HSBC Continental Europe

Universal registration document and Annual Financial Report 2023

HSBC

Contents

Presentation of information

This universal registration document was filed on 1 March 2024 with the *Autorité des Marchés Financiers (‘AMF’)*, as the competent authority under Regulation (EU) n°2017/1129, without prior approval in accordance with Article 9 of that Regulation.

The universal registration document may be used for the purposes of an offer to the public of securities or the admission of securities to trading on a regulated market if supplemented by a securities note and if necessary, a summary and any amendments to the universal registration document. The whole is approved by the *AMF* according to the regulation (UE) n°2017/1129.

AUTORITÉ
DES MARCHÉS FINANCIERS
AMF

Declaration (Annex II – 1.2)

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Reference to the Registration Document

This document, named Universal Registration Document, refers to the Registration Document (Annual Report and Accounts) filed with the *AMF* on 01 August 2023 under reference number D.23-0634.

Cautionary statement regarding forward-looking statements

This *Universal Registration Document 2023* contains certain forward-looking statements with respect to the financial condition, Environmental, Social and Governance ('ESG') related matters, results of operations and business of the HSBC Group, including the strategic priorities; financial, investment and capital targets; and HSBC Continental Europe’s ability to contribute to the HSBC Group’s ESG targets, commitments and ambitions described herein.

Statements that are not historical facts, including statements about the HSBC Group’s beliefs and expectations, are forward-looking statements. Words such as ‘expects’, ‘anticipates’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘potential’ and ‘reasonably possible’, variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore no undue reliance should be placed on them. Forward-looking statements apply only as of the date they are made. HSBC Continental Europe 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 statement.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG related factors, could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Highlights

For the year (€m)	31 Dec 2023	31 Dec 2022[1,2]
Net operating income before change in expected credit losses and other credit risk provisions in respect of continuing operations[3]	**3,833**	2,002
Profit/(loss) before tax in respect of continuing operations	**1,475**	218
Profit/(loss) for the year[4]	**908**	(1,090)
Profit/(loss) attributable to shareholders of the parent company[4]	**883**	(1,092)
At year end (€m)		
Total equity attributable to shareholders of the parent company	**12,342**	11,358
Total assets	**282,977**	279,081
Risk-weighted assets	**59,538**	58,561
Loans and advances to customers (net of impairment allowances)[5]	**50,127**	42,340
Customer accounts[6]	**95,247**	83,692
Capital ratios %		
Common equity tier 1	**15.9**	15.3
Tier 1	**18.3**	17.6
Total capital	**20.8**	20.2
Performance, efficiency and other ratios (annualised %)		
Annualised return on average ordinary shareholders' equity[4,7,8]	**7.2**	(13.2)
Pre-tax return on average risk-weighted assets[4,8]	**2.1**	(3.4)
Cost efficiency ratio in respect of continuing operations[9]	**57.8**	82.9
Liquidity Coverage Ratio ('LCR')[10]	**158**	151
Net stable Funding Ratio ('NSFR')[10,11]	**141**	141

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

3 *Net operating income before change in expected credit losses and other credit risk provisions is also referred to as revenue.*

4 *Balances are disclosed in respect of continuing and discontinued operations. Refer to Note 3 of the consolidated financial statements.*

5 *Loans and advances to customers classified as held for sale are not included. Refer to Note 3 of the consolidated financial statements.*

6 *Customer accounts classified as held for sale are not included. Refer to Note 3 of the consolidated financial statements.*

7 *The return on average ordinary shareholders' equity is defined as profit attributable to the ordinary shareholders of the parent company divided by the average ordinary shareholders' equity.*

8 *Definitions and calculations of other alternative performance measures are included in our 'Reconciliation of alternative performance measures' on page 23.*

9 *Cost efficiency is defined as total operating expenses divided by net operating income before change in expected credit losses and other credit risk provisions.*

10 *In accordance with Capital Requirements Regulation ('CRR II') guidelines, the LCR is computed as a 12 month average and the NSFR as at period-end. The 2022 comparatives for NSFR has been restated accordingly. Additionally, the components of the LCR calculation have been represented to comply with EBA reporting requirements.*

11 *This includes the impact of the sale of our retail banking operations in France.*

Performance highlights

HSBC Continental Europe delivered a strong financial performance in 2023 with growth in wholesale banking revenues supported by the interest rate environment and increased client activity, moderate credit losses and continued cost discipline.

We completed the sale of our retail banking operations in France on 1 January 2024 and the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023. These transactions, in addition to the integration of HSBC Germany and HSBC Malta into HSBC Continental Europe, support our ambition to be the leading international wholesale bank in Europe servicing corporates and financial institutions, complemented by a targeted wealth and private banking offering.

Profit after tax for the period was EUR 908 million in 2023, driven by the inclusion of profits from HSBC Germany and HSBC Malta, higher interest rates and increased client activity. This compared with a loss of EUR 1,090 million in 2022 that included impairments related to the sale of our retail banking operations in France and branch operations in Greece.

Net operating income before change in expected credit losses and other credit impairment charges was EUR 3,833 million, up from EUR 2,002 million in 2022, and included the full-year consolidation of the financial results of HSBC Germany and HSBC Malta. The increase was also driven by growth in net interest income in Commercial Banking and Global Banking which benefited from higher interest rates and higher deposit balances. Markets and Securities Services reported growth in revenues from Global Debt Markets and Securities Financing activities. Wealth and Personal Banking revenues also increased, reflecting higher net interest income and higher income from Life Insurance activities.

Change in expected credit losses and other credit impairment charges was a charge of EUR 141 million, compared with a charge of EUR 124 million in 2022. The cost of risk, at 28bps, was moderate and the increase reflected specific provisions and the deterioration of forward-looking economic conditions.

Operating expenses were EUR 2,217 million, up from EUR 1,660 million in 2022. The increase was mainly driven by the full-year consolidation of the financial results of HSBC Germany and HSBC Malta, partly offset by lower infrastructure costs and lower contributions to the Single Resolution Fund.

Profit before tax was EUR 1,475 million compared to EUR 218 million in 2022.

Presentation of activities and strategy

About HSBC Group

With assets of USD 3.0tn and operations in 62 countries and territories at 31 December 2023, HSBC is one of the largest banking and financial services organisations in the world. Approximately 42 million customers bank with the HSBC Group and employs around 221,000 full-time equivalent staff. The HSBC Group has around 172,000 shareholders.

HSBC Group's purpose and ambition

The HSBC Group's purpose is ‘Opening up a world of opportunity’ and the Group's ambition is to be the preferred international finance partner for the Group's clients.

HSBC values

HSBC values help define who the Group is as an organisation, and are key to its long-term success.

We value difference

Seeking out different perspectives.

We succeed together

Collaborating across boundaries.

We take responsibility

Holding ourselves accountable and taking the long view.

We get it done

Moving at pace and making things happen.

HSBC Group strategy

The HSBC Group is implementing its strategy across the four strategic pillars aligned to its purpose, values and ambition. The Group's strategy remains anchored around its four

strategic pillars: 'Focus', 'Digitise', 'Energise' and 'Transition'.

Focus: take advantage of the HSBC Group’s strengths, including in 2023: maintaining leadership in scale markets and international connectivity, building its international and wealth proposition, diversifying revenue, maintaining cost discipline and reshaping its portfolio.

Digitise: simplify and innovate while improving customer experiences.

Energise: opening up a world of opportunity for our colleagues by building an inclusive organisation that empowers and energises them.

Transition: taking steps to execute on our ambition to become a net zero bank by 2050.

About HSBC Bank Plc

With assets of GBP 703 billion at 31 December 2023, HSBC Bank plc is one of Europe’s largest banking and financial services organisations. HSBC Bank plc employs around 14,050 people across its locations. HSBC Bank plc is responsible for HSBC’s European business, apart from UK retail and most UK commercial banking activity which, post ring-fencing, is managed by HSBC UK Bank plc. HSBC Bank plc is the parent company of HSBC Continental Europe.

HSBC in Europe

Europe is an important part of the global economy, accounting for roughly 40 per cent of global trade and one-quarter of global Gross Domestic Product (UNCTAD, IMF 2023). In addition, Europe is the world’s top exporter of services and second largest exporter of manufactured goods (UNCTAD, IMF 2023). HSBC Bank plc facilitates trade within Europe and between Europe and other jurisdictions where the HSBC Group has a presence.

HSBC Bank plc is present in 20 markets in Europe. HSBC Bank plc is organised around the principal operating units detailed below, which represent the region to customers, regulators, employees and other stakeholders. HSBC Bank plc operates as one integrated business with two main hubs in London and Paris.

The London hub consists of the UK non-ring fenced bank, which provides overall governance and management for the Europe region as a whole and is a global centre of excellence for wholesale banking for the HSBC Group;

HSBC Continental Europe comprises the Paris hub and its European Union (‘EU’) branches (Belgium, Czech Republic, Germany, Ireland, Italy, Luxembourg, Netherlands, Poland, Spain, Sweden) and principal subsidiaries in Luxembourg - HSBC Private Bank (Luxembourg) S.A. and in Malta (HSBC Bank Malta p.l.c.). HSBC Continental Europe is creating an integrated Continental European bank anchored in Paris to better serve its clients and simplify its organisation.

HSBC Bank Plc’s strategy

HSBC Bank plc’s ambition is to be the leading international wholesale bank in Europe, complemented by a targeted wealth and personal banking business, an efficient operating model and a robust control framework (see global businesses on page 8).

HSBC Bank plc exists to open up a world of opportunity for its customers by connecting them to international markets. Europe is the largest trading region in the world and Asia is Europe’s biggest and fastest growing external trading partner (UNCTAD, IMF 2023). HSBC Bank plc is well positioned to capitalise on this opportunity and play a pivotal role for the Group.

About HSBC Continental Europe

HSBC in Continental Europe

The European Union is home to some of the best performing, forward thinking companies, ranging from entrepreneurial start-ups to multinational corporates. The EU is also one of the world’s largest trading blocs set in a dynamic market of approximately 450 million consumers. Europe’s largest goods trade corridor is with Asia (Eurostat, 2023); and Europe–United States is the largest bilateral trade and investment relationship in the world (European Commission, 2023).

HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group’s strategy: building the leading international wholesale bank in Continental Europe complemented by a targeted wealth and private banking offering.

HSBC strategy implemented in Continental Europe

Within this framework, HSBC Continental Europe's strategic vision is based on the following key principles.

Focus

Be the leading international wholesale bank in Continental Europe, complemented by a targeted wealth and private banking offering

HSBC Continental Europe is building a leaner, simpler bank with a sharper strategic focus and an ambition to grow. HSBC Continental Europe's franchise has been redesigned around the needs of international clients, streamlining its participation model and refining product and service capabilities. HSBC Continental Europe also supports the European Union's ambition to be at the forefront of international efforts to fight climate change, becoming a market leader in sustainable financing, achieving net zero in the Group's operations and supply chain by 2030, and aligning the Group's financed emissions to the Paris Agreement goal to achieve net zero by 2050.

The planned disposal of HSBC Continental Europe's retail operations in France and the disposal of HSBC Continental Europe's branch operations in Greece

Following a strategic review of HSBC Continental Europe's branch operations in Greece, a binding Sale and Purchase Agreement was signed in May 2022 with Pancreta Bank SA. Following receipt of the necessary approvals, the transaction completed on 28 July 2023. See Note 1.3 on page 210 for further financial information on the transaction.

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations 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. HSBC Continental Europe also retained a portfolio of EUR 7.1 billion consisting of home and certain other loans, and the CCF brand, which it licensed to the buyer under a long-term licence agreement. Additionally, HSBC Continental Europe's subsidiaries, HSBC Assurances Vie (France) and HSBC Global Asset Management (France), have entered into distribution agreements with the buyer. Ongoing costs associated with the retention of the home and certain other loans, net of income on distribution agreements and the brand licence, are estimated to have an after-tax loss impact of EUR 0.1 billion in 2024 based on expected funding rates. As at 31 December 2023, the business was classified as held for sale in accordance with IFRS 5 giving rise to a net reversal of impairment recognised in other operating income in the year of EUR 143 million. This comprised a reversal of the loss on sale of EUR 2.0 billion in the first quarter of 2023 as the sale became less certain, and a subsequent recognition of the loss on sale of EUR 1.8 billion as we reclassified the retail banking operations as held for sale in the fourth quarter of 2023.

See Note 1.3 on page 210 for further financial information on the transaction.

The transformation of HSBC Continental Europe's Private Banking operations

HSBC Group has implemented a new operating model for its Private Banking activities in Europe, leveraging its hub in Luxembourg which will enable the delivery of an enhanced offering to HSBC's Private Banking clients in Continental Europe.

HSBC Continental Europe completed the acquisition of HSBC Private Bank (Luxembourg) S.A. in November 2023. This transaction completes our Intermediate Parent Undertaking (IPU) requirements to comply with EU CRD V regulation.

Digitise

HSBC Continental Europe has deployed instant payments solutions across most of its businesses. In terms of Cloud adoption, the usage of the Cloud technology increased significantly in production services with the aim to build modern, resilient architecture and innovative solutions leading to ensure scale and resilience.

We are implementing two major tools, Dynamic Risk Assessment and Global Social Network Analytics, leveraging artificial intelligence, machine learning and a simplified end to end operating model. It strengthened the bank's ability to use data more effectively towards detecting financial crime such as money laundering, terrorist financing, human trafficking, and bribery and corruption.

HSBC Continental Europe has continued to invest in improving the security of its technology infrastructure and the alignment of IT systems across Europe.

Energise

HSBC Continental Europe remains committed to energising its people through active engagement in a more effective, agile and empowered organisation. HSBC Continental Europe has been engaging colleagues through initiatives to enable them to apply HSBC Group's purpose and values in the ways of working and serving customers.

Inspire a dynamic culture

HSBC Continental Europe is implementing a dynamic, inclusive and connected culture, and enabling employees to develop their skills for the future. This has been recognised through the Top Employers Institute certification, which has been awarded to HSBC Continental Europe as an entity and 6 of its markets (France, Germany, Italy, Luxembourg, Poland and Spain). This certification rewards companies for their excellence in their Human Resources (HR) practices. HSBC Continental Europe is committed to fostering a supportive environment focused on mental health and well-being, and encouraging co-workers to adopt alternative and more flexible ways of working.

We have also deployed a comprehensive development programme over the period of transformation, offering staff inspiring conferences, peer coaching and individual coaching with HR for managers, as well as well-being workshops.

Champion inclusion

HSBC Continental Europe has a strong commitment to increase diversity across its organisation (including an aspiration to achieve more than 35 per cent of female senior leadership by the end of 2025); raising awareness on the importance of diversity through the Executive Committee and in its governance committees as well as in its Diversity and Inclusion working groups, collaborating closely with its Employee Resources Group.

In 2023, HSBC Continental Europe has: (i) contributed to create an inclusive workplace through its active participation a series of conferences hosted by HSBC's European Executive Committee members with more than 2,000 attendees; (ii) continued employee training/awareness by promoting Inclusive workshops, open to all, in addition to the mental health training; (iii) actively worked to reach out our Gender Diversity targets formalised though the Financi'Elles Charter; (iv) promoted ethnicity awareness through exchanges sessions co-lead by France and Germany, hosted by our senior leaders and presenting testimonies of our employees' journeys; and

(v) pursued positive actions for LGBTQ+ inclusiveness, by signing the Charter of l'Autre Cercle, on 31 May 2023.

Develop future skills

In HSBC Continental Europe, the Future Skills programme has continued to deliver masterclasses on soft and transversal skills in 2023. In addition, HSBC Continental Europe continued to support employee's Environmental, Social and Governance ('ESG') learning through the Global Sustainability Academy.

For managers, specific courses have been offered to foster growth and inclusive leadership through the new People Manager Excellence Programme and tailored support to develop the managerial skills. HSBC Continental Europe continues to encourage staff to use the integrated Degreed training platform and take time regularly to explore learning opportunities to support their self-development. Please refer to key performance indicators and targets regarding Human capital on page 56.

Transition

Europe is at the forefront of international efforts to fight climate change and is a world leader in sustainable finance. Europe is characterised by a deep and progressive Environmental, Social and Governance regulatory landscape, with a growing need to expand the risk management and disclosure beyond climate to environmental risks (e.g. biodiversity), as well as the social and governance aspects of ESG.

One of the Group's strategic pillars is to support the transition to a net zero global economy.

The transition to net zero is one of the biggest challenges of our 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 the ambition requires enhanced processes and controls, and new sources of data. The Group continues to invest in climate resources, skills, and to develop its business management processes 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.

Support our customers

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. In 2023, HSBC Continental Europe was the largest contributor to the Group financed volume target with USD 101.2 billion cumulative volume since 2020, accounting for 34 per cent of total Group volumes.

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

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

Become a net zero in our financed emissions by 2050 and in our own operations and supply chain by 2030

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

In addition to Group policies, HSBC Continental Europe seeks to analyse and track its financed emissions. Financed emissions link the financing provided to customers and their activities in the real economy and provide an indication of the greenhouse gas emissions associated with those activities. They form part of the bank's scope 3 emissions, which include emissions associated with the use of a company's products and services. In 2022, HSBC Continental Europe started to measure the financed emissions for four additional sectors: cement; iron, steel and aluminium; automotive; and aviation. HSBC Group has now revised the basis of preparation for its thermal coal exposures as part of HSBC's commitment to phase-out thermal coal financing in the EU and the OECD countries by 2030.

Applying this revised basis of preparation, HSBC Continental Europe thermal coal financing drawn balance exposure was approximately USD 64.7 million as at 31 December 2020. HSBC continues to work on 2021 and 2022 numbers based on its revised basis of preparation and expect to report on these in future disclosures.

Aligned to its commitment to become a net zero bank in its operations and supply chain by 2030, the Group has the 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 is focusing its action on four objectives: reduce its Greenhouse Gas ('GHG') emissions, including those related to business travel, improve energy efficiency and reduce production of non-recycled waste and paper consumption. In 2023, greenhouse gas emissions per Full Time Employee were 0.72 tonnes equivalent CO_2.

Please refer to section 'Sustainability' in page 55 for further information.

Our Global Businesses

HSBC Continental Europe manages its products and services through its three global businesses: Global Banking and Markets, which comprises three reportable segments Markets & Securities Services, Global Banking, and GBM Other, Commercial Banking, and Wealth and Personal Banking; and the Corporate Centre (comprising certain legacy assets, central stewardship costs, and interests in its associates and joint ventures). These segments are supported by Digital Business Services, and 11 global functions, including Risk, Finance, Compliance, Legal, and Human Resources.

Global Banking and Markets ('GBM')

Markets & Securities Services ('MSS')

MSS is a product group that serves all of the Bank's clients, from those in Global Banking to Commercial Banking and Wealth and Personal Banking.

The business offers clients a range of products and services across asset classes and geographies, through dedicated sales, traders, digital and data (Quants) and research teams. For our Corporate and Institutional clients, we offer access to products and services in FX, Global Debt Markets, Equities, Securities Financing and Warrants.

In addition, our Securities Services business provides global solutions for our clients in the areas of safekeeping of securities, clearing and depository services.

The MSS Europe team plays a key role in providing cross-asset services, bridging emerging and developed markets, and collaborating with other global businesses to provide clients across the Group with bespoke products and solutions that support their growth and net zero ambitions.

HSBC Continental Europe plays a key role as the Group's strategic platform for euro-denominated rates products, being a specialist in Treasury Securities, or a primary dealer in the debt market, and has extended its risk management capacities, in particular in Equities products with European stocks.

MSS continues to invest in technology and digital transformation to enhance client experience and improve operational efficiencies.

Global Banking ('GB')

GB delivers tailored financial solutions to major government, corporate, financial institution and institutional clients worldwide, opening up opportunities through the strength of its global network and product expertise.

GB provides a comprehensive suite of services including leverage and acquisition financing, advisory, equity and debt capital markets, issuer services, trade services and global payment services.

Operating across HSBC Continental Europe's markets, Global Banking teams take a client-centric approach bringing together relationship and product expertise to deliver financial solutions customised to suit clients' growth ambitions and financial objectives. GB works closely with its business partners in all business lines, to provide a range of products and seamless services to meet the needs of the wholesale clients.

GB in HSBC Continental Europe operates as an integral part of the global business and contributes significant revenues to other regions through its client base in Continental Europe, and in turn receives business from HSBC's clients from other regions.

In Continental Europe, GB's objective is to be a leading bank in transaction banking and a key partner to our clients for advisory, financing and capital markets transactions.

GBM Other

GBM Other comprises activities that are outside of the perimeter of MSS and GB, primarily Principal Investments ('PI') and GBM's share of the Bank's Treasury function.

HSBC Continental Europe's PI portfolio comprises two elements; (i) investments in third party private equity funds; and (ii) legacy direct investments. PI in HSBC Continental Europe is focused on reducing the portfolio size in line with HSBC Group's risk appetite and strategy.

Commercial Banking ('CMB')

CMB has a clear strategy to be the leading international corporate bank in Europe. We connect our European customers to our international network of relationship managers and product specialists to support their growth ambitions globally, and we support global multinationals with growing their European subsidiaries through our specialist subsidiary relationship managers and product specialists. Commercial Banking contributes significant revenues to other regions, particularly Asia, through our European client base, and draws benefit from the client network managed outside Europe.

Our products range from bespoke lending solutions to global treasury and trade solutions tailored to clients' requirements, supported by expertise in markets and investment banking products through our collaboration with Global Banking and Markets. Our Global Payments Solutions ('GPS') and Global Trade and Receivables Finance ('GTRF') teams also provide treasury and trade finance solutions to Global Banking and Commercial Banking clients. HSBC has been awarded as the Best Bank for Trade Finance both by Euromoney and GTR for the second consecutive year in 2023, a testament to how we are leading the industry with quality of service and innovative solutions. HSBC has received the top global recognition in the Bankers Transaction Banking Awards 2023 in addition to winning the Asia Pacific category on the supply chain award which helps demonstrates how strategies in both GPS and GTRF are providing HSBC's clients with tools to operate their business more effectively.

Wealth and Personal Banking ('WPB')

In 2023, in France, Greece, Malta and Germany, WPB helped approximately one million customers with their financial needs through Retail Banking, Wealth Management, Insurance, Asset Management and Private Banking. HSBC Continental Europe offers a full range of products and services to meet the personal banking and wealth management needs of customers from personal banking to ultra-high net worth individuals.

Its core retail proposition offers a full suite of products including personal banking products, such as current and savings accounts, mortgages and unsecured loans, credit cards (in Greece and Malta), debit cards and local and international payment services. In addition, WPB offers various propositions, including Premier, Graduates, Students and Fusion, as well as wealth solutions, financial planning and international services. In Malta, its customer-led growth strategy is successfully leading customers to choose HSBC as their main bank, primarily driven by the strategic initiatives taken to deliver outstanding customer experience, including the introduction of a remote customer onboarding journey and the alignment of its value propositions to customer needs.

In July 2023 HSBC Continental Europe completed the sale of its branch operations in Greece (including WPB).

On 1 January 2024 HSBC Continental Europe completed the sale of its retail banking operations in France.

HSBC Continental Europe offers a range of insurance products through its subsidiaries in France and Malta; and asset management services to its clients in France, Germany, Malta, Belgium Spain, Greece, Italy, Luxembourg, Netherlands, Portugal, Switzerland, Austria and Nordics through its subsidiaries in France, Germany, Malta.

The Insurance business in France, HSBC Assurances Vie (France), whose main activity is life insurance, is among the 15 largest life insurers in France. HSBC Assurances Vie (France) offers a wide range of insurance solutions and services designed to meet the needs of individuals, professionals, and businesses in terms of life insurance, retirement savings, credit protection insurance and personal protection. It has been distributing its products primarily through HSBC’s retail banking activity for the last decade. Following the sale of the French retail banking activity to CCF on 1 January 2024, CCF will become the main distributor of HSBC Assurance Vie (France)'s products in France.

HSBC Continental Europe has Asset Management businesses in France, Germany and Malta which work to unlock sustainable investment opportunities for investors. Managing assets for a range of clients, from large institutional investors to commercial and corporate clients, financial intermediaries, retail and private banking clients. Following the sale of the French retail banking activity to CCF on 1 January 2024, CCF is a distributor of the HSBC Continental Europe's Asset Management products in France.

HSBC Continental Europe's Private Banking proposition serves high net worth and ultra-high net worth clients with investment management, Private Wealth Solutions, and bespoke lending for customers with more sophisticated and international requirements.

Global Private Banking has a targeted wealth proposition in Europe, leveraging main opportunities and synergies with HSBC wholesale bank, and supporting international Group clients with dedicated investment and lending solutions. HSBC's main booking centre in Europe is HSBC Private Bank (Luxembourg) S.A., in addition to HSBC Continental Europe's business in Germany which is dedicated to onshore German clients.

OPENING UP A WORLD OF OPPORTUNITIES

OUR HISTORY

1894

Creation of Banque Suisse et Française

- Founded by Ernest Méjà and Benjamin Rossier
- Developed as a commercial bank in France
- Adopted the name Crédit Commercial de France in 1917 following the merger with Maison Aynard et Fils and Caisse de Crédit de Nice

1900-2000

Development of CCF

- Grew externally through the acquisition of other banks in the first half of the century
- Expanded the number of branches (200+) during the sixties

2000-10s

Building a strong universal French bank

- HSBC Group acquired CCF in 2000 and listed on the Paris Stock Exchange
- Established a strong platform in one of the main European markets in the Eurozone
- CCF SA became HSBC France in November 2005

2018-21

Fulfilling our European mission

- From HSBC France to HSBC Continental Europe following the UK departure from the European Union (client migration, product setup, and legal entity restructuring)
- Ambition to be the leading international wholesale bank in Europe, focused on clients that value our network

2022-23

Repositioning our activities

- Focus our wholesale activities on strategic international clients and relevant product proposition
- Preparation of the disposal of French retail operations in France
- Acquisition of HSBC Malta and HSBC Germany to become the Group's chosen entity for the European Intermediate Holding Company ('IPU')
- Acquisition of HSBC Private Bank (Luxembourg) SA
- Disposal of HSBC Continental Europe's branch operations in Greece

2024-26

Towards growth...

- Disposal of HSBC Continental Europe's retail operations in France on 1 January 2024
- Building the leading international wholesale bank in Continental Europe, supporting growth of our international corporate and institutional clients, complemented by a targeted wealth and private banking offering

OUR AMBITION

Be the preferred international financial partner for our clients, supporting them and the sustained success of our communities

OUR VALUES

WE VALUE DIFFERENCES

Seeking out different perspectives

WE SUCCEED TOGETHER

Collaborating across boundaries

WE TAKE RESPONSIBILITY

Holding ourselves accountable and taking the long view

WE GET IT DONE

Moving at pace and making things happen

OUR RESOURCES

- **c. 911,000 clients**[1] from personal banking customers, small and medium companies to corporate clients
- **c. 9,800 employees**[2] supporting our customers through our expertise and know-how
- **Future Skills** and **Resilience** programmes

- **AA- / A1 / A+ top ratings** from the three main rating agencies
- **129 years** of expertise in France*
- **Presence in 12 countries**, supporting clients across borders

- **11 ESG themes**[3] applying to financing activities
- **Sustainable multi-partnerships** in ESG
- Dedicated **Sustainable Finance origination** and **structuring** team

- **2,183 IT applications**[4] consumed, of which 66% are Group applications
- **Eco-responsible headquarters**
- Effective and compliant **Business Continuity Lifecycle Controls**

- **€3,833m** Net Operating Income[5]
- **15.9% CET1 ratio** with a solid financial structure
- **€283bn** total assets

OUR COMMITMENTS

Sustainability

Support customers, employees, and communities to build a sustainable future.

We contribute to a low carbon and sustainable economy, enhance employability and diversity among our staff, and improve the financial skills of our communities.

Conduct

Ensure fair and just treatment of customers and the transparent and orderly operation of financial markets.

Our Conduct Charter provides a framework for making difficult decisions to ensure positive customer outcomes and high ethical standards in the banking industry.

Financial Crime

Help protect the integrity of the global financial system.

We have made, and continue to make, significant investments in our ability to detect, deter, and prevent financial crime.

1. c. 890,000 active customers in WPB and c. 18,000 mastergroups in CMB and GB
2. Aligned to Table of social performance indicators of HSBC Continental Europe in HSBC Continental Europe' Universal Registration Document 2023
3. 4 risks related to banking activity, 2 involving human capital, 5 involving governance risks
4. 1,445 apps consumed from the Group, 738 apps owned in the country - as at 8 January 2024 (lower total than prior year due to the disposal of the branch operations in Greece and the France Retail business)
5. Net operating income before change in expected credit losses and other credit impairment charges

HSBC | HSBC Continental Europe

OPENING UP
A WORLD OF OPPORTUNITIES

OUR ADDED VALUE FOR CLIENTS

We want our clients to achieve their goals, building together a better and sustainable future through responsible and innovative financial solutions:

- Grow their activities in **the European single market**
- Access **international markets**

Transaction Banking
Providing products to help clients trade and invest internationally

Network & Balance Sheet
Committing our balance sheet & providing access to high growth markets

Client Experience & Expertise
Making life easier for our clients while helping them develop a sustainable future

OUR CLIENTS & PRODUCTS[1]

WPB

In Continental Europe, WPB serves customers – from **individuals** to **high-net-worth families** – with their financial needs through:

- Private Banking
- Retail Banking
- Wealth Management
- Insurance
- Asset Management

CMB

CMB has a clear strategy to be the leading international corporate bank in Europe. CMB helps connect European customers to HSBC's international network and product specialists, supporting their growth ambitions and targets:

- Working capital, term loans
- Treasury and Trade solutions
- Expertise in Capital Finance and Advisory in collaboration with our GB and MSS colleagues

GB

GB delivers tailored financial solutions to major **government**, **corporate** and **institutional clients** worldwide. GB provides a comprehensive suite of services, including:

- Corporate Banking
- Advisory, Capital Markets & Issuer Services
- Trade and Payment solutions in collaboration with the GTRF and GPS teams

MSS

MSS is a product group that services **all of the Bank's clients**. MSS offers clients a range of services across **asset classes and geographies** supported by dedicated sales, traders and research teams:

- Global Debt Markets
- Equities
- FX
- Emerging Markets Rates & Commodities

OUR IMPACT

*Only applies to France geographical perimeter

1 Sustainable Finance

$101.2bn contribution to Group's sustainable finance 2030 ambition[2]

+16% net new money in responsible investment funds year on year**

2 Environmental Footprint

Signatory of the **EcoWatt Charter of Commitment***

246 tons* waste production

0.72 teq CO_2 greenhouse gas emissions by FTE

3 Conduct

96% of staff completed training on Conduct and Financial Crime risk

74% of **suppliers** signed the code of Conduct in the renewal process

4 Governance & Security

100% controls assessed effective and compliant

0 cybersecurity incident over the last 12 months

5 Client Satisfaction

2nd in the Greenwich Share Leader Award[3]

Ranked #1[4] in customer satisfaction in France CMB

+1 NPS[4,*] in French Customer Relation Centre

6 Employability & Diversity

61% positive feedback on **well-being** at work

4% attrition rate[5] in our talent pool*

28% share of women[6] in senior executive positions

1. GBM Other: activities outside of the MSS and GB perimeter, primarily Principal Investments and GBM's share of the Bank's Markets Treasury function
2. Cumulative contribution to Group target since 2020 of USD 101.2bn representing 34% of total Group progress (in its ambition to provide between USD 750 billion and USD 1,000 billion in financing and investment)
3. 'Greenwich Trade Finance Awards' are based on the 'Coalition Greenwich Large Corporate Study conducted from April to October 2023
4. Net Promoter Score ('NPS'): assessed performance across the HSBC Group against defined competitors (CMB France and French Customer Relation Centre being assessed)
5. Target: achieve an employee attrition rate of 7% or lower
6. Target: reach 35% women in senior leadership roles by the end of 2025

HSBC | HSBC Continental Europe

Geopolitical, economic and regulatory background and outlook

Economic background

Global

After the surge seen in 2022, global inflation markedly declined in 2023, even though it remained above the target of central banks in most of the major economies. In the first half of the year, this disinflation trend was mainly driven by energy prices, both by base effects on fuel prices, and lower prices on gas and electricity. Price reductions later in the year were seen in other sectors including food and manufactured goods. This trend reflected the fading effects of the energy shock and the easing in the bottlenecks within global supply chains which were first seen during the Covid-19 pandemic. In contrast, services inflation remained relatively sticky, reflecting the impact of tight labour markets and strong wage growth.

Against that backdrop, global central banks have generally continued to raise their policy rates during 2023, in order to limit second-order effects. However, in the last quarter of 2023, several central banks have signalled that the monetary tightening cycle could be over, barring any unwelcome surprise on inflation.

In the US, inflation dropped to 3.4 per cent year-on-year in December 2023, from 6.5 per cent in December 2022 and a peak of 9.1 per cent in June 2022. The Federal Reserve ('Fed') has raised further its Fed Funds target rate by 100 basis points over the year, from 4.25 - 4.50 per cent to 5.25 - 5.50 per cent. The last rate hike was announced in July 2023 and at the December 2023 meeting, the chairman Jerome Powell indicated that the rate hikes cycle could be over and that the Fed had started to discuss potential rate cuts.

In spite of the Fed tightening, US economic activity has remained relatively robust, with annual GDP expanding by 2.5 per cent in 2023. Household consumption has been the main source of support to GDP growth on the back of a persistently strong labour market.
In other developed countries, several central banks have also continued to raise rates in 2023, both in Europe (Sweden, Norway, Switzerland), in Canada and in Asia-Pacific (Australia, New Zealand). In contrast, the Bank of Japan has kept its policy rate unchanged at -0.10 per cent. This prudent approach reflects the willingness of the Bank of Japan to wait for more evidence of a sustained rise in wages before normalising its monetary policy.

In mainland China, economic activity recovered in 2023 thanks to the end of Covid-19 restrictions. However, the bounce-back has been more limited than expected. The recovery in consumption has been uneven and the persistent weakness of the housing market has remained a drag for the economy, in spite of the numerous support measures announced during the year.

Eurozone

In the Eurozone, inflation has declined to 2.9 per cent year-on-year in December 2023, from 9.2 per cent in December 2022 and a peak of 10.6 per cent in October 2022. This decline initially reflected a drop in energy inflation, fuelled by base effects but also by sharp declines in gas prices. Indeed, the mild winter in Europe and the relatively high level of gas storage at the end of the winter observed in most countries have led to a significant fall in gas prices on wholesale markets. Later in the year, the fading effects of the energy shock also fuelled a marked drop in inflation on food and manufactured goods. Services inflation proved to be stickier, reflecting high wage pressures and solid demand in the tourism sector with the post-pandemic reopening.

The European Central Bank ('ECB') has lifted its policy rates by a cumulative 200 basis points over the year, with the deposit rate rising from 2.00 to 4.00 per cent. The last hike occurred in September 2023 and the ECB has adopted a more neutral stance in the fourth quarter of the year.

The ECB also started Quantitative Tightening in March 2023, with a passive reduction of the Asset Purchase Programme ('APP') at an initial pace of EUR15bn per month. All APP reinvestments were subsequently terminated from July 2023. In contrast, reinvestments of the Pandemic Emergency Purchase Programme ('PEPP') have been maintained but the ECB announced in December 2023 that they will start to be reduced in the second half of 2024, with a full termination planned at the end of the year.

Regarding economic activity, the eurozone has avoided a deep recession in 2023, defying the pessimistic views prevailing at the start of the year due to the energy crisis. That said, the eurozone economy has not been strong either, with annual GDP rising by only 0.5 per cent in 2023. Indeed, consumer spending has been persistently weak, due to the high level of inflation. Conversely, investment has been firmer, supported by structural trends (i.e. higher investment needs related to digital transformation and the green transition). Economic momentum remained weak at the end of the year, with GDP stagnating in the fourth quarter after falling by 0.1 per cent over the previous quarter.

At the country level, trends have not been uniform. Among the largest economies, Germany registered a weak growth performance, reflecting its high exposure to global trade and its higher vulnerability to the energy shock. In Italy, GDP growth has also been hampered by sluggish industrial activity. France and Spain fared better, due to their higher dependence on the services sector. Spain benefited notably from a strong recovery in foreign tourist arrivals. In France, the catch-up in energy output (due to the end of maintenance in several nuclear plants) and in transport materials production (due to easing supply constraints) has also been a source of support.

Economic outlook

Inflation and central banks' actions

Global inflation is expected to continue to recede in 2024, but at a more gradual pace. Base effects on energy prices are no longer supportive and the current reduction in inflation levels for food and manufactured goods is set to lose momentum in the coming months. Wages will remain a key factor; wage pressures have started to ease in the US but they remain elevated given the relative resilience in labour demand. In the eurozone, wage growth has been even more stickier, reflecting its dependence on past inflation via collective pay bargaining. As a result, we expect services inflation to fall at a very gradual pace.

Against that backdrop, the ECB and the Fed are likely to remain prudent in easing their monetary policy. HSBC economists expect both central banks to start cutting rates in June 2024, later than priced in by the markets. In terms of magnitude, they expect 75 basis points of cumulative rate cuts for both central banks in 2024, and another 75 basis points in 2025. If these forecasts prove true, the ECB deposit rate would stand at 3.25 per cent at the end of 2024 and 2.50 per cent at the end of 2025. The Fed Funds target rate would stand at 4.50-4.75 per cent at the end of 2024 and 3.75-4.00 per cent at the end of 2025.

Growth risks

The central scenario of HSBC economists assumes no significant recession for the US and Europe. US GDP growth would decelerate but remain relatively resilient, at 1.7 per cent in 2024 from 2.5 per cent in 2023. Eurozone GDP growth would remain sluggish at 0.5 per cent in 2024, unchanged from 2023. In spite of this stability, growth drivers could differ. Consumption levels are expected to improve, reflecting improving real wages following the drop in inflation. Conversely, investment is set to be hit by past interest rises, given that new bank loans for households and firms have already markedly declined over recent months.

The main downside risk to this relatively benign scenario would be a sharper labour market deterioration, which would make households and firms reluctant to spend. In that case, central banks could be prompted to cut rates at a more rapid pace than expected by HSBC economists. Another downside risk could be an unexpected rebound in inflation, driven by energy or food prices for example. Such a scenario cannot be ruled out given the current geopolitical tensions and the risks related to climate change. Finally, political risks will also have to be monitored given the busy electoral calendar for 2024, including the European elections in June 2024 and the US presidential election in November 2024.

Regulatory environment

Basel III Reforms

The Basel Committee on Banking Supervision ('Basel') completed the Basel III Reforms in July 2020. The reforms make significant changes to the way firms calculate risk-weighted assets ('RWAs') across all risk types and include the implementation of an RWA floor for banks that use internal models 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 shall apply from 1 January 2025. However, it includes a transitional phase-in period of 5 years for the implementation of the output floor, and a clause which would allow the legislators to delay the application of the changes to market risk RWAs for up to 2 years.

In the UK, the Prudential Regulation Authority confirmed in September 2023 its intention to move the final implementation date by 6 months to July 2025. The new 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 in 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 proposed a new definition of what constitutes a large decline of Net Interest Income ('NII') defined as NII one-year losses in excess of 5 per cent of Tier 1 Capital. Following the 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.

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.

Environmental, social and governance ('ESG') risks

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

The EU Corporate Sustainability Reporting Directive ('CSRD') entered into force in January 2023, broadens the scope of EU entities subject to threshold criteria and impacts other non-EU headquartered entities with at least one subsidiary in scope of reporting under the CSRD. 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.

Consolidated Results

Use of alternative performance measures

HSBC Continental Europe reported results are prepared in accordance with International Financial Reporting Standards ('IFRS Accounting Standards') as detailed in the Financial Statements starting on page 188.

In measuring our performance, the financial measures that we use include those derived from our reported results in order to eliminate factors that distort period-on-period comparisons. These are considered alternative performance measures. All alternative performance measures are described and reconciled to the closest reported financial measure when used.

Notable items

We separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and which are generally non-recurring in nature.

The tables on page 17 detail the effects of notable items on each of our global business segments as at 31 December 2023 and 31 December 2022.

Changes to presentation from 1 January 2023

Changes to our reporting framework

On 1 January 2023, HSBC Continental Europe updated its financial reporting framework to no longer report 'adjusted' results, which exclude the impact of significant items. We separately disclose 'notable items', which are components of our income statement that management would consider as outside the normal course of business and which are generally non-recurring in nature.

IFRS 17 'Insurance Contracts'

On 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts'. As required by the standard, the Group applied the requirements retrospectively with comparative data previously published under IFRS 4 'Insurance Contracts' restated from the 1 January 2022 transition date. Under IFRS 17 there is no present value of in-force business ('PVIF') asset recognised up front. Instead the measurement of the insurance contract liability takes into account fulfilment cash flows and a contractual service margin representing the unearned profit. In contrast to the Group's previous IFRS 4 accounting where profits are recognised up front, under IFRS 17 they are deferred and systematically recognised in revenue as services are provided over the life of the contract. The contractual service margin also includes attributable cost, which had previously been expensed as incurred and which is now incorporated within the insurance liability measurement and recognised over the life of the contract.

The impact of the transition was a reduction of EUR 253 million on the Group's 2022 reported revenue and a reduction of EUR 153 million to reported profit before tax. The Group's total equity at 1 January 2022 decreased by EUR 496 million to EUR 7,180 million on the transition.

For further details, see Note 1.1 (b) on the Impact of IFRS 17.

Summary consolidated income statement for the year ended

	31 Dec 2023 €m	31 Dec[1,2] 2022 €m
Continuing operations		
Net interest income	**2,442**	1,130
Net fee income	**1,102**	759
Net income from financial instruments held for trading or managed on a fair value basis	**156**	332
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss	**1,144**	(1,448)
Changes in fair value of long-term debt and related derivatives	**16**	(16)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**16**	26
Gains less losses from financial investments	**(6)**	(11)
Insurance finance income/(expense)	**(1,188)**	1,124
Insurance service result	**126**	118
Gains/(losses) recognised on assets held for sale	**—**	(103)
Other operating income/(expense)	**25**	91
Total operating income	**3,833**	2,002
Net operating income before change in expected credit losses and other credit impairment charges[3]	**3,833**	2,002
Change in expected credit losses and other credit impairment charges	**(141)**	(124)
Net operating income	**3,692**	1,878
Total operating expenses	**(2,217)**	(1,660)
Operating profit/(loss)	**1,475**	218
Share of profit in associates and joint ventures	**—**	—
Profit/(loss) before tax	**1,475**	218
Tax expense	**(387)**	(33)
Profit/(loss) after tax in respect of continuing operations	**1,088**	185
Profit/(loss) after tax in respect of discontinued operation	**(180)**	(1,275)
Profit/(loss) for the period	**908**	(1,090)
– shareholders of the parent company	**883**	(1,092)
– non-controlling interests in respect of continuing operations	**25**	2
– non-controlling interests in respect of discontinued operation	**—**	—

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

3 *Net operating income before change in expected credit losses and other credit impairment charges is also referred to as revenue.*

Continuing Operations

Net interest income was EUR 2,442 million in 2023, up from EUR 1,130 million in the previous year. Interest income increased from EUR 2,206 million to EUR 7,561 million, due to rising interest rates and the integration of HSBC Germany and HSBC Malta. This was partly offset by an increase in interest expense from EUR 1,076 million to EUR 5,119 million, reflecting higher funding costs.

Net fee income was EUR 1,102 million in 2023, increasing from EUR 759 million in 2022. The increase was mainly driven by the impact of the integration of HSBC Germany and HSBC Malta.

Net income from financial instruments held for trading or managed on a fair value basis was EUR 156 million in 2023, down from EUR 332 million in 2022. The decrease reflected the mark-to-market change on derivatives, notably in Insurance Manufacturing and Markets and Securities Services, partly offset by the impact of the integration of HSBC Germany.

Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit and loss was a EUR 1,144 million gain, up from a loss of EUR 1,448 million in 2022. This reflected the favourable change in the market value of the assets held by the insurance company on behalf of its customers as well as the integration of HSBC Malta.

Changes in fair value of long-term debt and related derivatives were EUR 16 million in 2023, up from a loss of EUR 16 million in 2022.

Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss totalled EUR 16 million in 2023 compared to EUR 26 million in 2022.

Gains less losses from financial investments were a loss of EUR 6 million compared to a EUR 11 million loss in 2022. The loss was mainly related to the disposal of debt securities.

Insurance finance expense was EUR 1,188 million in 2023, down from an income of EUR 1,124 million in 2022, reflecting less favourable market conditions compared to 2022. This reflects the movements in fair value that are attributable to policyholders and offsets favourable movements on the net income from assets and liabilities of the insurance businesses, including related derivatives, measured at fair value through profit and loss.

Insurance Service result was EUR 126 million in 2023, up from EUR 118 million in 2022. The increase was due to higher contractual service margin with higher release rates as well as the impact of the integration of HSBC Malta.

Gains or losses recognised on assets held for sale were nil in 2023, compared to a loss of EUR 103 million in 2022 following the sale of the Greece branch operations.

Other operating income was EUR 25 million, down from EUR 91 million the previous year.

Net operating income before change in expected credit losses and other credit impairment charges was EUR 3,833 million, up from EUR 2,002 million in 2022 and included the full-year consolidation of the financial results of HSBC Germany and HSBC Malta. The increase was also driven by growth in net interest income in Commercial Banking and Global Banking which benefited from higher interest rates and higher deposit balances. Markets and Securities Services reported growth in revenues from Global Debt Markets and Securities Financing activities. Wealth and Personal Banking revenues also increased, reflecting higher net interest income and higher income from Life Insurance activities.

Change in expected credit losses and other credit impairment charges ('ECL') was a net charge of EUR 141 million compared to a net charge of EUR 124 million in 2022, primarily driven by stage 3 provisions.

Operating expenses amounted to EUR 2,217 million in 2023 up from EUR 1,660 million in 2022. The increase was mainly due to the impact of the integration of HSBC Germany and HSBC Malta as well as the updated VAT recovery rates which led to a one-off gain in 2022.

Offsetting these increases were lower infrastructure costs including the reversal of impairments on non-financial assets and lower contributions to the Single Resolution Fund.

Profit before tax for continuing operations was EUR 1,475 million, compared to EUR 218 million in 2022.

Profit attributable to shareholders of the parent company in 2023 was EUR 883 million, up from a EUR 1,092 million loss in the previous year. This was mainly driven by the 2022 impact of discontinued operations related to the planned sale of the retail banking operations in France.

Discontinued Operations

Net operating income in discontinued operations was a gain of EUR 198 million compared to loss of EUR 1,529 million in 2022, primarily coming from the loss on sale recognised in 2022 and amended in 2023.

Operating expenses were EUR 415 million compared to EUR 378 million in 2022.

Loss before tax was EUR 217 million compared to a loss of EUR 1,907 million in 2022.

Profit/(loss) for the period by global business (continuing operations)

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	GBM Other	Corporate Centre	Total
	At 31 Dec 2023						
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Net operating income before change in expected credit losses and other credit impairment charge	**730**	**1,444**	**803**	**764**	**33**	**59**	**3,833**
– of which: net interest income/(expense)	***634***	***1,049***	***183***	***453***	***19***	***104***	***2,442***
Change in expected credit losses and other credit impairment charges	**9**	**(88)**	**1**	**(63)**	**(1)**	**1**	**(141)**
Net operating income	**739**	**1,356**	**804**	**701**	**32**	**60**	**3,692**
Total operating expenses	**(391)**	**(594)**	**(730)**	**(380)**	**(23)**	**(99)**	**(2,217)**
Operating profit/(loss)	**348**	**762**	**74**	**321**	**9**	**(39)**	**1,475**
Share of profit/(loss) in associates and joint ventures	**—**	**—**			**—**	**—**	**—**
Profit/(loss) before tax	**348**	**762**	**74**	**321**	**9**	**(39)**	**1,475**
	At 31 Dec 2022[1,2]						
Net operating income before change in expected credit losses and other credit impairment charge	217	906	370	484	27	(2)	2,002
– of which: net interest income/(expense)	*247*	*564*	*(18)*	*243*	*(41)*	*135*	*1,130*
Change in expected credit losses and other credit impairment charges	3	(86)	(1)	(39)	—	(1)	(124)
Net operating income	220	820	369	445	27	(3)	1,878
Total operating expenses	(269)	(462)	(359)	(270)	(97)	(203)	(1,660)
Operating profit/(loss)	(49)	358	10	175	(70)	(206)	218
Share of profit in associates and joint ventures	—	—	—	—	—	—	—
Profit/(loss) before tax	(49)	358	10	175	(70)	(206)	218

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

Supplementary analysis of notable items by global business (continuing operations)

	At 31 Dec 2023						
	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	GBM Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
Revenue	—	—	—	—	—	—	—
– Disposals, acquisitions and investment	—	—	—	—	—	—	—
– Changes in fair value of financial instruments	—	—	—	—	—	—	—
– Restructuring and other related costs	—	—	—	—	—	—	—
Operating expenses	**(17)**	**5**	**—**	**—**	**6**	**(2)**	**(8)**
– Disposals, acquisitions and investment	**(17)**	—	—	—	—	**(11)**	**(28)**
– Impairment of non-financial items	—	—	—	—	—	—	—
– Restructuring and other related costs	—	**5**	—	—	**6**	**9**	**20**
	At 31 Dec 2022[1]						
Revenue	—	—	5	—	(26)	(97)	(118)
– Disposals, acquisitions and investment	—	—	—	—	(4)	(102)	(106)
– Changes in fair value of financial instruments	—	—	5	—	—	2	7
– Restructuring and other related costs	—	—	—	—	(22)	3	(19)
Operating expenses	(17)	(53)	—	—	(35)	(154)	(259)
– Disposals, acquisitions and investment	(9)	—	—	—	—	—	(9)
– Impairment of non-financial items	—	13	—	—	—	(9)	4
– Restructuring and other related costs	(8)	(66)	—	—	(35)	(145)	(254)

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

Continuing operations

Profit after tax for the period in respect of continuing operations was EUR 1,088 million in 2023, up from EUR 185 million in 2022, driven by the inclusion of profits from HSBC Germany and HSBC Malta, higher interest rates and increased client activity.

Revenue was EUR 3,833 million in 2023, up from EUR 2,002 million in 2022, and included the full-year consolidation of the financial results of HSBC Germany and HSBC Malta. The increase was also driven by growth in net interest income in Commercial Banking and Global Banking which benefited from higher interest rates and higher deposit balances. Markets and Securities Services reported growth in revenues from Global Debt Markets and Securities Financing activities. Wealth and Personal Banking revenues also increased, reflecting higher net interest income and higher income from Life Insurance activities.

Change in expected credit losses and other credit impairment charges was a net charge EUR 141 million in 2023, compared with a net charge of EUR 124 million in 2022. The cost of risk, at 28bps, was moderate and the increase reflected specific provisions and the deterioration of forward-looking economic conditions.

Operating expenses were EUR 2,217 million in 2023, up from EUR 1,660 million in 2022. The increase was mainly driven by the full-year consolidation of the financial results of HSBC Germany and HSBC Malta, partly offset by lower infrastructure costs and lower contributions to the Single Resolution Fund.

Profit before tax for continuing operations was EUR 1,475 million in 2023, compared with EUR 218 million in 2022.

Wealth and Personal Banking

Profit before tax was EUR 348 million, up from a loss of EUR 49 million in 2022 reflecting the impact of the integration of HSBC Germany and HSBC Malta.

Revenue was EUR 730 million, up from EUR 217 million in 2022. This was mainly the result of higher interest income compared to the prior year due to the impact of increasing interest rates and the integration of HSBC Malta. Insurance manufacturing revenue was up on the prior year due to favourable market impacts. Net fee income was higher than the prior year as a result of the positive contribution of the integration of HSBC Germany.

Change in expected credit losses and other credit impairment charges were a net release of EUR 9 million, compared to a net release of EUR 3 million in 2022, reflecting continued improved portfolio performance.

Operating expenses were EUR 391 million, up from EUR 269 million in 2022 primarily coming from the impact of the integration of HSBC Germany and HSBC Malta.

Loans and advances to customers were EUR 11.6 billion at the end of December 2023, increasing by EUR 8.7 billion compared to December 2022 as a result of the retention of EUR 7.1 billion of home and other loans by HSBC Continental Europe as per the planned sale of the retail banking operations in France as well as the acquisition of HSBC Private Bank (Luxembourg) S.A.

Customer accounts were EUR 9.5 billion in 2023, increasing by EUR 2.1 billion compared to prior year as the result of the acquisition of HSBC Private Bank (Luxembourg) S.A.

Total Wealth Invested Balances (including third party assets under management in Asset Management) were EUR 154.9 billion in December 2023, and increased by 13 per cent compared to

December 2022. This reflected the impact of the acquisition of HSBC Private Bank (Luxembourg) S.A. and positive market movements.

Commercial Banking

Profit before tax was EUR 762 million, compared to a profit of EUR 358 million in 2022.

Revenue was EUR 1,444 million, up from EUR 906 million in 2022, mainly driven by the increase in interest income on deposits due to the rising interest rates environment, together with the impact of the integration of HSBC Germany and HSBC Malta.

HSBC remains a key partner for companies seeking to set up abroad and for international companies seeking to expand in Continental Europe.

Change in expected credit losses and other credit impairment charges was a net charge of EUR 88 million, slightly increasing from EUR 86 million in 2022.

Operating expenses were EUR 594 million, up from EUR 462 million in 2022, coming from the impact of the integration of HSBC Germany and HSBC Malta. The increase was partially offset by the non-recurrence of 2022 restructuring costs.

Loans and advances to customers were EUR 24.8 billion at December 2023, stable compared to December 2022.

Deposits were EUR 39.4 billion, an increase of EUR 4.5 billion compared to December 2022.

Markets and Securities Services

Profit before tax was EUR 74 million compared to EUR 10 million in 2022, driven by the integration of HSBC Germany and HSBC Malta.

Revenue was EUR 803 million, increasing from EUR 370 million in prior year, driven by to the integration of HSBC Germany and HSBC Malta coupled with increased revenues from Global Debt Markets and Securities Financing.

Operating expenses were EUR 730 million, up compared to EUR 359 million in prior year, driven by to the integration of HSBC Germany and HSBC Malta as well as higher technology costs.

Customer deposits decreased by EUR 3.1 billion to EUR 17.4 billion, driven by Securities Services customer deposits.

Global Banking

Profit before tax was EUR 321 million, compared to EUR 175 million in 2022.

Revenue was EUR 764 million, increasing from EUR 484 million in 2022. This was primarily driven by Global Payment Solutions due to higher interest rates and higher fee income coupled with the impact of the integration of HSBC Germany. This increase was partly offset by lower lending revenues coming from lower volumes.

Change in expected credit losses and other credit impairment charges was a net charge of EUR 63 million, compared with a net charge of EUR 39 million in 2022.

Operating expenses were EUR 380 million compared to EUR 270 million in prior year, reflecting the integration of HSBC Germany together with higher support costs.

Loans and advances to customers were EUR 13.0 billion at December 2023, a decrease of EUR 1.0 billion compared to December 2022 reflecting lower loans to customers, including repayment of state-backed loans.

Customer deposits were EUR 25.9 billion at December 2023, an increase of EUR 5.5 billion compared to December 2022 driven by business growth.

GBM Other

Profit before tax was EUR 9 million, compared to a loss of EUR 70 million in 2022, mainly driven by lower operating expenses.

Revenue was EUR 33 million, compared to EUR 27 million in 2022.

Operating expenses were EUR 23 million, down from EUR 97 million in 2022 coming from lower project costs and intercompany recharges.

Corporate Centre

Loss before tax was EUR 39 million in 2023 compared to a EUR 206 million loss in 2022.

Revenue was EUR 59 million in 2023 compared to a loss of EUR 2 million in 2022, driven the non-recurrence of the loss on sale of the Greece branch operations and loss on swaps disposal that both happened in 2022, partly offset by mark to market movements.

Operating expenses were EUR 99 million in 2023 compared with EUR 203 million in 2022 due to lower project costs.

Summary consolidated balance sheet

	At	
	31 Dec 2023	31 Dec 2022[1]
	€m	€m
Total assets	**282,977**	279,081
Cash and balances at central banks	**56,894**	59,734
Trading assets	**17,249**	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**13,590**	12,170
Derivatives	**45,522**	59,960
Loans and advances to banks	**5,816**	7,233
Loans and advances to customers	**50,127**	42,340
Reverse repurchase agreements – non-trading	**24,490**	15,374
Financial investments	**22,608**	19,135
Other assets	**23,470**	25,597
Assets held for sale	**23,211**	23,761
Total liabilities	**270,469**	267,577
Deposits by banks	**8,904**	11,182
Customer accounts	**95,247**	83,692
Repurchase agreements – non-trading	**11,153**	6,655
Trading liabilities	**19,877**	17,509
Financial liabilities designated at fair value	**9,696**	9,049
Derivatives	**43,630**	55,726
Debt securities in issue	**12,909**	6,861
Liabilities under insurance contracts	**21,035**	20,439
Other liabilities	**24,201**	28,609
Liabilities of disposal groups held for sale	**23,817**	27,855
Total equity	**12,508**	11,504
Total shareholders' equity	**12,342**	11,358
Non-controlling interests	**166**	146

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.*

Assets

Total assets were EUR 283.0 billion at December 2023, up from EUR 279.1 billion at December 2022.

The trading portfolio increased by EUR 3.5 billion to EUR 17.2 billion following increased client activity. Financial assets measured at fair value through profit and loss increased by EUR 1.4 billion to EUR 13.6 billion.

Derivatives decreased by EUR 14.4 billion to EUR 45.5 billion in 2023 due to mark-to-market variation as a result of change in interest rates.

Loans and advances to customers increased by EUR 7.8 billion to EUR 50.1 billion in 2023 as a result of the the retention of EUR 7.1 billion of home and other loans by HSBC Continental Europe as per the revised terms of the planned sale of the retail banking operations in France.

Reverse repurchase agreements – non-trading of EUR 24.5 billion in 2023 increased from EUR 15.4 billion in 2022 driven by higher volumes in MSS.

Liabilities

Total liabilities were EUR 270.5 billion at December 2023, up from EUR 267.6 billion at December 2022.

Deposits by banks decreased by EUR 2.3 billion to EUR 8.9 billion in 2023, driven by the contractual repayment of targeted longer-term refinancing operations ('TLTRO').

Customer deposits rose by EUR 11.6 billion from EUR 83.7 billion in 2022 to EUR 95.2 billion in 2023, mainly driven by growth in Global Payment Solutions.

Repurchase agreements, at EUR 11.2 billion, increased by EUR 4.5 billion due to increased positions with banks.

Derivatives, at EUR 43.6 billion, decreased by EUR 12.1 billion, as a result of mark-to-market movements on interest rate swaps.

Liabilities of disposal groups held for sale decreased by EUR 4.0 billion to EUR 23.8 billion coming from maturity of covered bonds associated to the liabilities of the retail business classified as held for sale and the sale of the Greece branch operations.

Equity

Shareholders' equity stood at EUR 12.3 billion, up from EUR 11.4 billion in 2022, mainly driven by the profit generated in 2023.

The CET1 (Common Equity Tier 1) ratio was 15.9 per cent at December 2023 and the total capital ratio was 20.8 per cent.

Liquidity and funding

Outstanding medium- and long-term funding and the bank's main financing transactions in 2023 are presented in the liquidity and financing management section on pages 161 to 163.

The average short-term ratio (liquidity coverage ratio or 'LCR') was 158 per cent and the average long-term ratio (net stable funding ratio or 'NSFR') was 141 per cent[1].

[1] *This includes the impact of the sale of our retail banking operations in France.*

Balance Sheet Information

	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services €m	Global Banking €m	GBM Other €m	Corporate Centre €m	Total €m
At 31 Dec 2023							
Loans and advances to customers	**11,556**	**24,789**	**656**	**13,018**	**84**	**24**	**50,127**
Loans and advances to customers classified as held for sale	**12,691**	**—**	**—**	**—**	**—**	**—**	**12,691**
Customers accounts	**9,463**	**39,438**	**17,350**	**25,861**	**3,379**	**(244)**	**95,247**
Customers accounts classified as held for sale	**20,058**	**—**	**109**	**—**	**—**	**—**	**20,167**
At 31 Dec 2022							
Loans and advances to customers	2,865	24,757	686	13,965	—	67	42,340
Loans and advances to customers classified as held for sale	21,642	30	—	—	56	—	21,728
Customers accounts	7,372	34,896	20,499	20,402	695	(172)	83,692
Customers accounts classified as held for sale	21,813	259	—	—	923	—	22,995

Revenue by country (continuing operations)

	At 31 Dec 2023						
	Wealth and Personal Banking €m	Commercial Banking €m	Markets and Securities Services €m	Global Banking €m	GBM Other €m	Corporate Centre €m	Total €m
France	**402**	**593**	**231**	**495**	**(8)**	**60**	**1,773**
Germany	**129**	**296**	**400**	**114**	**21**	**2**	**962**
Other EEA Branches	**20**	**491**	**169**	**155**	**19**	**(3)**	**851**
Malta and Other Countries[4]	**179**	**64**	**3**	**—**	**1**	—	**247**
Revenue[1]	**730**	**1,444**	**803**	**764**	**33**	**59**	**3,833**
	At 31 Dec 2022[2,3]						
France	175	570	183	382	14	95	1,419
Germany[5]	11	20	36	8	—	1	76
Other EEA Branches	17	311	161	77	19	(98)	487
Malta and Other Countries[5]	14	5	(10)	17	(6)	—	20
Revenue[1]	217	906	370	484	27	(2)	2,002

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*
3 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative. data have been represented accordingly.*
4 *'Other countries' include net operating income of HSBC Private Bank (Luxembourg) S.A. post its acquisition on 2 November 2023.*
5 *Represents net operating income of HSBC Trinkaus & Burkhardt GmbH (Germany) and HSBC Bank Malta p.l.c. post their acquisition on 30 November 2022.*

Net Interest Margin

Net interest margin is calculated by dividing net interest income as reported in the income statement by the average balance of interest-earning assets.

