—	—	—	—	—
Other items	1,185	—	—	—	—	—	1,994	239
Total at 31 Dec 2022	5,364	115	436	—	—	—	91,132	11,835

1 *HSBC Continental Europe's significant equity investments in financial sector entities are now reported under the IRB approach and have therefore been removed from the comparatives in this and other tables.*

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

	At 31 Dec 2023		At 31 Dec 2022	
	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**	5	5
Institutions	**136**	**136**	130	130
Corporates	**7,550**	**7,550**	8,076	8,076
– *of which:*				
SMEs	***3***	***3***	—	—
specialised lending	—	—	—	—
Exposures under AIRB				
Central governments and central banks	**262**	**262**	174	174
Institutions	**477**	**477**	583	583
Corporates	**17,691**	**17,606**	16,367	16,315
– *of which:*				
SMEs	***38***	***38***	*27*	*27*
specialised lending	—	—	*714*	*714*
Retail	**3,736**	**3,736**	4,078	4,078
– *of which:*				
retail – SMEs – Secured by immovable property collateral	***176***	***176***	*184*	*184*
retail – non-SMEs – Secured by immovable property collateral	***2,209***	***2,209***	*2,489*	*2,489*
retail – Qualifying revolving	***1***	***1***	*5*	*5*
retail – SMEs – Other	***366***	***366***	*338*	*338*
retail – Non-SMEs – Other	***984***	***984***	*1,064*	*1,064*
Total (including FIRB exposures and AIRB exposures)	**29,857**	**29,772**	29,413	29,361

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

		Credit risk mitigation techniques				
		Funded credit protection ('FCP')				
	Total exposures[1]	**Part of exposures covered by financial collateral**	**Part of exposures covered by other eligible collateral**	**Part of exposures covered by immovable property collateral**	**Part of exposures covered by receivables**	**Part of exposures covered by other physical collateral**
	€m	**%**	**%**	**%**	**%**	**%**
A-IRB						
Central governments and central banks	**2,120**	—	—	—	—	—
Institutions	**2,102**	—	—	—	—	—
Corporates	**36,456**	**2**	**7**	**6**	**1**	—
– *of which:* *Corporates – SMEs*	***62***	—	***46***	***44***	**2**	—
Corporates – Specialised lending	—	—	—	—	—	—
Corporates – Other	***36,393***	***2***	***7***	***6***	***1***	—
Retail	**21,976**	**6**	**23**	**23**	—	—
– *of which:* *Retail – Immovable property SMEs*	***289***	***4***	***94***	***93***	**1**	—
Retail – Immovable property non-SMEs	***18,425***	***1***	***26***	***26***	—	—
Retail – Qualifying revolving	***1***	—	—	—	—	—
Retail – Other SMEs	***963***	***11***	***4***	—	***4***	—
Retail – Other non-SMEs	***2,298***	***41***	—	—	—	—
Total A-IRB at 31 Dec 2023	**62,653**	**3**	**12**	**11**	**1**	—
F-IRB						
Central governments and central banks	—	—	—	—	—	—
Institutions	**1,006**	—	—	—	—	—
Corporates	**13,639**	**8**	—	—	—	—
– *of which:* *Corporates – SMEs*	***2***	—	—	—	—	—
Corporates – Specialised lending	—	—	—	—	—	—
Corporates – Other	**13,637**	**8**	—	—	—	—
Total F-IRB at 31 Dec 2023	**14,645**	**8**	—	—	—	—

1 *Specialised lending exposures under the slotting approach are not reported as credit risk mitigation is considered in the determination of grade. Equity exposures under the IRB simple risk-weight approach are also not reported as no credit risk mitigation is applied. Details of HSBC Continental Europe exposures to both classes are reported in Table 19 on page 25.*

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')			
	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	RWAs without substitution effects (reduction effects only)	RWAs with substitution effects (both reduction and sustitution effects)
	%	%	%	%	%	%	€m	€m
A-IRB								
Central governments and central banks	—	—	—	—	—	—	**262**	**262**
Institutions	—	—	—	—	—	—	**477**	**477**
Corporates	—	—	—	—	**2**	—	**17,608**	**17,606**
– *of which:* *Corporates – SMEs*	—	—	—	—	—	—	***38***	***38***
Corporates – Specialised lending	—	—	—	—	—	—	—	—
Corporates – Other	—	—	—	—	***2***	—	***17,569***	***17,568***
Retail	—	—	—	—	**63**	—	**3,736**	**3,736**
– *of which:* *Retail – Immovable property SMEs*	—	—	—	—	—	—	***176***	***176***
Retail – Immovable property non-SMEs	—	—	—	—	***73***	—	***2,209***	***2,209***
Retail – Qualifying revolving	—	—	—	—	—	—	***1***	***1***
Retail – Other SMEs	—	—	—	—	***25***	—	***366***	***366***
Retail – Other non-SMEs	—	—	—	—	***1***	—	***984***	***984***
Total A-IRB at 31 Dec 2023	—	—	—	—	**23**	—	**22,082**	**22,081**
F-IRB								
Central governments and central banks	—	—	—	—	—	—	—	**5**
Institutions	—	—	—	—	—	—	**133**	**136**
Corporates	—	—	—	—	—	—	**7,558**	**7,550**
Corporates – Other	—	—	—	—	—	—	**7,555**	**7,547**
Total F-IRB at 31 Dec 2023	—	—	—	—	—	—	**7,691**	**7,691**

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

PD scale	On-balance sheet expo-sures €m	Off-balance-sheet expo-sures pre-CCF €m	Expo-sure weigh-ted average CCF %	Expo-sure post CCF and post CRM €m	Expo-sure weigh-ted average PD %	Number of obligors	Expo-sure weigh-ted average LGD %	Expo-sure weigh-ted average matu-rity (years)	Risk weighted exposure amount after suppor-ting factors €m	Density of risk weigh-ted expo-sure amount %	Expec-ted loss amount €m	Value adjust-ments and provis-ions €m
AIRB – Central governments and central banks												
0.00 to <0.15	2,114	5	49.3	2,116	—	11	45.0	3.9	258	12	—	
– 0.00 to <0.10	2,114	5	49.3	2,116	—	9	45.0	3.9	258	12	—	
– 0.10 to <0.15	—	—	—	—	0.1	2	45.0	1.0	—	24	—	
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	
0.25 to <0.50	—	—	—	—	—	—	—	—	—	—	—	
0.50 to <0.75	—	—	—	—	—	—	—	—	—	—	—	
0.75 to <2.50	3	—	100.0	3	0.9	2	45.0	1.7	3	86	—	
– 0.75 to <1.75	3	—	—	3	0.9	1	45.0	1.7	3	85	—	
– 1.75 to <2.5	—	—	100.0	—	2.3	1	45.0	5.0	—	162	—	
2.50 to <10.00	—	—	—	—	4.2	1	45.0	5.0	—	187	—	
– 2.5 to <5	—	—	—	—	4.2	1	45.0	5.0	—	187	—	
– 5 to <10	—	—	—	—	—	—	—	—	—	—	—	
10.00 to <100.00	—	—	—	—	13.0	1	45.0	1.0	—	214	—	
– 10 to <20	—	—	—	—	13.0	1	45.0	1.0	—	214	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	**2,117**	**5**	**49.5**	**2,119**	**—**	**15**	**45.0**	**3.9**	**261**	**12**	**—**	**—**
AIRB – Institutions												
0.00 to <0.15	1,455	1,046	32.4	1,607	0.1	137	41.5	2.2	323	20	—	
– 0.00 to <0.10	1,329	546	48.4	1,384	—	77	41.1	2.0	215	16	—	
– 0.10 to <0.15	126	500	19.2	223	0.1	60	44.4	3.1	108	48	—	
0.15 to <0.25	47	680	25.7	221	0.2	12	44.9	1.9	120	54	—	
0.25 to <0.50	—	3	90.0	3	0.4	3	45.0	1.0	1	56	—	
0.50 to <0.75	—	—	30.0	—	0.6	3	45.0	1.2	—	102	—	
0.75 to <2.5	2	217	20.1	46	1.2	9	9.9	0.3	23	50	—	
– 0.75 to <1.75	1	217	20.1	45	1.2	6	9.5	0.3	22	50	—	
– 1.75 to <2.5	1	—	60.1	1	2.3	3	45.0	1.0	1	106	—	
2.5 to <10	—	—	90.0	—	7.9	2	45.0	1.0	—	168	—	
– 2.5 to <5	—	—	—	—	—	1	—	—	—	—	—	
– 5 to <10	—	—	90.0	—	7.9	1	45.0	1.0	—	168	—	
10 to <100	—	21	21.2	4	10.0	1	45.0	5.0	10	235	—	
– 10 to <20	—	21	21.2	4	10.0	1	45.0	5.0	10	235	—	
– 20 to <30	—	—	—	—	—	—	—	—	—	—	—	
– 30 to <100	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	**1,504**	**1,967**	**28.4**	**1,881**	**0.1**	**167**	**41.2**	**2.1**	**477**	**25**	**1**	**—**
AIRB – Corporates – SME												
0.00 to <0.15	—	—	—	—	0.1	2	33.4	4.6	—	32	—	
– 0.10 to <0.15	—	—	—	—	0.1	2	33.4	4.6	—	32	—	
0.15 to <0.25	9	73	21.0	24	0.2	7	35.1	2.7	7	31	—	
0.25 to <0.50	1	—	—	1	0.4	4	25.3	3.9	—	35	—	
0.50 to <0.75	7	—	100.0	8	0.6	5	19.5	5.0	3	36	—	
0.75 to <2.5	21	—	47.2	21	2.1	14	19.9	4.0	12	58	—	
– 0.75 to <1.75	2	—	16.1	2	1.1	7	27.8	4.1	1	70	—	
– 1.75 to <2.5	19	—	79.4	19	2.2	7	19.2	3.9	11	57	—	
2.5 to <10	4	1	0.1	4	6.9	8	25.6	3.3	4	86	—	
– 2.5 to <5	—	—	—	—	—	—	—	—	—	—	—	
– 5 to <10	4	1	0.1	4	6.9	8	25.6	3.3	4	86	—	
10 to <100	1	—	20.0	1	22.0	4	7.5	2.6	—	33	—	
– 10 to <20	1	—	20.0	1	15.3	3	7.9	2.7	—	31	—	
– 20 to <30	—	—	—	—	—	—	—	—	—	—	—	
– 30 to <100	—	—	—	—	36.0	1	6.8	2.4	—	39	—	
100.00 (Default)	3	—	87.8	3	100.0	6	30.3	1.2	12	360	—	
Subtotal	**46**	**75**	**20.9**	**62**	**6.9**	**50**	**26.6**	**3.4**	**38**	**61**	**—**	**—**

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 – other												
0.00 to <0.15	**6,192**	**27,301**	**28.3**	**15,026**	**0.1**	**946**	**29.9**	**2.1**	**3,514**	**23**	**5**	
– 0.00 to <0.10	**3,973**	**18,529**	**30.6**	**10,406**	**0.1**	**612**	**28.0**	**2.0**	**1,951**	**19**	**2**	
– 0.10 to <0.15	**2,219**	**8,772**	**23.7**	**4,620**	**0.1**	**334**	**34.1**	**2.2**	**1,563**	**34**	**3**	
0.15 to <0.25	**3,050**	**7,618**	**26.4**	**5,392**	**0.2**	**601**	**30.9**	**2.2**	**2,353**	**44**	**5**	
0.25 to <0.50	**2,094**	**3,866**	**25.3**	**3,196**	**0.4**	**273**	**30.2**	**2.5**	**1,862**	**58**	**5**	
0.50 to <0.75	**1,470**	**2,989**	**27.0**	**2,382**	**0.6**	**1,288**	**27.5**	**2.5**	**1,504**	**63**	**5**	
0.75 to <2.5	**4,942**	**6,658**	**29.1**	**5,199**	**1.4**	**2,985**	**27.4**	**2.4**	**4,047**	**78**	**24**	
– 0.75 to <1.75	**3,585**	**3,597**	**30.2**	**4,441**	**1.2**	**2,301**	**27.8**	**2.4**	**3,416**	**77**	**19**	
– 1.75 to <2.5	**1,357**	**3,061**	**22.4**	**758**	**2.2**	**684**	**25.1**	**2.3**	**631**	**83**	**5**	
2.5 to <10	**2,571**	**1,790**	**30.8**	**2,975**	**4.5**	**1,366**	**20.4**	**2.4**	**2,250**	**76**	**30**	
– 2.5 to <5	**1,218**	**1,457**	**32.5**	**1,680**	**3.4**	**884**	**27.1**	**2.0**	**1,580**	**94**	**19**	
– 5 to <10	**1,353**	**333**	**23.5**	**1,295**	**5.9**	**482**	**11.8**	**2.9**	**670**	**52**	**11**	
10 to <100	**570**	**118**	**32.6**	**609**	**18.9**	**293**	**30.7**	**1.6**	**1,220**	**200**	**48**	
– 10 to <20	**516**	**62**	**25.5**	**532**	**16.4**	**157**	**32.0**	**1.5**	**1,113**	**209**	**41**	
– 20 to <30	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
– 30 to <100	**54**	**56**	**40.5**	**77**	**36.0**	**136**	**21.7**	**2.0**	**107**	**138**	**7**	
100.00 (Default)	**1,089**	**189**	**27.7**	**1,132**	**100.0**	**464**	**23.8**	**3.0**	**818**	**72**	**368**	
Subtotal	**21,978**	**50,529**	**27.9**	**35,911**	**4.2**	**8,216**	**28.6**	**2.2**	**17,568**	**49**	**490**	**474**
Wholesale AIRB – Total at 31 Dec 2023	**25,645**	**52,576**	**28**	**39,973**	**4**	**8,453**	**30**	**2.3**	**18,344**	**46**	**491**	**474**
AIRB – Secured by mortgage on immovable property SME												
0.00 to <0.15	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
0.15 to <0.25	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
0.25 to <0.50	**7**	**—**	**—**	**7**	**0.5**	**41**	**26.2**	**—**	**2**	**28**	**—**	
0.50 to <0.75	**21**	**—**	**—**	**21**	**0.6**	**130**	**25.5**	**—**	**5**	**25**	**—**	
0.75 to <2.5	**51**	**—**	**15.4**	**51**	**1.4**	**321**	**25.8**	**—**	**21**	**41**	**—**	
– 0.75 to <1.75	**41**	**—**	**17.1**	**41**	**1.2**	**252**	**25.9**	**—**	**16**	**38**	**—**	
– 1.75 to <2.5	**10**	**—**	**15.0**	**10**	**2.3**	**69**	**25.4**	**—**	**5**	**53**	**—**	
2.5 to <10	**168**	**1**	**42.9**	**168**	**4.2**	**985**	**24.5**	**—**	**114**	**68**	**2**	
– 2.5 to <5	**143**	**—**	**92.7**	**143**	**3.8**	**846**	**24.5**	**—**	**93**	**65**	**2**	
– 5 to <10	**25**	**1**	**15.0**	**25**	**6.8**	**139**	**24.0**	**—**	**22**	**85**	**—**	
10 to <100	**19**	**—**	**73.6**	**19**	**21.4**	**104**	**25.2**	**—**	**23**	**125**	**1**	
– 10 to <20	**6**	**—**	**—**	**6**	**12.2**	**44**	**25.4**	**—**	**6**	**113**	**—**	
– 20 to <30	**13**	**—**	**73.6**	**13**	**25.5**	**60**	**25.1**	**—**	**17**	**130**	**1**	
– 30 to <100	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
100.00 (Default)	**23**	**—**	**—**	**24**	**100.0**	**191**	**28.4**	**—**	**11**	**45**	**5**	
Subtotal	**289**	**1**	**68.6**	**290**	**12.3**	**1,772**	**25.2**	**—**	**176**	**61**	**8**	**14**
AIRB – Secured by mortgage on immovable property non-SME												
0.00 to <0.15	**2,682**	**4**	**75.0**	**2,693**	**0.1**	**17,029**	**10.7**	**—**	**87**	**3**	**—**	
– 0.00 to <0.10	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	
– 0.10 to <0.15	**2,682**	**4**	**75.0**	**2,693**	**0.1**	**17,029**	**10.7**	**—**	**87**	**3**	**—**	
0.15 to <0.25	**5,367**	**21**	**75.0**	**5,400**	**0.2**	**31,609**	**11.4**	**—**	**252**	**5**	**1**	
0.25 to <0.50	**4,416**	**12**	**75.0**	**4,439**	**0.4**	**26,615**	**12.6**	**—**	**389**	**9**	**2**	
0.50 to <0.75	**1,810**	**8**	**77.3**	**1,822**	**0.7**	**10,143**	**12.0**	**—**	**238**	**13**	**1**	
0.75 to <2.5	**2,844**	**14**	**78.9**	**2,864**	**1.2**	**17,673**	**13.1**	**—**	**596**	**21**	**5**	
– 0.75 to <1.75	**2,573**	**12**	**77.0**	**2,590**	**1.1**	**15,724**	**13.2**	**—**	**517**	**20**	**4**	
– 1.75 to <2.5	**271**	**2**	**90.0**	**274**	**2.3**	**1,949**	**12.2**	**—**	**79**	**29**	**1**	
2.5 to <10	**884**	**2**	**85.0**	**889**	**4.9**	**5,405**	**13.2**	**—**	**389**	**44**	**6**	
– 2.5 to <5	**669**	**2**	**87.5**	**673**	**4.1**	**4,165**	**13.4**	**—**	**278**	**41**	**4**	
– 5 to <10	**215**	**—**	**75.0**	**216**	**7.2**	**1,240**	**12.5**	**—**	**111**	**51**	**2**	
10 to <100	**157**	**1**	**75.0**	**159**	**16.5**	**1,010**	**15.8**	**—**	**134**	**84**	**4**	
– 10 to <20	**128**	**—**	**75.0**	**129**	**13.0**	**768**	**15.7**	**—**	**106**	**82**	**3**	
– 20 to <30	**24**	**1**	**75.0**	**25**	**27.5**	**200**	**15.5**	**—**	**24**	**96**	**1**	
– 30 to <100	**5**	**—**	**—**	**5**	**51.6**	**42**	**19.0**	**—**	**4**	**75**	**1**	
100.00 (Default)	**150**	**—**	**75.0**	**162**	**100.0**	**1,242**	**21.1**	**—**	**126**	**78**	**33**	
Subtotal	**18,310**	**62**	**79.4**	**18,428**	**1.7**	**110,726**	**12.1**	**—**	**2,211**	**12**	**53**	**38**

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 – Qualifying revolving retail exposures												
0.00 to <0.15	78	—	—	—	—	49,652	—	—	—	—	—	
– 0.00 to <0.10	11	—	—	—	—	9,231	—	—	—	—	—	
– 0.10 to <0.15	67	—	—	—	—	40,421	—	—	—	—	—	
0.15 to <0.25	69	—	—	—	—	37,813	—	—	—	—	—	
0.25 to <0.50	38	—	—	—	—	20,648	—	—	—	—	—	
0.50 to <0.75	18	—	—	—	—	9,500	—	—	—	—	—	
0.75 to <2.5	42	—	—	—	—	22,760	—	—	—	—	—	
– 0.75 to <1.75	33	—	—	—	—	17,730	—	—	—	—	—	
– 1.75 to <2.5	9	—	—	—	—	5,030	—	—	—	—	—	
2.5 to <10	14	—	—	—	—	7,341	—	—	—	—	—	
– 2.5 to <5	7	—	—	—	—	3,667	—	—	—	—	—	
– 5 to <10	7	—	—	—	—	3,674	—	—	—	—	—	
10 to <100	5	—	—	—	—	2,381	—	—	—	—	—	
– 10 to <20	3	—	—	—	—	1,498	—	—	—	—	—	
– 20 to <30	2	—	—	—	—	868	—	—	—	—	—	
– 30 to <100	—	—	—	—	—	15	—	—	—	—	—	
100.00 (Default)	1	—	—	1	100.0	500	18.8	—	1	59	—	
Subtotal	265	—	—	1	100.0	150,595	18.8	—	1	59	—	1
AIRB – Other SME												
0.00 to <0.15	—	—	100.1	—	—	21	10.9	—	—	1	—	
– 0.00 to <0.10	—	—	100.1	—	—	21	10.9	—	—	1	—	
– 0.10 to <0.15	—	—	—	—	—	—	—	—	—	—	—	
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	
0.25 to <0.50	17	10	76.0	27	0.5	1,181	22.6	—	5	17	—	
0.50 to <0.75	46	23	84.4	70	0.6	3,254	22.6	—	11	15	—	
0.75 to <2.5	150	85	84.1	238	1.5	11,696	23.5	—	56	24	1	
– 0.75 to <1.75	106	64	82.3	171	1.2	8,665	23.8	—	38	22	1	
– 1.75 to <2.5	44	21	89.4	67	2.3	3,031	22.6	—	18	27	—	
2.5 to <10	377	710	9.0	468	4.5	22,684	21.1	—	157	34	5	
– 2.5 to <5	285	682	6.2	348	3.7	16,726	21.0	—	122	35	3	
– 5 to <10	92	28	74.9	120	6.7	5,958	21.4	—	35	29	2	
10 to <100	31	5	66.0	37	21.2	1,867	17.1	—	12	34	1	
– 10 to <20	8	3	68.3	12	12.0	781	20.9	—	4	34	—	
– 20 to <30	23	2	62.9	25	25.5	1,086	15.4	—	8	34	1	
– 30 to <100	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	117	11	40.7	124	100.0	3,660	25.3	—	126	101	24	
Subtotal	738	844	20.1	964	16.3	44,363	22.2	—	367	38	31	76
AIRB – Other non-SME												
0.00 to <0.15	85	93	3.0	303	0.1	146,996	49.0	—	43	14	—	
– 0.00 to <0.10	—	9	2.2	28	0.1	22,447	59.9	—	3	10	—	
– 0.10 to <0.15	85	84	3.1	275	0.1	124,549	47.9	—	40	15	—	
0.15 to <0.25	169	99	1.8	473	0.2	212,647	47.5	—	93	20	—	
0.25 to <0.50	193	78	5.6	396	0.4	145,088	45.5	—	119	30	1	
0.50 to <0.75	116	45	3.1	197	0.7	57,375	41.1	—	78	40	1	
0.75 to <2.5	286	102	5.2	548	1.4	212,333	44.3	—	307	56	3	
– 0.75 to <1.75	249	74	5.3	461	1.2	173,697	43.8	—	247	54	2	
– 1.75 to <2.5	37	28	4.9	87	2.4	38,636	46.6	—	60	68	1	
2.5 to <10	128	37	6.3	222	5.2	99,731	44.1	—	157	71	5	
– 2.5 to <5	89	20	7.4	134	4.1	44,045	40.3	—	85	64	2	
– 5 to <10	39	17	5.2	89	6.7	55,686	49.9	—	72	81	3	
10 to <100	92	9	1.0	86	19.8	35,172	50.1	—	99	115	9	
– 10 to <20	32	6	1.3	53	14.2	18,310	48.3	—	52	99	4	
– 20 to <30	59	3	0.4	31	27.8	16,545	53.5	—	45	142	5	
– 30 to <100	1	—	—	2	51.6	317	39.4	—	1	107	—	
100.00 (Default)	59	2	42.2	89	100.0	10,916	55.5	—	88	99	47	
Subtotal	1,128	465	6.3	2,314	5.6	920,258	46.1	—	984	43	66	46
Retail AIRB – Total at 31 Dec 2023	20,730	1,372	18	21,997	3	1,227,714	16	—	3,739	17	158	175

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

PD scale	On-balance sheet expo-sures €m	Off-balance-sheet expo-sures pre-CCF €m	Expo-sure weigh-ted average CCF %	Expo-sure post CCF and post CRM €m	Expo-sure weigh-ted average PD %	Number of obligors	Expo-sure weigh-ted average LGD %	Expo-sure weigh-ted average matu-rity (years)	Risk weighted exposure amount after suppor-ting factors €m	Density of risk weigh-ted expo-sure amount %	Expec-ted loss amount €m	Value adjust-ments and provis-ions €m
FIRB – Central governments and central banks												
0.00 to <0.15	—	—	75.5	36	—	—	45.0	2.5	5	15	—	
– 0.00 to <0.10	—	—	75.5	36	—	—	45.0	2.5	5	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	—	—	75.5	36	—	—	45.0	2.5	5	15	—	—
FIRB – Institutions												
0.00 to <0.15	781	379	28.0	888	0.1	144	19.1	2.5	108	12	—	
– 0.00 to <0.10	635	235	26.4	698	0.1	92	18.5	2.5	70	10	—	
– 0.10 to <0.15	146	144	30.7	190	0.1	52	21.6	2.5	38	20	—	
0.15 to <0.25	115	6	19.1	122	0.2	10	16.0	2.5	27	22	—	
0.25 to <0.50	1	6	10.0	1	0.4	4	23.4	2.5	—	33	—	
0.50 to <0.75	—	—	100.0	—	0.6	4	45.0	2.5	—	106	—	
0.75 to <2.5	—	—	100.0	—	2.1	3	45.0	2.5	—	122	—	
– 0.75 to <1.75	—	—	100.0	—	1.2	2	45.0	2.5	—	104	—	
– 1.75 to <2.5	—	—	—	—	2.3	1	45.0	2.5	—	126	—	
2.5 to <10	—	—	—	—	—	—	—	—	—	—	—	
10 to <100	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	897	391	27.6	1,011	0.1	165	18.8	2.5	135	13	—	—
FIRB – Corporates – SME												
0.00 to <0.15	—	—	—	—	—	—	—	—	—	—	—	
0.15 to <0.25	—	—	—	—	—	—	—	—	—	—	—	
0.25 to <0.50	—	—	50.0	—	0.4	1	45.0	2.5	—	60	—	
0.50 to <0.75	—	—	50.0	—	0.6	1	45.0	2.5	—	85	—	
0.75 to <2.5	—	—	50.0	—	2.3	2	45.0	2.5	—	89	—	
– 1.75 to <2.5	—	—	50.0	—	2.3	2	45.0	2.5	—	89	—	
2.5 to <10	1	2	50.0	2	6.6	5	45.0	2.5	3	136	—	
– 2.5 to <5	—	—	50.0	—	4.2	1	45.0	2.5	—	88	—	
– 5 to <10	1	2	50.0	2	6.7	4	45.0	2.5	2	137	—	
10 to <100	—	—	—	—	—	—	—	—	—	—	—	
100.00 (Default)	—	—	—	—	—	—	—	—	—	—	—	
Subtotal	1	2	50.0	2	6.4	9	45.0	2.5	3	133	—	—
FIRB – Corporates – other												
0.00 to <0.15	1,482	7,812	34.9	4,611	0.1	995	44.9	2.5	1,294	28	2	
– 0.00 to <0.10	961	4,465	39.3	3,137	0.1	604	44.7	2.5	724	23	1	
– 0.10 to <0.15	521	3,347	28.7	1,474	0.1	391	45.2	2.5	570	39	1	
0.15 to <0.25	1,635	2,902	43.8	2,741	0.2	410	37.6	2.5	1,151	42	2	
0.25 to <0.50	953	1,342	27.7	1,337	0.4	322	38.2	2.5	768	57	2	
0.50 to <0.75	630	1,428	27.1	924	0.6	425	44.0	2.5	777	84	3	
0.75 to <2.5	1,681	2,396	30.6	2,086	1.4	1,031	41.1	2.5	2,111	101	13	
– 0.75 to <1.75	1,246	1,741	31.2	1,653	1.1	792	40.4	2.5	1,551	94	8	
– 1.75 to <2.5	435	655	28.5	433	2.3	239	43.8	2.5	560	129	5	
2.5 to <10	741	675	38.4	785	4.1	448	33.0	2.5	936	119	12	
– 2.5 to <5	603	630	37.9	641	3.6	250	30.4	2.5	674	105	8	
– 5 to <10	138	45	45.3	144	6.3	198	44.6	2.5	262	182	4	
10 to <100	438	159	33.3	230	13.4	67	44.9	2.5	511	223	14	
– 10 to <20	428	157	33.1	218	12.2	50	44.9	2.5	481	221	12	
– 20 to <30	—	—	—	—	—	—	—	—	—	—	—	
– 30 to <100	10	2	48.3	12	36.0	17	45.0	2.5	30	261	2	
100.00 (Default)	138	163	65.0	209	100.0	59	44.5	2.5	—	—	89	
Subtotal	7,698	16,877	35.0	12,923	2.5	3,757	41.2	2.5	7,548	58	137	84
FIRB – Total at 31 Dec 2023	8,596	17,270	35	13,972	2	3,931	40	2	7,691	55	137	84

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	2,125	91,350	98.0	2.0	—
1.1	– *of which:* *Regional governments or local authorities*	—	*1,748*	*100.0*	—	—
1.2	*Public sector entities*	—	*7,124*	*100.0*	—	—
2	Institutions	5,089	10,300	48.0	52.0	—
3	Corporates	56,810	73,109	15.0	85.0	—
3.1	– *of which:* *Corporates – Specialised lending, excluding slotting approach*	—	—	—	—	—
3.2	*Corporates – Specialised lending under slotting approach*	*880*	*809*	—	*100.0*	—
4	Retail	*20,965*	*24,194*	13.0	*87.0*	—
4.1	– *of which:* *Retail – Secured by real estate SMEs*	*289*	*281*	*2.0*	*98.0*	—
4.2	*Retail – Secured by real estate non-SMEs*	*18,358*	*20,804*	*12.0*	*88.0*	—
4.3	*Retail – Qualifying revolving*	*265*	*264*	—	*100.0*	—
4.4	*Retail – Other SMEs*	*908*	*1,022*	*21.0*	*79.0*	—
4.5	*Retail – Other non-SMEs*	*1,145*	*1,823*	*28.0*	*72.0*	—
5	Equity	1,146	1,147	—	100.0	—
6	Other non-credit obligation assets	—	1,426	100.0	—	—
7	**Total at 31 Dec 2023**	86,135	201,525			

Counterparty credit risk

Overview

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to honour a financial obligation in a timely fashion. Whenever there is a risk that a counterparty will not repay an amount of money owed, live up to a financial commitment or honour a claim, there is credit risk. Many types of transactions present credit risk; counterparty credit risk ('CCR') considers the credit risk inherent in derivative and security financing trades. In these transactions both parties commit to make future payments, the amounts of which are dependent on the market value of an underlying product (for example the exchange rate between the US dollar and the Japanese yen).

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 155 of HSBC Continental Europe's Universal Registration Document 2023.

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

	Replace-ment cost ('RC')	Potential future exposure ('PFE')	EEPE	Alpha 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)	**1,949**	**2,349**		**1.40**	**6,017**	**6,017**	**6,017**	**1,913**
IMM (for derivatives and SFTs)			**4,776**	**1.45**	**6,925**	**6,925**	**6,925**	**1,986**
– *of which:* *securities financing transactions netting sets*			**—**		**—**	**—**	**—**	**—**
derivatives and long settlement transactions netting sets			***4,776***		***6,925***	***6,925***	***6,925***	***1,986***
Financial collateral comprehensive method (for SFTs)					**7,184**	**7,191**	**7,191**	**508**
Total at 31 Dec 2023					**20,126**	**20,133**	**20,133**	**4,407**

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

		At 31 Dec 2023		At 31 Dec 2022	
		Exposure value	**RWAs**	Exposure value	RWAs
		€m	**€m**	€m	€m
1	Total transactions subject to the Advanced method	**3,331**	**121**	2,690	264
2	(i) VaR component (including the 3× multiplier)		**28**		64
3	(ii) stressed VaR component (including the 3× multiplier)		**93**		200
4	Transactions subject to the Standardised method	**2,354**	**626**	2,463	513
5	**Total transactions subject to own funds requirements for CVA risk**	**5,685**	**748**	5,153	777

Table 29: Standardised approach – CCR exposures by regulatory exposure class and risk weights ('CCR3')

		Risk weight											
	Exposure classes	**0%**	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**	**Total exposure value**
1	Central governments or central banks	**5,096**	**—**	**—**	**—**	**41**	**—**	**—**	**—**	**32**	**—**	**—**	**5,169**
2	Regional government or local authorities	**327**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3**	**—**	**—**	**330**
3	Public sector entities	**249**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**249**
4	Multilateral development banks	**8**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**8**
5	International organisations	**43**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**43**
6	Institutions	**—**	**2,835**	**—**	**—**	**737**	**128**	**—**	**—**	**—**	**—**	**—**	**3,700**
7	Corporates	**—**	**—**	**—**	**—**	**—**	**2,741**	**—**	**—**	**70**	**—**	**—**	**2,811**
11	**Total exposure value 31 Dec 2023**	**5,723**	**2,835**	**—**	**—**	**778**	**2,869**	**—**	**—**	**105**	**—**	**—**	**12,310**
1	Central governments or central banks	5,607	—	—	—	25	2	—	—	16	—	—	5,651
2	Regional government or local authorities	—	—	—	—	—	—	—	—	—	—	—	—
3	Public sector entities	—	—	—	—	—	—	—	—	—	—	—	—
4	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	—
5	International organisations	—	—	—	—	—	—	—	—	—	—	—	—
6	Institutions	—	2,599	—	—	1,075	80	—	—	—	—	—	3,755
7	Corporates	—	—	—	—	576	3,816	—	—	40	—	—	4,432
11	Total exposure value 31 Dec 2022	5,607	2,599	—	—	1,677	3,898	—	—	55	—	—	13,837

Table 30: IRB approach – CCR exposures by exposure class and PD scale ('CCR4')

31 December 2023 PD scale	Exposure value €m	Exposure weighted average PD %	Number of obligors	Exposure weighted average LGD %	Exposure weighted average maturity (years)	RWEA €m	Density of risk weighted exposure amounts %
AIRB – Central government and central banks							
0.00 to <0.15	5	0.01	2	45	0.0	0	—
Sub-total	5	0.01	2	45	0.0	0	—
AIRB - Corporates							
0.00 to <0.15	176	0.05	27	45	2.1	44	25
0.25 to <0.50	5	0.37	2	45	2.8	4	80
0.75 to <2.50	22	1.65	6	45	2.6	26	100
Sub-total	203	0.23	35	45	2.2	74	36
AIRB - Institutions							
0.00 to <0.15	1,781	0.07	376	45	1.7	442	25
0.15 to <0.25	76	0.22	20	45	1.1	32	42
0.25 to <0.50	49	0.37	15	45	1.3	32	65
0.50 to <0.75	23	0.63	6	45	0.9	18	78
0.75 to <2.50	20	1.15	10	47	1.4	23	115
2.50 to <10.00	5	3.06	6	49	0.9	8	160
Sub-total	1,954	0.11	433	45	1.7	555	28
AIRB - Total at 31 Dec 2023	2,162	0.12	470	45	1.7	629	29
FIRB - Corporates							
0.00 to <0.15	4,164	0.07	1,832	45	1.6	886	21
0.15 to <0.25	484	0.22	248	45	1.5	209	43
0.25 to <0.50	265	0.37	168	45	1.5	149	56
0.50 to <0.75	187	0.63	99	45	1.5	137	73
0.75 to <2.50	413	1.38	432	45	2.0	452	109
2.50 to <10.00	95	4.36	92	45	1.8	142	149
10.00 to <100.00	18	10.93	15	45	2.4	42	233
100.00 (Default)	6	100.00	12	45	2.0	0	—
Sub-total	5,632	0.42	2,898	45	1.6	2,017	36
FIRB - Institutions							
0.00 to <0.15	15	0.10	31	45	0.8	3	20
0.15 to <0.25	9	0.22	5	45	2.5	5	56
0.25 to <0.50	3	0.37	2	45	0.5	1	33
Sub-total	27	0.17	38	45	1.3	9	33
FIRB - Total at 31 Dec 2023	5,659	0.42	2,936	45	1.6	2,026	36
Total (all portfolios) at 31 Dec 2023	7,821	0.34	3,406	45	1.6	2,655	34

Table 31: Composition of collateral for CCR exposures ('CCR5')

		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	
	Collateral type	Segregated €m	Un segregated €m	Segregated €m	Un segregated €m	Segregated €m	Un segregated €m	Segregated €m	Un segregated €m
1	Cash – domestic currency	—	27,937	72	23,304	—	30	—	—
2	Cash – other currencies	—	7,613	—	4,325	—	20	—	—
3	Domestic sovereign debt	10	1,718	—	539	—	13,767	—	11,679
4	Other sovereign debt	637	10,767	474	764	—	41,036	—	33,160
6	Corporate bonds	57	13,422	74	81	—	4,583	—	1,134
7	Equity securities	—	9,691	—	—	—	882	—	635
8	Other collateral	—	823	—	—	—	—	—	—
9	**Total at 31 December 2023**	704	71,971	620	29,013	—	60,318	—	46,608

Table 32: Exposures to CCPs ('CCR8')

		31 December 2023	
		Exposure value	RWEA
		€m	€m
1	**Exposures to QCCPs (total)**		**180**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**1,442**	**29**
3	(i) OTC derivatives	**187**	**4**
4	(ii) Exchange-traded derivatives	**240**	**5**
5	(iii) SFTs	**1,015**	**20**
8	Non-segregated initial margin	**1,392**	**28**
9	Prefunded default fund contributions	**0**	**123**

Collateral arrangements

HSBC Continental Europe's 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 in Note 18 on page 250 of HSBC Continental Europe's Universal Registration Document 2023.

Credit Valuation Adjustment ('CVA') hedges

In the normal course of business, HSBC Continental Europe enters into bilateral transactions that can generate risk exposure when there are 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 can be used to hedge this credit exposure. The responsibility for hedging and/or mitigating credit exposure lies within the remit of the xVA 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 165 of HSBC Continental Europe's Universal Registration Document 2023.

Table 33: Market risk under the standardised approach ('MR1')

		2023		2022	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Outright products				
1	Interest rate risk (general and specific)[1]	**—**	**—**	5	—
3	Foreign exchange risk	**94**	**8**	117	9
9	**Total**	**94**	**8**	122	10

1 *HSBC Continental Europe does not have specific risk positions related to securitisation at 31 December 2022 and 31 December 2023.*

Table 34: Market risk under the Internal Model Approach ('IMA') ('MR2-A')

		2023		2022	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**1,089**	**87**	1,039	83
(a)	Previous day's VaR ('VaRt-1')	**259**	**21**	274	22
(b)	Multiplication factor (mc) x average of previous 60 working days ('VaRavg')	**1,089**	**87**	1,039	83
2	**Stressed VaR (higher of values a and b)**	**1,798**	**144**	1,294	104
(a)	Latest available SVaR ('SVaRt-1')	**527**	**42**	274	22
(b)	Multiplication factor (ms) x average of previous 60 working days ('sVaRavg')	**1,798**	**144**	1,294	104
3	**Incremental risk charge (higher of values a and b)**	**415**	**33**	258	21
(a)	Most recent IRC value	**350**	**28**	252	20
(b)	Average IRC value	**415**	**33**	258	21
5	**Other**	**596**	**48**	769	62
6	**Total**	**3,898**	**312**	3,360	270

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 Instruction 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 169 of HSBC Continental Europe's *Universal Registration Document 2023*.

Table 35: Operational risk – RWA ('OR1')

	2023		2022	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**6,188**	**495**	5,677	454

Other risks

Further details of the other risks identified by HSBC Continental Europe are described in the Risks section of HSBC Continental Europe's Universal Registration Document 2023. *In particular, details of HSBC Continental Europe's approach to sustainability, climate and environmental risk and to reputational risk can be found on pages 55, 180 and 185 respectively therein.*

Liquidity and funding

Liquidity management across the HSBC Group

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. HSBC Group's general policy is that each defined operating entity should be self-sufficient in funding its own activities.

In line with the HSBC Group framework, HSBC Continental Europe liquidity group manages its liquidity and funding risks on a standalone basis assuming no reliance on any other Group entity unless pre-committed.

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 of Directors. 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; 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. 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 36: Quantitative information on LCR ('LIQ1')

	Quarter ended[1]							
	31 Dec 2023		30 Sep 2023		30 Jun 2023		31 Mar 2023	
	Total unweighted value	**Total weighted value**	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
	€m	**€m**	€m	€m	€m	€m	€m	€m
Number of data points used in the calculation of averages	**12**		12		12		12	
High-quality liquid assets								
Total high-quality liquid assets (HQLA)		**76,282**		73,359		66,383		59,582
Cash – Outflows								
Retail deposits and small business funding	**29,346**	**2,412**	30,752	2,519	29,664	2,435	28,412	2,337
– *of which:* *stable deposits*	***17,737***	***887***	*18,604*	*930*	*17,821*	*891*	*16,914*	*846*
less stable deposits	***11,609***	***1,525***	*12,147*	*1,588*	*11,843*	*1,544*	*11,498*	*1,491*
Unsecured wholesale funding	**83,581**	**35,884**	79,657	34,499	72,400	31,392	64,901	28,735
– Operational deposits (all counterparties) and deposits in networks of cooperative banks	**33,416**	**8,283**	32,830	8,138	29,854	7,398	25,281	6,264
– Non-operational deposits (all counterparties)	**49,491**	**26,927**	46,245	25,778	42,097	23,545	39,159	22,009
– Unsecured debt	**674**	**674**	582	582	449	449	462	462
Secured wholesale funding		**1,700**		2,205		2,517		2,566
Additional requirements	**68,448**	**16,872**	67,174	17,141	62,481	16,287	58,031	15,446
– Outflows related to derivative exposures and other collateral requirements	**5,278**	**4,726**	5,708	5,163	5,354	4,940	4,808	4,532
– Outflows related to loss of funding on debt products	**—**	**—**	—	—	—	—	—	—
– Credit and liquidity facilities	**63,170**	**12,146**	61,466	11,977	57,127	11,347	53,223	10,914
Other contractual funding obligations	**25,156**	**20,520**	22,847	17,995	18,324	13,197	14,279	8,435
Other contingent funding obligations	**20,828**	**1,102**	21,844	1,165	21,447	1,173	20,657	1,188
Total cash outflows		**78,490**		75,524		67,001		58,707
Cash – Inflows								
Secured lending transactions (including reverse repos)	**40,693**	**2,266**	40,417	3,017	39,562	3,757	39,506	4,028
Inflows from fully performing exposures	**6,089**	**5,108**	5,758	4,768	5,331	4,321	4,860	3,800
Other cash inflows	**29,770**	**22,777**	28,628	21,839	24,012	17,257	19,214	12,504
(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	**76,553**	**30,152**	74,803	29,625	68,905	25,335	63,581	20,332
Fully exempt inflows	**—**	**—**	—	—	—	—	—	—
Inflows subject to 90% cap	**—**	**—**	—	—	—	—	—	—
Inflows subject to 75% cap	**76,503**	**30,152**	74,762	29,625	68,878	25,335	63,574	20,332
Total adjusted value								
Liquidity buffer		**76,282**		73,359		66,383		59,582
Total net cash outflows		**48,339**		45,899		41,666		38,375
Liquidity coverage ratio %[2]		**158**		160		159		155

1 *The components of the LCR calculation have been represented in all periods to comply with EBA reporting requirements.*
2 *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 141 per cent as at 31 December 2023.

The below table shows the NSFR as at period-end.

Table 37: Net Stable Funding Ratio ('LIQ2')

	Unweighted value by residual maturity				Weighted value
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	€m	€m	€m	€m	€m
At 31 Dec 2023[1]					
Available stable funding ('ASF') items					
Capital items and instruments	**12,516**	**—**	**—**	**1,482**	**13,997**
Own funds	**12,516**	**—**	**—**	**1,482**	**13,997**
Other capital instruments		**—**	**—**	**—**	**—**
Retail deposits		**9,348**	**—**	**—**	**8,419**
Stable deposits		**4,448**	**—**	**—**	**4,226**
Less stable deposits		**4,899**	**—**	**—**	**4,193**
Wholesale funding		**108,474**	**3,594**	**17,240**	**58,895**
Operational deposits		**21,595**	**—**	**—**	**10,798**
Other wholesale funding		**86,879**	**3,594**	**17,240**	**48,097**
Interdependent liabilities		**—**	**—**	**—**	**—**
Other liabilities		**48,428**	**—**	**—**	**—**
NSFR derivative liabilities	**1,341**				
All other liabilities and capital instruments not included in the above categories		**48,428**	**—**	**—**	**—**
Total available stable funding ('ASF')					**81,311**
Required stable funding ('RSF') items					
Total high-quality liquid assets ('HQLA')					**2,009**
Assets encumbered for more than 12m in cover pool		**—**	**—**	**—**	**—**
Deposits held at other financial institutions for operational purposes		**—**	**—**	**—**	**—**
Performing loans and securities:		**33,147**	**5,808**	**44,447**	**46,021**
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		**9,618**	**1,732**	**—**	**1,341**
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		**16,915**	**1,231**	**5,002**	**6,677**
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		**3,741**	**2,112**	**20,176**	**35,007**
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		***141***	***193***	***5,592***	***3,801***
Performing residential mortgages		**729**	**714**	**17,106**	**—**
– *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		**2,145**	**20**	**2,164**	**2,997**
Interdependent assets		**—**	**—**	**—**	**—**
Other assets:		**44,665**	**—**	**3,720**	**5,449**
Physical traded commodities		**—**	**—**	**3**	**2**
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		**62**	**—**	**—**	**74**
NSFR derivative assets		**6**	**—**	**—**	**6**
NSFR derivative liabilities before deduction of variation margin posted		**16,080**	**—**	**—**	**804**
All other assets not included in the above categories		**28,518**	**—**	**3,717**	**4,564**
Off-balance sheet items		**11,958**	**7,506**	**68,843**	**3,991**
Total RSF		**—**	**—**	**—**	**57,468**
Net Stable Funding Ratio (%)					**141**
At 30 Sep 2023					
Available stable funding ('ASF') items					
Capital items and instruments	13,548	—	—	1,961	15,509
Own funds	13,548	—	—	1,961	15,509
Other capital instruments		—	—	—	—
Retail deposits		30,004	—	—	27,571
Stable deposits		18,495	—	—	17,571
Less stable deposits		11,509	—	—	10,000
Wholesale funding		101,826	1,939	19,956	59,136
Operational deposits		30,079	—	—	15,039
Other wholesale funding		71,747	1,939	19,956	44,097
Interdependent liabilities		—	—	—	—
Other liabilities		39,639	—	—	—
NSFR derivative liabilities	895				
All other liabilities and capital instruments not included in the above categories		39,639	—	—	—
Total available stable funding ('ASF')					102,216
Required stable funding ('RSF') items					
Total high-quality liquid assets ('HQLA')					2,570
Assets encumbered for more than 12m in cover pool		—	—	4,988	4,239

Table 37: Net Stable Funding Ratio ('LIQ2') (continued)

	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	€m	€m	€m	€m	€m
Deposits held at other financial institutions for operational purposes		—	—	—	—
Performing loans and securities:		35,154	6,256	53,282	54,212
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		12,447	1,282	—	1,660
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		15,764	1,197	4,359	6,215
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		4,788	2,952	25,054	42,022
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*70*	*81*	*4,121*	3,815
Performing residential mortgages		859	798	19,269	—
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		60	60	1,540	—
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		1,295	27	4,600	4,315
Interdependent assets		—	—	—	—
Other assets:		29,635	—	8,750	10,230
Physical traded commodities				—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		23	—	—	336
NSFR derivative assets		141			141
NSFR derivative liabilities before deduction of variation margin posted		18,622			931
All other assets not included in the above categories		10,849	—	8,750	8,822
Off-balance sheet items		12,962	5,818	69,679	3,989
Total RSF					75,241
Net Stable Funding Ratio (%)					136
At 30 Jun 2023					
Available stable funding ('ASF') items					
Capital items and instruments	12,866	—	—	1,979	14,845
Own funds	12,866	—	—	1,979	14,845
Other capital instruments		—	—	—	—
Retail deposits		30,733	—	—	28,252
Stable deposits		19,090	—	—	18,135
Less stable deposits		11,643	—	—	10,116
Wholesale funding		96,517	3,145	19,517	56,593
Operational deposits		32,300	—	—	16,150
Other wholesale funding		64,217	3,145	19,517	40,443
Interdependent liabilities		—	—	—	—
Other liabilities		38,122	—	—	—
NSFR derivative liabilities	2,009				
All other liabilities and capital instruments not included in the above categories		38,122	—	—	—
Total available stable funding ('ASF')					99,689
Required stable funding ('RSF') items					
Total high-quality liquid assets ('HQLA')					2,033
Assets encumbered for more than 12m in cover pool		—	—	4,988	4,239
Deposits held at other financial institutions for operational purposes		—	—	—	—
Performing loans and securities:		38,972	5,883	50,788	51,106
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		16,123	797	—	718
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		14,457	1,087	3,455	5,008
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		5,287	3,176	24,113	42,008
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*74*	*68*	*4,225*	3,877
Performing residential mortgages		888	809	19,740	—
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		60	59	1,539	—
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		2,217	14	3,481	3,373
Interdependent assets		—	—	—	—
Other assets:		25,714	—	7,465	9,034
Physical traded commodities				—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		205	—	2	562

Table 37: Net Stable Funding Ratio ('LIQ2') (continued)

	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	Weighted value
	€m	€m	€m	€m	€m
NSFR derivative assets		77			77
NSFR derivative liabilities before deduction of variation margin posted		16,333			817
All other assets not included in the above categories		9,099	—	7,463	7,578
Off-balance sheet items		15,174	6,413	66,683	4,071
Total RSF					70,484
Net Stable Funding Ratio (%)					141
At 31 Mar 2023					
Available stable funding ('ASF') items					
Capital items and instruments	12,563	—	—	1,907	14,470
Own funds	12,563	—	—	1,907	14,470
Other capital instruments		—	—	—	—
Retail deposits		30,733	—	—	28,235
Stable deposits		18,906	—	—	17,961
Less stable deposits		11,827	—	—	10,274
Wholesale funding		94,276	3,687	19,621	55,584
Operational deposits		21,582	—	—	10,791
Other wholesale funding		72,694	3,687	19,621	44,793
Interdependent liabilities		—	—	—	—
Other liabilities		33,952	62	435	466
NSFR derivative liabilities	2,311				
All other liabilities and capital instruments not included in the above categories		33,952	62	435	466
Total available stable funding ('ASF')					98,755
Required stable funding ('RSF') items					
Total high-quality liquid assets ('HQLA')					1,135
Assets encumbered for more than 12m in cover pool		—	—	4,988	4,239
Deposits held at other financial institutions for operational purposes		—	—	—	—
Performing loans and securities:		30,743	6,016	55,910	57,594
Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		7,284	356	—	458
Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		14,673	1,654	3,912	5,688
Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs		5,547	3,205	28,011	45,542
– *of which:* *with a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*127*	*125*	*15,064*	13,190
Performing residential mortgages		762	744	18,236	—
– *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		2,476	58	5,751	5,905
Interdependent assets		—	—	—	—
Other assets:		27,829	—	6,149	7,602
Physical traded commodities				—	—
Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		—	—	—	21
NSFR derivative assets		398			398
NSFR derivative liabilities before deduction of variation margin posted		16,070			803
All other assets not included in the above categories		11,361	—	6,149	6,379
Off-balance sheet items		14,787	6,816	63,239	3,956
Total RSF					74,525
Net Stable Funding Ratio (%)					133

1 *At 31 December 2023, these numbers include the impact of the sale of our retail banking operations in France.*

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.

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 meeting, and the results of the stress testing are presented through the ILAA to the Board of Directors and ALCO.

HSBC Group’s business strategy and overall liquidity risk profile

The key aspects of the liquidity and funding risk management framework are:

- stand-alone management of liquidity and funding by operating entity;
- operating entity classification by Liquidity Monitoring Classification (‘LMC’) categorisation;
- minimum LCR & 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 framework and risk tolerance limits were approved by the RMM and the Board of Directors on the basis of recommendations made by the Risk Committee.

Overall adequacy of liquidity risk management

HSBC Continental Europe is required to manage liquidity and funding risks in accordance with the LFRF, including the preparation of an ILAA document, to ensure that:

- all material liquidity and funding risks are captured within the internal framework; and
- the risk tolerance/appetite set at HSBC Continental Europe’s level is validated, supported by an assessment of vulnerabilities through 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;
- ensures its liquidity resources contain an adequate amount of HQLAs and maintains a prudent funding profile; and
- has put in place a liquidity risk management framework that is adequate with regard to HSBC Continental Europe’s profile and strategy.

Further details of our Liquidity and funding risk may be found on page 161 of HSBC Continental Europe's Universal Registration Document 2023.

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 ΔEVE 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 under 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 on a quarterly basis.

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. Whilst HTC&S SVaR is measured weekly, other HTC&S sensitivities are monitored daily against risk limits which include breakdowns by currency, tenor basis, curve and asset class .

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 trading book foreign exchange risk and interest rate risk in the banking book.

The ΔNII is 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/2022/14). This hypothetical base case projection of our NII (excluding insurance)

follows the currency specific Parallel Up and Down EBA shock scenarios (200bps for EUR).

The ΔEVE is based on the EBA Standard Outlier Test ('SOT') +/-200bps and the 6 BCBS Outlier Test shocks: Parallel Up, Parallel Down, Steepener, 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.

Key modelling and parametric assumptions used in calculating ΔEVE and ΔNII include:

- for ΔEVE, 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;
- for ΔNII, 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 31 December 2023, repricing maturities for non-maturity deposits from retail and non-financial wholesale counterparties were:

in months	average repricing maturity	longest repricing maturity
Core part	**29**	**84**
Full amount	**14**	**84**

Behavioural assumptions are reviewed and challenged at least on an annual basis in line with the bank's policy and procedures.

HSBC Continental Europe 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 200 basis points with respect to Net Interest Income and an increase of 200 basis points with respect to Economic Value of Equity.

Table 38: Interest rate risks of non-trading book activities ('IRRBB1')

	ΔEVE		ΔNII	
	31 Dec 2023	31 Dec 2022	**31 Dec 2023**	31 Dec 2022
	€m	€m	**€m**	€m
Parallel shock up	**(1,373)**	(357)	**423**	390
Parallel shock down	**692**	197	**(415)**	(420)
Steepener shock	**(335)**	(6)		
Flattener shock	**50**	(60)		
Short rates shock up	**(323)**	(166)		
Short rates shock down	**169**	81		

On a consolidated basis, HSBC Continental Europe would see its Net Interest Income over a 1 year horizon decrease by EUR 416 million for an immediate decrease of EUR Rates of 200 basis points. The bank would see a fall of EUR 1,373 million in the Economic value of Equity at 31 December 2023 in a parallel shock up 200 basis point scenario. The sensitivity increase is driven by the high sensitivity of the fair value of the retained RBWM loans to interest rate shocks.