Net interest margin was 125 basis points in 2023, compared to 78 basis points in 2022. Higher interest rates pushed the gross interest yield upward. This was partly offset by a higher cost of funds.

Net Interest Income

	2023	2022[1]
	€m	€m
Interest income	7,561	2,206
Interest expense	(5,119)	(1,076)
Net interest income from continuing operations	2,442	1,130
Net interest income from discontinued operations	(51)	60
Net interest income	2,391	1,190
Average interest-earning Assets	190,847	153,200
	%	%
Net interest margin[2]	1.25	0.78

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.
2 Net interest margin is net interest income expressed as an annualised percentage of average interest-earning assets.

Summary of interest income by asset type

	2023			2022		
	Average balance	Interest income[1]	Yield[2]	Average balance	Interest income[1]	Yield[2]
	€m	€m	%	€m	€m	%
Short term funds and loans and advances to banks	69,254	2,536	3.66	49,774	158	0.32
Loans and advances to customers	57,168	2,106	3.68	52,654	967	1.84
Reverse repurchase agreements – non- trading	23,251	1,565	6.73	16,320	(37)	(0.23)
Financial investments	19,918	645	3.24	15,768	345	2.19
Other interest-earning assets	21,256	956	4.50	18,684	271	1.45
Total interest-earning assets	190,847	7,808	4.09	153,200	1,704	1.11
Trading assets and financial assets designated or mandatorily measured at fair value[3]	16,754	351	2.10	14,783	202	1.37
Expected credit losses provision	(814)	—		(735)	—	
Non-interest-earning assets	88,893	—		76,240	—	
Total	295,680	8,159	2.76	243,488	1,906	0.78

1 Balances are disclosed in respect of continuing and discontinued operations.
2 Yield has been calculated taking into account negative interest on assets recognised as interest expense in the income statement.
3 Interest income arising from trading assets is included within 'Net trading income' in the income statement.

Summary of interest expense by type of liability and equity

	2023			2022		
	Average balance	Interest expense[1]	Cost[2]	Average balances	Interest expense[1]	Cost[2]
	€m	€m	%	€m	€m	%
Deposits by banks	12,385	460	3.71	19,740	(39)	(0.20)
Customer accounts	62,040	2,156	3.48	26,598	239	0.90
Repurchase agreements – non- trading	12,201	1,140	9.34	9,037	(76)	(0.84)
Debt Securities in issue – non- trading	17,465	714	4.09	15,689	163	1.04
Other interest-bearing liabilities	23,697	947	4.00	20,547	226	1.10
Total interest-bearing liabilities	127,788	5,417	4.24	91,611	513	0.56
Trading liabilities and financial liabilities designated at fair value (excluding own debt issued)[3]	25,548	587	2.30	21,749	365	1.68
Non-interest-bearing current accounts	37,625	—		40,983		
Total equity and other non-interest bearing liabilities	104,719	—		89,144		
Total	295,680	6,004	2.03	243,487	878	0.36

1 Balances are disclosed in respect of continuing and discontinued operations.
2 Cost has been calculated taking into account negative interest on liabilities recognised as interest income in the income statement.
3 Interest expense arising from trading liabilities is included within 'Net trading income' in the income statement.

Post-balance sheet events

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations 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.

There has been no other significant event between 31 December 2023 and the date of approval of these financial statements by the Board of Directors which would require an adjustment or additional disclosure in the financial statements.

Historical data (unaudited)

	2023	2022[1]	2021	2020	2019
	€m	€m	€m	€m	€m
HSBC Continental Europe					
Profit before tax[2]	**1,258**	(1,689)	285	(945)	(22)
Profit attributable to shareholders[2]	**883**	(1,092)	269	(1,022)	(39)
At 31 Dec					
Shareholders' equity	**12,342**	11,358	7,667	7,434	8,443
Loans and advances to customers and banks[3]	**55,943**	49,573	66,444	63,006	63,754
Customer accounts and deposits by banks[4]	**104,151**	94,874	88,692	78,597	69,663
Total Balance Sheet	**282,977**	279,081	222,664	237,099	237,680
Number of employees (full-time equivalents)[5,6,7]	**9,969**	10,408	7,451	8,517	9,472
Ratios					
– Total capital ratio (%)	**20.8**	20.2	16.5	17.3	16.9
– Common Equity Tier One Ratio (%)	**15.9**	15.3	12.0	12.6	13.5
– Cost efficiency ratio (reported basis) (%)	**57.8**	82.9	86.6	130.9	95.2

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 *Balances are disclosed in respect of continuing and discontinued operations.*
3 *Loans and advances to customers and banks classified as held for sale are not included. Refer to Note 3 of the consolidated financial statements.*
4 *Customer accounts* and deposits by banks *classified as held for sale are not included. Refer to Note 3 of the consolidated financial statements.*
5 *Includes employees of HSBC Private Bank (Luxembourg) S.A. with effect from 2 November 2023 and excludes employees of Greece operations with effect from 28 July 2023.*
6 *The increase in 2022 is due to acquisition of HSBC Germany and HSBC Malta with effect from 30 November 2022.*
7 *Includes employees of retail banking operations in France which has been classified as discontinued operations.*

Reconciliation of alternative performance measures

Return on average shareholders’ equity and pre-tax return on average risk-weighted assets

Return on average shareholders’ equity is calculated by dividing profit attributable to the shareholders of the parent company (‘reported results’) by average shareholders’ equity (‘reported equity’) for the period. The adjustment to reported results and reported equity excludes amounts attributable to non-controlling interests.

Pre-tax return on average risk-weighted assets is calculated by dividing profit before tax by average risk-weighted assets for the period.

Return on average shareholders’ equity and pre-tax return on average risk-weighted assets

	At	
	31 Dec 2023 €m	31 Dec 2022[1,2] €m
Profit		
Profit/(loss) before tax in respect of continuing operations	**1,475**	218
Profit/(loss) before tax in respect of discontinued operation	**(217)**	(1,907)
Profit/(loss) before tax	**1,258**	(1,689)
Profit/(loss) attributable to the ordinary shareholders of the parent company	**805**	(1,092)
Equity		
Average ordinary shareholders’ equity	**11,221**	8,260
Risk-weighted assets	**—**	
Average risk-weighted assets	**59,311**	49,718
Ratio		
Return on average ordinary shareholders’ equity (annualised)	**7.2**	(13.2)
Pre-tax return on average risk-weighted assets	**2.1**	(3.4)

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

Credit ratings

HSBC Continental Europe is rated by three major agencies: Standard & Poor’s, Moody’s and FitchRatings.

As at 31 December 2023	Standard & Poor’s	Moody’s	FitchRatings
Long-term Senior preferred	**A+-**	**A1**	**AA-**
Outlook	**Stable**	**Stable**	**Stable**
Short term	**A-1**	**P-1**	**F1+**

HSBC Continental Europe's ratings have been reviewed during the year by FitchRatings, Moody's and Standard & Poor’s, without change occurring to the ratings for the year 2023.

Other information

Information on supplier payable amounts schedule

(Articles L. 441-14 and D. 441-4 of the French Commercial code)

Article D.441 – II: Received invoices by HSBC Continental Europe[1] subject to late payment delays during the year

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	**35,026**					**14,597**
Amount of invoices including VAT (in €k)	**992,550**	**371,529**	**54,528**	**11,607**	**47,119**	**484,783**
Percentage of total purchasing in the year	**67%**	**25%**	**4%**	**1%**	**3%**	**33%**
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	**4,427**					
Amount of excluded invoices including VAT (in €k)	**112,562**					
(C) Suppliers' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 45 days					

1 *Including the European branches of HSBC Continental Europe and intragroup transactions.*

Information on client receivable amounts schedule

(Articles L. 441-14 and D. 441-4 of the French Commercial code)

Article D.441 – I: Issued invoices by HSBC Continental Europe[1] subject to late payment delays at year-end

	0 day (for information)	1 to 30 days	31 to 60 days	61 to 90 days	over 91 days	Total (1 day and more)
(A) Late payment buckets						
Number of invoices	**278**					**1916**
Amount of invoices excluding VAT (in €k)	**8,695**	**18,504**	**8,177**	**5,853**	**17,841**	**50,375**
Percentage of total revenue of the year	**0.25%**	**0.53%**	**0.23%**	**0.17%**	**0.51%**	**1.44%**
(B) Invoices excluded from (A) in respect of litigations or not accounted						
Number of invoices excluded	—					
Amount of excluded invoices excluding VAT (in €k)	—					
(C) Clients' payment terms (contractual or legal terms)						
Payment terms used to assess the late payments	Contractual terms: 30 days					

1 *Including the European branches of HSBC Continental Europe and intragroup transactions.*

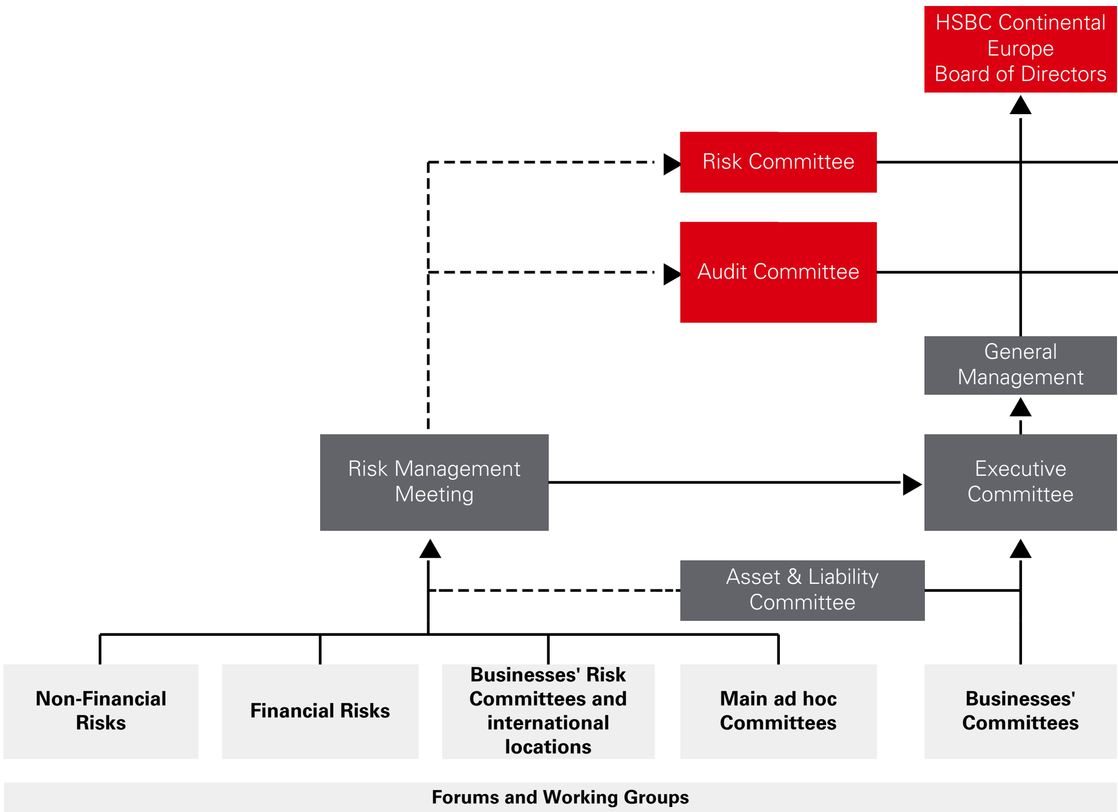
This information does not include banking transactions and certain related transactions as HSBC Continental Europe considers that they do not fall within the scope of the information to be produced.

Corporate Governance report

Under article L. 225-37 of the French Commercial Code, the Board of Directors presents to the shareholders' general meeting a report on Corporate Governance attached to the management report referred to in article L. 225-100 of the French Commercial Code. This report was submitted to the Nomination and Corporate Governance Committee for the part relating to Corporate Governance and to the Remuneration Committee for the part relating to remuneration at their meetings held on 31 January 2024.

Corporate governance bodies and regime

Governance bodies structure



This Corporate Governance report includes detailed information on:

- Membership, duties and work of the Board of Directors on pages 26 to 35;
- Membership, duties and work of the Board Committees on pages 35 to 39;
- General Management and Executive Committee membership on pages 39 and 41.

Risks, issues or other matters requiring attention from the management body may be escalated through line management, or through the committee structure described above.

In particular regarding the information flow on risk, the HSBC Continental Europe Risk Management Meeting, which is chaired by the Chief Risk Officer and includes the Chief Executive Officer, the Deputy Chief Executive Officer(s) and the other members of the Executive Committee, is the overarching Committee overseeing risk management and permanent control.
Relevant information, in particular on risk, is shared on a quarterly basis with the Board and its Audit and Risk Committees by the Bank's senior management.

Corporate Governance code

As permitted under article L. 22-10-10 of the French Commercial Code, HSBC Continental Europe has decided not to make reference to a corporate governance code worked out by representative business organisations. The reasons for this are threefold:

- As a bank, HSBC Continental Europe is a highly regulated entity, including regarding its corporate governance, and is under the supervision of the European Central Bank, that controls HSBC Continental Europe's compliance with applicable regulation. This ensures that high standards of governance, common to all European banks under the supervision of the European Central Bank, are applied with HSBC Continental Europe;
- HSBC Continental Europe does not have any publicly traded stocks in issuance;
- As a 99.9 per cent owned subsidiary of the HSBC Group, HSBC Continental Europe, like all entities of the HSBC Group, is committed to applying high standards of corporate governance. The HSBC Group has a comprehensive set of principles, policies and procedures, influenced by the UK Corporate Governance Code, which includes requirements in terms of the independence, composition and effectiveness of the Board of Directors, in order

to ensure that the HSBC Group is well managed, with appropriate oversight and control. HSBC Continental Europe adhered to these principles, policies and procedures all along 2023.

Information on governance structure, Chairman's role, Board's composition, functioning, organisation and work, and on Executive Directors' compensation are presented in the relevant sections of this report.

Board of Directors

Board of Directors' internal rules

The Board of Directors' internal rules were first established in 1996, and have been updated several times since their implementation. In 2023, the Board reviewed and updated these internal rules at its meeting held on 26 October 2023.

The Board's internal rules define the composition, the duty and the conducting of the Board meetings and the information to the Board of Directors. They indicate the main duties and arrangements for exercising the function of Chairman, Chief Executive Officer and Deputy Chief Executive Officer(s) (the latter two functions making up the Company's management body in its management function or 'd*irigeants effectifs*').

Furthermore, the Board's internal rules define, in accordance with the HSBC Group rules, the duties and responsibilities of the Audit Committee, the Risk Committee, the Nomination and Corporate Governance Committee and the Remuneration Committee (as stipulated below in the parts related to each of these Committees' assignments). They also incorporate ethical rules and rules regarding conflicts of interests prevention and management to be followed by the Directors of HSBC Continental Europe, setting out their rights and duties.

Changes in the Board composition

Changes occurred during 2023

Further to the reassessment of their suitability and upon recommendation of the Nomination and Corporate Governance Committee, the Board decided to propose the renewal of the term of office of Jean Beunardeau and Lucile Ribot, which shareholders approved. Both renewals were for three years and will expire at the 2026 Annual General Meeting approving the 2025 annual financial accounts.

Moreover, upon recommendation of the Nomination and Corporate Governance Committee, the Board further decided to propose the appointment of two new Directors: Deirdre Hannigan and Pablo Forero Calderon.

At the General Meeting held on 30 June 2023, shareholders approved the appointment of Deirdre Hannigan, and at the General Meeting held on 6 October 2023 the appointment of Pablo Forero Calderon. Both appointments are made for three years and will expire at the 2026 Annual General Meeting approving the 2025 annual financial accounts.

Changes occurred in 2024

Further to the sale of the French Retail Banking business, two Directors elected by HSBC Continental Europe employees transferred to CCF on 6 February 2024: Ludovic Bénard and Elisabeth Moussi. As they are no longer employed by HSBC Continental Europe, their mandates have automatically ended. Ludovic Bénard will be replaced by Emmanuelle Vigneron, while the other seat will remain vacant until the end of the mandate.

Chair of the Board of Directors

Duties of the Chairman of the Board

The Chairman of the Board has a duty to ensure the proper functioning of HSBC Continental Europe's governing bodies. In particular, he conducts the work of the Board and coordinates it with that of the specialised Committees. He ensures that the Directors are in a position to perform their duty, and in particular, ensures that they are in possession of all the information they require for the discharge of their duty.

Presentation of the Chairman of the Board of Directors

Jean Beunardeau

Chairman of the Board of Directors

Member of the Nomination and Corporate Governance Committee

First elected: 2008 as a Director and 2021 as Chairman of the Board. Last re-elected: 2023. Term ends: 2026.

Principal position: Chairman of the Board, HSBC Continental Europe. Vice Chairman Global Banking Europe.

Other directorships in the HSBC Group: Chairman of the Board, HSBC Global Asset Management (France). Vice Chairman and Director, HSBC Assurances Vie (France). Director, Valeurs Mobilières Elysées.

Other directorships outside of the HSBC Group: Member of the Supervisory Board, Société Anonyme des Galeries Lafayette. Chairman, Académie France-Chine. Treasurer, Association du Golf de Saint-Cloud. Member of the Great Council, Cercle de l'Union Interalliée.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1962. Graduated from Ecole Polytechnique, Telecom Engineer and Master of Economics, he began his career at the Ministry of Finance, at the Forecasting Department then at the Treasury. He became Technical Advisor to the Prime Minister in 1995. He joined HSBC Continental Europe in 1997 in Corporate Finance and became Managing Director in 2000. He was appointed Co-Head of Corporate Investment Banking and Markets, mainly in charge of Corporate and Investment Banking in 2004. In 2005, he was appointed Senior Corporate Vice-President. In 2007, he was appointed Head of Global Banking and Markets of HSBC Continental Europe. In 2010, he was appointed Deputy Chief Executive Officer, in addition to his role as Head of Global Banking and Markets France. The same year, he was appointed Head of Global Banking, Continental Europe, HSBC Group. His direct responsibilities within Global Banking and Markets ended in 2019. From 2012 to 2021, he was Chief Executive Officer of HSBC Continental Europe. Since 2021, he has been Chairman of the Board of Directors of HSBC Continental Europe and Vice Chairman Global Banking Europe.

2022	**Directorships in the HSBC Group:** Chairman of the Board: HSBC Continental Europe, HSBC Global Asset Management (France). Director and Vice Chairman: HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: Société Anonyme des Galeries Lafayette. Chairman: Académie France-Chine. Treasurer: Association du Golf de Saint-Cloud. Member of the Great Council: Cercle de l'Union Interalliée.

2021	**Directorships in the HSBC Group:** Chairman of the Board: HSBC Continental Europe, HSBC Global Asset Management (France). Director and Vice Chairman: HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: Société Anonyme des Galeries Lafayette. Chairman: Académie France-Chine. Treasurer: Association du Golf de Saint-Cloud. Member of the Great Council: Cercle de l'Union Interalliée.
2020	**Directorships in the HSBC Group:** Director and Chief Executive Officer: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France). Director and Vice Chairman: HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: Société Anonyme des Galeries Lafayette. Chairman: Académie France-Chine. Director, Fondation de France (permanent representative of HSBC Continental Europe). Treasurer: Association du Golf de Saint-Cloud. Member of the Great Council: Cercle de l'Union Interalliée.
2019	**Directorships in the HSBC Group:** Director and Chief Executive Officer: HSBC Continental Europe. Chairman of the Board: HSBC Global Asset Management (France), HSBC Assurances Vie (France). Director: Valeurs Mobilières Elysées. Chairman: Fondation HSBC pour l'Education. **Directorships outside of the HSBC Group:** Director: Institut de la Gestion Déléguée. Member of the Supervisory Board: Société Anonyme des Galeries Lafayette, Fonds de garantie des dépôts et de résolution (permanent representative of HSBC Continental Europe). Chairman: Académie France-Chine. Director, Fondation de France (permanent representative of HSBC Continental Europe). Treasurer: Association du Golf de Saint-Cloud.

Composition of the Board as of 31 December 2023

On 31 December 2023, the Board of Directors comprised 16 Directors, of which 12 were appointed by the Shareholders' General Meeting and four were elected by employees. A representative of the Social and Economic Council attends Board meetings, without voting rights.

The Directors elected by Shareholders' General Meeting or by employees have a three-year term of office.

The Board membership complies with the policies the Board had implemented on the assessment of the suitability of members of the management body and key function holders and on diversity.

Presentation of the Directors as of 31 December 2023

Andrew Wild

Director and Chief Executive Officer

First elected: 2021. Last re-elected: 2022. Term ends: 2025.

Principal position: Chief Executive Officer, HSBC Continental Europe.

Other directorships in the HSBC Group: Vice Chairman and Director, HSBC Assurances Vie (France). Member of the Supervisory Committee, HSBC Bank plc Paris Branch.

Other directorships outside of the HSBC Group: Directorships expired in 2023:Treasurer, Association Française des Banques. Chairman, Group of Banks under foreign control in France, Fédération Bancaire Française.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1970. British nationality. Graduate of the Business School of the University of Nottingham. He is also qualified as a chartered accountant. He joined the HSBC Group in 2005, after having been, in particular, Senior Manager Transaction Services at KPMG then, Corporate Finance Director at KPMG Corporate Finance. In 2008, he was appointed Deputy Head of Commercial Banking of HSBC in France. In 2011, he was appointed Global Head of Corporate, Business Banking and Products of Commercial Banking, HSBC Group, then he became, in 2013, Global Head of Mid-Market and Business Banking of Commercial Banking, HSBC Group. He was Deputy Chief Executive Officer, Deputy to the Chief Executive Officer of HSBC Continental Europe from 2015 to 2021 and Director of HSBC Continental Europe from 2015 to 2019. He was Head of Commercial Banking in France from 2015 to 2018 and Head of Commercial Banking, Europe from 2017 to 2021. He has been the Chief Executive Officer of HSBC Continental Europe since 2021 and Member of the Executive Committee of HSBC Bank plc since 2017.

2022	**Directorships in the HSBC Group:** Director and Chief Executive Director: HSBC Continental Europe.Vice Chairman and Director: HSBC Assurances Vie (France). Member of the Supervisory Committee: HSBC Bank plc Paris Branch. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2021	**Directorships in the HSBC Group:** Director and Chief Executive Director: HSBC Continental Europe.Vice Chairman and Director: HSBC Assurances Vie (France). Member of the Supervisory Committee: HSBC Bank plc Paris Branch. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2020	**Directorships in the HSBC Group:** Deputy Chief Executive Officer: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.
2019	**Directorships in the HSBC Group:** Deputy Chief Executive Officer and Director: HSBC Continental Europe. **Directorships outside the HSBC Group:** Treasurer: Association Française des Banques. Chairman: Group of Banks under foreign control in France, Fédération Bancaire Française.

Irina Aggelidakis

Director elected by employees

First elected: 2022. Term ends: 2025.

Principal position: Administrative Officer within the Social and Economic Council - Management of the HSBC Continental Europe's sport association.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1971. Greek and French nationalities. Graduated with a Professional Certificate in 'Banking' and of a BTS in Advertising Measures and Communication. Since she joined HSBC Continental Europe in 2008, she held the positions of Back-Office Manager in the Commitments Department then Middle-Office Manager in the Collection Department within the Retail Banking. Since 2019, she has been Administrative Officer within the Social and Economic Council in charge of the HSBC Continental Europe's sport association management.

2022	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe
2021	_
2020	_
2019	_

Ludovic Bénard

Director elected by employees

Member of the Remuneration Committee

First elected: 2022. Term ends: 2025.[2]

Principal position: Wealth Management and Insurance Expert, HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1978. Master's degree in Professional Inheritence Law from the University of Paris-Dauphine and a degree in Bank, Finance, Insurance and Wealth Management. Before and since he joined HSBC Continental Europe in 2009, he held various positions as Wealth Management Advisor before to be appointed as Financial and Insurance Expert in the Retail network.

2022	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe
2021	–
2020	–
2019	–

Paule Cellard

Independent Director

Member of the Risk Committee (until 31 December 2023) and Member of the Remuneration Committee (until 31 December 2023)

First elected: 2017. Last re-elected: 2022. Term ends: 2025.

Other directorships: Director, Somfy[3]. Directorship expired in 2023: Member of the Supervisory Board, Damartex[2] (until September 2023).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: Two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1955. Graduated from the *Ecole Supérieure de Commerce de Paris ('ESCP' Europe).* Degree in International Law from the University Paris II-Assas and Corporate Director Certificate from the French Institute of Directors, issued by the *Institut d'Etudes Politiques de Paris.* After having held various operational responsibilities within Investment Banking and Markets activities at Banque Indosuez, at the Chase Manhattan Bank and then at Crédit Agricole Group, she was Head of the central team of Calyon's *Inspection Générale* between 2000 and 2005, Chief Executive Officer of Gestion Privée Indosuez between 2006 and 2009, and subsequently Global Head of Compliance for Crédit Agricole Corporate and Investment Bank until 2013, when she retired. Since 2013, she has been holding several directorships in boards and board committees.

2022	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: Damartex. Director Somfy, CA Indosuez Wealth Management (Europe).
2021	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Supervisory Board: Damartex. Director Somfy, CA Indosuez Wealth Management (Europe).
2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: CA Indosuez Wealth Management (Europe). Member of the Supervisory Board: Damartex, Somfy.

Pablo Forero Calderon

Independent Director

Member of the Risk Committee

First elected: 2023. Term ends: 2026

Other directorships: Chairman of the Board of Directors, CaixaBank Asset Management SGC. Director, Grupo Jose De Mello. Member of the Executive Board, Camara de Comercio e Industria Luso-Espanhola.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: Three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1956. Spanish nationality. Graduated with a Bachelor in Macroeconomics from the Autonomous University of Madrid. From 2017 until 2020, he was the Chief executive Officer and Vice-Chairman of Banco BPI S.A. From 2009 to 2016, in CaixaBank S.A. he was Chief Information Officer then Chief Officer for Treasury, Capital Markets and Asset allocation for two years and finally Chief Risk Officer during three years. Before that he was from 1990 to 1997 Head of Asset Management at JP Morgan in Madrid then he assumed various senior roles with JP Morgan Asset Management in London during 1998 and 1999. At the beginning of his career in 1981, he worked in the Audit Department of Arthur Andersen & Co for three years then became Head of Markets and ALCO at Manufacturers Hanover Trust Co. during five years.

2022	–
2021	–
2020	–
2019	–

2 *Ludovic Bénard was replaced by Emmanuelle Vigneron on 6 February 2024. See page 26.*
3 *Listed company*

Deirdre Hannigan

Independent Director

Chairman of the Audit Committee and Member of the Risk Committee

First elected: 2023.Term ends: 2026

Other directorships: Director: Dublin City University Education Trust.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: One directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1960. Irish nationality. Graduated with a Master of Business Studies from the University College Dublin. She is a qualified accountant and a chartered director of the Institute of Directors. From 2017 until 2022, Deirdre Hannigan was the Group Chief Risk Officer and a member of the Executive Management team of AIB Group Plc. She joined AIB from the National Treasury Management Agency where she was Chief Risk Officer during two years. Before that, she held a number of senior international risk management roles with GE Capital and progressively senior roles in Bank of Ireland, primarily in Strategy and Risk Management. Previous to that, she worked in Retail and Corporate Banking with AIB and Rabobank.

2022	–
2021	–
2020	–
2019	–

Elisabeth Moussi

Director elected by employees

First elected: 2022. Term ends: 2025.[4]

Principal position: Online Relationship Manager, HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1998. Graduated with a Professional Bachelor's Degree in Management and Accounting – Taxation option and of a DUT in Company and Administration Management. Since she joined HSBC Continental Europe in 2020, she has been On line Relationship Manager in Retail Banking.

2022	**Directorship in the HSBC Group :** Director elected by employees : HSBC Continental Europe
2021	–
2020	–
2019	–

Stephen O'Connor

Vice-Chairman and Independent Director

Member of the Nomination and Corporate Governance Committee

First elected: 2021. Last re-elected 2022. Term ends: 2025.

Other directorship in the HSBC Group: Chairman, HSBC Bank plc.

Other directorships outside the HSBC Group: Chairman and Founder, Quantile Technologies Limited. Director, London Stock Exchange plc. Director, FICC Markets Standards Board.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1961. British nationality. BSc in Mechanical Engineering from Imperial College and Chartered Accountant. After starting his career with PwC, he held various positions in Markets activities, in particular derivatives, at Morgan Stanley from 1988 to 2013. He was the non-executive Chairman of OTC Deriv LTD from 2001 to 2011 and of International Swaps and Derivatives Association ('ISDA') from 2009 to 2014. From 2013 to 2021, he was a member of the Board of the London Stock Exchange Group where he also served as Chairman of the Board Risk Committee and as a Member of the Audit and Nominations Committees. He founded Quantile Technologies Ltd in 2015, where he is the Chair. Since 2018, he has been Chairman of the Board and Chairman of the Nominations, Remuneration and Governance Committee of HSBC Bank plc.

2022	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Chairman: HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Founder: Quantile Technologies Limited. Director: London Stock Exchange plc, FICC Markets Standards Board.
2021	**Directorships in the HSBC Group:** Independent Director: HSBC Continental Europe. Chairman: HSBC Bank plc. **Directorships outside of the HSBC Group:** Chairman and Founder: Quantile Technologies Limited. Director: London Stock Exchange Group plc, London Stock Exchange plc, FICC Markets Standards Board.
2020	–
2019	–

Pascale Peluso

Director elected by employees

First elected: 2022. Term ends: 2025.

Principal position: Chief Operating Officer – Principal Investment Support and Head of Affiliates and Participations Department HSBC Continental Europe.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1967. Graduated with a Master's Degree in Law, Economics and Management for Professional Purposes, major in Finance and with the Certification of the French Financial Market Authority. She joined HSBC in 1989. From 1993 to 2010, she was Head of Securities Back-Office at HSBC Securities (France). Since 2011, she has been Chief Operating Officer – Principal Investment Support of HSBC Continental Europe. She was also appointed Head of the Subsidiairies and Investments Department in 2012 and Chief Financial Officer of HSBC Real Estate Leasing (France) in 2018.

2022	**Directorship in the HSBC Group:** Director elected by employees: HSBC Continental Europe
2021	–
2020	–
2019	–

[4] *Her mandate ended on 6 February 2024. See page 26*

Dominique Perrier

Independent Director

Member of the Audit Committee

First elected: 2018. Last re-elected: 2022. Term ends: 2025.

Other directorships: Director, NaturaBuy. Chairman, Moncey Arbitrage et Conseil. Manager, YP Conseil. Co-manager, Perrier/ Giroire Communication (since April 2023).

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and two directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1954. Graduated from the French Business School ESSEC and Certified Public Accountant. Mediator certified by Ecole Professionnelle de la Médiation et de la Négociation. After practising as external auditor at Peat Marwick and then, from 1988, as an audit and consulting partner at PricewaterhouseCoopers Audit ('PwC'), she took over the development of PwC Dispute Analysis and Investigation department from 2001 to 2016. From 2004 to 2008, she also managed the PwC Restructuring activities. Retired since 2017, she intervenes, on the one hand, as an independent director and, on the other hand, as arbitrator, independent expert and mediator.

2022	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy. Manager: YP Conseil.
2021	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy. Manager: YP Conseil.
2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Moncey Arbitrage et Conseil. Director: NaturaBuy.

Arnaud Poupart-Lafarge

Independent Director

Chairman of the Nomination and Corporate Governance Committee and Chairman of the Remuneration Committee

First elected: 2016. Last re-elected: 2022. Term ends: 2025.

Principal position: Chief Executive Officer, Galliance.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive and one directorship as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1965. Engineer graduated from the Ecole Polytechnique and the Ecole Nationale des Ponts et Chaussées. Holds a Master of Science in Engineering Management from Stanford University. Within the ArcelorMittal group, led operations in Europe, Africa and CIS; member of the Management Council of the ArcelorMittal group until 2013. Managing Director of Nexans from 2014 to 2018, after joining the company in 2013 as Director of Operations. From 2019 to 2022, President of Racilia. He has been Managing Director of Galliance since 2020.

2022	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chief Executive Officer: Galliance.
2021	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Racilia. Chief Executive Officer: Galliance.
2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Chairman: Racilia. Chief Executive Officer: Galliance.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorship outside of the HSBC Group:** Chairman: Racilia.

Lucile Ribot

Independent Director

Member of the Audit Committee

First elected: 2016. Last re-elected: 2023. Term ends: 2026.
Other directorships: Director, Imerys[5]. Director, Kaufman & Broad SA[4].

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1966. Graduated from the Ecole des Hautes Etudes Commerciales de Paris ('HEC'). Senior Audit Manager at Arthur Andersen (audit and consulting) from 1989 to 1994. She joined the Fives Group in 1995 as a Group Financial Controller. From 1996 to 1997, Chief Financial and Administrative Officer of the subsidiary Fives Solios. From 1998 to 2017, Chief Financial Officer of Fives and Member of the Management Board from 2002 to 2017.

2022	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: Imerys, Kaufman & Broad SA.
2021	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: Imerys, Kaufman & Broad SA.
2020	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: Imerys, Kaufman & Broad SA. Member of the Supervisory Committee: Acropole Holding SAS, Siaci Saint Honoré.
2019	**Directorship in the HSBC Group:** Independent Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Director: SoLocal Group, Imerys, Kaufman & Broad SA.

Carola von Schmettow

Director

First elected: 2015. Last re-elected: 2021. Term ends: 2024.

Other directorships: Member of the Board, Sieghardt-Rometsch-Stiftung. Deputy Chair of the Board of Trustees, Kaiserswerther Diakonie. Member of the Board of Trustees, ZEIT-Stiftung. Member of the Board of Trustees, Fritz-Thyssen-Stiftung.

[5] *Listed Company.*

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1964. German nationality. Master in Mathematics from the University Heinrich-Heine of Düsseldorf and Master in Music from the University Robert Schumann of Düsseldorf. Joined HSBC Trinkaus & Burkhardt AG in 1992 as Associate Trading. From 1995 to 1997, Head of Treasury then Head of Global Markets Coordination until 1999. From 1999 to 2003, Chief Executive Officer of HSBC Trinkaus Capital Management GmbH (today, HSBC Global Asset Management Deutschland GmbH). She was also Member of the Executive Committee of HSBC Trinkaus & Burkhardt AG from 2001 to 2004, firstly as Responsible for Private Banking and Asset Management then as Responsible for Institutional Clients and Asset Management. From 2004 to 2006, Managing Partner with unlimited liability of HSBC Trinkaus & Burkhardt KGaA, company for which she was Responsible for Institutional Clients and Asset Management. From 2006 to 2021, a member of the Management Board of HSBC Trinkaus & Burkhardt AG and Responsible for Global Markets, Global Research and support functions. From 2015 to 2021, she was Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG.

2022	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board: Sieghardt-Rometsch-Stiftung, Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung, Fritz-Thyssen-Stiftung.
2021	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. **Directorships outside of the HSBC Group:** Member of the Board: Sieghardt-Rometsch-Stiftung, Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung, Fritz-Thyssen-Stiftung.
2020	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG. Member of the Board: Sieghardt-Rometsch-Stiftung. Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung. Member of the Presidency: Association of German Banks.
2019	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Chairman of the Management Board: HSBC Trinkaus & Burkhardt AG. **Directorships outside of the HSBC Group:** Chairman of the Exchange Council: EUREX. Member of the Exchange Council: Frankfurt Stock Exchange. Member of the Supervisory Board: ThyssenKrupp AG. Member of the Board: Sieghardt-Rometsch-Stiftung. Deputy Chair of the Board of Trustees: Kaiserswerther Diakonie. Member of the Board of Trustees: ZEIT-Stiftung. Member of the Presidency: Association of German Banks.

Eric Strutz

Independent Director

Chairman of the Risk Committee and Member of the Audit Committee

First elected: 2022. Term ends: 2025.

Other directorship in the HSBC Group: Director, HSBC Bank plc. Directorship expired in 2023: Member of the Supervisory Committee, HSBC Trinkaus & Burkhardt GmbH (until August 2023).

Other directorships outside the HSBC Group: Member of the Board of Directors, Global Blue Group Holding AG. Member of the Advisory Council, Luxembourg Investment Company 261 S.à.r.l. Member of the Foundation Council Stiftung Tumorforschung Kopf-Hals.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: three directorships as member of a Board of Directors or a Supervisory Board.

Skills and experience: Born in 1964. German nationality. Graduated of a Bachelor Degree and a Doctorate from the University of St. Gallen, in Switzerland, and an MBA in Finance from the University of Chicago, USA. Eric Strutz started his carrier at Boston Consulting Group in 1993, where he was Consultant then a Director from 2000. He joined Commerzbank in 2001 as Group Head of Strategy, and was Chief Financial Officer from 2003 to 2012, and Member of the Management Board from 2004 to 2012. From 2015 to August 2023, he was Member of the Supervisory Board and Chairman of the Audit Committee of HSBC Trinkaus & Burkhardt GmbH. He has been an independent non-executive Director, Chairman of the Risk Committee, Member of the Audit Committee and of the Nomination, Remuneration and Corporate Governance Committee of HSBC Bank plc since 2016.

2022	**Directorships in the HSBC Group:** Director: HSBC Continental Europe. Director, HSBC Bank plc. Member of the Supervisory Board, HSBC Trinkaus & Burkhardt GmbH. **Other directorships outside the HSBC Group**: Member of the Board of Directors, Global Blue Group Holding AG. Member of the Advisory Council, Luxembourg Investment Company 261 S.à.r.l. Member of the Foundation Council Stiftung Tumorforschung Kopf-Hals.
2021	–
2020	–
2019	–

Michaël Trabbia

Independent Director

Member of the Risk Committee

First elected: 2022. Term ends: 2025.

Principal position: Executive Vice President and Chief Executive Officer Orange Wholesale, Orange Group.

Other directorships: Chairman, Orange Concessions (since November 2023). Director, Totem (since October 2023), Chairman of the Supervisory Committee, FT Marine (since April 2023). Director, Nordnet. Directorships expired in 2023: Chairman of the Board, Viaccess SA (until December 2023). Chairman of the Board, Sofrecom (until December 2023). Chairman of the Board, Soft@home (until November 2023). Director, BuyIn S.A. (until June 2023). Board Member, GSMA (until June 2023).
Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: Two directorships as member of a Board of Directors or a Supervisory Board.

Skills and Experience: Born in 1976. Graduated of Ecole Polytechnique and of Télécom ParisTech, and holding a Master's of Advanced Studies in Industrial Economics. Michaël Trabbia began his career in 2001 at ARCEP (French National Regulatory Authority for telecommunications and posts) where he was notably in charge of the allocation and control of the mobile licences. In 2004, he was appointed Technical Advisor to the cabinet of the Minister for European Affairs, before joining the cabinet of the Minister for Regional Development as Advisor for "ICT and Europe" in 2005. In 2007, he joined TDF (a french network and infrastructure operator) as Head of Strategy and Development. In 2009, he was appointed Deputy Chief of Staff to the Minister of Industry and Head of "Industrial Sectors Policy", before joining the Orange Group in 2011 where he was the Group's Director (SVP) for Corporate Public Affairs. He then became in 2014 Chief of Staff for the Chairman and Chief Executive Officer of Orange, and Secretary of the Group's Executive Committee. From 2016 to 2020, Michaël Trabbia served as Chief

Executive Officer of Orange Belgium and was then Chief Technology and Innovation Officer and Group Head of Innovation from 2020 to 2023.

2022	**Directorships in the HSBC Group:** Director: HSBC Continental Europe **Directorships outside of the HSBC Group:** Chairman of the Board, Viaccess SA. Chairman of the Board, Sofrecom. Chairman of the Board, Soft@home. Director, Nordnet. Director, BuyIn S.A. Board Member, GSMA.
2021	–
2020	–
2019	–

Board diversity

The diversity policy of the management body aims at reaching a balance and a complementarity of age, gender, geographic, professional and educational experience, independence, seniority in the mandate and representation of employees.

The profiles of the Directors are diverse and complementary and cover the spectrum of business lines and risks associated with the activities of HSBC Continental Europe. According to the Articles of Association, the Board of Directors includes four members elected by the employees.

The Board includes six different nationalities and two-thirds of Directors have international experience. As at 31 December 2023, the average age of the Directors in office is 55.9, slightly higher than 54.5 at 31 December 2022, and their average seniority in the function is 4.1 years, slightly higher than 3.6 in 2022.

Excluding Directors elected by employees, the Board comprises five women and seven men, i.e. 42 per cent of women and 58 per cent of men.

Independent Directors

With respect to the criteria on independence defined in the guidelines on the assessment of the suitability of members of the management body issued by the European Banking Authority ("EBA") and the European Securities and Markets Authority ('ESMA') and by the HSBC Group, the Board of Directors determines, on appointment and annually thereafter, whether each non-executive Director may be considered as independent. To do this, it examines whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement. The Board should record its reasons if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination.

As at 31 December 2023, nine Directors can be deemed independent, i.e. 56 per cent of all Directors.

Board evaluation

Pursuant to HSBC Group's policy, a Board evaluation was conducted internally in December 2023, under the responsibility of the Nomination and Corporate Governance Committee and on the basis of a questionnaire covering the following themes:

- for the Board: strategic oversight; composition of the Board; corporate culture and conduct; meeting process and role of the Chair; role of Company Secretariat; training; behaviours of the Board; culture and effectiveness of the Board.
- for each of the Board Committees: composition and meeting management; processes and support; work of the Committee; priorities for change.

Results of this evaluation and the update on main actions implemented further to the evaluation conducted the year before were discussed by the Nomination and Corporate Governance Committee and then by the Board of Directors at its meeting of 9 February 2024.

The overall opinion regarding the Board and its Committees as well as their effectiveness remains broadly positive. Actions were discussed and decided upon by each Board Committee in relation to their activities and by the Board. These actions related mainly to succession planning, training, the involvement of the Board in developing the strategy, and wider support to the Board.

Directors' training and information

As required by the Board's internal rules, Directors receive the information they need to fulfil their duties and may ask to receive any documents they deem useful. In particular, the Board and the Board Committees may ask for a presentation on a particular subject or issue at a future meeting.

According to the policy on training of the management body's members, all new Directors, when taking up duty, receive an information pack on HSBC Continental Europe, including, among others, legal information about the company and the role of Directors, as well as the latest Universal Registration Document.

In addition, the Company Secretary organises, for the new Director's intent and depending on his/her needs and priorities, a programme of training sessions with HSBC Continental Europe's main executives in the business lines and functions. It is also offered to Directors in office to attend these sessions. Thus, in 2023, a complete induction programme was organised for each of the two new independent Directors. The four Directors newly elected by the employees in 2022 attended the standard programme of induction sessions organised internally in January 2023. In addition, six training sessions were organised during the year for the whole Board: two on ESG-related topics, two on technology issues (Artificial Intelligence and network segmentation), and two on recovery and resolution, including a firedrill in November 2023. Furthermore, Directors took training, during the year, in the form of e-learning on risk management, sustainable development, health security and wellbeing, data literacy and privacy, cybersecurity, financial crime risk and harassment at work.

Meetings of the Board of Directors and of the Board's Committees are also used as an opportunity to provide Directors with information that is essential for them to carry out their duties, and to update their knowledge.

Furthermore, the Chairman of the Board and the Chairpersons of the Audit and Risk Committees regularly attend sessions bringing together their counterparts from the main European entities of the HSBC Group.

Directors' remuneration

The maximum total remuneration payable each year to Directors was fixed at EUR 1.1 million, as decided by the Ordinary General Meeting of 11 March 2022.

This remuneration is allocated according to the following rules, decided by the Board of Directors at its meeting on 20 February 2022:

- each Director is allocated an annual flat fee of EUR 50,000, paid at the conclusion of the Annual General Meeting;
- the additional annual flat fee paid to Board Committees members amounts to:
  - EUR 35,000 for the Chairs of the Audit Committee and of the Risk Committee;
  - EUR 21,000 for the members of the Audit Committee and of the Risk Committee;
  - EUR 10,000 for the Chairs of the Nomination and Corporate Governance Committee and of the Remuneration Committee;

– EUR 8,500 for the members of the Nomination and Corporate Governance Committee and of the Remuneration Committee.

At its meeting of 20 July 2023, the Board of Directors decided to review this remuneration, effective from 1 January 2024.

Furthermore, within the HSBC Group, it is customary for Directors performing other executive duties in the Group and Executive Directors to renounce their remuneration in respect of their directorships held in HSBC Group companies. Directors and Executive Directors of HSBC Continental Europe and its subsidiaries adhere to this recommendation.

In 2023, in respect of 2022, Jean Beunardeau and Andrew Wild renounced the payment of their remuneration in respect of their directorship in HSBC Continental Europe.

It also has to be noted that, since his appointment as Chairman of the Board of Directors as of 15 July 2021, Jean Beunardeau has received compensation solely for his role as Vice Chairman Global Banking Europe, which includes eligibility to a defined benefits supplementary pension scheme, and does not receive compensation in the context of his role as Chairman of the Board and as Director.

Moreover, in order to comply with the rules applied by the HSBC Group, the Directors' attendance record is not taken into account in calculating Directors' remuneration.

The total Directors' remuneration net of social contributions, income tax prepayment and withholding tax to be paid in 2024 in respect of 2023 amounts to EUR 0.69 million, to be compared to EUR 0.62 million paid in 2023 in respect of 2022.

Remunerations paid to Non-Executive Directors by HSBC Continental Europe, the companies it controls and the companies which control it (the HSBC Group)

	Remuneration in respect of the directorship paid in 2022 in respect of 2021	**Remuneration in respect of the directorship paid in 2023 in respect of 2022**	Other compensation paid in 2022[1]	**Other compensation paid in 2023[1]**
Directors performing their principal position in an entity of the HSBC Group				
Jean Beunardeau	—	**—**	EUR 2,346,837	**EUR 2,208,729**
Directors elected by the employees				
Irina Aggelidakis[2,3]	—	**EUR 10,350**	—	**—**
Ludovic Bénard[2,3]	—	**EUR 10,350**	—	**—**
Christine D'Amore[3,4]	EUR 29,394	**EUR 36,329**	—	**—**
Laurent Laguény[3,5]	EUR 22,632	**—**	—	**—**
Elisabeth Moussi[2,3]	—	**EUR 10,350**	—	**—**
Pascale Peluso[2,3]	—	**EUR 10,350**	—	**—**
Lucie Thalamas Dit Barathe[3,4]	EUR 28,980	**EUR 31,050**	—	**—**
Angélique Terrazzino[4,6]	EUR 9,660	**EUR 31,050**	—	**—**
Directors not performing executive duties within the HSBC Group[7]				
Paule Cellard	EUR 37,450	**EUR 55,650**	—	**—**
Lindsay Gordon[8]	EUR 65,400	**EUR 19,207**	—	**—**
Philippe Houzé[8]	EUR 34,300	**EUR 10,208**	—	**—**
Thierry Moulonguet[8]	EUR 52,500	**EUR 15,458**	—	**—**
Stephen O'Connor[9]	EUR 241,358[10]	**EUR 263,733[11]**	—	**—**
Dominique Perrier	EUR 35,000	**EUR 49,700**	—	**—**
Arnaud Poupart-Lafarge	EUR 32,900	**EUR 48,563**	—	**—**
Lucile Ribot	EUR 35,000	**EUR 69,096**	—	**—**
Eric Strutz[12]	—	**EUR 289,073[13]**	—	**—**
Carola von Schmettow[14]	EUR 20,347	**EUR 43,600**	—	**—**
Brigitte Taittinger[8]	EUR 24,500	**EUR 7,292**	—	**—**
Michaël Trabbia[12]	—	**EUR 39,346**	—	**—**

1 *Fixed and other fixed remuneration, variable remuneration and benefits in kind.*
2 *Election by employees on 26 September 2022.*
3 *Renounced remuneration to the benefit of a trade union organisation, net of social contributions.*
4 *End of Directorship on 26 September 2022.*
5 *End of Directorship on 31 August 2021.*
6 *Appointment as of 1 September 2021.*
7 *Amounts paid net of social contributions, income tax prepayment, and, where applicable, withholding tax.*
8 *End of Directorship on 11 March 2022.*
9 *Co-optation on 13 February 2021.*
10 *Of which EUR 27,977 paid by HSBC Continental Europe.*
11 *Of which EUR 49,468 paid by HSBC Continental Europe.*
12 *Appointment on 11 March 2022.*
13 *Of which EUR 73,175 paid by HSBC Continental Europe.*
14 *Did not receive remuneration from controlled companies by HSBC Continental Europe nor from companies which control HSBC Continental Europe, until the end of her employment within the HSBC Group on 30 April 2021.*

Duties and procedures of the Board of Directors

The Board internal rules govern the Board's functioning and include the main duties under the Board's responsibility. The Board's functioning takes into account HSBC Continental Europe's position as a 99.9 per cent held subsidiary of the HSBC Group. Under its internal rules, the Board:

- constructively challenges the strategy and determines strategic orientations, on the basis of the strategy formulated by General Management, and oversees and monitors their implementation. It approves strategic investments/divestments and all transactions liable to impact earnings significantly;
- oversees and monitors management decision-making and actions and provides effective oversight of the effective managers and constructively challenges and critically reviews proposals and information provided by the effective managers, as well as their decisions;
- oversees and monitors that HSBC Continental Europe's strategic objectives, organisational structure and risk strategy, including its risk appetite and risk management framework, as well as other policies (e.g. remuneration policy) and the disclosure framework are implemented consistently;
- monitors and supervises major risks and reviews regular risk management reports, setting out the risks involved in the HSBC Continental Europe's business and results;
- monitors that the risk culture is implemented consistently;
- sets HSBC Continental Europe's values and principles and oversees the implementation and maintenance of a code of conduct or similar and effective policies to identify, manage and mitigate actual and potential conflicts of interests;
- oversees the integrity of financial information and reporting, and the internal control framework, including an effective and sound risk management framework;
- ensures that the heads of internal control functions, namely the Chief Risk Officer, the Chief Compliance Officer and the Head of Internal Audit, are able to act independently and, regardless of the responsibility to report to other internal bodies, business lines or units, can raise concerns and warn the Board where necessary when adverse risk developments affect or may affect the institution;
- deliberates on all questions pertaining to its legal and regulatory obligations and those stemming from its Articles of Association;
- cares about HSBC Group's reputation in Continental Europe.

In the week prior to the meeting, the Directors receive the meeting file, including the agenda, the draft minutes of the previous Board meeting and supporting papers to the agenda items to be discussed at the meeting. When certain items are of high confidentiality or cannot be disclosed in advance, the necessary documents are provided immediately before or during the meeting. Furthermore, Directors are regularly advised of significant events regarding the company and receive the relevant documents.

Board of Directors' work

The Board of Directors met twelve times during 2023. The average attendance rate was 90 per cent, compared to 10 meetings with an average attendance rate of 95 per cent in 2022:

- 10 February 2023 (attendance rate: 86 per cent);
- 20 February 2023 (attendance rate: 93 per cent);
- 29 March 2023 (attendance rate: 100 per cent);
- 14 April 2023 (attendance rate: 100 per cent);
- 28 April 2023 (attendance rate: 93 per cent);
- 14 June 2023 (attendance rate: 79 per cent);
- 28 June 2023 (attendance rate: 86 per cent);
- 20 July 2023 (attendance rate: 87 per cent);
- 31 July 2023 (attendance rate: 93 per cent);
- 20 September 2023 (attendance rate: 87 per cent);
- 26 October 2023 (attendance rate: 88 per cent);
- 23 November 2023 (attendance rate: 88 per cent).

Businesses and strategy

At each of its meetings, the Board monitored the progress of the strategy and ensured the current and future sustainability of the business model. It was given detailed presentations on specific parts of the business.

Throughout 2023, the Board continued to take decisions to implement the transformation programme of HSBC Continental Europe, and oversaw its implementation. First of all, the Board monitored closely the sale of the Retail Banking operations in France that completed on 1 January 2024. It also took the decisions necessary in relation to this transaction, including on accounting options and in June 2023, on a new memorandum of understanding.

In addition, and after the acquisitions of HSBC Bank Malta p.l.c. and HSBC Trinkaus & Burkhardt GmbH in 2022, the Board approved in 2023 the acquisition of HSBC Private Bank (Luxembourg) S.A. which completed on 2 November 2023. This marked the final step for the establishment of HSBC Continental Europe as the HSBC Group's EU intermediate parent undertaking and allowed the HSBC Group to meet the European regulatory requirements applying to banking groups having their registered head office outside the EU from the end of 2023. Moreover, the Board approved and oversaw the transfer of most of the assets and liabilities of HSBC Trinkaus & Burkhardt GmbH to the branch of HSBC Continental Europe in Germany, which completed on 30 June 2023.

In addition to the transformation, the Board oversaw the sale of the activities of the HSBC Continental Europe branch in Greece which completed on 28 July 2023.

The Board paid particular attention to the human resources risk and people engagement in the context of transformation.

Furthermore, the Board reviewed and approved the HSBC Continental Europe sustainability and technology strategies and monitored their implementation. Moreover, the Board member designated to oversee IT topics, due to his expertise in this area, reported to the Board at each quarterly meeting of the Board.

Finance

At each of its quarterly meetings, the Board reviewed the financial performance and changes in the balance sheet of HSBC Continental Europe. For each period considered, it heard the conclusions of the Statutory Auditors, who were invited to attend all Board meetings. In addition, the Board reviewed the quarterly, half-yearly and annual financial statements and signed off on the half-yearly and annual financial statements.

At its meeting on 10 February 2023, the Board reviewed and approved the budget, the capital and liquidity plans and the risk appetite for 2023, after the preliminary versions presented at its meeting on 28 October 2022. Likewise, the Board reviewed and approved the same for 2024 at its meeting on 20 November 2023, after preliminary version presented at its meeting on 26 October 2023.

The Board was informed of developments in regulatory capital and regulatory ratios, in particular capital, liquidity, solvency and leverage ratios as well as projections on these matters.

The Board also reviewed and approved the dividend policy and the Internal Capital Adequacy Assessment Process ('ICAAP') and the Internal Liquidity Adequacy Assessment Process ('ILAAP') reports.

Finally, the Board monitored the progress of work on recovery and resolution planning and approved the recovery plan before its submission to the European Central Bank.

Risk management

At each quarterly meeting, the Board reviewed the HSBC Continental Europe group's risk position, financial as well as non-financial risks. For this purpose, it is supported in particular by the core risk reports (risk map, top and emerging risks and risk appetite statement) and by the reports given at the meetings by the Chief Risk Officer and the Chair of the Risk Committee.

In addition, it reviewed the updates to the risk management framework and policies and reviewed certain risk appetite thresholds during the year.

The Directors have also access to the Risk Committee's supporting documentation.

The Board reviewed and approved where necessary the annual reports on internal control and on the organisation of the financial crime internal control system, sent to the *Autorité de contrôle prudentiel et de résolution* ('ACPR').

The work of Internal Audit, in particular the reports that were the subject of an adverse rating and the evolution in the number of open recommendations, as well as the resources of Internal Audit were discussed regularly, in particular by the Audit Committee. In addition, the Head of Internal Audit presented his annual report to the Board at its meeting on 10 February 2023. The Board reviewed and approved the Internal Audit Plan for 2023 and 2024 at its meetings on 10 February 2023 and 23 November 2023 respectively.

Regulatory environment and supervision

The Board closely followed the engagements with the various supervisors and in particular the findings of their assessments and inspection missions.

On 10 February 2023, the Joint Supervisory Team of the European Central Bank and the ACPR presented to the Board the results of their work carried out in 2022 and their priorities, expectations and supervisory programme for 2023, enabling an exchange of views with the Directors.

Governance

The Board deliberated, notably on the basis of the work of the Remuneration and Nomination and Corporate Governance Committees, on the various subjects that fall under its responsibility, in accordance with the laws and regulations in force, in particular with regard to remuneration and assessment of the suitability of the management body, composition of the Board and specialised Board committees, training of the management body, prevention of conflicts of interests and authorisation of non-audit services rendered by the Statutory Auditors.

The Board also reviewed and updated the corporate governance policies for which it is responsible, including the Board's internal rules, the internal governance policy, and the management body suitability assessment policy. It also examined the updates of the governance rules applying to HSBC Group entities (Subsidiary Accountability Framework).

The Board approved the reports of the Board of Directors to the General Meeting and on corporate governance for the 2022 financial year, the half-yearly report of the Board at 30 June 2023 as well as the publications relating to the annual and half-yearly results. During 2023 financial year, the Board authorised a new related-party agreement relating to a transaction it approved, and examined the agreements entered into and authorised by the Board during previous financial years and whose execution has continued, in accordance with Article L. 225-40-1 of the French Commercial Code.[6]

The work of the Board Committees was set out in regular, detailed reports from their respective Chairpersons and was debated during Board meetings. In this regard, the Board was kept informed at each meeting about the main topics discussed, recommendations, and points of action identified by the Audit Committee and by the Risk Committee.

Finally, at each Board meeting, a report was given on the action points requested by the Board at previous meetings, with specific presentations where necessary.

Board Committees

The Board is assisted by four specialised Committees: Audit Committee, Risk Committee, Nomination and Corporate Governance Committee and Remuneration Committee. Their duties are defined in the Board's internal rules.

Audit Committee

Composition of the Audit Committee

Chairperson	
Deirdre Hannigan (independent)	Appointed in 2023
Members	
Dominique Perrier (independent)	Appointed in 2019
Lucile Ribot (independent)	Appointed in 2017 (Chair from 2022 to 2023)
Eric Strutz (independent)	Appointed in 2022

The Audit Committee members are highly qualified in banking, financial, accounting and control areas, as they serve or have in the past served as Audit Committee member, Chief Financial Officer, Chief Risk Officer, including for banks, or as Statutory Auditor.

Cross-membership of the Audit and Risk Committees Chairs ensures an appropriate interaction between both committees.

Audit Committee's duties

The Audit Committee is accountable to the Board. The Committee oversees and advises the Board on matters relating to the budget, financial reporting, internal control of financial information, capital and liquidity ratios to support the Risk Committee, the dividend policy and capital allocation, management of the Finance function and Internal Audit.

The Committee in particular reviews:

- the integrity of the financial statements, formal announcements and disclosures relating to financial performance;
- the effectiveness of Internal Audit and the external audit process;
- the effectiveness of internal financial control systems.

The Committee and its Chair had the opportunity to meet the Statutory Auditors and the Head of Internal Audit regularly, including in private sessions to ensure that there are no unresolved issues or concerns. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

To give itself sufficient time to review the accounts before they are reviewed by the Board, the Audit Committee meets a few days before the Board insofar as possible.

Lastly, at the request of the HSBC Bank plc's Audit Committee, the HSBC Continental Europe's Audit Committee Chairperson provides a half-yearly certificate to the Audit Committee Chairman of HSBC Bank plc, HSBC Continental Europe's direct shareholder, confirming, in particular, that the accounts were reviewed by the Committee and that the internal control system of financial reporting appears to be appropriate.

[6] *Details on related-party agreements are available on page 40.*

Audit Committee's work in 2023

The Audit Committee met seven times in 2023, with an attendance rate of 100 per cent, compared to five meetings with an attendance rate of 100 per cent in 2022:

- 7 February 2023;
- 17 February 2023;
- 4 April 2023;
- 24 April 2023;
- 18 July 2023;
- 28 July 2023;
- 23 October 2023.

Each meeting was also attended by the Statutory Auditors, the Chief Financial Officer, the Chief Accounting Officer, the Head of Internal Audit and the Chief Risk Officer. The Chief Executive Officer and the Deputy Chief Executive Officer also attended Committee meetings to answer any questions. HSBC Continental Europe executives also attend Committee meetings covering any subjects falling under their responsibility.