Further details on our IRRBB may be found on page 164 of HSBC Continental Europe's Universal Registration Document 2023.

Risk management of insurance operations

In 2023 HSBC Continental Europe operated an integrated bancassurance model which provides insurance products for customers with whom it has a banking relationship. Following the sale of the French retail banking activity to CCF on 1 January 2024, CCF will become the main distributor in France for the French Insurance business.

The insurance contracts that HSBC Continental Europe 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 on pages 216 to 226 of HSBC Continental Europe's Universal Registration Document 2023.

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 companies, Investment Firm Directive (IFD) and Investment Firm Regulation (IFR) for our Investment companies and Solvency II for our Insurance companies

In accordance with the article L 511-74 of the French Financial and Monetary Code, the remuneration policy is subject to annual independent audit 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 regulations, HSBC Continental Europe has set up a dedicated governance structure involving several separate governance 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 .management body in its management function.

The Remuneration Committee, comprising 2 independent non-executive Directors and a staff representative Director, prepares recommendations concerning the remuneration and remuneration principles to be adopted by the Board of Directors, and gives its view on the Bank's policies and practices concerning compensation, ensuring that risk and compliance considerations are duly 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 HSBC 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 of Directors.

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, the Risk Committee).

In carrying out these duties and responsibilities, the Remuneration Committee may consult any adviser or expert as it deems appropriate.

In respect of 2022 performance year, the Remuneration Committee met on 26 January 2023, 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 2022 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 incentivising risk and compliance culture;
- the 20 highest remunerations in respect of the 2022 year;
- compensation proposals for the Chief Risk Officer and the Chief Compliance Officer;
- proposals to allow the Board of Directors to approve, the terms of the remuneration for Andrew Wild and Chris Davies in respect of 2022; and
- 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 2023.

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

In respect of 2023 performance year, the Remuneration Committee met on 31 January 2024 and reviewed, in particular, the implementation in 2023 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 HSBC Group or that could negatively impact the company or the HSBC 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,
- 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 Holdings 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 and its market position.

The Group variable pay pool is expected to reflect Group performance, based on a range of financial, non-financial and contextual factors. Group uses a countercyclical funding methodology, with both a floor and a ceiling, with the payout ratio generally reducing as performance increases to avoid pro-cyclicality. The floor recognises that even in challenging times, remaining competitive is important. The ceiling recognises that at higher levels of performance it is not always necessary to continue to increase the variable pay pool, thereby limiting the risk of inappropriate behaviour to drive financial performance.

The main quantitative and qualitative performance and risk metrics used for assessment of performance include:

- HSBC Group and business unit financial performance, taking into account contextual factors driving performance, and capital requirements;
- current and future risks, taking into consideration performance against the risk appetite, financial and resourcing plan and global conduct outcomes; and
- fines, penalties and provisions for customer redress, which are automatically included in the Committee's definition of profit for determining the pool.

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 linked to sustainable risk such as reduction of carbon path, development of sustainable finance and to risks management focused in particular on improvement of financial crime risk culture, implementation of regulator or Audit recommendations, operational risk management, appropriate application of conduct principles acting 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, financial metrics (income growth, cost control, profit before tax etc.), non financial metrics linked to sustainable risks (reduction of carbon path, development of sustainable Finance, support to Group's ambitions on climate, awareness of staff on climate risks), metrics related to risk management (observance of compliance and internal control rules, reduction of operational risks and follow-up of audit points), customer recommendations, cross-businesses synergies, winning customers etc.). They may also include, at the top of the organisation or in specific business lines, diversity and inclusion metrics (such as diversity of Executive Committee, number of women top managers or within highest internal grades).

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, a '*malus*' policy 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 recover full or partial part of vested cash or shares.

Since 2020, guaranteed bonuses are no longer awarded. 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.

It should be noted that beyond the Material Risk Takers population, (see below) the great majority of the company's senior managers are affected by the minimum deferral compensation rules laid down by the HSBC Group which, for 2023, 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 Financial and Monetary 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, 359 Material Risk Takers have been identified at Group and local level in 2023.

For this population, variable remuneration is limited to twice the fixed remuneration, in accordance with the decision made by HSBC Continental Europe shareholders' Annual General Meeting on 23 May 2014. In order to maintain the competitiveness of Material Risk Takers remuneration, HSBC 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 represents less than 1/3 of total remuneration and is lower than EUR 50,000, it is granted in cash and immediately paid.

For French employees, the deferred share-based portion does not vest 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 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 2023.

Table 39: Remuneration awarded for the financial year ('REM1')

		2023				
		Management Body Supervisory function	Management Body Management function	Other Senior Management	Other identified staff	Total
		€m	€m	€m	€m	€m
Fixed remuneration	Number of identified staff		2	21	336	359
	Total fixed remuneration		1.5	9.1	63.3	73.9
	– *of which:* *cash based*[1]		1.5	9.1	63.3	73.9
	shares		—	—	—	—
	shares-linked instruments		—	—	—	—
	other instruments		—	—	—	—
	other forms			—		
Variable Pay	Number of identified staff		2	21	336	359
	Total variable pay[2]		1.8	8.1	39.5	49.5
	– *of which:* *cash based*		0.9	3.9	20.4	25.2
	deferred		0.5	1.8	7.2	9.6
	– *of which:* *shares*[3]		0.9	4.0	18.2	23.1
	deferred		0.5	2.1	8.9	11.5
	share linked instruments		—	—	—	—
	– *of which:* *deferred*		—	—	—	—
	other instruments		—	—	—	—
	– *of which:* *deferred*		—	—	—	—
	other forms[4]		—	0.2	1.0	1.2
	deferred		—	0.1	0.9	1.1
Total remuneration			3.4	17.2	102.8	123.4

1 *Cash based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2023. 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 Holdings plc shares. Vested shares are subject to a retention period of up to one year.*
4 *Indexed cash awarded to AIFM UCITS Risk takers.*

Table 40: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) ('REM2')

	2023				
	Management Body Supervisory function	Management Body Management function	Other Senior Management	Other identified staff	Total
	€m	€m	€m	€m	€m
Guaranteed variable remuneration awards[1]					
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 2023 (2)					
Number of identified staff				**2.0**	**2.0**
Total amount				**1.7**	**1.7**
Severance payments awarded during 2023[2]					
Number of identified staff				**12.0**	**12.0**
Total amount				**7.2**	**7.2**
– *of which:* *paid during the financial year*				**2.3**	**2.3**
deferred				**5.0**	**5.0**
amount not taken into account in the bonus cap				—	—
highest payment awarded to a single person				**1.9**	**1.9**

1 *No guaranteed bonuses have been 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 in which HSBC might offer a targeted bonus 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 41: Deferred remuneration ('REM3')

	2023							
	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
	€m	€m	€m	€m	€m	€m	€m	€m
MB Supervisory function	—	—	—	—	—	—	—	—
Cash based	—	—	—	—	—	—	—	—
Shares	—	—	—	—	—	—	—	—
Shares linked instrument	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
MB Management function	**2.3**	***0.3***	***1.9***	—	—		**0.3**	**0,2**
Cash based	**0.9**	***0.1***	***0.8***	—	—	—	**0.1**	—
Shares	**1.3**	***0.3***	***1.1***	—	—		**0.3**	**0,2**
Shares linked instrument	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	—	—	—	—	—	—	—	—
Oher senior management	**12.7**	***2.3***	***10.4***	—	—	—	**2.3**	**1.0**
Cash based	**5.0**	***0.7***	***4.3***	—	—	—	**0.7**	—
Shares	**7.5**	***1.6***	***5.9***	—	—	—	**1.6**	**0.9**
Shares linked instrument	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	**0.2**	—	***0.2***	—	—	—	—	**0,1**
Other identified staff	**54.4**	***12.0***	***42.3***	—	—		**12.0**	**6.7**
Cash based	**21.9**	***4.7***	***17.3***	—	—	—	**4.7**	—
Shares	**29.9**	***6.8***	***23.1***	—	—		**6.8**	**6,0**
Shares linked instrument	—	—	—	—	—	—	—	—
Other instruments	—	—	—	—	—	—	—	—
Other forms	**2.5**	***0.5***	***2.0***	—	—	—	**0.5**	**0.8**
Total amount	**69.3**	***14.7***	***54.7***	—	—	—	**14.7**	**7,8**

Table 42: 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 (i) CRR
€1.000.001 – €1.500.000	**13**	**14,746,156**
€1.500.001 – €2.000.000	**6**	**10,294,450**
€2.000.001 – €2.500.000	**1**	**2,196,056**

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

	2023									
	Management Body remuneration			Business areas						
€m	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
Total number of identified staff		**2.0**	**2.0**	**106.0**	**27.0**	**25.0**	**74.0**	**87.0**	**38.0**	**359.0**
– *of which:* *members of the MB*		***2.0***	***2.0***	—	—	—	—	—	—	***2.0***
other senior management		—	—	***3.0***	***3.0***	***1.0***	***10.0***	***3.0***	***1.0***	***21.0***
other identified staff		—	—	***103.0***	***24.0***	***24.0***	***64.0***	***84.0***	***37.0***	***336.0***
Total remuneration of identified staff		**3.4**	**3.4**	**53.1**	**8.3**	**9.0**	**21.3**	**16.2**	**12.1**	**123.4**
– *of which:* *variable remuneration*		***1.8***	***1.8***	***24.7***	***2.8***	***4.1***	***7.4***	***3.7***	***5.0***	***49.5***
fixed remuneration		***1.5***	***1.5***	***28.4***	***5.5***	***4.9***	***14.0***	***12.5***	***7.1***	***73.9***

ESG risks

Qualitative information on environmental risk

Strategy & Business processes

Business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on the business environment, business model, strategy and financial planning.

The HSBC Group's ('the Group') strategy centres around four key areas: i) focus, ii) digitise, iii) energise, and iv) transition. As part of its 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 the business model.

To support the transition to a net zero global economy, HSBC has set an ambition 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 continued to review its approach to disclosures. Reporting has evolved to keep pace with market developments.

HSBC Continental Europe shares this ambition to help individuals, governments and businesses achieve their aims of developing a sustainable future for all. Its approach to sustainability is aligned to the Group strategy, taking into account local regulatory requirements.

Become a net zero bank

In 2020, HSBC set an ambition to become a net zero bank by 2050. Since then, HSBC including HSBC Continental Europe have made progress in support of this ambition – including providing and facilitating sustainable finance and investment for its customers, updating several of its sustainability and investment risk policies, and setting 2030 targets for financed emissions in a range of high-emitting sectors.

HSBC Continental Europe applies the Group science-based sustainability risk policies that define its appetite for business in specific sectors and encourages customers to meet international standards. In 2021 and 2022, the Group committed to phase out the financing of thermal coal-fired power and thermal coal mining by 2030 in the EU and in the Organisation for Economic Cooperation and Development ('OECD') markets, and by 2040 in all other markets (thermal coal phase-out policy), and to stop providing new finance or advisory services for new oil and gas fields (energy policy). In October 2022, the Group published a Statement on Nature to re-confirm its intent to integrate nature-related actions into its transition plan.

In line with its Energy policy, HSBC Continental Europe will no longer provide upstream finance (through lending or capital markets) for the specific purposes of new oil and gas fields and related infrastructure whose primary use is in conjunction with new fields. HSBC Continental Europe continues to provide finance or advisory services to energy sector clients at the corporate level, where clients' transition plans are consistent with its 2030 portfolio level financed emissions targets and net zero by 2050 commitment.

Policies are important mechanisms to help phase out financed emissions while supporting customers in their own transition plans. They were shared with colleagues in HSBC Continental Europe, through: staff communications; briefing sessions to members of the Executive Committee; online webinars to all impacted credit approvers and Relationship Managers in Global Banking ('GB'), Commercial Banking ('CMB') and Markets and Securities Services ('MSS') Sales; drop-in clinics, and a micro-site for consultation.

HSBC Continental Europe also assesses and discloses financed emissions in its portfolio. 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 line with HSBC Group's ambition to reduce its energy consumption by 50 per cent by 2030 and to achieve 100 per cent renewable power across its operations by 2030, HSBC Continental Europe has four objectives:

- reduce operational greenhouse gas ('GHG') emissions, including those related to business travel,
- improve energy efficiency,
- minimise production of waste,
- reduce water and paper consumption.

In 2023, absolute greenhouse gas emissions of HSBC Continental Europe amounted to 0.72 tons of CO2e[1] per employee across its three largest markets which are France, Germany and Malta.

Support customers on their transition to net zero

To support customers on their transition to net zero, HSBC Continental Europe is driving initiatives across wholesale banking businesses and retail banking that ensure a sound and well-substantiated integration of climate and environmental risks, and their impact on customer selection and product proposition.

Wholesale strategy

HSBC Continental Europe 's strategy for the wholesale business is shared by GB and CMB. Both strategies reflect the overarching objective to support clients in their transition to net zero by:

- understanding 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 five key areas (emissions, reduction targets, plans, transition risks, physical risks). Higher risk customers are assessed through a TEQ that supports commercial decision-making and credit assessments, pricing and capital allocation. Lower risk customers are given a proxy score and Financial Institutions Group ('FIG')/Institutional Client Group ('ICG') customers a composite score. The score is used to support commercial decision-making and provides a quantitative value that helps embed climate risk into credit assessments.
- pivoting towards new economy sectors. HSBC Continental Europe will provide financing to new sectors such as renewable energy and energy transition infrastructure projects, by leveraging notably the net zero portfolio on longer-dated project/export financings. In

[1] This figure covers scope 1 and scope 2 emissions. Only business travel was reported from scope 3, excluding financed emissions and supply chain emissions. 2023 figures are preliminary figures covering period from Q1 till Q4 and include Germany, Malta and France.

addition, CMB supports nascent technology areas through its Venture Debt and Climate Tech Fund propositions.

- leveraging sustainable supply chains (CMB). HSBC Continental Europe will deploy sustainable supply chain solutions to help clients reduce their scope 3 emissions, implement partnerships with ESG ratings agencies and consultants, and create digital sustainability tools for mid-market clients.
- building market-leading ESG capabilities. HSBC Continental Europe will support clients with a wider suite of products from the established sustainable bonds and loans to market driven solutions such as renewable financing, hedging and supply chain financing or on the advisory side natural resources investment banking and ESG solutions. Dedicated teams provide ESG support with an ESG taskforce in each market.

Key management and performance indicators are in place to monitor climate risk and the performance of the strategy.

Retail strategy

The overall ambition in retail banking is to be the partner for customers' transition to a sustainable lifestyle and helping clients manage investments for positive long-term environmental and social impact.

The strategy for retail businesses has evolved to take account of climate and environmental risks. The retail business has improved its understanding and management of these risks and developed solutions to respond to climate-related client needs, with a focus on wealth management products and the progressive adaptation of the retail credit offering.

Two key initiatives in lending and investment:

- Adapt the credit policy and offerings to meet client needs: In France, policies and tools to manage climate risk across the retail mortgage book have been implemented and properties or areas with potentially heightened physical risk have been identified and assessed. The potential exposure is monitored through quarterly metrics. In Malta, the Bank focuses on supporting a sustainable lending activity and avoiding greenwashing risk. Its product proposition supports sustainable energy and mobility and is progressively extended to include financing of sustainable housing and sustainable consumption; HSBC Malta will also continue to replace existing credit cards with recycled PVC credit cards and deploy initiatives aimed at reducing carbon footprint.
- Develop wealth management solutions: The core strategy is to continue to grow the share of sustainable funds available to individual clients, including climate-related/ESG funds, and reduce investment exposure to high GHG sectors and to phase out investments in certain sectors. The investment process in sustainable and lower-carbon funds identifies and classifies the most attractive shares to reduce exposure to carbon-intensive activities and thus carbon footprint. ESG criteria are embedded in the product selection and decision-making processes in collaboration with the asset managers, alongside the standard financial criteria, which allows to deliver a range of products for different individual investors risk profiles. In addition, ESG preferences of clients are captured in the wealth advice journey which allows to bring the best possible response in terms of asset allocations and products, based on the product range available.

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 101.2 billion of sustainable finance[2] (as defined in HSBC Group's Sustainable Finance Data Dictionary 2023). The USD 101.2 billion of sustainable finance includes lending facilities and capital markets facilitated transactions.

Objectives, targets and limits to assess and address environmental risk and performance assessment

Climate risk is managed in HSBC Continental Europe banking portfolios through its risk appetite and policies for financial and non-financial risks. HSBC Continental Europe has considered climate-related and environmental risks impacting its portfolio.

- In GB and CMB, the TEQ is used as part of HSBC transition risk framework to understand the customer's climate strategies and risk; the assessment of the wholesale portfolio was completed in 2023. For the most material corporate clients with high exposure to transition risk and/or those in the high carbon-intensive value-chain accounting for 90 per cent of HSBC's financed emissions, a Transition Plan Assessment ('TPA') was completed. The TEQ results feed into the Climate Score that is used to evaluate the level of climate risk of a client. It has been socialised with Relationship Managers ('RMs') and Wholesale Credit Risk ('WCR') Credit Managers. Training sessions have been completed and additional drop-in sessions are planned. The information collected in the TEQ and the Climate Score are used by RMs to assess the climate risk of the client. Credit Managers consider this assessment in their credit review/opinion. In the Global Annual Review, the TEQ and the RM assessment of climate risk are required. In New Money applications, RMs provide a climate risk assessment to support credit decisioning. The TEQ has been rolled-out to all in-scope customers, and credit applications now include an assessment of the climate risk by RMs. A manual override of the Credit Risk Rating ('CRR') is possible depending on the level of risk.
- In retail banking, physical and transition risks impacting the full portfolio are considered through new lending policies (Energy Performance Certificate Lending policy and Flood Policy). For F- and G-rated properties, in the absence of a commitment to conduct energy improvement work lending above 90 per cent Loan to Value ('LTV') is not provided and the home loans' pricing grid has been enhanced with differentiating rates. Reduced pricing applies for property energy improvement loans.
- In GB and CMB, the assessment of the full wholesale portfolio (vs the 10 high risk sectors) in 2023 leveraged the outcome of the TEQ and the Internal Climate Scenario Analysis ('ICSA'); the overall risk rating is determined as 'Medium' over the next 12 months, given certain sectors may potentially experience a regulatory impact driven by climate and local regulatory focus is expected to drive enhancements to current standards.
- In retail, the assessment of the France retail home loans portfolio was made to understand the level of climate risk. The overall results show that less than quarter of portfolio has a High-Risk rating, essentially due to exposure to acute risks such as subsidence and wildfire, with an overall reduction spread across the hazards.
- In 2023, HSBC Continental Europe also considered climate-related and environmental risks in its collateral valuation process, with a view to update the value of collateral with climate-related and environmental risks.
- In GB and CMB, climate-related and environmental risks have been considered in the valuation of the real estate collateral through a two-pronged approach: i) for new loans secured by property above EUR3m, internal processes have been updated, making it compulsory to assess collaterals with external valuer reports, as from January 2024, ii) on the existing portfolio, a Risk Map of the Average Damage Ration ('ADR') was completed to assess the physical risk of each asset based on their location (view as of now and expected in 2035), and a materiality matrix (physical risk/transition risk) was undertaken to assess the existing portfolio combining both ADR and energy performance certificate ('EPC') ratings, to identify assets that are most at risk from a climate perspective. The three largest markets of HSBC Continental Europe (France, Netherlands, and Poland) have been assessed, accounting for 70 per cent of the exposure (excluding Germany and Malta). Annual deep dive sessions will take place in dedicated GB and CMB forums with a focus on 'most exposed' collaterals.

[2] *These numbers include contributions from Germany and Malta since 2020.*

For these assets, a deeper analysis of potential climate risk impacts with a qualification of the risk is to be tabled at the HSBC CESGROF.

- In retail, Climate Risk is considered at origination, with the energy performance of the property factored into the valuation check and indirect valuation haircut incorporated into the decisioning system through lower LTVs on lower EPC ratings. At a portfolio level, automated updates are made using the notary price index and the recently introduced valuation following a climate hazard impact.

To mitigate the environmental risks on the outstanding wholesale portfolio, HSBC Continental Europe has systems in place that allow to have a view of the number of TEQs completed, an overview of approved limits and utilisation by sector and client, and the climate score. This allows to better identify pockets of risks in the outstanding portfolio and contributes to enhance the forward-looking portfolio management capabilities with client-specific mitigation measures and/ or active client engagement.

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. Stress testing programme is a key part of the HSBC Continental Europe risk management and capital and liquidity planning, providing management with key insights into the impact of severely adverse events. 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 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.

In 2023, HSBC Continental Europe developed an approach to allocate dedicated capital to climate risk in the ICAAP. It incorporated climate impacts on credit risk in the Economic Capital in the 2022 ICSA results with climate-adjusted CRR notch movements. The ICAAP is reviewed on a quarterly basis and in Q2 2023 Climate Economic Capital for traded risk activities has been considered as well.

HSBC Continental Europe has a training plan in place to build the culture and capabilities of its relationship managers and credit managers to successfully embed climate considerations into daily decision making. Moreover, the Sustainability Academy, which gathers all learning resources to develop the right skill set, was launched in 2022 and is available to all employees.

HSBC Continental Europe has set granular climate Key Risk Indicators based on risk sensitive data in the Risk Appetite Framework with appropriate limits in place.

The HSBC Continental Europe Risk Appetite Statement ('RAS') includes quantitative climate metrics on Credit Risk (wholesale and retail), Resilience Risk, and Asset Management Sustainability Risk with thresholds (Risk Appetite / Risk Tolerance) against which performance can be monitored and qualitative metrics on Climate & Reputational risks.

HSBC Continental Europe continues to improve the monitoring of climate indicators through new qualitative and quantitative RAS and the use of key management indicators.

Greenwashing risk is covered in existing qualitative risk appetite for Reputational Risk, Climate Risk, Financial Reporting Risk, Financial Crime Compliance and Regulatory Compliance. For this reason, no separate qualitative RAS was developed in 2023.

EU Taxonomy-aligned activities

HSBC Continental Europe is in the early stages of integrating EU Taxonomy considerations into the broader climate strategy. As a first step, and as customers are supported to take action to address climate change in their own activities, the Bank is beginning to track and report green project finance lending alignment with the EU Taxonomy.

HSBC Continental Europe aims to support customers who are at differing stages in their transition journey, focusing first on the sectors and customers with the highest emissions and transition risks, and evolving and expanding efforts over time; for example, supporting clients in high emissive sectors to reduce their GHG emissions. Consequently, not all sustainable finance provided by the Bank, and in particular transition finance, will meet the strict criteria for EU Taxonomy alignment.

The composition of the Bank's banking book is a key driver of the GAR. With NFRD counterparties only making up a small fraction of the overall book and following the sale of the majority of the Retail mortgage portfolio on 1 January 2024, most exposures are outside the scope of eligibility assessment under the EU Taxonomy framework. Furthermore, for those exposures where the use of proceeds is known to be applied to eligible activities, such as green bonds and property-related lending, data limitations result in limited ability to comprehensively assess against the alignment criteria. As the scope of the EU Taxonomy expands to cover counterparties reporting under the CSRD, and as data capabilities and market data availability improves, it is expected that reporting and strategy will evolve.

For further details, please refer to page 88 – EU Taxonomy economic performance indicators

Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks

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.

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.

In January 2024, the Group announced its revised energy policy which is 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: deforestation. As already mentioned, the Group plans to strengthen its current policy protections in this area, informed by scientific and international guidance.

RMs 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.

When RMs provide commentary within New Money requests, they can also assess the impact of new facilities on the Bank's own financed emissions via the use of a calculator that is used for credit decisioning, embedded in the pricing tool. This is currently in place for the Oil and Gas and Power and Utilities sectors and will be extended to others in due course.

Governance

Responsibilities of the management body

The Board of Directors of HSBC Continental Europe determines the strategic orientation of HSBC Continental Europe's business and oversees the implementation thereof, including with respect to environmental and climate-related matters. The Board oversees and monitors consistent implementation of HSBC Continental Europe's risk strategy, risk appetite and risk management framework, including for climate-related and environmental risks.

The Risk Committee is accountable to the HSBC Continental Europe Board and oversees and advises the Board on risk-related matters impacting HSBC Continental Europe, including climate-related and environmental risks. The Audit Committee, also set up by the HSBC Continental Europe Board, is accountable to the Board, and its responsibilities include internal controls over, inter alia, reports as required by applicable laws and regulations. This includes all ESG-related regulatory reports.

The Chief Executive Officer has the widest powers to act on behalf of HSBC Continental Europe in all circumstances. At the proposal of the Chief Executive Officer, the Board of Directors appointed a Deputy Chief Executive Officer and, in agreement with the Chief Executive Officer, determined the extent of his powers. From an executive perspective, the Chief Executive Officer and the Deputy Chief Executive Officer, supported by the Executive Committee, formulate the strategy of HSBC Continental Europe, including regarding climate and environmental transition and climate-related and environmental risk management.

Board members receive ESG-related training as part of their ongoing development and new Board members receive ESG-related training as part of their induction programme. In 2023, a training session was provided on ESG, and six new Board members completed an induction programme.

The Board of Directors of HSBC Continental Europe, its Risk Committee and its Audit Committee regularly receive updates on ESG-related matters. In 2023, the Board reviewed the HSBC Continental Europe sustainability strategy and was regularly updated on climate-related and environmental risks. The Risk Committee reviewed climate-related and environmental risks at every quarterly meeting. The Audit Committee regularly reviewed internal controls pertaining to ESG-related regulatory disclosures.

The Chief Executive Officer and the Deputy Chief Executive Officer, supported by the Executive Committee, worked on HSBC Continental Europe's ESG strategy and its operational plan for sustainable finance, while receiving regular updates from the members of the Executive Committee on ESG-related matters.

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 over the key environmental and climate risks.

The Risk Appetite Statement has been enhanced in 2023 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 2023 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.

Role of committees and lines of reporting

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

At the management level, ESG governance has been enhanced by the establishment of two new Committees: the ESG Steering Committee and the Climate and ESG Risk Oversight Forum. This 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 on climate-related risks.

ESG Steering Committee ('Steerco')

The ESG Steering Committee was established, chaired by the HSBC Continental Europe Chief Executive Officer, to set the strategic direction at entity level in respect of ESG and to oversee the remediation and implementation of the regulatory expectations.

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 provides 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.

From a non-executive perspective, the Risk Committee's Terms of Reference were updated in 2022 to specifically list climate and environmental risks among those 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

As defined in the remuneration policy, completion of objectives set at the start of the year in individual performance scorecards is assessed, through routines of discussions and feedbacks in the course of the year between the manager and the employee and in a more formal way at the end of the year during an annual appraisal interview. This assessment is a key element to set the level of performance and the corresponding variable pay awarded to the employee.

In 2023, objectives (qualitative and/or quantitative) related to sustainability have been assigned at different levels of the organisation, in business lines or functions, and if appropriate cascaded to teams, managers or even individuals.

As an example, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer and all Heads of Businesses have sustainability objectives in their annual incentive scorecards. In most cases they have cascaded them down to their team.

The goals are usually 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.

More widely, all employees across HSBC Continental Europe have been assigned an objective to complete at least two training modules climate related out of 11 modules proposed in order to improve their awareness and understanding on climate risks. All managers have

been assigned a Diversity & Inclusion related objective. In addition, the French Profit-Sharing agreement signed in 2023 includes three climate related objectives, focused on energy, water and paper consumption.