The first aspect of the Committee's work involved an in-depth review of the annual, half-yearly and quarterly financial statements prior to their presentation to the Board. The Audit Committee reviewed the parent company and consolidated accounts, as well as the publications relating to the annual results. The Committee was informed by the Finance Department of the main accounting and tax points of attention and discussed the choices made by the company in drawing up its financial statements and verified the adequacy of provisions for identified risks, especially provisions for credit risk. The Committee paid particular attention to the accounting impacts of the transactions carried out as part of the transformation programme, to changes in the obligation to publish ESG-related information, as well as to the implementation of IFRS 17, which came into force on 1 January 2023, with insurance contracts.

Throughout the year, the Committee remained attentive to monitoring the cost base and recharge processes in place with the HSBC Group.

The Committee was also informed of the Finance system strategy and of changes in the organisation of the Finance Department.

The second area of the Committee's work concerned controls. To this end, the Statutory Auditors reported on matters requiring particular attention at the time of preparing the 2022 financial statements. Every quarter, the Statutory Auditors presented their diligences on the financial statements. The Committee discussed the Statutory Auditors' audit programme and independence, approved the fees paid in 2022 by the HSBC Continental Europe group to its Statutory Auditors. The Committee reviewed and authorised as necessary the non-audit services rendered by the Statutory Auditors.

The Committee was also informed of the risks and results of controls conducted on financial statements, in particular regarding the deficiencies identified by these controls and progress in action plans.

At its meeting on 18 July 2023, the Committee was given a presentation on the framework in place regarding whistleblowing and its results.

At its meeting on 23 October 2023, the Committee examined the list of related-party agreements authorised previously by the Board and still in force and made recommendations to the Board regarding the list update.

The third aspect of the Committee work concerned the detailed review, at each of its quarterly meetings, of Internal Audit activities. It reviewed the findings of the main audit duties, notably those calling for particular attention. The Committee remained extremely attentive to the proper implementation of the audit recommendations and to the evolution of the human resources of Internal Audit. It has also approved the update of the audit charter and the 2023 annual audit plan.

Throughout 2023, the Committee received reports from the subsidiaries' Chief Financial Officers and Chairs of Audit Committees.

The Chairperson of the Audit Committee reported to the Board, on a regular basis and when necessary, on the key points discussed during Audit Committee meetings and on recommendations formulated by the Audit Committee.

Risk Committee

Composition of the Risk Committee

Chairman	
Eric Strutz (independent)	Appointed in 2022
Members	
Paule Cellard (independent)	From 2017 to 31 December 2023
Pablo Forero Calderon (independent)	Appointed in 2023
Deirdre Hannigan (independent)	Appointed in 2023
Michaël Trabbia (independent)	Appointed in 2022

The Committee members are highly qualified in the banking, financial, risk, including technology, and internal control areas, as they serve or have in the past served in the capacity of Group Chief Financial Officer, Group Chief Risk Officer, Chief Executive Officer, including of banking entities, with operational responsibilities within a Global Banking activities or as Head of internal audit and compliance of a bank, Risk Committee member or Head of Innovation and Technology.

Cross-membership of the Audit and Risk Committees Chairs allows to ensure an appropriate interaction between both committees.

Risk Committee's duties

The Risk Committee is accountable to the Board. The Committee oversees and advises the Board on risk related matters impacting HSBC Continental Europe and its subsidiaries, including risk governance and internal control systems (other than internal controls over financial reporting).

The Committee collaborates with other Board Committees whose activities may have an impact on the risk strategy (in particular, Audit and Remuneration Committees) and regularly communicates with the HSBC Continental Europe's internal control functions, in particular the risk management function.

The Committee meets the Chief Risk Officer in private at least twice per year to ensure that there are no unresolved issues or concerns. In carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

At the request of the HSBC Bank plc's Risk Committee, the HSBC Continental Europe's Risk Committee Chairman provides a half-yearly certificate to the Risk Committee Chairman of HSBC Bank plc, confirming, in particular, that the Committee examined the reports on risks and that no matter was brought to its attention other than those described in the supports.

Risk Committee's work in 2023

The Risk Committee met six times in 2023 with an attendance rate of 100 per cent, compared to seven meetings with an attendance rate of 100 per cent in 2022:

- 7 February 2023;
- 15 March 2023;
- 24 April 2023;
- 15 June 2023;
- 18 July 2023;
- 23 October 2023.

Each meeting was also attended by the Statutory Auditors, the Chief Risk Officer, the Chief Financial Officer and the Head of Internal Audit. The Chief Executive Officer and the Deputy Chief Executive Officer attended Committee meetings to answer any questions. HSBC Continental Europe executives also attend Committee meetings for subjects falling under their responsibility.

At the end of its quarterly meetings and with the attendance of the Audit Committee members, the Risk Committee held regularly in camera sessions without HSBC Continental Europe management attending and, if applicable, with the Head of Internal Audit or the Chief Risk Officer only.

In 2023, the Committee paid particular attention to monitoring HSBC Continental Europe's transformation projects, their management and the risks they entail, as well as IT and climate-related and environmental risk management.

In line with its usual work, the Committee approved HSBC Continental Europe's risk appetite for 2023 and its subsequent updates, and then examined, at each of its meetings, the monitoring dashboard, in particular indicators which were not in line with the thresholds that had been set. It also reviewed and approved the risk tolerance framework. At the end of the year, it examined and approved the risk appetite for the year 2024.

In addition to a summary on risks given by the Chief Risk Officer, the Committee monitored, at each of its quarterly meetings, the risk profile of HSBC Continental Europe through the risk map and the review of top and emerging risks, as well as their assessment and the action plans which had been identified.

The Committee was informed of the changes to the risk management framework and examined the assessment of Risk capacity and capability.

At each quarterly meeting, the Committee received reports on specific lines of business, subsidiaries or countries from Heads of those areas or Chief Risk Officers and from Chairs of subsidiaries' Risk Committees.

The Risk Committee also continued to carry out the usual review of financial risks, each of the individuals in charge of controlling such risks reported to the Committee, in particular concerning:

- Credit risk, with an individual review of major exposures, changes in outstanding credit and non-performing loans by businesses, changes in risk-weighted assets and the evolution of the cost of risk, worrying exposures and sectors and leveraged exposures. The Committee was informed of the communications with the supervisory authorities on credit;
- Market risk, including trends compared with limits, changes in exposure, the setting of limits, changes in market activities' risk-weighted assets and the results of internal stress tests;
- Liquidity, capital and interest rate in the banking book risks. In particular, the Committee examined and approved the Internal Capital Adequacy Assessment Process ('ICAAP') and Internal Liquidity Adequacy Assessment Process ('ILAAP') reports, as well as the capital and liquidity plans and their execution afterwards;
- Stress testing, on a company-internal basis, since in 2023 HSBC Continental Europe had been exempted from EBA stress test. The Committee monitored the work carried out as well as the results of these tests and the actions taken to reduce their impact.

Likewise, at each meeting, the Risk Committee continued to carry out a review of non-financial risks, each of the individuals in charge of controlling such risks reported to the Committee, in particular concerning:

- Risk models, in particular with the monitoring of progress made in the programme in this area and of reviews on models performed by supervisory authorities, as well as their impact on risk-weighted assets and the content and implementation of the recommendations issued by the various internal and external controlling bodies;
- Operational incidents and losses and progress and action plans relating to the non-financial risks management framework;
- Legal risks, included emerging risks, and legal disputes;
- Security and fraud risk, including information security and business continuity;
- IT and technology risks, including the main incidents and risks; and
- Human Resources risks.

With regard to both financial and non-financial risks, the Committee was informed of the impact of climate-related and environmental risks weighing on these risks.

In relation to permanent control, compliance and relations with regulators, the Committee endorsed the permanent control plan for 2023 and was informed, at each of its meetings, of the progress made towards this plan and the main areas of weakness identified, as well as the action plans drawn up to deal with them.

In accordance with the French Government Order of 3 November 2014 as modified, the Committee was informed of the changes to the management framework for outsourced services, in particular those deemed essential, whether these services be sub-contracted within the HSBC Group or to external suppliers, as well as the results of controls carried out on outsourced essential services.

In the area of compliance risk management, the Committee took note of the quarterly reports, which set out the main new matters and update on those already detailed in the course of previous meetings. In particular, the Committee closely followed the evolution of the organisation of the Compliance Department, the system and tools, the implementation of recommendations issued by the various control bodies in terms of compliance, as well as exchanges with the control and supervisory authorities and missions carried out by the latter in these areas. It was also informed of the Ombudsman's activity for the year 2022.

The Committee approved the annual reports to the ACPR on internal control and on the organisation of the financial crime compliance framework.

The Committee was informed of communications with supervisory and control authorities and of the conclusions of their various assessments, audits and reviews, and received reports and follow-up letters and replies to them in relation to these assignments, as well as action plans initiated to implement their recommendations.

The Committee was informed of the works performed by HSBC Continental Europe regarding recovery and resolution and carried out as part of the HSBC Group's obligations towards the Prudential Regulation Authority or of its own ones towards the ECB and the Single Resolution Board. In particular, the Committee examined the draft recovery plan.

In relation to other governance matters, the Committee reviewed the remuneration policy.

The Chairman of the Risk Committee reported, on a regular basis and when necessary, on the key points discussed during Risk Committee meetings and on recommendations formulated by the Risk Committee.

Joint sessions of the Audit and Risk Committees

The Audit Committee and the Risk Committee held four joint sessions in March, April, June and November 2023 with a 95 per cent attendance rate: the first three meetings in order to prepare Board decisions regarding the sale of the French Retail Banking business and the last one to review, endorse and recommend for the Board's approval the draft budget, the draft capital and funding plans, the draft Risk Appetite Statement and the draft Internal Audit plan for 2024.

Nomination and Corporate Governance Committee

Composition of the Nomination and Corporate Governance Committee

Chairman	
Arnaud Poupart-Lafarge (independent)	Appointed in 2022 (Member from 2020 to 2022)
Members	
Jean Beunardeau	Appointed in 2021
Stephen O'Connor (independent)	Appointed in 2022

In accordance with the Governance rules applicable to the HSBC Group entities, at least half of the Nomination and Corporate Governance Committee's membership are independent non-executive, non-employee Directors.

Nomination and Corporate Governance Committee's duties

The Nomination and Corporate Governance Committee reports and is accountable to the Board. The Committee is responsible for:

- Regularly reviewing the composition of the Board and Board Committees and leading the process for nomination to the Board of Directors and Board Committees;
- Overseeing the planning and candidates assessment process to ensure succession plans are in place for the Board and General Management;
- Overseeing the process of assessing the individual and collective effectiveness and suitability of the Board of Directors, the Board Committees and the General Management;
- Overseeing the application of the governance framework of the HSBC Group for its subsidiaries.

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

Nomination and Corporate Governance Committee's work in 2023

The Committee met five times in 2023, with an attendance rate of 100 per cent, compared to five meetings with also an attendance rate of 100 per cent in 2022. Its main work comprised:

- the monitoring of the individual and collective suitability of the management body pursuant to the suitability assessment policy and assessments and reassessments required by the criteria defined in this policy;
- proposals to the Board on the renewal of the term of office of two Directors expiring at the Annual General Meeting to be held in 2023;
- succession plans for the Board and the General Management;
- reflections, and recommendations to the Board, on the membership of the management body in its supervisory function – including that of the Board Committees – and management function, based on the Company's suitability assessment and diversity policies. In particular, the Committee recommended to the Board to appoint two new Directors - Deirdre Hannigan and Pablo Forero - in line with the succession plan and in order to better stagger Directors' renewals;
- the follow-up of the nomination applications filed with the European Central Bank and more generally, interactions with supervisors, and their recommendations, on topics falling under the Committee's responsibility;
- the outcome of the review by Internal Audit of corporate governance;
- examining the revision of governance rules applying to the HSBC Group entities (Subsidiary Accountability Framework);
- the review of the updated register of potential situations of conflict of interest, and of the results of the controls in place regarding potential conflict of interest situations;
- the review of the first part of the report on corporate governance for the 2022 financial year;
- the review and proposals to the Board for updating the Board internal rules and the Board policies regarding the training of the management body, the suitability assessment of the management body and key function holders, and diversity of the management body; and
- the review of the parts of the internal governance policy under the Committee's responsibility and the proposal, made to the Board, concerning their update.

The Chairman of the Nomination and Corporate Governance Committee reported to the Board on its work regularly and when necessary. All of the Committee's work was submitted to the Board for approval.

Remuneration Committee

Composition of the Remuneration Committee

Chairman	
Arnaud Poupart-Lafarge (independent)	Appointed in 2022 (Member from 2020 to 2022)
Member	
Ludovic Bénard	From February 2023 to 6 February 2024
Paule Cellard	From 2021 to 31 December 2023

In accordance with the Governance rules applicable to the HSBC Group entities, at least two members of the Remuneration Committee are independent non-executive Directors. In addition, a Director elected by the employees is a member of the Remuneration Committee.

Remuneration Committee's duties

The Remuneration Committee has non-executive responsibility for matters related to remuneration and advises the Board on these matters. In exercising this responsibility, it is responsible for:

- supporting the Board in overseeing the implementation and operation of the compensation framework in place for HSBC Continental Europe's remuneration in conjunction with that of the HSBC's Group, as approved by the Group Remuneration Committee and with regulatory requirements;
- ensuring this framework does not contravene any local regulations;
- ensuring this framework is aligned with risk appetite, strategy, culture and values, and long-term interests of HSBC Continental Europe; and
- ensuring this framework is appropriate in order to attract, retain and motivate people with the qualities required to contribute to the success of HSBC Continental Europe.

The 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).

The Committee's recommendations on Executive Directors' remuneration are presented to the Board after prior approval by the Remuneration Committee of HSBC Holdings plc or are then submitted for approval. Moreover, in carrying out these duties and responsibilities, the Committee may consult any adviser or expert as it deems appropriate.

Remuneration Committee's work in 2023

The Remuneration Committee met three times in 2023 with an attendance rate of 100 per cent,compared to twice in 2022 with an attendance rate of 100 per cent. Its main work comprised:

- the review of the general remuneration policy, in respect of 2022 year, taking into account regulations concerning compensation, in particular risk control and the contribution of the Risk and

Compliance functions to the process for determining variable compensations, the review of the identified cases of employees, as not entirely complying with the risk and compliance rules and impacts on their remuneration, as well as the review of the rules and remuneration for employees defined as risk takers;

- the review of 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 to approve, in agreement with HSBC Holdings plc, the terms of the remuneration of Andrew Wild and Chris Davies in respect of 2022 and setting out the fixed and variable elements of their remuneration and the number of shares to be awarded to them (see section 'Executive Directors' compensation');
- the review of the remuneration of the Directors of HSBC Continental Europe and certain of its subsidiaries;
- the new approach designed by the HSBC Group regarding performance management and remuneration from 2024; and
- the review of the section of the corporate governance report on remuneration.

The Chairman of the Remuneration Committee reported to the Board on its work and on recommendations formulated by the Committee. All of the Committee's work was submitted to the Board for approval.

General Management

Since 2007, HSBC Continental Europe's Board of Directors has chosen to separate the functions of Chairman of the Board and Chief Executive Officer. This choice has been maintained since then and is furthermore in compliance with regulatory obligations for credit institutions.

Organisation of the General Management

General Management leads the Company and acts as its representative *vis-a-vis* third parties. General Management comprises two Effective Managers ("*Dirigeants effectifs*"), i.e. the Chief Executive Officer, Andrew Wild, who is assisted by a Deputy Chief Executive Officer ("*Directeur Général Délégué*"), Chris Davies.

In addition, on 9 February 2024, the Board of Directors appointed Joseph Swithenbank as Deputy Chief Executive Officer (*Directeur Général Délégué*) and *Dirigeant effectif* of HSBC Continental Europe effective 1 March 2024, in addition to his existing responsibilities as Chief Financial Officer of HSBC Continental Europe. This appointment is subject to regulatory approvals.

Chief Executive Officer's powers

The Chief Executive Officer has the widest powers to act on the Company's behalf in all circumstances within the limits of its corporate object, and subject to those powers expressly conferred by law on the collective body of shareholders and on the Board of Directors. At present, there are no specific restrictions on the Chief Executive Officer's powers set by the Board or by the Articles of Association, but decisions involving the strategic orientation of the Company's activities and investments/divestments are submitted to the Board of Directors for approval according to the Board Internal rules.

Furthermore, the Board of Directors has delegated powers to issue bonds to Andrew Wild (Chief Executive Officer), Chris Davies (Deputy Chief Executive Officer) and a certain number of HSBC Continental Europe Markets officers.

A new Delegation of Authorities Framework was put in place across the HSBC Group in 2023. Moreover, a person with delegated powers may not individually commit HSBC Continental Europe to sums above EUR 1.5 million.

There are specific delegated powers concerning credit and market risk.

Presentation of the members of General Management

The biography of the Chief Executive Officer, Andrew Wild, is available on page 27.

Christopher Davies

Deputy Chief Executive Officer ("Directeur Général Délégué")

Principal position: Deputy Chief Executive Officer and Head of Transformation, HSBC Continental Europe.

Other directorships in the HSBC Group: Chairman, HSBC Bank (RR) (Limited Liability Company). Director, HSBC Bank Bermuda Limited.

Number of positions held within the meaning of L. 511-52 of the French Monetary and Financial Code: one directorship as executive.

Skills and experience: Born in 1962. British nationality. Masters (MA) degree in French and German literature and languages from the University of Oxford and graduate of the Chartered Institute of Bankers. Since he joined HSBC in 1985, he has served in various senior roles across the main HSBC's major business lines, principally in the United Kingdom, the United States and China. Thus, he was Head of Commercial banking North America from 2007 to 2011 then Deputy Chief Executive Officer of HSBC Bank (China) Company Limited from 2011 to 2013. from 2013 to 2020, he has been Chief Executive Officer International Europe of HSBC Bank plc. He was appointed as Deputy Chief Executive Officer of HSBC Continental Europe in 2019, and Head of Transformation since 2021.

2022	**Directorships in the HSBC Group:** Deputy Chief Executive Officer: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited.
2021	Directorships in the HSBC Group: Deputy Chief Executive Officer: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited, HSBC Europe B.V, Midcorp Limited.
2020	**Directorships in the HSBC Group:** Deputy Chief Executive Officer: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited, HSBC Europe B.V, Midcorp Limited.
2019	**Directorships in the HSBC Group:** Deputy Chief Executive Officer: HSBC Continental Europe. Chairman: HSBC Bank (RR) (Limited Liability Company). Director: HSBC Bank Bermuda Limited, HSBC Bank Malta p.l.c., HSBC Europe B.V, Midcorp Limited. Member of the Supervisory Board: HSBC Bank Polska S.A.
2018	–

Executive Committee

The General Management is assisted by an Executive Committee whose membership was as follows as at 31 January 2024:

Andrew Wild	Chief Executive Officer
Chris Davies	Deputy Chief Executive Officer, Head of Transformation
Anne-Lise Bapst	Head of Communication
Andrew Beane	Head of Commercial Banking
Laurence Bogni-Bartholmé	Chief Risk Officer
Isabelle Bourcier	Head of Asset Management France
Marwan Dagher	Head of Markets and Securities Services
François Essertel	Market Head International Europe, Private Banking
Eric Emoré	Head of Wealth and Personal Banking

Thuy-Tien Gluck	Head of Corporate Sustainability
Lisa Hicks	Head of Strategy and Organisation
Marc de Lapérouse	Head of Legal
François Mongin	Head of Internal Audit
Camille Olléon	Head of Human Resources
Geneviève Penin	Head of Corporate Governance & Secretariat and Company Secretary
Antoine Pfister	Chief Compliance Officer
Jean-Manuel Richier	Co-Head of Global Banking
Laurence Rogier	Head of Insurance France
Michael Schleef	Chief Executive Officer, Germany
Joseph Swithenbank	Chief Financial Officer
Anna Tavano	Co-Head of Global Banking
Geoffrey Fichte	Chief Executive Officer, Malta
Olfert de Wit	Chief Operating Officer

Every year, HSBC Continental Europe reviews succession plans for Executive Committee members and roles considered as key with clear rules guiding this exercise in order to have robust succession plans, promoting gender balance as well as internal promotion. It is required to have at least four successors per role and a female successor for each of these roles as well as, for the Chief Executive Officer, a breakdown of internal recruitments vs. external recruitments of 80 to 20. The succession plans were reviewed in 2023 on these bases, including in respect of the members of the Executive Committee. Additional information on the diversity policy are available in the chapter on Sustainability on page 55.

Additional information

Agreements governed by article L. 225-38 of the French Commercial Code

Article L. 225-38 of the French Commercial Code requires that any agreement entered into directly or indirectly between a company and its Chief Executive Officer or one of its Directors or Deputy Chief Executive Officers, or between a company and one of its shareholders owning at least 10 per cent of the voting rights, or, in the case of a corporate shareholder, the company which controls it, must first be authorised by the Board of Directors and subsequently approved at the Annual General Meeting of shareholders. It also prohibits certain types of agreements between those parties, such as loans or guarantees.

During its meeting on 26 October 2023 the Board conducted its annual review of agreements already entered into that it had authorised previously and which are still in force.

Agreement authorised in 2023

As part of the approval of transactions related to the HSBC Continental Europe transformation programme, one new agreement subject to the provisions of article L. 225-38 of the French Commercial Code was approved by the HSBC Continental Europe's Board of Directors during 2023:

- with HSBC Private Bank (Suisse) S.A. in which HSBC Holdings plc, a company controlling HSBC Bank plc, shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights, is indirectly interested: a Share Purchase Agreement relating to the acquisition by HSBC Continental Europe from HSBC Private Bank (Suisse) S.A. on 2 November 2023 of HSBC Private Bank (Luxembourg) S.A. (agreement approved by the Board at its meeting on 20 September 2023, and signed on 2 November 2023).

Agreements entered into in prior years and still in force and effect during 2023

- the agreements between HSBC Continental Europe and its direct 99.99 per cent shareholder, HSBC Bank plc through its Paris Branch, namely: a pooling of resources agreement designed to provide the parties with various services relating to their activities at cost, an agreement for the provision of services covering various activities and a group tax relief agreement, entered into in 2001;
- the agreement renewed in 2015 between HSBC Holdings plc and HSBC Continental Europe, granting HSBC Continental Europe and its subsidiaries use at no charge of the HSBC brand;
- the indemnity agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to cover HSBC Bank plc and HSBC UK Bank plc for any amount that they may have to pay under obligations in which they remain debtors to the beneficiaries, that is clients having entered into a relationship with HSBC Continental Europe as HSBC Bank plc and HSBC UK Bank plc would no longer be authorised to provide certain international trade instruments and services to companies located in the European Economic Area after the exit of United Kingdom from the European Union;
- the agreement (Side Letter), entered into in 2021, by HSBC Continental Europe with HSBC Global Services (Hong Kong) Limited, HSBC Global Services (UK) Limited, HSBC Group Management Services Limited, HSBC Global Services Limited, and HSBC Service Delivery (Polska) sp. z o.o. and in which HSBC Holdings plc, a company controlling HSBC Bank plc, shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights, is indirectly interested. This agreement relates to the pre-payment by HSBC Continental Europe to five ServCo HSBC Group entities of four months' charges for the services provided, in order to meet contingency funding requirements to ensure Operational Continuity in Resolution ('OCiR'). The purpose of the contingency funding is to ensure the availability of sufficient financial resources in the Group's Services Companies to safeguard the provision of services that the HSBC Group relies on throughout a stress or resolution event;
- the agreement entered into in 2022 between HSBC Continental Europe and HSBC Trinkaus & Burkhardt GmbH relating to the establishment of a limited liability partnership under German law, in which HSBC Continental Europe S.A., Germany (the branch of HSBC Continental Europe in Germany) is the sole limited partner and HSBC Trinkaus & Burkhardt GmbH is the sole general partner. The establishment of such limited liability partnership was necessary as part of the transaction to transfer the activities of HSBC Trinkaus & Burckhardt GmbH to HSBC Continental Europe S.A., Germany;
- the Domination and Profit and Loss Transfer Agreements entered into in January 2023 between HSBC Continental Europe and HSBC Trinkaus & Burkhardt GmbH relating to the acquisition of 100% of HSBC Trinkaus & Burkhardt GmbH by HSBC Continental Europe S.A., Germany from HSBC Bank plc;
- the Domination and Profit and Loss Transfer Agreements entered into in January 2023 between HSBC Continental Europe and HSBC Service Company Germany GmbH relating to the acquisition of 100% of HSBC Service Company Germany GmbH by HSBC Continental Europe S.A., Germany from HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen GmbH;
- the reactivation from 2021 of the employment agreement of Jean Beunardeau, Chairman of the Board, which had been suspended since his appointment as Deputy Chief Executive Officer in 2010.

Additional information about the members of the management body

Ethics

The policy of the management body on conflicts of interests annexed to the Board's internal rules covers situational and transactional conflicts of interests and includes in particular a list of questions to assist the Directors in identifying situations of conflicts of interests, examples of situations that may or may not give rise to a conflict of interest, a procedure dealing with the declaration of a potential conflict of interests, a procedure to guide the Board when considering such a declaration, as well as mitigating measures and controls regarding identified situations of potential conflicts of interests. In order to strengthen the conflict of interests avoidance mechanism, Directors must seek authorisation from the Board before accepting a mandate or position in a company or organisation outside the HSBC Group and a process of authorisation, review and possible withdrawal of authorisation by the Board is in place.

Situations of potential conflicts of interests between the duties of Board members, including Executive Directors, with respect to HSBC Continental Europe and their private interests and/or other duties are appropriately managed through mitigating measures whose effectiveness is controlled half-yearly.

To the knowledge of HSBC Continental Europe, there is:

- no family relationship between Board members, including Executive Directors, of HSBC Continental Europe;
- no arrangement or understanding with a shareholder, a customer, a supplier or other pursuant to which one of the Board members, including Executive Directors, was selected.

Absence of convictions

To the knowledge of HSBC Continental Europe, in the last five years, none of the Board members currently in office, including Executive Directors, have been the subject of a conviction for fraud, bankruptcy, receivership, liquidation or put into administration, official public incrimination and/or sanction pronounced by statutory or regulatory authorities, or have been disqualified by a court from acting as a member of an administrative, management or supervisory body of an issuer or from acting in the management or conduct of the affairs of an issuer.

Shareholders' general meeting

Meetings are open to all shareholders. They are convened and transact business in accordance with the provisions of the law and regulations in force. According to article 21 of the Articles of Association, all shareholders, whatever the number of shares they own, are entitled to attend General Meetings and to take part in the deliberations, personally or through a representative, provided their shares are paid up in full for payments that are due and are registered on an account in their own name no later than midnight, Paris time, on the second business day preceding the General Meeting. However, the author of the notice to attend has the option at all times to reduce this period of time, as he sees fit.

All shareholders can also vote by correspondence using a form which can be sent to them in accordance with the conditions specified by the notice to attend the Meeting.

The Board of Directors can decide that shareholders will be allowed to take part and vote in all General Meetings by video conference or by any means of telecommunications making it possible to identify them in accordance with the applicable legal and regulatory provisions.

Delegations given by the Shareholders' meeting to increase the share capital

	With pre-emptive rights
Issue of shares for cash or by capitalising reserves	
Date of authority	March 11, 2022
Expiry date	May 11, 2024
Maximum nominal amount	EUR 500 million
Used amount	EUR 0 million

Compensation

Compensation and benefits of Executive Directors

Remuneration package

The remuneration of Executive Directors is adopted each year by the Board of Directors upon the recommendation by the Remuneration Committee, and approved by the Remuneration Committee of HSBC Holdings plc. It includes a fixed component and a variable component.

The fixed component is determined considering external market practices with the help, if needed, of specialist consulting firms and HSBC Group internal benchmarks.

The variable component is determined in particular on the basis of the overall variable pay pool and according to the individual performance of the Executive Director measured annually and based on completion of objectives embedded in a balanced scorecards and supported by a set of indicators. There are financial indicators focused on revenues growth, costs control, return on capital, non financial indicators linked to sustainability related risks as carbon path reduction at HSBC Continental Europe level and for our clients, development of sustainable finance or more generally related to risk management as audits follow up, control of operational risks, appropriate application of conduct principles and few qualitative indicators such as successful achievement of reorganization projects, customer satisfaction, increase of employees' engagement index, women representativity in the organisation, improvement of inclusion index,etc.

In parallel the variable component also takes account of market trends and, if necessary, changes in regulations. In accordance with regulation, this variable component is paid partly in non-deferred and partly in deferred remuneration and partly in cash and partly in shares.

Deputy Chief Executive Officer as Head of transformation may also have specific objectives related to his role.

Award of shares

In 2023, Executive Directors benefited from the allocation of shares in HSBC Holdings plc in accordance with the HSBC Group's general policy.

With respect to 2023, HSBC Continental Europe Executive Directors received, as part of their variable remuneration, Restricted Shares, for which the only criterion is to be with the company at award date.

Supplementary pension scheme

The current and former Executive Directors of HSBC Continental Europe have a defined benefits supplementary pension scheme. This plan guarantees members a pre-determined absolute supplementary pension income based on their length of service. In the event that the beneficiary dies, 60 per cent of this pension is payable to the surviving spouse. It is increased every year in line with the average rate applied to the French State pension scheme.

As at 31 December 2023, Andrew Wild had accrued pension rights representing 3;3 per cent of his 2023 fixed remuneration and 1.4 per cent of his 2023 total remuneration. Chris Davies is not entitled to this pension scheme, since he takes benefit of a UK pension schemes linked to its employment contract.

Remuneration.

The remuneration of Andrew Wild as Chief Executive Officer of HSBC Continental Europe, and of Chris Davies as Deputy Chief Executive Officer of HSBC Continental Europe are detailed on next pages.

The following information is published in accordance with the provisions of article L. 225-102-1, paragraphs 1, 2 and 3 and article L. 225-184 of the French Commercial Code.It concerns remuneration paid by HSBC Continental Europe, the companies it controls and the companies that control it (the HSBC Group). The remuneration of the Executive Directors below is presented in accordance with the *Autorité des marchés* financiers recommendations of December 2009[7]. Tables 4, 5 and 9 of this recommendation are not applicable.

Summary of compensation awarded to each Executive Director

Chief Executive Officer[1]

	2020	2021	2022	**2023**
	Compensation paid in 2020	Compensation paid in 2021	Compensation paid in 2022	**Compensation paid in 2023**
	€	€	€	**€**
Andrew Wild				
Fixed remuneration	491,072	528,760	573,300	**573,300**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	98,000	202,821	326,700	**326,700**
Variable remuneration in cash	133,500	107,100	125,811	**200,000**
Variable remuneration in shares[4]	133,500	107,100	125,811	**200,000**
Deferred variable remuneration in cash[5]	89,000	71,400	188,717	**300,000**
Deferred remuneration in shares without performance conditions[6]	89,000	71,400	188,717	**300,000**
Directors' fees[7]	—	—	—	
Benefits in kind[8]	4,626	3,250	14,638	**15,328**
Total	1,038,698	1,091,831	1,543,694	**1,915,328**

7 *Tables numbers refer to table models provided by the* Autorité des marchés financiers *in its 10 December 2009, as amended lastly on 13 April 2015, recommendation 2009-16 concerning the guide for compiling registration documents.*

Chief Executive Officer[1] (continued)

	2020 Compensation for 2020 €	2021 Compensation for 2021 €	2022 Compensation for 2022 €	**2023 Compensation for 2023 €**
Andrew Wild				
Fixed remuneration	491,072	528,760	573,300	**573,300**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	98,000	202,821	326,700	**326,700**
Variable remuneration in cash	107,100	125,811	200,000	**259,211**
Variable remuneration in shares[4]	107,100	125,811	200,000	**259,211**
Deferred variable remuneration in cash[5]	71,400	188,717	300,000	**388,817**
Deferred remuneration in shares without performance conditions[6]	71,400	188,717	300,000	**388,817**
Directors' fees[7]	—	—	—	
Benefits in kind[8]	4,626	3,250	14,638	**15,238**
Total	950,698	1,363,887	1,914,638	**2,211,294**

1 *Deputy Chief Executive Officer since 1 March 2015 and Chief Executive Officer from 15 July 2021.*
2 *Fixed Pay Allowance awarded to certain 'Material Risk Takers'.*
3 *Fixed Pay Allowance awarded in form of cash on a monthly basis.*
4 *Shares that vest immediately and are subject to a 12 months' retention period.*
5 *Variable remuneration in cash deferred over five years (20 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over five years (20 per cent per year from year n+1) and subject to a 12 months' retention period.*
7 *Renounced the payment of his Directors' fees by HSBC Continental Europe (see page 32).*
8 *Company car and accommodation allowance. As* Chief Executive Officer*, he is also entitled to a medical cover and tax assistance.*

Deputy Chief Executive Officer[1]

	2020 Compensation paid in 2020 €	2021 Compensation paid in 2021 €	2022 Compensation paid in 2022 €	**2023 Compensation paid in 2023 €**
Chris Davies				
Fixed remuneration	519,129	526,248	541,481	**528,674**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	87,017	89,231	91,539	**89,412**
Variable remuneration in cash	146,623	130,500	155,957	**153,000**
Variable remuneration in shares[4]	146,623	130,500	155,957	**153,000**
Deferred variable remuneration in cash[5]	97,749	87,000	103,971	**102,000**
Deferred remuneration in shares without performance conditions[6]	97,749	87,000	103,971	**102,000**
Directors' fees[7]	—	—	—	
Benefits in kind[8]	—	—	—	
Total	1,094,890	1,050,479	1,152,876	**1,128,086**

Deputy Chief Executive Officer[1]

	2020 Compensation for 2020 €	2021 Compensation for 2021 €	2022 Compensation for 2022 €	**2023 Compensation for 2023 €**
Chris Davies				
Fixed remuneration	519,129	526,248	541,481	**528,674**
Fixed Pay Allowance 'Material Risk Taker'[2,3]	87,017	89,231	91,539	**89,412**
Variable remuneration in cash	130,500	155,957	153,000	**165,000**
Variable remuneration in shares[4]	130,500	155,957	153,000	**165,000**
Deferred variable remuneration in cash[5]	87,000	103,971	102,000	**110,000**
Deferred remuneration in shares without performance conditions[6]	87,000	103,971	102,000	**110,000**
Directors' fees[7]	—	—	—	
Benefits in kind[8]				
Total	1,041,146	1,135,334	1,143,020	**1,168,086**

1 *Deputy Chief Executive Officer since 8 February 2019.*
2 *Fixed Pay Allowance awarded to certain 'Material Risk Takers'.*
3 *Fixed Pay Allowance awarded in form of cash on a monthly basis.*
4 *Shares that vest immediately and are subject to a 12 months' retention period.*
5 *Variable remuneration in cash deferred over four years (25 per cent per year will vest from year n+1).*
6 *Variable remuneration in shares without performance conditions deferred over four years (25 per cent per year from year n+1) and subject to a 12 months' retention period.*
7 *As non Director he is not entitled to Directors' fees (see page 32).*
8 *Is entitled to an annual cost of living allowance, an accommodation allowance, a travel allowance, a medical cover and tax assistance.*

Shares awarded to each Executive Director in 2024 in respect of 2023 (Table 6)

HSBC Holdings plc shares without performance conditions (Table 6)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date	Date of availability
Andrew Wild	27 February 2024	ND	EUR 388,817	20% on each following dates:	20% on each following dates:
				March 2025	March 2026
				March 2026	March 2027
				March 2027	March 2028
				March 2028	March 2029
				March 2029	March 2030
Andrew Wild	27 February 2024	ND	EUR 259,211	March 2024	March 2025
Chris Davies	27 February 2024	ND	EUR 110,000	25% on each following dates:	25% on each following dates:
				March 2025	March 2026
				March 2026	March 2027
				March 2027	March 2028
				March 2028	March 2029
Chris Davies	27 February 2024	ND	EUR 165,000	March 2024	March 2025

Performance shares which became available for each Executive Director in 2023 (Table 7)

	Date of award	Number of shares which became available during the year	Vesting conditions
None			

HSBC Holdings plc shares vested for each Executive Director in 2023 (Table 8)

	Date of award	Number of shares vested[1]	Vesting conditions (in case of special conditions)
Andrew Wild	28/3/2018	2,155	—
Andrew Wild	26/3/2019	2,933	—
Andrew Wild	24/2/2020	3,238	—
Andrew Wild	1/3/2021	3,448	
Andrew Wild	28/2/2022	6,826	
Andrew Wild	27/2/2023	27,702	
Chris Davies	26/2/2018	3,017	—
Chris Davies	26/3/2019	3,519	—
Chris Davies	24/2/2020	3,976	—
Chris Davies	1/3/2021	4,201	
Chris Davies	28/2/2022	4,710	
Chris Davies	27/2/2023	20,455	

1 *The deferred shares awarded under the UK plan in 2018, 2019, 2021, 2022 were vested for 20% in 2023. The immediate shares awarded in 2023 were vested for 100% in 2023. All these shares, immediate or deferred, are subject to a 12 months retention period after vesting.*

HSBC Holdings plc shares, without performance conditions, awarded in 2023 in respect of 2022, to the 10 employees (excluding Executive Directors) whose number of awarded shares is the highest (Table 10)

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	27/2/2023	491,494	EUR 3,548,404	March 2023 for 100% or March 2025 for 66% and March 2026 for 34% or March 2024 to 2027 for 25% per year or March 2024 to 2028 for 20% per year	12 months after the award

1 *Part of the shares awarded to employees considered as Material Risk Takers (see page 47) vests immediately and is available for sale twelve months after vesting.*

HSBC Holdings plc shares, without performance conditions, awarded in 2024 in respect of 2023, to the 10 employees (excluding Executive Directors) whose number of awarded shares is the highest

	Date of award	Number of shares awarded	Value of the shares at grant	Vesting date[1]	Date of availability[1]
Total value of the 10 highest awards of shares (employees or former employees)	27/2/2024	ND	EUR 4,160,371	March 2024 for 100% or March 2026 for 66% and March 2027 for 34% or March 2025 to 2027 for 25% per year or March 2024, to March 2028 for 20% per year	12 months after the award

1 *Part of the shares awarded to employees considered as Material Risk Takers (see page 47) vests immediately and is available for sale twelve months after vesting.*

HSBC Holdings plc shares, without performance conditions, vested in 2023, for the 10 highest employees (excluding Executive Directors) split per year of award

	Number of shares vested[1]	Vesting dates
Total number of the 10 highest awarded shares that vested in 2023 (employees or former employees)	576,372	
– *of which* *award 2018*	*33,911*	*14.03.2023*
award 2019	*36,920*	*13.03.2023*
award 2020	*86,827*	*13.03.2023*
award 2021	*97,281*	*14.03.2023*
award 2022	*102,571*	*15.03.2023*
award 2023	*218,862*	*27.02.2023*

1 *The shares awarded are available,for sale twelve months after vesting.*

Other information required by the Corporate Governance Code (Table 2)

Executive Director Function First appointed Term ends	Employment contract	HSBC Continental Europe supplementary pension scheme[1]	Compensation or benefits due or that may be due upon termination or change in duties	Compensation due under terms of non-compete agreement	Participation in the share capital of the company and quantity of shares held
Andrew Wild Chief Executive Officer 15 July 2021	Suspended	Yes	No	No	No
Chris Davies Deputy Chief Executive Officer 8 February 2019	Not applicable	No	No	No	No

1 *See page 42.*

Company remuneration policy

As HSBC Continental Europe is part of an international banking group, its remuneration 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 *Code Monétaire et Financier,* the remuneration policy is submitted to an independent audit, once a year, performed by the Internal Audit department. The remuneration policy is also approved by the local Risk and Regulatory Compliance departments.

Governance

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

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

The Remuneration Committee, composed of 2 independent non-executive Directors and a staff representative, prepares the decisions concerning the remuneration and remuneration principles to be adopted by the Board of Directors, gives his view on the bank's policies and practices concerning compensation, ensuring that risk and compliance dimensions are dully 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 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, of the Chief Risk Officer of the Chief Compliance Officer and submits its recommendations to the Board.

Main characteristics of the remuneration policy -

This 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 HSBC Group and each of the business lines/functions at global, regional and local level, business competitiveness and the prudent management of risks for the HSBC 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 HSBC 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 o external competitiveness.

These increases, either 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 HSBC Group and business lines' global performance.

The variable pay pool is set primarily at HSBC 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, its affordability to fund this pool with its own results and its market position.

The HSBC Group variable pay pool is expected to reflect Group performance, based on a range of financial, non-financial and contextual factors. The HSBC 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 Chief Executive Officer, the Group Chief Financial Officer, 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 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 risks such as reduction of carbon path, development of sustainable finance and to risk 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 in order to act in the interest of customers, being compliant with financial markets integrity and avoiding any conflict of interests. Lastly the performance measure is based on more generic indicators such as customer experience improvement, implementation of reorganisation and transformation projects, growth in women representation among high roles in the organisation. These indicators are included in performance scorecard and are analysed by comparison with 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 HSBC 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 can also integrated, 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 HSBC Group's values through a 4 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.

To be also noted that all vested awards are subject to the HSBC Group 'Clawback' policy. This allows, in case of breaches, to recover full or partial part of vested cash or shares.

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

Regarding finally severance payments, they 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 Risk takers

CRD V

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

In compliance with the rules under CRD V directive, some employee categories ('Identified Staff') are subject to specific rules regarding structure and award of variable pay. These employees, considered to have an impact on the entity's risk profile ('Material Risk Takers'), are identified on the basis of qualitative and quantitative criteria defined by the European Banking Authority. Pursuant to these criteria, 389 employees have been identified at Group and local level in 2023.

For this population, variable remuneration are limited to twice the fixed remuneration, according to the decision made by HSBC Continental Europe shareholders' Annual General Meeting held on 23 May 2014. In order to maintain the competitiveness of Material Risk

Takers remuneration, Group has modified the remuneration of several of them by allocating a monthly fixed pay allowance linked to their function. In addition their variable remuneration is deferred by 40 per cent and even by 60 per cent for the highest variable. Finally, variable remuneration granted in the form of shares accounts for 50 per cent of variable remuneration granted; this 50 per cent applies to both the deferred component and to its immediately paid fraction.

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

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

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.

AIFM/UCITS

With effect from 1 January 2017, management companies under certain conditions are governed by the UCITS Directive in addition to the Alternative Investment Funds Management ('AIFM') Directive already in place since 1 January 2015.

In accordance with these Directives, categories of employees of HSBC Global Asset Management (France) and HSBC REIM (France) are subject to specific rules in term of variable remuneration. The employees concerned, are those whose professional activity has a significant impact on the risk profile of the management company or its alternative investment funds.

In 2023, a total of 64 risk takers have been identified risk takers AIFM/UCITS within HSBC Global Asset Management (France), HSBC REIM (France) and INKA (Germany).

For this population, subject to having a variable remuneration of more than EUR 200,000 and representing more than 30 per cent of fixed pay, variable remuneration is 40 per cent deferred if it is lower than GBP 500,000 and 60 per cent deferred for variable remuneration of more or equal to GBP 500,000. For risk takers with a variable remuneration deferred at 40 per cent, the variable remuneration is composed as follows:

50 per cent in immediate cash,10 per cent in cash variable indexed on the funds' performance, 40 per cent in cash variable deferred one-fourth over four years and indexed on the funds performance. For risk takers with a variable remuneration deferred at 60 per cent, the variable remuneration is composed as follows: 40 per cent in immediate cash,10 per cent in deferred cash that vest in four annual tranches, 50 per cent in cash variable deferred one- third over four years and indexed on the fund's performance. The variable awarded in indexed cash, both the non deferred and deferred part, is subject to a 12 months retention period after vesting. Risk takers who do not meet the conditions above are subject to HSBC Group deferral standard rules.

Solvency II

In accordance with this Solvency II Directive, categories of employees of HSBC Assurances Vie (France) and HSBC Life Insurance Malta identified as risk takers are subject to specific rules in term of variable remuneration. In 2023, 37 employees have been identified as risk takers under Solvency II.

For this population, a part of their variable remuneration is deferred. This deferred part comprises shares that totally vest after a three years vesting period and that is applied under specific conditions described below:

- 60 per cent of the variable remuneration is deferred when its total amount is equal or above GBP 500,000;
- 40 per cent of the variable remuneration is deferred when its total amount is under GBP 500,000.

However, risk takers whose variable remuneration is lower than GBP 500,000 (or an equivalent amount in local currency) and whose variable remuneration is under 1/3 of their total compensation, are considered as '*de minimis*'. On this basis, they are subject to HSBC Group deferral standard rules, which means a deferral between 10% to 50% according to the level of their variable.

IFD/IFR

Investment companies are subject to UE 2019 / 2023 *Investment Firm Regulation ("IFD")* and UE 2029 / 2034 *Investment Firm Directive ("IFR") Directives.*

Pursuant to these directives, categories of employees ('Identified Staff') from HSBC Epargne Entreprise and HSBC Global Asset Management Germany are subject to specific rules in terms of variable remuneration. The employees concerned are those whose professional activity has a significant impact on the risk profile of the company.

In 2023, 13 employees have been identified under IFD/IFR directives in HSBC Epargne Entreprise and HSBC Global Asset Management Germany.

For this population, subject to having a variable pay above EUR 50,000 and representing more than 1/3 of the total remuneration, the variable pay is 40 per cent deferred if it is lower than GBP 500,000 and 60 per cent deferred if it is higher than GBP 500,000. The deferred par of the variable pay is awarded in the form of shares, has a 4 years vesting period and is subject to a 12 months retention period.

In accordance with CRD V Directive

Consolidated quantitative information about compensation paid to executive members and financial market professionals, whose activities have a material impact on the company's risk exposure.

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

Remunerations awarded to overall staff

	Full time Equivalent 2023[1]	Total remuneration 2023 €
Executive members	**2**	**3,364,141**
Wealth and Personal Banking	**4,134**	**254,032,284**
Commercial Banking	**1,238**	**113,693,558**
Markets and Securities Services	**1,337**	**160,002,302**
Global Banking	**379**	**79,698,252**
Corporate Centre	**2,879**	**242,179,706**
Total	**9,969**	**852,970,244**

1 *Staff as of 31 December 2023 excluding trainees and pre-retirements (CFCS).*

Remuneration awarded to Executive members and professionals whose roles have a significant impact on risk profile of the company

Total remuneration: distribution between fixed pay and variable pay

	Number of people concerned	2023 €	Total fixed pay €	Total variable pay €
Executive members	**2**	**3,364,141**	**1,518,085**	**1,846,056**
Wealth and Personal Banking	**52**	**17,275,188**	**10,415,652**	**6,859,535**
Commercial Banking	**38**	**12,147,558**	**7,115,344**	**5,032,213**
Markets and Securities Services	**66**	**29,261,573**	**15,315,360**	**13,946,213**
Global Banking	**40**	**23,869,452**	**13,082,254**	**10,787,198**
Corporate Centre	**161**	**37,484,119**	**26,469,655**	**11,014,464**
Total	**359**	**123,402,030**	**73,916,351**	**49,485,680**

Total variable pay: distribution between payments in cash and payments in shares

	Payments in cash €	Payments in shares €	Total variable pay €
Executive members	**923,028**	**923,028**	**1,846,056**
Wealth and Personal Banking	**3,640,178**	**3,219,358**	**6,859,535**
Commercial Banking	**2,719,248**	**2,312,965**	**5,032,213**
Markets and Securities Services	**7,129,546**	**6,816,668**	**13,946,213**
Global Banking	**5,431,582**	**5,355,616**	**10,787,198**
Corporate Centre	**6,534,767**	**4,479,697**	**11,014,464**
Total	**26,378,349**	**23,107,331**	**49,485,680**

Total variable pay: distribution between non deferred and deferred amount

	Non-deferred amount €	Deferred amount €	Total variable pay €
Executive members	**848,422**	**997,634**	**1,846,056**
Wealth and Personal Banking	**3,724,817**	**3,134,719**	**6,859,535**
Commercial Banking	**3,036,927**	**1,995,286**	**5,032,213**
Markets and Securities Services	**7,486,775**	**6,459,438**	**13,946,213**
Global Banking	**5,342,485**	**5,444,713**	**10,787,198**
Corporate Centre	**6,847,285**	**4,167,179**	**11,014,464**
Total	**27,286,711**	**22,198,968**	**49,485,680**

Total deferred variable pay: distribution between payments in cash and payments in shares

	Payments in cash €	Payments in shares €	Total deferred variable pay €
Executive members	**498,817**	**498,817**	**997,634**
Wealth and Personal Banking	**1,165,360**	**1,969,358**	**3,134,719**
Commercial Banking	**994,088**	**1,001,199**	**1,995,286**
Markets and Securities Services	**3,229,719**	**3,229,719**	**6,459,438**
Global Banking	**2,722,357**	**2,722,357**	**5,444,713**
Corporate Centre	**2,043,805**	**2,123,373**	**4,167,179**
Total	**10,654,146**	**11,544,823**	**22,198,968**

Amount of unvested deferred variable pay in respect of previous financial years

	Amount of unvested deferred variable pay in respect of previous financial years €
Executive members	**1,935,188**
Wealth and Personal Banking	**8,582,021**
Commercial Banking	**3,671,479**
Markets and Securities Services	**15,942,476**
Global Banking	**14,276,298**
Corporate Centre	**10,269,011**
Total	**54,676,473**

This table shows outstanding deferred variable pay corresponding to total unvested deferred remuneration before 31 December 2023, i.e. variable pay that has been awarded but not yet paid (cash) or delivered (shares) and which is still subject to a future 'malus' mechanism or early departure.

Shares and equivalent instruments are valued on the share value as at 31 December 2023. Outstanding vested variable pay in respect of prior year can be impacted by departures from the company.

Amounts paid in respect of hiring (guaranteed variable)

	Number of people concerned	Amount paid in respect of hiring (guaranteed variable) €
Executive members	—	—
Wealth and Personal Banking	—	—
Commercial Banking	—	—
Markets and Securities Services	—	—
Global Banking	—	—
Corporate Centre	—	—
Total	—	—

Amount of severance payments

	Number of people concerned	Amount of severance decided and paid in year n €
Executive members	—	—
Wealth and Personal Banking	1	1,392,666
Commercial Banking	—	—
Markets and Securities Services	—	—
Global Banking	—	—
Corporate Centre	2	2,275,000
Total	3	3,667,666

Contributions to defined benefit plan

	Number of people concerned	Contribution to defined benefit plan €
Executive members	—	—
Wealth and Personal Banking	—	—
Commercial Banking	—	—
Markets and Securities Services	—	—
Global Banking	—	—
Corporate Centre	—	—
Total	—	—

Information on highest remunerations

Total remuneration

	Number of Material Risk Takers
Between EUR 1 million and EUR 1.5 million excluded	13
Between EUR 1.5 million and EUR 2 million excluded	6
Between EUR 2 million and EUR 2.5 million excluded	1
Total	20

In accordance with AIFM/UCITS and IFD/IFR Directives

Consolidated quantitative information about compensation paid to executive members and financial market professionals, whose activities have a material impact on the company's risk exposure in the entities HSBC Global Asset Management (France), HSBC REIM (France), INKA (Germany), HSBC Epargne Entreprise and HSBC Asset Management (Germany).

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

HSBC Global Asset Management (France), HSBC REIM (France) and INKA (Germany)

	Total fixed pay €	Total variable pay €	Total remuneration €
Total of Employees (number: 628)	**51,040,984**	**14,611,066**	**65,652,050**
Including employees who have a significant impact on the risk profile AIFMD (number: 63)[1]	**10,514,035**	**7,046,073**	**17,560,108**
Including Senior Managers (number: 25)	**4,706,302**	**2,826,490**	**7,532,792**

1 *Including four Executive managers who are already in the CRD V material risk takers.*

HSBC Epargne Entreprise (France) and HSBC Asset Management (Germany)

	Total fixed pay €	Total variable pay €	Total remuneration €
Total of Employees (number: 114)	**13,686,780**	**4,855,776**	**18,542,556**
Including employees who have a significant impact on the risk profile IFD/IFR (number: 13)[1]	**2,864,215**	**2,010,340**	**4,874,555**
Including Senior Managers (number: 7)	**1,169,521**	**686,855**	**1,856,376**

1 *Including four Executive managers who are already in the AIFM/UCITS material risk takers.*

In accordance with Solvency II Directive

Consolidated quantitative information about compensation paid to employees identified as Solvency II staff in the entities HSBC Assurances Vie (France) and HSBC Life Insurance Malta

Amounts are expressed in EUR and correspond to gross salary (excluding employer social security contributions and before deduction of payroll costs).

	Total fixed pay €	Total variable pay €	Total remuneration €
Employees identifies as Solvency II staff (number: 36)[1]	**7,466,207**	**4,684,985**	**12,151,192**

1 *Including 27 Executive managers who are already in the CRD V material risk takers.*

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Statutory Auditors' special report on related-party agreements

(Annual General Meeting for the approval of the financial statements for the year ended 31 December 2023)

HSBC Continental Europe

38, avenue Kléber

75116 Paris

To the Shareholders,

In our capacity as Statutory Auditors of HSBC Continental Europe, we hereby report to you on related-party agreements.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of the agreements that have been disclosed to us or that we may have identified as part of our engagement, as well as the reasons given as to why they are beneficial for the Company, without commenting on their relevance or substance or identifying any undisclosed agreements. Under the provisions of article R.225-31 of the French Commercial Code (*Code de commerce*), it is the responsibility of the shareholders to determine whether the agreements are appropriate and should be approved.

Where applicable, it is also our responsibility to provide shareholders with the information required by article R.225-31 of the French Commercial Code in relation to the implementation during the year of agreements already approved by the Annual General Meeting.

We performed the procedures that we deemed necessary in accordance with professional standards applicable in France to such engagements. These procedures consisted in verifying that the information provided to us is consistent with the underlying documents.

Agreements to be submitted for the approval of the Annual General Meeting

Agreements authorised and entered into during the year

In accordance with article L.225-40 of the French Commercial Code, we were informed of the following agreements entered into during the year and priorly authorised by the Board of Directors.

Agreement with HSBC Private Bank (Switzerland) S.A., in which HSBC Holdings plc, the controlling company of HSBC Bank plc, a shareholder company of HSBC Continental Europe holding more than 10 per cent of the voting rights, has an indirect interest.

Nature and purpose:

During its meeting on 20th September 2023, the Board of Directors authorised an agreement, namely a share purchase agreement (SPA), concerning the acquisition of HSBC Private Bank (Luxembourg) S.A. by HSBC Continental Europe from HSBC Private Bank (Switzerland) S.A. This agreement was concluded on 2nd November 2023.

Terms and conditions:

Under the terms of the signed agreement, HSBC Continental Europe has paid EUR 195 million in cash to HSBC Private Bank (Switzerland) SA in exchange for 100 per cent of the 160 thousand ordinary shares of HSBC Private Bank (Luxembourg) S.A.

Reasons why the agreement is beneficial for the Company:

This agreement was established to enable your company to comply with the requirements related to the establishment of an Intermediate Parent Undertaking ("IPU") in line with the Capital Requirements Directive ("CRD V") applicable to banking entities operating in the EU and headquartered outside the EU.

In this context, HSBC Continental Europe acquired HSBC Private Bank (Luxembourg) S.A. in November 2023.

Agreements authorised and entered into since the year-end

We have not been informed of any authorised agreements on the exercise and concluded since the close of the last financial year, which have been subject to the prior authorisation of your board of directors.

Agreements already approved by the Annual General Meeting

Agreements approved in prior years:

a) that were implemented during the year

In accordance with article R.225-30 of the French Commercial Code, we were informed of the following agreements, approved by the Annual General Meeting in prior years, which were implemented during the year.

With HSBC Bank plc Paris Branch (a company controlling HSBC Continental Europe and owning more than 10 per cent of the voting rights)

Two agreements concluded in 2001 between your company and HSBC Bank p.l.c. Paris Branch also continued their effects in 2023:

– A shared services agreement to provide its members, at cost, with various services related to the two companies' business activities.

Under the terms of this agreement, the income recorded in 2023 amounted to EUR 0.9 million.

– A tax consolidation agreement between HSBC Bank plc Paris Branch and the Company.

Under the terms of this agreement, tax income of EUR 32.9 million was recorded in 2023

With HSBC Holdings plc, a company controlling a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights

The agreement renewed in 2015 provides for the free use of the HSBC brand by the Company and its subsidiaries. This agreement had no impact on the 2023 financial statements.

With HSBC Global Services (Hong Kong) Limited, HSBC Global Services (UK) Limited, HSBC Group Management Services Limited, HSBC Global Services Limited, and HSBC Service Delivery (Polska) sp. z o.o., (a company in which HSBC Holdings plc, the controlling company of HSBC Bank plc, a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights, has an indirect interest).

The agreement (Side Letter) entered into on 29 September 2021 with HSBC Global Services (Hong Kong) Limited, HSBC Global Services (UK) Limited, HSBC Group Management Services Limited, HSBC Global Services Limited, and HSBC Service Delivery (Polska) sp. z o.o. relates to the prepayment by HSBC Continental Europe to five of the Group's Services Companies of four months' charges for the services provided in order to meet contingency funding requirements to ensure Operational Continuity in Resolution (OCiR). The purpose of the contingency fund is to ensure the availability of sufficient financial resources in the Group's Services Companies (ServCos) to safeguard the provision of services that the HSBC Group relies on throughout a stress or resolution event.

Under the terms of this agreement, the prepayments recorded on the Company's statement of financial position amounted to EUR 183.9 million in 2023.

With HSBC Trinkaus & Burkhardt GmbH, a company controlled by HSBC Bank plc, a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights

The Partnership Agreement, entered into on 11 October 2022, with HSBC Trinkaus & Burkhardt GmbH, a company controlled by HSBC Bank plc, a shareholder of HSBC Continental Europe and holding more than 10 per cent of the voting rights, was to establish a German limited partnership (Kommanditgesellschaft). For this partnership, HSBC Continental Europe S.A., Germany (the branch of HSBC Continental Europe in Germany) is the sole limited partner (Kommanditist), and HSBC Trinkaus & Burkhardt GmbH is the sole general partner (Komplementär). This agreement was approved by the Board at its meeting on 29 September 2022. The creation of such a German limited partnership was necessary as part of the operation to transfer the activities of HSBC Trinkaus & Burckhardt GmbH to HSBC Continental Europe S.A., Germany (the branch of HSBC Continental Europe in Germany).

The German limited partnership was dissolved on 30 June 2023, following the operation to transfer activities to HSBC Continental Europe S.A., Germany, the German branch of your company.

With HSBC Trinkaus & Burkhardt GmbH, a company controlled by HSBC Bank plc, a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights

The Domination and Profit and Loss Agreement, entered into on 4 January 2023, with HSBC Trinkaus & Burkhardt GmbH, an entity under the control of HSBC Bank plc, a significant shareholder of HSBC Continental Europe with over 10 per cent of the voting rights, was part of the acquisition strategy to secure 100 per cent ownership of HSBC Trinkaus & Burkhardt GmbH by HSBC Continental Europe S.A., Germany (the German branch of HSBC Continental Europe). This agreement received the Board's approval during its meeting on 14 October 2022.

In 2023, this agreement facilitated the transfer of an exceptional loss amounting to EUR 434 million, as recorded by HSBC Trinkaus & Burkhardt GmbH, to HSBC Continental Europe S.A., Germany, your company's branch in Germany.

With HSBC Service Company Germany GmbH, which is indirectly controlled by HSBC Bank plc, a shareholder company of HSBC Continental Europe and owning more than 10 per cent of the voting rights

The Domination and Profit and Loss Transfer Agreement, entered into on 4 January 2023 with HSBC Service Company Germany GmbH, a company indirectly controlled by HSBC Bank plc, a significant shareholder of HSBC Continental Europe with over 10 per cent of the voting rights, relates to the acquisition of the entirety of shares in HSBC Service Company Germany GmbH held by HSBC Trinkaus & Burkhardt Gesellschaft für Bankbeteiligungen GmbH by HSBC Continental Europe S.A., Germany (the German branch of HSBC Continental Europe). This agreement was approved by the Board in its meeting on 14 October 2022.

In 2023, the effect of this agreement was the transfer of a net profit of EUR 1.2 million recorded by HSBC Service Company Germany GmbH to HSBC Continental Europe S.A., Germany, the German branch of your entity.

With Jean Beunardeau, Chairman of the Board of Directors

Reinstatement, as of 15 July 2021, of Jean Beunardeau's employment contract, which had been suspended since his appointment as Deputy Managing Director on 1 February 2010. This agreement was authorised by the Board of Directors at its meeting on 9 June 2021 and was entered into on 19 July 2021.

This agreement resulted in a payment of EUR 2,208,729 during the relevant period.

b) that were not implemented during the year

In addition, we were informed that the following agreement, approved by the Annual General Meeting in previous years, remained in force but was not implemented during the year.

With HSBC Bank plc and HSBC UK Bank plc, (a company controlling HSBC Continental Europe and a shareholder company controlling HSBC Continental Europe respectively, and owning more than 10 per cent of the voting rights)

The indemnity agreement entered into in 2019 between HSBC Continental Europe and HSBC Bank plc and HSBC UK Bank plc in order to indemnify HSBC Bank plc and HSBC UK Bank for any costs that they may still be required to pay pursuant to their obligations to their beneficiaries, who have become customers of HSBC Continental Europe, HSBC Bank plc and HSBC UK Bank plc whilst no longer having authorisation to supply certain international commercial tools and services ("Trade") to companies situated in the European Economic Area (EEA) after the United Kingdom left the European Union.