As stated above, the completion of these sustainability goals forms part of the annual performance assessment which determines the associated performance rating basis of the individual variable remuneration.

These objectives are supported by a set of metrics (volume of sustainable finance, employee training on climate/environmental topics, financed emissions, sustainable finance solutions proposed to customers, sustainable investments, volume on loans in high transition risk sector, carbon emission, energy and water consumption, travel emission, paper purchased).

To be complete, the variable pay pool defined every year is based on successful completion of Group and businesses objectives which now includes specific goals linked to the net zero ambition, while taking into account current and future sustainable-related risks and specifically those related to climate, embedded in a Risk Appetite Statement.

A specific appendix that details integration of sustainable risks, including climate related risk, in the remuneration policy and practices has been added to the 2023/2024 remuneration policy.

Social risk is considered as part of the remuneration policy and practices. As an example, attrition is taken into consideration when calibrating Fixed Pay and/or Variable Pay pool. Where the attrition rate for certain roles is high, we can decide, if appropriate, to make counter offers to potential leavers or implement off-cycle fixed pay increases to remaining employees to avoid additional flight risks. The best performers benefit from the highest level of Variable Pay through the differentiation approach based on performance embedded in the remuneration practices and are more targeted for Fixed Pay increases. In addition, if needed, specific retention measures can be activated like top up Variable Pay or monthly Fixed Pay allowances.

Risk management

Integration of effects of environmental factors and risks in the risk framework including definitions, methodologies, and international standards

HSBC Continental Europe environmental risk management is supported by the climate risk approach implemented across the Bank and by the HSBC Continental Europe nature-related risk approach defined in Q4 2023. This guidance details how climate and nature-related risks should be managed through HSBC Risk taxonomy and in line with the Group's Global Principles, Risk Management Framework, HSBC Purpose-led Conduct approach and Purpose and Values.

Climate and nature-related risks impact on principal risk taxonomy.

Climate change poses different risks to the stability of the financial system and these risks are collectively referred to as 'Climate risk'.

HSBC Continental Europe may be affected by climate risk either directly or indirectly through its relationships with its customers, which could result in both financial and non-financial impacts.

HSBC's Climate risk approach is aligned to the framework outlined by the Taskforce for Climate-related Financial Disclosures ('TCFD'), which identifies two primary drivers of climate risk:

- Physical risk - risk arising from increased frequency and severity of extreme weather events, such as hurricanes and floods (acute risk), or chronic gradual shifts in weather patterns or sea level rise (chronic risk).
- Transition risk - risk arising from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction.

In addition to these primary drivers of climate risk, the following thematic issues related to climate risk which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks have been identified.

- Net zero alignment risk, which arises from the risk of HSBC failing to meet its net zero commitments or failing to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment; and
- Risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to HSBC and HSBC Continental Europe stakeholders.

HSBC Continental Europe has started to incorporate nature in its risk management practices by defining an approach in addition to the existing climate risk approach which will be published in January 2024.

Nature-related risk approach relies on the Taskforce on Nature-related risk Financial Disclosure ('TNFD') recommendations and guidance.

Similar to climate change, nature-related risk can be understood and managed through two main channels:

- Physical risk is driven by dependencies on nature and arises when natural systems, and therefore their benefits to society are compromised through human activity or otherwise.
- Transition risk is driven by changes introduced to halt or reverse damage to nature and arises when the changes required are costly to businesses and/ or households.

The climate and nature-related risk approaches aim to effectively manage the material climate and environmental risks that could impact HSBC Continental Europe 's operations, financial performance and stability, and reputation. It is informed by the evolving expectations of the Bank's regulators.

These approaches aim to provide guidance to the Board and senior management on how HSBC Continental Europe should manage its key climate and nature-related risks.

Overview of key drivers of climate risk and its potential impacts on a sample of HSBC Continental Europe's key risks

Climate and nature-related risks are cross cutting risks which may have far-reaching, complex, and nuanced impacts across the risk taxonomy.

These risks are incorporated within the risk management framework through the policies and controls for existing risks, where appropriate.

The table below provides an overview of the climate risk drivers and thematic issues considered within HSBC's climate risk approach.

Climate risk – Risk drivers		Details	Potential Impacts	Time horizons
Physical	**Acute**	Increased frequency and severity of weather events causing disruption to business operations.	– Decreased real estate values. – Decreased household income and wealth. – Increased costs of legal and compliance. – Increased public scrutiny. – Decreased profitability. – Lower asset performance.	Short term Medium term Long term
	Chronic	Longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea level rise or chronic heat waves.		
Transition	**Policy and legal**	Mandates on, and regulation of, existing products and services. Litigation from parties who have suffered from the effects of climate change.		
	Technology	Replacement of existing products with lower emission options.		
	End-demand (market)	Changing consumer behaviour.		
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction.		

Climate risk – thematic issues		
Net zero alignment risk	Net zero ambition risk	Failing to set or adapt HSBC net zero ambition and broader business strategy in alignment with key stakeholder expectations, latest scientific understanding and commercial objectives.
	Net zero execution risk	Failing to meet HSBC net zero targets due to taking insufficient or ineffective actions, or due to the actions of clients, suppliers and other stakeholders.
	Net zero reporting risk	Failing to report emissions baselines and targets, and performance against these accurately due to data, methodology and model limitations.
Risk of greenwashing	Firm	Making inaccurate, unclear, misleading, or unsubstantiated claims in relation to HSBC sustainability commitments and targets, as well as the reporting of its performance towards them.
	Product	Making inaccurate, unclear, misleading or unsubstantiated claims in relation to products or services offered to clients that have stated sustainability objectives, characteristics, impacts or features.
	Client	Making inaccurate, unclear, misleading or unsubstantiated claims as a consequence of bank's relationships with clients or transactions HSBC undertake with them, where their sustainability commitments or related performance are misrepresented or are not aligned to HSBC own commitments.

The table below provides an overview of the climate risk drivers and thematic issues considered within HSBC's climate risk approach.

Climate risk drivers	Credit risk	Traded risk	Reputational risk[1]	Regulatory compliance risk[1]	Resilience risk	Other financial and non-financial risk types
Physical risk	●	●			●	●
Transition risk	●	●	●	●	●	●
● Material impact on Taxonomy Risk Type						

1 HSBC climate risk approach identifies thematic risk issues such as HSBC net zero alignment risk and the risk of greenwashing, which could materialise in the form of reputational, regulatory and litigation risks.

A first materiality assessment of nature impacts and dependencies was performed in Q4 2023:

- Materiality of nature and biodiversity risks on HSBC Continental Europe corporate credit book;
- Traded risk exposures to nature risks; and
- Liquidity and funding impacts under nature stress test scenarios.

The risk assessment is refreshed annually or in case of the occurrence of a trigger event, and the results may change as the understanding of climate risk and how it impacts HSBC Continental Europe.

In addition to these assessments, climate risk is also considered in HSBC Continental Europe emerging risk reporting.

Climate risk assessment tools also support the identification of climate risk exposures and opportunities.

Climate risk continues to be integrated into policies, processes and controls across many areas of the Bank's organisation, and these will continue to be updated as HSBC climate risk management capabilities mature over time.

HSBC sustainability risk policies help define the boundaries of the business activities and are a key lever to help manage climate risks at portfolio and customer-level, and progress towards HSBC Group financed emissions targets. These sustainability risk policies focus on mitigating reputational and credit risks related to HSBC customers' environmental and social impacts.

Incorporating climate risk into HSBC Continental Europe's risk appetite statement helps to define the type and level of risk the Bank is willing to take, and also supports the oversight and management of the financial and non-financial risks. HSBC Continental Europe climate risk appetite supports the business in delivering HSBC climate and net zero ambition effectively and sustainably. This includes:

- The transition and physical risks that impact HSBC financial position under current and future climate scenarios;
- The risks associated with not delivering HSBC Continental Europe net zero ambition, including 2030 targets.

HSBC Continental Europe climate RAS is approved and overseen by the Board. It is complemented by key management information metrics which are reported bi-annually to the HSBC Continental Europe Risk Management Meeting and Risk Committee.

Climate risk assessment tools aim to identify physical and transition risk exposures and opportunities to support customers in delivering their own net zero transition plans. HSBC Continental Europe's key tools include:

- transition plan assessments for corporate customers;
- climate risk and ESG scores derived from HSBC qualitative and quantitative datasets;
- climate scenario analysis; and
- nature scenario analysis (pilot).

The intention is to enhance and expand these tools and further integrate them into decision-making at the portfolio and counterparty levels.

Climate scenario analysis and stress tests

Climate scenario analysis is used as a forward-looking tool to assess the potential impacts of climate risk on HSBC operations, credit portfolio, and capital. This includes Group-wide regulatory stress tests, as well as HSBC Continental Europe climate scenario analyses required by the ECB in Europe.

HSBC scenario analysis draws on a wide range of external science-based scenarios, including from the International Energy Agency ('IEA') and the Network for Greening the Financial System ('NGFS'). The analysis simulates potential impacts on customers' financials and collaterals and provides insight on the range of long-term effects climate risks can have on HSBC Continental Europe wholesale portfolio. In 2022, a sector-specific scenario analysis was run to assess the impact of climate risk under a range of future scenarios:

- Net zero scenario, which seeks to limit global warming to 1.5°C above pre-industrial levels by 2100 in line with the Paris Agreement. This scenario is equivalent to a net zero by 2050 ambition.
- Current commitments scenario, which assumes that climate actions are limited to the existing governmental commitments leading to an increase of 2.4°C in global warming by 2100.
- Downside transition risk scenario, which assumes that climate action is delayed until 2030 but still limits global warming to 1.5°C by 2100.

The potential impacts were measured by reviewing the modelled effect on expected credit losses ('ECL') for HSBC Continental Europe corporate customers and comparing these to a counterfactual scenario without climate change. The analysis was focused on the 11 wholesale sectors most exposed to climate change.

This climate scenario analysis exercise helps to identify and understand the materiality of a range of climate risks to different segments of HSBC Continental Europe loan portfolio. However, the use of these models in the industry is still in its infancy and risk capture is partial and complex due to inherent modelling and data challenges.

The intention is to continue enhancing HSBC climate scenario analysis capabilities and:

- improve RAS metrics;
- inform HSBC Continental Europe's strategy by using a range of scenario analysis outcomes; and
- support HSBC Continental Europe's customers by identifying the climate opportunities and risks.

Description of the link between environmental risks and traditional banking risks

HSBC Continental Europe seeks to manage climate risk across all its businesses in line with the Group-wide risk management framework and is incorporating climate considerations within its traditional risk types. HSBC Continental Europe ran a qualitative assessment of how climate risk including net zero alignment risk and the risk of greenwashing may impact all financial and non-financial risk types defined in HSBC taxonomy. A first materiality assessment of nature - related risks has started at the end of 2023 mainly on financial risk types.

To reflect the long-term nature of climate and nature risks, the annual materiality assessment and business risk assessment, considers three distinct time periods, comprising: short term, which is up to 2025; medium term, which is between 2026 and 2035; and long term, which is between 2036 and 2050.

Risk management tools, such as forward-looking indicators, emerging risks, horizon scanning, and stress testing and scenario analysis can be used to inform medium to longer-term risk assessments.

For HSBC Continental Europe wholesale customers, the transition engagement questionnaire was deployed across the corporate loan portfolio in 2023 and a first climate score was issued (derived from HSBC qualitative and quantitative datasets) to better understand and monitor clients' climate strategies and risks.

HSBC Continental Europe currently expects that the following traditional banking risks are the most likely ways in which climate risk may materialise:

- Credit risk for HSBC Continental Europe corporate customers may increase if climate-related regulatory, legislative or technological developments impact customers' business models, resulting in financial difficulty for customers and/or stranded assets or if extreme weather events disrupt operations. Its customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather.
- Residential real estate may be affected by changes to the climate and extreme weather events which could impact both property values and the ability of borrowers to afford their mortgage payments.

- Traded risk may increase if the risks associated to climate and nature is not accurately reflected within HSBC Continental Europe trading book assets.
- HSBC Continental Europe may see an increase in operational risk coming from physical risk faced on its own operations and premises, owing to the increase in frequency and severity of weather events and chronic shifts in weather patterns, which could affect its ability to conduct day-to-day operations.
- Regulatory compliance risk may result from the increasing pace, breadth and depth of climate-related regulatory expectations requiring implementation in short timeframes.
- Conduct risks could develop in association with the increasing demand for 'green' products where there are differing and developing standards or taxonomies.

HSBC Continental Europe also faces increased reputational, legal and regulatory risks as progress is made towards Group's net zero ambition, with stakeholders likely to place greater focus on HSBC's actions including HSBC Continental Europe's ones, such as the development of climate-related policies, disclosures and financing and investment decisions relating to HSBC's ambition. Additional risks will be faced if the Bank is perceived to mislead stakeholders in respect of its climate strategy, the climate impact of a product or service, or the commitments of its customers.

Climate risk may also have an impact on model risk, as the uncertain impacts of climate change as well as data and methodology limitations present challenges to creating reliable and accurate model outputs.

HSBC Continental Europe may also be exposed to climate-related litigation risk, either directly if stakeholders think that the Bank is not adequately managing climate risks or indirectly if clients and customers are themselves the subject of litigation, potentially resulting in the reevaluation of their assets.

HSBC Continental Europe may also be exposed to nature-related risk beyond climate change. These risks arise when the provision of natural services such as water availability, air quality, and soil quality is compromised by overpopulation, urban development, natural habitat and ecosystem loss, ecosystem degradation arising from the economic activity and other environmental stresses beyond climate change. They can manifest themselves in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC Continental Europe and its customers.

Activities, commitments and exposures contributing to mitigate environmental risks

As one of the world's largest international bank, HSBC is well placed to help support and finance the transformation.

In 2020, HSBC set an ambition to become a net zero bank by 2050. Since then, progress has been made in support of this ambition – including providing and facilitating sustainable finance and investment for HSBC's clients across the Group, updating key financing policies, investing in the scaling up of emerging climate technologies and setting 2030 targets for financed emissions in a range of high-emitting sectors. While there is much more to do, HSBC is bringing all this work together to provide an overview of the actions being taken and planned to embed its net zero ambition across HSBC in its first net zero transition plan published in January 2024.

HSBC motivations to act are threefold:

- to size the significant economic opportunity that exists in financing the investment needs of its customers in the transition, while helping them to thrive.
- to help mitigate the rising financial and wider societal risks associated with failing to achieve the required transition across industries and geographies.
- to help shape (not just follow) the understanding, policies, market structures and standards necessary to achieve a fair transition while maintaining sound economies.

HSBC's aim is to help its people, customers, investors and other stakeholders to understand the Group's long-term vision, the challenges and dependencies that exist, and the progress made in HSBC's own transition.

HSBC wants to demonstrate its intention to harness its strengths and capabilities in the areas where HSBC believes the Bank can best support large-scale emissions reductions: transitioning industry, catalysing the new economy, and decarbonising trade and supply chains.

HSBC Continental Europe's action plan to achieve its objectives consists in embedding net zero into:

- Supporting its customers by providing transition solutions;
- Embedding net zero into the way HSBC Continental Europe operates by managing its own portfolio.

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

HSBC seeks to ensure that the financial services provided to its customers to support economic development do not result in an unacceptable impact on people or the environment.

Since 2004, HSBC has established internal sustainability risk policies to ensure monitoring of the main sectors identified as a priority: Agricultural Commodities, Chemical, Energy, Thermal Coal Phase Out, Equator Principles, Forestry, Mining and Metals, UNESCO World Heritage sites and Ramsar Wetland.

These sustainability risk policies define the rules and appetite in these sectors and encourage customers to follow good international standard and practices.

In case of customer activities with material impact on environmental risk, an analysis is required to ensure appropriate mitigating action are in place, and greater due diligence is required by the sustainability risk specialists.

In January 2024, the Group updated the energy policy which is used to support customers in their climate transition journey.

Relationship managers are the primary point of contact for HSBC Continental Europe's customers, with the responsibility to monitor the customer's compliance with HSBC energy policy.

In the second line of defence, reputational and sustainability risks specialists in the Risk function provide local expertise, support, and guidance to the business and credit approvers on credit sustainability-related topics. These local sustainability risk managers are supported by their counterpart at Regional and Group level.

The sustainability risk analysis of a client portfolio / activity, where it falls under these policies, is performed at least annually or more frequently in case of trigger event. For more details please refer to section "Policies and risk management".

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

Climate & nature risk drivers may impact HSBC Continental Europe's liquidity risk directly, through its ability to raise funds or liquidate assets, or indirectly through customers' demands for liquidity.

HSBC Continental Europe's liquidity risk profile has been analysed with respect to nature and climate risks as part of the Internal Liquidity Adequacy Assessment Process ('ILAAP') and Internal Capital Adequacy Assessment Process ('ICAAP') in 2023. The analysis used an internal scoring model to derive a risk ranking by industry based on HSBC Continental Europe's wholesale customers' profiles. The model explores how climate-related financial risks can arise and impact HSBC Continental Europe. By exploring several scenarios, it illustrates how climate and nature risk drivers may affect the Bank's financial risks via micro and macroeconomic transmission channels.

The analysis shows that impacts are limited over a one-year timeframe considering the market footprint of the bank with limited exposure to risky sectors and the overall level of portfolio diversification by country and industry.

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

HSBC Continental Europe has a holistic approach to data governance which includes all risk types 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 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 2024.

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 (2024). Lists of green bonds and loans are gathered from specific teams, including prospectus documents for green bonds, allowing to identify the use of proceeds. EPC are sometimes unavailable in internal HSBC Continental Europe systems; therefore, calculation model is used to estimate the energy efficiency information. EPC are gathered manually from relationship managers to capture the information in internal systems.

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 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 Net-Zero Banking Alliance ('NZBA'), which seeks to reinforce, accelerate, and support the implementation of decarbonisation strategies and targets for the banking sector.

Sector targets and progress metrics are calculated at the Group level and are set for its global portfolio. They are managed at the Group level with the recognition that regions and companies will decarbonize at different rates and that there are different strategies to achieve its global targets.

In addition, the calculation and methodology of financed emissions calculation is dependent upon the availability of data. For the calculation of financed emissions where the allocation of the emissions data is required at the subsidiary level - however, data may only be available at the consolidated level of a counterparty and not at the legal entity level of a counterparty - HSBC has used the counterparty group level information.

Due to the financed emissions calculation, methodology intensity-based metrics can be highly volatile year-on-year when applied to smaller portfolios. At a sub-portfolio level they therefore do not accurately represent progress to a global sector target.

HSBC intends to reduce thermal coal financing drawn balance exposure from a 2020 baseline by at least 25 per cent by 2025 and is aiming for 50 per cent reduction by 2030.

HSBC has now revised the basis of preparation for its thermal coal exposures and in line with policy this applies a risk-based approach to identify transaction and clients and report on relevant exposures. This includes the use of globally recognised third-party data sources to screen clients and applies materiality considerations to product type, customer type and exposure type, which informs inclusion and exclusion requirements.

HSBC has developed a systematic granular process to identify and collect climate-related and environment data for risk management. The ESG Data Utility was setup to address ESG data challenges and to ensure that associated risks are properly managed. The main areas covered by this framework are: i) production of data and management information ('MI') for internal dashboards, models (Financed Emissions, Transition Engagement Questionnaire ('TEQ'), ESG score, Stress testing) and external disclosures; ii) identification and management of ESG vendors engagements (existing and new). Data governance process is in place in HSBC including HSBC Continental Europe. All data issues are escalated to the HSBC Continental Europe ESG Steering Committee, the HSBC Continental Europe Climate and Environmental Social and Governance Risk Oversight Forum ('CESGROF').

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, the local context, 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 organisation, 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, 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 2023, sets out HSBC's commitments to the environment, diversity and human rights, and 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.

Governance

Ensuring a proper management of human right across HSBC Continental Europe is one of the components of HSBC Continental Europe's Duty of Care Plan implemented within the Bank. The Plan is monitored regularly through the HSBC Continental Europe Duty of Care Steering Committee chaired by HSBC Continental Europe's Chief Risk Officer with the involvement of HSBC Continental Europe's Legal, Regulatory Compliance, Human Resources, Procurement, Corporate Sustainability and ESG Risk. Any issue identified is escalated in the HSBC Continental Climate and ESG Risk Oversight Forum which has also an escalation path to the HSBC Continental Europe Risk Management Meeting.

Policies and risk management

In 2023, the process of adapting internal risk management procedures has begun to reflect key learnings from the work on salient human rights issues identified 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 and 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

HSBC Group promotes an inclusive organisation 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 the Bank to measure employee engagement and to capture views 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. To address this, a whistleblowing platform, HSBC Confidential, has been implemented. This platform allows all eligible persons to raise any concerns in confidence and, where preferred, anonymously.

HSBC Confidential can be accessed in various ways, including telephone and online portals, to report, in complete confidence, facts or behaviour constituting a serious attack on human rights and fundamental freedoms, the health and safety of people as well as the environment, observed or experienced within the company. The performance assessment and remuneration of all employees who have used the HSBC Confidential channel is reviewed annually to identify any retaliation risk. Concerns are investigated proportionately and independently and can result in disciplinary action.

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. Progress has been made in HSBC Continental Europe towards the goal to achieve 35 per cent by 2025 of women in senior leadership role but it is facing gap in certain countries joining HSBC Continental Europe from 2023. Furthermore, HSBC Continental Europe signed up the Financi'Elles charter, which contains 10 joint commitments aimed at fostering a more equitable gender balance and greater diversity in the 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. Two examples were launched: Taste of the Top programme gave a high performing female colleagues a chance to cover senior leaders on annual leave but also female talent have started new digital coaching programme, with HSBC external partner.

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.

HSBC considers that awareness is the first step to create an inclusive environment. In 2023, the Bank continued to work on unconscious bias, firstly through the mandatory training named 'The Code of Conduct & me' which raises awareness of the workplace bias and discrimination at work. In addition, the Inclusion workshop 'Understand and value differences' has been deployed in 2023. In addition to this HR lead initiative, the European Inclusion Employee Resource Group ('ERG') launched the first Inclusive Europe live Week in May with 2,000+ attendees.

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 HSBC Continental Europe, Diversity & Inclusion was objective for all people managers. 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 are 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 60/40 split of internal versus external recruits. HSBC Continental Europe asks 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 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 target attrition rate of 7 per cent has been defined (voluntary attrition was at 8 per cent in 2023).

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:

- The Sustainability Academy (dedicated online portal on HSBC University that brings together all sustainability learning, communications, and policies in one central resource). It 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 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.
- 'Climate Fresk': workshops to understand essential climate issues and educate consequences on climate dynamics.
- Other actions continue to be initiated throughout the year in order to encourage employees to learn more about these sustainability topics and to share several best practices within the organisation and with customers: 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 elevated 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.
- Employee wellbeing remains a top priority. As such, 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.

Governance

In terms of governance, there is a whistleblowing policy and procedures. In addition, a whistleblowing oversight committee provides to the Group Audit Committee periodic reports on the effectiveness of the whistleblowing arrangements. The chair of the Group Audit Committee has responsibility for ensuring and overseeing the integrity, independence and effectiveness of whistleblowing policies. In addition, HSBC Continental Europe Whistleblowing Oversight Team provides a report at least annual to the HSBC Continental Europe Audit Committee.

The 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 for the best performers are produced and followed per business on a monthly basis and shared with the Executive Committee. In addition, gender pay analyses are performed every year to ensure consistency and fair treatment.

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 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 its overall approach to managing risk. In addition, several entity led controls are deployed to ensure risk management and corporate governance activities are carried out effectively across the Bank. HSBC Continental Europe uses a defined framework: the '4Cs' (Capacity, Capability, Conduct and Culture), in conjunction with Employment practices and relations to manage employee matters. Two of the risks defined in HSBC People 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 helps manage the risk of legal action, regulatory censure, reputational damage, and financial losses.
- Failure to manage poor employee behaviours and employee concerns. The risk that concerns raised by employees, and / or employees who demonstrate poor behaviours are not effectively managed. Where employee to employee behaviours are not in line with HSBC's values, Code of Conduct etc. or whereby employee concerns are not appropriately addressed.

The 2023 analysis of the most material ESG-related risks impacting HSBC Continental Europe identified two key risks to human capital:

- Failure to attract 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, organisations are predominantly focused on talent risks relating to capability and capacity.
- Psychosocial risks resulting from job uncertainty, a potential less favorable working environment, inadequate working conditions, elevated workloads, or inadequate managerial practices impacting

engagement and enablement. Wellbeing concerns and other stress-related disorders are recognised to be among the leading causes of early retirement from work, increasing absence rates, overall health impairment and low organisational productivity.

The Functional Instruction Manual, which describes the employment practices and employee relations policy set in Human Resources procedure guidelines, ensures that HSBC Continental Europe effectively manages personal conduct cases where employees demonstrate poor behaviours towards each other. These are considered as part of the annual performance and behaviour (where legally permitted) review for HSBC Continental Europe's employees. Once a year, a dashboard of personal conduct cases and mitigating actions is presented to 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, as well as with the internal Code of Conduct.

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 the responsibility to adhere to, and to 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 associated with customers and markets.

- 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 ('MRT')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, by which the minimum expectation is to adhere to and comply with the regulatory requirements.

With regards to the link (transmission channels) between social risks with credit risk, liquidity and funding risk, and market risk, it is considered that it does not exist or, if any, that it is non-material.

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.

Inputs are also identified and contribute to creating the right environment to enable the Customer and Market Outcomes to be achieved:

- Culture and behaviour;
- Strategy and Decision-making;
- Governance and Reporting

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 offer, helping for review by ensuring that products offers continue to meet customers' needs and 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.
- Producing a specific risk assessment for all products with sustainable characteristics.

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 products across all asset classes, ensuring that the position as an innovator of ESG products is maintained, and that the risk assessment allows to help mitigate against greenwashing risks.

Policies and risk management

HSBC has no appetite for causing material levels of customer detriment through our failure to:

- Design or approve compliant, accurate and transparent financial promotion material, or by undertaking inappropriate marketing activities relating to products;
- Provide products that are appropriate for customer needs;
- Deliver post-sale servicing including the timely and accurate provision of post-sale customer documentation and ongoing account management; and/or
- Identify and manage customers in financial difficulty.

The management of the risk within appetite is driven by setting the minimum standards to ensure that HSBC Continental Europe:

- achieve regulatory compliance and good conduct outcomes throughout the customer lifecycle;
- market and sell products in a way that recognises the needs and interests of our customers,
- service our customers' ongoing needs and meet their reasonable expectations - including where HSBC Continental Europe undertake these activities cross border;
- take appropriate action to put things right when things go wrong;
- provide appropriate support to customers with enhanced care needs,
- exercise the appropriate expertise and understanding to manage our fiduciary duties.

Businesses must establish procedures and processes that Operating arrangements achieve the Policy Outcomes on an ongoing basis, and Controls are operated and monitored effectively as described in the following Minimum Control Requirements.