Under the terms of this agreement, no income was recorded in 2023.

With HSBC Bank plc Paris Branch (a company controlling HSBC Continental Europe and owning more than 10 per cent of the voting rights)

A shared services agreement entered into in 2001 to provide its members, at cost, with various services related to the two companies' business activities.

This rule between HBCE and HSBC Bank PLC Paris Branch ceased to exist from 1 January 2023 due to the establishment of the VAT group, which does not include HSBC Bank PLC Paris Branch

Executed in Neuilly-sur-Seine and Paris, on 1 March 2024

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Vincent Génibrel

Sustainability

Statement on Non-Financial Reporting

HSBC Continental Europe's business model

Activities and strategy

The business model for HSBC Continental Europe, detailing its scope, main resources, main business areas and activities, its strategy and its prospects is set out in the presentation of activity and strategy on page 5.

Our approach to Sustainability

Our approach to Environment, Social and Governance ('ESG')

HSBC is guided by its purpose: to open up a world of opportunity. To achieve its purpose and deliver its strategy in a way that is sustainable, it is guided by its values: we value difference; we succeed together; we take responsibility; and we get it done. HSBC approach to ESG is shaped by its purpose and values and a desire to create sustainable long-term value for its stakeholders. As an international bank with significant breadth and scale, HSBC understands that economies, societies, supply chains and people's lives are interconnected. HSBC recognises that an important role can be played in helping to tackle ESG challenges. Efforts are focused on three areas: the transition to net zero, building inclusion and resilience and acting responsibly.

HSBC Continental Europe's sustainability approach, presented in the section HSBC Strategy Implemented in France and Continental Europe - Transition to net zero page 7 is aligned with the HSBC Group's approach which is described in the non-financial information presented in the Environmental, Social and Governance chapter which forms part of the HSBC Group Annual report and Accounts available on the HSBC Group website: www.hsbc.com/who-we-are/esg-and-responsiblebusiness.

Governance

HSBC Continental Europe governance has continued to be strengthened in 2023 to ensure that ESG risks are duly considered across the organisation and in particular, that risks associated to climate change are reflected within the business strategy, business objectives, and risk management framework, in compliance with regulations.

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

ESG Steering Committee ('Steerco')

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

Climate and ESG Risk Oversight Forum ('CESGROF')

The CESGROF, chaired by the Head of Enterprise Risk Management, was established to shape and oversee HSBC Continental Europe's approach to managing climate and ESG 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 Bank's 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.

ESG governance will continue to develop in line with the evolving approach to ESG matters and stakeholders' expectations.

Risk Management

The Environmental, Social & Governance risks approach is detailed in section ESG risk, page 180.

HSBC Continental Europe is affected by climate risks either directly or indirectly through its relationships with its customers and there is increasing evidence that nature-related risks beyond climate change, which can be represented more broadly by impact and dependence on nature, can and will have significant economic impact. In addition, social risk management is also a key area of attention, in particular in relation to human rights, environmental damage, to modern slavery, inclusion and resilience.

In respect of all ESG-related risks, HSBC Continental Europe needs to ensure that its strategy and business model, including the products and services provided to its customers and risk management processes, are adapted to regulatory requirements, stakeholders and market 's expectations, which continue to evolve significantly.

ESG risk management capabilities have been enhanced over the year and progress continues to be made to fully embed sustainability into the Bank's daily activities, strategy and risk management practices.

Assessing our ESG risks

Non-Financial Risks

The identification of the most material risks related to ESG across HSBC Continental Europe is performed in line with HSBC Group Risk Framework including the Risk Management Framework ('RMF'), applicable to all risks across the organisation. The identification and assessment of these risks also relies on risk management tools such as appetite for risk, risk mapping, emerging risk, horizon scanning and stress testing and scenario analysis. It is also complemented with surveys involving employees and customers, dialogue with customers and investors, and the annual HSBC ESG survey carried out among investors.

The refresh of the 2023 HSBC Continental Europe's ESG risk map was supported by the re-assessment of financial and non-financial risks performed by Businesses and Functions to consider the ESG risks' impacts across their respective perimeter.

The outcome of the analysis and the KPIs implemented have driven the identification of eleven ESG risks that are material for

HSBC Continental Europe, including three risks required by the 19 July 2017 ordinance relating to the publication of non-financial information:

- Four risks relating to the banking activity:
  - Risk relating to the non-alignment of the Bank with its net zero by 2050 strategy (risk 1)
  - Risk relating to the non-alignment of the Bank's operational carbon footprint with a net zero pathway by 2030 (risk 2)
  - Lack of consideration of nature-related risks (risk 3)
  - Failure to manage a business continuity event (risk 4)
- Two risks related to human capital:
  - Risk of failure to recruit and retain talent (risk 5)
  - Psychosocial risks and poor quality of life at work (risk 6)
- Five risks related to governance:
  - Greenwashing risks and unfair business practices risk (risk 7)
  - Risk of corruption* (risk 8)
  - Tax evasion risk* (risk 9)
  - Cybersecurity and IT risks (risk 10)
  - Non-compliance with human rights* (risk 11).

Despite their environmental and societal importance, the fight against food waste and food insecurity*, the promotion of responsible, fair and sustainable food*, the respect for animal welfare as well as practice of sporting activities* are not material issues in the banking activities. The Bank is also taking into consideration how it can help promote the Nation-Army bond and support the engagement on reserves* and will look to disclose further on this topic as of next year.

* *Theme required by the 19 July 2017 ordinance relating to the publication of non-financial information (Déclaration de Performance Extra-Financière)*

Policies and actions implemented to manage material ESG risks

HSBC Continental Europe has identified key performance indicators against which it can monitor its ability to manage its most material ESG risks. When developing its policies, the Bank aims to set targets for key metrics in order to monitor progress in meeting its improvement objectives.

Those metrics are provided in the following table:

Key performance indicators and targets

		Target/ambition	Performance in 2023
Banking activity			
	Support our customers in the transition to net zero by 2050	HSBC Group ambition to provide and facilitate USD 750 billion to USD 1 trillion of sustainable finance and investment by the end of 2030	Cumulative contribution to HSBC Group ambition since 2020 of USD 101.2bn
	Net zero by 2030 ambition in our operations	Ambition to be net zero in our own operations and supply chain by 2030 or sooner[1]	Greenhouse gas emissions (tons equiv CO_2) per Full Time Employee [1] of 0.72
	Nature-related risk	Implementation of a robust nature-related risk management framework	Set up the approach to manage nature-related risk and assess the materiality of nature-related risk across the most material activities and risks for the Bank
	Business continuity	Target of 95% of Business Continuity Lifecycle controls assessed as effective and compliant	100% of Business Continuity Lifecycle controls assessed as effective and compliant
Human capital			
	Employee talent retention	Target to achieve an employee attrition rate of 7% or lower	Employee talent attrition rate of 4%
	Quality of life at work (Snapshot survey 2023)	Share of employees who were positive on the question "How do you assess your well-being at work currently?"	61% answered positively to describe their level of well-being at work
Governance			
	Greenwashing risks and unfair business practices risk	HSBC Group target to reduce greenwashing litigation convictions	No greenwashing litigation conviction was recorded in 2023
	Financial crime, corruption and tax evasion	HSBC Group target to achieve at least 98% of employees having completed the financial crime, corruption and tax evasion mandatory trainings each year	96% of staff completed the training
	Cybersecurity and IT attacks	Target of no significant cybersecurity incidents over the last 12 months	No significant cybersecurity incident was recorded in 2023
	Supplier Code of Ethical Conduct	Target of close to 100% of suppliers to have signed the code of conduct	74% of suppliers signed the code of conduct

1 *This absolute greenhouse gas emission figure covers scope 1, scope 2 and a part of scope 3 (energy and business travel) emissions.*

Managing the risk of non-alignment with our Net Zero by 2050 strategy (risk 1): embedding net zero into the way we operate

The Paris Agreement aims to limit the rise in global temperatures to well below 2°C, preferably to 1.5°C, compared with pre-industrial levels. To limit the rise to 1.5°C, the global economy would need to reach net zero greenhouse gas emissions by 2050. HSBC is working to achieve a 1.5°C-aligned phase-down of its financed emissions from its portfolio.

In October 2020, HSBC announced its ambition to become a net zero bank by 2050 and in 2021 it included the transition to net zero as one of the four key pillars of its corporate strategy.

Its starting point in the transition to net zero is one of a heavy financed emissions footprint. Its history means its balance sheet is weighted towards the sectors and regions which matter the most in terms of emissions and whose transitions are therefore key to the world's ability to reach net zero on time. This means the Bank will have a complex transition, with markets and sectors at different starting points and moving at different speeds. However, it also provides with an opportunity to work with its customers to help make an impact – in both the emissions challenge and the financing challenge.

Responding to the challenge and opportunity presented by net zero requires to work across HSBC to implement and embed the net zero approach, to manage associated risks and to help sustain and grow value for its customers, its shareholders and its wider stakeholders. HSBC wants to make financing, facilitating and investment choices that can lead to a meaningful impact on emissions reduction in the real economy, not just its portfolio. This requires engaging with its customers on their transition to help finance decarbonisation in the sectors and geographies with the most changes ahead.

In January 2024, HSBC published its Net Zero Transition Plan. It provides an overview of the Bank's approach to net zero and the actions it is taking to help meet its ambition. It sets out how HSBC intends to use its strengths as an organisation to help deliver a broader impact on decarbonisation, how it is working to embed net zero across key areas of its organisation, and the principles that it aims to use to guide the implementation of its approach.

HSBC is working to embed net zero across its organisation. This includes: the way that it supports its customers, both through customer engagement and the provision of financing solutions; the way that it operates as an organisation, including risk management, policies, governance and own operations; and how it partners externally in support of systemic change.

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. HSBC manages climate risk across all its businesses and is incorporating climate considerations within its traditional risk types in line with its HSBC Group-wide risk management framework.

HSBC material exposure to climate risk relates to wholesale and retail client financing activity within its banking portfolio. The Bank is also exposed to climate risk in relation to asset ownership by its insurance business. Its clients are exposed to climate - related investment risk in its asset management business.

In 2020, HSBC set an ambition to provide between USD 750 billion and USD 1 trillion in sustainable financing and investment by 2030.

HSBC Continental Europe's cumulative contribution to the HSBC Group's target since 1 January 2020 amounted to USD 101.2 billion at 31 December 2023, representing 34 per cent of total HSBC Group progress to date.

The HSBC Group's revised data dictionary, which includes a detailed definition of contributing activities, and the HSBC Group ESG Data Pack, which includes a third-party assurance letter and breakdown of the HSBC Group's sustainable finance and investment, can be found at www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

For more information on progress towards these commitments please see www.hsbc.com/who-we-are/our-climate strategy.

Managing the environmental risks related to wholesale banking

Sustainability risk policies

HSBC sustainability risk policies help the Bank to set out its appetite for financing and advisory activities in certain sectors. These policies are important mechanisms for delivering its net zero ambition, as well as for managing sustainability risk.

The sustainability risk policies comprise the core net zero-aligned policies - thermal coal phase-out and energy - and the broader sustainability risk policies covering: agricultural commodities, chemicals, forestry, mining and metals, and UNESCO World Heritage Sites and Ramsar-designated wetlands. HSBC also applies the Equator Principles when financing relevant projects.

The sustainability risk policies focus on mitigating the negative impacts of specific sectors on people and the environment. The net zero policies, including energy and thermal coal phase-out, also support the Bank's ambition to transition to net zero. These policies aim to provide clear signals to its customers on how its appetite and expectations for different activities are changing, as well as how it will consider their plans for the future.

HSBC continues to review policy implementation as it applies its policies in practice and its operationalisation of such policies continues to be enhanced. The Bank takes a risk-based approach when identifying transactions and clients to which its energy policy and thermal coal phase-out policies apply, and when reporting on relevant exposures, adopting approaches proportionate to risk and materiality. This helps to focus efforts on business areas where it believes it can help drive meaningful change, while taking into account experience from policy implementation over time.

HSBC regularly reviews its policies, incorporating feedback and building on experience from policy implementation over time. Engaging with customers on their transition plans is a key aspect of its net zero policy approach.

Where the Bank identifies activities that could cause material negative impacts, it expects customers to demonstrate that they are identifying and mitigating risks responsibly, and it will look to take required actions as outlined in its policies, which may include applying financing restrictions or enhanced due diligence.

For further details on how HSBC manages sustainability risk, as well as its full policies, see www.hsbc.com/our-approach/risk-and-responsibility/sustainability-risk.

Thermal coal phase-out policy

As set out in the thermal coal phase-out policy, HSBC is committed to phasing out the financing of thermal coal-fired power and thermal coal mining in EU and OECD markets by 2030, and globally by 2040.

The thermal coal phase-out policy aims to support thermal coal phase-out aligned to science-based timeframes, recognising the different pace between advanced and emerging economies. In turn the policy supports progress towards HSBC financed emissions targets for the power and utilities and thermal coal mining sectors.

The policy was first published in December 2021 and is reviewed annually, with the most recent update in January 2024 to help ensure that it remains aligned with HSBC commitments and takes into consideration relevant changes in external factors.

For the thermal coal phase-out policy, see www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-thermal-coal-phase-out-policy.pdf

For further details of the thermal coal phase-out policy January 2024 update, see page 71 of our Net Zero Transition Plan 2024, which is available at www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan.

Thermal coal financing exposures

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

In its 2022 Annual Report and Accounts, HSBC acknowledged that its processes, systems, controls and governance were not yet designed to fully identify and disclose thermal coal exposures and that the Bank planned to reassess the reliability of its data and review its basis of preparation to help ensure that it is reporting all relevant thermal coal exposures aligned to its thermal coal phase-out policy.

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.

Specifically, for product types, short term lending exposures are excluded from the thermal coal financing exposures reporting in line with the financed emissions methodology. For customer types, exclusions are applied to certain customer types such as sovereigns and individuals. For exposure types, a threshold of USD 15 million for drawn balances is applied for thermal coal financing exposures reporting. For the avoidance of doubt, this exclusion criteria applies only to exposure reporting analysis and does not apply to the application of the thermal coal phase-out policy.

For further details of the Financed Emissions and Thermal Coal Exposures Methodology, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

Considering materiality criteria helps HSBC to focus its efforts on areas where it believes it can help drive meaningful change, whilst taking into account experience from policy implementation over time.

Applying this revised basis of preparation, HSBC Continental Europe's thermal coal financing drawn balance exposure was approximately USD 65 million as at 31 December 2020. HSBC continues to work on its 2021 and 2022 numbers based on the revised basis of preparation and expect to report on these in future disclosures.

For further details of our Financed Emissions and Thermal Coal Exposures Methodology, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre

Energy policy

The energy policy covers the broader energy system, including upstream oil and gas, fossil fuel power generation, hydrogen, renewables and hydropower, nuclear, biomass and waste-to-energy sectors.

The policy seeks to balance three objectives: driving down global greenhouse gas emissions; enabling an orderly transition that builds resilience in the long term; and supporting a just and affordable transition, recognising the local realities in all the communities HSBC serves.

The energy policy was first published in December 2022 and updated in January 2024. HSBC reviews the policy annually to help ensure that it remains aligned with its net zero by 2050 commitment and strategic objectives.

For further details on the energy policy, see www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/240125-hsbc-energy-policy.pdf

Measuring the financed emissions

HSBC announced its ambition to become a net zero bank in October 2020, including an aim to align its financed emissions to net zero by 2050 or sooner. It has published initial financed emissions targets for 2030, and plans to review them in five-year increments thereafter.

Its analysis of financed emissions comprises on-balance sheet 'financed emissions' which include emissions related to on-balance sheet lending, such as project finance and direct lending.

The analysis covers financing from Global Banking and Markets, and Commercial Banking.

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

What is included in the analysis

In the approach to assessing HSBC financed emissions, the key methodological decisions were shaped in line with industry practices and standards. HSBC recognises these are still developing.

Coverage of the analysis

For each sector, the analysis focuses on the parts of the value chain where HSBC believes the majority of emissions are produced to help reduce double counting of emissions.

By estimating emissions and setting targets for customers that directly account for, or indirectly influence the majority of emissions in each industry, HSBC focuses its engagement and resources where the Bank believes the potential for change is highest.

For each sector, the reported emissions now typically include all the major greenhouse gases including carbon dioxide, methane, nitrous oxide among others. These are reported as tonnes of CO_2 equivalent, in line with the Net Zero Banking Alliance guidelines.

To calculate annual on-balance sheet financed emissions, the HSBC Group used drawn balances as at 31 December in the year of analysis related to wholesale credit and lending, including business loans and project finance, as the value of finance provided to customers.

It excluded products that were short-term by design, and typically less than 12 months in duration,consistent with guidance from the Partnership for Carbon Accounting Financials ('PCAF'), to reduce volatility.

For further details on the approach to financed.emissions, see www.hsbc.com/who-we-are/our-climate-strategy/tracking-the-emissions-we-finance

Evolving approach

HSBC believes methodologies for calculating financed emissions should be transparent and comparable, and should provide science-based insights that focus engagement efforts, inform capital allocation and develop solutions that are both timely and impactful. The Bank continues to engage with regulators, standard setters and industry bodies to shape its approach to measuring financed emissions and managing portfolio alignment to net zero. It also works with data providers and its clients to help it gather data from the real economy to improve its analysis.

Scenarios used in the analysis are modelled on assumptions of the available carbon budget and actions that need to be taken to limit the long-term increase in average global temperatures to 1.5°C with limited overshoot. HSBC expects that the scenarios it uses in its analysis will be updated periodically. HSBC plans to refine its own analysis of financed emissions as industry guidance on scenarios, data and methodologies more broadly, evolve in the years ahead.

For further details on the Financed emissions approach including the recalculation policy, data and methodology limitations and sectoral approach (including an update on shipping and real estate) please refer to:

- *the ESG review in the HSBC Group Annual report and Accounts available on the HSBC Group website: www.hsbc.com/who-we-are/esg-and-responsiblebusiness.*
- *the Financed Emissions and Thermal Coal Exposures Methodology, see www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.*

HSBC Continental Europe Financed Emissions

Sector targets and progress metrics are calculated at the Group level and are set for HSBC's 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 are 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.

The table summarises the results of the assessment of financed emissions using 2021 and 2022 HSBC Group data, approximated using loans and advances recorded in HSBC Continental Europe as a proportion of the total loans and advances recorded at the HSBC Group level. It indicates the emissions associated with HSBC financing activities in terms of absolute emissions relevant to each sector.

The underlying assumption with this calculation is that the emissions intensity of financing activities is the same across regions and, as a result, that HSBC Continental Europe’s financed emissions are apportioned at the same ratio as HSBC Continental Europe’s portion of loan balances used in the HSBC Group’s calculations. This may result in an overstatement of financed emissions attributable to HSBC Continental Europe since we would expect emissions intensity in this region to be lower than a global average.

Financed emissions - HSBC Continental Europe

	2022		2021	
	HSBC Continental Europe loans and advances to customers	**HSBC Continental Europe absolute emissions**	**HSBC Continental Europe loans and advances to customers**	**HSBC Continental Europe absolute emissions**
	€m	**Mt CO_2e[1]**	**€m**	**Mt CO_2e[1]**
On-balance sheet financed emissions — wholesale credit lending and project finance				
Oil and gas	**10**	**0.0**	**423**	**1.4**
Power and utilities	**390**	**1.4**	**551**	**0.7**
Aviation	**1342**	**1.1**	**1803**	**1.1**
Automotive	**460**	**1.5**	**806**	**1.9**
Cement	**9**	**0.0**	**66**	**0.2**
Iron, aluminium and steel	**81**	**0.2**	**52**	**0.1**

1 *Absolute emissions are measured by million tonnes of carbon dioxide equivalent (‘Mt CO_2e’) HSBC started by identifying the counterparties in-scope of the HSBC Group disclosure which had loans and advances recorded in HSBC Continental Europe. For each of these counterparties we approximated absolute financed emissions using the loans and advances recorded in HSBC Continental Europe as a proportion of the HSBC Group total multiplied by the financed emissions for the HSBC Group. The figures for 2023 are not yet available.*

Embedding net zero transition into the wholesale business

HSBC Continental Europe’s approach for wholesale business covers both Global Banking and Commercial Banking. Where possible, the two businesses adopt an aligned approach, such as in policies, systems, governance, and risk approaches. In certain areas, however, each business will have an approach that is tailored to the business segments they serve. Both strategies reflect the overarching objective to be the trusted partner helping clients manage their transition to net zero.

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 Transition Engagement Questionnaire ('TEQ') that feeds into a new Climate Score together with external data sources, and 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.

More information in "HSBC Continental Europe - Pillar 3 Report 2023"

Building employees' expertise in sustainable finance

In 2023, HSBC Continental Europe has further enhanced its sustainability expertise within the Bank by offering key individuals from different businesses and functions access to different ESG-related certification based on their role. The Bank has also reinforced its Sustainability Academy proposition.

Commercial Banking has maintained the region-wide Sustainable Finance Country Representative Network and expanded the Sustainable Finance Ambassador community in France. These representatives and ambassadors benefit from privileged access to information, training and external certification, 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. In 2023, Commercial Banking also pursued dedicated training pathways with an external partner: one focused on the European Taxonomy (5 modules) and the one on Energy transition and sustainable finance (12 modules). For all employees, Commercial Banking also introduced additional support materials, an interactive instructor-led workshop, and a "Commercial Banking Sustainability Leader Certification" scheme to further support and recognise employee upskilling.

Similarly, Global Banking continued with its Sustainability Taskforce of employees acting as an operating link with the Sustainability team. Their main mission is to ensure the central guidelines are applied and understood at the local level whilst being key entry points for sustainability queries. This taskforce has been key in the successful roll-out of the Transition Engagement Questionnaire in Continental Europe. These representatives and a targeted group of employees with client-facing roles, were provided with the opportunity to get external certifications from different providers to boost sustainable discussions more widely.

More broadly, all the employees of the Bank have access to a range of sustainability learning courses within HSBC University. These range from foundational courses on sustainability and HSBC's sustainable finance portfolio to more specialised sector-specific modules.

Contribution from wholesale banking to sustainable financing

Build market-leading ESG capabilities

Global Banking and Commercial Banking have expanded existing teams to strengthen the end-to-end support provided to clients. This ranges from updating clients on the Sustainable Finance regulatory landscape, conducting a diagnostic of clients' existing ESG strategy and organisation, proposing potential sustainable finance products available to the client, and supporting them with the structuring and execution of the chosen instrument. Commercial Banking also organised various sustainability-focused client events to share knowledge and promoting an engaging discussion.

Following the successful implementation of the sustainable multi-partnerships in 2019 (5 external partners covering three key topics: energy efficiency and low-carbon transition; duty of care in the value chain; and strategy and monitoring of Corporate Social Responsibility ('CSR') performance), commercial Banking has deepened two of these to provide increased support to its customers:

- Ethifinance: provides Second-party Opinion for Sustainability-linked loans ('SLL') and Green loans, CSR consulting, ESG scoring to assess a company ESG maturity and European Green taxonomy eligibility and alignment report.
- Ecoact: helps with Biodiversity assessment, The Science Based Targets initiative ('SBTi') framework trajectory setting.

Together with Global Banking, Commercial Banking has also maintained the Lab Sustainable ('Lab S'). This screens potential partners and service providers and serves to facilitate the development of sustainable finance solutions that would support clients in their transition.

Pivot towards new economy sectors

HSBC Continental Europe aims to 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 addition, Commercial Banking supports nascent technology areas through its Venture Debt and Climate Tech Fund propositions.

Leverage sustainable supply chains

HSBC Continental Europe aims to deploy sustainable supply chain solutions to help its clients reduce their scope 3 emissions, implement partnerships with ESG ratings agencies and consultants, and create digital sustainability tools for mid-market clients.

Managing the environmental risks related to Retail banking

ESG materiality assessment on credit risk

In 2023, the Retail Credit Risk function has continued to consider, incorporate and assess climate risk for the Retail real estate portfolio in consideration of the European Central Bank: Guide on climate-related and environmental risks.

For transition risk, the property energy performance details were integrated into the information recording process and now allow for monitoring of the Energy Performance Certificate Rating distribution within new lending.

In parallel to this, lending policies were modified to take into consideration energy ratings and the principles of the 'Loi Climat & Résilience', with a particular focus on whether there are proposed plans to improve the rating via energy improvement work.

Additionally, materiality assessments and regulatory reporting at a portfolio level were achieved by utilising energy performance certificate assessments made by an external third party as well as internal data.

For the physical climate risk impact, flooding risk-based metrics were incorporated into the regular internal reporting and the policy was enhanced to take into consideration this potential risk. A more in-depth physical risk assessment was also developed to allow for a greater understanding of the potential risks on the real estate portfolio, through a more granular mapping to external scientific climate model data sources and including temperature, wildfires, flooding, river and marine submersion and urban run-off, sea level rise, subsidence and wind.

More information in "Continental Europe - Pillar 3 Report 2023"

Contribution from retail banking to sustainable financing

HSBC Continental Europe has been active in sustainable finance for almost 20 years and is well aware of the importance of ESG considerations in its product offering.

In respect of funds distributed by HSBC Continental Europe retail bank and managed by HSBC Asset Management, today, ESG is factored in equities, bond, multi-asset investment decision-making process and is progressively included in liquidity and alternatives. In keeping with this approach, HSBC Continental Europe in France also offers a whole range of Socially Responsible Investments ('SRI'). The fund HSBC Responsible Investment Fund ('HSBC RIF') being managed by HSBC Global Asset Management (France) are not solely distributed by HSBC Continental Europe retail bank.The seven funds in the HSBC RIF

range cover the main asset classes (equity, bond and multi asset) and are housed in a single French-registered SICAV. They cater for every risk profile and are all certified with the French SRI label.

This diversified SRI range combines an SRI investment process with multi-asset investment expertise. The best-in-class SRI approach is led by managers and analysts who use proprietary tools and a comprehensive global ESG research platform to ensure the consistency in investment decisions.

The HSBC RIF Fund also features an SRI-energy transition sub-fund called HSBC RIF-Europe Equity Green Transition, which boasts three recognised European labels: the French government's SRI label, the Greenfin-France Finance Verte label and the Belgian 'Towards Sustainability' label created by Febelfin in November 2019.

In 2021 HSBC Continental Europe retail bank added to this range the third party fund BNP Paribas Aqua, recipient of the SRI label, which invests in the entire water value chain.

Since 2017, HSBC Continental Europe retail bank has expanded its offering by offering thematic and sustainable funds, such as the HSBC GIF Global Climate Change Fund or the HSBC GIF Global Lower Carbon Fund, with the aim of reducing exposure to intensive carbon activities and reducing the carbon footprint. The investment process implemented by HSBC Asset Management enables the assessment of portfolio companies, the identification and classification of the most attractive firms in the investment world.

In 2023, HGIF Global Equity Circular Economy was added to the recommended funds list by HSBC Continental Europe retail bank. This fund invests in a concentrated portfolio of companies that are actively contributing to the transition to a more circular economy, with an emphasis on ESG characteristics.

In January 2024, HSBC Continental Europe has completed the sale of its French retail banking operations to CCF.

Managing the environmental risks related to Insurance

Integrating ESG issues and climate risk in the Company's assets

As part of the management of the non-linked assets of the company, HSBC Assurances Vie (France) implemented a sustainable investment policy in 2019. In line with HSBC Group policy, this policy includes three different pillars: norm-based and sectorial exclusions, engagement and voting policy, risk and opportunities ESG-based investment analysis including ESG but also climate metrics. This approach is presented in detail within the 'Art 29 – Section 1 - Loi Energie Climat' (French Law n°2019-1147 8th November 2019) report published in June 2023 on reporting year 2022.

At the end of 2023, 64.4 per cent of assets (in market value) were benefiting from the integration of these factors, defined by the HSBC Group, as criteria for selection of investments.

HSBC Assurances Vie (France) applies ESG criteria to both existing positions and new investments related to mandates and dedicated funds managed by HSBC Asset Management on behalf of the Company. The objective is to pursue improvement of ESG rating for the portfolio in comparison to available index representing the investment universe.

HSBC Assurances Vie (France) will continue to develop its sustainable finance policy. In this regard, areas for improvement are identified to achieve this objective, including:

- an extension of the coverage of HSBC portfolio in terms of data collection and analysis on ESG criteria and;
- the establishment of an implicit temperature increase measurement trajectory for the portfolio evaluated at the end of 2022 in the 3-4°C interval, with the aim of obtaining a trajectory aligned with the Paris Agreement.

Contribution from Insurance to sustainable financing: sustainable Investments and Unit-linked offerings

In accordance with HSBC Group Insurance's sustainable investment policy, HSBC Assurances Vie (France) has medium-term objectives to increase the share of sustainable investments in its portfolio over the 2022 to 2025 and 2025 to 2030 horizons. At the end of December 2023, it represented 10 per cent. Within the framework of the macroeconomic development hypotheses defined within the 2023 investment policy, the Investment department anticipates a continuation of sustainable investments, leading to a percentage of sustainable investments between 11 and 12 per cent at the end of 2025 and between 17 and 18 per cent at the end of 2030. HSBC Assurances Vie (France) continued to grow its share of sustainable fixed income investments in 2023.Indeed, new investments were made into social bonds (EUR 9 million) and increasing investments into green bonds (EUR 72 million).

HSBC Assurances Vie (France) continued to strengthen its range of unit-linked products with sustainability objectives.

Available with savings and retirement plans are 29 unit-linked products with Article 8[8] and/or Article 9[9] regarding Sustainable Finance Disclosures Regulation ('SFDR') classification, including 11 with SRI, Towards Sustainability, Greenfin or 'Solidaire' labels, some of them cumulating several labels. At the end of December 2023, 43 per cent of assets in unit-linked funds were invested in sustainable funds. Five of these unit-linked funds are included in the top 10 investments on all the products combined.

HSBC Assurances Vie (France) relies on HSBC Group Management Solutions to carry out diligences, especially regarding sustainability, on the unit-linked products in its portfolio.

Managing the environmental risks related to Asset Management

HSBC Asset Management continues to strengthen its sustainability proposition, globally driven by the Sustainability Office and Responsible Investment teams across both traditional assets and Alternatives. The Sustainability Office is responsible for the delivery of HSBC Asset Management's global sustainability strategy including voluntary commitments, policy, implementation, assurance and the business-wide transition to sustainable investing.

Within the investments function, the Responsible Investment team and Alternatives Responsible team oversees the integration of ESG risks and opportunities into the investment process (as applicable depending on the product), the climate investment strategy, as well as the firm's Stewardship and Engagement activity for investment management teams globally. It also leads the development of new ESG, climate change and thematic products and solutions, working closely with the Sustainability Office and the investment platform.

Asset Management policy

Progress has been made in applying HSBC Group policies across the business. For example, in September 2022, HSBC Asset Management published its own policy on thermal coal and, in November 2023, its own energy policy. As an asset manager, it is subject to separate regulatory and legal obligations to deliver customers' investment interests and deliver fair outcomes.

8 *Which promotes environmental and/or social characteristics.*
9 *Whose objective is sustainable investment or the reduction of carbon emissions.*

Under its thermal coal policy, HSBC Asset Management will not hold listed securities of issuers with more than de minimis revenue exposure to thermal coal in its actively managed funds beyond 2030 for EU and OECD markets and globally by 2040. The policy also includes enhanced due diligence on the transition plans of investee companies with thermal coal exposure. Companies held in investment portfolios that do not develop credible plans to transition away from thermal coal could face voting sanctions and ultimately a divestment of holdings.

Under its energy policy, HSBC Asset Management will engage with and assess the transition plans of oil and gas and power and utilities companies held in its portfolios. It will also introduce, for its active fundamental sustainable named funds, an exclusion of listed issuers whose overall operations are substantially in unconventional oil and gas, subject to data availability, and with the level and scope of exclusions to be set out in fund prospectuses. In its alternatives business, it will not undertake new direct investments in projects associated with the energy-related activities identified as excluded from new finance or advisory services under the HSBC Group Energy policy. HSBC Asset Management's policy work will continue to support the HSBC Group's sustainability objectives and the commitment made under the Net Zero Asset Managers ('NZAM') initiative to support investing aligned with net zero by 2050. It continues on the journey of policy implementation, including engaging with companies it invests in and improving the data it relies on to monitor the policies.

For further details of the energy policy see www.assetmanagement.hsbc.lu/-/media/files/attachments/common/energy-policy-en.pdf

For further details of the thermal coal policy see www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/coal-policy-en.pdf

Managing climate risk

Climate risk management is a key feature of HSBC Asset Management investment decision making and portfolio management approach. HSBC Asset Management recognises that climate risk may manifest as transition and physical risk over the short, medium and longer term. The impact of climate-related risk will vary depending on characteristics such as asset class, sector, business model and geography. Where applicable and relevant, HSBC Asset Management incorporates climate-related indicators such as carbon intensity and management of carbon emissions into its investment decisions as well as insights from its climate-related engagement.

Work continues to integrate ESG and climate analysis into HSBC Asset Management actively managed product offerings to help ensure risks faced by companies are considered when making investment decisions and to assess ESG risks and opportunities that could impact investment performance.

Pursuant to HSBC Asset Management Engagement Policy, the management company is also engaged with investee companies it invests in on its priority list as defined in HSBC Asset Management Stewardship Plan and votes at company general meetings, including on the topic of climate change. HSBC Asset Management also works with collaborative engagement initiatives such as Climate Action 100+ and Nature Action 100.

ESG integration process

Consideration of relevant ESG factors, and stewardship across HSBC Asset Management's equity and fixed income holdings, can help support risk mitigation and long-term value creation for clients. Investment analysts and portfolio managers identify and manage ESG risks and opportunities and consider ESG issues within HSBC Asset Management's research and active investment processes. Evaluating how companies manage their impact on the environment, their relationships with stakeholders, and their operations enables HSBC Asset Management to identify potential risks and opportunities which financial markets may not price appropriately. ESG considerations are typically part of HSBC Asset Management's security analysis alongside fundamental financial analysis. HSBC Asset Management strives to identify E, S and G factors which may have a potential material impact today or in the future.

HSBC Asset Management's investment team also works in conjunction with the stewardship team to use influence as investors to encourage corporate behaviour that protects value through company engagement and voting. HSBC Asset Management believes clients benefit from this collaboration as it allows it to increase focus and resource alignment.

Voting and shareholder engagement

HSBC Asset Management has publicly available global responsible investment policies and publishes its stewardship and voting approach. Through understanding how companies and issuers manage their environmental and social impact, and how they operate and interact with stakeholders, HSBC Asset Management aims to add value by identifying important ESG risks and opportunities. Effective use of voting rights also incentivise positive corporate development, drive behavioural change, and hold company directors accountable when they do not meet its expectations.

Engagement with companies set out in the HSBC Asset Management Global Stewardship Plan priority list is part of the research process and long-term investment approach at HSBC Asset Management. Equity and credit analysts from the active management teams, together with portfolio managers, are in direct contact with relevant issuers and follow up ESG issues as part of their research and discussions.

Disclosures

HSBC Asset Management was an early Principles for Responsible Investment ('PRI') signatory in 2006 and thus reports annually on responsible investment activities and how PRI principles are covered as part of the HSBC Asset Management investment processes. This has enhanced the firm's management and understanding of material ESG issues and has provided transparency for clients. As required under the NZAM initiative commitment, HSBC Asset Management reported an update through the PRI annual submission. In 2023, HSBC Asset Management was awarded 5 stars – the best possible rating – for 'Policy, Governance and Strategy' and in most categories by asset class.

HSBC Asset Management seeks appropriate disclosure by the entities in which its portfolio invest. For example, HSBC Asset Management has engaged with relevant companies on its priority list on climate disclosure since 2020 and encouraged them to disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosure ('TCFD').

Building employees' expertise in sustainable finance issues

To encourage employees to develop their expertise around sustainable finance and investment challenges, HSBC Asset Management has organised a series of global initiatives. HSBC Asset Management collaborated with Fitch Learning and rolled out ESG Investing Fundamentals and Advanced certifications and assigned these to a number of colleagues within Asset Management primarily in client-facing roles. It also supports its employees in obtaining external certifications, such as the CFA Certificate in ESG Investing. Responsible Investment Talks held with internal experts and external speakers, aimed at educating HSBC Asset Management's employees on sustainability issues. Several Sustainability Town Halls were held in 2023 to communicate achievements and strategy to all Asset Management employees, as well as teach in sessions on natural apital. Mandatory sustainability objectives were set for staff in the investment teams alongside a dedicated upskilling Degreed training programme.

Contribution from Asset Management to sustainable financing: sustainable investment offerings

HSBC Asset Management is committed to its strategic focus on climate products and solutions and on its net zero commitment.

HSBC Asset Management is committed to further developing its sustainable product range across asset classes and strategies as well as enhancing its existing product set for ESG criteria where it is in the investor's interests to do so.

In 2023, HSBC Asset Management launched 10 funds within ESG and Sustainable Investing strategies which adhere to, and are classified within, the HSBC Group ESG and Sustainable Investing Framework. Considerations across different investment products can include but are not limited to the UN Sustainable Development Goals, including climate. For the avoidance of doubt, assets invested pursuant to, or considered to be in alignment with HSBC ESG and sustainable investing approach do not necessarily qualify as 'sustainable investments' as defined by the EU Sustainable Finance Disclosures Regulation ('SFDR') or other relevant regulations. Our ESG and sustainable investing approach is an HSBC internal classification approach used to establish our own ESG and sustainable investing criteria (recognising the subjectivity inherent in such approach and the variables involved) and promote consistency across asset classes and business lines where relevant and should not be relied on externally to assess the sustainability characteristics of any given product. There is no single global standard definition of, or measurement criteria for, ESG and sustainable investing or the impact of ESG and sustainable investing products.

Integrating sustainability criteria into compensation

As per HSBC Continental Europe remuneration policy, variable compensation is based on the achievement of the assigned objectives.

In 2023, objectives related to sustainability have been assigned to the Bank's staff.

Environmental objectives

All staff have been assigned an objective to complete at least two training modules on sustainability, in order to raise collective awareness. Additionally, some specific roles such as the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer and all of the Heads of Business have been assigned sustainability objectives in their annual incentive scorecards. These objectives are mainly related to the climate ambition of the Bank in achieving net zero in its operations and supply chain by 2030, developing sustainable finance and supporting clients in their transition to net zero by 2050.

Also, the French Profit-Sharing agreement signed in 2023 includes three climate-related objectives, focused on energy, water and paper consumption. The completion of these goals forms part of the annual performance assessment which determines the associated performance rating basis of the individual variable remuneration.

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

Social objectives

All managers have also been assigned a Diversity & Inclusion-related objective.

Performance Indicators related to the risk of non alignment with a net zero pathway by 2050 (risk 1)

	2023	2022	2021
Cumulative contribution to Group's sustainable finance 2030 objective since 1 January 2020 (USDbn)	**101.2**	64.9	42.6
Net new money in responsible investment funds year on year (USDbn) [1]	**3.7**	3.2	0.7

1 *2023 figure is calculated as the regional cut of global net new money disclosed by HSBC Group. There were methodological changes versus last year to ensure alignment with the HSBC Group disclosure, which directly impact the analysis of the trend between 2022 and 2023.*

Risk of non-alignment of the Bank's operational carbon footprint with a net zero pathway by 2030 (risk 2)

HSBC Group is committed to becoming carbon neutral in its own operations and within its supply chain by 2030. In this context, HSBC will reduce its energy consumption and increase the share of energy from renewable sources to 100 per cent by 2030. HSBC Group publishes its carbon balance in its annual report available on its website: www.hsbc.com/who-we-are/our-climate-strategy.

In order to contribute to the HSBC Group's strategy, HSBC Continental Europe is focused on four objectives:

- Reduce its greenhouse gas emissions, including those related to business travel;
- Improve energy efficiency and sobriety;
- Reduce production of non-recycled waste;
- Reduce paper consumption.

Reduce greenhouse gas emissions

HSBC Group estimates its emissions by following the Greenhouse Gas Protocol, which integrates emissions from scope 2 according to market methodology. HSBC Group focuses on greenhouse gas emissions related to the energy used in its buildings and its employees' business trips. Given the nature of the Bank's primary activity, carbon dioxide is the main type of greenhouse gas applicable to its operations. Their current reporting also integrates methane and nitrogen protoxyde for completeness, although their quantity is negligible. HSBC Continental Europe does not report emissions from its employees working from home in its performance data on scopes 1 and 2.

In 2023, greenhouse gas emissions for HSBC Continental Europe's from energy consumption amounted to 0.25 tons of CO2e per employee (Full Time Equivalent) across the three largest markets (France, Germany and Malta). The emissions related to HSBC Continental Europe's supply chain are not accounted for and the financed emissions are disclosed page 59.

In 2023, the levers of action included the continuation of the renovation policy for buildings, including the use of low carbon materials for construction, which for example saved 89.7 tonnes of CO2e through innovative concrete production in the large construction project in Malta. Further measures include an active policy of energy conservation in the management of HSBC sites, the reduction of professional travel and the decarbonisation of the vehicle fleet.

Greenhouse gas emissions were calculated using the greenhouse gas conversion factors recommended by the UK Department Business, Energy & Industrial Strategy ('BEIS') for UK-based and international companies.

Business Travel and Transport

Under the net zero for own operations program, the fleet of vehicles in France and Germany has evolved into a less CO_2-emitting fleet by removing thermal vehicles from the catalogue: only electric and hybrid vehicles are available for order by users. This development is accompanied by a provision of charging stations available in the central offices in Paris and Düsseldorf.

Regarding business travel, as the pandemic is now past and new markets have been added to the HSBC Continental Europe remit, 2023 saw a return to increased business travel in comparison to prior year, but still significantly lower than the pre-pandemic figures in 2019.
The total number of kilometres of business travel increased by 30 per cent in France which is HSBC Continental Europe’s head office country.

Business travel (domestic and international) has increased due to different projects that required cross border coordination:

- Sale of the French Retail business;
- Integration of Malta and Germany;

Also, international travel restrictions (from 1 January 2022 to 27 April 2022) negatively impacted the comparison to the same period in 2023 (as international trips returned to normal).

While the travel policy encourages train over plane travel, its impact has been partially offset by the higher level of overall business travel (by any means of transport) due to the reasons above. This led to an increase in travel related greenhouse gas emissions in 2023, whilst it remains more than 50 per cent below pre-pandemic levels in 2019.

Improve energy efficiency and sobriety

In 2023, the real estate footprint of HSBC Continental Europe continued to be reduced in connection with the development of hybrid work models and desk sharing. Energy consumption was reduced over the real estate perimeter of HSBC Continental Europe in the three largest markets by 12.11 per cent in comparison to 2022 (11.33 per cent in France, 17.48 per cent in Germany and 10.25 per cent in Malta). HSBC Continental Europe aims to show its commitment to reducing its electricity consumption and to help limit the risks of electricity shortages. In France, this commitment was realised by the signing of the 'EcoWatt Charter of Commitment' to implement specific actions during peak periods of electricity consumption.

Examples of actions implemented throughout 2022 and 2023 for our largest markets:

- In France, the Air Treatment Plant ('ATC') blowing temperature was reduced (from 22.5°C to 21°C) with a goal of achieving a temperature of 19°C in the offices, the operating range of air treatment plants was reduced by 3 hours per day and the automatic ignition range of central sites limited to the period between 7:00 am to 7:00 pm.
- In Germany, the office building at Hansaallee in Düsseldorf is operated with 99.5 per cent of its energy consumption being obtained from renewable energy sources. In 2023, initiatives driving the energy reduction included reduction of floor space in preparation for sub-letting, switching off public monitors and reducing warm water in bathroom taps.
- In Malta, major works on the construction project HSBC HUB, has continued, transforming the largest office building in the country. The project has successfully progressed with the first phase of the project completed on January 2024. As part of the HSBC HUB project, a number of net zero initiatives were delivered, such as the reduction of floor space by 30 per cent through hybrid working and the introduction of energy saving installations. The upcoming construction phases (in 2024-2025) will include a solar farm which will potentially provide 75 per cent of the electricity needs in future years. The project is aiming for Gold or Platinum status LEED accreditation (Leadership in Energy and Environmental Design) and is already well on track to meet these requirements.

Finally, HSBC Continental Europe continued its awareness-raising activities with employees aimed at adopting best practices in the field of energy sobriety.

Reduce production of non-recycled waste

HSBC Continental Europe is continuing its efforts to reduce its waste in general and particularly its non-recycled waste with total recycling rates in its three largest markets of 89.4 per cent in France, 80.9 per cent in Germany and 74.4 per cent in Malta. In France, waste production decreased from 469 tons in 2022 to 246 tons in 2023, which is now back to normal levels following rationalisation activities at Coeur Défense in 2021 and 2022.

Electronic waste

Within HSBC Continental Europe, the majority of e-waste is collected by the company RDC, specialised in IT circular services management. IT equipment, laptops, mobiles, monitors, storage units are collected by this company, then remarketed if possible or recycled. RDC provides the Bank with an annual Sustainability Report which highlights and quantifies the beneficial effects of the professional management of used IT assets, from both a financial and environmental perspective. The key environmental advantages come from carbon reduction and water savings from:

- replacing new purchases by keeping used assets active through redeployment and remarketing, and;
- the extraction of reusable materials from scrap technology through recycling. These benefits are recorded in terms of kilos and liters.

RDC's Sustainability Report summarises all their activity concerning HSBC Continental Europe's used assets in one place - Collections, Redeployment, Remarketing and Recycling, from both a Financial and Environmental perspective.

Paper consumption

HSBC Continental Europe remains committed to reducing its paper consumption. In 2023, the total paper consumption in its three largest markets in France, Germany and Malta was reduced by 13 per cent from 414 tonnes in 2022 to 361 tonnes in 2023.

In support of this, an average of 21,000 transactions per month were concluded through electronic signature in France in 2023, removing the need for wet signatures, corresponding to about 7 percent increase from 2022.

The Bank's operational carbon footprint with a net zero pathway by 2030 (risk 2)

	2023[2]	2022	2021
Greenhouse gas emissions (tonnes equiv CO_2) per employee[1]	**0.72**	0.43	0.48
Evolution year on year (%)	**67**	-10	—

1 This absolute greenhouse gas emission figure covers scope 1 and scope 2 Within the scope 3, only business travel was reported, excluding financed emissions which are disclosed in risk 1 and supply chain emissions.

2 2023 figures are preliminary figures and include Germany, Malta and France (which represents 93 per cent of total FTE), while 2021 and 2022 figures only include France. Increase to prior year is due to addition of the population from markets with higher average emissions per employee. For Malta, the figures exclude most travel emissions due to a service provider change, which will result in an upward correction of overall HSBC Continental Europe emissions figures for 2024, once these are added.

Lack of consideration of nature-related risks (risk 3)

Protecting and restoring nature is unequivocally part of the journey to net zero and a sustainable future.

There is increasing evidence that nature-related risks beyond climate change, which can be represented more broadly by impact and dependence on nature, can and will have significant economic impact. 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 economic activity and other environmental stresses beyond climate change. They can show themselves in various ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC Continental Europe and its customers.

Biodiversity and natural capital-related policies

HSBC sustainability risk policies impose restrictions on certain financing activities that may have material negative impacts on nature. While a number of HSBC sustainability risk policies have such restrictions, HSBC forestry and agricultural commodities policies focus specifically on a key nature-related impact: deforestation. These policies require customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles. HSBC also requires palm oil customers to obtain certification under the Roundtable on Sustainable Palm Oil, and commit to 'No Deforestation, No Peat and No Exploitation'.

While HSBC Continental Europe aims to work with its clients to help ensure their alignment with HSBC policies, new financing is not provided to customers who have not engaged, for example, in meeting HSBC certification requirements.

More information on Sustainability Risk policies: www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

HSBC continues to engage with investors, regulators and customers on nature-related risks to evolve its approach and understand best practice risk mitigation. In 2021, HSBC joined several industry working groups dedicated to helping the Bank to assess and manage nature-related risks such as the TNFD.

In 2022, HSBC published a Statement on Nature available at www.hsbc.com/search-results?q=statement%20on%20nature&site=Whole%20site&page=1&take=10.

In 2023, HSBC Continental Europe supported HSBC Group in participating to several workings groups of the TNFD.

Materiality assessment and nature-related risk framework

In that context and to comply with what is expected from local and European regulators, HSBC Continental Europe took key actions to manage nature-related risk in 2023 including:

- Developing a nature-related risk management approach which sets out high level principles and guidance for how nature-related risk should be managed across all HSBC businesses. The Nature-related risk approach is integrated into HSBC's existing Taxonomy and incorporated within the risk management framework through the policies and controls for the existing risks where appropriate;
- Performing a materiality assessment to determine the impact of nature loss for the corporate loan portfolio, traded risk and liquidity risk and measure the potential financial exposure to sectors with material nature-related dependencies and impacts;
- Scaling approaches to finance nature-positive economy.

Further analysis is planned to be performed in 2024 to ensure that the materiality of nature-related risk impacts and dependencies across HSBC Continental Europe's activities and risks are identified, assessed and the risk and opportunities managed.

HSBC Asset Management stewardship on biodiversity and nature

Since 2020, HSBC Asset Management has continued developing its consideration of biodiversity in investment activities. In 2022, HSBC Asset Management published its biodiversity policy to publicly explain how its analysts address nature-related issues. Biodiversity is also a key theme in its Global Stewardship Plan. It engaged with companies on biodiversity-related topics including deforestation, regenerative agriculture, responsible husbandry, animal welfare, water management, plastic and other pollutants, as well as circularity by design.

Scaling up nature-related finance

The finance sector can help to counter the decline in biodiversity, scaling up nature-related finance and investing in the sustainable food and agricultural systems needed for net zero. Nature-based solutions will play an important role in removing carbon from the atmosphere. These methods include conserving and restoring natural ecosystems and managing forests and agricultural lands more sustainably. Such solutions can also help counter key drivers of the biodiversity loss currently underway, and support action to tackle wider drivers of nature loss, including deforestation, over-fishing and waste.

Investing in nature through Insurance

HSBC Assurances Vie (France) committed for its non-linked assets an amount of EUR 30 million in the Natural Capital Fund (managed by Climate Asset Management) in 2022 with EUR 5.5 million already invested at the end of 2023 on three different underlying investments. This impact fund is an innovative investment vehicle that invests in sustainable agriculture and forestry projects as well as pure restoration projects. The commitment that was made will contribute to protect and restore biodiversity, reduce greenhouse gas emissions while contributing to produce food and timber in a sustainable way with an attractive expected return.

Performance indicator for lack of consideration of nature-related risks (risk 3)

Considering the introduction of this ESG theme in 2023 and the fact that it is likely to remain material over the next years with a phased risk management, the Bank has decided to not define a specific key performance indicator but to deliver as a priority first key steps: set up the approach to manage nature-related risk and assess the materiality of nature-related risk across HSBC Continental Europe activities in order to identify impacts and dependencies on nature enabling the Bank to be in a position to properly manage the associated risks.

Managing business continuity risk (risk 4)

The failure to plan for and manage the business response to a major incident could cause significant disruption to HSBC Continental Europe's customers, suppliers and staff. The Bank regards the ability to continue to provide banking and other financial services to its customers as fundamental to its business.

The Bank has a well-established Business Continuity Incident Management programme in place designed to protect its staff, assets, processes and customers in the event of an interruption to its normal business activities. Business Continuity Plans are designed to respond to several interruption scenarios including communicable disease, unavailability of staff, unavailability of buildings, unavailability of IT services and unavailability of key third party suppliers. Business Impact Analysis and Business Continuity Plans are signed off as fit for purpose by each Department Head and are updated annually, or more frequently, whenever significant changes occur in their structure or processes. Regular testing is carried out to ensure Business Continuity Plans remain accurate, relevant and fit for purpose.

For HSBC Continental Europe's departments categorised as critical, 100 per cent of Business Continuity plans were up to date at the end of the year. The overall Business Continuity Lifecycle controls (Business impact analysis, Plans and Exercises) for the region have been assessed as effective and compliant against a target appetite of 95 per cent completion – reaching a compliance percentage of 100 per cent.

For significant events 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 HSBC customers with minimal disruption. The Bank has plans to ensure its ability to coordinate a wide response to the challenges posed by any type of event affecting HSBC premises. These plans include communications, high levels of working from home and split-site capability in key locations by making use of HSBC 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.

Performance indicator for business continuity risk (risk 4)

	2023	2022	2021
Business Continuity Lifecycle controls assessed as effective and compliant	**100%**	99%	98%

Managing the risk of failure to recruit and retain talent by attracting and integrating the best people to support the Bank's growth (risk 5)

In a rapidly changing banking landscape, HSBC aims to respond to the shift in employment patterns by attracting, recruiting and integrating the best talent.

HSBC Continental Europe is implementing a dynamic, inclusive and connected culture. This has been recognised through the Top Employers Institute certification, which has been awarded to HSBC Continental Europe as an entity and 6 of its markets (France, Germany, Italy, Luxembourg, Poland and Spain). This certification rewards companies for their excellence in their Human Resources practices.

In 2023, the HSBC Continental Europe employee talent attrition rate was 4 per cent representing a drop of 8 points compared to 2022, whereas the annualised year-to-date overall employee turnover rate was 10.7 per cent which represents a decrease by 1.4 points compared to 2022. Nevertheless, the annualised year-to-date employee voluntary turnover rate is only at 7.5 per cent, which remains stable compared to 2022.

In parallel, strong succession plans have been defined for all business critical roles, and targeted retention actions have been deployed on specific populations. In the meantime, the people strategy has been focused on three main areas:

- enhancing employee engagement, through well-being support, strong D&I commitment and flexibility at work approach;
- conveying a common and positive culture, giving people their say on the Bank's culture, strengthening leadership bench and promoting learning in all its form to enhance employability;
- enabling growth, supporting staff and businesses through transformation, but also building the pipeline for tomorrow, through talent acquisition and development.

Key recruitment figures

HSBC Continental Europe

	2023		2022		2021	
Gender	**Total Hiring (FTE)**	**%**	Total Hiring (FTE)	%	Total Hiring (FTE)	%
Women	**416**	**53**	367	50	228	50
Men	**377**	**47**	363	50	231	50
Total	**793**	**100**	730	100	459	100
Business						
Markets and Securities Services	**100**	**13**	51	7	25	5
Commercial Banking	**113**	**14**	100	14	60	13
Global Banking	**31**	**4**	29	4	17	4
Wealth and Personal Banking	**399**	**50**	450	62	308	67
Corporate Centre	**0**	**0**	1	0	0	0
Global Functions and Supports	**150**	**19**	99	13	49	11
Total	**793**	**100**	730	100	459	100

Internal mobility is the preferred recruiting channel. Employees can then grow within HSBC Continental Europe, its subsidiaries and internationally.

With respect to external talent, employer webpages on different websites such as LinkedIn, Indeed, Glassdoor and Welcome to the Jungle have been enhanced in order to reinforce the Bank's attractivity, while working with specialised recruitment agencies to develop the talent pool.

Almost 800 new employees have joined HSBC Continental Europe in 2023, and the locations where we hired the most where France and Germany.

Recruitment of recent graduates is a priority

In the same spirit of hiring and developing internally the best talent, HSBC Continental Europe in France has recruited more than 350 students and graduates through its three preferred channels: apprenticeship, internship and its Graduate programme. The latter is an HSBC Group programme for recent graduates with a rotation of placements at the beginning of their Global Banking and Markets and Commercial Banking contract. This programme encourages graduates to discover various roles within each division while acquiring cutting-edge skills. Events were organised to promote HSBC as an employer among recent graduates.

In 2023 HSBC Continental Europe in France took part to 20 events organised by targeted schools using mostly virtual formats (virtual forum, coaching, recruitment interviews, presentation of HSBC business lines, and Instagram Future Skills interviews).

In Germany, more than 200 students have been hired.

Performance indicator relative to risk of failure to recruit and retain talent (risk 5)

	2023	2022	2021
Attrition within the Talent population (annual target: 7%)	**4%**	12%	7%

Managing risk related to poor quality of life at work and psychosocial risks, by creating a framework for engagement (risk 6)

In 2023, HSBC Continental Europe endeavoured to build an inclusive and caring work environment for its staff.

Supporting the business model transformation

Following the announcement of the planned sale of French Retail banking operations, the plan was presented to HSBC Continental Europe Social and Economic Committee. Transferring employees have benefited from several accompanying measures, notably via regular communication (Webcasts, Exchanges, workshops).

In Commercial Banking, a collective contractual termination was launched in 2023, to enable the corporate banking business to keep pace with changes, while avoiding any recourse to forced redundancies. The measures were implemented during the first half of 2023, and are regularly reported to employee representative bodies.

In our Private Banking business in France, a collective contractual termination was launched at the end of the year. The objective is to adjust the organisation to best respond to the changing needs of HSBC customers and to the evolving competitive environment and avoid forced departures.

In Germany, the move from the former Germany subsidiary to a branch of HSBC Continental Europe was implemented with an automated transfer of more than 1,500 employees. Germany is now fully integrated under HSBC Continental Europe. A specific change management plan was implemented to prepare, equip and support individuals and teams to successfully adapt to the business and organisational changes resulting from the integration of Germany into HSBC Continental Europe, with a focus on the cultural journey.

In November 2023, HSBC Private Bank (Luxembourg) S.A. was also acquired by HSBC Continental Europe.

A responsible and inclusive HR policy

As a leading global employer, HSBC Continental Europe’s main aim is to build an HR policy that helps to develop the employability of staff members, while helping them to achieve their full potential for the Bank.

In an environment where potential expresses itself in many different ways, HSBC is convinced that managing difference and integrating it in to the organisation can truly add value. It places a particular emphasis on diversity in all its various forms. All employees should be able to be themselves, in an organisation that values different profiles and opinions. Making this diversity a real strength is a major priority for HSBC, included HSBC Continental Europe.

Inclusion

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 on the workplace bias and discrimination at work. In addition, the Inclusion workshop 'Understand and value differences' has been deployed in 2023. A focus on diversity and inclusion management is also made in the People Manager Excellence Program and more precisely in the following modules: 'Your People' and 'Your Team'.

32 Employee Resource Group ('ERGs') also actively contribute to increase an inclusive culture across HSBC Continental Europe.

The European ERG launched the first Inclusive Europe live Week in May with a great success. 2,000+ employees from 38 countries joined 15 events covering all the current diversity strands for Europe, sponsored by European Leaders.

HSBC Italy participated in 4 Weeks 4 Inclusion (# 4W4I), the largest European Marathon on Diversity and Inclusion organised by Telecom Italia Mobile and HSBC Ireland was awarded the Silver Accreditation from Investors in Diversity, the leading Irish benchmark for Diversity and Inclusion.

While HSBC aims at addressing all types of diversity, in 2023, a focus was given to gender equality, sexual orientation, ethnicity and disabilities.

Gender equality

HSBC Group has set itself clear and transparent targets for the proportion of women in senior executive positions, the principal objective being to have 35 per cent of female in leadership positions by 2025. The achievement of this objective is monitored closely by HSBC Continental Europe's Executive Committee.
At a local level, HSBC Ireland signed up to the Women in Finance Charter in Ireland and the Elevate Pledge with BITCI ('Business in the Community Ireland'). Both requiring to track D&I measures, HSBC Ireland has committed to 50:50 gender ratio at all grades by 2024. In Spain, four monitoring sessions per year are organised to follow up on the gender plan. A Women's Association exchange took place in Poland with the HSBC Continental Europe Chief Executive Officer which focused on career growth, engagement and recognition. Italy hosted a 4Women event, that brought together female leaders from across Italy to discuss their stories of inspiring change across their respective industries. HSBC Continental Europe in Germany has introduced D&I standards for recruitment and promotions. Germany is the country with the lowest female representation in senior positions, which explains the drop in HSBC Continental Europe figure, as Germany was integrated to the perimeter in 2023.

Performance indicators for risks related to lack of diversity among teams and psychosocial risks (risk 6)

	2023	2022	2021
Share of women in senior executive positions (2025 target : 35%)	**28%**	31%	30%

LGBT+

In France, la 'Charte de l'Autre Cercle' was signed at the beginning of 2023, to highlight the Bank's engagement to pursue efforts to reinforce the inclusiveness of its LGBT+ employees. In this frame, one of HSBC Continental Europe Leaders was recognised as 'LGBT Role Model' during a French event sponsored by French Ministry of Labour.

24 Hours of Pride event was organised with several activities, such as Sweden hosting LGBT+ community members and allies from 9 other banks at the HSBC offices for a networking event.

Ethnicity

In order to raise awareness on ethnicity, conferences and discussion forums have been deployed across HSBC Continental Europe, with two Exco members as sponsors. The ERG Embrace has expanded and is now covering most of the Continental Europe markets, proposing events and workshops dedicated to ethnicity.

Disabilities

HSBC Continental Europe continued its drive to increase the recruitment and employment of people with disabilities in 2023. With nearly 6 per cent of employees with disabilities in France, the Bank implemented awareness-raising actions on cognitive diversity with the support of its collaborating communities through the ERG 'WeHandicap! and the ERG 'Atypik (committed to cognitive diversity). In France, the Bank has worked in partnership with Tremplin, a charity specialising in finding jobs for young people with disabilities. Newcomers with disabilities benefit from a special programme, in order to facilitate their integration in their new job. They can also reach the 'Mission Handicap'. In France, a collective agreement sets high standards on the support given to employees with disabilities, such as dedicated paid leave or domestic help support.

Societal inclusion

HSBC Continental Europe also contributes to fostering inclusion in the wider society, thanks to several actions such as:

- Article 1, Association pour le Développement de l'Egalité des Chances et Entreprendre pour apprendre, which encourage and support young people into further education and improve their chances in the labour market. This approach aims to foster greater diversity of origin among summer job candidates;
- Adie and Cresus are external programs supported by the Bank: Adie's aim is to increase employability among unprivileged communities thanks to entrepreneurship; Cresus' aim is to develop financial capability and support people in situations of financial fragility;
- Since October 2023, HSBC Continental Europe is supporting Emmaüs Connect in France, a charity that has made digital inclusion its mission, helping people in social and digital precariousness. The program 'making digital an opportunity for all' supported by HSBC Continental Europe aims to promote the integration of at least 150 young people into the workforce, to support at least 300 people in a precarious situation outside HSBC areas of action and to deploy a citizen collection on used digital materials;
- The HSBC Malta Foundation introduced eight years ago the Prince's Trust International Achieve Programme in Malta which filled a gap in the local Education system. 2023 has been an encouraging year of delivery as almost 1,000 students received tailored training during the academic year to bolster their skills development, work readiness and, as many teachers shared in their feedback, tackle absenteeism.

Well-being

HSBC is globally involved in employees well-being and provides a consistent well-being offer that is deployed across all regions. This offer is accessible via an internal Website: https://team.global.hsbc/sites/Your-Well-being and includes notably a focus on nutrition which is supported by an external provider: Eat Well Live Well (ewandlw.com). To illustrate also, a nutrition conference took place in France in 2023. To complete, HSBC Continental Europe proposed activities, such as three conferences dedicated to resilience and well-being workshops for staff twice a month.

A hybrid working culture across all the countries

HSBC Continental Europe is determined to offer more flexible working conditions to its employees, in order to ensure a better balance between personal and working time.

In 2023, HSBC Continental Europe leveraged on its hybrid culture. In all of its markets, people can work remotely at least two days per week, except when the activities require onsite presence, such as for the trading room.

Managers and employees have the opportunity to access a large panel of tools to support them in those new ways of working, through a dedicated Degreed path.

Strengthening the collective ability to manage change and measuring employees' satisfaction and well-being on a regular basis

Employees' concerns are expressed through various channels:

- The 'Exchange' Group programme, under which agenda-free consultation meetings are held. Staff members are free to discuss any issues they wish.
- Group surveys: 'Snapshot' is a yearly survey of employees around the world, which aims to assess staff engagement, understanding of the Bank's strategic priorities and measure perception of changes through various themes such as strategy, communication, customer experience, culture and working methods. At the end of 2023, the Snapshot survey showed increased scores for HSBC Continental Europe on all indicators compared to previous year, especially indexes related to employee focus (overall feelings about work organisation), inclusion, change leadership, trust and adherence to the strategy.

Career Development

HSBC considers that promoting future skills and offering development opportunities contribute to a positive and growth culture.

A training offer for all

The training program for all is based on the four pillars of HSBC strategy to contribute to HSBC's ambition to become the leading international wholesale bank for its clients.

Firstly, HSBC Continental Europe is implementing an ecosystem that facilitates continuous learning in order to strengthen the adaptability and agility of its employees, with the Future Skills and people managers curriculum continuing to support teams wishing to develop essential cross-functional skills. In 2023, HSBC focus was on communication skills, commercial skills, professional agility and sustainability awareness. Almost 1,000 employees have taken a "Future Skills" course and around 500 managers have attended one managerial training. In addition, HSBC Continental Europe aims to build a positive common culture by:

- promoting an English language training offer open to all employees;

- offering all employees a multiculturalism path, with several actions such as customised training pathway guiding employees through interconnected training courses; working sessions dedicated to managers assisting them in addressing cultural issues and promoting an inclusive culture; culture awareness talks helping employees gain a better understanding of the cultural aspects of work and 3 weeks 'Together Challenge' designed to promote cultural awareness and effective collaboration among employees;
- The training department is also progressively offering a wide range of awareness-raising and training initiatives to employees to contribute to HSBC ambition of a net zero transition by 2030;
- Launch of the new Sustainability Academy;
- The deployment of "Develop your skills around climate change" with EnROADS tool.

Development

To promote HSBC career development, HSBC offers several tools, such as Global Job Opportunities, which allows the staff to consult all open positions within the HSBC Group or Talent Market Place, which helps matching available skills with expertise needs for internal projects. The Bank also promotes career development through career fairs. Two local career events in France and one in Germany were held in 2023.

The focus was on promoting internal applications, introducing various businesses and exchanging between local hiring managers and interested employees.

Performance indicators for Risk of deterioration in the quality of life at work and psychosocial risks (risk 6)

	2023	2022	2021
Share of employees who were positive on the question "How do you assess your well-being at work currently?"	**61%**	59%	55%

An attractive and fair remuneration policy

HSBC Continental Europe's remuneration policy is designed to attract, motivate and retain the best employees. It is a powerful driver of staff engagement, and one that HSBC makes full use of.

HSBC Continental Europe addresses this strategic priority with a remuneration policy that is both attractive and inclusive.

Remuneration gender equality by Global Career Band

	Global Career Band*	**MD**	**3**	**4**	**5**	**6**	**7**	**8**
FTE Dec 2023	Female	15	127	550	1007	960	812	153
	Male	91	308	1038	1194	659	294	78
	Total	106	435	1588	2,201	1,619	1106	231
Avg Fixed Pay Dec 2023	% F/M	81%	88%	89%	91%	93%	96%	95%
Avg Vari-able Pay 2023	% F/M	84%	75%	78%	94%	95%	108%	115%
Avg Total Comp 2023	% F/M	82%	83%	87%	91%	93%	96%	95%

* *Employees present full year 2023,excluding promotions and role changes.*

The remuneration policy recognises and rewards the engagement, involvement, contribution and the collective and individual performance of each of HSBC employees through an annual pool for general and/or selective wage adjustments, individual variable remuneration and, in France, based on results, collective remuneration and profit sharing.

In addition, HSBC Continental Europe provides financial assistance for employees' day-to-day lives in the form of various contributions, such as child care allowance, meal voucher, sustainable mobility allowance. It also provides guarantees that will last throughout an employee's career at HSBC and beyond: continuation of salary and health cover in the event of illness, protective cover in the event of incapacity/ disability and supplementary pension scheme that has been in place for many years to help HSBC employees boost their income in retirement.

This policy forms part of an approach that seeks to treat all of HSBC employees fairly and is best illustrated by a few examples in France:

- For more than 15 years, the collective agreements that HSBC Continental Europe in France has entered into have included an automatic salary review for people returning from maternity or adoption leave;
- Specific *fairness* pools are managed by HR each year to help correct any gap which would not be explainable;
- Women's pay, across almost the entire grade scale for the banking sector, was between 97.7 per cent and 101.4 per cent of men's pay in 2023.

Ratio theoretical wage W/M by level (letter) corresponding to the conventional category - HSBC Continental Europe in France

Status		**2023 %**	2022 %	2021 %
Technician	C	**—**	—	—
	D	**—**	—	—
	E	**99.6**	98.7	99.3
	F	**101.4**	101.6	101.4
	G	**101.3**	101.5	100.8
Executive	H	**98.6**	99.1	99.2
	I	**97.7**	98.1	98.4
	J	**99.4**	99.5	99.6
	K	**99.3**	99.1	100.3

Pay for employees working part-time, across different employment grades, was between 98.7 per cent and 104.0 per cent of that of full-time employees in 2023.

Ratio theoretical wage Part Time W/M by level (letter) corresponding to the conventional category - HSBC Continental Europe in France

Status	Convention Level	**2023 %**	2022 %	2021 %
Technician	C	**—**	—	—
	D	**—**	—	—
	E	**104.0**	105.1	104.7
	F	**102.3**	102.4	103.8
	G	**100.9**	101.6	101.0
Executive	H	**98.7**	99.2	100.5
	I	**99.4**	99.3	99.3
	J	**99.2**	99.2	100.0
	K	**100.8**	98.8	97.1

The salary of disabled workers was between 95.9 per cent and 105.7 per cent of that of all workers. Personal service vouchers ('CESU') financed in full by the company were introduced in 2015 to assist employees with disabilities and employees with a close relative with disabilities.

Ratio theoretical waged disabled employees/other employees by level (letter) corresponding to the conventional category - HSBC

Status	Convention Level	2023 %	2022 %	2021 %
Technician	C	—	—	—
	D	—	—	—
	E	**105.7**	107.2	107.8
	F	**103.6**	103.4	104.4
	G	**100.8**	101.6	101.9
Executive	H	**99.0**	99.2	99.7
	I	**96.6**	96.4	97.5
	J	**95.9**	96.4	98.5
	K	**104.2**	100.1	101.7

Table of social performance indicators of HSBC Continental Europe

		Change	
Indicators	**2023**	2022	2021
1 – Workforce split by status, gender and contract of employment (FTE) Dec 31			
Total FTE[1] – HSBC Continental Europe	**9,806**	7,230	7,451
– of women :	***5,175***	*4,019*	*4,164*
Markets and Securities Services	***504***	*187*	*191*
Global Banking	***159***	*123*	*120*
Commercial Banking	***653***	*557*	*547*
Wealth and Personal Banking	***2,471***	*2,148*	*2,221*
Corporate Centre	***2***	*3*	*3*
Global Functions and Others	***1,385***	*1,001*	*1,082*
% Women	***52,8%***	*55.6%*	*55.9%*
– of Men :	***4,631***	*3,211*	*3,287*
Markets and Securities Services	***822***	*273*	*255*
Global Banking	***231***	*154*	*155*
Other Corporate Centre GBM	***5***	*—*	*—*
Commercial Banking	***585***	*510*	*521*
Wealth and Personal Banking	***1,542***	*1,332*	*1,380*
Corporate Centre	***15***	*9*	*10*
Global Functions and Others	***1,432***	*933*	*966*
% Men	***47,2%***	*44.4*	*44.1*
2 – Hires and dismissals (FTE)			
Recruitments (FTE) HSBC Continental Europe	**793**	730	459
% recruitments	**8,1%**	10.1%	6.2%
Dismissals (FTE) HSBC Continental Europe	**66**	85	84
% dismissals	**0,7%**	1.2%	1.1%
3 – Equality of treatment			
% of women in management HSBC Continental Europe (FTE)	**27,9%**	31.1%	30.3%
% of employees less than 30 years old HSBC Continental	**10,9%**	7.0%	8.9%
% of employees over 50 years old HSBC Continental Europe (FTE)	**32,6%**	26.3%	31.7%

1 *HSBC Private Bank (Luxembourg) S.A. is excluded from above table. Refer page 73 for the scope of 2023 DPEF reporting.*

Risk related to greenwashing and unfair business practices (risk 7)

Greenwashing approach

The risk of greenwashing is considered at HSBC as an important evolving risk which is likely to increase over time in an evolving regulatory environment context mainly in Europe resulting from an increase of expectations and scrutiny in relation of ESG risk.

The risk of greenwashing is defined as knowingly, or unknowingly misleading stakeholders in relation to the bank's sustainability commitment or targets, products or services offered to clients stating sustainability objectives, or the climate commitments or performance of HSBC customers which are not aligned to HSBC commitments. It can materialize across all businesses, and functions and can lead to reputational damage, regulatory censure and/or litigation.

The review of ESG risk impacts performed in 2023 by HSBC Continental Europe businesses and functions across their respective risk profile included scenario to identified potential risk of greenwashing which is likely to primarily materialize in the form of non-financial risk (e.g, regulatory compliance risk and financial reporting risk), as well as reputational risk. HSBC Continental Europe has strengthened its governance to include the risk of greenwashing associated to climate-related and environmental risk.

Specific committees have been put in place to review Sustainable Finance transactions for all in-scope products, endorse, and approve the ESG categorisation and labelling transactions in accordance with the Group's Sustainable Finance and Investments Data Dictionary and the relevant Principles issued by the Loan Market Associations ('LMA'), the International Capital Market Association (ICMA), and the Loan Syndication Trading Association ('LSTA'). They draw on the bank's various areas of expertise: business, sustainability, compliance, legal and reputational risk representatives.

In 2023, HSBC Asset Management (France), including Real Estate Investment Management ('REIM'), completed a specific review for products manufactured, distributed, and managed by them in France. The agreed scope of this greenwashing self-assessment included any ESG statement made for HSBC Asset Management (France)'s ESG products against the current AMF and European regulatory requirements. The review focused on product, marketing, sale, and distribution. The gaps identified through this in-depth review are being tracked to closure in line with the HSBC Risk Management Framework. Clients' complaints monitoring was updated in 2023 to include root causes related to sustainability (ESG investment process, ESG reporting, ESG Mis- selling). No complaints with such ESG causes have been raised in 2023.

Specific training sessions on greenwashing have been completed by HSBC Asset Management (France) employees. Within HSBC Global Banking, a few mandatory trainings have been rolled-out specifically covering greenwashing risk as well as reputational and sustainability risks, such as 'Sustainability Training (Greenwashing)',

'Greenwashing: Part 2: our greenwashing strategy'. Also, the HSBC University contains a Sustainability Academy with a collection of resources ranging from videos, articles, trainings events, amongst others, to enhance knowledge on the transition to a global net zero economy and its implications.

Business practices framework

For HSBC, best practice consists of taking actions and making decisions that are fair for its customers and do not disrupt the proper and transparent operation of financial markets. These principles are essential to ensure long-term success and provide the best service to HSBC Continental Europe's customers. To achieve this, the Bank has clear directives, frameworks and governance principles covering its culture, its behaviour, the design of products and services, training and remuneration of employees, interactions with customers and internal communication.

All HSBC employees have to act with integrity, take responsibility and accountability as detailed in HSBC Conduct Approach which is the central reference to guide colleagues to understand the consequences of good or poor decisions for customers and otherstakeholders. In 2022, the refreshed Conduct Approach was aligned to one of the refreshed values 'We Take Responsibility' and structured around five outcomes to be achieved for customers and markets in a simplest and understandable approach.

In 2023, all lines of businesses and functions have conducted a conduct self-assessment ensuring to be well-aligned with the Purpose Led Conduct Approach. Employees performed a HSBC Group mandatory conduct training "Creating value Together" launched during the last quarter of 2023, achieving a completion rate of 97 per cent.

Performance indicator for risk of greenwashing and unfair business practices (risk 7)

	2023	2022	2021
Greenwashing* Litigation convictions	**–**	na	na

* *Greenwashing refers to the practice based on environmental claims containing false information, which may be misleading, not sufficiently detailed or presenting an offer as a distinctive feature of a product or a service when it is a legal requirement.*
An "environmental claim" is defined as any message or representation,which is not mandatory under the European Union law or national law, including text, pictorial, graphic or symbolic representation, in any form, including labels, brand names, company names or product names, in the context of a commercial communication, which states or implies that a product or trade has a positive or no impact on the environment or is less damaging to the environment than other products or trades, respectively, or has improved their impact over time.

For more details, see Risks, Regulatory Compliance Risk Management page 172.

Risk of corruption: preventing the risk (risk 8)

HSBC is committed to high standards of ethical behaviour and operates a zero-tolerance approach to bribery and corruption. It considers such activity to be unethical and contrary to good corporate governance and requires compliance with all anti-bribery and corruption laws in all markets and jurisdictions in which it operates. The Bank has a Global Anti-Bribery and Corruption Policy which gives practical effect to global initiatives such as the Organisation of Economic Cooperation and Development ('OECD') Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and Principle 10 of the United Nations Global Compact. In regard to combating corruption, HSBC Continental Europe is committed to complying with France's Sapin 2 Law and to adopting a zero-tolerance attitude to corruption.

HSBC Continental Europe has implemented a Compliance programme applying to all its activities, in France and in its branches and subsidiaries, with the objective to strengthen the HSBC Continental Europe's anti-bribery and corruption ('AB&C') framework and align it with the requirements established by the law. The programme enabled the enhancement of the HSBC Continental Europe's corruption risk mapping, the identification and deployment of accounting controls to prevent and detect bribery and corruption, the implementation of AB&C Customer and Third-Party Due Diligences, the update of local Policy and procedures or the publication of specific Codes of conduct.

Performance indicator for risk of corruption (risk 8)

	2023	2022	2021
Share of employees trained on this theme	**96%**	95%	98%

For more details, see Risks Financial Crime Risk Management, page 172.

More information about HSBC anti-bribery and corruption policies at www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

Risk relating to tax evasion: preventing the risk (risk 9)

HSBC Continental Europe 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 RMF 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 material tax evasion risks that the Bank faces are:

- Customer tax evasion – The risk that the Bank's products or services are associated with customer tax evasion and the risk that employees facilitate customer tax evasion;
- Facilitation by third party Associated Persons ('APs') – The risk that third party APs (excluding employees) facilitate tax evasion while acting for or on behalf of the Bank;
- Product risk – The risk that the Bank's products or services are designed, or could be seen as designed, to facilitate customer tax evasion;
- Payments to employees – The risk that the Bank (or the Bank acting through its third party APs) assists in structuring remuneration, allowances, benefits or business expenses in a way which facilitates evasion of tax by the employee;
- Payments to third parties – The risk that the Bank (or the Bank acting through its third party APs) assists in structuring payments to third parties for products or services in a way which facilitates the third party (including non-APs) to evade tax. The scope includes contractors, personal service companies, and 'umbrella' companies;
- Strategic transactions including acquisitions or disposals of shares, securities or partnership interests by HSBC Group entities – The risk that employees or other APs appointed by the Bank assist in structuring a transaction in a way which facilitates tax evasion by a counterparty.

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.

In order to ensure the effectiveness of these policies, 96 per cent of HSBC Continental Europe employees have completed annual training in 2023.

Performance indicator for risk of tax evasion (risk 9)

	2023	2022	2021
Share of staff members trained on theme	**96%**	95%	98%

For more details, see Risks, page 174.

More information about HSBC anti-bribery and corruption policies at www.hsbc.com/who-we-are/esg-and-responsible-business/fighting-financial-crime/financial-crime-risk-policies

For more details, see Risks, Regulatory Compliance Risk Management, page 172.

Risk in the areas of cybersecurity and IT attacks: preventing the risk (risk 10)

HSBC Continental Europe, similar to other organisations, is subject to a growing number of increasingly sophisticated cyber-attacks that can in some instances affect its operations, including the availability of digital facilities for customers.

The Bank’s IT security system is crucial for the proper functioning of its banking services, the protection of its customers and of the HSBC brand. With the aim of maintaining it at its best possible level, HSBC Continental Europe continues to strengthen its technical resources, its monitoring systems and its governance to prevent and withstand the growing threat from cyber-attacks.

The cyber threat is a top priority for the management team and is the subject of regular communication and discussion in order to ensure the appropriate visibility, governance and support for HSBC cyber-security programme. HSBC Continental Europe did not disclose moderate, major or extreme cybersecurity incidents in 2023. The Bank achieved its goal to prevent any significant cybersecurity incidents. However, in 2023, whilst not significant as per HSBC Risk Prioritisation Matrix, four cyber incidents were notified to the European Central Bank. All were impacting HSBC 's third parties.

Performance indicator for risks in cybersecurity and IT attacks (risk 10)

	2023	2022	2021
Number of significant security incidents over last 12 months	**0**	0	1

For more details, see Cybersecurity Risks, page 176.

Risk of non-compliance with human rights: preventing the risk (risk 11)

HSBC set out its Human Rights Statement and recognises the role of business in respecting human rights. The HSBC Group 's approach covers all aspects of internationally recognised human rights and is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises.

HSBC recognises the role of business in respecting human rights and human ambition. HSBC implements relevant policies via its relationships with customers, suppliers, employees and the companies HSBC invests in, whilst also complying with the laws of the countries in which the bank operates. HSBC seeks to raise awareness of human rights by promoting good practice through its business conduct.

With the support of the HSBC Group, HSBC Continental Europe continues to develop its understanding of and responses to salient human rights issues. The HSBC Group performed an extensive review of HSBC salient human rights issues in 2022 and identified five human rights risks inherent to HSBC’s business globally, and five types of activity through which such risks might arise. These are represented in the table below:

Illustration of HSBC Group's inherent human rights risks mapped to business activities.

		HSBC activities				
				Provider of products and services		
Inherent human rights risks		Employer	Buyer	Personal customers	Business customers	Investor[1]
Right to decent work	Freedom from forced labour		◆		◆	◆
	Just and favourable conditions of work	◆	◆		◆	◆
	Right to health and safety at work	◆	◆	◆	◆	◆
Right to equality and freedom from discrimination		◆	◆	◆	◆	◆
Right to privacy		◆		◆		◆
Cultural and land rights			◆		◆	◆
Right to dignity and justice		◆	◆	◆	◆	◆

1 *Investor includes our activities in HSBC Asset Management.*

In 2023, building on this assessment, HSBC issued global guidance on human rights. This document provides practical advice, includingcase studies, on how to identify, prevent, mitigate and account for how we address HSBC impacts on human rights.

Two key areas of activity were identified to ensure a better risk management. These are the services that HSBC provides to business customers and the goods and services bought from third parties. Improvement continues with the development of human rights guidance for supplier relationships.

In 2023, HSBC continued the process of adapting its risk management procedures applicable within HSBC Continental Europe to reflect what have been learned from the work on salient human rights issues and related guidance documents described above.

Procedures established by the Group, help HSBC Continental Europe to conduct human rights due diligence on 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.

HSBC Continental Europe is aligned with the HSBC Group's commitments and policies. Acceptance of the supplier code of conduct is a prerequisite for entering into a relationship with HSBC Continental Europe. Third parties must reiterate, at regular intervals or at least when renewing a contract, their adherence to this Code. At the end of 2023, 74 per cent of the suppliers concerned have responded positively and 16 per cent of HSBC suppliers have proposed a new alternative code of conduct aligned with the HSBC Group's standards.

In 2022, HSBC launched an initiative with its suppliers, recommending to apply to the Carbon Disclosure Project ('CDP') which helps companies disclose their environmental impact. Globally 500 top suppliers were invited to CDP. HSBC Continental Europe has a total yearly spend of USD 218 million representing 104 suppliers. Of these 104 suppliers, 73 have submitted a CDP (USD 143 million). HSBC Continental Europe will continue to work in collaboration with its suppliers in coming years to push further participation on this project.

New approaches to human rights due diligence in respect of HSBC Continental Europe business customers have also been piloted. These included screening for indicators of potential negative impacts on people, including media monitoring and other relevant third-party data.

The actions taken to address the salient human rights issues identified are consistent with HSBC values and will help us to meet HSBC's and HSBC' Continental Europe's commitments on diversity and inclusion, and those that have been made under the United Nation Global Compact and World Economic Forum ('WEF') metrics on risk for incidents of child, forced or compulsory labour.

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

For further details of how we fight financial crime, see www.hsbc.com/who-we-are/esg-andresponsible-business/fighting-financial-crime.

For further details see www.hsbc.com/-/files/hsbc/our-approach/risk-and-responsibility/pdfs/220308-hsbc-principles-for-the-ethical-useof-data-and-ai.pdf?download=1

HSBC Continental Europe operates a vigilance plan to meet the requirements of France's Duty of Care Act. Given the legislative and regulatory framework, the scope of its businesses and the procedures in force within HSBC Group, risks relating to a failure to respect human rights are not material for HSBC Continental Europe.

For more details on the Duty of Care Act, see page 109.

HSBC Confidential Internal whistleblowing system

HSBC strives to create a working environment in which employees feel free to share their concerns. Aware that certain circumstances require special discretion, it simplified its whistleblowing system in 2015 in creating HSBC Confidential, detailed in its duty of care plan.

For more details on the Duty of Care Act, see page 109.

Performance indicator for risk of non-compliance with human rights (risk 11)

	2023	2022	2021
Share of suppliers who signed the Code of Conduct in the renewal process	**74%**	71%	72%

Methodological details on corporate social and environmental information

Scope of reporting

On 1 December 2020, HSBC France became HSBC Continental Europe.

For 2023 financial year, the scope of the Extra Financial Performance declaration is based on a geographic scope identical to that for 2022.

HSBC Malta and HSBC Germany were integrated into HSBC Continental Europe in November 2022, they are consolidated in 2023 DPEF. HSBC Private Bank (Luxembourg) S.A. which became a subsidiary of HSBC Continental Europe in November 2023, is excluded from the scope of 2023 DPEF.

The work undertaken by PwC in relation to the fairness review therefore looked at a scope identical to that used for 2022.

Indicators concern HSBC Continental Europe, including its branches and subsidiaries, but the scope of each may depend on the availability of data or type of indicator.

Change in scope

For entities in the HSBC Group's scope, non financial data are included in the financial year following the financial consolidation year. The scope of reporting covers HSBC Continental Europe including Malta and Germany for 2023.

Reporting period

The annual reporting period is the calendar year (from 1 January 2023 to 31 December, 2023).

Reporting tools and processes

For environmental indicators

The reporting tool is Metrix, developed by Enablon, which is used by HSBC Group. Its main functions include the collection of data on energy (kWh), greenhouse gas emissions, water (m^3), paper (tonnes), waste (tonnes), km travelled and other data: comments, operational surface areas (m^2), number of sites, workforce (FTE), initiatives, dual validation at country level, then at regional and global levels and, finally, dashboards.

For social indicators

The information that appears in reporting documents is the result of queries from People insight. The information regarding the completion of Global Mandatory Training is extracted from the Global Learning Management System.

Details on the definition of certain indicators

Environmental indicators

Greenhouse gas emissions result from the consumption of electricity, gas, fuel oil, urban heating and air conditioning, transport-related greenhouse gas emissions correspond to journeys made by train and plane (which are purchased through travel agencies), by taxi, and by hired cars or the Group car fleet.

Energy consumption is partly estimated as invoicing and reporting periods do not overlap precisely.

Social indicators

The total workforce includes employees under permanent contracts (including impatriates but excluding expatriates) and under fixed-term contracts (replacement and additional fixed-term contracts) depending on their activity rate (FTE). Expatriation contracts, apprenticeship contracts, professional training contracts, trainees, temporary workers, suspended contracts, employees on early retirement, and employees on permanent disability are excluded. Work experience contracts are excluded. Recruitment and redundancy figures include employees under permanent and fixed-term employment contracts. An employee whose contract changes from a fixed-term contract to a permanent contract will be recorded as a hire.

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.

In the first two years of disclosure from 2021, information was provided on the Bank's counterparty exposures toward Taxonomy 'eligible' economic activities. In this disclosure, as required from 1 January 2024, information is presented on Taxonomy-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.

In 2024, under the Disclosures Delegated Act, the Bank is not required to report KPIs with comparative information in the first year of reporting.

Scope of consolidation

The Taxonomy KPIs in the tables presented are calculated 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 excluded from the prudential consolidation.

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 and CapEx 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.

The calculation of KPIs for off-balance sheet exposures include financial guarantees granted by the Bank and assets under management. Other off-balance sheet exposures such as commitments are excluded from the calculation.

Total Covered assets

The calculation of the Taxonomy on-balance sheet KPIs include on-balance sheet 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/EU[4] ("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 multi-lateral 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 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, 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.

Central governments and Supranational issuers

Exposures to central governments and supranational issuers 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 Central governments and supranational issuers.

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.

Reporting limitations

On 21 December 2023, the European Commission ('EC') published a Draft Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation. This notice includes a number of clarifications on and for the implementation of the requirements provided for by the Disclosures Delegated Act. These requirements have been complied with as far as possible, however, this notice is still in a draft form and is not yet applicable and binding for the 2023 disclosure. Given the very short period between the publication of such notice and the publication date of the HSBC Continental Europe's results, it has not been operationally possible to implement all aspects of the notice in time for this reporting year. This impacts the following tables and disclosures:

1. The notice sets out the requirements for parent entities of financial conglomerates to (a) report the consolidated KPIs for each respective business segment and (b) publish in the contextual disclosures a consolidated group-level KPI in the form of a weighted average of the corresponding KPIs for each business segment. HSBC Continental Europe disclosures for 2023 reporting year are based on its principal business activity as a credit institution and a weighted average has not been computed or disclosed;
2. The Flow table (GAR KPI flow) has not been disclosed;
3. The table disclosing the KPI for stock of off-balance sheet exposures has not been replicated for flow of off-balance sheet exposures;
4. The notice clarifies the applicable KPIs for which Nuclear and Fossil Gas tables should be disclosed. The Nuclear and Fossil Gas tables for Taxonomy aligned economic activities, Taxonomy eligible but not aligned economic activities, and Taxonomy non-eligible economic activities, have been presented for on-balance sheet stock exposures. These tables have not been replicated for off-balance sheet exposures or for the flow of new on or off-balance sheet exposures.

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 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 (Climate Change Mitigation "CCM"+Climate Change Adaptation "CCA") has been 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:

Counterparties which are subject to NFRD are large public interest undertakings with more than an average of 500 employees during the financial year and incorporated within the European Union. 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.

Business strategy

The HSBC Group recognises the important role it has to play in supporting the transition to a net zero global economy. In October 2020, the HSBC Group announced its ambition to become a net zero bank by 2050 and in 2021 included the transition to net zero as one of the four key pillars of its corporate strategy.

The HSBC Group's climate ambition requires continued enhancement of its capabilities including governance, processes, systems and controls. In addition, there is a heightened need for subject matter experts for climate and environmental-related topics as well as upskilling of key colleague groups who are supporting customers through their net zero transition. New sources of data are also required, some of which may be difficult to assure using traditional verification techniques. This challenge, coupled with diverse external data sources and structures, further complicates data consolidation.

The HSBC Group's starting point in the transition to net zero is one of a heavy financed emissions footprint. HSBC's history means its balance sheet is weighted towards the sectors and regions which matter the most in terms of emissions, and whose transitions are therefore key to the world's ability to reach net zero on time. This means the HSBC Group has a complex transition, with markets and sectors at different starting points and moving at different speeds. However, it also provides an opportunity to work with customers to help make an impact – in both the emissions challenge and the financing challenge. The HSBC Group is working to embed net zero into the way that customers are supported, both through customer engagement and the provision of financing solutions.

One of the most significant contributions that the HSBC Group can make is helping to mobilise finance to support its portfolio of customers in their transition to net zero. The HSBC Group aims to help customers transition to net zero and a sustainable future by providing and facilitating between USD 750bn and USD 1tn of sustainable finance and investment by 2030. The sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.

In January 2024, the HSBC Group published its net zero transition plan. It provides an overview of the HSBC Group's approach to net zero and actions being taken to help meet the net zero ambition. More details on how the HSBC Group assesses corporate customers' transitions to net zero can be found in the HSBC Net Zero Transition Plan 2024 (page 54).

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.

Non-climate environmental objectives

In 2023, the EC enacted into law the Commission Delegated Regulation (EU) 2023/2486 ('Environmental Delegated Act') and amendments to the Disclosures Delegated Act introducing new reporting requirements for the four remaining environmental objectives. This requires both financial and non-financial undertakings to disclose Taxonomy-eligibility information for the remaining environmental objectives from 1 January 2024.

As the timing for the introduction of these new disclosure requirements for financial undertakings coincides with the application timeline for non-financial undertakings, the required counterparty data is not available at the time of publication for reporting under mandatory disclosures. The Bank has included within its voluntary disclosures, the estimated proportion in covered assets of exposures to taxonomy eligible economic activities for the four remaining environmental objectives i.e., i) Sustainable use and protection of water and marine resources; ii) transition to a circular economy; iii) pollution prevention and control; iv) protection and restoration of biodiversity and ecosystems. The columns requiring disclosure information related to the remaining environmental objectives have been excluded in all tables.

Additional voluntary disclosure

In accordance with the Disclosures Delegated Act, disclosure information that is not based on counterparties own KPIs have been included as voluntary disclosures. The basis of preparation, methodology and explanation supporting the Bank's voluntary disclosure, together with the disclosure itself, is set out below.

The voluntary disclosure uses NACE code, a statistical classification of economic activities used by the European Community. The NACE code of the principal activity of the counterparty is used to estimate exposures to taxonomy eligible economic activities for the four environmental objectives. Only those general lending exposures where the NACE code of the counterparty is clearly identifiable as contributing to only the four remaining environmental objectives and not also contributing to climate objectives based on the counterparty's Turnover KPIs have been included to avoid double counting to the extent possible. Based on this methodology, for exposures to counterparties not contributing to the climate objectives, the proportion in covered assets of exposures to Taxonomy eligible economic activities under the four non-climate environmental objectives is 0.71 per cent.

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 KPIs (Template 0)

This table sets out a summary of KPIs required to be disclosed by HSBC Continental Europe as a credit institution, under Article 8 of the Taxonomy regulation.

The table disclosed is provided in Annex VI to the Disclosures Delegated Act but has been modified by adding additional columns and clarifying column headings to clearly distinguish KPIs calculated using counterparty Turnover ratios versus KPIs calculated using counterparty CapEx ratios, both of which are required to be reported by credit institutions.

As the Trading book KPI and Fees and Commissions KPI are required to be disclosed from 1 January 2026, the applicable rows for these KPIs have not been included in the Summary table.

Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

Million EUR		Total environmentally sustainable assets (Based on Turnover)	KPI Based on Turnover KPI of the counterparty	Total environmentally sustainable assets (Based on CapEx)	KPI Based on CapEx KPI of the counterparty	% coverage (over total assets)	% of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7 (1)) and Section 1.2.4 of Annex V)
Main KPI	**Green asset ratio (GAR) stock**	**159**	**0.13 %**	**355**	**0.28 %**	**47.69**	**40.84**	**52.31**
Additional KPIs		**Total environmentally sustainable assets (Based on Turnover)**	**KPI Based on Turnover KPI of the counterparty**	**Total environmentally sustainable assets (Based on CapEx)**	**KPI Based on CapEx KPI of the counterparty**	**% coverage (over total assets)**	**% of assets excluded from the numerator of the GAR (Article 7 (2) and (3) and Section 1.1.2. of Annex V)**	**% of assets excluded from the denominator of the GAR (Article 7 (1)) and Section 1.2.4 of Annex V)**
	Financial guarantees	**31**	**2.01 %**	**25**	**1.60 %**			
	Assets under management	**3,366**	**0.79 %**	**6,055**	**1.42 %**			

Assets for the calculation of GAR (Template 1)

This table presents assets used in the calculation of the GAR disaggregated by counterparty type and asset class. Total assets are further categorised between covered assets in the numerator, covered assets in the denominator, and assets excluded from the GAR calculation, with eligible and aligned covered assets presented by environmental objective. This table is provided in Annex VI to the Disclosures Delegated Act. One row has been added and a minor amendment made to the row 48 label to clarify where GAR assets form the numerator or denominator of the KPI.

The table has been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

As a proportion of total taxonomy eligible exposures, taxonomy aligned enabling activities represents 0.29 per cent based on counterparty turnover KPI and 0.53 per cent based on counterparty CapEx KPI.

The gross carrying amount column excludes impairment allowances for all banking exposures. As a result, Total Assets reported in this table is not equal to Total Assets reported in the Bank's balance sheet with the difference due to impairment allowances on banking exposures.

Row 34 'SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations' includes non-NFRD financial and non-financial undertakings in the EU, whether or not they are classified as SMEs.

Financial guarantees represent financial guarantees granted by the Bank to support an underlying loan or debt security. The assessment of eligibility and alignment is based on the reported KPIs of the obligor in relation to the underlying loan since information on specific use of proceeds for these loans is not available.

The gross carrying amount presented for financial guarantees and assets under management forms the denominator of the respective KPIs and includes exposures with both NFRD and non-NFRD counterparties while excluding exposures to central governments, central banks and supranational issuers.

Assets for the calculation of GAR-Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			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)***			
Mn EUR		**Total gross carrying amount**			***of which Use of Proceeds***	***of which transitional***	***of which enabling***			***of which Use of Proceeds***	***of which enabling***			***of which Use of Proceeds***	***of which transitional***	***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**	**—**	**—**	**10,753**	**159**	**—**	**20**	**31**
2	**Financial undertakings**	**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	**—**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Assets for the calculation of GAR-Based on Counterparty Turnover (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		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)*			
Mn EUR	**Total gross carrying amount**			***of which Use of Proceeds***	***of which transitional***	***of which enabling***			***of which Use of Proceeds***	***of which enabling***			***of which Use of Proceeds***	***of which transitional***	***of which enabling***
11 Equity instruments	—		—		—	—		—		—	—	—		—	—
12 – of which: management companies	—		—	—	—	—		—	—	—	—	—	—	—	—
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 undertakings**	**2,780**		**149**	—	**20**	**31**		**10**	—	—	**578**	**159**	—	**20**	**31**
21 Loans and advances	**2,721**		**137**	—	**18**	**27**		**10**	—	—	**564**	**147**	—	**18**	**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 government financing	**124**		—	—	—	—		—	—	—	**124**	—	—	—	—
31 **Collateral obtained by taking possession: residential and commercial immovable properties**	**3**		—	—	—	—		—	—	—	**3**	—	—	—	—
Total GAR assets (in the numerator)	**17,906**		**149**	—	**20**	**31**		**10**	—	—	**10,753**	**159**	—	**20**	**31**

Assets for the calculation of GAR-Based on Counterparty Turnover (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		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)*			
Mn EUR	Total gross carrying amount			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*
32 **Assets excluded from the numerator for GAR calculation (covered in the denominator)**	**106,925**														
33 **Financial and Non-financial undertakings**	**61,804**														
34 SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	**51,676**														
35 Loans and advances	**48,602**														
36 – of which:loans collateralised by commercial immovable property	***3,973***														
37 – *of which: building renovation loans*	**5**														
38 Debt securities	**2,910**														
39 Equity instruments	**164**														
40 Non-EU country counterparties not subject to NFRD disclosure obligations	**10,128**														
41 Loans and advances	**9,083**														
42 Debt securities	**1,043**														
43 Equity instruments	**1**														
44 **Derivatives**	**169**														
45 **On demand interbank loans**	**2,034**														
46 **Cash and cash-related assets**	**102**														
47 **Other categories of assets (e.g. Goodwill, commodities etc.)**	**42,816**														
48 **Total GAR assets (in the denominator)**	**124,831**														
49 **Assets not covered for GAR calculation**	**136,951**														
50 **Central governments and Supranational issuers**	**9,974**														
51 **Central banks exposure**	**64,425**														
52 **Trading book**	**62,552**														
53 **Total assets**	**261,782**														

Assets for the calculation of GAR-Based on Counterparty Turnover (continued)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			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)*			
	Mn EUR	Total gross carrying amount			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations																
54	Financial guarantees	**1,552**		**31**	**—**	**1**	**4**		**—**	**—**	**—**	**37**	**31**	**—**	**1**	**4**
55	Assets under management	**426,676**		**3,283**	**—**	**305**	**2,037**		**83**	**—**	**6**	**13,101**	**3,366**	**—**	**305**	**2,043**
56	– *of which: debt securities*	**159,685**		**2,325**	**—**	**257**	**1,375**		**37**	**—**	**2**	**4,953**	**2,362**	**—**	**257**	**1,377**
57	– *of which: equity instruments*	**82,635**		**950**	**—**	**48**	**658**		**46**	**—**	**4**	**4,826**	**996**	**—**	**48**	**662**

Assets for the calculation of GAR-Based on Counterparty CapEx

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			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)*			
	Mn EUR	Total gross carrying amount			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*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**		**338**	**—**	**23**	**53**		**18**	**—**	**6**	**11,050**	**356**	**—**	**23**	**59**
2	**Financial undertakings**	**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**		**—**	**—**	**—**	**—**		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		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)*			
Mn EUR	**Total gross carrying amount**			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*
10 Debt securities, including UoP	—		—	—	—	—		—	—	—	—	—	—	—	—
11 Equity instruments	—		—		—	—		—		—	—	—		—	—
12 – *of which: management companies*	—		—	—	—	—		—	—	—	—	—	—	—	—
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 undertakings**	**2,780**		**338**	—	**23**	**53**		**18**	—	**6**	**875**	**356**	—	**23**	**59**
21 Loans and advances	**2,721**		**318**	—	**22**	**47**		**18**	—	**6**	**852**	**336**	—	**22**	**53**
22 Debt securities, including UoP	**51**		**16**	—	**1**	**3**		—	—	—	**19**	**16**	—	**1**	**3**
23 Equity instruments	**8**		**4**		—	**3**		—		—	**4**	**4**		—	**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 government financing	**124**		—	—	—	—		—	—	—	**124**	—	—	—	—

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date T														
			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)*			
Mn EUR		Total gross carrying amount			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	3		—	—	—	—		—	—	—	3	—	—	—	—
	Total GAR assets (in the numerator)	17,906		338	—	23	53		18	—	6	11,050	356	—	23	59
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	106,925														
33	**Financial and Non-financial undertakings**	61,804														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	51,676														
35	Loans and advances	48,602														
36	– *of which: loans collateralised by commercial immovable property*	3,973														
37	– *of which: building renovation loans*	5														
38	Debt securities	2,910														
39	Equity instruments	164														
40	Non-EU country counterparties not subject to NFRD disclosure obligations	10,128														
41	Loans and advances	9,083														
42	Debt securities	1,043														
43	Equity instruments	1														
44	**Derivatives**	169														
45	**On demand interbank loans**	2,034														
46	**Cash and cash-related assets**	102														
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	42,816														
48	**Total GAR assets (in the denominator)**	124,831														
49	**Assets not covered for GAR calculation**	136,951														
50	**Central governments and Supranational issuers**	9,974														

Assets for the calculation of GAR-Based on Counterparty CapEx (continued)

	a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
	Disclosure reference date T														
		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)*			
Mn EUR	**Total gross carrying amount**			*of which Use of Proceeds*	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*
51 **Central banks exposure**	**64,425**														
52 **Trading book**	**62,552**														
53 **Total assets**	**261,782**														
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations															
54 Financial guarantees	**1,552**		**25**	**—**	**1**	**4**		**—**	**—**	**—**	**45**	**25**	**—**	**1**	**4**
55 Assets under management	**426,676**		**5,760**	**—**	**448**	**2,998**		**295**	**—**	**2**	**17,564**	**6,055**	**—**	**448**	**3,000**
56 – *of which:debt securities*	**159,685**		**3,856**	**—**	**337**	**1,966**		**221**	**—**	**—**	**7,218**	**4,077**	**—**	**337**	**1,966**
57 – *of which: equity instruments*	**82,635**		**1,884**	**—**	**110**	**1,020**		**74**	**—**	**1**	**7,019**	**1,958**	**—**	**110**	**1,021**

GAR Sector information (Template 2)

This table presents eligible and aligned exposures in the banking book to non-financial counterparties, broken down by sector of economic activities based on NACE code of the principal activity of the immediate counterparty. The values reported under gross carrying amount represents the taxonomy-eligible amount. The NACE code determining the sector classification of the counterparty represents the principal activity of the counterparty whether Taxonomy eligible or not. Consequently, there may be inclusion of some sectors with a NACE code which is associated with a non-eligible activity in the EU Taxonomy framework, but where there is some aligned exposure based on non-principal activities.

The table has been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

GAR sector information - Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**			
		Non-Financial corporates (Subject to NFRD)		**SMEs and other NFC not subject to NFRD**		**Non-Financial corporates (Subject to NFRD)**		**SMEs and other NFC not subject to NFRD**		**Non-Financial corporates (Subject to NFRD)**		**SMEs and other NFC not subject to NFRD**	
Breakdown by sector - NACE 4 digits level (code and label)		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**	
		Mn EUR	***of which environmentally sustainable (CCM)***	**Mn EUR**	***of which environmentally sustainable (CCM)***	**Mn EUR**	***of which environmentally sustainable (CCA)***	**Mn EUR**	***of which environmentally sustainable (CCA)***	**Mn EUR**	***of which environmentally sustainable (CCM + CCA)***	**Mn EUR**	***of which environmentally sustainable (CCM + CCA)***
1	B06.10 - Extraction of crude petroleum		**—**				**—**			**5**	**—**		
2	C20.13 - Manufacture of other inorganic basic chemicals		**—**				**—**			**1**	**—**		
3	C23.51 - Manufacture of cement		**—**				**—**			**1**	**—**		
4	C27.20 - Manufacture of batteries and accumulators		**—**				**—**			**6**	**—**		
5	C28.11 - Manufacture of engines and turbines, except aircraft, vehicle and cycle engines		**—**				**—**			**1**	**—**		
6	C28.22 - Manufacture of lifting and handling equipment		**1**				**—**			**15**	**1**		
7	C28.29 - Manufacture of other general-purpose machinery n.e.c.		**—**				**—**			**18**	**—**		
8	C28.99 - Manufacture of other special-purpose machinery n.e.c.		**3**				**—**			**6**	**3**		
9	C29.10 - Manufacture of motor vehicles		**—**				**—**			**3**	**—**		
10	C29.32 - Manufacture of other parts and accessories for motor vehicles		**—**				**—**			**2**	**—**		
11	C30.20 - Manufacture of railway locomotives and rolling stock		**5**				**—**			**7**	**5**		
12	C32.99 - Other manufacturing n.e.c.		**—**				**—**			**7**	**—**		
13	D35.11 - Production of electricity		**14**				**10**			**47**	**24**		
14	D35.23 - Trade of gas through mains		**1**				**—**			**1**	**1**		
15	F42.11 - Construction of roads and motorways		**1**				**—**			**13**	**1**		

GAR sector information - Based on Counterparty Turnover (continued)

	Breakdown by sector - NACE 4 digits level (code and label)	a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn EUR	***of which environmentally sustainable (CCM)***	Mn EUR	***of which environmentally sustainable (CCM)***	Mn EUR	***of which environmentally sustainable (CCA)***	Mn EUR	***of which environmentally sustainable (CCA)***	Mn EUR	***of which environmentally sustainable (CCM + CCA)***	Mn EUR	***of which environmentally sustainable (CCM + CCA)***
16	F43.21 - Electrical installation		**1**				**—**			**1**	**1**		
17	F43.22 - Plumbing, heat and air-conditioning installation		**3**				**—**			**4**	**3**		
18	G46.21 - Wholesale of grain, unmanufactured tobacco, seeds and animal feeds		**1**				**—**			**1**	**1**		
19	G46.62 - Wholesale of machine tools		**6**				**—**			**21**	**6**		
20	G46.63 - Wholesale of mining, construction and civil engineering machinery		**—**				**—**			**2**	**—**		
21	G46.75 - Wholesale of chemical products		**1**				**—**			**21**	**1**		
22	H50.20 - Sea and coastal freight water transport		**—**				**—**			**39**	**—**		
23	J58.21 - Publishing of computer games		**—**				**—**			**1**	**—**		
24	J61.10 - Wired telecommunications activities		**—**				**—**			**1**	**—**		
25	J62.01 - Computer programming activities		**—**				**—**			**1**	**—**		
26	J62.02 - Computer consultancy activities		**—**				**—**			**1**	**—**		
27	J62.09 - Other information technology and computer service activities		**—**				**—**			**10**	**—**		
28	K64.20 - Activities of holding companies		**24**				**—**			**32**	**24**		
29	L68.20 - Rental and operating of own or leased real estate		**70**				**—**			**185**	**70**		
30	L68.31 - Real estate agencies		**4**				**—**			**50**	**4**		
31	M70.10 - Activities of head offices		**14**				**—**			**53**	**14**		
32	M70.22 - Business and other management consultancy activities		**—**				**—**			**2**	**—**		
33	M71.12 - Engineering activities and related technical consultancy		**—**				**—**			**1**	**—**		

GAR sector information - Based on Counterparty Turnover (continued)

	Breakdown by sector - NACE 4 digits level (code and label)	a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn EUR	*of which environ-mentally sustain-able (CCM)*	Mn EUR	*of which environ-mentally sustain-able (CCM)*	Mn EUR	*of which environ-mentally sustain-able (CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCM + CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCM + CCA)*
34	N77.11 - Renting and leasing of cars and light motor vehicles		—				—			18	—		
35	N80.20 - Security systems service activities		—				—			1	—		

GAR sector information - Based on Counterparty CapEx

	Breakdown by sector - NACE 4 digits level (code and label)	a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn EUR	*of which environ-mentally sustain-able (CCM)*	Mn EUR	*of which environ-mentally sustain-able (CCM)*	Mn EUR	*of which environ-mentally sustain-able (CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCM + CCA)*	Mn EUR	*of which environ-mentally sustain-able (CCM + CCA)*
1	B06.10 - Extraction of crude petroleum		15				—			21	15		
2	C11.05 - Manufacture of beer		—				—			1	—		
3	C20.13 - Manufacture of other inorganic basic chemicals		—				—			1	—		
4	C21.20 - Manufacture of pharmaceutical preparations		2				—			8	2		
5	C23.19 - Manufacture and processing of other glass, including technical glassware		1				—			4	1		
6	C23.51 - Manufacture of cement		—				—			1	—		
7	C27.20 - Manufacture of batteries and accumulators		—				—			6	—		
8	C28.11 - Manufacture of engines and turbines, except aircraft, vehicle and cycle engines		1				—			2	1		

GAR sector information - Based on Counterparty CapEx (continued)

	Breakdown by sector - NACE 4 digits level (code and label)	a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**			
		Non-Financial corporates (Subject to NFRD)		**SMEs and other NFC not subject to NFRD**		**Non-Financial corporates (Subject to NFRD)**		**SMEs and other NFC not subject to NFRD**		**Non-Financial corporates (Subject to NFRD)**		**SMEs and other NFC not subject to NFRD**	
		Gross carrying amount		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**		**Gross carrying amount**	
		Mn EUR	***of which environmentally sustainable (CCM)***	**Mn EUR**	***of which environmentally sustainable (CCM)***	**Mn EUR**	***of which environmentally sustainable (CCA)***	**Mn EUR**	***of which environmentally sustainable (CCA)***	**Mn EUR**	***of which environmentally sustainable (CCM + CCA)***	**Mn EUR**	***of which environmentally sustainable (CCM + CCA)***
9	C28.22 - Manufacture of lifting and handling equipment		**7**				**—**			**19**	**7**		
10	C28.29 - Manufacture of other general-purpose machinery n.e.c.		**—**				**—**			**10**	**—**		
11	C28.94 - Manufacture of machinery for textile, apparel and leather production		**1**				**—**			**10**	**1**		
12	C28.99 - Manufacture of other special-purpose machinery n.e.c.		**3**				**—**			**6**	**3**		
13	C29.10 - Manufacture of motor vehicles		**1**				**—**			**4**	**1**		
14	C29.32 - Manufacture of other parts and accessories for motor vehicles		**3**				**—**			**6**	**3**		
15	C30.20 - Manufacture of railway locomotives and rolling stock		**4**				**—**			**6**	**4**		
16	C32.50 - Manufacture of medical and dental instruments and supplies		**—**				**—**			**4**	**—**		
17	D35.11 - Production of electricity		**20**				**12**			**49**	**32**		
18	D35.23 - Trade of gas through mains		**3**				**—**			**3**	**3**		
19	F42.11 - Construction of roads and motorways		**2**				**—**			**6**	**2**		
20	F43.22 - Plumbing, heat and air-conditioning installation		**2**				**—**			**6**	**2**		
21	G46.21 - Wholesale of grain, unmanufactured tobacco, seeds and animal feeds		**6**				**—**			**6**	**6**		
22	G46.62 - Wholesale of machine tools		**21**				**—**			**36**	**21**		
23	G46.63 - Wholesale of mining, construction and civil engineering machinery		**—**				**—**			**4**	**—**		
24	G46.75 - Wholesale of chemical products		**1**				**—**			**29**	**1**		
25	G47.19 - Other retail sale in non-specialised stores		**—**				**—**			**2**	**—**		

GAR sector information - Based on Counterparty CapEx (continued)

		a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
	Breakdown by sector - NACE 4 digits level (code and label)	Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
		Mn EUR	*of which environmentally sustainable (CCM)*	Mn EUR	*of which environmentally sustainable (CCM)*	Mn EUR	*of which environmentally sustainable (CCA)*	Mn EUR	*of which environmentally sustainable (CCA)*	Mn EUR	*of which environmentally sustainable (CCM + CCA)*	Mn EUR	*of which environmentally sustainable (CCM + CCA)*
26	G47.51 - Retail sale of textiles in specialised stores		**—**				**—**			**1**	**—**		
27	H50.20 - Sea and coastal freight water transport		**6**				**—**			**38**	**6**		
28	J58.21 - Publishing of computer games		**—**				**—**			**2**	**—**		
29	J58.29 - Other software publishing		**—**				**—**			**34**	**—**		
30	J61.10 - Wired telecommunications activities		**—**				**—**			**2**	**—**		
31	J62.01 - Computer programming activities		**—**				**—**			**1**	**—**		
32	J62.02 - Computer consultancy activities		**8**				**—**			**35**	**8**		
33	J62.09 - Other information technology and computer service activities		**1**				**—**			**1**	**1**		
34	K64.20 - Activities of holding companies		**37**				**—**			**79**	**37**		
35	L68.20 - Rental and operating of own or leased real estate		**159**				**—**			**185**	**159**		
36	L68.31 - Real estate agencies		**5**				**—**			**44**	**5**		
37	M70.10 - Activities of head offices		**20**				**—**			**136**	**20**		
38	M70.22 - Business and other management consultancy activities		**9**				**6**			**38**	**15**		
39	M71.12 - Engineering activities and related technical consultancy		**—**				**—**			**1**	**—**		
40	M73.11 - Advertising agencies		**—**				**—**			**27**	**—**		
41	N82.99 - Other business support service activities n.e.c.		**—**				**—**			**1**	**—**		

GAR KPI stock (Template 3)

This table presents eligible and aligned exposures as a proportion of total covered assets by Taxonomy environmental objective. The table has been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

GAR KPI stock - Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
% (compared to total covered assets in the denominator)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total assets covered
				of which Use of Proceeds	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*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		0.12	—	0.01	0.02		0.01	—	—	8.60	0.13	—	0.01	0.02	6.83
2	**Financial undertakings**		—	—	—	—		—	—	—	0.21	—	—	—	—	1.99
3	Credit institutions		—	—	—	—		—	—	—	0.21	—	—	—	—	1.94
4	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	1.76
5	Debt securities, including UoP		—	—	—	—		—	—	—	0.21	—	—	—	—	0.18
6	Equity instruments		—		—	—		—		—	—	—		—	—	—
7	Other financial corporations		—	—	—	—		—	—	—	—	—	—	—	—	0.05
8	– *of which: investment firms*		—	—	—	—		—	—	—	—	—	—	—	—	—
9	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
11	Equity instruments		—		—	—		—		—	—	—		—	—	—
12	– *of which: management companies*		—	—	—	—		—	—	—	—	—	—	—	—	—
13	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
14	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—

GAR KPI stock - Based on Counterparty Turnover (continued)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
% (compared to total covered assets in the denominator)		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				of which Use of Proceeds	of which transitional	of which enabling			of which Use of Proceeds	of which enabling			of which Use of Proceeds	of which transitional	of which enabling	
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
15	Equity instruments		—		—	—		—		—	—	—		—	—	—
16	– *of which: insurance undertakings*		—	—	—	—		—	—	—	—	—	—	—	—	—
17	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
18	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
19	Equity instruments		—		—	—		—		—	—	—		—	—	—
20	**Non-financial undertakings**		0.12	—	0.01	0.02		0.01	—	—	0.46	0.13	—	0.01	0.02	1.06
21	Loans and advances		0.11	—	0.01	0.02		0.01	—	—	0.45	0.12	—	0.01	0.02	1.04
22	Debt securities, including UoP		0.01	—	—	—		—	—	—	0.01	0.01	—	—	—	0.02
23	Equity instruments		—		—	—		—		—	—	—		—	—	—
24	**Households**		—	—	—	—		—	—	—	7.83	—	—	—	—	3.73
25	– *of which: loans collateralised by residential immovable property*		—	—	—	—		—	—	—	7.83	—	—	—	—	3.73
26	– *of which: building renovation loans*		—	—	—	—		—	—	—	—	—	—	—	—	—
27	– *of which: motor vehicle loans*		—	—	—	—										
28	**Local governments financing**		—	—	—	—		—	—	—	0.10	—	—	—	—	0.05
29	Housing financing		—	—	—	—		—	—	—	—	—	—	—	—	—
30	Other local government financing		—	—	—	—		—	—	—	0.10	—	—	—	—	0.05
31	**Collateral obtained by taking possession: residential and commercial immovable properties**		—	—	—	—		—	—	—	—	—	—	—	—	—
32	**Total GAR assets (in the numerator)**		0.12	—	0.01	0.02		0.01	—	—	8.60	0.13	—	0.01	0.02	47.69

GAR KPI stock - Based on Counterparty CapEx

% (compared to total covered assets in the denominator)		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total assets covered
				of which Use of Proceeds	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*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		**0.26**	—	**0.02**	**0.04**		**0.01**	—	**0.01**	**8.84**	**0.27**	—	**0.02**	**0.05**	**6.83**
2	**Financial undertakings**		—	—	—	—		—	—	—	**0.21**	—	—	—	—	**1.99**
3	Credit institutions		—	—	—	—		—	—	—	**0.21**	—	—	—	—	**1.94**
4	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	**1.76**
5	Debt securities, including UoP		—	—	—	—		—	—	—	**0.21**	—	—	—	—	**0.18**
6	Equity instruments		—		—	—		—		—	—	—		—	—	—
7	Other financial corporations		—	—	—	—		—	—	—	—	—	—	—	—	**0.05**
8	– *of which: investment firms*		—	—	—	—		—	—	—	—	—	—	—	—	—
9	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
11	Equity instruments		—		—	—		—		—	—	—		—	—	—
12	– *of which: management companies*		—	—	—	—		—	—	—	—	—	—	—	—	—
13	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—
14	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
15	Equity instruments		—		—	—		—		—	—	—		—	—	—
16	– *of which: insurance undertakings*		—	—	—	—		—	—	—	—	—	—	—	—	—
17	Loans and advances		—	—	—	—		—	—	—	—	—	—	—	—	—

GAR KPI stock - Based on Counterparty CapEx (continued)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					
% (compared to total covered assets in the denominator)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				of which Use of Proceeds	*of which transitional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transitional*	*of which enabling*	Proportion of total assets covered
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
18	Debt securities, including UoP		—	—	—	—		—	—	—	—	—	—	—	—	—
19	Equity instruments		—		—	—		—		—	—	—		—	—	—
20	**Non-financial undertakings**		**0.26**	—	**0.02**	**0.04**		**0.01**	—	**0.01**	**0.70**	**0.27**	—	**0.02**	**0.05**	**1.06**
21	Loans and advances		**0.25**	—	**0.02**	**0.04**		**0.01**	—	**0.01**	**0.68**	**0.26**	—	**0.02**	**0.05**	**1.04**
22	Debt securities, including UoP		**0.01**	—	—	—		—	—	—	**0.02**	**0.01**	—	—	—	**0.02**
23	Equity instruments		—		—	—		—		—	—	—		—	—	—
24	**Households**		—	—	—	—		—	—	—	**7.83**	—	—	—	—	**3.73**
25	– *of which: loans collateralised by residential immovable property*		—	—	—	—		—	—	—	**7.83**	—	—	—	—	**3.73**
26	– *of which: building renovation loans*		—	—	—	—		—	—	—	—	—	—	—	—	—
27	– *of which: motor vehicle loans*		—	—	—	—										
28	**Local governments financing**		—	—	—	—		—	—	—	**0.10**	—	—	—	—	**0.05**
29	Housing financing		—	—	—	—		—	—	—	—	—	—	—	—	—
30	Other local government financing		—	—	—	—		—	—	—	**0.10**	—	—	—	—	**0.05**
31	**Collateral obtained by taking possession: residential and commercial immovable properties**		—	—	—	—		—	—	—	—	—	—	—	—	—
32	**Total GAR assets (in the numerator)**		**0.26**	—	**0.02**	**0.04**		**0.01**	—	**0.01**	**8.84**	**0.27**	—	**0.02**	**0.05**	**47.69**

KPI off-balance sheet exposures (Template 5)

This table presents eligible and aligned off-balance sheet exposures as a proportion of all financial guarantees or total assets under management as applicable.

For these managed funds, a look through to the underlying investments has been undertaken to identify those investments that are subject to NFRD where eligibility and alignment can be assessed. Where the underlying investments are themselves funds and where information regarding these underlying investments is not available, these funds are treated as non-NFRD.