- Risk Owners must have controls in place to ensure that sales journeys do not lead to mis-selling or mis-buying. Therefore, they must be able to evidence that the sales processes in place meet regulatory requirements and deliver good Conduct Outcomes at the point of sale. This includes checks to validate the continued sufficiency of the sales journey with respect to regulatory expectations and Conduct Outcomes. For example, through sales quality testing.
- Where inappropriate sales outcomes are identified, Risk owners must ensure appropriate remedial action is undertaken. Arrangements must be in place to identify and address the root causes of inappropriate sales outcomes in consultation with the relevant Risk Steward as appropriate. For example, the root cause of an inappropriate outcome could be the design of the sales journey or incentive arrangements leading to poor employee behaviour.
- Risk Owners must have controls in place to determine if the sale of products to customers outside of their country of residence could lead to entity licensing requirements arising. For example, if their country of residence has restrictions in relation to particular products. In such circumstances, Risk Owners must consider putting processes in place to restrict sales of certain products to residents of certain countries.

For customers with enhanced care needs, Risk Owners must ensure that mechanisms are in place, and are monitored, to identify customers who are in, or approaching, financial difficulty in a fair and timely way. Risk Owners must ensure that identified customers are given the opportunity to discuss suitable solutions to manage their financial situation. Customers with enhanced care needs are those who, due to their personal circumstances, are susceptible to harm and need additional support in their relationship with HSBC. Our strategy, business models and procedures must support the needs of customers who require enhanced care. Our products and services must be equally accessible to all eligible customers.

The procedures must consider how customers with enhanced care needs will be identified and aim to ensure that the number of times a customer has to tell us about their circumstances is minimised. The treatment of customers with enhanced care needs must be reviewed at appropriate local management forums.

- Identification and Understanding of Needs: Businesses must have sufficient understanding of the nature and scale of customers requiring enhanced care in the markets they operate in.
- Provide Appropriate Products and Services: Business procedures must facilitate consideration of whether customers with enhanced care needs could form part of the target market, or whether they may be able to access the product or service over its lifecycle.
- Communications: Consideration must be given to the appearance, clarity and use of simple language in communications with customers with enhanced care needs.
- Monitoring and Evaluation: Businesses must monitor how their actions or lack of action affect the experience and outcomes of customers who need enhanced care. Management must determine the appropriate continuous monitoring approach. This must take into account relevant available data and MI. Businesses must use the results to drive improvements in their understanding of the enhanced care needs of their customers and delivery of outcomes.

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 is 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 including ESG related complaints. 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.

HSBC is in the process of designing a modular ESG Scoring framework. The framework allows granular individual scores and aggregated composite scores to be generated using backward and forward-looking metrics. The first deliverable made in 2023 with the publication of a climate score for corporate customers. Progress will continue in 2024 with a nature score expected to be published at the end of the year. The social score should be the next step.

Qualitative information on Governance risk

Acting responsibly

HSBC Continental Europe is aligned with HSBC Group to remain committed to high standards of governance and works alongside its regulators. HSBC Continental Europe contributes to building healthy and sustainable societies. The Board of Directors of HSBC Continental Europe sets the strategic direction, including ESG, upon management's recommendation, and oversees its execution. The Board is regularly provided with specific updates on ESG matters, including the management of Climate and environmental risks, human rights and employee well-being. Board members receive ESG-related training as part of their induction and ongoing development and seek out further opportunities to build their skills and experience in this area.

For more details, please refer to page 67 – Governance.

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. ESG-related risk is considered within the existing first and second lines of defence governance structure to ensure that senior management have adequate oversight of key ESG-related issues. It is expected that HSBC Continental Europe's approach to ESG governance is likely to continue to develop, in line with the evolving approach to ESG matters, stakeholder and regulatory expectations. The below shows how ESG-related risk governance is incorporated in HSBC Continental Europe's existing framework.

Board	The Board sets the strategic direction, including on ESG (including climate and nature), upon management's recommendation, and oversees its execution.		
		Risk Committee advises and supports the Board for the oversight of risk related matters and enterprise risks, including Nature-related risk	Audit Committee advises and supports the Board regarding matters relating to financial reporting and the effectiveness of internal financial control systems
CEO	The Chief Executive Officer is responsible for the management of the business, as well as the setting and implementation of the HSBC Continental Europe Strategy, including on ESG		
Executive	Executive Committee supports the CEO in the development and implementation of our ESG Strategy	Risk Management Meeting supports the CRO on enterprise-wide management of all risks, including key policies and frameworks for Nature-related risk management	Disclosure Committee provides oversight for the scope and content of ESG disclosures
	ESG Steering committee supports all Executives in the development and delivery of our ESG Strategy		
Sustainability/ Climate Specific Forum		Climate and ESG Risk Oversight Forum oversees all risk activities relating to Nature-related risk management, including physical and transition risks. Equivalent forums are established at a principal subsidiary level	
	Sustainable Finance Forums to assess and approve products and transactions		
	Other Business/Risk Function Specific Sustainability/Climate forums e.g. Regulatory Compliance, Legal, Wholesale Credit Risk etc.		

HSBC Continental Europe acts on its responsibility to run its business in a way that upholds high standards of corporate governance. Customer experience is at the heart of how the HSBC Continental Europe operated. It is imperative that its customers are treated well, listened, and the the Bank acts quickly and fairly to resolve complaints.

HSBC is committed to working with its regulators to manage the safety of the financial system, adhering to the spirit and the letter of the rules and regulations governing financial institution industry.

HSBC Continental Europe strives to meet its responsibilities to society, including through being transparent in its approach to paying taxes. The Bank also seeks to ensure that global standards on human rights are respected in its workplace and its supply chains, and continually works to improve its compliance management capabilities. The key topics to consider are the following:

HSBC Continental Europe manages this Governance risk through its management of reputational risk and financial crime risk.the following key matters.

Reputational risk management

Reputational risk associated to ESG related matters arising from customers, transactions and third parties, is considered in dedicated HSBC Continental Europe committees. In cases of serious potential reputational risk to the Group or where Group-led decision is merited, the case is analysed in the Group Reputational Risk Committee.

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/Global equivalent of this committee i.e. the HSBC Bank plc Regional/ Global 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. For further details on assessing governance performance of our counterparties in terms of Environmental Risk please refer to the Strategy & Business processes section.

Fair treatment to stakeholders

HSBC's strategy, business models, plans, and decisions always aim to deliver fair treatment for customers and not disrupt market integrity. The Group's culture aims to supports its people, empowers them and rewards them for consistently doing the right thing for our customers and markets and always learning from any mistakes.

Ethical and professional standards are embedded in HSBC internal rules framework and all employees must comply with these. In particular, this framework covers confidentiality obligation, anti-money laundering and financial crimes prevention, conflict of interests, reputation and image protection, market integrity, bullying, harassment and discrimination prohibition, appropriate use of IT systems and tools.

The framework also details the different disciplinary sanctions which apply to any employee who does not comply with this set of rules.

In addition, the Group has implemented an employee recognition and conduct framework which aims to recognise exceptional conduct demonstrated by its employees and, on the contrary, to discourage misconduct and inappropriate behaviour.

The misconduct cases are reviewed by specific committees including Business, Risk, Employee Relation and Human Rights Representatives. These committees are accountable to determine the level of misconduct and the disciplinary sanctions and managerial consequences to apply. A summary of identified breaches is presented on an annual basis to the HSBC Continental Europe People Committee and to the HSBC Continental Europe Remuneration Committee.

Conflict of interest policy

HSBC Continental Europe lines of business and functions have in place procedures, adapted from the Conflicts of Interest Policy (including Personal Account Dealing, Personal Connection Conflicts and Outside Activities) and controls to identify, and prevent or manage Conflicts of Interests. HSBC Continental Europe's management body is subject to similar rules enclosed in the Board of Directors' Internal rules.

The conflicts covered by these procedures may be potential or actual, and may arise between:

- One client and another (client versus client);
- HSBC Continental Europe and a client (HSBC Continental Europe versus client);
- An employee and a client (employee versus client).
- An employee and HSBC Continental Europe (employee versus HSBC Continental Europe); or
- One part of HSBC and another (HSBC Group versus HSBC Continental Europe).

According to the internal conflicts of Interests policy, business lines and functions in HSBC Continental Europe (including its branches), must:

- Identify all types of potential conflicts that could reasonably arise in the context of their activities;
- Maintain a register of all identified potential conflicts. These include both individual business conflicts as well as those arising across businesses or legal entities. A Group tool is implemented to facilitate the inventory of all types of conflicts;
- Prevent or manage conflicts on an ongoing basis;
- Disclose conflicts where appropriate; and
- Evidence all occurrences of conflicts that cannot be managed.

Conflicts of interest have been highlighted as a prioritised Regulatory compliance risk when considering climate risk; as such climate and ESG considerations should be undertaken throughout and documented where relevant and appropriate. The policy has been updated in April 2022 to reflect this topic and alleviating any Conflict.

At a global level, the Conflicts Management Office, a part of Regulatory Compliance, is responsible for the governance of the framework that is created by the Conflicts of Interest Policy. It supports Regulatory Compliance departments in all jurisdictions in providing advice and guidance to business lines and functions regarding their obligation to identify, prevent or manage conflicts of interest. However, the global policy clarified in 2020 that the Conflicts Management Office primarily provides support globally rather than at country level. The Conflicts Management Office is the point of escalation for significant conflicts and for resolution of cross business conflicts brought to its attention.

Any material risk and issues related to conflicts of interests are escalated and managed by the risk management forums by business line and functions within their terms of reference.

Similarly, to other Regulatory Compliance risks, verification of adherence to the conflicts of interest policy is notably performed based on the risk assessment process within the three lines of defence model.

Furthermore, all potential conflicts of interest registers are held on the Group Potential Conflicts of Interest Tool and a legal entity level register can be produced for review as required. The register includes both individual business conflicts as well as those arising across businesses. Where appropriate, structural conflicts between entities can also be included.

To enable the Board of Directors, the Risk Committee, and the RMM of HSBC Continental Europe to oversee the above governance arrangements and control framework and ensure an effective and prudent management on conflicts of interest, a written report is submitted to them, at least annually.

A description of the conflict of interest framework for Directors is available in the HSBC Continental Europe Universal Registration Document Report 2023 *section "Ethics"page 41.*

Risk for significant adverse incident

For significant events (including the ones related to ESG) that may have an adverse impact on the Group, HSBC has an established a Global Major Incident Group, responsible for managing the response. A subsidiary network of Major Incident Groups is also in place to allow an effective and consistent response, to regional, national and global events. Clearly defined roles and responsibilities, combined with a programme of ongoing training and exercising, ensure the capability to provide an immediate and effective response to any major incident. As such, the Bank would implement appropriate measures designed to continue service and support to our customers with minimal disruption. The Bank has plans to ensure HSBC's ability to coordinate a wide response to the challenges posed by any type of event affecting our premises. These plans include communications, high levels of working from home and split-site capability in key locations by making use of our contingency sites for critical processes where appropriate. All work that is migrated offshore to the HSBC Global Service Centres ('GSC') is subject to a robust continuity framework whereby all critical work needs to be shared between two locations, can be undertaken from home or has effective in-country local recovery, thereby mitigating concentration risk. HSBC Onshore management have oversight on all aspects of incidents that impact the GSC locations.

The significant adverse incidents that may impact our clients are mainly managed through Reputational Risk Client Selection Committee's ('RRCSC'). The RRCSCs are implemented in France, Malta, Germany and Luxembourg, to comply with local regulatory request or due to the size of the country. Cases with significant impacts are escalated to the HSBC Continental al Europe RRCSC and Global equivalent of this committee and to the HSBC Continental Europe RMM if required.

Businesses and functions own and are responsible for managing and mitigating reputational risks associated with their businesses/ operations. This responsibility includes setting procedures in consideration of Group policies and escalation of matters to the relevant RRCSC to assess reputational risk and any mitigants implemented.

Respect for human rights

HSBC's approach is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct. Through the Bank's membership in international certification schemes such as the Forestry Stewardship Council, the Roundtable on Sustainable Palm Oil and the Equator Principles, HSBC Continental Europe supports standards aimed at respecting human rights.

In 2022, building on an earlier human rights review which had identified Modern Slavery and Discrimination as priority issues, HSBC conducted its first comprehensive review of its salient human rights issues. These are the human rights at risk of the most severe negative impact through HSBC' s business activities and relationships. HSBC Continental Europe is relying on the Group's approach in consideration of the nature of its business.

Actions taken to address the salient human rights issues identified are consistent with HSBC values and will help HSBC to meet its commitments on diversity and inclusion, and those made under the UN Global Compact and WEF metrics on risk for incidents of child, forced or compulsory labour.

HSBC Continental Europe aims to engage with its customers and support them in adopting more sustainable practices considering that

some customers operate in sectors where the risk of adverse human rights impact is high.

HSBC sustainability risk policies for agricultural commodities, energy, forestry, mining and metals consider human rights issues such as forced labour, harmful or exploitative child labour and land rights. They also consider the rights of indigenous peoples such as 'free prior and informed consent', workers' rights, and the health and safety of communities.

Through HSBC membership of international certification schemes such as the Forestry Stewardship Council, the Roundtable on Sustainable Palm Oil and the Equator Principles, HSBC supports standards aimed at respecting human rights.

HSBC also established Sustainable Procurement Mandatory Procedures to help in identifying and escalating, where appropriate, human rights issues in its supply chain, and to ensure that its suppliers observe the human rights elements of HSBC code of conduct. This includes enhanced procedures for human rights risk identification through the introduction of a human rights residual risk questionnaire for suppliers.

The supplier code of conduct adopted by HSBC Continental Europe sets out HSBC commitments to the environment, diversity and human rights, and outlines the minimum commitments HSBC expects of its suppliers on these topics.

The risk of causing, contributing or being linked to adverse human rights impacts is also mitigated by HSBC financial crime risk framework, which includes bank's global policies and associated controls.

Bank sustainability risk policies are reviewed periodically to ensure they reflect HSBC and HSBC Continental Europe priorities.

Duty of Care vigilant plan

A Duty of Care vigilant plan ('Plan') containing reasonable measures to identify relevant risks and prevent serious human rights violations, serious bodily injury, and environmental damage has been defined by HSBC Continental Europe and implemented in accordance with France's law enter into force the 27 March 2017.

The Plan is supported by the HSBC documentation and framework (Global Principles, Risk Management Framework, Purpose-led Conduct approach and HSBC Purpose and Value) specific policies (supplier code of conduct, sustainability risk policies (Agricultural Commodities, energy, forestry, mining and metals and chemicals industry) diversity and inclusion policy, whistleblowing policy) and statements (Human rights, Modern Slavery & Human Trafficking, whistleblowing arrangements and Nature).

The Plan is monitored by the HSBC Continental Europe Duty of Care Steering Committee chaired by HSBC Continental Europe's Chief Risk Officer with the involvement of HSBC Continental Europe's Legal Affairs, Regulatory Compliance, Human Resources, Procurement, Sustainability and ESG.

The Plan covers risks relating to HSBC Continental Europe's employees, banking activities (including customers), as well as suppliers and subcontractors.

The Duty of Care plan includes the following key themes: Diversity and Inclusion, occupational health and safety, human rights, customer engagement, whistleblowing system and procurement mandatory procedures to help in identifying and escalating, where appropriate, human rights issues in its supply chain and to ensure that its suppliers observe the human rights elements of HSBC code of conduct.

Managing Third Party risk

HSBC Continental Europe is committed to the fair treatment of businesses that supply it with goods and services and expects them to operate responsibly in line with HSBC's values.

Global standards and procedures for the onboarding and use of third-party suppliers are implemented. Suppliers are required to meet HSBC third-party risk compliance standards and an assessment is performed to identify any financial stability concerns. During the selection and tender process, third party suppliers have to complete a questionnaire which asks questions about their Carbon Emissions Reduction policy, whether climate goals are integrated into their strategy, and whether there is a dedicated diversity, equality and inclusion team in their workplace.

HSBC Continental Europe's contracts with third parties include clauses covering conflicts of interest, duty of care, sustainable development and responsibility. They also include clauses requiring the third party to notify the Bank of any event that may affect the schedule, the level of quality expected for the services, the commitments of the parties, their financial situation and ability to perform the services efficiently to the agreed service levels and in accordance with applicable law and regulation. Once an event has been identified, notified, investigated, a rectification plan and all necessary measures to minimise the impact are put in place.

HSBC Continental Europe's internal policy on event management requires the escalation of all incidents of critical concern (including those related to ESG and third-party suppliers) to appropriate senior management stakeholders without delay. Operational incidents and near-misses, irrespective of their financial impact, are recorded in the Bank's risk management tool and are subject to relevant risk governance.

A dedicated "Supplier Diversity Portal" on the HSBC Group public website is available that enables small-to-medium size enterprises ('SMEs') or business that are majority-owned, operated, and controlled by historically underrepresented groups to express interest in becoming a supplier to the Bank. HSBC Group's supplier code of conduct sets out the Group's commitments to the environment, diversity and human rights, and outlines the minimum commitments expected of suppliers on these issues. Commitment to this code of conduct is formalised with clauses in supplier contracts, which support the right to audit and act if a breach is discovered.

Customer engagement

Financial services, when accessible and fair, can reduce inequality and help more people access opportunities. HSBC is playing an active role in opening up a world of opportunity for individuals by supporting their financial well-being, and removing the different barriers that people can face in accessing financial services.

HSBC has continued to embed its feedback system to better listen, learn and act on its customers' feedback and uses a net promoter score ('NPS') to provide a consistent measure of HSBC performance. NPS is measured by subtracting the percentage of 'Detractors' from the percentage of 'Promoters'. 'Detractors' are customers who provide a score of 0 to 6, and 'promoters' are customers who provide a score of 9 to 10 to the question: 'On a scale on 0 to 10, how likely is it that you would recommend HSBC to a friend or colleague'.

HSBC Continental Europe remains committed improving customers' experiences. In 2023, HSBC gathered feedback from over one million customers across its three global businesses to get a better understanding of the Bank's strengths and the areas it needs to focus on.

The complaint handing process deployed in HSBC Continental Europe registered in the Reclamation Service Tool and the Customer Feedback Tool identifies complaints related to ESG topics. The sensitive claims associated to Duty of Care Law are failure to provide advice concerning a product or a portfolio managed by the bank, which entail a regulatory risk, implicate an employee, a discrimination concern, or a breach of confidentiality.

HSBC Continental Europe aims to engage with its customers and support them in adopting more sustainable practices. Some of HSBC Continental Europe's business customers operate in sectors where the risk of adverse human rights impact is high. HSBC's sustainability risk policies on agricultural commodities, energy, forestry, mining and metals, consider human rights issues such as, forced labour, harmful or exploitative child labour, land rights, the rights of indigenous peoples such as 'free prior and informed consent', workers' rights, and the right of health and safety of communities.

Through the Bank's membership of international certification schemes such as the Forestry Stewardship Council, the Roundtable on Sustainable Palm Oil and the Equator Principles, HSBC Continental Europe supports standards aimed at respecting human rights.

Safeguarding the financial system

Efforts to combat financial crime and reduce its impact on HSBC Continental Europe organisation, customers, and the communities that the Bank serves continue. Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. HSBC Continental Europe manages financial crime risk because it is the right thing to do to protect its customers, shareholders, staff, the communities in which the Bank operates, as well as the integrity of the financial system on which all relies. The financial crime risk framework, which is overseen by the Board, is supported by HSBC financial crime policy that is designed to enable adherence to applicable laws and regulations globally. Annual global mandatory training is provided to all colleagues, with additional targeted training tailored to certain individuals. Regular risk assessments are carried out to identify where the Bank needs to respond to evolving financial crime threats, as well as to monitor and test the financial crime risk management programme. Investment in new technology continue, including through the deployment of a capability to monitor correspondent banking activity. The fraud monitoring capability, the trade screening controls and investment in the application of machine learning to improve the accuracy and timeliness of the Bank' detection capabilities have been enhanced.

These new technologies should enhance HSBC Continental Europe ability to respond effectively to unusual activity and be more granular in our risk assessments. This helps the Bank to protect its customers, the organisation and the integrity of the global financial system against financial crime.

HSBC global financial crime 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.

There were no concluded legal cases regarding bribery or corruption brought against HSBC or its employees in 2023.

HSBC global financial crime policy requires the identification and mitigation of the risk of its customers and third parties committing bribery or corruption. Among other controls, HSBC Continental Europe uses customer due diligence and transaction monitoring to identify and help mitigate the risk that its customers are involved in bribery or corruption. A anti-bribery and corruption risk assessment is performed on third parties that expose HSBC Continental Europe to this risk.

Risk relating to tax evasion

HSBC is committed to acting with integrity and conducting global activities in accordance with all applicable laws and regulations relating to financial crime risks.

The Bank's Global Anti-Tax Evasion Facilitation Policy sets out the key principles and minimum control requirements to apply a consistent and standardised approach to both managing the risk of customer tax evasion and facilitating or failing to prevent the facilitation of tax evasion.

The Bank's Risk Management Framework sets out the responsibilities of employees, depending on whether they are Risk Owners, Control Owners, Risk Stewards, or other, for managing risk, including tax evasion risk.

The Risk Management Framework makes it clear that there must be a clear segregation between risk ownership, i.e. First Line of Defence, risk oversight and stewardship, and independent assurance to help support effective identification, assessment, management, and reporting of risks.

The Bank's Global Anti-Tax Evasion Facilitation Policy aims to ensure that HSBC's banking services are not associated with any arrangement known or suspected to be designed to facilitate tax evasion.

Key controls to mitigate these risks include assessing the integrity of customers, third parties, new or significantly modified products, and strategic transactions to identify and assess these risks, the drafting of contractual clauses in contracts with third parties, the implementation of controls on supplier processes, the training of employees at the global level supplemented, where appropriate, by training of local teams, and incentives for whistleblowers. In addition, the Bank maintains a dashboard dedicated to the risk of tax evasion to monitor the management of this risk. This dashboard includes a series of control indicators and key risk indicators related to tax evasion and is monitored on a monthly basis.

A responsible and inclusive Human Resources ('HR') policy

As a leading global employer, HSBC's main aim is to build an HR policy that helps to develop staff members, while helping them to achieve their full potential for the Bank. In this regard, HSBC "value difference" and believe that our differences make our business stronger. The challenge is to foster and make the most of those differences with the aim of creating internal cohesion, increasing motivation and engagement, and making employees proud to be part of the Group. It places a particular emphasis on diversity in all its various forms, particularly regarding age, appearance, disability, gender, opinions, religion, sexual orientation, skin colour and social origin. To do so, the organisation can draw on Employee Resource Groups, made up of volunteers who want to take an active part in HSBC inclusive journey.

Our diversity also depends upon our ability to attract diverse talents. To do so, HSBC Continental Europe have an agreement with our external recruitment agencies which need to balance their top candidates' list (1 male/1 female). HSBC Continental Europe also have several partnerships to improve the diversity profile of our candidates, such as Article 1, "Association pour le Développement de l'Egalité des Chances", Adie or Emmaüs Connect, and participate in recruitment forums dedicated to disabled candidates.

While recognising the significance of diversity and inclusivity in fostering a responsible business environment, the absence of inclusiveness tracking in our counterparties has been determined not to pose material risk to our operations. However, there is a room for improvement in integrating the governance and social factors into corporate customer scoring process to align with evolving industry and remain committed to upholding our values of responsible business conduct.

For further information, please refer to HSBC Continental Europe Universal Registration Document Report 2023 *section "Sustainability" page 55*

HSBC website: https://www.hsbc.com/-/files/hsbc/our-approach/corporate-governance/pdfs/231211-hsbc-holdings-diversity-and-inclusion-policy-2023.pdf

Scope of ESG reporting

The information reported in Tables 44 to 51 below relates to the principal operating entities within HSBC Continental Europe's prudential scope of consolidation, including all HSBC branches and subsidiaries at 31 December 2023 which were previously omitted on materiality grounds. Prior periods have not been restated. HSBC Private Bank (Luxembourg) SA is a subsidiary of HSBC Continental Europe from November 2023 and therefore it is included in the consolidation. Subsidiaries engaged in insurance activities are excluded from the prudential consolidation. 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 the Bank's 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 Nomenclature of Economic Activities (NACE) sector allocation is based on the nature of the immediate counterparty.

The Bank has restated the 2022 comparative period to reflect the latest sector classification refinement following improvements in our data and processes including allocating NACE codes for the sector classification of the underlying data.

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 "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 100g CO2e/kWh.

Criteria (a) – (c) are out of scope and companies in these sectors are excluded in our disclosure.

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’). Additionally, an internal list of companies being identified with coal exposures by the business function has been used to assist with the reporting.

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.

Reporting of companies under #12.2 is based on counterparty information that identifies in its voluntary disclosures under the EU Taxonomy Regulation that the Do No Significant Harm (DNSH) criteria was not met.

Data limitation: Companies are not required to disclose the assessments about the technical screening criteria, which includes DNSH, that the taxonomy-eligible economic activities fail to meet but may do so voluntarily. The Bank places reliance on the extent to which its counterparties voluntarily disclose the compliance assessment of the DNSH criteria. On this basis the disclosure includes a limited population based on the availability of counterparty information.

Identification of clients excluded from with the EU Paris-Benchmark is done on a best-efforts basis based on available third-party data or relevant sector classification. The coverage of available information on counterparty exposures is expected to improve over time and could result in further counterparties being identified as excluded.

Exposure to companies excluded from Paris-aligned Benchmarks stands at EUR 1,596m (compared to EUR 1,429m at 31 December 2022). Due to evolving methodologies and data quality improvements since December 2022, several counterparties not previously identified have been reported in the column ‘exposures to companies excluded from EU Paris-aligned Benchmarks’ under their respective categories, with a total additional exposure of EUR 407m in December 2023 (EUR 844m in December 2022) further detail is set out below.

- A number of additional counterparties have been identified as a result of improvements in methodology and data sourcing with the exposure of EUR 387m in December 2023 (EUR 799m in December 2022).
- In addition, a counterparty which was reported in D.35.2 – Manufacture of gas; distribution of gaseous fuels through mains, has been correctly reclassified to D35.11 - Production of electricity with an exposure of EUR 20m December in 2023 (EUR 45m in December 2022) and this item is therefore now captured in the EU Paris-aligned benchmark column.
- Furthermore, a counterparty previously reported under category C.32 – Other manufacturing, has now been correctly reclassified under category B.06 – Extraction of crude petroleum and natural gas with the exposure of EUR 71m in December 2023 (EUR 180m in December 2022).

Prior period comparatives have been restated for these amendments.

Identification of environmentally sustainable exposures (CCM)

HSBC Continental Europe is required to report the taxonomy-aligned exposures that are in accordance with EU Taxonomy Regulation 2020/852 and aligns with Table 49 Mitigating actions: Assets for the calculation of GAR (Template 7) for non-financial corporations.

GHG financed emissions

The disclosure requirement for information on GHG financed emissions is voluntary in the first two years of reporting. HSBC Continental Europe does not currently disclose GHG financed emissions split by sector. The Bank'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 (IEA NZE 2021) 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 has set combined on-balance sheet financed emissions and facilitated emissions targets for two emissions-intensive sectors: oil and gas, and power and utilities, and report the combined progress for both sectors. In addition, the Group has set out its defined targets for the on-balance sheet financed emissions of the following sectors: cement; iron, steel and aluminium; aviation; automotive; and thermal coal mining. The 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.

HSBC Continental Europe 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.