For the majority of managed funds, the proportion of debt and equity, as well as the eligibility and alignment assessment, has been performed based on the underlying investments as at 31 December 2023. However, for some funds where this latest information is not yet available, the 30 June 2023 underlying investments have been leveraged to assess the proportion of debt and equity, as well as the proportion of eligible and aligned exposures within those funds.

The KPI for assets under management includes assets where HSBC Continental Europe has delegated portfolio management of the assets to another financial undertaking. For these portfolios, limited data is available regarding the underlying instruments making up the funds. Assets for which the portfolio management has been delegated to the Bank by another financial undertaking are not included.

The table has been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

KPI off-balance sheet exposures - Based on Counterparty Turnover

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
% (compared to total eligible off-balance sheet assets)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				of which Use of Proceeds	*of which transit-ional*	*of which enabling*			*of which Use of Proceeds*	*of which enabling*			*of which Use of Proceeds*	*of which transit-ional*	*of which enabling*
		%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	Financial guarantees (FinGuar KPI)		**2.01**	**—**	**0.04**	**0.27**		**—**	**—**	**—**	**2.41**	**2.01**	**—**	**0.04**	**0.27**
2	Assets under management (AuM KPI)		**0.77**	**—**	**0.07**	**0.48**		**0.02**	**—**	**—**	**3.07**	**0.79**	**—**	**0.07**	**0.48**

KPI off-balance sheet exposures - Based on Counterparty CapEx

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
% (compared to total eligible off-balance sheet assets)		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				of which Use of Proceeds	***of which transit-ional***	***of which enabling***			***of which Use of Proceeds***	***of which enabling***			***of which Use of Proceeds***	***of which transit-ional***	***of which enabling***
		%	%	%	%	%	%	%	%	%	%	%	%	%	%
1	Financial guarantees (FinGuar KPI)		**1.59**	**—**	**0.04**	**0.23**		**—**	**—**	**—**	**2.87**	**1.59**	**—**	**0.04**	**0.23**
2	Assets under management (AuM KPI)		**1.35**	**—**	**0.10**	**0.70**		**0.07**	**—**	**—**	**4.12**	**1.42**	**—**	**0.10**	**0.70**

Nuclear and fossil gas - related activities (Template 1)

This table presents HSBC Continental Europe's exposures to Nuclear and Gas activities and has been prepared based on non-financial counterparties' Nuclear and Gas disclosures.

Template 1 Nuclear and fossil gas related activities

Row	Nuclear energy related activities	YES/NO
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	No
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	Yes
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	Yes
	Fossil gas related activities	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	Yes
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels	Yes
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	Yes

The following tables present HSBC Continental Europe's exposures to Nuclear and Gas activities 4.26 to 4.31, as defined in Commission Delegated Regulation (EU) 2022/1214, covering Taxonomy aligned activities (denominator and numerator) and Taxonomy eligible but not aligned activities respectively. They have been prepared based on the Bank's non-financial counterparties' Nuclear and Gas disclosures.

The tables have been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

Nuclear and fossil gas - related activities (Template 2)

Template 2 Taxonomy-aligned economic activities (denominator) - Based on Counterparty Turnover

		Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
Row	**Economic activities**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	1	—	1	—	—	—
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	1	—	—	—	1	—
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**157**	**0.13**	**148**	**0.12**	**9**	**0.01**
8	**Total applicable KPI**	**124,831**	**0.13**	**124,831**	**0.12**	**124,831**	**0.01**

Template 2 Taxonomy-aligned economic activities (denominator) - Based on Counterparty CapEx

		Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
Row	**Economic activities**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	**1**	—	**1**	—	—	—
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**355**	**0.29**	**337**	**0.28**	**18**	**0.01**
8	**Total applicable KPI**	**124,831**	**0.29**	**124,831**	**0.28**	**124,831**	**0.01**

Nuclear and fossil gas - related activities (Template 3)

Template 3 Taxonomy-aligned economic activities (numerator) - Based on Counterparty Turnover

		Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		(CCM + CCA)		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
Row	Economic activities	Amount (Mn EUR)	%	Amount (Mn EUR)	%	Amount (Mn EUR)	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	**0.02**	—	**0.02**	—	—
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	**1**	**0.83**	**1**	**0.89**	—	—
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	—	—	—	—	—
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	**1**	**0.56**	—	—	**1**	**8.89**
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI**	**157**	**98.59**	**148**	**99.09**	**9**	**91.11**
8	**Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI**	**159**	**100**	**149**	**100**	**10**	**100**

Template 3 Taxonomy-aligned economic activities (numerator) - Based on Counterparty CapEx

Row	Economic activities	Amount and proportion (the information is to be presented in monetary amounts and as percentages)					
		(CCM + CCA)		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount (Mn EUR)	%	Amount (Mn EUR)	%	Amount (Mn EUR)	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	**0.01**	—	**0.01**	—	—
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	**1**	**0.20**	**1**	**0.21**	—	—
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	**0.01**	—	**0.01**	—	—
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	**0.01**	—	**0.01**	—	—
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI**	**355**	**99.77**	**337**	**99.76**	**18**	**100**
8	**Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI**	**356**	**100**	**338**	**100**	**18**	**100**

Nuclear and fossil gas - related activities (Template 4)

Template 4 Taxonomy-eligible but not taxonomy-aligned economic activities - Based on Counterparty Turnover

Row	Economic activities	Proportion (the information is to be presented in monetary amounts and as percentages)					
		(CCM + CCA)		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount (Mn EUR)	%	Amount (Mn EUR)	%	Amount (Mn EUR)	%
1	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
3	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
4	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	**1**	—	**1**	—	—	—
5	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	**1**	—	**1**	—	—	—
6	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**10,592**	**8.49**				
8	**Total amount and proportion of taxonomy eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI**	**10,594**	**8.49**				

Template 4 Taxonomy-eligible but not taxonomy-aligned economic activities - Based on Counterparty CapEx

		Proportion (the information is to be presented in monetary amounts and as percentages)					
		(CCM + CCA)		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
Row	**Economic activities**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**	**Amount (Mn EUR)**	**%**
1	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
2	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
3	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
4	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
5	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	1	—	1	—	—	—
6	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—	—	—	—	—
7	**Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**10,693**	**8.57**				
8	**Total amount and proportion of taxonomy eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI**	**10,694**	**8.57**				

Nuclear and fossil gas - related activities (Template 5)

This table presents HSBC Continental Europe’s exposures to non-eligible Nuclear and Gas activities.

The table has been duplicated to present the information separately based on Turnover and CapEx KPIs as reported by the Bank's counterparties.

Template 5 Taxonomy non-eligible economic activities - Based on Counterparty Turnover

Row	Economic activities	Amount (Mn EUR)	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
7	**Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**7,153**	**5.73**
8	**Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI**	**7,153**	**5.73**

Template 5 Taxonomy non-eligible economic activities - Based on Counterparty CapEx

Row	Economic activities	Amount (Mn EUR)	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	—
7	**Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	**6,856**	**5.49**
8	**Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI**	**6,856**	**5.49**

Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated non-financial information statement

For the year ended on the 31 December 2023

This is a free translation into English of the Statutory Auditor's report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

HSBC Continental Europe

38, avenue Kléber

75116 Paris

In our capacity as Statutory Auditor of the company HSBC Continental Europe (hereinafter the "Entity"), appointed as an independent third party ("third party") and certified by COFRAC under number 3-1862 (whose scope is available at www.cofrac.fr), we have undertaken a limited assurance engagement on the historical information (observed or extrapolated) in the consolidated non-financial information statement, prepared in accordance with the Entity's procedures (hereinafter the "Guidelines"), for the year ended 31 December 2023 (hereinafter the "Information" and the "Statement", respectively), included in the Group management report pursuant to the legal and regulatory provisions of articles L.225-102-1, R.225-105 and R.225-105-1 of the French Commercial Code (*Code de commerce*).

Conclusion

Based on the procedures we performed, as described in the section "Nature and scope of our work" and the evidence we obtained, nothing has come to our attention that causes us to believe that the consolidated non-financial information statement is not in accordance with the applicable regulatory provisions and that the Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Preparation of the non-financial performance statement

The absence of a commonly used generally accepted reporting framework or a significant body of established practice on which to draw to evaluate and measure such Information allows for the use of different, but acceptable, measurement techniques that can affect comparability between entities and over time.

Consequently, the Information needs to be read and understood in conjunction with the Guidelines, significant elements of which are available upon request from the Entity's headquarters.

Inherent Limitations in Preparing the Information

The Information may be subject to uncertainty inherent to the state of scientific and economic knowledge and the quality of external data used. Some information is sensitive to the choice of methodology and the assumptions or estimates used for its preparation and presented in the Statement.

Responsibility of the Entity

Management is responsible for:

- selecting or establishing suitable criteria for the preparation of the Information;
- preparing a Statement pursuant to legal and regulatory provisions, including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies implemented considering those risks and the outcomes of said policies, including key performance indicators and the information set out in Article 8 of Regulation (EU) 2020/852 (Green taxonomy);
- preparing the Statement by applying the Entity's "Guidelines" as referred above; and
- implementing internal control procedures relevant to the preparation of the Information that is free from material misstatement, whether due to fraud or error.

The Statement has been prepared by the board.

Responsibility of the Statutory Auditor, appointed as an independent third party

On the basis of our work, our responsibility is to provide a reasoned opinion expressing a limited assurance conclusion on:

- the consistency of the Statement with the provisions of article R.225-105 of the French Commercial Code;
- the fairness of the information provided in accordance with article 225-105 I, 3 and II of the French Commercial Code, i.e., the outcome of the policies, including key performance indicators, and the measures implemented in light of the principal risks (hereinafter the "Information").

As it is our responsibility to express an independent conclusion on the Information as prepared by management, we are not authorised to be involved in the preparation of the Information as this could compromise our independence.

It is not our responsibility to express a conclusion on:

- the Entity's compliance with other applicable legal and regulatory provisions, in particular with regard to the information set out in Article 8 of Regulation (EU) 2020/852 (Green taxonomy), the French duty of care law and anti-corruption and tax evasion legislation;
- the fairness of information set out in Article 8 of Regulation (EU) 2020/852 (Green taxonomy);
- the consistency of products and services with the applicable regulations.

Applicable regulatory provisions and professional guidance

We performed the work described below in accordance with the provisions of articles A.225-1 et seq. of the French Commercial Code and with the professional guidance of the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to such engagements, in particular Statutory Auditor engagement – Independent third party engagement – Non-financial information statement, and acting as the verification programme and with the international standard ISAE 3000 (revised) – Assurance engagements other than audits or reviews of historical financial information.

Independence and quality control

Our independence is defined by the provisions of article L.822-11 of the French Commercial Code and French Code of Ethics for Statutory Auditors (*Code de déontologie*) of our profession. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with applicable legal and regulatory requirements, ethical requirements and the professional guidance issued by the French Institute of Statutory Auditors relating to this engagement.

Means and resources

Our work was carried out by a team of 5 people between December 2023 and February 2024 and took a total of 5 weeks.

We were assisted in our work by our specialists in sustainable development and corporate social responsibility. We conducted some 20 interviews with the people responsible for preparing the Statement, representing in particular sustainable development, human resources, learning, finance, asset management, marketing and customer satisfaction departments.

Nature and scope of our work

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the Information is likely to arise.

The procedures we performed were based on our professional judgement. In carrying out our limited assurance engagement on the Information, we:

- obtained an understanding of all the consolidated entities' activities and the description of the main risks associated;
- assessed the appropriateness of the Guidelines with respect to their relevance, completeness, reliability, objectivity and understandability, with due consideration of industry best practices, where appropriate;
- verified that the Statement includes each category of labour and environmental information set out in article L.225-102-1 III as well as information regarding compliance with human rights and anti-corruption and tax evasion legislation; and, where applicable, we verified that the Statement includes an explanation for the absence of the information required under article L.225-102-1 III, 2;
- verified that the Statement provides the information required under article R.225-105 II of the French Commercial Code where relevant with respect to the main risks;
- verified that the Statement presents the business model and the principal risks associated with all the consolidated entities' activities, including where relevant and proportionate, the risks associated with its business relationships, its products or services, as well as its policies, measures and the outcomes thereof, including key performance indicators associated to the main risks;
- referred to documentary sources and conducted interviews to:
  - assess the process used to identify and confirm the main risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented, and
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important presented in Appendix 1. Our work was performed at the consolidation entity level;
- verified that the Statement covers the scope of consolidation, i.e., all the entities included in the scope of consolidation in accordance with article L.233-16 of the French Commercial Code within the limitations set out in the Statement;
- asked what internal control and risk management procedures the entity has put in place and assessed the data collection process implemented by the Entity to ensure the completeness and fairness of the Information;
- for the key performance indicators and other quantitative results that we considered to be the most important presented in Appendix, implemented:
  - analytical procedures to verify the proper consolidation of the data collected and the consistency of any changes in those data,
  - tests of details, using sampling techniques, in order to verify the proper application of the definitions and procedures and reconcile the data with supporting documents. This work was carried out at the consolidating entity and covers between 20 per cent and 100 per cent of the consolidated data selected for these tests;
- assessed the overall consistency of the Statement based on our knowledge of all the consolidated entities.

The procedures performed in a limited assurance engagement are less extensive than those required for a reasonable assurance opinion in accordance with the professional guidelines of the French National Institute of Statutory Auditors; a higher level of assurance would have required us to carry out more extensive procedures.

Neuilly-sur-Seine, 1 March 2024

One of the Statutory Auditors

PricewaterhouseCoopers Audit

PricewaterhouseCoopers Audit

Agnès Hussherr	Aurélie Castellino-Cornetto
Partner	Sustainable Development Partner

Appendix: List of the information we considered most important

Key performance indicators and other quantitative results:

- Cumulative contribution to the Group's 2030 sustainable finance objective since 1 January 2020 (USDm)
- Evolution of net new money in responsible investment funds year on year
- Greenhouse gas emissions (tons equiv. CO2) per employee
- Evolution of greenhouse gas emissions (tons equiv. CO2) per Full Time Employee compared to 2022
- Business Continuity Lifecycle controls assessed as effective and compliant
- Attrition
- Key recruitment figures/FTE hires
- Share of women in senior executive positions (2025 target: 35 per cent)
- Share of employees who were positive on the question "How do you assess your well-being at work currently?"
- Number of disputes relating to unfair business practices
- Share of staff members trained on theme 9 through Global Mandatory Training
- Number of significant security incidents over last 12 months
- Share of suppliers who signed the Code of Conduct in the renewal process

Other quantitative results:

- Per cent of assets in unit linked funds are invested in assets that apply ESG or labelled selection criteria.
- Financed emissions
- Questionnaires on cycling carried out in 2023
- Number of events organised by targeted schools
- Remuneration gender equality

Qualitative information (actions and results):

- Asset management's contribution to climate risk management and responsible investment
- Revision of the SI methodology for classifying investment funds
- Awareness-raising initiatives on the environmental footprint, with a particular focus on sustainable mobility and waste management.
- Sports challenge in HSBC Continental Europe's 13 markets to get involved with the environment and better understand the Net Zero strategy
- Initiatives relating to the implementation of our approach to nature-related risk management
- Definition of financial and non-financial materiality for nature-related risks
- Recruitment campaigns in 2023
- Awareness-raising initiatives in 2023 – internal and external tutoring programme
- Signing of the *L'Autre Cercle* LGBT+ Commitment Charter in 2023
- Review of manufactured goods in 2023
- Digital Business Services self-assessment
- Implementation of a comprehensive compliance programme to strengthen the fight against corruption and fraud across all activities, including branches and subsidiaries in France
- Implementation of supplier process controls and employee training on risks relating to tax evasion
- Compulsory security training featuring phishing tests carried out in 2023
- Alignment of the HCBE policy and the Group's policy on risks in terms of non-compliance with human rights
- Update of the Code of Conduct Charter

France ‘Duty of Care’ act

Definition of HSBC Continental Europe's Duty of Care 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 in HSBC Continental Europe and implemented in accordance with French law enter into force the 27 March 2017.

The Plan is supported by the HSBC Group 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).

For more detail on HSBC Group statements and policies please refer to HSBC Group website: www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk.

The HSBC Continental Europe Plan is regularly reviewed to ensure its accuracy with HSBC value and purposes and with how HSBC Continental Europe aims to manage and mitigate risks and prevent serious infringements of human rights and fundamental freedoms, to safeguard the health and safety of individuals and to protect the environment.

The Plan is monitored regularly 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, Regulatory Compliance, Human Resources, Procurement, Corporate Sustainability and ESG Risk. The plan is applicable to HSBC Continental Europe compliance.

Within that geographical scope, the Plan covers risks relating to HSBC Continental Europe’s employees, banking activities (including customers), as well as suppliers and subcontractors.

Duty of Care risk management approach

The risk associated to Duty of Care is being incorporated within HSBC Continental Europe existing policies, risks, and related controls in place. The risk associated to Duty of Care law is assessed at least annually, and where needed for material risk areas identified, HSBC Continental Europe will take reasonable and proportionate steps to address and enhance relevant policies and controls to manage this risk.

The 2023 risk mapping exercise performed with the support of the first line and the second line of defence has not identified any material deficiencies in this perimeter.

The Duty of Care plan includes the following key themes:

Diversity and Inclusion

HSBC purpose, ‘opening up a world of opportunity’, explains what the main driver of HSBC is, as an organisation and is the foundation of the Bank’s Diversity and Inclusion Statement. This statement is run through its business and is embedded in HSBC values. By valuing difference and seeking different perspectives, HSBC can more accurately reflect the companies and customers the bank’s serves, creating better outcomes for customers and colleagues.

HSBC's data-driven strategy enables us to set targets and accurately track and monitor its progress. HSBC Continental Europe remains focused on specific Group-wide priorities for which HSBC hold senior executives accountable.

More information, please refer to: HSBC website: www.hsbc.com/-/files/hsbc/our-approach/corporate-governance/pdfs/231211-hsbc-holdings-diversity-and-inclusion-policy-2023.pdf

Occupational health and safety

As stated in its Health & Safety Policy, HSBC, as an employer, must provide a healthy, respectful working environment, as well as protecting and ensuring the physical safety of its employees at their workplace or when travelling for business purposes.

Listening to colleagues is an essential part of building a healthy workplace at HSBC. HSBC aims to capture employee feedback in a variety of ways to understand how colleagues feel about HSBC and to help us improve the employee experience.

HSBC Continental Europe needs the best people, performing their best to deliver HSBC purpose, its ambition and strategy. Creating a great workplace helps to attract, retain, and motivate HSBC's Continental Europe's staff. This is managed by rewarding colleagues fairly, recognising success, supporting our colleagues to grow, social well-being and flexible working, mental, physical, and financial well-being.

More information, please refer to Sustainability section, Risk 6 page 67

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.

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 relaying on the Group approach in consideration of the nature of its business.

Five main inherent human rights risks have been mapped to business activities:

- Right to decent work with:
  - freedom from forced labour - including freedom from slavery and child labour and protection from inhumane, harsh or degrading treatment or punishment.
  - fair and favorable conditions of work - including the right to reasonable working hours, fair working conditions and pay.
  - right to safety and health at work – including appropriate living conditions for workers as well as protection of their mental and physical health and safety while at work.
- Right to equality and freedom from discrimination (including right to equal opportunity and freedom from discrimination on the basis of protected characteristics).
- Right to privacy (including right to protection against interference with privacy).
- Cultural and land rights (including rights of indigenous people, self-determination and the enjoyment of culture, religion, and language).
- Right to dignity and justice (including freedom of opinion and expression and freedom from arbitrary arrest, detention, or exile).

The assessment also considered HSBC's business activities and relationships in the context of the Bank’s roles: employer; buyer of goods and services; provider of financial products and services to personal customers and, separately, to business customers; and investor, including all investment activities.

Customer engagement

HSBC believes that 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 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.

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'.

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 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.

Whistleblowing system

HSBC encourages a speak-up culture where individuals can raise any concerns about wrongdoing or unethical conduct through the normal reporting channels without fear of reprisal or retaliation. HSBC provides several channels to speak-up, however it is recognised that in certain circumstances it may be necessary for individuals to raise concerns through more targeted and confidential channels.

HSBC strives to create a working environment in which people feel free to share their concerns. Aware that certain circumstances require particular discretion, it simplified its whistleblowing system in 2015 by creating 'HSBC Confidential'. The arrangements are open to all people in relationship with HSBC as required by the EU Directive 2019/137 of 23 October 2019 reinforcing whistleblower protection.

The arrangements can be used anonymously by the whistleblower and are accessible, at any time. Since December 2020, concerns can now be raised through an independent third party offering 24/7 hotlines and a web portal in multiple languages, including local language and English. The arrangements are managed and supervised by an independent team within the Compliance function locally or at global level depending on countries.

It can be notably used to report facts or behaviors constituting a violation of human rights and fundamental freedoms, the health and safety of persons as well as the environment resulting from the activities of HSBC Continental Europe as well as those of their subcontractors or suppliers, in accordance with Law N° 2017-399 of 27 March 2017 relating to the duty of care of parent companies and ordering companies.

Investigations are conducted confidentially, in depth and independently by investigators who are trained and made aware of the legislation/regulations applicable to whistleblowing arrangements.

Alerts received in four countries - France, Poland, Germany and Malta - are fully managed locally while alerts sent by employees in other HSBC Continental Europe branches are received and fully processed by HSBC Group in accordance with the processes in place.
40 alerts were received and admitted to the HSBC Confidential alert system in HSBC Continental Europe in 2023, representing double number of cases received compared to 2022 (20 alerts in 2022). The main theme emerging from the alerts admitted was linked to Poor Management Practices, Employee Behaviour Issues, and Bullying & Harassment in the work environment.
Communication and awareness initiatives for employees are sent periodically to encourage a "Speak-up" culture within HSBC.

Arrangements in place within HSBC Continental Europe and figures

In accordance with the Law, all eligible persons can use the whistleblowing channel, in addition to the usual channels, for raising concerns without fear of retaliation, relating to the following matters:

- a crime or an offense (e.g. corruption, fraud, embezzlement, harassment, discrimination, etc..),
- a violation or attempt to conceal a violation of an international standard, law or settlement,
- a threat or serious prejudice to the general interest,
- a violation of human rights and fundamental freedoms, human health and safety of the environment,
- any situation likely to generate a significant financial or reputational risk for the bank.

The whistleblowing oversight team for HSBC Continental Europe is based in France within HSBC Continental Europe Compliance team which monitors activities relating to the whistleblowing arrangements across the overall HSBC Continental Europe perimeter.

In France, HSBC Confidential is placed under the responsibility of Compliance and under the supervision of the Audit Committee. Investigations on raised cases are conducted, in a confidential, in-depth, and independent manner by investigators from different departments, mainly from Compliance and Human Resources. Controls are in place to maintain confidentiality and to protect whistleblowers from the risk of retaliation.

In Malta, a local whistleblowing reporting policy is in place, which provides an official and confidential channel for whistleblowing. The The whistleblowing channel, HSBC Confidential and HSBC Confidential Malta are opened to all colleagues to raise concerns in line with local laws. All whistleblowing reports received are investigated in a detailed and independent manner and remedial action is taken where appropriate. The oversight of the policy and arrangements falls within the remit of the HSBC Bank Malta's Audit Committee.

In Germany, HSBC Confidential as well as a local Ombudsman in accordance with local law (Hinweisgeberschutzgesetz) are used. The Ombudsman is an independent and impartial external attorney and is available to all employees of HSBC Germany. Employees can raise any concerns especially about breaches of legal/ regulatory or internal requirements through these channels, besides normal reporting channels. Concerns can be raised anonymously. The alerts are forwarded to the local Whistleblowing Team which is settled in Compliance. Investigations are conducted in a confidential and independent manner and actions are taken where necessary.

In Poland a local whistleblowing arrangement is in place, which provides a confidential channel for whistleblowing allowing all colleagues to raise concerns in line with local laws. All whistleblowing reports received are investigated in a detailed and independent manner and remedial action is taken where appropriate.

Suppliers and subcontractors

HSBC and HSBC Continental Europe are committed to the fair treatment of the businesses who supply goods and services to HSBC – and expect them to operate with accountability, in line with HSBC values. HSBC Continental Europe suppliers are required to meet the Bank's compliance and financial stability requirements, as well as to comply with HSBC supplier code of conduct.

HSBC 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, and human rights supplier audit pilots to assess the potential need for further supplier audits in the future.

The supplier's code of conduct adopted by HSBC Continental Europe sets out HSBC's commitments to the environment, diversity and human rights, and outlines the minimum commitments HSBC expects of its suppliers in this area. HSBC formalises commitment to the code of conduct with clauses in its supplier contracts, which support the right to audit and act if a breach is discovered. At the end of 2023, 90 per cent of contracted suppliers had either confirmed adherence to the supplier code of conduct or provided their own alternative that was accepted by HSBC Global Procurement function.

In addition, during the onboarding process the supplier is submitted to a prequalification with a Reputational Risk Index. The supplier which poses potential reputational risk should be triggered into the relevant (local, regional, or global business) Reputational Risk and Client Selection Committee (RRCSC) to determine whether supplier can be engaged.

HSBC also defined an ESG questionnaire covering 3 main themes: Environment Social Governance (ESG) – General Data Protection Regulation ('GDPR') – Contractual Conditions – with 21 questions including 7 covering Duty of Care and human rights considerations.

Read more about the principles HSBC applies and HSBC supplier code of conduct: www.hsbc.com/who-we-are/esg-and-responsible-business/working-with-suppliers

Refer to the section Sustainability page 55.

Environmental protection

HSBC prevents, mitigates and controls its material impacts on the environment and health in accordance with its sustainability risk policies and statements. This includes complying with regulations concerning waste management, handling of hazardous materials and sourcing of raw materials. Particular attention is risks relating to climate change and its impacts on nature considering that nature and climate go hand in hand.

The finance sector can help to counter the decline in biodiversity, scaling up nature-related finance, implementing policies to help eliminate commodity-driven deforestation, and investing in the sustainable food and agricultural systems needed for net zero. To get this right, HSBC is embedding nature considerations alongside net zero.

Nature based solutions will play an important role in removing carbon from the atmosphere. These methods include conserving and restoring natural ecosystems and managing forests and agricultural lands more sustainably. Such solutions can also help counter key drivers of the biodiversity loss currently underway, and support action to tackle wider drivers of nature loss, including deforestation, over-fishing, and waste.

HSBC Continental Europe started to assess nature-related risks and opportunities. With HSBC Group support, progresses were made in assessing nature impacts and dependencies and developing a risk management approach.
Managing nature-related issues through HSBC's sustainability risk policies and risk management process, including through:

- Forestry policy and agricultural commodities policy, which require customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles.
- Imposing restrictions, for example through a number of its sectoral policies, on certain financing activities in environmentally and socially critical areas.
- Piloting the Taskforce on Nature-related Financial Disclosure beta framework to better understand its exposure to nature-related risks, including on subsets of customers.

Embedding nature into decision-making and customer engagement:

- Incorporating nature-related considerations (i.e. questions, criteria, etc.) into HSBC Continental Europe corporate customer transition plan assessments and customer engagement.
- Engaging with investee companies on biodiversity and natural resources via HSBC Asset Management.
- Exploring how nature safeguarding mechanisms could be incorporated into decision-making.

Financing and investing in nature-related solutions

HSBC is testing and scaling approaches to investing in biodiversity and nature, including:

- Establishing a USD 650 million fund focused on nature-based assets, nature-based carbon projects and new forms of natural capital (Climate Asset Management, a joint venture between HSBC Asset Management and Pollination).

- Providing early-stage finance and investment for products seeking to protect and restore nature through our climate tech venture debt financing.
- Innovating HSBC Asset Management first biodiversity-screened ETF.

Managing HSBC Continental Europe's impacts on nature for its own operations by being responsible steward and consumer of natural resources:

- Striving to ensure that Bank's premises do not adversely affect the environment or natural resources, where possible, particularly in areas subject to water stress.
- Introducing a green leasing programme so that new premises help support natural resource management.
- Aiming to achieve LEED or equivalent certification for construction projects.

Partnering for systemic change on nature thanks to HSBC involvement across the public and private sector to help drive action and develop industry practice:

- HSBC Climate Solutions Partnership with the World Resources Institute ('WRI') and World Wide Fund for Nature ('WWF').
- Partnering with the Sustainable Markets Initiative to build the Terra Carta Accelerator Fund to finance natural capital projects in emerging markets.

Duty of Care risk monitoring

HSBC Continental Europe has adopted a process for managing inappropriate individual breaches. The process aims to identify all situations in which rules and procedures are not complied with, and to ensure that cases are treated consistently.

The breaches that HSBC Continental Europe seeks to identify include cases of money laundering – which may involve activities such as terrorist financing, human trafficking, or slavery – as well as cases where the physical safety of staff members is jeopardised and cases of harassment.

To deal with such situations, each of HSBC Continental Europe's business lines and main functions holds breach committee meetings. For smaller functions and branches, ad-hoc committee meetings are held if a breach occurs. The aim of these meetings is to assess the risk level, the circumstances in which the breach occurred and the level of the breach. If appropriate, sanctions are applied; remedial action may also be taken to prevent the situation from recurring. Monitoring indicators have also been adopted.

In 2023, two breaches were dealt with in relation to the Duty of Care Act.

All credible allegations of human rights violations are investigated through engagement with stakeholders when reported. They are then raised directly with the client company by the Relationship Manager and, if necessary, escalated to Senior Management both within HSBC and at the client, up to the senior executive level. Where required, individual customer relationships are referred to and reviewed by Reputational Risk and Client Selection Committees on a case-by-case basis. These reviews may decide to restrict or end a customer relationship where it is unwilling or unable to meet HSBC's standards, including those relating to modern slavery and human trafficking.

For more detail of HSBC Net Zero Transition Plan, please refer to HSBC Group website: www.hsbc.com/who-we-are/our-climate-strategy/our-net-zero-transition-plan#.

Risk

Contents

All Pillar 3 and regulatory documentation is available on the Internet websites www.hsbc.com and www.hsbc.fr.

Key Highlights

Principal Regulatory Ratios (non audited)

	At	
	31 Dec 2023	31 Dec 2022
	%	%
Capital Ratios		
Common equity tier 1	**15.9**	15.3
Total tier 1	**18.3**	17.6
Total capital	**20.8**	20.2
Leverage Ratio	**4.2**	4.3
Liquidity Ratios[1]		
Liquidity Coverage Ratio ("LCR")[1,2]	**158**	151
Net Stable Funding Ratio ("NSFR")[1,3]	**141**	141

1 *In accordance with CRR II requirements, the LCR is disclosed as a 12 month average and the NSFR as at period-end. The 2022 comparatives for NSFR has been restated accordingly.*
2 *The components of the LCR calculation have been represented to comply with EBA reporting requirements.*
3 *This includes the impact of the sale of our retail banking operations in France.*

Risk-Weighted Assets – by Risk Type (non audited)

	RWAs		Capital required	
	2023	2022	**2023**	2022
	€m	€m	**€m**	€m
Credit Risk	**44,078**	43,354	**3,526**	3,468
Counterparty Credit Risk	**5,280**	6,048	**422**	484
Market Risk	**3,992**	3,482	**320**	279
Operational Risk	**6,188**	5,677	**495**	454
Total Risk-Weighted Assets	**59,538**	58,561	**4,763**	4,685

Loan Impairment Charges/Impaired Loans[1]

	At	
	31 Dec 2023	31 Dec 2022
(in million of euros/%)	**€m**	€m
Total Gross loans	**56,701**	50,403
Total Impaired loans (B)[2]	**1,658**	1,711
Impaired loans %	**2.92%**	3.39%
Total loan impairment charge at 31 December	**(141)**	(124)
Impairment allowances (A)[2]	**(624)**	(673)
Impairment ratio: A/B	**37.64%**	39.33%

1 *Balance at 31 December excludes amount classified as held for sale related to retail banking operations in France during the year. Balance at 31 December 2023 includes transfer-in on integration of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*
2 *Including only stage 3.*

HSBC Continental Europe's risk appetite

HSBC Continental Europe recognises the importance of a strong risk culture, which refers to its shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. The risk appetite defines the level and types of risk that HSBC Continental Europe are willing to take, while informing the financial planning process and guiding strategic decision making.

HSBC Continental Europe seeks to build its business for the long term by balancing social, environmental and economic considerations in the decisions its makes. HSBC Continental Europe's strategic priorities are underpinned by its endeavour to operate in a sustainable way. This helps HSBC Continental Europe to carry out its social responsibility and manage the risk profile of the business. HSBC Continental Europe is committed to managing and mitigating climate related risks, both physical and transition, and includes the consideration of these into how it manages and oversees risks internally and with its customers.

The following principles guide HSBC Continental Europe's overarching appetite for risk and determine how its businesses and risks are managed.

Financial position

- HSBC Continental Europe aims to maintain a strong capital position, defined by regulatory and internal ratios; and
- HSBC Group carries out liquidity and funding management for each entity on a stand-alone basis.

Operating model

- HSBC Continental Europe's ambition is to generate returns in line with its risk appetite and strong risk management capability; and
- HSBC Continental Europe's aims to deliver sustainable and diversified earnings and consistent returns for shareholders.

Business practice

- HSBC Continental Europe has zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage to the HSBC Group has not been considered and/or mitigated;
- HSBC Continental Europe has no appetite: (i) for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements, and (ii) for inappropriate market conduct by a member of staff or by any business;
- HSBC Continental Europe is committed to managing the climate risks that have an impact on its financial position, and delivering on its net zero ambition; and
- HSBC Continental Europe monitors non-financial risk exposure against risk appetite, including exposure related to inadequate or failed internal processes, people and systems, or events that impacts its customers or can lead to sub-optimal returns to shareholders, censure, or reputational damage.

Enterprise-wide application

HSBC Continental Europe's risk appetite includes consideration of financial and non-financial risks and is expressed in both quantitative and qualitative terms.

The risk appetite statement is approved by the HSBC Continental Europe Board following advice from the Risk Committee, and is a key component of the risk management framework, with the Risk Map report and the Emerging risk dashboard.

Setting out HSBC Continental Europe's risk appetite ensures that planned business activities provide an appropriate balance of return for the risk being taken, and that a suitable level of risk for our strategy is defined. In this way, risk appetite permits the financial planning process and helps senior management of the bank to allocate capital to business activities, services and products.

The business performance against these risk appetite metrics is reviewed in the Risk Management Meeting and in the Risk Committee and Board. Details of metrics that have fallen outside of the appetite/tolerance are provided to the governance forum, along with remediating actions. This reporting allows risks to be promptly identified and mitigated.

The framework fosters continual monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to identifying, evaluating and managing the risks HSBC Continental Europe accepts and incurs in its activities.

Risk Management

HSBC Continental Europe recognises that the primary role of risk management is to protect its customers, business, colleagues, shareholders and the communities that it serve, while ensuring that HSBC Continental Europe are able to support its strategy and provide sustainable growth. This is supported through its three lines of defence model described on page 116.

HSBC Continental Europe uses a comprehensive risk management framework across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This framework outlines the key principles, policies and practices that the bank employs in managing material risks, both financial and non-financial.

Stress testing

HSBC Continental Europe operates a comprehensive stress testing program that supports its risk management and capital planning. It includes execution of stress tests mandated by its regulators. Its stress testing is supported by dedicated teams and infrastructure and is overseen at the most senior levels of the bank. Its stress testing program assesses its capital strength through a rigorous examination of its resilience to external shocks. It also helps it understand and mitigate risks and informs its decisions about capital levels. As well as undertaking regulatory-driven stress tests, HSBC Continental Europe conducts its own internal stress tests (for example concentration risk stress tests on specific portfolios, market risk stress tests or capital sensitivity analysis from several risk factors).

Stress test impacts are measured on the profit and loss account, the risk-weighted assets and capital. The stress test outcomes are presented to the HSBC Continental Europe Risk Committee and Board.

In 2023, HSBC Continental Europe performed a range of stress tests within the stress testing program, examining both capital and liquidity adequacy in line with the assessed top and emerging risks. The results of these stress tests were reported to senior management and to the other governance committees of the Bank.

HSBC Continental Europe also contributes to the HSBC Group stress testing program, including the stress tests included in the Group Recovery Plan.

In stress testing exercises, the scenarios usually rely upon a set of macroeconomic and financial variables (e.g. GDP, inflation, consumer price index, interest and exchange rates, unemployment, stock index) projected upon a pre-determined period.

Several scenarios are usually defined:

- A base scenario considered as the most likely scenario over the projected period, taking into consideration the economic and financial environments and their forward-looking evolution; and
- One or several adverse scenarios describing one or several potential shocks affecting the economic and financial environments, like the materialisation of one or several risks weighting on the base scenario.

For macroeconomic stress tests, the base and adverse scenarios are usually centrally coordinated by HSBC Risk and Finance teams, and broken down into regional and country scenarios to ensure global consistency.

To ensure an appropriate coverage of the specific risks faced by HSBC Continental Europe, scenarios specific to Continental Europe are also developed by HSBC Continental Europe's Risk and Finance teams, with the support of expert panels.

Regulatory stress tests

Stress testing is also an important regulatory tool to assess the resilience of the banking sector and of individual banks to adverse economic or financial developments.

The results inform regulators of the capital adequacy of individual institutions and can have an effect on minimum capital requirements, and therefore the payment of dividends, going forward.

Risk management framework

An established risk governance framework and ownership structure seeks to ensure the effective oversight of, and accountability for, the management of risk within the Group. HSBC's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

Integral to the risk management framework are risk appetite, risk map, stress testing and the identification of emerging risks. The following diagram and descriptions summarise key aspects of the risk management framework, which applies to HSBC Continental Europe, including governance, structure, HSBC risk management tools and risk culture, which together help align employee behaviour with HSBC's risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the Group's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the Group Risk Committee.
	Executive risk governance	The executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Group.
Roles and responsibilities	Three lines of defence model	The 'three lines of defence' model defines roles and responsibilities for risk management. An independent Global Risk function helps ensure the necessary balance in risk/return decisions).
Processes and tools	Risk appetite Enterprise-wide risk management tools Active risk management: identification/assessment, monitoring, management and reporting	The HSBC Group has processes in place to identify/assess, monitor, manage and report risks to help ensure it remains within its risk appetite.
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage the risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The HSBC Group has systems and/or processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The Risk Committee is a committee of the Board and has responsibility for oversight and advice to the Board in its supervision of, amongst other things, the Bank's risk appetite, tolerance and strategy, systems of risk management, internal control and compliance. In addition, a member of the Risk Committee is a member of the Remuneration Committee, which reinforces the supervision of the alignment of the reward structures to the risk appetite.

In carrying out its responsibilities, the Risk Committee is closely supported by the Chief Risk Officer, the Chief Financial Officer, the Head of Internal Audit and the Chief Compliance Officer with other business/functions for risks within their respective areas of responsibility.

In addition to the role of the non-executive Risk Committee, the HSBC Continental Europe Risk Management Meeting, is the overarching executive management committee of both financial and non-financial risk management.

Chaired by the Chief Risk Officer (CRO), the Risk Management Meeting met eight times in 2023 in order to examine the major risks faced by HSBC Continental Europe.

It reviews financial and non-financial risks for the HSBC Continental Europe perimeter, including the risks linked to Digital Business Services and the evolution of action plans put in place in order to mitigate identified risks. The HSBC Continental Europe Risk Management Meeting reports functionally to its European equivalent in the HSBC Group: the HSBC Europe Risk Management Meeting, and to the HSBC Continental Europe Risk Committee and Executive Committee.

This framework is completed by dedicated risk forums and working groups for specific risks in businesses and functions combining the various levels of internal control, in order to manage, monitor and control HSBC activities within HSBC Continental Europe.

Responsibility for managing both financial and non-financial risk lies with HSBC Continental Europe employees. They are required to manage the risks of the business and operational activities for which they are responsible. HSBC Continental Europe maintains oversight of its risks through the various Risk Stewards, as well as the accountability held by the Chief Risk Officer.

Non-financial risk includes some of the most material risks HSBC Continental Europe faces, such as cyberattacks, models, poor customer outcomes and loss of data. Actively managing non-financial risk is crucial to serve our customers effectively and having a positive impact in the social environment.

All of HSBC Continental Europe's activities are monitored and managed to be compliant with local regulations and Group standards and procedures.

The control framework

In compliance with the requirements of the French Order of 3 November 2014 modified on 25 February 2021 and the HSBC Group requirements, a permanent control and risk management framework has been established in HSBC Continental Europe.

The Chief Risk Officer and the Chief Compliance Officer of HSBC Continental Europe are responsible for the permanent control within HSBC Continental Europe's perimeter.

The key responsibility for control falls to the managers of the various businesses and functions and Digital Business Services who must ensure that primary controls are conducted in a proper manner.

Operational activities need to be covered by a second-level of permanent control.

The HSBC Group risk taxonomy

To help ensure consistency and comparability in risk categorisation across the Group, HSBC Continental Europe uses a standardised set of risk types known as the HSBC risk taxonomy.

These are categorised as financial risks and non-financial risks. Non-financial risk includes, but is not limited to, those risks captured under the Basel definition for Operational Risk.

HSBC Continental Europe has five level 1 financial risk types and seven level 1 non-financial risk types, as listed below:

Financial Risks	Non- Financial Risks
Treasury Risk	Financial Reporting and Tax Risk
Retail Credit Risk	Resilience Risk
Wholesale Credit Risk	Financial Crime Risk
Traded Risk	People Risk
Strategic Risk	Regulatory Compliance Risk
	Legal Risk
	Model Risk

Non-financial risks

Non-financial risks are defined as the the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during the day-to-day operations (including those undertaken by a Third Party of HSBC Continental Europe's behalf), while taking financial risks.

Non-financial risks may have an impact on HSBC Continental Europe's management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking.

Financial risks

Financial risks are defined as a risk of financial loss resulting from business activities.

HSBC Group has established standards, policies and control procedures dedicated to monitoring and management of risk linked to its activities. Local procedures / policies or addenda are also established in case of any additional local regulations.

Tools

In compliance with the French Order of 3 November 2014, modified on 25 February 2021, referring to bank's permanent control system, a framework is set up in each entity to monitor its risks.

Inherent and residual risks are assessed for each line of business, activities and functions and are documented in an RCA (Risk and Control Assessment) recorded in the HSBC Risk system (Helios). Assessments are undertaken on an ongoing basis and whenever a trigger event occurs requiring a reassessment of the risk and the related control coverage.

The risk profile of all HSBC Continental Europe's activities is presented formally at least annually by the First Line of Defence to the Chief Risk Officer in attendance of the concerned Risk Stewards, the Head of Operational and Resilience Risk function and Internal Audit.

The objective of the exercise is to ensure that assessment and management of non-financial risks is consistent across Businesses and Functions and in line with the HSBC Risk Management Framework as well as European and French regulation.

Three lines of defence

The HSBC Three Lines of Defence is an activity-based model and delineates accountabilities and responsibilities for risk management and the control environment within each Line of Defence (LoD). The model applies to all individuals and all risk types, and supports the delivery of conduct outcomes and a positive risk culture.

There must be a clear segregation between risk ownership (First LoD), risk oversight and stewardship (Second LoD) and audit (Third LoD) to help support effective identification, assessment, management, and reporting of risks. It is the activities, not the job titles, which determine where employees sit in the three Lines of Defence model.

The model underpins the bank’s approach to manage risk by clarifying responsibility, encouraging collaboration and enabling efficient coordination of risk and control activities. The three lines are summarised below:

- the First Line of Defence (1LoD) has the ultimate ownership for risks and controls, including read across assessments of identified issues, events and near misses and the delivery of good conduct outcomes. It is the responsibility of the 1LoD to assess whether an issue is likely to have relevance to another part of the business, and therefore what level of read across action is required, and whether when looked at in aggregate the level of consolidated risks is greater than on an individual basis. The 1LoD is accountable for identifying, assessing, managing and, reporting risks.
- the Second Line of Defence (2LoD) provides subject matter expertise, advice, guidance as well as review and challenge of the 1LoD activities to ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The 2LoD is independent of the risk-taking activities undertaken by the 1LoD as defined by the Article 14 of the French Order of 3 November 2014 modified on 25 February 2021. The 2LoD includes Assurance teams which are dedicated to second level of permanent control activities for all risks.
- the Third Line of Defence (3LoD) is the Internal Audit function, which provides independent assessment to senior management to determine whether the risk management, governance and internal control processes are designed and operated effectively.

Permanent Control Activities

The permanent control activities are primarily based on first-level controls carried out by the 1LoD composed by the Businesses, Functions, and Digital Business Services (DBS), which are responsible for their day-today activities and processes, the management of the resulting non-financial risks, and the first-level controls to mitigate those risks. The purpose of these first-level controls is to ensure that all activities are conducted in accordance with all internal, external and regulatory requirements.

An independent control framework owned by the 2LoD completes this set of first-level controls. Key roles in the independent control framework include:

- Risk Stewards, acting as subject matter expert who set policies and oversee the 1LoD activities by risk type. They are responsible for ensuring that their risk type is managed effectively. They regularly review the risk assessment of the RCAs through the "Review and Challenge" module documented in the Helios Risk Management Tool.
- Assurance teams implement and maintain an effective second level of permanent control environment over 1LoD risks related activities. They are responsible for developing an annual assurance (permanent control) plan across all HSBC Continental Europe risk types, to assess design and operating effectiveness of key controls, to assess the completeness, accuracy and reliability of the 1LoD RCAs, to perform independent deep dive reviews into key risk areas aiming to assess compliance with Group procedures and applicable regulations, to make recommendations for process improvement, to follow up and assess the effectiveness of corrective actions, and to report and escalate key concerns to governance forums.
- Operational and resilience risk is a combined risk stewardship and oversight function, which ensures governance and management of operational risk, resilience risk and operational resilience through the delivery and embedding of effective frameworks, and continuous oversight and assurance of end-to-end processes, risks and controls. The effectiveness of 1LoD risk and control owners, and 2LoD Risk Stewards in managing non-financial risk processes and practices is reported through Risk Management Meeting.
- A number of committees, forums and working groups that examine the results of controls and the main deficiencies.

To comply with the American Sarbanes-Oxley law ('SOX'), the HSBC Group has implemented since 2006 a framework for documenting and assessing internal controls, with regard to the processes and operations involved in drawing up financial statements.

HSBC Continental Europe's Finance Department is responsible for coordinating all SOX measures and summarizing their results.

Twice a year, the 'SOX 4 Way Meeting', chaired by the Chief Financial Officer, reviews:

- any SOX deficiencies revealed by the three lines of defence;
- the results of tests run by the Statutory Auditors; and
- action plans progress and status.

On a regular basis, HSBC Continental Europe's Audit Committee and the Risk Committee are informed about the results of controls carried out for SOX compliance purposes and of progress made in the action plans.

Risk culture

Risk culture in HSBC Continental Europe is defined as the shared attitudes, beliefs, values and norms that shapes its behaviour. It is also rooted in HSBC Continental Europe's purpose and shaped by its values The behaviours underpinning HSBC Continental Europe's values are designed to support a wide range of outcomes – including a risk culture that is effective in managing risk and that leads to good conduct outcomes.

HSBC uses clear and consistent employee communication on risk to convey strategic messages and set the tone from senior management and the Board. Mandatory training is also deployed on risk and compliance topics, including conduct, to embed skills and understanding in order to strengthen the company's risk culture and reinforce the expected attitude to risk expected of all employees as described in HSBC's risk policies.

In 2023, HSBC Continental Europe employees continued to deepen their knowledge and expertise on financial crime risks, and risk management through training programmes, awareness sessions and dedicated communications. These actions are key to ensure that all HSBC Continental Europe teams are able to identify and understand the current challenges against financial crime and risk more globally.

The Conduct framework, deployed in 2015 and updated in 2021, represents strong foundations for HSBC to deliver fair outcomes for customers and to maintain orderly and transparency on financial markets. The refreshed conduct framework was an opportunity to be aligned with the refreshed Purpose and Values defined by 'We take responsibility' to guide all stakeholders in acting appropriately in all circumstances and to recognise the individual impact from employees in relation to customers and financial markets in which HSBC operates. Training and communications are regularly deployed to improve the staff understanding and awareness in addition of the global mandatory training provided to all employees: 'Conduct matters' e-learning. Everyone involved in business with or on behalf of HSBC is required to act with high standards of personal integrity at all times.

Risk function

The Risk function is led by the Chief Risk Officer, who is responsible for the risk management framework of HSBC Continental Europe. This responsibility includes establishing risk policy, monitoring risk profiles, and forward-looking risk identification and management. Risk is made up of sub-functions covering all risks of HSBC Continental Europe activities. The Risk function is part of the second line of defence, and is independent from commercial activities.

Key developments and risk profile

In 2023, HSBC Continental Europe continued to undertake a number of initiatives to enhance its approach to the management of risk and enhance the control environment, taking into account the external events: the evolution of the geopolitical environment, the uncertain macroeconomic environment – inflation, higher interest rates, slower GDP growth, and internal events mainly related to the Bank's transformation programme.

In addition, HSBC Continental Europe has sought to improve its risk management in the following areas:

- Embedding of the governance and oversight for the IFRS 9 process including financial reporting processes, and the implementation of the new accounting standard IFRS 17 insurance contracts;
- The development of emerging risk identification and management, including the objective of using forward-looking indicators to support our analysis;

- The enhancement of the credit management framework in 2023, with the set up of the 'Risk Monitoring and Management' functions, within the Wholesale Credit Risk Management, now fully separate from the risk-taking functions thus ensuring effective challenge on credit risk activities. The Portfolio Management and Reporting team performs and coordinates all activities relevant for the overall monitoring and management of the HSBC Continental Europe Credit portfolio. In addition, the Risk Identification team is also separate from the risk-taking Credit Approval team and a dedicated off shore sampling team has been created;
- The strengthening of and consistency within HSBC Continental Europe of the third party risk policy and processes to improve control and oversight of its material third parties that are key to maintaining our operational resilience, and to meet new and evolving regulatory requirements;
- The enhancement of the climate risk programme to embed climate considerations throughout the firm, including updating the scope of the HSBC programme to cover all risk types, expanding the scope of climate related training and developing new climate risk metrics to monitor and manage exposures and the implementation of a dedicated governance organisation for Climate and ESG risks;
- The consolidation of the financial crime policies into a single financial crime policy. The bank also deployed industry leading technology and advanced analytics capabilities to improve its ability to identify suspicious activities and prevent financial crime;
- The establishment of two new fora: one dedicated to third party providers to enhance monitoring of our providers and another one related to Climate and ESG risks, to ensure climate and ESG risk culture is embedded throughout the Bank; and
- The strengthening of risk management practices with the implementation of an HSBC Continental Europe permanent control team sitting in the risk function to ensure the full coverage of the entire HSBC Continental Europe perimeter. This team performs independent reviews focussed on medium and low risks and complements the existing Group / regional Assurance team activities (monitoring very high and high Risks). The consolidated permanent control plan for 2023 was carried out within the risk appetite limit set for HSBC Continental Europe.

Risk factors

HSBC Continental Europe has identified a list of risk factors that cover the broad range of risks its businesses are exposed to. A number of the risk factors have the potential to have a material adverse effect on its business, prospects, financial condition, capital position, reputation, results of operations and/or its customers. A summary of these are presented below:

1 - Macroeconomic and geopolitical risks	2 - Prudential, regulatory and legal risks to the business model of HSBC Continental Europe	3 - Risks related to HSBC Continental Europe's operations	4 - Risks related to HSBC Continental Europe's governance and internal control	5 - Risks related to HSBC Continental Europe's business	6 - Risks related to HSBC Continental Europe's financial statements
1.1 Current macroeconomic environment risk	2.1 Changing regulatory and legal landscape risk	3.1 Model risk	4.1 Data management risk	5.1 Credit quality risk	6.1 Financial statements risk
1.2 Liquidity risk	2.2 Tax risk	3.2 Information technology systems risk	4.2 Strategy risk	5.2 Counterparty credit risk.	
1.3 Market risk		3.3 Cyber-security risk	4.3 Data Privacy risk	5.3 People risk	
1.4 Environmental, Social and Governance risk		3.4 Third party risk	4.4 Financial crime risk	5.4 Insurance risk	
			4.5 Risk management		

1 Macroeconomic and geopolitical risks

1.1 Current economic and market conditions may adversely affect HSBC Continental Europe’s results.
Probability: Very Likely/Impact: High.

HSBC Continental Europe's earnings are affected by both global and local economic and market conditions. Uncertain economic conditions and at times volatile markets can create a challenging operating environment for financial institutions.

In particular, HSBC Continental Europe has faced and may continue to face the following challenges to its operations and operating model in connection with these factors:

- Economic uncertainty: Current economic forecasts suggest growth will be weaker in 2024, relative to 2023. Consumer and business confidence remains depressed and major economies continue to face the risk of a more severe downturn, or recession. Interest rates are forecast to fall through 2024, but are likely to remain materially higher than in recent years. Economic weaknesses and higher interest rates could (among other things) cause asset prices and payment patterns to be adversely affected, leading to greater than expected increases in delinquencies, default rates and Expected Credit Losses (‘ECL’) and other credit impairment charges;
- Geopolitical risks: Geopolitical risks remain elevated. Economic forecasts are assumed to reflect the impact from the Russia-Ukraine and Israel-Hamas wars, but there is significant uncertainty around their duration and possible escalation. Additionally recent attacks on shipping in the Red Sea and resulting counter-measures have created increased volatility in the region and disrupted supply chains. A broadening of the conflicts in particular, has the potential to disrupt the global economy and may pose challenges for HSBC Continental Europe's customers and its business. In terms of the crisis in the Middle East and the situation in the Suez Canal (10% of global trade), this may impact the supply chain and negatively affect the business model of some HSBC Continental Europe customers especially those in Global Banking with cross border strategies, and these are therefore being closely monitored;
- Credit demand: There could be further adverse impacts on HSBC Continental Europe's income due to lower lending transaction volumes and lower wealth and insurance manufacturing revenue due to market volatility weaknesses;
- Market conditions: The bank's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and
- Other economic factors: High inflation, higher interest rates and the impact of geopolitical risks have significantly changed the operating environment for many companies and sectors. While impairment estimates attempt to capture the effects of these in the aggregate, credit losses on specific exposures, with specific idiosyncratic features may not be fully captured in ECL estimates.
  - The effects of higher inflation and interest rates in many countries may have material impacts on capital and liquidity. Any downturn could negatively impact the bank's Risk-Weighted Assets and capital position, increase ECL and lead to potential liquidity stress due to, among other factors, increased customer drawdowns;
  - In particular, the combined pressure of sustained higher inflation and higher interest rates may affect the ability of HSBC Continental Europe's customers to repay debt and their credit rating. Refinancing risk is being closely monitored; and
  - HSBC Continental Europe's financial models have been impacted by the effects of higher inflation and of significant increases in interest rates in many countries. This is particularly the case for IFRS 9 expected credit loss models, traded risk models and models used for asset/liability management. This requires enhanced monitoring, the use of overlays and, in some cases, the recalibration of the models.

HSBC Continental Europe continually assesses the impact of geopolitical and macroeconomic events. See also sections ‘Economic background’ on page 12 and ‘Economic Outlook’ on page 12 for additional details. Significant uncertainties remain in assessing the duration and impact of the current macroeconomic environment.

1.2 HSBC Continental Europe may lose access to its liquidity or funding sources, which are essential to its businesses.
Probability: Unlikely/Impact: High.

HSBC Continental Europe's ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the wider HSBC Group, HSBC Continental Europe specifically or the banking sector.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank's funding and HSBC Continental Europe places considerable importance on maintaining their stability. For deposits, stability relies on investor confidence in HSBC Continental Europe’s capital strength and liquidity, and on comparable and transparent pricing.

Deposits have historically been a stable source of funding, even in times of economic crisis, but under an extreme scenario this may not be the case.

HSBC Continental Europe also accesses wholesale markets in order to secure funding to align asset and liability balances, maturities and currencies, and to contribute to the financing of its lending and market activities. Non-favourable macroeconomic developments, market disruptions or regulatory developments may increase the funding costs or challenge the ability of HSBC Continental Europe to raise funds to support or expand its businesses.

If the Bank were unable to raise funds through deposits and/or in the capital markets, its liquidity position could be adversely affected. In such an extreme scenario, it could be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay maturing debt, or to meet its obligations under committed financing facilities and insurance contracts or to fund new loans or investments. The Bank may need to liquidate unencumbered assets to meet its liabilities.

In a time of reduced liquidity, HSBC Continental Europe may be unable to sell some of its assets, or it may need to sell assets at reduced prices, which in either case could materially adversely affect its business, prospects, financial condition, and results of operations. It is difficult to predict with any degree of accuracy changes in access to funds, and the extent of the potential consequences.

Nevertheless, a number of mitigating actions and procedures – including business actions and participation in the central bank refinancing operations are in place in HSBC Continental Europe, through its Contingency Funding Plan in order to address a potential liquidity crisis. This will materially reduce the impact of this risk in case of materialisation.

HSBC Continental Europe will no longer have access to retail deposits and covered bonds after the sale of its retail activities in France and has retained a portfolio of EUR 7.1 billion home loans.

The adjustments to the terms of the sale of the retail activities in France are expected to create an incremental liquidity and funding need. In meeting this incremental funding need, additional risks may arise such as client and maturity concentrations or in a severe stress the risk of debt-buy backs for increased issuances.

These risks are mitigated through ongoing review of the funding plan and of concentrations to ensure a diversified funding base across various products, maturities, and instruments. Furthermore, the transformation of the German subsidiary to a branch assists in absorbing this incremental need.

HSBC Continental Europe undertakes liquidity stress testing to test if its risk appetite is adequate, to validate that it can continue to operate under various stress scenarios that involve an analysis of the relevant probable or severe area of risk to HSBC Continental Europe, and to confirm that the stress assumptions within the Liquidity Coverage Ratio scenario are appropriate and conservative enough for the Group's business.

HSBC Continental Europe continues to rely on its daily internal stress test metric, complementing the Liquidity Coverage Ratio ('LCR'), for the operational day-to-day management of the Bank's liquidity position. Moreover, several other different stress tests are run of varying durations and nature, the assumptions and results of which are reviewed by the Asset, Liability, and Capital Management Committees ('ALCO') and presented through the Internal Liquidity Adequacy Assessment Process to the Board.

1.3 Market fluctuations may reduce HSBC Continental Europe's income or the value of its portfolios.

Probability: Likely/Impact: Medium.

HSBC Continental Europe businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, equity and bond prices, and the risk that customers act inconsistently with HSBC Continental Europe's business, pricing, and hedging assumptions.

Market pricing can be volatile and ongoing market movements could significantly affect a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk.

Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. The risks of market volatility or changes in margin levels remain high.

Competitive pressures on fixed rates or product terms for existing loans and deposits sometimes restrict ability to change interest rates applying to customers in response to changes in wholesale market rates.

HSBC Continental Europe's insurance businesses are exposed to the risk that market fluctuations may cause mismatches to occur between product liabilities and the investment assets that back them. Market risks can affect our insurance products in a number of ways depending upon the product and associated contract. For example, mismatches between assets and liability yields and maturities give rise to interest rate risk. Some of these risks are borne directly by the customer and some are borne by the insurance businesses, with their excess capital invested in the markets. Moreover, some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance businesses could bear some of the cost of such guarantees and options. The performance of the investment markets could thus have a direct effect upon the value embedded in the insurance and investment contracts and our operating results, financial condition and prospects.

See also section 'Market risk in 2023' on page 165.

As at 31 December 2023, Market Risk RWAs were EUR 3.992 billion of which EUR 94 million were under the standardised approach and EUR 3.898 billion under the Internal Model Approach ('IMA').

The standardised RWAs include EUR 94million of Foreign exchange risk. RWAs under IMA include EUR 1.089 billion VaR RWAs, EUR 1.798 billion Stressed VaR RWAs, EUR 415 million of Incremental risk charge RWAs and EUR 596 million other. See tables: Market risk under standardised approach and Market risk under IMA on pages 168,169.

1.4 HSBC Continental Europe is subject to financial and non-financial risks associated with Environmental,Social and Governance related matters, such as climate risk, nature-related risk, and human rights risk.

Probability: Likely/Impact: Medium.

ESG related matters such as climate change, society's impact on nature and human rights issues bring risks to HSBC Continental Europe business and customers in addition to the wider society. If the Bank fails to meet evolving regulatory expectations or requirements relating to these matters, this could have regulatory compliance and reputational impacts.

Climate and nature-related risks could have both financial and non-financial impacts that may arise as a consequence of climate change, compromise of natural system and the move to a greener economy. These risks can impact HSBC Continental Europe either directly or indirectly through its customers. Transition risk can arise from the move to a low-carbon economy, such as through policy, regulatory and technological changes. Physical risk can arise through increasing severity and/or frequency of severe weather or other climatic events, such as rising sea levels and flooding and chronic shifts in weather patterns, which could affect HSBC Continental Europe ability to conduct its day-to-day operations.

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. Nature-related risk management will follow the same approach from 2024.