Table 44: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2023		*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: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*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
	Sector/Subsector	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
1	**Exposures to sectors that highly contribute to climate change[1]**	**19,996**	**1,505**	**110**	**2,733**	**928**	**(354)**	**(30)**	**(304)**	**17,478**	**1,819**	**697**	**2**	**2.5**
2	**A – Agriculture, forestry and fishing**	**62**	**—**	**—**	**4**	**25**	**(9)**	**—**	**(9)**	**59**	**2**	**1**	**—**	**1.7**
3	**B – Mining and quarrying**	**338**	**268**	**—**	**23**	**187**	**—**	**—**	**—**	**149**	**189**	**—**	**—**	**5.7**
4	B.05 – Mining of coal and lignite	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
5	B.06 – Extraction of crude petroleum and natural gas	**308**	**268**	**—**	**1**	**187**	**—**	**—**	**—**	**121**	**187**	**—**	**—**	**6.0**
6	B.07 – Mining of metal ores	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
7	B.08 – Other mining and quarrying	**30**	**—**	**—**	**22**	**—**	**—**	**—**	**—**	**28**	**2**	**—**	**—**	**3.0**
8	B.09 – Mining support service activities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
9	**C – Manufacturing**	**6,496**	**476**	**10**	**594**	**285**	**(131)**	**(8)**	**(119)**	**6,176**	**293**	**27**	**—**	**1.8**
10	C.10 – Manufacture of food products	**739**	**—**	**—**	**53**	**10**	**(8)**	**—**	**(7)**	**672**	**47**	**20**	**—**	**2.4**
11	C.11 – Manufacture of beverages	**51**	**—**	**—**	**17**	**1**	**(1)**	**—**	**(1)**	**45**	**6**	**—**	**—**	**1.9**
12	C.12 – Manufacture of tobacco products	**111**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**111**	**—**	**—**	**—**	**3.5**
13	C.13 – Manufacture of textiles	**102**	**—**	**—**	**44**	**14**	**(4)**	**—**	**(4)**	**66**	**36**	**—**	**—**	**4.2**
14	C.14 – Manufacture of wearing apparel	**26**	**—**	**—**	**2**	**17**	**(4)**	**—**	**(4)**	**25**	**1**	**—**	**—**	**2.1**
15	C.15 – Manufacture of leather and related products	**31**	**—**	**—**	**—**	**2**	**(1)**	**—**	**(1)**	**31**	**—**	**—**	**—**	**2.7**
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	**35**	**—**	**—**	**20**	**3**	**(2)**	**—**	**(2)**	**34**	**1**	**—**	**—**	**2.5**
17	C.17 – Manufacture of pulp, paper and paperboard	**49**	**—**	**—**	**1**	**1**	**(1)**	**—**	**(1)**	**49**	**—**	**—**	**—**	**0.5**
18	C.18 – Printing and service activities related to printing	**72**	**—**	**—**	**1**	**2**	**(1)**	**—**	**(1)**	**71**	**1**	**—**	**—**	**3.1**
19	C.19 – Manufacture of coke oven products	**54**	**54**	**—**	**—**	**—**	**—**	**—**	**—**	**54**	**—**	**—**	**—**	**0.2**
20	C.20 – Production of chemicals	**773**	**15**	**—**	**55**	**7**	**(3)**	**(1)**	**(2)**	**769**	**4**	**—**	**—**	**1.9**
21	C.21 – Manufacture of pharmaceutical preparations	**234**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**196**	**38**	**—**	**—**	**3.6**
22	C.22 – Manufacture of rubber products	**263**	**5**	**—**	**29**	**2**	**(2)**	**(1)**	**(1)**	**251**	**12**	**—**	**—**	**2.1**

Table 44: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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: environment ally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*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
Sector/Subsector		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
23	C.23 – Manufacture of other non-metallic mineral products	329	25	—	12	5	(3)	—	(3)	321	7	1	—	1.8
24	C.24 – Manufacture of basic metals	271	—	—	5	1	—	—	—	268	3	—	—	1.0
25	C.25 – Manufacture of fabricated metal products, except machinery and equipment	303	—	—	19	46	(10)	—	(10)	267	35	1	—	2.0
26	C.26 – Manufacture of computer, electronic and optical products	157	—	—	21	—	(1)	(1)	—	157	—	—	—	1.9
27	C.27 – Manufacture of electrical equipment	579	—	—	4	52	(24)	—	(24)	572	6	1	—	1.2
28	C.28 – Manufacture of machinery and equipment n.e.c.	450	—	4	115	70	(39)	(3)	(35)	438	10	2	—	2.5
29	C.29 – Manufacture of motor vehicles, trailers and semi-trailers	246	23	1	4	2	(1)	—	(1)	246	—	—	—	1.4
30	C.30 – Manufacture of other transport equipment	405	—	5	89	21	(3)	(1)	(2)	341	64	—	—	2.7
31	C.31 – Manufacture of furniture	72	—	—	1	1	(1)	—	(1)	48	22	2	—	3.7
32	C.32 – Other manufacturing	1,142	354	—	102	28	(22)	(1)	(19)	1,142	—	—	—	0.3
33	C.33 – Repair and installation of machinery and equipment	2	—	—	—	—	—	—	—	2	—	—	—	1.2
34	**D – Electricity, gas, steam and air conditioning supply**	890	526	15	32	5	(5)	—	(4)	766	29	93	2	2.8
35	D35.1 – Electric power generation, transmission and distribution	661	521	14	32	5	(5)	—	(4)	537	29	93	2	3.7
36	D35.11 – Production of electricity	575	437	14	32	—	—	—	—	475	5	93	2	3.8
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	5	5	1	—	—	—	—	—	5	—	—	—	0.2
38	D35.3 – Steam and air conditioning supply	224	—	—	—	—	—	—	—	224	—	—	—	—
39	**E – Water supply; sewerage, waste management and remediation activities**	305	—	—	49	—	—	—	—	304	1	—	—	0.6

Table 44: Banking book- climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**							
			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: environment ally sustain able (CCM)***	***of which: stage 2 expo-sures***	***of which: non-perfor-ming expo-sures***		***of which: Stage 2 expo-sures***	***of which: non-perfor-ming expo-sures***	**<= 5 years**	**> 5 year <= 10 years**	**> 10 year <= 20 ye-ars**	**> 20 ye-ars**	**Average weigh-ted matur-ity**
Sector/Subsector		**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**years**
40	**F - Construction**	**497**	**—**	**5**	**31**	**32**	**(17)**	**(1)**	**(15)**	**428**	**26**	**43**	**—**	**3.2**
41	F.41 – Construction of buildings	**447**	**—**	**3**	**21**	**23**	**(15)**	**(1)**	**(12)**	**380**	**24**	**43**	**—**	**3.3**
42	F.42 – Civil	**31**	**—**	**1**	**—**	**8**	**(1)**	**—**	**(2)**	**31**	**—**	**—**	**—**	**0.3**
43	F.43 – Specialised construction activities	**19**	**—**	**1**	**10**	**1**	**(1)**	**—**	**(1)**	**17**	**2**	**—**	**—**	**2.3**
44	**G – Wholesale and retail trade; repair of motor vehicles and motorcycles**	**4,319**	**233**	**7**	**660**	**190**	**(124)**	**(5)**	**(117)**	**4,238**	**70**	**11**	**—**	**1.3**
45	**H – Transportation and storage**	**2,062**	**2**	**—**	**813**	**19**	**(17)**	**(8)**	**(8)**	**1,368**	**461**	**233**	**—**	**4.3**
46	H.49 – Land transport and transport via pipelines	**310**	**1**	**—**	**11**	**13**	**(3)**	**—**	**(3)**	**282**	**20**	**8**	**—**	**2.0**
47	H.50 – Water transport	**1,104**	**—**	**—**	**745**	**—**	**(8)**	**(7)**	**—**	**546**	**345**	**213**	**—**	**5.8**
48	H.51 – Air transport	**97**	**—**	**—**	**1**	**—**	**—**	**—**	**—**	**90**	**7**	**—**	**—**	**2.2**
49	H.52 – Warehousing and support activities for transportation	**549**	**1**	**—**	**56**	**6**	**(6)**	**(1)**	**(5)**	**448**	**89**	**12**	**—**	**3.0**
50	H.53 – Postal and courier activities	**2**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**—**	**—**	**—**	**—**
51	**I – Accommodation and food service**	**486**	**—**	**—**	**111**	**43**	**(14)**	**—**	**(12)**	**462**	**17**	**7**	**—**	**2.5**
52	**L – Real estate activities**	**4,541**	**—**	**73**	**416**	**142**	**(37)**	**(8)**	**(20)**	**3,528**	**731**	**282**	**—**	**3.8**
53	**Exposures to other sectors[1]**	**14,095**	**91**	**39**	**1,922**	**615**	**(330)**	**(29)**	**(283)**	**13,190**	**724**	**70**	**111**	**2.2**
54	**K – Financial and insurance activities**	**52**	**—**	**—**	**—**	**8**	**(2)**	**—**	**(1)**	**41**	**4**	**7**	**—**	**3.8**
55	**Exposures to other sectors (NACE codes J, M – U)**	**14,043**	**91**	**39**	**1,922**	**607**	**(328)**	**(29)**	**(282)**	**13,149**	**720**	**63**	**111**	**2.2**
56	**TOTAL**	**34,091**	**1,596**	**149**	**4,655**	**1,543**	**(684)**	**(59)**	**(587)**	**30,668**	**2,543**	**767**	**113**	**2.4**

1 *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.*

Table 44: Banking book – climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
	31 Dec 2022 [2]		*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: environment ally sustain able (CCM)*	*of which: stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*		*of which: Stage 2 expo-sures*	*of which: non-perfor-ming expo-sures*	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 ye-ars	Average weigh-ted matur-ity
	Sector/Subsector	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
1	Exposures to sectors that highly contribute to climate change[1]	16,715	*1,350*	—	*3,572*	*728*	*(274)*	*(34)*	*(227)*	14,320	1,598	795	2	2.9
2	A – Agriculture, forestry and fishing	65	—	—	—	*29*	*(12)*	—	*(12)*	62	2	1	—	2.7
3	B – Mining and quarrying	489	*363*	—	*182*	*183*	—	—	—	306	—	183	—	4.2
4	B.05 – Mining of coal and lignite	—	—	—	—	*183*	—	—	—	—	—	—	—	—
5	B.06 – Extraction of crude petroleum and natural gas	472	*363*	—	*179*	—	—	—	—	289	—	183	—	4.3
6	B.07 – Mining of metal ores	2	—	—	*1*	—	—	—	—	2	—	—	—	1.2
7	B.08 – Other mining and quarrying	15	—	—	*2*	—	—	—	—	15	—	—	—	3.0
8	B.09 – Mining support service activities	—	—	—	—	—	—	—	—	—	—	—	—	—
9	C – Manufacturing	5,208	*7*	—	*821*	*206*	*(65)*	*(8)*	*(55)*	4,894	246	66	2	2.4
10	C.10 – Manufacture of food products	622	—	—	*46*	*10*	*(7)*	—	*(7)*	610	3	9	—	2.4
11	C.11 – Manufacture of beverages	41	—	—	*16*	—	—	—	—	41	—	—	—	2.0
12	C.12 – Manufacture of tobacco products	285	—	—	—	—	—	—	—	285	—	—	—	3.4
13	C.13 – Manufacture of textiles	115	—	—	*18*	*14*	*(6)*	—	*(6)*	73	42	—	—	5.1
14	C.14 – Manufacture of wearing apparel	43	—	—	*6*	*18*	*(7)*	—	*(7)*	42	1	—	—	2.3
15	C.15 – Manufacture of leather and related products	40	—	—	*26*	*2*	*(1)*	—	*(1)*	38	2	—	—	2.7
16	C.16 – Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	86	—	—	*19*	*3*	*(3)*	—	*(3)*	85	1	—	—	2.6
17	C.17 – Manufacture of pulp, paper and paperboard	61	—	—	*1*	—	—	—	—	61	—	—	—	1.8
18	C.18 – Printing and service activities related to printing	59	—	—	*3*	*2*	*(1)*	—	*(1)*	59	—	—	—	3.9
19	C.19 – Manufacture of coke oven products	4	*4*	—	—	—	—	—	—	4	—	—	—	1.4
20	C.20 – Production of chemicals	671	—	—	*46*	*21*	*(2)*	*(1)*	*(1)*	642	29	—	—	2.0
21	C.21 – Manufacture of pharmaceutical preparations	309	—	—	*1*	—	—	—	—	266	43	—	—	4.0
22	C.22 – Manufacture of rubber products	183	*1*	—	*22*	*2*	*(2)*	*(1)*	*(1)*	170	13	—	—	2.0

Table 44: Banking book – climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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: environmentally sustainable (CCM)	of which: stage 2 exposures	of which: non-performing exposures		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
Sector/Subsector		€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
23	C.23 – Manufacture of other non-metallic mineral products	93	—	—	4	4	(2)	—	(2)	90	1	2	—	2.3
24	C.24 – Manufacture of basic metals	235	—	—	8	3	(1)	—	—	228	7	—	—	1.0
24	C.25 – Manufacture of fabricated metal products, except machinery and equipment	221	1	—	14	45	(7)	—	(8)	177	43	1	—	2.8
26	C.26 – Manufacture of computer, electronic and optical products	361	—	—	34	4	(2)	—	(2)	351	10	—	—	2.2
27	C.27 – Manufacture of electrical equipment	79	1	—	2	17	(5)	—	(5)	79	—	—	—	1.4
28	C.28 – Manufacture of machinery and equipment n.e.c.	609	—	—	144	22	(12)	(4)	(6)	595	14	—	—	1.9
29	C.29 – Manufacture of motor vehicles, trailers and semi-trailers	528	—	—	238	23	(3)	—	(2)	527	1	—	—	1.6
30	C.30 – Manufacture of other transport equipment	239	—	—	151	5	(1)	(1)	—	167	20	52	—	4.2
31	C.31 – Manufacture of furniture	17	—	—	1	1	—	—	—	15	—	2	—	3.0
32	C.32 – Other manufacturing	281	—	—	18	6	(1)	(1)	(1)	263	16	—	2	1.6
33	C.33 – Repair and installation of machinery and equipment	26	—	—	3	4	(2)	—	(2)	26	—	—	—	2.8
34	D – Electricity, gas, steam and air conditioning supply	460	452	—	128	—	(1)	—	—	332	31	97	—	4.7
35	D35.1 – Electric power generation, transmission and distribution	457	451	—	125	—	(1)	—	—	329	31	97	—	3.8
36	D35.11 – Production of electricity	316	310	—	125	—	(1)	—	—	260	4	52	—	4.3
37	D35.2 – Manufacture of gas; distribution of gaseous fuels through mains	3	1	—	3	—	—	—	—	3	—	—	—	9.2
38	D35.3 – Steam and air conditioning supply	—	—	—	—	—	—	—	—	—	—	—	—	—
39	E – Water supply; sewerage, waste management and remediation activities	59	1	—	1	—	—	—	—	58	1	—	—	2.9

Table 44: Banking book – climate change transition risk: Credit quality of exposures by sector, emissions & residual maturity (Template 1) (continued)

		a	b	c	d	e	f	g	h	l	m	n	o	p
		Gross carrying amount					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							
			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: environmentally sustainable (CCM)*	*of which: stage 2 exposures*	*of which: non-performing exposures*		*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
	Sector/Subsector	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	years
40	F - Construction	375	*1*	—	*29*	*22*	*(15)*	—	*(14)*	347	7	21	—	2.8
41	F.41 – Construction of buildings	209	—	—	*10*	*6*	*(4)*	—	*(3)*	187	3	19	—	3.0
42	F.42 – Civil engineering	61	—	—	*4*	*2*	*(2)*	—	*(1)*	58	2	1	—	2.5
43	F.43 – Specialised construction activities	105	*1*	—	*15*	*14*	*(9)*	—	*(10)*	102	2	1	—	2.6
44	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,515	*332*	—	*505*	*162*	*(118)*	*(3)*	*(113)*	3,425	79	11	—	1.7
45	H – Transportation and storage	1,909	*118*	—	*982*	*7*	*(14)*	*(9)*	*(5)*	1,287	425	197	—	4.3
46	H.49 – Land transport and transport via pipelines	229	*115*	—	*10*	*6*	*(3)*	—	*(4)*	205	17	7	—	1.9
47	H.50 – Water transport	1,140	—	—	*964*	—	*(9)*	*(9)*	—	627	323	190	—	5.3
48	H.51 – Air transport	308	—	—	*1*	—	—	—	—	227	81	—	—	3.4
49	H.52 – Warehousing and support activities for transportation	232	*3*	—	*7*	*1*	*(2)*	—	*(1)*	228	4	—	—	2.6
50	H.53 – Postal and courier activities	—	—	—	—	—	—	—	—	—	—	—	—	1.5
51	I – Accommodation and food service activities	536	—	—	*142*	*52*	*(17)*	*(4)*	*(12)*	476	58	2	—	3.1
52	L – Real estate activities	4,099	*76*	—	*782*	*67*	*(32)*	*(10)*	*(16)*	3,133	749	217	—	3.4
53	Exposures to other sectors[1]	12,763	*79*	—	*1,682*	*708*	*(410)*	*(50)*	*(351)*	11,599	955	79	130	2.6
54	K – Financial and insurance activities	—	—	—	—	—	—	—	—	—	—	—	—	—
55	Exposures to other sectors (NACE codes J, M – U)	12,763	*79*	—	*1,682*	*708*	*(410)*	*(50)*	*(351)*	11,599	955	79	130	2.6
56	TOTAL	29,478	*1,429*	—	*5,254*	*1,436*	*(684)*	*(84)*	*(578)*	25,919	2,553	874	132	2.7

1 *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.*

2 *The 2022 comparative period has been re-stated to align with the outcome of the sector classification refinement project in 2023.*

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

This table presents the gross carrying amount[1] of loans collateralised with commercial and residential immovable property and of repossessed real estate collateral.The loans are presented in the template within the EU area based upon where the loan itself is booked, as a proxy for the location of the underlying 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 EPC[2]. 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 corporate and retail customers to enable reporting of the level of energy and the corresponding EPC labels, for both residential and commercial property collateral. The EPC label is not mandatory information in some countries. Where EPCs do not incorporate a specific label, the EPC label is not estimated which in line with the reporting requirements, the level of energy consumption, for the score, has been estimated. For Germany, the average level of energy of collected EPCs has been used for each portfolio for estimating level of energy. For France and Malta, where estimation is required, the level of energy has been estimated using a few different methods according to the data availability. The majority is 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 the 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 1 January 2022' issued by the 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/EU10 (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's French retail operations were classified as held for sale as at 31 December 2023, therefore out of scope of reporting (same as year-end 2022 reporting). However, the Bank has retained a portfolio of retail home loans (comprised of mortgages and loans secured by Credit Logement guarantee) amounting to EUR7.1bn and this remains in scope of reporting for 2023. For retail exposures, the EPC ratings have been estimated using information from a third party provider utilising address and property data against public and private EPC databases and, where necessary, proximity statistical analysis on the basis of EPCs nearby and at the same address. This third party data are treated as estimated. Collected EPCs from customers were treated as actual energy level and EPC label. Where no property data existed, energy levels were estimated based on the level of energy of collected and third party estimated EPCs.

The EBA periodically releases Q&As which clarify the requirements of the regulation. An ongoing review of this additional guidance is undertaken to ensure compliance. As a result of this, the presentation of some columns in the table has been amended. Specifically, the column 'Without EPC label of collateral' now presents the exposure rather than percentage of exposures without EPC label, and the column 'Of which level of energy efficiency estimated' presents the percentage, rather than amount of exposures without EPC label where the energy level has been estimated. This change in presentation has been reflected in the prior period table.

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

Table 45: Banking book - climate change transition risk: Loans collateralised by immovable property - Energy efficiency of collateral (Template 2)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Total gross carrying amount															
			Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
			0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		*of which: level of energy efficiency (EP score in kWh/m² of collateral) estimated*
	31 Dec 2023	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%
	Counterparty sector																
1	***Total EU area***	**14,584**	**1,611**	**4,391**	**4,864**	**2,690**	**542**	**486**	**421**	**284**	**360**	**427**	**292**	**96**	**57**	**12,647**	**100**
2	*– of which: Loans collateralised by commercial immovable property*	***4,305***	***870***	***827***	***1,328***	***759***	***117***	***404***	***384***	***256***	***237***	***203***	***218***	***79***	***47***	***2,881***	**100**
3	*– of which: Loans collateralised by residential immovable property*	***10,276***	***741***	***3,563***	***3,536***	***1,931***	***425***	***80***	***37***	***28***	***123***	***224***	***74***	***17***	***10***	***9,763***	**100**
4	*– of which: Collateral obtained by taking possession: residential and commercial immovable properties*	***3***	—	***1***	—	—	—	***2***	—	—	—	—	—	—	—	***3***	**100**
5	*– of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	***12,943***	***1,070***	***3,964***	***4,501***	***2,565***	***471***	***372***								***12,647***	**100**
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/m² of collateral) estimated*																
	31 Dec 2022																
1	Total EU area	6,369	740	2,526	2,183	484	101	336	384	177	230	123	168	62	18	5,207	100
2	*– of which: Loans collateralised by commercial immovable property*	*3,909*	*703*	*414*	*1,873*	*484*	*101*	*334*	*384*	*162*	*230*	*101*	*168*	*62*	*18*	*2,784*	100
3	*– of which: Loans collateralised by residential immovable property*	*2,457*	*36*	*2,111*	*310*	—	—	—	—	*15*	—	*22*	—	—	—	*2,420*	100
4	*– of which: Collateral obtained by taking possession: residential and commercial immovable properties*	*3*	—	*1*	—	—	—	*2*	—	—	—	—	—	—	—	*3*	100
5	*– of which: Level of energy efficiency (EP score in kWh/m² of collateral) estimated*	*5,543*	*346*	*2,251*	*2,149*	*461*	*58*	*278*								*5,207*	100
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/m² 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 the corporate counterparties of the operating entities in the loan book against a list of top 20 carbon-intensive firms, compiled using data from reports of the Climate Accountability Institute ('CAI'). The Disclosure seeks to include exposure to any company that belongs to the group of any of the top 20 emitters. The top 20 Carbon emitters have been identified using the CAI’s Carbon Majors 2018 data set, specifically the ‘TopTwenty CO_2e 2018’ table.

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.

Following a review of our methodology for identifying the top 20 carbon emitting companies, the primary data source has been amended for this disclosure from CDP (previously known as the Carbon Disclosure Project), used at year-ended 2022, to the CAI, which includes a wider data coverage. This has resulted in different counterparties being identified as part of the top 20 carbon-intensive firms. The gross carrying amount was EUR 734m as at December 2023 (December 2022: EUR 286m if reported on the same basis using CAI data). The gross carrying amount reported as at December 2022 was EUR 81m, based on the CDP 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.

HSBC Continental Europe is also required to report the taxonomy-aligned exposures (CCM) that are in accordance with the EU Taxonomy Regulation 2020/852 and aligns with Table 49 Mitigating actions: Assets for the calculation of GAR (Template 7) for non-financial corporations.

Table 46: Banking book - climate change transition risk: Exposures to top 20 carbon-intensive firms (Template 4)

	a	b	c	d	e
	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**
1 31 Dec 2023					
	734	**0.77**	**0.06**	**0.08**	**6**
1 31 Dec 2022					
	81	0.12	—	0.90	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 loans are presented in the template by the geographical location based upon where the loan itself is booked, as a proxy for the location of the underlying 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 being subject to both acute and chronic physical risk are required to be reported only in column (j) of the table.

Rows 10-12 represent loans that are granted for house purchases and collateralised by residential and commercial real estate. Included in the total collateralised loans as at 31 December 2023, majority is the France Retail banking book related to mortgages and loans secured by credit lodgement guarantee, which was classified as held for sale in the prior year disclosure. As a result, the numbers in row 10-12 are significantly higher compared to year end 2022 reporting.

The Bank has restated the 2022 comparative period to reflect the latest sector classification refinement following improvements in our data and processes including allocating NACE codes for the sector classification of the underlying data.

Additionally, the counterparty sector classification disclosed in the template is aligned to the HSBC Continental Europe's FINREP reporting. Due to evolving methodologies and data quality improvements since December 2022 reporting, a counterparty with balance of EUR71m (December 2022: EUR180m), reported under category C.32 - Other manufacturing during the year end 2022 has now been correctly reclassified under category B.06 - Extraction of crude petroleum and natural gas. Both have been restated in prior year comparative reporting.

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

For Corporate loans, the disclosure is dependent on the availability of location information for one of the following three things: the collateral securing the loans (where relevant), the counterparties activities, or the head office. If any one of these three locations was found to be subject to high physical risk, the exposure is considered as high physical risk in the table. 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. In addition, for retail loans, residential addresses were also considered. Further, for cases where the counterparty's loan is backed by more than one collateral in the form of immovable property, the physical risk of each collateral has been assessed and the highest physical risk is reported against that contract. For the retail book while physical risk data was available for the majority of the exposures, the average physical risk calculated has been used for estimating the physical risk for the remaining exposures. Also, based on the available data, we calculated physical risk based on best available location of the exposure. 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.

The climate data from the ThinkHazard tool for France provides the maximum hazard level for France departments. As an example, 94 out of the 96 French departments have a high wildfire risk as indicated in the ThinkHazard database. As a result, this conservative view made France extremely sensitive to wildfire risk, which contributes to majority of French departments in the available dataset having the level of exposures reported as "sensitive to impact from acute climate change events" during interim reporting as at 30 June 2023. For context, the France retail portfolio is predominately located in more urban areas with approximately 70 per cent situated in major cities and their surrounding neighbourhoods, where we would expect the risk of wildfire to be reduced. Therefore, in order to apply a more comprehensive physical risk data assessment to allow for a refined view of the impact to the portfolio, we engaged with our internal experts from Stress Testing and Property Portfolio Managers to develop management overlays on this wildfire risk.

For wildfire, the high risk zones of France were established using the DRIAS database (source: http://www.drias-climat.fr/), which provides climate projections produced by French and European climate modelling laboratories (Euro-CORDEX program). The database provides multiple sets of models and the median of these was retained for the analysis. The specific climate scenario projection used was RCP 8.5 (often referred to as "Business as usual" Downside Physical scenario - assumes continued rising emissions, leading to much higher levels of warming). The Retail portfolio was mapped to the obtained climate data points using longitude and latitude coordinates with high risk defined as those with a Fire Weather Index (FWI – a National meteorologically based index) larger than 60 for more than 10 days. The France departments with exposure and exceeding those thresholds were used for reporting as High Risk for wildfire. While the underlying DRIAS data is aligned with ThinkHazard tool data, the risk level has been downgraded as a result of management overlays to take account of a more realistic threshold for wildfire risk that is aligned with scientific research. This leads to only two regions from all French departments are still sensitive to high wildfire risk. These two regions are Languedoc-Rousillon and Provence-Alpes-Cote-d'Azur.

For EUR675m (1 per cent) of the total balance sheet amount in our 31 December 2023 reporting, we had limited or no data available to clearly identify the geographical location and assess the impact of the associated physical risk (compared to EUR2.6bn representing 8 per cent in December 2022).

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 volcanos.