For further details related to ESG Risk management including climate and nature-related risk management, see pages 180-187

HSBC Continental Europe's climate risk assessment shows that the following are the most likely ways in which climate risk may materialise: credit and trading losses, impact from physical risk on HSBC Continental Europe's own operations and clients property value with consequences on mortgage payments, operational risk, regulatory compliance conduct and reputational risks.

HSBC Continental Europe also faces increased reputational, legal and regulatory risks as progress is made towards the Group's net zero ambition, with stakeholders likely to place greater focus on HSBC actions including in HSBC Continental Europe, such as the development of climate-related policies, disclosures; financing and investment decisions relating to HSBC's ambition.

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 be exposed to climate related litigation risks, either directly if stakeholders think that the Bank does not adequately manage climate risks or indirectly if clients and customers are themselves the subject of litigation, potentially resulting in the reevaluation of their assets.

In addition, there is increasing evidence that a number of nature-related risks beyond climate change - which include risks that can be represented more broadly by impact and dependency on nature – can and will have significant economic impact. 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 or degradation arising from the economic activity and other environmental stresses beyond climate change. They can manifest in a variety of ways, including through macroeconomic, market, credit, reputational, legal and regulatory risks, for both HSBC Continental Europe and its customers.

HSBC's human rights risk approach covers all aspects of internationally recognised human rights and is guided by the UN Guiding Principles on Business and Human Rights ('UNGPs') and the OECD Guidelines for Multinational Enterprises. HSBC Continental Europe human rights risk management is also guided by 'Duty of Care' law. For further details refer to the section page 109 – Duty of Care.

The key human rights risks that currently may impact HSBC Continental Europe include discrimination, in particular with respect to the Bank's employees and customers, and modern slavery specifically for the bank' supply chains and those of its customers. Failure to manage these risks may result in negative impacts on HSBC Continental Europe employees (both in terms of hiring and retention), business and reputation. Such failure could also lead to legal and regulatory breaches, and this could have reputational, legal and financial consequences for HSBC Continental Europe.

In order to track and report on HSBC Continental Europe progress against its ESG-related ambitions, HSBC commitments and targets, the Bank relies on internal and, where appropriate and available, external data sources, guided by certain industry standards. While ESG-related reporting has improved over time, data remains of limited quality and consistency exposing the bank to the risk of using incomplete and inaccurate data and models which could result in sub-optimal decision making. Methodologies, data and industry standards that HSBC have used may develop over time, in line with market practice, regulation and/or developments in science, where applicable. Any such developments in methodologies, and changes in the availability and quality of data over time could have a negative impact of the quality of data use for ESG monitoring, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year.

If any of the above risks materialise, this could have financial and non-financial impacts for HSBC which could, in turn, have a material adverse effect on its business, financial condition, results of operations, reputation, regulatory requirements, prospects and strategy.

2 Prudential, regulatory and legal risks to the business model of HSBC Continental Europe

2.1 HSBC Continental Europe's business operates in a rapidly changing legal and regulatory context which increases the risk of non-compliance, at least temporarily.

Probability: Very Likely/Impact: High.

HSBC Continental Europe's businesses are subject to ongoing regulation and the associated regulatory risks, including the effects of changes in the laws, regulations, policies, and voluntary codes of practice in the markets in which it operates. Many of these changes have an effect beyond the country in which they are enacted.

In recent years, regulators and governments have increasingly focused on reforming both the prudential regulation of the financial services industry and the ways in which the business of financial services is conducted. Accordingly, the risk factor probability has been increased. The measures taken include enhanced capital, liquidity and funding requirements, the separation or prohibition of certain activities by banks, changes in the operation of capital markets activities, the introduction of tax levies and transaction taxes and changes in compensation practices. With regard to conduct, there is a focus on customers and markets, payments and e-money and, ESG, including governance and operational resilience. This is all set against increased geopolitical tensions which may limit the development of consistent regulatory requirements, and the evolving regulatory response to the banking turmoil in 2023.

Specific areas where regulatory change and increased supervisory expectations could have a material effect on HSBC Continental Europe's business, financial condition, results of operations, prospects, capital position, reputation and strategy include, but are not limited to those listed below, grouped around prudential and non-prudential themes.

Prudential and related issues

- Implementation of the Basel Committee's reforms to the prudential framework which include changes to the RWA approaches to credit risk, market risk, operational risk, counterparty risk and credit valuation adjustments and the application of RWA floors;
- Increased supervisory expectations arising from expanding and increasingly complex regulatory reporting obligations, including expectations on data integrity and associated governance and controls;
- Changes to the prudential framework following the bank failures in 2023, for example in relation to liquidity or interest rate risk in the banking book (IRRBB);
- Requirements flowing from arrangements for the resolution strategy of the Group and its individual operating entities that may have different effects in different countries;
- Financial effects of climate risk and other ESG related changes being incorporated within the global prudential framework, including physical risks from climate change and the transition risks resulting from a shift to a low carbon economy;
- Increasing regulatory expectations and requirements (for example, the EU's Digital Operational Resilience Act) relating to various aspects of operational resilience, including an increasing focus on the response of institutions to operational disruptions; and
- Reviews of regulatory frameworks applicable to the wholesale financial markets, in particular the reforms and other changes to the securitisation requirements.

Non-prudential and related issues

- Increasing focus by regulators, international bodies and other policy makers, heightened by cost-of-living pressures, on how we conduct business, particularly around the delivery of fair outcomes for customers, promoting effective competition and ensuring the orderly and transparent operation of financial markets;
- Supervisory and regulatory change focus on technology adoption and digital delivery, underpinned by customer protection, including the use of digital assets and currencies and wider financial technology risks e.g the EU's markets in Crypto-Assets Regulation, which introduces a framework for regulating crypto-assets, will begin to apply in 2024;
- Increasing regulatory expectations and requirements around the use of artificial intelligence ('AI') for example, the EU's proposed AI law;
- Continuing supervisory and regulatory change focus globally on payment services and related infrastructure, including 'Open Banking' and 'Open Finance' initiatives in the UK and EU and changes concerning operational resilience and cyber security;
- Ongoing expectations with respect to managing emerging financial crime risks;
- Implementation of conduct and other measures as a result of regulators' focus on organisational culture, employee behaviour, whistleblowing and diversity and inclusion;
- Requirements regarding remuneration arrangements and senior management accountability;
- Changes in national or supra-national requirements regarding the ability to outsource the provision of services and resources offshore or to transfer material risk to financial institutions located in other countries;
- Increasing regulatory expectations of firms in relation to ESG-related governance, risk management and disclosure frameworks (e.g. the EU Corporate Sustainability Reporting Directive), particularly relating to climate change, transition plans, greenwashing and supply chain due diligence; and
- Regulatory focus on policies and controls related to the unauthorised use by employees of electronic communications on non-business platforms.

2.2 HSBC Continental Europe and its subsidiaries and branches are subject to tax-related risks in the countries in which they are established.

Probability: Likely/Impact: Medium

HSBC Continental Europe and its subsidiaries and branches are subject to the substance and interpretation of tax laws in all countries in which they are established and are subject to routine reviews and audits by tax authorities in relation thereto.

The Bank's interpretation or application of these tax laws may differ from those of the relevant tax authorities and HSBC Continental Europe and its branches and subsidiaries record provisions for potential tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. The amounts ultimately paid may differ materially from the amounts set aside in such provisions depending on the ultimate resolution of such matters.

Due to major restructuring in 2022 in HSBC Continental Europe's scope as well as the recent transfer of activities from HSBC Trinkaus & Burkhardt GmbH into the Germany branch of HSBC Continental Europe, transfer pricing risk will increase for the Bank. HSBC Continental Europe ensures compliance with the relevant transfer pricing rules to mitigate the tax risk. However, transfer pricing remains a subject of particular focus by the tax authorities highlighted by the reforms in progress which will further strengthen the tax authorities' powers. This requires monitoring in view of the practice of the tax authorities to systematically verify the principles applied by international groups carrying out intra-group transactions.

The ongoing challenges by the French tax authority in relation to equity and equity derivatives activity is also an area which could have a financial and business impact for banks in France and is being closely followed by HSBC Continental Europe.
Moreover, tax rules are becoming increasingly complex, so in addition to local rules, HSBC Continental Europe as other banks is facing the challenge of additional body of international rules implemented or to be implemented in the future years, creating potential additional risks.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of HSBC Continental Europe's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024. At the year end 2023, legislation was also enacted in France to implement the model rules, as well as a qualified domestic minimum top-up tax, with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in France, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15 per cent. Based on the forecasts, no top-up tax liabilities are expected to arise in France as a result of the group's effective tax rate being above 15 per cent. The final French effective tax rate will be calculated based on fiscal year 2024 IFRS results and will depend on evolution of profits and costs of the French consolidated Group. Moreover, this new tax regulation will lead to a new tax filling requirement in 2026, for which HSBC Continental Europe is working closely with its ultimate parent company, HSBC Holdings plc, on the definition and analysis of the reporting scope, the definition of the options locally and the quality of the data, so as to ensure first filling will be successfully performed in accordance with OECD and and national law requirements.

3 Risks related to HSBC Continental Europe's operations

3.1 HSBC Continental Europe could incur losses or be required to hold additional capital as a result of model limitations or weaknesses.

Probability: Very Likely/Impact: High.

HSBC Continental Europe uses models for a range of purposes in managing its business, including regulatory capital calculations, financial reporting, in particular calculation of Expected Credit Losses on an IFRS 9 basis, fair value measurement of some financial instruments, credit approvals, stress testing, financial crime and fraud risk management.

HSBC could face adverse consequences as a result of decisions that may lead to actions by management based on models that are poorly developed, implemented or used, or as a result of the modelled outcome being misunderstood or the use of such information for purposes for which it was not designed or by inherent limitations arising from the uncertainty inherent in predicting or estimating future outcomes.

Regulatory scrutiny and supervisory concerns over banks' use of models is considerable, particularly the internal models used in the calculation of regulatory capital. If regulatory expectations on capital models are not met, there is the risk that unfavourable conditions may be imposed on HSBC Continental Europe for the calculation of Risk Weighted Assets based on internal models.

Evolving regulatory requirements and organisational changes have resulted in a plan to rationalise the model landscape, which poses execution challenges.

Risks arising from the use of models could have a material adverse effect on HSBC Continental Europe's business, financial condition, results of operations, prospects, capital position and reputation.

The economic consequences of higher global inflation and significant increases in interest rates have impacted the reliability of model outputs beyond how IFRS9 models have been built and calibrated to operate.

Consequently, IFRS9 models under the current economic conditions may generate outputs that do not accurately assess the actual level of credit quality in all cases. In order to calculate more realistic valuation of assets, compensating controls, such as post model management adjustments based on expert judgement are required. Such compensating controls require a significant degree of management judgment and assumptions. There is a risk that future actual results/ performance may differ from such judgments and assumptions. Significant increases in global inflation and interest rates have impacted the reliability and accuracy of both credit and market risk models. This has required increased monitoring of the models and recalibration of some of the models. Longer term, the models are likely to require redevelopment to take into account the effects of changes in rates and financial markets.

For details concerning risk weighted assets as at 31 December 2023 – see table: Overview of risk weighted exposure amounts in the *HSBC Continental Europe Pillar 3* document. These numbers are for a large part computed using internal models.

Likewise, models are used to infer the fair value of some financial instruments, such as over-the-counter derivatives ('OTC'), whose price cannot be directly observed on trading platforms: in these cases, models compute a fair value by leveraging the prices of similar observable financial instruments. These may be based on observable inputs only ('Level 2' fair value accounting) or, in some cases, on some unobservable inputs that have to be prudently estimated ('Level 3' fair value accounting).

For details concerning fair values of financial instruments carried at fair value as at 31 December 2023 – see Note 13 on page 236.

The adoption of more sophisticated modelling approaches including artificial intelligence related risks and technology by both HSBC Continental Europe and the financial services industry could also lead to increased model risk.

HSBC Continental Europe's commitment to changes to business activities due to climate and sustainability challenges will also have an impact on model risk going forward. Models will play an important role in risk management and financial reporting of climate related risks. Challenges such as uncertainty of the long-dated impacts of climate change and lack of robust and high quality climate related data present challenges to creating reliable and accurate model outputs for these models.

3.2 HSBC Continental Europe's operations are highly dependent on its information technology systems.

Probability: Likely/Impact: High.

HSBC Continental Europe operates in an extensive and complex technology landscape, which must remain resilient in order to support customers, the Group and markets globally. Risks arise where technology is not understood, maintained, or developed appropriately.

The reliability and security of the HSBC Continental Europe's information technology infrastructure is crucial to the bank's operations and the provision of financial services to its customers and protecting the HSBC brand.

Technology risks are closely linked with data risks.

The effective functioning of HSBC Continental Europe's payment systems, financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks with the main data processing centres, are important to HSBC Continental Europe's operations.

Critical system failure, extended service unavailability or a material breach of data security, particularly of confidential customer data, could compromise HSBC Continental Europe's ability to serve its customers. This could lead to breaches of regulations and could cause long-term damage to its business and brand that could have a material adverse effect on its business, financial condition, results of operations, prospects and reputation.

In 2023, IT incidents with third parties were reported to local regulators. See also Risk Factor: HSBC Continental Europe's operations utilise third party and intra-Group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of. HSBC is continuing to invest in strengthening the resilience of its technology infrastructure and the further alignment of IT systems across HSBC Continental Europe, ensuring an appropriate and consistent control environment across the IT landscape.

Operational losses related to information technology amounted for EUR 0.4 million in 2023 (EUR 0.07m in 2022).

3.3 HSBC Continental Europe remains susceptible to a wide range of cyber-risks that impact and/or are facilitated by technology.

Probability: Likely/Impact: High.

The threat of cyber-attacks remains a concern for HSBC Continental Europe, as it does across the entire financial sector. As cyber-attacks continue to evolve, failure to protect HSBC Continental Europe's operations may result in disruption for its customers, manipulation of data or financial loss. This could have an adverse impact on its customers and reputation.

Adversaries attempt to achieve their objectives by compromising HSBC and related third party systems. They use techniques that include malware (including ransomware), exploitation of both known and unpublished (zero-day) vulnerabilities in software, phishing emails, distributed denial of service, as well as potentially physical compromise of premises, or coercion of staff. Customers may also be subject to these constantly evolving cyber-attack techniques. HSBC Continental Europe, like other financial institutions, experiences numerous attempts to compromise its cyber security. The Bank expects to continue to be the target of such attacks in the future.

Cyber security risks will continue to increase, due to continued increase of services delivered over the internet; increasing reliance on internet-based products, applications and data storage; and an increased use of hybrid working models by HSBC's employees, contractors, third party service providers and their sub-contractors.

A failure in HSBC's adherence to its cyber security policies, procedures or controls, employee wrongdoing, or human, governance or technological error could also compromise HSBC Continental Europe's ability to defend against cyber-attacks. Should any of these cyber security risks materialise, they could have a material adverse effect on its customers, business, financial condition, results of operations, prospects and reputation.

There have been no material cyber-related breaches that impacted HSBC Continental Europe customers or operations in 2023 due to controls in place despite numerous attacks being observed on a daily basis. However, the risk remains that future cyber-related attacks, either directly or via one of its suppliers, will have a material adverse effect on HSBC Continental Europe's business, financial condition, results of operations, prospects and reputation.

3.4 HSBC Continental Europe's operations utilise third party and intra-Group suppliers and service providers which may be exposed to risks that HSBC Continental Europe may not be aware of.

Probability: Likely/Impact: Medium.

As part of HSBC Group's outsourcing strategy, HSBC Continental Europe relies on external and intra-group third parties to supply goods and services. The activities outsourced are diverse and relate, for example, to reporting, risk management and securities custody. Digital Business Services, which covers all Global Businesses and Global Functions, is the function with the highest number of material outsourced services, mainly concerning intra-Group services. Internal service providers are located on different continents which helps ensure business continuity between the different locations. Among the branches and subsidiaries of HSBC Continental Europe, France (including the French subsidiaries) is the country that outsources the most material services, followed by Malta and Luxembourg.

Regulators have increased their scrutiny regarding the use of third party providers by financial institutions and subcontractors including aspects of how outsourcing decisions and key relationships are managed, particularly for material services. Risks arising from the use of third parties and supply chain, such as risks related to operational incidents, financial stability, cyber-attacks and geopolitical tension are particularly important and challenging to manage. The threat of cyber-attacks on our providers and supply chain remains a concern for HSBC Continental Europe, as it does across the entire financial sector as cyber events may result in disruption for customers or impact the data shared.

The inadequate management of third party risk could impact our ability to meet strategic, regulatory and client expectations for all Global Businesses and Global Functions within HSBC Continental Europe.

Any outsourcing of a material service needs to be validated in the governance committee and then notified to regulators.

During 2023, HSBC Continental Europe has improved its Third-Party Management, by implementing a consistent and efficient process across geographies and business lines, in the context of the integration of HSBC Malta p.l.c., HSBC Private Banking (Luxembourg) S.A. p.l.c and HSBC Germany into HSBC Continental Europe. Further automation and standardisation of the process is in progress, covering the outsourcing register, the materiality and risk assessments, and regulatory notification.

From a regulatory perspective, HSBC Continental Europe has continued to enhance its Third-Party Risk Management Framework, to meet the latest regulatory requirements such as the Operational Continuity in Resolution, and the ongoing implementation of the Digital Operational Resilience Act (DORA).

After the sale of its retail activities in France and retention of EUR 7.1 billion home loans in its books, HSBC Continental Europe is engaged into a material outsourcing relationship with a third-party managing client-facing activities, resulting in an heightened operational risk environment. These risks are mitigated by the set-up and monitoring of the service level agreement, key performance indicators, staffing and training of key stakeholders in charge of the retained activities, including third-party risk management.

4 Risks related to HSBC Continental Europe's governance and internal control

4.1 HSBC data management might not be robust enough to support the increasing data volume and evolving regulations.

Probability: Very Likely/Impact: High.

HSBC Continental Europe's processes rely on large volumes of data from a number of different systems and sources. If data governance including retention and deletion, data quality and data architecture policies and procedures are not sufficiently robust, manual interventions, adjustments and reconciliations may be required to reduce the risk of error in reporting to the regulators and to senior management. Inadequate policies and processes may also affect the ability to use data within HSBC Continental Europe to serve customers more effectively and/or improve the product offering. This could have a material adverse effect on the Bank's business, prospects, financial results and reputation.

HSBC Continental Europe did not suffer any significant data-related incidents linked to increasing data volumes or evolving regulations in 2023 (same in 2022).

Over the last few years, the regulatory expectations related to data management and data architecture have increased considerably and as a result the probability and impact for the risk factor have been increased accordingly.

4.2 The delivery of HSBC Continental Europe's strategic actions is subject to execution risk which could impact the expected benefits of its strategic initiatives.

Probability: Likely/Impact: Medium.

HSBC Continental Europe has a clear and focused strategy that is consistent with the HSBC Group's strategy: building the leading international wholesale bank in Continental Europe.

Within this framework, the strategy in Continental Europe is to focus on customers that value the HSBC network, leveraging its strengths in transaction banking, trade, capital markets and financing, with targeted wealth and personal banking services. Key to achieving HSBC Continental Europe's strategy is to increase the cross-business and cross-border synergies between the HSBC Group's different entities across the globe, while ensuring an efficient operating model across HSBC Continental Europe's operations.

HSBC Continental Europe continues to adapt its operating model, implementing a number of programmes in support of the activities of HSBC Continental Europe while ensuring compliance with regulatory requirements. Please refer to 'HSBC strategy implemented in Continental Europe' on page 6. The development and implementation of HSBC Continental Europe's strategy requires difficult, subjective and complex judgements, including forecasts of economic conditions in Continental Europe but also in other parts of the world. HSBC Continental Europe could fail to correctly identify the relevant factors in making decisions as to capital deployment and cost reduction.

Robust management of critical time-sensitive and resource intensive projects is required to effectively deliver HSBC Continental Europe's strategic priorities. The magnitude and complexity of the transformation underway presents a heightened change execution risk. The cumulative impact of the collective change initiatives in progress within HSBC Continental Europe is significant and has direct impact on HSBC Continental Europe's employees.

The global economic outlook also continues to remain uncertain, particularly with regard to the impact of an economic recession, heightened inflation, changes in legislation and geopolitical tensions, and could therefore impact the way HSBC Continental Europe operates and executes its transformation programmes.

The failure to successfully deliver key strategic actions or other regulatory programmes could have a significant impact on HSBC Continental Europe's financial condition, profitability and prospects, as well as wider implications on its customers, operational resilience, reputation and regulatory requirements. Execution risk linked to the number of ongoing projects is being managed and tracked by a dedicated committee.

4.3 The increasing volume of personal data processing activities and of cross-border data transfers may lead to significant data privacy breaches.
Probability: Likely/Impact: Medium.

Business processes rely on large volumes of personal data which are increasingly processed in non-EU jurisdictions so as to fulfil operational requirements. Whilst the offshoring of personal data processing activities has notable benefits, it also considerably increases the risk that the personal data in question will be processed in a manner which is incompatible with the high standards imposed by the General Data Protection Regulation (GDPR) and the Schrems II judgment. Whilst no significant incident relating to cross-border personal data processing activities occurred in 2023, the Schrems II and GDPR risks remain topical in 2024.

4.4 Third parties may use HSBC Continental Europe as a conduit for illegal activities without its knowledge.
Probability: Likely/Impact: Medium.

HSBC Continental Europe is required to comply with applicable financial crime laws and regulations, and has adopted various policies, procedures and controls aimed at preventing the exploitation of HSBC's products and services for criminal activity.

Financial crime includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.

A major focus of European, UK and US government policy relating to financial institutions in recent years has been preventing, detecting and deterring money laundering and enforcing compliance with economic sanctions.

European, including French regulators, remain strongly focused on anti money laundering and combating the financing of terrorism (AML/CFT) and, more recently, AB&C, fraud prevention and tax evasion matters within the banking industry.

In recent years, a substantial rise in the volume of new regulations has been experienced, impacting the Bank's operational processes, along with increasing levels of compliance risk as regulators and other authorities pursue reviews and investigations into the Bank's activities. In line with the Group's heightened standards and organisation, HSBC Continental Europe has continued to improve its financial crime compliance and regulatory compliance framework.

HSBC Continental Europe continues to implement policies, procedures and controls in order to comply with the sanctions enacted against Russia in the context of the Russia-Ukraine war, all while abiding by the Group sanctions policy.

The Russian sanctions are numerous and complex. HSBC Continental Europe is in direct contact with the regulators and via industry bodies, such as the French Banking Federation, to ensure guidance is received, in order that the appropriate recommendations are put in place to implement these complex measures.

Becoming a party to, associated with, or even accusations of being associated with, financial crime could damage HSBC Continental Europe's reputation and could make it subject to fines, sanctions and/or legal enforcement actions. Any one of these outcomes could have a material adverse effect on its business, financial condition, results of operations, prospects, and reputation.

Within HSBC Continental Europe, every month, all transactions are analysed to detect signs of money laundering, terrorism financing, tax avoidance, bribery and corruption, fraud, and failure to comply with international financial sanctions.

In order to ensure the effectiveness of its policies, mandatory training must be followed by all HSBC Continental Europe employees.

To our knowledge there were no significant incidents in 2023.

4.5 HSBC Continental Europe's risk management measures may not be successful.
Probability: Likely/Impact: Medium.

Risk management is an integral part of HSBC Continental Europe's activities. Risk represents the exposure to uncertainty and the resulting variability of return. Specifically, risk equates to the adverse effect on profitability or financial condition arising from different sources of uncertainty, including but non exhaustively credit risk, market risk, non-traded market risk, operational risk, insurance risk, concentration risk, liquidity and funding risk, litigation risk, reputational risk, strategic risk, pension risk and regulatory risk.

To manage its risks, HSBC Continental Europe use a range of Risk tools:

- The Risk Map which is an integrated risk management tool used to assess, monitor and report current risk profile, including Risk Drivers and Top Risks. It provides a point-in-time view of the enterprise-wide risk profile across both financial and non-financial risks in line with HSBC's risk taxonomy and identified Thematic Issues. A Risk Driver is an issue or event that may cause risk to be outside of acceptable levels and a Top Risk is a Risk Driver that we are managing, which if not managed and mitigated has the potential to have a material impact;
- The Risk Appetite Statement, which sets out the level and types of risks that HSBC Continental Europe is willing to take in order to achieve its strategic objectives; and
- Emerging risks report. This report provides forward-looking and thematic analysis of Emerging Risks which are often large scale events or trends, difficult to predict and are often beyond the Group's ability to directly control. The report is used to assess the internal and external risk environment and provide a view of emerging issues that could threaten the execution of HSBC's strategy or operations. An Emerging Risk is defined as a risk that could have a material impact on the risk profile, but is not under active management and is not immediate.

While HSBC Continental Europe employs a broad and diversified set of risk monitoring and mitigation techniques, such methods and the judgements that accompany their application cannot anticipate every unfavourable event or the specifics and timing of every outcome. Failure to manage risks appropriately could have a material adverse effect on the businesses, financial condition, results of operations, prospects, capital position, strategy and reputation of the bank.

5 Risks related to HSBC Continental Europe's business

5.1 Risks concerning borrower credit quality are inherent in HSBC Continental Europe's businesses.

Probability: Likely/Impact: High.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from borrowers and counterparties (e.g. reinsurers and counterparties in derivative transactions) are inherent in a wide range of HSBC Continental Europe's businesses.

Adverse changes in the credit quality of HSBC Continental Europe's borrowers and counterparties arising from a general deterioration in economic conditions or systemic risks in the financial systems, including uncertainties caused by the Russia-Ukraine and Israel-Hamas wars could reduce the recoverability and value of HSBC Continental Europe's assets, and result in increased credit losses.

HSBC Continental Europe estimates and recognises ECLs in its credit exposure. This process, which is critical to HSBC Continental Europe's results and financial condition, requires difficult, subjective and complex judgements, including forecasts of how the economic and geopolitical conditions, including the impact of sanctions, and sector specific risks, might impair the ability of its borrowers to repay their loans and the ability of other counterparties to meet their obligations.

This assessment considers multiple alternative forward-looking economic conditions (including Gross Domestic Product estimates) and incorporates this into the ECL estimates to meet the measurement objective of IFRS 9.

As is the case with any such assessments, HSBC Continental Europe may fail to estimate accurately the effect of factors that are identified or fail to identify relevant factors. Further, the information HSBC Continental Europe uses to assess the creditworthiness of its counterparties may be inaccurate or incorrect.

Any failure by HSBC Continental Europe to accurately estimate the ability of its counterparties to meet their obligations could have a material adverse effect on its business, financial condition, results of operations and prospects.

The level of any material adverse effect will depend on the number of borrowers and the size of the exposures involved.

HSBC Continental Europe also continues to make use of its risk identification and portfolio management processes, including an early warning system to identify and monitor the most vulnerable customers. The inflationary environment, and associated higher interest rates and lower GDP growth have taken over from the COVID crisis and the Russia-Ukraine war as major risk drivers and this now also includes the Israel-Hamas war. All these situations have been and continue to be subject to first and second order risk analysis, and de-risking where appropriate.

Despite the challenging macro-economic and geopolitical environment, the wholesale portfolio of HSBC Continental Europe has remained stable and resilient. Single name and sector concentrations are within appetite. Refinancing risk is a major risk presently and extensive refinancing reviews and deep dive sector reviews have been undertaken to identify any vulnerable counterparties in order to establish specific actions where required.

A further Memorandum of Understanding was signed on 14 June 2023 relating to the sale of France Retail Banking activities and as part of this HSBC Continental Europe retains a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. The impact on borrower credit quality from this is expected to be marginal.

For details concerning RWAs as at 31 December 2023 – see table: Overview of risk weighted exposure amounts in the HSBC Continental Europe Pillar 3 document.

Change in expected credit losses and other credit impairment charges ('ECL') was a net charge of EUR 141 million compared to a net charge of EUR 124 million in 2022, primarily driven by stage 3 provisions.

5.2 HSBC Continental Europe has significant exposure to counterparty risk.

Probability: Likely/Impact: High.

HSBC Continental Europe is exposed to counterparties that are involved in virtually all major industries, and HSBC Continental Europe routinely executes transactions with counterparties in financial services, including central clearing counterparties, commercial banks, investment banks, mutual funds, and other institutional clients. Many of these transactions expose HSBC Continental Europe to credit risk in the event of default by a counterparty or client.

HSBC Continental Europe’s ability to engage in routine transactions to fund its operations and manage its risks could be materially adversely affected by the actions and commercial soundness of other financial services institutions. Financial institutions are necessarily interdependent because of trading, clearing, counterparty or other relationships. Consequently, a default by, or decline in market confidence in, individual institutions, or anxiety about the financial services industry generally, can lead to further individual and/or systemic difficulties, defaults and losses.

Mandatory central clearing of OTC derivatives, including under the EU’s European Market Infrastructure Regulation, poses risks to HSBC Continental Europe. As a clearing member, HSBC Continental Europe is required to underwrite losses incurred at a central counterparty by the default of other clearing members and their clients. Increased moves towards central clearing brings with it a further element of interconnectedness between clearing members and clients that HSBC Continental Europe believe may increase rather than reduce its exposure to systemic risk. At the same time, HSBC Continental Europe’s ability to manage such risk itself will be reduced because control has been largely outsourced to central counterparties, and it is unclear at present how, at a time of stress, regulators and resolution authorities will intervene.

Where bilateral counterparty risk has been mitigated by taking collateral, credit risk for HSBC Continental Europe may remain high if the collateral held cannot be realised or has to be liquidated at prices that are insufficient to recover the full amount of the transaction’s exposure. There is a risk that collateral cannot be realised, including situations where this arises by change of law that may influence HSBC Continental Europe’s ability to foreclose on collateral or otherwise enforce contractual rights.

Liquidity and concentration of the underlying market exposure or collateral along with their potential correlation with the credit quality of the counterparty (wrong way risk) are part of the keystones of counterparty credit risk.

HSBC Continental Europe also has credit exposure arising from mitigants, such as credit default swaps, and other credit derivatives, each of which is carried at fair value. The risk of default by counterparties to credit default swaps and other credit derivatives used as mitigants affects the fair value of these instruments depending on the valuation and the perceived credit risk of the underlying instrument against which protection has been purchased.

Any such adjustments or fair value changes may have a material adverse effect on the financial condition and results of operations of HSBC Continental Europe.

As part of the counterparty credit risk management, the turmoil in the banking sector in March 2023 with Silicon Valley Bank ('SVB') going into default has been closely followed and limits have been reviewed accordingly. Stress testing was also a management tool used to revisit the HSBC Continental Europe portfolio. Risk management actions focused on the collateral disputes and the failed payments with strong communication to senior Markets and Securities Services stakeholders.

As at 31 December 2023, Counterparty Risk RWAs were EUR 5.3 billion compared to EUR 6.0 billion as at 31 December 2022. See also RWAs as at 31 December 2023 – table: Overview of risk weighted exposure amounts in the HSBC Continental Europe Pillar 3 document.

5.3 HSBC Continental Europe is exposed to capacity and capability risk resulting from elevated attrition and talent retention challenges.

Probability: Likely/Impact: High.

HSBC Continental Europe, as other banks, faces several challenges which impact its ability to attract and retain the best talent, such as

- The need to stay agile and continuously adapt to the rapidly changing environment and skill requirements;
- The evolving regulatory landscape; and
- The increased pressure resulting from the current geopolitical crisis.

While several transformation projects have already been successfully executed, the successful completion of remaining transformation activities is reliant on HSBC Continental Europe's ability to proactively address capacity and capability challenges.It is crucial to maintain a fair ability to attract, retain, develop, and motivate employees, senior executives, and key talent.

Challenges in capacity and capability have a direct correlation with increased workloads, high turnover rates, and well-being concerns brought about by the many simultaneous transformation projects across the region. The workload resulting from multiple restructuring projects has reduced as we progressed with their execution, however it continues to strain the workforce in certain markets, leading to retention issues, while being impacted by heightened competition over specific skills and expertise.

These challenges elevate people risk. Various retention initiatives to enhance employees' engagement and ensure the completion of day-to-day operations, as well as the successful execution of transformation projects were implemented throughout the year, as presented in the Sustainability section.

- HSBC Continental Europe's attrition rate has been on a downward trend since December 2022; however, it remains under close monitoring in certain businesses and/or areas where it could potentially lead to capacity and capability challenges. As of 31 December 2023, the overall year to date voluntary attrition rate stood at 7.5 per cent, stable versus last year; and
- HSBC Group has set itself clear and transparent gender equality targets on the proportion of women in senior executive positions. The initial target was 30 per cent of senior executives to be women by the end of 2020 rising to 35 per cent by 2025. At the end of December 2022 (excluding Malta and Germany), women held 31 per cent of the senior executive positions.in HSBC Continental Europe. At the end of December 2023 it stood at 28 per cent. The decrease is directly related to the integration of Germany in the perimeter. A strong effort is made to enhance gender diversity in this market, as well as on other hot spots, such as Markets and Securities Services.

5.4 HSBC Continental Europe's insurance businesses are subject to risks relating to insurance lapse risk and changes in insurance customer behaviour.

Probability: Likely/Impact: High.

HSBC Continental Europe provides various insurance products for customers with whom it has a banking relationship, including several types of life insurance products. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity rates, lapse and surrender rates and, if the policy has a savings element, the performance of assets to support the liabilities. Unfavourable developments in any of these factors could materially adversely affect HSBC Continental Europe's business, financial condition, results of operations and prospects.

In the current situation, the rise in interest rates may lead to an increase in lapses from HSBC Assurances Vie (France) customers, as the bonus rate provided by the euro fund may be below the rate of return of other savings products. Moreover, the planned sale of the network could also have an adverse impact on the lapses and reduce the level of positive inflows (subscriptions and top up).

In the case of significant lapses with the current level of interest rates HSBC Assurances Vie (France) would have to sell a part of its bond portfolio and thus realise a part of its unrealised losses.

HSBC Life Assurance (Malta) is also exposed to lapse risk, particularly to a one-event mass lapse. Lapses on the Protection business could be driven by the inflationary environment thus impacting HSBC Life Assurance (Malta) customer's behaviour toward allocating wealth toward insurance. The unit-linked book is more sensitive to the volatility of the market and low return. Mass lapses on this profitable business would reduce the expected profit.

There is also exposure to lower lapses on policies where the premium no longer covers the cost of the risk, in particular for the old policies and those with a long maturity.

6 Risks related to HSBC Continental Europe's financial statements

6.1 HSBC Continental Europe's financial statements are based in part on judgements, estimates and assumptions that are subject to uncertainty.

Probability: Unlikely/Impact: Medium.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, particularly those involving the use of complex models, actual results reported in future periods could differ from those on which management's estimates are based.

Estimates, judgements, assumptions and models are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

The impacts of revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Accounting policies deemed critical to our results and financial position are those that involve a high degree of uncertainty and have a material impact on the financial statements. In 2023 these included expected credit losses, impairment of goodwill and non-financial assets, measurement of financial instruments, deferred tax assets, provisions, impairment of interests in associates, or in investments in subsidiaries.

The valuation of financial instruments measured at fair value can be subjective, in particular where models are used that include unobservable inputs. Given the uncertainty and subjectivity associated with measuring such instruments, future outcomes may differ materially from those assumed using information available at the reporting date.

The effect of these differences on the future results of operations and the future financial position of HSBC Continental Europe could be material. If the judgement, estimates and assumptions HSBC Continental Europe used in preparing its consolidated financial statements are subsequently found to be materially different from those assumed using information available at the reporting date, this could affect our business, prospects, financial condition and results of operations.

The measurement of expected credit losses requires the selection and calibration of complex models and the use of estimates and assumptions to incorporate relevant information about past events, current conditions and forecasts of economic conditions. In addition, significant judgement is involved in determining what is considered to be significant increases in credit risk and what the point of initial recognition is for revolving facilities.

The assessment of whether goodwill and non-financial assets are impaired, and the measurement of any impairment, involves the application of judgement in determining key assumptions, including discount rates, estimated cash flows for the periods for which detailed cash flows are available and projecting the long-term pattern of sustainable cash flows thereafter. The recognition and measurement of deferred tax assets involves significant judgement regarding the probability and sufficiency of future taxable profits, taking into account the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

The recognition and measurement of provisions involve significant judgements due to the high degree of uncertainty in determining whether a present obligation exists, and in estimating the probability and amount of any outflows that may arise.

The assessment of interests in associates for impairment involves significant judgements in determining the value in use, in particular estimating the present value of cash flows expected to arise from continuing to hold the investment, based on a number of management assumptions.

Top risks

HSBC Continental Europe uses a top and emerging risks process to provide a forward looking view of issues with the potential to threaten the execution of its strategy or operations over the medium to long term. HSBC Continental Europe proactively assess the internal and external risk environment, as well as review the themes identified for any risks that may require escalation. The bank updates its top and emerging risks as necessary. The current top risks are as follows.

Risk	Trend versus 31DEC22	Description
Externally driven		
Macroeconomic and geopolitical risk	▲	HSBC Continental Europe continually assesses the impact of macroeconomic and geopolitical events on its business and exposures and take steps to mitigate them, where required and possible, to help ensure that HSBC Continental Europe remains within its risk appetite. Geopolitical tensions including the ongoing Russia-Ukraine and Israel-Hamas wars, remain high. This risk increased in 2023 as the European economies faced a number of challenges, including elevated levels of inflation and high interest rates. Against this backdrop, the economic recovery in Europe has been slow.
Technology and cyber security risk (Resilience Risk)	▶	HSBC Continental Europe faces a risk of service disruption or loss of data resulting from technology failures or malicious activities by internal or external threats. The bank operates a continuous improvement programme to help protect its technology operations and counter a fast-evolving cyber threat environment.
Evolving regulatory environment risk	▲	The regulatory and compliance risk environment remains complex, given heightened geopolitical tensions and consequent macroeconomic impacts. HSBC Continental Europe aims to keep abreast of the emerging regulatory compliance and conduct agenda, which currently includes, but is not limited to: ESG matters; ensuring good customer outcomes; addressing customer vulnerabilities; regulatory compliance; regulatory reporting; and employee compliance, including use of e-communication channels.The bank monitors regulatory developments closely and engage with regulators, as appropriate, to help ensure new regulatory requirements are implemented effectively and in a timely way.
Financial crime risk	▶	HSBC Continental Europe is exposed to financial crime risk from its customers, staff and third-parties engaging in criminal activity. The financial crime risk environment continues to evolve, due to increasingly complex geopolitical challenges, the macroeconomic outlook, evolving sanctions regulations, rapid technological developments, national data privacy requirements and the increasing sophistication of fraud. As a result, HSBC Continental Europe will continue to face the possibility of regulatory enforcement and reputational risk.
Environmental, social and governance ('ESG') risks	▶	HSBC Continental Europe is subject to ESG risks relating to climate change, nature and human rights. These risks have remained high owing to the pace and volume of regulatory developments globally, and due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial costs, including adverse reputational consequences.
Internally driven		
People risk	▶	HSBC Continental Europe has undertaken notable transformation activities in 2022 and 2023. HSBC Continental Europe is exposed to risks associated with capacity and capability risks resulting from employee attraction and retention challenges. Challenges in capacity and capability have a direct correlation with increased workloads, high turnover rates, well-being concerns are highlighted in light of the many simultaneous transformation projects rolled out across HSBC Continental Europe. Employment Practices and Relation risks continues to be efficiently mitigated through continuous and transparent engagement with employees' representative bodies and regulators and are on a reducing trend. Strong oversight on sustaining a fair ability to attract, retain, develop, motivate employees, senior executives, and key talents is maintained. HSBC Continental Europe monitors hiring activities and levels of employee attrition, and each business and function has workforce plans in place to aim to ensure effective workforce forecasting to meet business demands.
Model risk	▶	HSBC Continental Europe uses models in both financial and non-financial contexts, as well as in a range of business applications. Evolving regulatory requirements are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. HSBC Continental Europe continues to strengthen the dialogue with regulators to ensure that its deliverables meet their expectations.
Tax risk	▲	Tax rules are becoming increasingly complex. In addition to local rules, a body of international rules is being added, making tax authorities more demanding in their application.Transfer pricing remains a key area of focus as well as the new Pilar 2 tax regulation (new tax filling requirement in 2026).
Execution risk (Resilience Risk)	▲	Failure to effectively prioritise, manage and/or deliver transformation impacts HSBC Continental Europe's ability to achieve its strategic objectives. Given the complexity and pace of strategic change, HSBC Continental Europe must continue to monitor, manage and oversee change execution risk to ensure its change portfolio and initiatives continue to deliver the right outcomes for its customers, people, regulators, investors and communities.
Data risk (Resilience Risk)	▲	HSBC Continental Europe uses data to serve its customers and run its operations, often in real-time within digital experiences and processes. If the data is not accurate and timely, HSBC Continental Europe's ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. HSBC Continental Europe needs to ensure that non-public data is kept confidential, and that it complies with the regulations that govern data privacy and cross-border movement of data. The regulatory expectations related to data management and data architecture have increased considerably during the last few years.
Third party risk (Resilience Risk)	▶	HSBC Continental Europe procures services and goods from a range of third parties. It is critical that HSBC Continental Europe have appropriate risk management policies, processes and practices in place for the selection and governance of third parties and their supply networks, particularly for key activities that could affect its operational resilience. Any deficiency in the management of risks associated with its third parties could affect its ability to support its customers and meet regulatory expectations

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products, such as guarantees and derivatives.

Credit Risk Management

Of the risks in which we engage, credit risk generates the largest regulatory capital requirements.

The principal objectives of our credit risk management are to:

- Maintain across the group a strong culture of responsible lending and a robust risk policy and control framework;
- Partner and challenge global businesses in defining, implementing, and continually re-evaluating our risk appetite under actual and scenario conditions; and
- Ensure there is independent, expert scrutiny of credit risks, their costs and mitigation.

Within the bank, the Credit Risk function is headed by the Chief Risk Officer who reports to the Chief Executive Officer, with a functional reporting line to the Regional Chief Risk Officer.

Its responsibilities include:

- Formulating the local credit policy aligned where possible with HSBC group policies;
- Validating HSBC Continental Europe's appetite for credit risk exposure to specified market sectors, activities and banking products and controlling exposures to certain higher-risk sectors;
- Undertaking an independent review and objective assessment of risk. Credit risk assesses each request except for the certain modest level proposals (for the Retail and Commercial bank) where detailed credit approval delegations have been established;
- Monitoring the performance and management of portfolios across HSBC Continental Europe;
- Vetting and controlling exposure to sovereign entities, banks and other financial institutions, as well as debt securities which are not held solely for the purpose of trading;
- Setting HSBC Continental Europe's policy on large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography do not become excessive in relation to the HSBC Continental Europe's capital base, and remain within internal and regulatory limits;
- Maintaining and developing HSBC Continental Europe's risk rating framework and systems via the local Model Oversight Committees, which oversees the local risk rating model management for both wholesale and retail businesses;
- Reporting on retail and wholesale portfolio performance, high risk portfolios, risk concentrations, large impaired accounts, impairment allowances and stress testing results and recommendations to HSBC Continental Europe's Risk Committee and the Board; and
- Acting on behalf of HSBC Continental Europe as the primary interface, for credit-related issues, with the ACPR, the ECB and rating agencies.

Concentration of credit risk exposure

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

HSBC Continental Europe uses a number of controls and measures to minimise undue concentration of exposure in its portfolios across industry, country and customer groups.

These include portfolio and counterparty limits, approval and review controls, and stress testing.

Large Credit Exposure Policy – 'LCEP'

The LCEP sets out the policy of HSBC Continental Europe on controlling large risks, and it also forms part of the policy of HSBC Bank plc, HSBC Holdings plc and meets the requirements of the French banking regulator, the ACPR and the ECB.

The purpose of the LCEP is to ensure that:

- HSBC Continental Europe adheres to the French regulatory requirements on large lending commitments;
- There is an appropriate framework procedure to monitor and control large commitments and concentrations of risk;
- Commitments by a bank to one individual borrower, or to a group of connected borrowers, should not become excessive in comparison to its capital base;
- Excessive concentration and/or the combining of major exposures are excluded; and
- Commitments to geographical areas or specific business sectors are strictly monitored to ensure that risky assets are diversified.

Concentration risk by counterparty

Risk exposure limits are classified into three categories:

- Category A: all financing recognised on the balance sheet and all commitments such as guarantees, documentary credits and standby letters of credit;
- Category B: off-balance sheet market risks such as currency and interest rate swaps taken at their maximum expected risk during the life of the exposure; and
- Category S: (settlement risk): principally intraday settlement risk on payment commitments and foreign exchange business with customers or for their account.

Commitments to a single counterparty or group of counterparties, excluding central governments/central banks

The approved commitments (total of category A and B limits on one side and category S limits on the other) for any single counterparty or group of connected counterparties, after taking into account any risk mitigation / deduction techniques permitted under the regulations may not exceed 25 per cent of the HSBC Continental Europe consolidated capital.

It should be noted that all commitments, as defined above, which exceed 10 per cent of the HSBC Continental Europe consolidated capital require the approval by HSBC Bank plc independently of the credit approval authorities in place.

Furthermore, commitments (categories A and B) to financial institutions with:

- Exposures with a maturity of more than one year;
- Exposures to subsidiaries of financial institutions that are not financial institutions themselves; and
- Should not exceed 10 per cent of HSBC Continental Europe's consolidated capital.

As at 31 December 2023, for HSBC Continental Europe, 2 groups individually exceeded 10 per cent of the net capital (31 December 2022: 3 groups).

Sectorial concentration risk

It is an HSBC Continental Europe principle to avoid excessive concentration in any business sector, and to take corrective measures if necessary. The Wholesale Credit Risk Department is responsible for supervising the compliance with this principle.

The wholesale portfolio split by industry sector is monitored on a quarterly basis as well as the risk appetite by sector which is limited to 10 per cent of HSBC Continental Europe's total exposure ('EAD').

Some business sectors, such as Commercial Real Estate ('CRE') and Leveraged Finance, are governed by their own specific caps and business sector directives laid down by HSBC Continental Europe and/or the HSBC Group.

Depending on the macroeconomic environment, ad-hoc sector analysis can be undertaken to determine whether mitigating actions are required or not.

Geographical area concentration risk

The overall risk limits for countries and central governments/central banks are determined by experience, current events and local knowledge as well as by the latest political, economic and market information.

For these types of counterparties, exposures (defined as the aggregate of category A and B limits) are not permitted to exceed 25 per cent of HSBC Continental Europe's Eligible Capital except in the following circumstances:

- exposures to central governments/central banks located in countries which qualify for a zero per cent risk weighting under the Standardised Approach;
- exposures to specific multilateral development banks (as quoted in the FCA and PRA Handbook Glossary) and specific international organisations (as quoted in CRR Art. 117 and 118) which qualify for zero per cent risk weighting; and
- exposures to EEA States' central government and central banks denominated and funded in their domestic currency which also attract a zero per cent risk weighting (CRR Art. 114 (4)).

However, it should be noted that regardless of how the country with zero weighting is qualified, all requests are submitted for risk approval and the corresponding authorisations are recorded in the normal manner.

The exposure risk on countries, central governments and central banks is monitored by the HSBC Continental Europe Credit Risk function, which establishes overall limits which are revised at least annually or more frequently depending on circumstances. These limits are monitored continuously and adjustments may be made at any time.

In 2023 and in accordance with its credit guidelines, HSBC Continental Europe's exposures to countries other than France were limited. Only 6 countries had commitments (category A and B) in excess of EUR 2 billion: Germany, Czech Republic, the Netherlands, Malta, USA and Belgium. The exposures for these 6 countries were principally comprised of 0 per cent weighted counterparties (articles 115 to 118 of the CRR).

The exposure to other countries, notably China or Russia are not significant for HSBC Continental Europe.

Credit quality of financial instruments

The HSBC Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of losses.

For individually significant exposures, risk ratings are reviewed regularly and amendments are implemented promptly when necessary. Within the HSBC Group's retail portfolios, risk is assessed and managed using a wide range of risk and pricing models.

This risk rating system is based on the Probability of Default ('PD') and loss estimates, in accordance with the internal rating methods required by the Basel II framework for calculating regulatory capital.

The five credit quality classifications defined below encompass a range of more granular, internal credit rating grades assigned to wholesale and retail lending business, as well as the external rating, attributed by external agencies to debt securities.

Credit quality classification

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating[1]	12-month Basel probability of default %	PD Band[2]	12-month probability of default %
Strong	BBB and above	A- and above	CRR 1 to CRR 2	0 – 0.169	band 1 to band 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR 3	0.170 – 0.740	band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	band 4 to band 5	1.501 – 20.000
Sub-standard	B- to C	B- to C	CRR 6 to CRR 8	4.915 – 99.999	band 6	20.001 – 99.999
Credit-impaired	Default	Default	CRR 9 to CRR 10	100	band 7	100

1 *Customer risk rating ('CRR').*
2 *12-month point-in-time ('PIT') probability weighted probability of default ('PD').*

Quality classification definitions

- 'Strong': exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit Impaired': exposures have been assessed, individually or collectively, as impaired.

Distribution of financial instruments by credit quality

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Provision for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	16,120	13,153	16,856	3,097	1,659	50,885	(758)	50,127
– personal[1]	7,781	2,414	337	124	96	10,752	(47)	10,705
– corporate and commercial	6,741	9,384	13,374	2,908	1,535	33,942	(693)	33,249
– non-bank financial institutions	1,598	1,355	3,145	65	28	6,191	(18)	6,173
Loans and advances to banks held at amortised cost	4,998	70	748	—	—	5,816	—	5,816
Cash and balances at central banks	56,894	—	—	—	—	56,894	—	56,894
Items in the course of collection from other banks	268	5	—	—	—	273	—	273
Reverse repurchase agreements – non-trading	21,700	2,504	286	—	—	24,490	—	24,490
Financial investments	1,740	—	7	—	—	1,747	—	1,747
Assets held for sale[2,3]	22,305	1,419	981	109	180	24,994	(74)	24,920
Prepayments, accrued income and other assets	18,015	590	1,256	16	13	19,890	—	19,890
– endorsements and acceptances	7	—	—	—	—	7	—	7
– accrued income and other	18,008	590	1,256	16	13	19,883	—	19,883
Debt instruments measured at fair value through other comprehensive income[4]	19,147	2,348	188	—	—	21,683	(5)	21,678
Out-of-scope for IFRS 9								
Trading assets	13,897	195	347	2	—	14,441	—	14,441
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,195	59	14	—	—	2,268	—	2,268
Derivatives	43,997	985	518	13	9	45,522	—	45,522
Assets held for sale	69	—	—	—	—	69	—	69
Total gross amount on balance sheet	221,345	21,328	21,201	3,237	1,861	268,972	(837)	268,135
Percentage of total credit quality (%)	82.3	7.9	7.9	1.2	0.7	100.0		
Loan and other credit related commitments	69,971	22,930	11,919	1,155	184	106,159	(24)	106,135
– loan and other credit related commitments for loans and advances to customers	29,134	22,627	11,758	1,155	184	64,858	(24)	64,834
– loan and other credit related commitments for loans and advances to banks	40,837	303	161	—	—	41,301	—	41,301
Financial guarantees	898	295	282	24	53	1,552	(7)	1,545
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees	70,869	23,225	12,201	1,179	237	107,711	(31)	107,680
Loan and other credit related commitments	2,879	2,223	848	32	5	5,987	—	5,987
Performance and other guarantees	5,808	4,836	3,862	522	233	15,261	(27)	15,234
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees	8,687	7,059	4,710	554	238	21,248	(27)	21,221
Total nominal amount off-balance sheet	79,556	30,284	16,911	1,733	475	128,959	(58)	128,901
At 31 Dec 2023	300,901	51,612	38,112	4,970	2,336	397,931	(895)	397,036

1 *As per the revised terms of the Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7,1 billion of home loans which was originally part of the sale of which EUR 6,7 billion guaranteed loans by Crédit Logement.*
2 *Of which EUR 9,553 million guaranteed by Crédit Logement classified as held for sale as at 31 December 2023.*
3 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
4 *For the purposes of this disclosure gross carrying amount is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying amount of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments by credit quality (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Provision for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
In-scope for IFRS 9								
Loans and advances to customers held at amortised cost	9,583	11,650	16,470	3,756	1,711	43,170	(830)	42,340
– personal	76	2,254	70	104	103	2,607	(48)	2,559
– corporate and commercial	7,404	8,342	14,766	3,529	1,589	35,630	(773)	34,857
– non-bank financial institutions	2,103	1,054	1,634	123	19	4,933	(9)	4,924
Loans and advances to banks held at amortised cost	5,300	294	1,639	—	—	7,233	—	7,233
Cash and balances at central banks	59,734	—	—	—	—	59,734	—	59,734
Items in the course of collection from other banks	471	—	5	—	—	476	—	476
Reverse repurchase agreements – non-trading	15,084	214	76	—	—	15,374	—	15,374
Financial investments	1,149	—	7	—	—	1,156	—	1,156
Assets held for sale[1,2]	21,513	1,803	2,001	140	328	25,785	(144)	25,641
Prepayments, accrued income and other assets	20,488	693	886	16	11	22,094	—	22,094
– endorsements and acceptances	4	—	2	—	—	6	—	6
– accrued income and other[3]	20,484	693	884	16	11	22,088	—	22,088
Debt instruments measured at fair value through other comprehensive income[4]	16,376	2,543	250	—	—	19,169	(10)	19,159
Out-of-scope for IFRS 9								
Trading assets	9,801	109	849	—	—	10,759	—	10,759
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	2,164	116	20	—	—	2,300	—	2,300
Derivatives	55,554	3,395	966	14	31	59,960	—	59,960
Assets held for sale	121					121		121
Total gross amount on balance sheet	217,217	20,817	23,169	3,926	2,081	267,210	(984)	266,226
Percentage of total credit quality (%)	81.3	7.8	8.7	1.5	0.8	100.0		
Loan and other credit related commitments	65,008	17,113	15,163	1,809	118	99,211	(39)	99,172
– loan and other credit related commitments for loans and advances to customers	29,277	17,041	15,136	1,809	118	63,381	(38)	63,343
– loan and other credit related commitments for loans and advances to banks	35,731	72	27	—	—	35,830	(1)	35,829
Financial guarantees	2,049	440	364	81	61	2,995	(9)	2,986
In-scope for IFRS 9: Irrecoverable loan commitments and financial guarantees[5]	67,057	17,553	15,527	1,890	179	102,206	(48)	102,158
Loan and other credit related commitments	4,221	2,002	827	43	4	7,097	—	7,097
Performance and other guarantees	6,760	3,537	3,386	715	104	14,502	(24)	14,478
Out-of-scope for IFRS 9: Revocable loan commitments and non-financial guarantees[5]	10,981	5,539	4,213	758	108	21,599	(24)	21,575
Total nominal amount off-balance sheet	78,038	23,092	19,740	2,648	287	123,805	(72)	123,733
At 31 Dec 2022	295,255	43,909	42,909	6,574	2,368	391,015	(1,056)	389,959

1 *Of which EUR 17,468 million guaranteed loans by Crédit Logement as at 31 December 2022.*

2 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*

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

4 *For the purposes of this disclosure gross carrying amount is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying amount of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

5 *The year-end 2022 comparatives have been represented to correctly reflect the classification of "loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9 . The out-of -scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2 billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Provision for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	16,120	13,153	16,856	3,097	1,659	50,885	(758)	50,127
– stage 1	15,889	12,620	14,419	1,210	—	44,138	(53)	44,085
– stage 2	231	533	2,437	1,887	—	5,088	(81)	5,007
– stage 3	—	—	—	—	1,651	1,651	(624)	1,027
– POCI	—	—	—	—	8	8	—	8
Loans and advances to banks at amortised cost	4,998	70	748	—	—	5,816	—	5,816
– stage 1	4,976	69	667	—	—	5,712	—	5,712
– stage 2	22	1	81	—	—	104	—	104
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost[1]	120,922	4,518	2,530	125	193	128,288	(74)	128,214
– stage 1	120,714	4,204	2,043	24	—	126,985	(3)	126,982
– stage 2	208	314	487	101	—	1,110	(8)	1,102
– stage 3	—	—	—	—	193	193	(63)	130
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	69,971	22,930	11,919	1,155	184	106,159	(24)	106,135
– stage 1	69,369	22,270	10,600	789	—	103,028	(8)	103,020
– stage 2	602	660	1,319	366	—	2,947	(9)	2,938
– stage 3	—	—	—	—	184	184	(7)	177
– POCI	—	—	—	—	—	—	—	—
Financial guarantees[2]	898	295	282	24	53	1,552	(7)	1,545
– stage 1	898	294	236	4	—	1,432	(1)	1,431
– stage 2	—	1	46	20	—	67	(1)	66
– stage 3	—	—	—	—	53	53	(5)	48
– POCI	—	—	—	—	—	—	—	—
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	**212,909**	**40,966**	**32,335**	**4,401**	**2,089**	**292,700**	**(863)**	**291,837**
Debt instruments at FVOCI[3]	19,147	2,348	188	—	—	21,683	(5)	21,678
– stage 1	19,101	2,348	183	—	—	21,632	(5)	21,627
– stage 2	46	—	5	—	—	51	—	51
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	**232,056**	**43,314**	**32,523**	**4,401**	**2,089**	**314,383**	**(868)**	**313,515**

1 *Includes held for sale exposures related to retail banking operations in France. For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
2 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
3 *For the purposes of this disclosure gross carrying amount is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying amount of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (continued)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Provision for ECL	Net
	€m	€m	€m	€m	€m	€m	€m	€m
Loans and advances to customers at amortised cost	9,583	11,650	16,470	3,756	1,711	43,170	(830)	42,340
– stage 1	9,298	11,270	13,348	604	—	34,520	(34)	34,486
– stage 2	285	380	3,122	3,152	—	6,939	(123)	6,816
– stage 3	—	—	—	—	1,708	1,708	(673)	1,035
– POCI	—	—	—	—	3	3	—	3
Loans and advances to banks at amortised cost	5,300	294	1,639	—	—	7,233	—	7,233
– stage 1	5,263	51	1,639	—	—	6,953	—	6,953
– stage 2	37	243	—	—	—	280	—	280
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost[1,2]	118,439	2,710	2,975	156	339	124,619	(144)	124,475
– stage 1	118,152	2,297	1,975	29	—	122,453	(6)	122,447
– stage 2	287	413	1,000	127	—	1,827	(18)	1,809
– stage 3	—	—	—	—	339	339	(120)	219
– POCI	—	—	—	—	—	—	—	—
Loan and other credit-related commitments[3]	65,008	17,113	15,163	1,809	118	99,211	(39)	99,172
– stage 1	63,316	16,029	13,127	914	—	93,386	(4)	93,382
– stage 2	1,692	1,084	2,036	895	—	5,707	(18)	5,689
– stage 3	—	—	—	—	118	118	(17)	101
– POCI	—	—	—	—	—	—	—	—
Financial guarantees[3,4]	2,049	440	364	81	61	2,996	(9)	2,987
– stage 1	2,045	431	298	18	—	2,792	(1)	2,791
– stage 2	4	9	67	63	—	143	(1)	142
– stage 3	—	—	—	—	61	61	(7)	54
– POCI	—	—	—	—	—	—	—	—
Total on balance sheet and off balance sheet excluding debt instrument at FVOCI	200,379	32,207	36,611	5,802	2,229	277,229	(1,022)	276,207
Debt instruments at FVOCI[5]	16,376	2,543	250	—	—	19,169	(10)	19,159
– stage 1	16,149	2,445	235	—	—	18,829	(10)	18,819
– stage 2	227	98	15	—	—	340	—	340
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2022	216,755	34,750	36,861	5,802	2,229	296,398	(1,032)	295,366

1 *Includes held for sale exposures related to retail banking operations in France and branch operations in Greece. For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*
3 *The year-end 2022 comparatives have been represented to correctly reflect the classification of "loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9. The out-of-scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2 billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*
4 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
5 *For the purposes of this disclosure gross carrying amount is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying amount of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*

Impairment assessment

Management regularly evaluates the adequacy of the established allowances for impaired loans by conducting a detailed review of the loan portfolio, comparing performance and delinquency statistics with historical trends and assessing the impact of current economic conditions.

Impaired loans – identification of loss events

The criteria used by HSBC Continental Europe to determine that a loan is impaired includes:

- known cash flow difficulties experienced by the borrower;
- contractual payments of either principal or interest being past due for more than 90 days;
- the probability that the borrower will enter bankruptcy or other financial distress procedure;
- a concession granted to the borrower for economic or legal reasons relating to the borrower's financial difficulty that results in forgiveness or postponement of principal, interest or fees; and
- a deterioration in the financial condition or outlook of the borrower such that its ability to repay is considered doubtful.

Impairment of loans and advances

For details of HSBC Continental Europe's policy concerning impairments of loans and advances, please refer to notes in the Consolidated Financial Statements.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39. The following tables show the allocation of loans and ECL allowance according to the kind of loans and nature of counterparties.