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 instead of 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. Our reporting in Template 5 is prepared on the following basis:

- A climate risk rating of High is assumed to imply that all the assets in that location are sensitive to physical climate 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 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
			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			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity				of which: Stage 2 exposures	of which: non-performing exposures		of which: Stage 2 exposures	of which: non-performing exposures
		€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m
	31 Dec 2023														
	France														
1	A – Agriculture, forestry and fishing	51	43	2	1	—	2.1	—	46	—	—	25	(9)	—	(9)
2	B – Mining and quarrying	328	137	188	—	—	5.9	—	139	186	23	187	—	—	—
3	C – Manufacturing	3,829	3,107	161	20	—	1.9	—	2,914	374	273	141	(64)	(3)	(59)
4	D – Electricity, gas, steam and air conditioning supply	730	691	29	6	2	1.9	—	658	70	29	—	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	41	35	1	—	—	3.0	—	27	9	—	—	—	—	—
6	F – Construction	455	273	22	17	—	3.2	—	312	—	21	19	(10)	—	(9)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,245	2,722	46	6	—	1.6	—	2,751	23	265	114	(80)	(3)	(76)
8	H – Transportation and storage	1,347	949	215	20	—	3.2	—	572	612	481	6	(6)	(1)	(4)
9	L – Real estate activities	3,880	2,896	548	162	—	3.8	—	3,569	37	382	100	(19)	(4)	(10)
10	Loans collateralised by residential immovable property	7,547	468	148	2,629	2,653	17.5	—	5,892	6	369	32	(16)	(2)	(13)
11	Loans collateralised by commercial immovable property	3,683	2,978	389	115	—	3.6	—	3,450	32	410	29	(12)	(4)	(4)
12	Repossessed collateral	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	**Other relevant sectors (breakdown below where relevant)**	10,410	8,615	376	40	83	2.3	—	8,368	746	1,259	489	(266)	(19)	(240)
14	I – Accommodation and food service activities	360	329	11	4	—	2.5	—	344	—	29	20	(7)	—	(7)
15	J – Information and communication	1,084	989	37	13	—	2.3	—	1,016	23	127	21	(24)	(9)	(14)
16	K - Financial and insurance activities	—	—	—	—	—	—	—	—	—	—	—	—	—	—
17	M – Professional scientific and technical activities	3,076	2,088	77	3	1	2.0	—	2,099	70	429	322	(160)	(2)	(155)
18	N – Administrative and support service activities	4,721	4,167	234	1	82	2.8	—	4,093	391	475	113	(66)	(5)	(56)
19	O – Public administration and defence compulsory social security	4	1	3	—	—	4.3	—	4	—	—	—	—	—	—
20	P – Education	15	10	2	—	—	2.8	—	12	—	—	—	—	—	—
21	Q – Human health and social work activities	25	21	3	—	—	2.5	—	14	10	2	3	—	—	—
22	R – Arts, entertainment and recreation	79	36	7	19	—	6.7	—	62	—	38	2	(2)	(2)	(1)
23	S – Other service activities	1,046	974	2	—	—	0.3	—	724	252	159	8	(7)	(1)	(7)

Table 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	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		of which: Stage 2 exposures	of which: non-performing exposures
		€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m
	Other geographical areas														
1	A – Agriculture, forestry and fishing	11	8	—	—	—	—	—	8	—	4	—	—	—	—
2	B – Mining and quarrying	10	10	—	—	—	—	—	10	—	—	—	—	—	—
3	C – Manufacturing	2,667	2,415	—	6	121	1.6	—	2,273	269	241	84	(25)	(3)	(22)
4	D – Electricity, gas, steam and air conditioning supply	160	68	48	—	—	6.0	—	58	58	1	5	—	—	—
5	E – Water supply; sewerage, waste management and remediation activities	264	247	—	—	—	—	—	247	—	48	—	—	—	—
6	F – Construction	42	29	—	—	—	1.6	—	29	—	—	—	—	—	—
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	1,074	996	—	—	1	0.4	—	988	9	250	35	(18)	(1)	(16)
8	H – Transportation and storage	715	293	203	8	210	6.4	—	711	3	322	8	(6)	(6)	—
9	L – Real estate activities	661	470	21	75	—	2.8	—	560	6	7	21	(1)	—	(1)
10	Loans collateralised by residential immovable property	2,729	301	122	243	232	12.8	—	898	—	19	10	(4)	(1)	(2)
11	Loans collateralised by commercial immovable property	622	325	7	65	—	3.3	—	397	—	25	23	(4)	(1)	(2)
12	Repossessed collateral	3	3	—	—	—	1.0	—	3	—	—	—	—	—	—
13	**Other relevant sectors (breakdown below where relevant)**	4,171	3,603	79	37	201	1.9	—	3,363	557	671	82	(29)	(4)	(22)
14	I – Accommodation and food service activities	126	79	—	1	—	2.0	—	80	—	68	2	(1)	—	(1)
15	J – Information and communication	338	306	—	—	—	2.2	—	303	3	2	—	—	—	—
16	K - Financial and insurance activities	52	3	—	—	—	3.1	—	3	—	—	—	—	—	—
17	M – Professional scientific and technical activities	2,465	2,196	39	17	178	2.1	—	2,143	287	378	15	(12)	(3)	(7)
18	N – Administrative and support service activities	450	417	—	—	23	0.9	—	440	—	92	—	(1)	(1)	—
19	O – Public administration and defence compulsory social security	1	1	—	—	—	—	—	1	—	—	—	—	—	—
20	P – Education	3	2	—	—	—	—	—	2	—	—	—	—	—	—
21	Q – Human health and social work activities	18	—	—	—	—	—	—	—	—	—	—	—	—	—
22	R – Arts, entertainment and recreation	18	18	—	—	—	2.4	—	18	—	3	—	—	—	—
23	S – Other service activities	700	581	40	19	—	1.6	—	373	267	128	65	(15)	—	(14)

Table 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
			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	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Variable: Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which: Stage 2 exposures	of which: non-performing exposures
		€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m
	Total														
1	A – Agriculture, forestry and fishing	62	51	2	1	—	1.8	—	54	—	4	25	(9)	—	(9)
2	B – Mining and quarrying	338	147	188	—	—	5.8	—	149	186	23	187	—	—	—
3	C – Manufacturing	6,496	5,522	161	26	121	1.8	—	5,187	643	514	225	(89)	(6)	(81)
4	D – Electricity, gas, steam and air conditioning supply	890	759	77	6	2	2.4	—	716	128	30	5	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	305	282	1	—	—	0.4	—	274	9	48	—	—	—	—
6	F – Construction	497	302	22	17	—	3.1	—	341	—	21	19	(10)	—	(9)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	4,319	3,718	46	6	1	1.3	—	3,739	32	515	149	(98)	(4)	(92)
8	H – Transportation and storage	2,062	1,242	418	28	210	4.4	—	1,283	615	803	14	(12)	(7)	(4)
9	L – Real estate activities	4,541	3,366	569	237	—	3.6	—	4,129	43	389	121	(20)	(4)	(11)
10	Loans collateralised by residential immovable property	10,276	769	270	2,872	2,885	16.8	—	6,790	6	388	42	(20)	(3)	(15)
11	Loans collateralised by commercial immovable property	4,305	3,303	396	180	—	3.5	—	3,847	32	435	52	(16)	(5)	(6)
12	Repossessed collateral	3	3	—	—	—	1.0	—	3	—	—	—	—	—	—
13	**Other relevant sectors (breakdown below where relevant)**	14,581	12,218	455	77	284	2.2	—	11,731	1,303	1,930	571	(295)	(23)	(262)
14	I – Accommodation and food service activities	486	408	11	5	—	2.4	—	424	—	97	22	(8)	—	(8)
15	J – Information and communication	1,422	1,295	37	13	—	2.2	—	1,319	26	129	21	(24)	(9)	(14)
16	K - Financial and insurance activities	52	3	—	—	—	3.1	—	3	—	—	—	—	—	—
17	M – Professional scientific and technical activities	5,541	4,284	116	20	179	2.1	—	4,242	357	807	337	(172)	(5)	(162)
18	N – Administrative and support service activities	5,171	4,584	234	1	105	2.6	—	4,533	391	567	113	(67)	(6)	(56)
19	O – Public administration and defence compulsory social security	5	2	3	—	—	3.8	—	5	—	—	—	—	—	—
20	P – Education	18	12	2	—	—	2.4	—	14	—	—	—	—	—	—
21	Q – Human health and social work activities	43	21	3	—	—	2.4	—	14	10	2	3	—	—	—
22	R – Arts, entertainment and recreation	97	54	7	19	—	5.8	—	80	—	41	2	(2)	(2)	(1)
23	S – Other service activities	1,746	1,555	42	19	—	0.8	—	1,097	519	287	73	(22)	(1)	(21)

Table 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
	Geographical area subject to climate change physical risk – acute and chronic events		Breakdown by maturity bucket: <= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	*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*	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	*of which: Stage 2 exposures*	*of which: non-performing exposures*
		€m	€m	€m	€m	€m	years	*€m*	*€m*	*€m*	€m	€m	€m	€m	€m
	31 Dec 2022[1]														
	France														
1	A – Agriculture, forestry and fishing	62	28	2	1	—	2.5	—	*31*	—	—	1	(1)	—	(1)
2	B – Mining and quarrying1	489	197	—	183	—	5.0	—	*197*	*183*	182	183	—	—	—
3	C – Manufacturing	3,105	2,878	96	61	—	2.6	—	*2,550*	*485*	619	136	(58)	(5)	(51)
4	D – Electricity, gas, steam and air conditioning supply	323	286	31	6	—	3.0	—	*267*	*56*	124	—	—	—	—
5	E – Water supply; sewerage, waste management and remediation activities	33	32	1	—	—	3.1	—	*33*	—	1	—	—	—	—
6	F – Construction	352	328	7	17	—	2.8	—	*342*	*10*	28	20	(13)	—	(11)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	2,689	2,556	55	3	—	1.9	—	*2,533*	*81*	408	120	(99)	(1)	(98)
8	H – Transportation and storage	1,354	1,034	268	20	—	3.3	—	*1,093*	*229*	719	7	(9)	(5)	(4)
9	L – Real estate activities	3,772	2,708	687	202	—	3.5	—	*3,597*	—	575	38	(27)	(7)	(15)
10	Loans collateralised by residential immovable property	217	214	2	1	—	2.9	—	*217*	—	30	34	(24)	(2)	(20)
11	Loans collateralised by commercial immovable property	3,299	2,311	557	233	—	3.8	—	*3,101*	—	422	15	(7)	(3)	(2)
12	Repossessed collateral	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Other relevant sectors (breakdown below where relevant)	10,386	8,640	589	73	3	2.6	—	*8,856*	*449*	1,118	499	(295)	(22)	(265)
14	I – Accommodation and food service activities	457	398	31	1	—	3.0	—	*430*	—	103	31	(10)	(1)	(9)
15	J – Information and communication	784	357	46	14	—	3.5	—	*396*	*21*	39	9	(5)	—	(4)
16	M – Professional scientific and technical activities	2,969	2,768	176	23	1	2.5	—	*2,897*	*71*	227	195	(125)	(3)	(116)
17	N – Administrative and support service activities	5,642	4,857	318	16	—	2.6	—	*4,844*	*347*	670	164	(98)	(17)	(79)
18	O – Public administration and defence compulsory social security	48	44	3	—	—	2.3	—	*47*	—	—	—	—	—	—
19	P – Education	17	16	1	—	—	3.2	—	*17*	—	4	—	—	—	—
20	Q – Human health and social work activities	127	117	5	—	—	3.2	—	*112*	*10*	2	95	(53)	—	(54)
21	R – Arts, entertainment and recreation	88	61	6	19	2	6.3	—	*88*	—	63	2	(2)	(1)	(1)
22	S – Other service activities	254	22	3	—	—	2.5	—	*25*	—	10	3	(2)	—	(2)

Table 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Geographical area subject to climate change physical risk – acute and chronic events	€m	<= 5 years €m	> 5 year <= 10 years €m	> 10 year <= 20 years €m	> 20 years €m	Average weighted maturity years	*of which: exposures sensitive to impact from chronic climate change events* €m	*of which: exposures sensitive to impact from acute climate change events* €m	*of which: exposures sensitive to impact both from chronic and acute climate change events* €m	*of which: Stage 2 exposures* €m	*of which: non-performing exposures* €m	€m	*of which: Stage 2 exposures* €m	*of which: non-performing exposures* €m
	Other geographical areas														
1	A – Agriculture, forestry and fishing	3	3	—	—	—	0.1	—	*3*	—	—	—	—	—	—
2	B – Mining and quarrying	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	C – Manufacturing	2,103	1,310	149	1	—	2.7	—	*1,424*	*36*	180	64	(6)	(2)	(4)
4	D – Electricity, gas, steam and air conditioning supply	137	2	—	43	—	10.6	—	*45*	—	—	—	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	26	2	—	—	—	—	—	*2*	—	—	—	—	—	—
6	F – Construction	23	7	—	—	—	1.2	—	*7*	—	—	—	(1)	—	*(1)*
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	826	513	17	—	—	1.1	—	*521*	*9*	*49*	*32*	(13)	*(1)*	*(12)*
8	H – Transportation and storage	555	217	145	177	—	6.6	—	*539*	—	*263*	—	(5)	*(5)*	—
9	L – Real estate activities	327	236	6	—	—	2.9	—	*242*	—	*37*	*19*	—	—	—
10	Loans collateralised by residential immovable property	2,240	18	6	39	124	22.6	—	*187*	—	*9*	*6*	(2)	*(1)*	*(1)*
11	Loans collateralised by commercial immovable property	610	303	1	6	—	2.3	—	*310*	—	*90*	*22*	(1)	*(1)*	—
12	Repossessed collateral	3	2	—	—	—	1.0	—	*2*	—	—	—	—	—	—
13	Other relevant sectors (breakdown below where relevant)	2,913	2,288	340	4	28	2.7	—	*2,484*	*176*	*625*	*233*	(99)	*(6)*	*(93)*
14	I – Accommodation and food service activities	79	4	—	—	—	2.2	—	*4*	—	—	—	(1)	—	—
15	J – Information and communication	97	57	—	—	—	1.3	—	*57*	—	*12*	—	—	—	—
16	M – Professional scientific and technical activities	2,292	1,884	269	4	28	2.8	—	*2,009*	*176*	*556*	*233*	(97)	*(5)*	*(93)*
17	N – Administrative and support service activities	390	311	71	—	—	2.4	—	*382*	—	*48*	—	(1)	*(1)*	—
18	O – Public administration and defence compulsory social security	—	—	—	—	—	—	—	—	—	—	—	—	—	—
19	P – Education	4	—	—	—	—	—	—	—	—	—	—	—	—	—
20	Q – Human health and social work activities	18	1	—	—	—	2.6	—	*1*	—	—	—	—	—	—
21	R – Arts, entertainment and recreation	21	21	—	—	—	1.5	—	*21*	—	*9*	—	—	—	—
22	S – Other service activities	12	10	—	—	—	—	—	*10*	—	—	—	—	—	—

Table 47: Banking book - climate change physical risk: Exposures subject to physical risk (Template 5) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount													
			of which: exposures sensitive to impact from climate change physical events												
			Breakdown by maturity bucket										Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	Geographical area subject to climate change physical risk – acute and chronic events		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity	*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*		*of which: Stage 2 exposures*	*of which: non-performing exposures*
		€m	€m	€m	€m	€m	years	€m	€m	€m	€m	€m	€m	€m	€m
	Total														
1	A – Agriculture, forestry and fishing	65	31	2	1	—	2.3	—	34	—	—	1	(1)	—	(1)
2	B – Mining and quarrying	489	197	—	183	—	5.0	—	197	183	182	183	—	—	—
3	C – Manufacturing	5,208	4,188	245	62	—	2.6	—	3,974	521	799	200	(64)	(7)	(55)
4	D – Electricity, gas, steam and air conditioning supply	460	288	31	49	—	3.9	—	312	56	124	—	(1)	—	—
5	E – Water supply; sewerage, waste management and remediation activities	59	34	1	—	—	2.9	—	35	—	1	—	—	—	—
6	F – Construction	375	335	7	17	—	2.8	—	349	10	28	20	(14)	—	(12)
7	G – Wholesale and retail trade; repair of motor vehicles and motorcycles	3,515	3,069	72	3	—	1.8	—	3,054	90	457	152	(112)	(2)	(110)
8	H – Transportation and storage	1,909	1,251	413	197	—	4.3	—	1,632	229	982	7	(14)	(10)	(4)
9	L – Real estate activities	4,099	2,944	693	202	—	3.4	—	3,839	—	612	57	(27)	(7)	(15)
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)	13,299	10,928	929	77	31	2.6	—	11,340	625	1,743	732	(394)	(28)	(358)
14	I – Accommodation and food service activities	536	402	31	1	—	3.0	—	434	—	103	31	(11)	(1)	(9)
15	J – Information and communication	881	414	46	14	—	3.3	—	453	21	51	9	(5)	—	(4)
16	M – Professional scientific and technical activities	5,261	4,652	445	27	29	2.6	—	4,906	247	783	428	(222)	(8)	(209)
17	N – Administrative and support service activities	6,032	5,168	389	16	—	2.6	—	5,226	347	718	164	(99)	(18)	(79)
18	O – Public administration and defence compulsory social security	48	44	3	—	—	2.3	—	47	—	—	—	—	—	—
19	P – Education	21	16	1	—	—	3.1	—	17	—	4	—	—	—	—
20	Q – Human health and social work activities	145	118	5	—	—	3.2	—	113	10	2	95	(53)	—	(54)
21	R – Arts, entertainment and recreation	109	82	6	19	2	5.4	—	109	—	72	2	(2)	(1)	(1)
22	S – Other service activities	266	32	3	—	—	1.8	—	35	—	10	3	(2)	—	(2)

1 2022 comparative period has been re-stated to align with the outcome of the sector classification refinement project in 2023.

EU Taxonomy economic performance indicators[1]

Climate change mitigation and climate change adaptation objectives and the remaining environmental objectives

In order to meet the European Union's climate and energy targets for 2030, the European Commission ('EC') has created the EU Taxonomy classification system for environmentally sustainable economic activities. The EU Taxonomy provides companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In 2021, the EC adopted the Delegated Act Supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act')2,3 followed by an amendment to the Delegated Act in 2022 to include certain energy sectors and in 2023 the EC amended the Disclosures Delegated Act to align the disclosure requirements with the Environmental Delegated Act. Under these regulations, HSBC Continental Europe is therefore required to provide information to investors about the environmental performance of the Bank's assets and economic activities.

The disclosures presented provide information on alignment of economic activities (i.e. disclosure of the key performance indicators) where Taxonomy 'eligible' economic activities are assessed to determine whether they are environmentally sustainable (i.e. Taxonomy 'aligned') against technical screening criteria.

Scope of consolidation

The Taxonomy KPIs presented in the tables are based on exposures and balances within HSBC Continental Europe's prudential scope of consolidation as at 31 December 2023. Subsidiaries engaged in insurance activities are therefore excluded.

KPI: Green Asset Ratio ('GAR')

The GAR is a ratio calculated as the percentage of EU Taxonomy-aligned assets as a proportion of total covered assets.

The numerator of the GAR includes loans and advances, debt securities, equities and repossessed collateral financing taxonomy-aligned economic activities based on turnover KPI of underlying assets.

The denominator of the GAR includes total loans and advances, total debt securities, total equities and total repossessed collaterals and all other covered on-balance sheet assets.

Total covered assets

The calculation of the Taxonomy KPIs include exposures covering loans and advances, debt securities and equity instruments not held for trading and repossessed collateral. This includes exposures to undertakings such as large EU banks, asset managers, insurance companies and issuers that are in scope of Articles 19a or 29a of Directive 2013/34/EU4 ("NFRD/CSRD").

Retail exposures except for the mortgage lending portfolios and credit consumption loans for cars are excluded from the Taxonomy framework and not assessed for Taxonomy eligibility. On this basis, these exposures are included within the category of "Other assets''.

Taxonomy-eligible and aligned economic activities

Taxonomy-eligible economic activities are those activities which can be assessed as environmentally sustainable. Taxonomy-aligned economic activities are those activities which have been assessed as environmentally sustainable.

Eligibility and alignment related disclosures shall be based on information provided by the counterparty. This includes exposures to undertakings subject to the NFRD where the use of proceeds is known such as green lending and green bonds.

Exposure to green bonds and debt securities issued by non-NFRD undertakings have also been assessed for eligibility and alignment based on the specific use of proceeds. However, green bonds issued by central governments, central banks and supranationals are excluded from the scope of the GAR.

Eligibility and alignment of general lending exposures have been assessed using the turnover and CapEx eligibility and alignment ratios published in the most recently available annual reports by the Bank's counterparties in scope of NFRD.

Exposures to multilateral developments banks have been classified as credit institutions in accordance with EU Taxonomy regulation and have been assessed for Taxonomy eligibility and alignment accordingly.

Retail loans collateralised by residential immovable property, building renovation loans, and motor vehicle loans are assessed for eligibility and alignment based on the use of proceeds.

In all tables, 'Environmentally sustainable assets' refers to Taxonomy aligned assets.

Taxonomy non-eligible economic activities

Taxonomy non-eligible economic activities are those activities which cannot be assessed as environmentally sustainable.

As financial institutions are only required to disclose KPIs in accordance with the EU taxonomy regulation for the first time in 2024, at the time of publication, such counterparty data is not available and exposures to these financial institutions are treated as non-eligible.

Assets excluded from the numerator for GAR calculation (covered in the denominator)

Exposures to undertakings not in scope of NFRD/CSRD[4]

Exposures to undertakings that are not obliged to publish Non-Financial Reporting information have been excluded from the assessment of Taxonomy-eligible economic activities. These exposures are excluded from the numerator of the GAR but included in the denominator.

Derivatives

Derivatives in the banking book are excluded from the numerator but included in the denominator of the total GAR.

On demand interbank loans

On demand interbank loans are on-demand loan exposures with other credit institutions. These are excluded from the numerator but included in the denominator of the total GAR.

Cash and cash-related assets

Cash and cash-related assets are excluded from the numerator but included in the denominator except for cash with central banks which is not covered by the GAR calculation.

Other assets

The French retail operations, including most of the retail mortgage portfolio, were sold on 1 January 2024 and have been classified as held for sale at 31 December 2023. They have been excluded from the eligibility assessment and reported as part of "Other assets".

Other assets also include other retail exposures not covered by the Taxonomy framework, exposures to EU and non-EU financial corporations not subject to NFRD disclosure obligations, cash, tangible and intangible assets, all of which are excluded from the Taxonomy framework and therefore cannot be assessed for Taxonomy eligibility. Other assets are included in the total assets used in the denominator for the calculation of the ratios.

Assets not covered for GAR calculation

Assets not covered in the GAR calculation are excluded from both the numerator and denominator.

Sovereigns

Sovereign exposures include exposures to central governments and supranational issuers and are out of scope for the GAR calculation. Lending to or financing of local governments where the use of proceeds is unknown (i.e. general purpose lending) is also excluded from the numerator and the denominator of the GAR and these exposures have been included as part of Sovereigns.

Central banks

Exposures to Central banks includes cash held and all other banking exposures with central banks. These are out of scope for the GAR calculation.

Trading book

The trading portfolio, including trading derivatives is out of scope for the GAR calculation.

Data limitations

HSBC Continental Europe is dependent on several data sources to determine exposures subject to NFRD and calculate Taxonomy ratios. Availability of data and improvements in data quality over time, as firms adopt the Taxonomy requirements for their own disclosures, could lead to differences in the data reported in future years as compared to the current year.

The Bank will continue to engage with customers, market data providers and standard setters to improve the quality and completeness of our Taxonomy data as the Bank develops its capabilities to assess the Taxonomy alignment of its portfolios.

Eligibility by environmental objective

Prior to the release of amended templates published by the EC in June 2023, non-financial undertakings were not required to report taxonomy eligibility of an economic activity by environmental objective. However, since the publication of revised templates, non-financial undertakings will be required to report taxonomy eligibility split by environmental objective from 1 January 2024. As a result, at the time of publication, taxonomy eligible KPIs by environmental objective for the Bank's non-financial counterparties are not available. In order to meet the requirement to report based on actual information provided by counterparties, only total eligibility (CCM and CCA) will be reported in the relevant templates without disclosing separately in the columns for each of the environmental objectives.

Non-financial counterparty eligibility and alignment data

HSBC Continental Europe is highly reliant on published counterparty eligibility and alignment ratios to assess eligibility and alignment of exposures. The Bank places reliance on 3rd party data vendors to collect the majority of the eligibility and alignment data used in KPI calculations. A number of checks and controls are operated to validate any data used and this has identified that counterparty data quality and consistency is variable. Controls in place include checking for template mathematical accuracy, checking enabling and transitional activities reported are consistent with the EU Taxonomy framework, checking for incomplete data, and checking for consistency of calculations across counterparties.

To consistently report the Bank's Taxonomy eligibility and alignment of exposures there is a dependency on counterparty KPIs. However, some counterparties calculate ratios using a different calculation methodology and, in these cases, where sufficient information is available to do so, the data is normalised so that data between counterparties is comparable and can be used consistently across calculations. Where counterparty information is incomplete and deemed not reliable to make an assessment for Taxonomy eligibility and alignment, these counterparties have been excluded from the numerator of the Bank's GAR calculation. Where there is sufficient counterparty information to identify the cause of any mathematical error, these errors are corrected. In addition, where it is clear that counterparties have incorrectly classified activities, these classifications are corrected based on the classification in the EU Taxonomy compass.

Exposures subject to the NFRD/CSRD[4]

In determining the methodology for identifying exposures subject to NFRD there is a dependency on data availability. Methodologies will develop over time to align with changes in market practice and regulation. In particular, set out below are the key assumptions made:

The NFRD applies to counterparties that are large public interest undertakings incorporated within the European Union with more than 500 employees on average during the financial year. Due to data limitations, for some counterparties, it has not been possible to assess all the criteria required to determine the NFRD status. Instead, reliance has been placed upon a simplification using the available internal data, as well as data provided by third party vendors. The counterparty data considered in making an assessment included, where available: country of incorporation, customer group by global business segment, turnover, balance sheet size, number of employees, and ultimately, availability of NFRD and Taxonomy reporting.

For NFRD counterparties that have taken the exemption to report at subsidiary level because they are included in the consolidated reporting of their parent, the parent's Taxonomy KPIs have not been relied upon unless the parent undertaking has clearly stated that the relevant subsidiary has taken the exemption option to report Taxonomy KPIs.

Household exposures

Loans to households collateralised by residential property and loans to households for building renovations have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activities 7.1 to 7.7 in the Climate Delegated Act. Loans to households for the purchase of motor vehicles, where granted after 1 January 2022, have been assessed as eligible under the Climate Change Mitigation objective in accordance with the definition of activity 6.5 of the Climate Delegated Act. However, there is insufficient data available to fully assess any of these exposures for alignment against the technical screening criteria and in particular, the do no significant harm criteria.

1 *Taxonomy Regulation (EU) 2020/852.*
2 *Commission Delegated Regulation (EU) 2021/2178 supplementing Taxonomy Regulation.*
3 *Commission Delegated Regulation (EU) 2023/2486 supplementing Taxonomy Regulation and amending Disclosures Delegated Act.*
4 *The CSRD amends the Non-Financial Reporting Directive (NFRD) 2014/95/EU and the Accounting Directive 2013/34/EU.*

Summary of GAR KPIs (Template 6)

This table summarises stock and flow KPIs required to be disclosed by HSBC Continental Europe. KPIs in this table are calculated using counterparty Turnover ratios.

Table 48: Summary of GAR KPIs (Template 6)

	KPI			
	Climate change mitigation	Climate change adaptation	Total (Climate change mitigation + Climate change adaptation)	% coverage (over total assets)
GAR stock	0.12 %	0.01 %	0.13 %	47.69 %
GAR flow	— %	— %	— %	

Mitigating actions: Assets for the calculation of GAR (Template 7)

This table presents assets used in the calculation of the GAR analysed by counterparty type and asset class. Total assets are further categorised between GAR assets in the numerator, GAR assets in the denominator, and assets excluded from the GAR calculation, with eligible and aligned GAR assets presented by climate objective. Minor amendments have been made to row labels 32 and 45 to clarify whether GAR assets form part of the numerator or denominator of the KPI.

Exposures to non-EU financial corporations and EU financial corporations that are not subject to NFRD disclosure obligations are included in Other assets.

This table is based on turnover KPIs reported by HSBC Continental Europe's counterparties.

The gross carrying amount reported excludes impairment allowances for all banking exposures. As a result, the total reported in this table is not comparable to Total Assets reported in the Bank's balance sheet.

Table 49: Mitigating actions: Assets for the calculation of GAR (Template 7)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date															
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*				
				of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*					*of which: environmentally sustainable (Taxonomy-aligned)*			
	€m	Total gross carrying amount			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional/adaptation*	*of which: enabling*
	GAR - Covered assets in both numerator and denominator																
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	17,906		149	—	20	31		10	—	10	—	10,753	159	—	30	31
2	**Financial corporations**	5,200		—	—	—	—		—	—	—	—	259	—	—	—	—
3	Credit institutions	5,078		—	—	—	—		—	—	—	—	259	—	—	—	—
4	Loans and advances	4,598		—	—	—	—		—	—	—	—	—	—	—	—	—
5	Debt securities, including UoP	480		—	—	—	—		—	—	—	—	259	—	—	—	—
6	Equity instruments	—		—		—	—		—		—	—	—	—		—	—
7	Other financial corporations	122		—	—	—	—		—	—	—	—	—	—	—	—	—
8	– *of which : investment firms*	2		—	—	—	—		—	—	—	—	—	—	—	—	—
9	Loans and advances	2		—	—	—	—		—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
11	Equity instruments	—		—		—	—		—		—	—	—	—		—	—
12	– *of which: management companies*	—		—	—	—	—		—	—	—	—	—	—	—	—	—

Table 49: Mitigating actions: Assets for the calculation of GAR (Template 7) (continued)

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
	Disclosure reference date															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
		of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*				
			of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*					*of which: environmentally sustainable (Taxonomy-aligned)*			
€m	**Total gross carrying amount**			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional/adaptation*	*of which: enabling*
13 Loans and advances	—		—	—	—	—		—	—	—	—	—	—	—	—	—
14 Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
15 Equity instruments	—		—		—	—		—		—	—	—	—		—	—
16 – *of which: insurance undertakings*	—		—	—	—	—		—	—	—	—	—	—	—	—	—
17 Loans and advances	—		—	—	—	—		—	—	—	—	—	—		—	—
18 Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—	—
19 Equity instruments	—		—		—	—		—		—	—	—	—		—	—
20 **Non-financial corporations (subject to NFRD disclosure obligations)**	**2,780**		**149**	—	**20**	**31**		**10**	—	**10**	—	**578**	**159**	—	**30**	**31**
21 Loans and advances	**2,721**		**137**	—	**18**	**27**		**10**	—	**10**	—	**564**	**147**	—	**28**	**27**
22 Debt securities, including UoP	**51**		**9**	—	**2**	**1**		—	—	—	—	**11**	**9**	—	**2**	**1**
23 Equity instruments	**8**		**3**		—	**3**		—		—	—	**3**	**3**		—	**3**
24 **Households**	**9,799**		—	—	—	—				—		**9,789**	—	—	—	—
25 – *of which: loans collateralised by residential immovable property*	**9,776**		—	—	—	—				—		**9,776**	—	—	—	—
26 – *of which: building renovation loans*	**2**		—	—	—	—				—		**2**	—	—	—	—
27 – *of which: motor vehicle loans*	**21**		—	—	—	—				—		**11**	—	—	—	—
28 **Local governments financing**	**124**		—	—	—	—		—	—	—	—	**124**	—	—	—	—
29 Housing financing	—		—	—	—	—		—	—	—	—	—	—	—	—	—
30 Other local governments financing	**124**		—	—	—	—		—	—	—	—	**124**	—	—	—	—
31 Collateral obtained by taking possession: residential and commercial immovable properties	**3**		—	—	—	—		—	—	—	—	**3**	—	—	—	—
32 **TOTAL GAR ASSETS (IN THE NUMERATOR)**	**17,906**		**149**	—	**20**	**31**		**10**	—	**10**	—	**10,753**	**159**	—	**30**	**31**
Assets excluded from the numerator for GAR calculation (covered in the denominator)																

Table 49: Mitigating actions: Assets for the calculation of GAR (Template 7) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		Disclosure reference date															
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)				
			of which: towards taxonomy relevant sectors (Taxonomy-eligible)					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*					*of which: towards taxonomy relevant sectors (Taxonomy-eligible)*				
				of which: environmentally sustainable (Taxonomy-aligned)					*of which: environmentally sustainable (Taxonomy-aligned)*					*of which: environmentally sustainable (Taxonomy-aligned)*			
	€m	Total gross carrying amount			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional /adaptation*	*of which: enabling*
33	**EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**25,639**															
34	Loans and advances	**25,503**															
35	Debt securities	**28**															
36	Equity instruments	**109**															
37	**Non-EU Non-financial corporations (not subject to NFRD disclosure obligations)**	**5,693**															
38	Loans and advances	**5,669**															
39	Debt securities	**24**															
40	Equity instruments	**—**															
41	Derivatives	**169**															
42	On demand interbank loans	**2,034**															
43	Cash and cash-related assets	**102**															
44	Other assets (e.g. Goodwill, commodities etc.)	**73,288**															
45	**TOTAL ASSETS IN THE DENOMINATOR (GAR)**	**124,831**															
	Other assets excluded from both the numerator and denominator for GAR calculation																
46	Sovereigns	**9,974**															
47	Central banks exposure	**64,425**															
48	Trading book	**62,552**															
49	**TOTAL ASSETS EXCLUDED FROM NUMERATOR AND DENOMINATOR**	**136,951**															
50	**TOTAL ASSETS**	**261,782**															

GAR % (Template 8)

This table presents stock and flow of eligible and aligned exposures as a proportion of total covered assets by Taxonomy climate objective.

Flow is defined as new assets originating during the year net of repayments and other reductions. The disclosure includes flows of medium and long term eligible loan exposures. As the starting point to identify new loans granted during the year is the stock of loans at 31 December 2023, it is possible that some loans both granted and repaid during 2023 have not been accounted for in the flow. To identify the date that loans have been granted, the signature date currently available is used. Some renegotiated loans may have a different signature date than the original loan. In addition, HSBC Private Bank (Luxembourg) became a subsidiary of HSBC Continental Europe in November 2023 and only new loans granted thereafter have been included in this table.

Revolving and / or short term products - such as overdrafts, trade loans and contracts, factoring and credit facilities - have been included at point in time in the stock and not repeated in the flow. For all such products, there are operational challenges in identifying new facilities authorised during the year. Debt securities and equity securities have also been included at point in time in the stock and not repeated in the flow.

The final column of the flow table requires disclosure of the proportion of total new assets covered by the flow KPI, where total new assets is calculated as the difference between total assets in the current year and total assets in the prior year. As 2023 is the first year for this reporting, this column has not been populated.

This table is based on turnover reported by HSBC Continental Europe's counterparties.

Table 50: Mitigating actions - GAR % (Template 8)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		At 31 December 2023: KPIs on stock															
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**					**TOTAL (CCM + CCA)**					**Propo-rtion of total assets cove-red**
		Proportion of eligible assets funding taxonomy relevant sectors					**Proportion of eligible assets funding taxonomy relevant sectors**					**Proportion of eligible assets funding taxonomy relevant sectors**					
			of which: environmentally sustainable					***of which: environmentally sustainable***					***of which: environmentally sustainable***				
	% (compared to total covered assets in the denominator)			***of which: speci-alised lend-ing***	***of which: trans-itional***	***of which: enab-ling***			***of which: speci-alised lend-ing***	***of which: adapt-ation***	***of which: enab-ling***			***of which: specia lised lend-ing***	***of which: trans-itional/ adapt-ation***	***of which: enab-ling***	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	**GAR**		**0.12**					**0.01**					**0.13**				**47.69**
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation		**0.12**	**—**	**0.01**	**0.01**		**0.01**	**—**	**0.01**	**—**	**8.61**	**0.13**	**—**	**0.02**	**0.01**	**6.84**
3	Financial corporations		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**0.21**	**—**	**—**	**—**	**—**	**1.99**
4	Credit institutions		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**0.21**	**—**	**—**	**—**	**—**	**1.94**
5	Other financial corporations		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**0.05**
6	– *of which: investment firms*		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
7	– *of which: management companies*		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8	– *of which: insurance undertakings*		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
9	Non-financial corporations subject to NFRD disclosure obligations		**0.12**	**—**	**0.01**	**0.01**		**0.01**	**—**	**0.01**	**—**	**0.46**	**0.13**	**—**	**0.02**	**0.01**	**1.06**
10	Households		**—**	**—**	**—**	**—**				**—**		**7.84**	**—**	**—**	**—**	**—**	**3.74**
11	– *of which: loans collateralised by residential immovable property*		**—**	**—**	**—**	**—**				**—**		**7.83**	**—**	**—**	**—**	**—**	**3.73**
12	– *of which: building renovation loans*		**—**	**—**	**—**	**—**				**—**		**—**	**—**	**—**	**—**	**—**	**—**
13	– *of which: motor vehicle loans*		**—**	**—**	**—**	**—**				**—**		**0.01**	**—**	**—**	**—**	**—**	**0.01**
14	Local government financing		**—**	**—**	**—**	**—**				**—**		**0.10**	**—**	**—**	**—**	**—**	**0.05**
15	Housing financing		**—**	**—**	**—**	**—**				**—**		**—**	**—**	**—**	**—**	**—**	**—**

Table 50: Mitigating actions - GAR % (Template 8) (continued)

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p
		At 31 December 2023: KPIs on stock															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of eligible assets funding taxonomy relevant sectors					Proportion of total assets covered
			of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
	% (compared to total covered assets in the denominator)			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional/ adaptation*	*of which: enabling*	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
16	Other local governments financing		—	—	—	—		—	—	—	—	0.10	—	—	—	—	0.05
17	Collateral obtained by taking possession: residential and commercial immovable properties		—	—	—	—				—		—	—	—	—	—	—

Table 50: Mitigating actions - GAR % (Template 8) (continued)

		q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
		Year ended 31 December 2023: KPIs on flows															
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
		Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of total new assets covered
			of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
	% (compared to total covered assets in the denominator)			*of which: specialised lending*	*of which: transitional*	*of which: enabling*			*of which: specialised lending*	*of which: adaptation*	*of which: enabling*			*of which: specialised lending*	*of which: transitional/ adaptation*	*of which: enabling*	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	**GAR**		—					—					—				
2	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation		—	—	—	—		—	—	—	—	0.12	—	—	—	—	
3	Financial corporations		—	—	—	—		—	—	—	—	0.01	—	—	—	—	
4	Credit institutions		—	—	—	—		—	—	—	—	0.01	—	—	—	—	
5	Other financial corporations		—	—	—	—		—	—	—	—	—	—	—	—	—	
6	– *of which: investment firms*		—	—	—	—		—	—	—	—	—	—	—	—	—	
7	– *of which: management companies*		—	—	—	—		—	—	—	—	—	—	—	—	—	
8	– *of which: insurance undertakings*		—	—	—	—		—	—	—	—	—	—	—	—	—	
9	Non-financial corporations subject to NFRD disclosure obligations		—	—	—	—		—	—	—	—	0.03	—	—	—	—	
10	Households		—	—	—	—				—		0.08	—	—	—	—	
11	– *of which: loans collateralised by residential immovable property*		—	—	—	—				—		0.08	—	—	—	—	

Table 50: Mitigating actions - GAR % (Template 8) (continued)

	q	r	s	t	u	v	w	x	y	z	aa	ab	ac	ad	ae	af
	Year ended 31 December 2023: KPIs on flows															
	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)					TOTAL (CCM + CCA)					
	Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Proportion of new eligible assets funding taxonomy relevant sectors					Propo-rtion of total new assets cove-red
		of which: environmentally sustainable					*of which: environmentally sustainable*					*of which: environmentally sustainable*				
% (compared to total covered assets in the denominator)			*of which: speci-alised lend-ing*	*of which: transi-tional*	*of which: enab-ling*			*of which: speci-alised lend-ing*	*of which: adapt-ation*	*of which: enab-ling*			*of which: speci-alised lend-ing*	*of which: trans-itional/ adapt-ation*	*of which: enab-ling*	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
12 – *of which: building renovation loans*		–	–	–	–				–		–	–	–	–	–	
13 – *of which: motor vehicle loans*		–	–	–	–				–		–	–	–	–	–	
14 Local government financing		–	–	–	–				–		–	–	–	–	–	
15 Housing financing		–	–	–	–				–		–	–	–	–	–	
16 Other local governments financing		–	–	–	–		–	–	–	–	–	–	–	–	–	
17 Collateral obtained by taking possession: residential and commercial immovable properties		–	–	–	–				–		–	–	–	–	–	

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 are eligible but 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.

HSBC Continental Europe has 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 are 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.

Green and sustainable bonds are part of the high quality liquid asset buffer, therefore carry a zero to very low risk weighting for capital requirement purposes. Certain aspects of this reporting rely on manual data sourcing. HSBC Continental Europe is taking steps to establish an ESG data utility tool to help streamline and support data needs across the organisation. This will involve enhancing the processes, systems, controls and governance to help achieve the required scale to meet the demands of future ESG reporting.

The exposures in the table have not been fully assessed for alignment against the criteria set out in the EU Taxonomy Regulation due to lack of sufficient information. Although they are not assessed as aligned, they still contribute towards mitigating climate change physical risk and transition risk. The methodology for determining the aligned exposure is expected to evolve as data availability, industry guidance and market practice changes over time.

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

Table 51: Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10)

	a	b	c	d	e	f
	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
	31 Dec 2023					
1	Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	259	Y	N	The proceeds from these bonds are used for climate change transition risk purposes, and are deployed to sustainable investments such as green buildings, clean transport, renewable energy, eco-efficiency and circular economy products, territorial mobility and soft urban transport, sustainble water use, waste management, energy efficiency, pollution prevention and research and development of low carbon technologies.
7		Other counterparties	191	Y	Y	The proceeds from these bonds are invested in projects with a climate change transition risk and/or physical risk mitigation objective. Financings are intended to be deployed to transition projects such as energy efficient buildings, clean transportation and renewable energy. Some bonds support projects which contribute to mitigate climate physical risk, including water management.
8	Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards)	Financial corporations	71	Y	N	These loans are assessed as green either; to support green issuances, part of the original $100bn investing/financing commitment, or are part of the current ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They mainly finance renewable energy and green building projects, which support the transition to a lower carbon economy.
9		Non-financial corporations	585	Y	N	These loans are assessed as green either; to support green issuances, part of the original $100bn investing/financing commitment, or are part of the current ambition of investing/financing $750bn to $1tn in sustainable projects by 2030. They finance green building projects, renewable energy, clean transportation and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
11		Households	4	Y	N	These loans finance housing refurbishment and green car loan in order to improve energy efficiency and contribute to mitigating transition risk.

Table 51: Other climate change mitigating actions that are not covered in the EU Taxonomy (Template 10) (continued)

	a	b	c	d	e	f
	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
	31 Dec 2022					
1	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.
7		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.
8	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.
9		Non-financial corporations	240	Y	N	These loans are part of the ambition of investing/financing USD750bn to USD1tn in sustainable projects by 2030. They finance green buildings projects (refurbishments), renewable energy and energy efficiency infrastructure projects, which all support the transition to a lower-carbon economy.
11		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.

Appendix I - Counter-cyclical capital buffer

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 2023, 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 2023 countercyclical buffer rose to 0.11 per cent in 2023.

Table 52:Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1')

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	**€m**	**€m**	**€m**	**€m**	**€m**	***€m***	***€m***	***€m***	**€m**	**%**	**%**
Albania	—	—	—	—	—	—	—	—	—	—	—
Algeria	—	3.4	—	—	—	*0.1*	—	—	0.1	0.01	—
Andorra	—	—	—	—	—	—	—	—	—	—	—
Argentina	0.5	0.5	—	—	—	*0.5*	—	—	0.5	0.02	—
Armenia	—	0.9	—	—	—	*0.1*	—	—	0.1	—	—
Australia	3.7	—	—	—	—	*0.3*	—	—	0.3	0.01	1.00
Austria	43.7	518.3	—	—	—	*26.3*	—	—	26.3	0.94	—
Azerbaijan	66.3	—	—	—	—	*0.3*	—	—	0.3	0.01	—
Bahamas	—	38.4	—	—	—	*0.1*	—	—	0.1	—	—
Bahrain	—	36.9	—	—	—	—	—	—	—	—	—
Bangladesh	—	17.3	—	—	—	*0.1*	—	—	0.1	0.01	—
Barbados	26.3	—	—	—	—	*2.1*	—	—	2.1	0.08	—
Belgium	63.2	675.4	—	—	—	*29.2*	—	—	29.2	1.04	—
Bermuda	—	230.4	—	—	—	*2.6*	—	—	2.6	0.09	—
Bolivia, Plurinational State Of	—	—	—	—	—	—	—	—	—	—	—
Botswana	—	—	—	—	—	—	—	—	—	—	—
Brazil	2.2	39.5	—	—	—	*0.3*	—	—	0.3	0.01	—
Bulgaria	0.7	7.0	—	—	—	*0.1*	—	—	0.1	—	2.00
Cameroon	—	—	—	—	—	—	—	—	—	—	—
Canada	3.5	25.2	—	—	—	*2.6*	—	—	2.6	0.09	—
Cayman Islands	1.7	146.2	—	—	—	*0.7*	—	—	0.7	0.02	—
Chile	—	—	—	—	—	—	—	—	—	—	—
China	—	15.9	—	—	—	*0.3*	—	—	0.3	0.01	—
Colombia	—	0.4	—	—	—	—	—	—	—	—	—
Costa Rica	0.4	—	—	—	—	—	—	—	—	—	—
Côte D'Ivoire	—	—	—	—	—	—	—	—	—	—	—
Croatia	—	1.5	—	—	—	—	—	—	—	—	1.00
Curaçao	—	—	—	—	—	—	—	—	—	—	—
Cyprus	—	18.3	—	—	—	*0.5*	—	—	0.5	0.02	0.50
Czech Republic	33.5	433.6	—	—	—	*16.0*	—	—	16.0	0.57	2.00
Denmark	0.3	929.5	—	—	—	*35.9*	—	—	35.9	1.28	2.50
Dominican Republic	—	—	—	—	—	—	—	—	—	—	—
Ecuador	—	—	—	—	—	—	—	—	—	—	—
Egypt	148.4	35.4	—	—	—	*1.2*	—	—	1.2	0.04	—
Estonia	—	—	—	—	—	—	—	—	—	—	1.50
Faroe Islands	0.9	—	—	—	—	*0.1*	—	—	0.1	—	—
Finland	4.4	117.0	—	—	—	*2.3*	—	—	2.3	0.08	—
France	2,305.5	40,991.5	—	—	5,106.6	*1,061.6*	—	*71.6*	1,133.2	40.31	0.50
French Guiana	—	—	—	—	—	—	—	—	—	—	—
French Polynesia	—	—	—	—	—	—	—	—	—	—	—
Gabon	—	—	—	—	—	—	—	—	—	—	—
Germany	669.1	9,470.4	—	—	549.0	*454.6*	—	*5.0*	459.6	16.35	0.75
Ghana	—	196.8	—	—	—	—	—	—	—	—	—
Greece	2.3	318.4	—	—	—	*14.2*	—	—	14.2	0.51	—
Guadeloupe	—	0.2	—	—	—	—	—	—	—	—	—
Guatemala	—	—	—	—	—	—	—	—	—	—	—
Guernsey	16.2	44.0	—	—	—	*2.7*	—	—	2.7	0.10	—
Hong Kong	1.2	321.2	—	—	—	*2.2*	—	—	2.2	0.08	1.00
Hungary	—	265.7	—	—	—	*2.2*	—	—	2.2	0.08	—

Table 52:Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1') (continued)

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
India	0.1	10.4	—	—	—	0.2	—	—	0.2	0.01	—
Indonesia	—	91.8	—	—	—	1.2	—	—	1.2	0.04	—
Ireland	358.7	1,690.7	—	—	—	69.8	—	—	69.8	2.48	1.00
Isle Of Man	42.5	1.3	—	—	—	3.4	—	—	3.4	0.12	—
Israel	2.1	10.5	—	—	—	0.2	—	—	0.2	0.01	—
Italy	213.3	1,094.5	—	—	320.8	57.2	—	4.3	61.5	2.19	—
Japan	—	—	—	—	—	0.1	—	—	0.1	—	—
Jersey	—	13.9	—	—	—	0.3	—	—	0.3	0.01	—
Jordan	—	—	—	—	—	—	—	—	—	—	—
Kazakhstan	—	60.6	—	—	—	3.2	—	—	3.2	0.11	—
Kenya	—	—	—	—	—	—	—	—	—	—	—
Korea, Republic Of	—	0.4	—	—	—	0.1	—	—	0.1	—	—
Kuwait	—	0.1	—	—	—	—	—	—	—	—	—
Latvia	—	—	—	—	—	—	—	—	—	—	—
Lebanon	0.3	—	—	—	—	—	—	—	—	—	—
Liberia	—	—	—	—	—	—	—	—	—	—	—
Libya	—	—	—	—	—	—	—	—	—	—	—
Liechtenstein	—	40.8	—	—	—	3.8	—	—	3.8	0.14	—
Lithuania	0.1	0.3	—	—	—	—	—	—	—	—	1.00
Luxembourg	510.7	3,492.4	—	—	—	148.0	—	—	148.0	5.26	0.50
Macedonia, The Former Yugoslav Republic Of	—	—	—	—	—	—	—	—	—	—	—
Malaysia	—	3.7	—	—	—	0.1	—	—	0.1	—	—
Malta	2,909.1	149.8	—	—	—	130.5	—	—	130.5	4.64	—
Marshall Islands	—	—	—	—	—	—	—	—	—	—	—
Martinique	—	—	—	—	—	—	—	—	—	—	—
Mauritius	17.8	0.1	—	—	—	0.9	—	—	0.9	0.03	—
Mexico	3.4	83.4	—	—	—	1.3	—	—	1.3	0.05	—
Monaco	—	1.7	—	—	—	0.1	—	—	0.1	—	—
Morocco	—	0.3	—	—	—	—	—	—	—	—	—
Netherlands	951.1	3,560.5	—	—	840.0	185.9	—	7.1	193.0	6.86	1.00
New Caledonia	0.8	—	—	—	—	—	—	—	—	—	—
New Zealand	—	—	—	—	—	—	—	—	—	—	—
Norway	—	81.2	—	—	—	2.5	—	—	2.5	0.09	2.50
Oman	—	0.1	—	—	—	—	—	—	—	—	—
Pakistan	—	—	—	—	—	—	—	—	—	—	—
Panama	0.1	143.9	—	—	—	0.1	—	—	0.1	—	—
Paraguay	0.5	—	—	—	—	—	—	—	—	—	—
Peru	—	—	—	—	—	—	—	—	—	—	—
Philippines	1.7	0.1	—	—	—	—	—	—	—	—	—
Poland	346.2	494.7	—	—	—	45.5	—	—	45.5	1.62	—
Portugal	9.5	71.9	—	—	—	2.3	—	—	2.3	0.08	—
Qatar	11.9	88.7	—	—	—	2.5	—	—	2.5	0.09	—
Réunion	—	—	—	—	—	—	—	—	—	—	—
Romania	—	5.1	—	—	—	0.1	—	—	0.1	—	1.00
Russian Federation	—	0.8	—	—	—	0.1	—	—	0.1	—	—
Saudi Arabia	3.1	40.1	—	—	—	0.4	—	—	0.4	0.01	—
Senegal	—	—	—	—	—	—	—	—	—	—	—
Serbia	—	—	—	—	—	—	—	—	—	—	—
Seychelles	—	—	—	—	—	—	—	—	—	—	—
Sierra Leone	—	—	—	—	—	—	—	—	—	—	—
Singapore	—	106.2	—	—	—	3.4	—	—	3.4	0.12	—
Slovakia	4.1	51.1	—	—	—	1.3	—	—	1.3	0.05	1.50
Slovenia	—	0.1	—	—	—	—	—	—	—	—	0.50
South Africa	11.8	—	—	—	—	0.5	—	—	0.5	0.02	—
Spain	330.7	1,919.0	—	—	213.7	93.8	—	1.7	95.6	3.40	—
Sri Lanka	—	—	—	—	—	—	—	—	—	—	—
Sweden	1.5	757.4	—	—	—	79.5	—	—	79.5	2.83	2.00
Switzerland	37.2	883.7	—	—	—	40.4	—	—	40.4	1.44	—

Table 52:Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer ('CCyB1') (continued)

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*of which: General credit exposures*	*of which: General trading book*	*of which: Securiti-sation exposures*	Total	Own funds require-ments weights	CCyB rate
Taiwan, Province Of China	**1.5**	**0.1**	**—**	**—**	**—**	***0.1***	**—**	**—**	**0.1**	**—**	**—**
Thailand	**—**	**71.1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Tunisia	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Turkey	**50.0**	**102.9**	**—**	**—**	**—**	***4.6***	**—**	**—**	**4.6**	**0.16**	**—**
United Arab Emirates	**1.6**	**219.3**	**—**	**—**	**—**	***4.0***	**—**	**—**	**4.0**	**0.14**	**—**
United Kingdom	**1,369.3**	**1,686.4**	**—**	**—**	**—**	***94.7***	**—**	**—**	**94.7**	**3.37**	**2.00**
United States	**158.4**	**2,330.3**	**—**	**—**	**—**	***78.9***	**—**	**—**	**78.9**	**2.81**	**—**
Viet Nam	**—**	**30.5**	**—**	**—**	**—**	***0.8***	**—**	**—**	**0.8**	**0.03**	**—**
Virgin Islands, British	**10.0**	**—**	**—**	**—**	**—**	***0.8***	**—**	**—**	**0.8**	**0.03**	**—**
Total	**10,753.1**	**74,290.5**	**—**	**—**	**7,030.1**	***2,721.8***	**—**	***89.7***	**2,811.5**	**100.00**	

Table 53:Amount of Institution specific countercyclical Capital buffer ('CCyB2')

	2023	2022
Total Risk Exposure Amount (€m)	**59,538**	58,561
Institution specific countercyclical capital buffer rate (%)	**0.62**	0.11
Institution specific countercyclical capital buffer requirement (€m)	**366**	66

Appendix II

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 III

Abbreviations

The following abbreviated terms are used throughout this document.

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

Cautionary statement regarding forward-looking statements

These *Pillar 3 Disclosures 2023* 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 IBORs and the development of near risk-free benchmark rates, as well as the transition of legacy IBOR 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 IBOR 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 2023.

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