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

	At 31 Dec 2023		At 31 Dec 2022	
	Gross carrying/ nominal amount	**Provision for ECL[1]**	Gross carrying/ nominal amount	Provision for ECL[1]
	€m	**€m**	€m	€m
Loans and advances to customers at amortised cost:	**50,885**	**(758)**	43,170	(830)
– personal[2]	**10,752**	**(47)**	2,607	(48)
– corporate and commercial	**33,942**	**(693)**	35,630	(773)
– non-bank financial institutions	**6,191**	**(18)**	4,933	(9)
Loans and advances to banks at amortised cost	**5,816**	**—**	7,233	—
Other financial assets measured at amortised costs:	**103,294**	**—**	98,834	—
– cash and balances at central banks	**56,894**	**—**	59,734	—
– items in the course of collection from other banks	**273**	**—**	476	—
– reverse repurchase agreements – non-trading	**24,490**	**—**	15,374	—
– financial investments[3]	**1,747**	**—**	1,156	—
– prepayments, accrued income and other assets[4,5]	**19,890**	**—**	22,094	—
Assets held for sale[6,7]	**24,994**	**(74)**	25,785	(144)
Total gross carrying amount on balance sheet	**184,989**	**(832)**	175,022	(974)
Loans and other credit related commitments[8]:	**106,159**	**(24)**	99,211	(39)
– personal	**929**	**—**	1,132	—
– corporate and commercial	**52,901**	**(23)**	51,044	(37)
– financial	**52,329**	**(1)**	47,035	(2)
Financial guarantees[8,9]:	**1,552**	**(7)**	2,996	(9)
– personal	**37**	**—**	24	—
– corporate and commercial	**732**	**(7)**	1,323	(9)
– financial	**783**	**—**	1,649	—
Total nominal amount off-balance sheet[10]	**107,711**	**(31)**	102,208	(48)
Total nominal amount on balance sheet and off-balance sheet	**292,700**	**(863)**	277,230	(1,022)

	Fair value	**Memorandum Provision for ECL[11]**	Fair value	Memorandum Provision for ECL[11]
	€m	**€m**	€m	€m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	**20,832**	**(5)**	17,917	(10)

1 *The total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.*

2 *As per the revised terms of the Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7,1 billion of home loans which was originally part of the sale of which EUR 6,7 billion guaranteed loans by Crédit Logement.*

3 *Includes only financial investments measured at amortised cost. 'Financial investments' as presented within the consolidated balance sheet on page 191 includes financial assets measured at amortised cost and debt and equity instruments measured at fair value through other comprehensive income.*

4 *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Prepayments, accrued income and other assets' as presented within the consolidated balance sheet on page 256 includes both financial and non-financial assets.*

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

6 *of which EUR 9,553 million guaranteed by Crédit Logement classified as held for sale as at 31 December 2023 (2022: EUR 17,468 million).*

7 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*

8 *The year-end 2022 comparatives have been represented to correctly reflect the classification of " loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS9 and out-of-scope for IFRS 9. The out-of-scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*

9 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

10 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

11 *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2023

	Gross carrying/nominal amount[1]					Provision for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost	**44,138**	**5,088**	**1,651**	**8**	**50,885**	**(53)**	**(81)**	**(624)**	**—**	**(758)**	**0.1**	**1.6**	**37.8**	**—**	**1.5**
– personal[2]	**10,129**	**526**	**97**	**—**	**10,752**	**(9)**	**(10)**	**(28)**	**—**	**(47)**	**0.1**	**1.9**	**28.9**	**—**	**0.4**
– corporate and commercial	**28,007**	**4,401**	**1,526**	**8**	**33,942**	**(42)**	**(67)**	**(584)**	**—**	**(693)**	**0.1**	**1.5**	**38.3**	**—**	**2.0**
– non-bank financial institutions	**6,002**	**161**	**28**	**—**	**6,191**	**(2)**	**(4)**	**(12)**	**—**	**(18)**	**—**	**2.5**	**42.9**	**—**	**0.3**
Loans and advances to banks at amortised cost	**5,712**	**104**	**—**	**—**	**5,816**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortised cost	**103,246**	**35**	**13**	**—**	**103,294**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Assets held for sale[3,4]	**23,739**	**1,075**	**180**	**—**	**24,994**	**(3)**	**(8)**	**(63)**	**—**	**(74)**	**—**	**0.7**	**35.0**	**—**	**0.3**
Loan and other credit-related commitments	**103,028**	**2,947**	**184**	**—**	**106,159**	**(8)**	**(9)**	**(7)**	**—**	**(24)**	**—**	**0.3**	**3.8**	**—**	**—**
– personal	**898**	**29**	**2**	**—**	**929**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**49,962**	**2,767**	**172**	**—**	**52,901**	**(8)**	**(8)**	**(7)**	**—**	**(23)**	**—**	**0.3**	**4.1**	**—**	**—**
– financial	**52,168**	**151**	**10**	**—**	**52,329**	**—**	**(1)**	**—**	**—**	**(1)**	**—**	**0.7**	**—**	**—**	**—**
Financial guarantees[5]	**1,432**	**67**	**53**	**—**	**1,552**	**(1)**	**(1)**	**(5)**	**—**	**(7)**	**0.1**	**1.5**	**9.4**	**—**	**0.5**
– personal	**37**	**—**	**—**	**—**	**37**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**613**	**66**	**53**	**—**	**732**	**(1)**	**(1)**	**(5)**	**—**	**(7)**	**0.2**	**1.5**	**9.4**	**—**	**1.0**
– financial	**782**	**1**	**—**	**—**	**783**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2023	**281,295**	**9,316**	**2,081**	**8**	**292,700**	**(65)**	**(99)**	**(699)**	**—**	**(863)**	**—**	**1.1**	**33.6**	**—**	**0.3**

1 *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
2 *As per the revised terms of the Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7,1 billion of home loans which was originally part of the sale of which EUR 6,7 billion guaranteed by Crédit Logement.*
3 *Of which EUR 9,553 million guaranteed by Crédit Logement classified as held for sale as at 31 December 2023.*
4 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
5 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from stage 1 to stage 2.

The disclosure below presents the ageing of stage 2 financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

Stage 2 days past due analysis at 31 December 2023

	Gross carrying amount			Provision for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	**5,088**	***76***	***245***	**(81)**	***(2)***	***(1)***	**1.6**	***2.6***	***0.4***
– personal	**526**	***18***	***5***	**(10)**	***(1)***	***(1)***	**1.9**	***5.6***	***20.0***
– corporate and commercial	**4,401**	***58***	***236***	**(67)**	***(1)***	***—***	**1.5**	***1.7***	***—***
– non-bank financial institutions	**161**	***—***	***4***	**(4)**	***—***	***—***	**2.5**	***—***	***—***
Loans and advances to banks at amortised cost	**104**	***—***	***12***	**—**	***—***	***—***	**—**	***—***	***—***
Other financial assets measured at amortised cost	**35**	***—***	***—***	**—**	***—***	***—***	**—**	***—***	***—***
Assets held for sale[2]	**1,075**	***16***	***11***	**(8)**	***—***	***(0.3)***	**0.7**	***—***	***—***

1 *Days past due ('DPD'), amounts presented above are on contractual basis.*
2 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector at 31 December 2022 (continued)

	Gross carrying/nominal amount[1]					Provision for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%	%	%	%
Loans and advances to customers at amortised cost:	34,520	6,939	1,708	3	43,170	(34)	(123)	(673)	—	(830)	0.1	1.8	39.4	—	1.9
– personal	2,355	149	103	—	2,607	(7)	(9)	(32)	—	(48)	0.3	6.0	31.1	—	1.8
– corporate and commercial	27,481	6,560	1,586	3	35,630	(26)	(107)	(640)	—	(773)	0.1	1.6	40.4	—	2.2
– non-bank financial institutions	4,684	230	19	—	4,933	(1)	(7)	(1)	—	(9)	—	3.0	5.3	—	0.2
Loans and advances to banks at amortised cost	6,953	280	—	—	7,233	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost[2]	98,784	39	11	—	98,834	—	—	—	—	—	—	—	—	—	—
Assets held for sale[3,4]	23,669	1,788	328	—	25,785	(6)	(18)	(120)	—	(144)	—	1.0	36.6	—	0.6
Loan and other credit-related commitments[5]	93,386	5,708	118	—	99,211	(4)	(18)	(17)	—	(39)	—	0.3	14.4	—	—
– personal	1,084	45	3	—	1,132	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	45,985	4,945	114	—	51,044	(4)	(16)	(17)	—	(37)	—	0.3	14.9	—	0.1
– financial	46,316	718	1	—	47,035	—	(2)	—	—	(2)	—	0.3	—	—	—
Financial guarantees[5,6]	2,792	143	61	—	2,996	(1)	(1)	(7)	—	(9)	—	0.7	11.5	—	0.3
– personal	22	1	1	—	24	—	—	—	—	—	—	—	—	—	—
– corporate and commercial	1,127	136	60	—	1,323	(1)	(1)	(7)	—	(9)	—	0.7	11.7	—	0.7
– financial	1,644	6	—	—	1,649	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2022	260,104	14,897	2,226	3	277,230	(45)	(160)	(817)	—	(1,022)	—	1.1	36.7	—	0.4

1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2 From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.
3 Of which EUR 17,468 million guaranteed by Crédit Logement as at 31 December 2022.
4 For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.
5 The year-end 2022 comparatives have been represented to correctly reflect the classification of " loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9. The out-of-scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2 billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.
6 Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.

Stage 2 days past due analysis at 31 December 2022 (continued)

	Gross carrying amount			Provision for ECL			ECL coverage %		
	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*	Stage 2	*of which: 1 to 29 DPD[1]*	*of which: 30 and > DPD[1]*
	€m	*€m*	*€m*	€m	*€m*	*€m*	%	*%*	*%*
Loans and advances to customers at amortised cost	6,939	*74*	*362*	(123)	*(1)*	*(1)*	1.8	*1.4*	*0.3*
– personal	149	*19*	*4*	(9)	*(1)*	—	6.0	*5.3*	—
– corporate and commercial	6,560	*55*	*330*	(107)	—	*(1)*	1.6	—	*0.3*
– non-bank financial institutions	230	—	*28*	(7)	—	—	3.0	—	—
Loans and advances to banks at amortised cost	280	—	*9*	—	—	—	—	—	—
Other financial assets measured at amortised cost[3]	39	—	—	—	—	—	—	—	—
Assets held for sale[2,3]	1,788	*28*	*14*	(18)	*(1)*	*(2)*	1.0	*(3.6)*	*(14.3)*

1 Days past due ('DPD'), amounts presented above are on contractual basis
2 For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.
3 Balance reported in Past due buckets reclassified from Other financial assets measured at amortised cost to reflect actual past due balance in assets held for sale.

Stage 2 Decomposition at 31 December 2023

The following disclosure presents the stage 2 decomposition of gross carrying amount and allowances for ECL for loans and advances to customers.

The table below discloses the reason why an exposure moved into stage 2 originally, and is therefore presented as a significant increase in credit risk since origination.

The quantitative classification shows when the relevant reporting date PD measure exceeds defined quantitative thresholds for retail and wholesale exposures, as set out in Note 1.2 'Summary of significant accounting policies',on page 198.

The Qualitative classification primarily accounts for CRR deterioration, watch & worry and retail management judgemental adjustments.

For further details on our approach to the assessment of significant increase in credit risk, see Note 1.2 'Summary of material accounting policies' on pages 198.

Stage 2 Decomposition at 31 December 2023

	Gross carrying amount				Provision for ECL				
Loans and advances to customers	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**Personal**	**Corporate and commercial**	**Non-bank financial institutions**	**Total**	**ECL Coverage % Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**%**
Quantitative[1]	**471**	**1,956**	**39**	**2,466**	**(5)**	**(39)**	**(2)**	**(46)**	**1.9**
Qualitative	**55**	**2,208**	**117**	**2,380**	**(5)**	**(28)**	**(2)**	**(35)**	**1.5**
30 days past due backstop	**—**	**237**	**5**	**242**	**—**	**—**	**—**	**—**	**—**
Total Stage 2	**526**	**4,401**	**161**	**5,088**	**(10)**	**(67)**	**(4)**	**(81)**	**1.6**

1 *Quantitative triggers includes 'one-month lag' and 'other reconciling amounts'.*

Stage 2 Decomposition at 31 December 2022

	Gross carrying amount				Provision for ECL				
Loans and advances to customers	Personal	Corporate and commercial	Non-bank financial institutions	Total	Personal	Corporate and commercial	Non-bank financial institutions	Total	ECL Coverage % Total
	€m	€m	€m	€m	€m	€m	€m	€m	%
Quantitative[1]	114	2,608	77	2,799	(6)	(66)	(1)	(73)	2.6
Qualitative	35	3,704	135	3,874	(2)	(42)	(5)	(49)	1.3
30 days past due backstop	1	248	17	266	—	(1)	—	(1)	0.4
Total stage 2	150	6,560	229	6,939	(8)	(109)	(6)	(123)	1.8

1 *Quantitative triggers includes 'one-month lag' and 'other reconciling amounts'.*

Maximum exposure to credit risk

The following table presents our maximum exposure before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk and it excludes equity securities as they are not subject to credit risk. For the financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and other guarantees granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

The offset in the table relates to amounts where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes. No offset has been applied to off-balance sheet collateral. In the case of derivatives the offset column also includes collateral received in cash and other financial assets.

Maximum exposure to credit risk

	At 31 Dec 2023		
	Maximum exposure €m	**Offset €m**	**Net €m**
Loans and advances to customers held at amortised cost	**50,127**	**—**	**50,127**
– personal[1]	**10,705**	**—**	**10,705**
– corporate and commercial	**33,249**	**—**	**33,249**
– non-bank financial institutions	**6,173**	**—**	**6,173**
Loans and advances to banks at amortised cost	**5,816**	**(50)**	**5,766**
Other financial assets held at amortised cost	**103,546**	**(3,278)**	**100,268**
– cash and balances at central banks	**56,894**	**—**	**56,894**
– items in the course of collection from other banks	**273**	**—**	**273**
– reverse repurchase agreements – non-trading	**24,490**	**(3,278)**	**21,212**
– financial investments	**1,747**	**—**	**1,747**
– prepayments, accrued income and other assets	**20,142**	**—**	**20,142**
Assets held for sale[2,3]	**23,211**	**—**	**23,211**
Derivatives	**45,522**	**(44,054)**	**1,468**
Total on-balance sheet exposure to credit risk	**228,222**	**(47,382)**	**180,840**
Total off-balance sheet	**128,901**	**—**	**128,901**
– financial and other guarantees[4]	**16,779**	**—**	**16,779**
– loan and other credit-related commitments	**112,122**	**—**	**112,122**
Total on and off-balance sheet amount	**357,123**	**(47,382)**	**309,741**

1 *As per the revised terms of the Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7,1 billion of home loans which was originally part of the sale of which EUR 6,7 billion guaranteed by Crédit Logement.*
2 *Of which EUR 9,553 million guaranteed by Crédit Logement classified as held for sale as at 31 December 2023.*
3 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
4 *'Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 32.*

Maximum exposure to credit risk (continued)

	At 31 Dec 2022		
	Maximum exposure €m	Offset €m	Net €m
Loans and advances to customers held at amortised cost	42,340	—	42,340
– personal	2,559	—	2,559
– corporate and commercial	34,857	—	34,857
– non-bank financial institutions	4,924	—	4,924
Loans and advances to banks at amortised cost	7,233	—	7,233
Other financial assets held at amortised cost	99,098	(1,463)	97,635
– cash and balances at central banks	59,734	—	59,734
– items in the course of collection from other banks	476	—	476
– reverse repurchase agreements – non-trading	15,374	(1,463)	13,911
– financial investments	1,156	—	1,156
– prepayments, accrued income and other assets[1]	22,358	—	22,358
Assets held for sale[2,3]	23,761	—	23,761
Derivatives	59,960	(58,047)	1,913
Total on-balance sheet exposure to credit risk	232,392	(59,510)	172,882
Total off-balance sheet	121,737	—	121,737
– financial and other guarantees[4]	17,049	—	17,049
– loan and other credit-related commitments	104,688	—	104,688
Total on and off-balance sheet amount	354,129	(59,510)	294,619

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*
2 *Of which EUR 17,468 million guaranteed by Crédit Logement as at 31 December 2022.*
3 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
4 *Financial and other guarantees' represents 'Financial guarantees' and 'Performance and other guarantees' as disclosed in Note 32.*

Measurement uncertainty and sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. HSBC Continental Europe forms multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting the economic scenarios and their weightings.

Scenarios were constructed to reflect the latest geopolitical risks and macroeconomic developments, including the Israel-Hamas war and subsequent disruptions in the Red Sea, and current inflation levels and monetary policy expectations.

Management judgemental adjustments are used where modelled ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late breaking events.

At 31 December 2023, there was a reduction in management judgemental adjustments compared with 31 December 2022 as modelled outcomes better reflected the key risks at 31 December 2023.

Methodology

At 31 December 2023, four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter.

Three scenarios, the Upside, Central and Downside, are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. It is created using consensus forecasts, which is the average of a panel of external forecasts.

The outer scenarios represent the tails of the distribution and are less likely to occur. The consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. Reversion to trend is done with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent, narrative-driven scenario, that explores a more extreme economic outcomes than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10 per cent probability. The Downside 2 is calibrated to a 5 per cent probability. The Central scenario is assigned the remaining 75 per cent. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

In the fourth quarter 2023, the weights are consistent with the calibrated scenario probabilities, as key risk metrics imply a decline in the uncertainty attached to the Central scenario, compared to fourth quarter of 2022. Economic forecasts for the Central scenario have remained stable and the dispersion within consensus forecast panels has remained low, even as the Israel-Hamas war escalated. Risks, including the economic consequences of a broader war in the Middle East, are considered in Downside scenarios.

Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

Description of economic scenarios

The economic assumptions presented in this section have been formed by HSBC with reference to external forecasts specifically for the purpose of calculating ECL.

Forecasts remain subject to a high degree of uncertainty. Outer scenarios are constructed so that they capture risks that could alter the trajectory of the economy and are designed to encompass the potential crystallisation of number of key macro-financial risks.

In our key markets, Central scenario forecasts remained broadly stable in the fourth quarter of 2023, compared with the third quarter of 2023. The key exception was with regard to monetary policy , where expectations for interest rate cuts were brought forward. There continue to be expectations that 2024 will be a period of below trend growth, with inflation remaining above central bank targets.

At the end of 2023, risks to the economic outlook included a number of significant geopolitical issues. Within our Downside scenarios, the economic consequences from the crystallisation of those risks are captured by higher commodity and goods prices, the re-acceleration of inflation and a further rise in interest rates and recession.

The scenarios used to calculate ECL are described below.

The consensus Central scenario

HSBC's Central scenario reflects expectations for a low growth and high interest rate environment across many of our key markets, where GDP growth is expected to be slower in 2024, than in previous year.

Expectation of lower GDP growth in many markets in 2024 are driven by the assumed lagged effects of higher interest rates and inflation in Europe. In the scenario, household discretionary income remains under pressure and business margins deteriorate amid higher refinancing costs. Growth only returns to its long-term expected trend in later years, once inflation reverts back towards central bank targets and interest rates stabilise at lower levels.

Global GDP is expected to grow by 2.2 per cent in 2024 in the Central scenario and the average rate of global GDP growth is forecast to be 2.6 per cent over the five-year forecast period. This is below the average growth rate over the five-year period prior to the onset of the pandemic of 2.9 per cent.

The key features of our Central scenario are:

- GDP growth rates in our main markets are expected to slow down in 2024, followed by a moderate recovery in 2025. The slowdown in the UK is particularly notable, with growth close to zero through much of 2024. In the scenario, weaker growth is caused by high interest rates, which act to deter consumption and investment.
- In most markets, unemployment is expected to rise moderately as economic activity slows, although it remains low by historical standards.
- Inflation is expected to continue to fall as commodity prices decline and supply disruptions abate, and wage growth moderates. It is anticipated that inflation converges towards central banks' target rates by early 2025.
- Weak conditions in housing markets are expected to persist through 2024 and 2025 in many of our main markets as higher interest rates and, in many cases, declining prices depress activity.
- Challenging conditions are also forecasted to continue in the commercial property sector in a number of our key markets. Structural changes to demand in the office segment in particular have driven lower valuations.
- Policy interest rates in key markets are forecasted to have peaked and are projected to decline in 2024. In the longer term they are expected to remain at a higher level than in recent years.
- The Brent crude oil price is forecasted to average USD 75 per barrel over the projection period.

The Central scenario was first created with forecasts available in late November, and reviewed continually until late December 2023. In accordance with HSBC's scenario framework, a probability weight of 75 per cent has been assigned to the Central scenario for France.

The following table describes key macroeconomic variables in the consensus Central scenario.

Consensus Central scenario 2024–2028

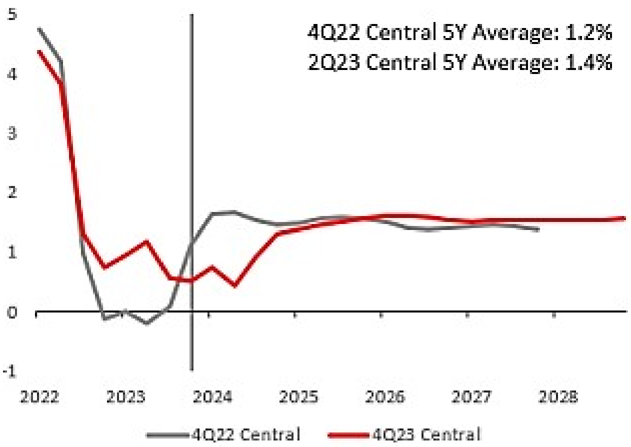
	France
GDP (annual average growth rate, %)	
2024	**0.8**
2025	**1.5**
2026	**1.6**
2027	**1.5**
2028	**1.5**
5-year average[1]	**1.4**
Unemployment rate (%)	
2024	**7.5**
2025	**7.3**
2026	**7.0**
2027	**6.8**
2028	**6.8**
5-year average	**7.1**
House prices (annual average growth rate, %)	
2024	**(1.0)**
2025	**2.4**
2026	**4.0**
2027	**4.4**
2028	**4.0**
5-year average	**2.8**
Inflation (annual average growth rate, %)	
2024	**2.7**
2025	**1.8**
2026	**1.7**
2027	**1.9**
2028	**2.1**
5-year average	**2.0**
Central bank policy rate (annual average, %)[2]	
2024	**3.6**
2025	**2.8**
2026	**2.6**
2027	**2.6**
2028	**2.7**
5-year average	**2.9**
Probability (%)	**75**

1 *The five-year average is calculated over a projected period of 20 quarters from 1Q24 to 4Q28.*
2 *The central bank policy rate is the rate implied by forward market interest rates based on a 15 working day average of overnight index swap rates to 11 December 2023.*

The graph compares the respective Central scenario at the year end 2022 with current economic expectations at the end of 2023.

GDP growth: Comparison of central scenarios

France



Note: Real GDP shown as year-on-year percentage change.

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes.

These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly, an easing in financial conditions, and a de-escalation in geopolitical tensions, as the Israel-Hamas and Russia-Ukraine wars move towards conclusions, and the US-China relationship improves.

The following table describes key macroeconomic variables for France in the consensus Upside scenario.

Consensus Upside scenario (1Q24-4Q28)

	%	
GDP level (%, start-to-peak)[1]	**10.4**	**(4Q28)**
Unemployment rate (%, min)[2]	**6.2**	**(4Q25)**
House price index (%, start-to-peak)[1]	**19.6**	**(4Q28)**
Inflation rate (YoY % change, min)[3]	**1.5**	**(3Q24)**
Central bank policy rate (%, min)[2]	**2.6**	**(2Q26)**
Probability (%)	**10**	

1 *Cumulative change to the highest level of the series during the 20-quarter projection.*
2 *The lowest projected unemployment/or policy interest rate in the scenario.*
3 *The lowest projected year-on-year percentage change in inflation in the scenario.*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks. These include an escalation of geopolitical tensions which disrupt key commodity and goods markets, causing inflation and interest rates to rise and creating global recession.

As the geopolitical environment remains volatile and complex, risks include:

- a broader and more prolonged Israel-Hamas war that undermines confidence, drives an increase in global energy costs and reduces trade and investment;
- a potential escalation in the Russia-Ukraine war, which expands beyond Ukraine's borders; and further disrupts energy, fertiliser and food supplies; and
- continued differences between the US and mainland China, which could affect economic confidence, the global goods trade and supply chains for critical technologies.

High inflation and higher interest rates also remain key risks. Should geopolitical tensions escalate, energy and food prices could rise and increase pressure on household budgets and firms' costs.

A wage-price spiral, triggered by higher inflation and labour supply shortages could put sustained upward pressure on wages and services prices, aggravating cost pressures and increasing the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from central banks, a steeper trajectory for interest rates, significantly higher defaults and, ultimately, a deep economic recession.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise and asset prices fall.

The scenario features an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate and commodity prices and inflation fall again.

The following table describes key macroeconomic variables for France in the consensus Downside scenario.

Consensus Downside scenario (1Q24-4Q28)

	%	
GDP level (%, start-to-peak)[1]	**(0.3)**	**(2Q24)**
Unemployment rate (%, min)[2]	**8.5**	**(4Q24)**
House price index (%, start-to-peak)[1]	**(1.2)**	**(3Q24)**
Inflation rate (YoY % change, min)[3]	**3.8**	**(2Q24)**
Central bank policy rate (%, min)[2]	**4.2**	**(1Q24)**
Probability (%)	**10**	

1 *Cumulative change to the lowest level of the series during the 20-quarter projection.*
2 *The highest projected unemployment/or policy interest interest rate in the scenario.*
3 *The highest projected year-on-year percentage change in inflation in the scenario.*

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including a further escalation of geopolitical crises globally, which creates severe supply disruptions to goods and energy markets. In the scenario, as inflation surges and central banks tighten monetary policy further, confidence evaporates.

However, this impulse is expected to prove short-lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall.

The following table describes key macroeconomic variables for France in the Downside 2 scenario.

Downside 2 scenario (1Q24-4Q28)

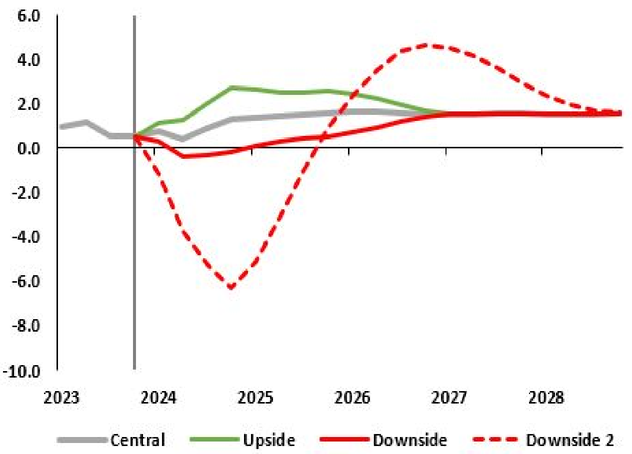
	%	
GDP level (%, start-to-peak)[1]	**(6.6)**	**(1Q25)**
Unemployment rate (%, min)[2]	**10.2**	**(4Q25)**
House price index (%, start-to-peak)[1]	**(14.5)**	**(2Q26)**
Inflation rate (YoY % change, min)[3]	**8.6**	**(2Q24)**
Central bank policy rate (%, min)[2]	**5.2**	**(1Q24)**
Probability (%)	**5**	

1 *Cumulative change to the lowest level of the series during the 20-quarter projection.*
2 *The highest projected unemployment/or policy interest rate in the scenario.*
3 *The highest projected year-on-year percentage change in inflation in the scenario.*

The following graphs show the historical and forecasted GDP growth rate for the various economic scenarios in France.

GDP growth: Comparison between scenarios

France



Scenario weighting

In reviewing the economic conjuncture, the level of risk and uncertainty, management has considered both global and country-specific factors.

In the fourth quarter of 2023, key consideration around uncertainty attached to the Central scenario projections focused on:

- Risks that the Israel-Hamas war escalates and affects economic expectations;
- Lagged impact of elevated interest rates on household finances and businesses and the implications of recent changes to monetary policy expectations on growth and employment; and
- Outlook for real estate in our key markets.

Although these risk factors remain significant, management assessed that they were adequately reflected in scenarios, at their calibrated probability. It was noted that despite Israel-Hamas war, economic forecasts had remained stable and dispersion of forecasts around the consensus were either stable, or have moved lower. Financial market measures of volatility also remained low through the fourth quarter of 2023.

This has led management to assign scenario probabilities that are aligned to the standard scenario probability calibration framework. This entailed assigning a 75 per cent probability weighting to the Central scenario in our major markets. The consensus Upside scenario was awarded a 10 per cent weighting, and the consensus Downside scenario was given per cent. The Downside 2 was assigned a 5 per cent weighting.

Management concluded that the consensus outlook for France was consistent with its view of the economic outlook, while assessments of uncertainty were also aligned to historical averages.

Compared with the fourth quarter of 2022, management's decision to vary scenario weightings differently from calibrated probabilities reflected uncertainty around the inflation and interest rate outlook, amid supply disruption to energy and food commodity markets due to the Ukraine-Russia war.

Those factors were reflected in the measures of risk and uncertainty used to inform judgements around the Central scenario. In particular, large forecast changes were observed, alongside wide dispersion of forecasts around consensus estimates and heightened financial market volatility.

The following table describes the probabilities assigned in each scenario.

Scenario weigthings, %

4Q23	Standard weight	France
Upside	**10.0**	**10.0**
Central	**75.0**	**75.0**
Downside	**10.0**	**10.0**
Downside 2	**5.0**	**5.0**

At 31 December 2023, the consensus Upside and Central scenarios had a combined weighting of 85 per cent. At 31 December 2022, France had a combined weighting of 65 per cent.

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates at 31 December 2023. These included:

- the selection of weights to apply to the economic scenarios given the rapidly changing economic conditions and the inherent uncertainty of the underlying forecast under each scenario; and
- the selection of scenarios to consider given the changing nature of macroeconomic and geopolitical risks that the Bank and wider economy face; and
- estimating the economic effects of those scenarios on ECL, particularly sector and portfolio specific risks and the uncertainty of default and recovery experience under all scenarios.

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2023, and management judgemental adjustments were still required to support modelled outcomes.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2023.

For HSBC Continental Europe wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, ECL estimates are derived based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual company circumstances (Note 1.2(i)). Probability-weighted outcomes are applied, and depending on materiality and status of the incorporate borrower, the number of scenarios considered will change. Where relevant for the case being assessed, forward economic Guidance is incorporated as part of these scenarios. LGD-driven proxy and modelled estimates are used for certain less material cases.

For HSBC Continental Europe retail portfolios, the models are predominantly based on historical observations and correlations with default rates and collateral values.

For PD, the impact of economic scenarios is modelled for each portfolio, using historical relationships between default rates and macro-economic variables. These are included within IFRS 9 ECL estimates using either economic response models or models that contain internal, external and macro-economic variables. The macroeconomic impact on PD is modelled over the period equal to the remaining maturity of the underlying assets.

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, using national level house price index forecasts and applying the corresponding LGD expectation relative to the updated forecast collateral values.

Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of IFRS 9, management judgemental adjustments are typically short-term increases or decreases to the modelled ECL at either a customer, segment or portfolio level where management believes ECL results do not sufficiently reflect the credit risk / expected credit losses at the reporting date. These can relate to risks or uncertainties that are not reflected in the models and/or to any late breaking events with significant uncertainty, subject to management review and challenge.

This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and higher level quantitative analysis for impacts that are difficult to model.

The effects of management judgemental adjustments are considered for balances and ECLs when determining whether or not a significant increase in credit risk has occurred and is allocated to a stage where appropriate. This is in accordance with the internal adjustments framework.

Management judgemental adjustments are reviewed under the governance process for IFRS 9. Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

Management judgemental adjustments made in estimating the scenario-weighted reported ECL at 31 December 2023 are set out in the following table.

Management judgemental adjustments to ECL at 31 December 2023[1]

	Retail €m	Wholesale[2] €m	Total €m
Banks, sovereigns, government entities and low-risk counterparties	**—**	**—**	**—**
Corporate lending adjustments	**—**	**13**	**13**
Retail lending inflation adjustments	**1**	**—**	**1**
Other macroeconomic-related adjustments	**—**	**—**	**—**
Other retail lending adjustments	**5**	**—**	**5**
Total	**6**	**13**	**19**

1 *Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL respectively.*
2 *The wholesale portfolio corresponds to adjustments to the performing portfolio (stage 1 and stage 2).*

Management judgemental adjustments at 31 December 2023 were an increase to ECL of EUR 19 million, EUR 13 million for the wholesale portfolio and an increase to ECL of EUR 6 million for the retail portfolio.

During 2023, management judgemental adjustments reflected an evolving macroeconomic outlook and the relationship of the modelled ECL to this outlook and to late-breaking and sector-specific risks.

At 31 December 2023, wholesale management judgemental adjustments were an ECL increase of EUR 13 million, focused on Middle Market Enterprises and the smaller range of Large Corporates. Indeed from a credit risk standpoint, these companies are more likely to face refinancing issues at a time where markets are tighter due to higher interest rates, sometimes combined with lower financial performance in this inflationary environment marked by slower GDP growth than prior to the onset of the pandemic.

At 31 December 2023, retail management judgemental adjustments were an ECL increase of EUR 6 million, in order to reflect the potential impact of inflation on most vulnerable retail customers and remaining uncertainty related to this portfolio.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100 per cent weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100 per cent weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted (stage 3) obligors. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and therefore effect of macroeconomic factors are not necessarily the key consideration when performing individual assessment of ECL for obligors in default. Loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Due to the range and specificity of the credit factors to which the ECL is sensitive, it is not possible to provide a meaningful alternative sensitivity analysis for a consistent set of risks across all defaulted obligors.

For retail credit risk exposures, the sensitivity analysis includes ECL for defaulted obligors of loans and advances. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macro-economic variables.

Wholesale and retail sensitivity

The wholesale and retail sensitivity tables present the 100 per cent weighted results. These exclude portfolios held by the insurance business and small portfolios, and as such cannot be directly compared with personal and wholesale lending presented in other credit risk tables. In both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable with the current period, because they reflect different risks relative to the consensus scenarios for the period end.

The wholesale and retail sensitivity analysis is stated inclusive of management judgmental adjustments, as appropriate to each scenario.

For both retail and wholesale portfolios, the gross carrying amount of financial instruments are the same under each scenario. For exposures with similar risk profile and product characteristics, the sensitivity impact is therefore largely the result of changes in macroeconomic assumptions.

Wholesale analysis

IFRS9 ECL sensitivity to future economic conditions[1,2,3]

ECL of loans and advances to customers at 31 December 2023	€m
Reported ECL	**90**
Consensus Scenarios	
Central scenario	**93**
Upside scenario	**83**
Downside scenario	**114**
Downside 2 scenario	**129**
Gross carrying amount[2]	**163,956**

1 ECL sensitivity includes off-balance sheet financial instruments. These are subject to significant measurement uncertainty.
2 Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying amounts but low ECL under all the above scenarios.
3 Excludes defaulted obligors. For a detailed breakdown of performing and non-performing wholesale portfolio exposures, see page 149.

Retail analysis

IFRS9 ECL sensitivity to future economic conditions[1,2]

ECL of loans and advances to customers at 31 December 2023	€m
Reported ECL	**85**
Consensus Scenarios	
Central scenario	**85**
Upside scenario	**83**
Downside scenario	**86**
Downside 2 scenario	**90**
Gross carrying amount[2]	**19,790**

1 ECL sensitivies exclude portfolio utilising less complex modelling approaches.
2 Includes balances and ECL which have been reclassified from 'loans and advances to customers' to 'assets held for sale' in the balance-sheet. This also includes any balances and ECL which continue to be reported as personal lending in 'loans and advances to customers' that are in accordance with the basis of inclusion for Retail sensitivity analysis.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees

The following disclosure provides a reconciliation of the Group's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees. The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. The net remeasurement of ECL arising from stage transfers represents the variation in ECL due to these transfers.

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1]

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	**102,710**	**(40)**	**13,075**	**(142)**	**1,888**	**(697)**	**2**	**—**	**117,675**	**(879)**
Transfers of financial instruments	915	(38)	(1,583)	77	668	(39)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(6,694)	7	6,694	(7)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1	7,871	(44)	(7,871)	44	—	—	—	—	—	—
– Transfers to Stage 3	(281)	—	(471)	41	752	(41)	—	—	—	—
– Transfers from Stage 3	19	(1)	65	(1)	(84)	2	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	33	—	(12)	—	—	—	—	—	21
New financial assets originated or purchased	25,408	(15)	—	—	—	—	6	—	25,414	(15)
Asset derecognised (including final repayments)	(18,678)	2	(1,741)	7	(256)	43	—	—	(20,675)	52
Changes to risk parameters – further lending/repayments	5,816	6	(2,961)	(19)	(233)	44	(1)	—	2,621	31
Changes to risk parameters – credit quality	—	(5)	—	6	—	(223)	—	—	—	(222)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(238)	238	—	—	(238)	238
Credit related modifications that resulted in derecognition	—	—	—	—	(6)	—	—	—	(6)	—
Foreign exchange	62	—	3	—	(5)	1	—	—	60	1
Others[2]	291	(1)	287	—	27	(4)	—	—	605	(5)
Assets classified as held for sale[3]	(2,781)	-3	1,126	-8	44	—	—	—	(1,611)	(11)
At 31 Dec 2023	**113,743**	**(61)**	**8,206**	**(91)**	**1,889**	**(637)**	**7**	**—**	**123,845**	**(789)**
ECL release/(charge) for the period		21		(18)		(136)		—		(133)
Recoveries										3
Others										(4)
Total ECL release/(charge) for the period										**(134)**

	At 31 Dec 2023		
	Gross carrying/ nominal amount	Provision for ECL	ECL release/ (charge)
	€m	€m	€m
As above	**123,845**	**(789)**	**(134)**
Other financial assets measured at amortised cost	103,294	—	—
Assets held for sale[4]	24,994	(74)	—
Non-trading reverse purchase agreement commitments	40,567	—	—
Performance and other guarantees not considered for IFRS 9			(13)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/Summary consolidated income statement	292,700	(863)	(147)
Debt instruments measured at FVOCI	20,832	(5)	6
Total Provision for ECL/total income statement ECL charge for the period	313,532	(868)	(141)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Others- includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*
3 *Includes re-classification to held for sale related to retail banking operations in France.*
4 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees[1] (continued)

	Non-credit impaired				Credit impaired					
	Stage 1		Stage 2		Stage 3		POCI		Total	
	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL	Gross carrying/ nominal amount	Provision for ECL
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2022[2]	118,330	(53)	10,314	(110)	1,366	(657)	2	(2)	130,012	(822)
Transfers of financial instruments	(12,212)	(17)	11,510	33	702	(16)	—	—	—	—
– Transfers from Stage 1 to Stage 2	(19,861)	9	19,861	(9)	—	—	—	—	—	—
– Transfers from Stage 2 to Stage 1[3]	7,940	(27)	(7,940)	27	—	—	—	—	—	—
– Transfers to Stage 3	(328)	2	(461)	18	789	(20)	—	—	—	—
– Transfers from Stage 3	37	(1)	50	(3)	(87)	4	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	21	—	(14)	—	(12)	—	—	—	(5)
New financial assets originated or purchased	36,662	(14)	—	—	—	—	—	—	36,662	(14)
Asset derecognised (including final repayments)	(16,864)	2	(2,093)	11	(391)	122	—	—	(19,348)	135
Changes to risk parameters – further lending/repayments	(19,239)	17	(7,983)	3	24	(37)	—	1	(27,198)	(16)
Changes to risk parameters – credit quality	—	16	—	(42)	—	(211)	—	1	—	(236)
Changes to model used for ECL calculation	—	—	—	—	—	—	—	—	—	—
Assets written off	—	—	—	—	(93)	93	—	—	(93)	93
Credit related modifications that resulted in derecognition	—	—	—	—	(1)	1	—	—	(1)	1
Foreign exchange	23	—	(3)	—	(6)	1	—	—	14	1
Others[4,5]	17,655	(18)	3,760	(47)	604	(105)	—	—	22,019	(170)
Assets classified as held for sale[6]	(21,645)	6	(2,430)	24	(317)	124	—	—	(24,392)	154
At 31 Dec 2022	102,710	(40)	13,075	(142)	1,888	(697)	2	—	117,675	(879)
ECL release/(charge) for the period		42		(42)		(138)		2		(136)
Add: Recoveries										2
Add/(less): Others										8
Total ECL release/(charge) for the period										(126)

	At 31 Dec 2022		
	Gross carrying/ nominal amount	Provision for ECL	ECL release/ (charge)
	€m	€m	€m
As above	117,675	(879)	(126)
Other financial assets measured at amortised cost[7]	98,834	—	—
Assets held for sale[8]	25,785	(144)	—
Non-trading reverse purchase agreement commitments	34,942	—	—
Performance and other guarantees not considered for IFRS 9			6
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied/ Summary consolidated income statement	277,236	(1,023)	(120)
Debt instruments measured at FVOCI	17,917	(10)	(4)
Total Provision for ECL/total income statement ECL charge for the period	295,153	(1,033)	(124)

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *The classification of gross carrying/nominal amount by stage as at 31 December 2021 was re-presented to reflect the transfer from stage 1 to stage 2 of EUR 3.7 billion in balances, following the application of post-model adjustments.*
3 *The classification of gross carrying/nominal amount by stage as at 31 December 2022 was re-presented to reflect the transfer from stage 2 to stage 1 of EUR 3.7 billion in balances, following the reversal of post-model adjustments.*
4 *Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.*
5 *The year-end 2022 comparatives have been represented to correctly reflect the classification of " loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9. The out-of-scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2 billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*
6 *Includes re-classification to held for sale related to retail banking operations in France and branch operations in Greece.*
7 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been restated accordingly.*
8 *For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*

Credit impaired loans

HSBC determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days; and
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition.

The loan is then considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

Forborne loans and forbearance

A range of forbearance strategies is employed in order to improve the management of customer relationships by avoiding default, of the customer where possible or the calling of guarantees obtained whilst maximising the recoveries of the amounts due. They include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosures and other forms of loan modifications and re-ageing.

HSBC Continental Europe's policies and practices are based on criteria which seek to enable wherever possible that the repayment is likely to continue. These typically involve the granting of revised loan terms and conditions.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay their loan and is expected to be able to meet the revised obligations.

The contractual terms of a loan may be modified for a number of reasons, including changes in market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. 'Forbearance' describes concessions made on the contractual terms of a loan in response to an obligor's financial difficulties. We classify and report loans on which such concessions have been granted as 'forborne loans' when their contractual payment terms have been modified as a result of serious concerns on the capacity of the borrower to repay their contractual outstandings.

Identifying forborne loans

Concessions, on loans made to customers, which do not affect the payment structure or basis of repayment, such as temporary or permanent waivers granted by the bank to take advantage of the non-respect of financial or security covenants, do not directly provide concessionary relief to customers in terms of their ability to service obligations as they fall due and are therefore not included in this classification.

For retail lending, our credit risk management policy sets out restrictions on the number and frequency of forbearance, the minimum period an account must have been opened before any forbearance can be considered and the number of qualifying payments that must be received. The application of this policy varies according to the nature of the market, the product and the management of customer relationships through the occurrence of exceptional events.

Credit quality classification of forborne loans

Under IFRS, an entity is required to assess whether there is objective evidence that financial assets are impaired at the end of each reporting period. A loan is impaired and an impairment allowance is recognised when there is objective evidence of a loss event that has an effect on the cash flows of the loan which can be reliably estimated.

A forborne loan is presented as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

This presentation applies unless the concession is insignificant and there are no other indicators of impairment.

The forborne loan will continue to be disclosed as impaired, for at least one year and until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

For retail lending the minimum period of payment performance required depends on the nature of loans in the portfolio, but is typically not less than 12 months. Where portfolios have more significant levels of forbearance activity the minimum repayment performance period required may be substantially more.

Forborne loans and recognition of impairment allowances

For retail lending, forborne loans are segregated from other parts of the loan portfolio for collective impairment assessment to reflect the higher rates of losses often encountered in these segments.

In the corporate and commercial sectors, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessment. A distressed restructuring is classified as an impaired loan. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in forborne loans.

Forborne loans and advances to customers at amortised costs by stage allocation

	Performing Forborne		Non-Performing Forborne		Total
	Stage 1	Stage 2	Stage 3	POCI	
	€m	€m	€m	€m	€m
Gross carrying amount					
Personal	—	56	28	—	84
– first lien residential mortgages	—	33	21	—	54
– guaranteed loans in respect of residential property	—	22	7	—	29
– other personal lending which is secured	—	1	—	—	1
Wholesale	—	1,595	591	—	2,186
– corporate and commercial	—	1,554	583	—	2,137
– non-bank financial institutions	—	41	8	—	49
At 31 Dec 2023	—	1,651	619	—	2,270
Provision for ECL					—
Personal	—	(2)	(2)	—	(4)
– first lien residential mortgages	—	(2)	(2)	—	(4)
– other personal lending which is secured	—	—	—	—	—
– other personal lending which is unsecured	—	—	—	—	—
Wholesale	—	(12)	(155)	—	(167)
– corporate and commercial	—	(11)	(154)	—	(165)
– non-bank financial institutions	—	(1)	(1)	—	(2)
At 31 Dec 2023	—	(14)	(157)	—	(171)

Forborne loans and advances to customers at amortised costs by stage allocation (continued)[1]

	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m
Gross carrying amount					
Personal	—	30	27	—	57
– first lien residential mortgages	—	27	23	—	50
– guaranteed loans in respect of residential property	—	—	—	—	—
– other personal lending which is secured	—	3	4	—	7
Wholesale	—	1,930	401	—	2,331
– corporate and commercial	—	1,917	396	—	2,313
– non-bank financial institutions	—	13	5	—	18
At 31 Dec 2022	—	1,960	428	—	2,388
Provision for ECL					—
Personal	—	(2)	(3)	—	(5)
– first lien residential mortgages	—	(2)	(3)	—	(5)
– other personal lending which is secured	—	—	—	—	—
– other personal lending which is unsecured	—	—	—	—	—
Wholesale	—	(27)	(104)	—	(131)
– corporate and commercial	—	(26)	(104)	—	(130)
– non-bank financial institutions	—	(1)	—	—	(1)
At 31 Dec 2022	—	(29)	(107)	—	(136)

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

Wholesale lending

These sections provide further detail on wholesale loans and advances to customers and banks.

Total wholesale lending for loans and advances to banks and customers by stage distribution

	Gross carrying amount[1]					Provision for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	28,007	4,401	1,526	8	33,942	(42)	(67)	(584)	—	(693)
– Industrial	6,531	694	502	—	7,727	(6)	(9)	(131)	—	(146)
– Commercial, international trade	15,138	2,887	767	8	18,800	(23)	(45)	(394)	—	(462)
– Construction and real estate	4,493	447	173	—	5,113	(11)	(9)	(34)	—	(54)
– Governments	671	42	—	—	713	—	—	—	—	—
– Others	1,174	331	84	—	1,589	(2)	(4)	(25)	—	(31)
Non-bank financial institutions	6,002	161	28	—	6,191	(2)	(4)	(12)	—	(18)
Loans and advances to banks	5,712	104	—	—	5,816	—	—	—	—	—
At 31 Dec 2023	39,721	4,666	1,554	8	45,949	(44)	(71)	(596)	—	(711)
By geography[1]										
Continental Europe										
– *of which: France*	*27,684*	*2,957*	*1,256*	*8*	*31,905*	*(31)*	*(47)*	*(498)*	—	*(576)*
– *of which: Germany*	*6,488*	*1,052*	*140*	—	*7,680*	*(3)*	*(18)*	*(46)*	—	*(67)*
– *of which: Other Countries*	*5,549*	*657*	*158*	—	*6,364*	*(10)*	*(6)*	*(52)*	—	*(68)*

1 *Includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*

Total wholesale lending for loans and advances to banks and customers by stage distribution (continued)

	Gross carrying amount[1]					Provision for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial	27,481	6,560	1,586	3	35,630	(26)	(107)	(640)	—	(773)
– Industrial	6,515	1,757	457	1	8,730	(3)	(11)	(80)	—	(94)
– Commercial, international trade	15,201	3,798	845	2	19,846	(14)	(74)	(452)	—	(540)
– Construction and real estate	3,906	800	90	—	4,796	(6)	(18)	(26)	—	(50)
– Governments	962	49	—	—	1,011	—	—	—	—	—
– Others	898	155	194	—	1,247	(3)	(4)	(82)	—	(89)
Non-bank financial institutions	4,684	230	19	—	4,933	(1)	(7)	(1)	—	(9)
Loans and advances to banks	6,953	280	—	—	7,233	—	—	—	—	—
At 31 Dec 2022	39,118	7,070	1,605	3	47,796	(27)	(114)	(641)	—	(782)
By geography[1]										
Continental Europe										
– *of which: France*	*27,095*	*4,862*	*1,070*	*3*	*33,030*	*(19)*	*(75)*	*(473)*	*—*	*(567)*
– *of which: Germany*	*5,956*	*1,305*	*354*	*—*	*7,615*	*(1)*	*(25)*	*(121)*	*—*	*(147)*
– *of which: Other Countries*	*6,067*	*903*	*181*	*—*	*7,151*	*(7)*	*(14)*	*(47)*	*—*	*(68)*

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

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution

	Nominal amount[2]					**Provision for ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Corporate and commercial	**50,575**	**2,833**	**225**	**—**	**53,633**	**(9)**	**(9)**	**(12)**	**—**	**(30)**
Financial	**52,950**	**152**	**10**	**—**	**53,112**	**—**	**(1)**	**—**	**—**	**(1)**
At 31 Dec 2023	**103,525**	**2,985**	**235**	**—**	**106,745**	**(9)**	**(10)**	**(12)**	**—**	**(31)**
By geography[2]										
Continental Europe										
– *of which: France*	***94,460***	***1,617***	***88***	***—***	***96,165***	***(6)***	***(4)***	***(7)***	***—***	***(17)***
– *of which: Germany*	***6,914***	***1,053***	***128***	***—***	***8,095***	***(2)***	***(5)***	***—***	***—***	***(7)***
– *of which: Other Countries*	***2,151***	***315***	***19***	***—***	***2,485***	***(1)***	***(1)***	***(5)***	***—***	***(7)***

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*

Total wholesale lending for loans and other credit-related commitments and financial guarantees[1] by stage distribution (continued)

	Nominal amount[2]					Provision for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Corporate and commercial[3]	47,112	5,081	174	—	52,367	(5)	(17)	(24)	—	(46)
Financial[3]	47,960	724	1	—	48,685	—	(2)	—	—	(2)
At 31 Dec 2022	95,072	5,805	175	—	101,052	(5)	(19)	(24)	—	(48)
By geography[2]										
Continental Europe										
– *of which: France*	*85,768*	*3,156*	*43*	*—*	*88,967*	*(3)*	*(6)*	*(16)*	*—*	*(25)*
– *of which: Germany[3]*	*6,055*	*2,308*	*99*	*—*	*8,462*	*(1)*	*(12)*	*—*	*—*	*(13)*
– *of which: Other Countries*	*3,249*	*341*	*33*	*—*	*3,623*	*(1)*	*(1)*	*(8)*	*—*	*(10)*

1 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
2 *Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.*
3 *The year-end 2022 comparatives have been represented to correctly reflect the classification of "loans commitments and guarantees" of EUR 7,3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9. The out-of -scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2 billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage[1]

	2023			
			of which:	
	Total		*France*	
	Gross carrying/ nominal amount	ECL coverage	*Gross carrying/ nominal amount*	*ECL coverage*
	€m	%	*€m*	*%*
Stage 1				
Not collateralised	82,219	—	*67,951*	—
Fully collateralised	3,921	(0.2)	*2,430*	*(0.1)*
LTV ratio:				
– less than 50%	1,641	(0.2)	*1,205*	*(0.1)*
– 51% to 75%	897	(0.1)	*707*	*(0.1)*
– 76% to 90%	332	—	*100*	—
– 91% to 100%	1,051	(0.1)	*417*	—
Partially collateralised (A):	3,926	(0.1)	*3,498*	—
– *collateral value on A*	*3,159*		*2,784*	
Total	90,066	—	*73,879*	—
Stage 2				
Not collateralised	5,555	(1.0)	*2,915*	*(1.2)*
Fully collateralised	665	(1.5)	*392*	*(1.3)*
LTV ratio:				
– less than 50%	210	(1.9)	*169*	*(0.6)*
– 51% to 75%	164	(1.2)	*132*	*(0.8)*
– 76% to 90%	170	(0.3)	*22*	—
– 91% to 100%	121	(3.3)	*70*	*(4.3)*
Partially collateralised (B):	921	(0.5)	*907*	*(0.4)*
– *collateral value on B*	*684*		*672*	
Total	7,141	(1.0)	*4,214*	*(1.0)*
Stage 3				
Not collateralised	1,078	(47.2)	*821*	*(53.8)*
Fully collateralised	78	(24.4)	*30*	*(16.7)*
LTV ratio:				
– less than 50%	30	(23.3)	*13*	*(15.4)*
– 51% to 75%	29	(20.7)	*4*	*(25.0)*
– 76% to 90%	12	(16.7)	*10*	*(10.0)*
– 91% to 100%	7	(71.4)	*2*	*(50.0)*
Partially collateralised (C):	451	(10.2)	*387*	*(8.3)*
– *collateral value on C*	*150*		*98*	
Total	1,607	(35.7)	*1,237*	*(38.7)*
POCI				
Not collateralised	7	—	*7*	—
Fully collateralised	—	—	—	—
LTV ratio:				
– less than 50%	—	—	—	—
– 51% to 75%	—	—	—	—
– 76% to 90%	—	—	—	—
– 91% to 100%	—	—	—	—
Partially collateralised (D):	1	—	*1*	—
– *collateral value on D*	*1*		*1*	—
Total	8	—	*8*	—
At 31 Dec 2023	98,822	(0.7)	*79,338*	*(0.7)*

1 *Includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*

Wholesale lending: other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral by stage (continued)[1]

	2022			
	Total		*of which: France*	
	Gross carrying/ nominal amount[1]	ECL coverage	*Gross carrying/ nominal amount*	*ECL coverage*
	€m	%	*€m*	*%*
Stage 1				
Not collateralised[2,3]	78,106	—	*59,852*	—
Fully collateralised[3]	3,277	(0.1)	*2,176*	—
LTV ratio:				
– less than 50%	687	(0.1)	*444*	—
– 51% to 75%	1,221	(0.1)	*1,111*	*(0.1)*
– 76% to 90%	88	—	*11*	—
– 91% to 100%	1,281	—	*610*	—
Partially collateralised (A):	4,308	(0.1)	*3,694*	*(0.1)*
– *collateral value on A*	*3,442*		2,955	
Total	85,691	—	*65,721*	—
Stage 2				
Not collateralised[3]	10,478	(1.0)	*5,766*	*(0.9)*
Fully collateralised[3]	874	(1.6)	*515*	*(0.8)*
LTV ratio:				
– less than 50%	424	(2.9)	*248*	*(0.4)*
– 51% to 75%	278	(0.5)	*151*	*(0.7)*
– 76% to 90%	32	—	*31*	—
– 91% to 100%	140	(1.1)	*85*	*(2.4)*
Partially collateralised (B):	958	(1.5)	*942*	*(0.7)*
– *collateral value on B*	*858*		850	
Total	12,310	(1.0)	*7,223*	*(0.9)*
Stage 3				
Not collateralised[3]	1,246	(46.7)	*751*	*(57.9)*
Fully collateralised[3]	45	(27.8)	*14*	*(35.7)*
LTV ratio:				
– less than 50%	19	(26.3)	*8*	*(37.5)*
– 51% to 75%	3	(33.3)	*2*	*(50.0)*
– 76% to 90%	10	(40.0)	*1*	—
– 91% to 100%	13	(23.1)	*3*	*(33.3)*
Partially collateralised (C):	364	(23.1)	*292*	*(8.6)*
– *collateral value on C*	*321*		269	
Total	1,655	(42.8)	*1,057*	*(44.0)*
POCI				
Not collateralised	3	—	*3*	—
Fully collateralised	—	—	—	—
LTV ratio:				
– less than 50%	—	—	—	—
– 51% to 75%	—	—	—	—
– 76% to 90%	—	—	—	—
– 91% to 100%	—	—	—	—
Partially collateralised (D):	—	—	—	—
– *collateral value on D*	—		—	—
Total	3	—	*3*	—
At 31 Dec 2022	99,659	(0.8)	*74,004*	*(0.7)*

1 *Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.*
2 *Comparatives have been represented to include the missing intercompany amounts with entities outside the HSBC Continental Europe perimeter.*
3 *Following the review of the level of collateral by stages for December 2022, the comparatives have been represented by EUR 1,1 billion from fully collateralised to not collateralised.*

Personal lending

Total personal lending

We provide a broad range of secured and unsecured personal lending products to meet individual customer needs.

Personal lending includes advances to individual customers for asset purchases such as residential property where the loans in France are secured by Crédit Logement Guarantee or by the assets being acquired. We also offer consumer lending products such as overdrafts and personal loans which are mainly unsecured.

Total personal lending for loans and advances to customers at amortised costs by stage distribution[1,2]

	Gross carrying amount					Provision for ECL				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
First lien residential mortgages	**2,857**	**142**	**77**	**—**	**3,076**	**(8)**	**(8)**	**(22)**	**—**	**(38)**
Other personal lending	**7,272**	**384**	**20**	**—**	**7,676**	**(1)**	**(2)**	**(6)**	**—**	**(9)**
– second lien residential mortgages	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– guaranteed loans in respect of residential property	**6,331**	**361**	**11**	**—**	**6,703**	**—**	**(1)**	**—**	**—**	**(1)**
– other personal lending which is secured	**858**	**21**	**1**	**—**	**880**	**(1)**	**—**	**—**	**—**	**(1)**
– credit cards	**26**	**1**	**—**	**—**	**27**	**—**	**(1)**	**—**	**—**	**(1)**
– other personal lending which is unsecured	**57**	**1**	**8**	**—**	**66**	**—**	**—**	**(6)**	**—**	**(6)**
– motor vehicle finance	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2023	**10,129**	**526**	**97**	**—**	**10,752**	**(9)**	**(10)**	**(28)**	**—**	**(47)**

Total personal lending for loans and other credit-related commitments and financial guarantees[3] by stage distribution

	Gross carrying amount					Provision for ECL				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Personal lending										
At 31 Dec 2023	**935**	**29**	**2**	**—**	**966**	**—**	**—**	**—**	**—**	**—**

1 *Balances at 31 December exclude amount classified as held for sale related to retail banking operations in France during the year. For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
2 *Includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*

Total personal lending for loans and advances to customers at amortised costs by stage distribution[1,2]

	Gross carrying amount					Provision for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
First lien residential mortgages	1,961	92	79	—	2,132	(7)	(6)	(23)	—	(36)
Other personal lending	394	57	24	—	475	—	(3)	(9)	—	(12)
– second lien residential mortgages	—	—	—	—	—	—	—	—	—	—
– guaranteed loans in respect of residential property	—	—	—	—	—	—	—	—	—	—
– other personal lending which is secured	315	49	10	—	374	—	(1)	(2)	—	(3)
– credit cards	24	3	8	—	35	—	(1)	—	—	(1)
– other personal lending which is unsecured	55	5	6	—	66	—	(1)	(7)	—	(8)
– motor vehicle finance	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2022	2,355	149	103	—	2,607	(7)	(9)	(32)	—	(48)

Total personal lending for loans and other credit-related commitments and financial guarantees[3,4] by stage distribution

	Gross carrying amount					Provision for ECL				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal lending										
At 31 Dec 2022	1,106	46	4	—	1,156	—	—	—	—	—

1 *Balances at 31 December exclude amount classified as held for sale related to retail banking operations in France and branch operations in Greece during the year. For further details on gross carrying amounts and allowances for ECL related to assets held for sale, see 'Assets held for sale' on page 155.*
2 *Includes contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.*
3 *Excludes performance guarantee contracts to which the impairment requirements in IFRS 9 are not applied.*
4 *The year-end 2022 comparatives have been represented to correctly reflect the classification of "loans commitments and guarantees" of EUR 7.3 billion between in-scope for IFRS 9 and out-of-scope for IFRS 9. The out-of-scope for IFRS 9 "loans commitments and guarantees" have been restated further by EUR 2billion to include the adjustment on the account of the understatement of undrawn facilities such as overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and are unconditionally cancellable in nature.*

Mortgage lending

We offer a wide range of mortgage products designed to meet customer needs, including capital repayment, bridge loans and regulated loans. HSBC Continental Europe has specific LTV thresholds and debt-to-income ratios in place for this type of lending, which are compliant with the overall Group policy, strategy and risk appetite.

Collateral and other credit enhancements held

The most common method of mitigating credit risk for personal lending is to take collateral. For HSBC Continental Europe a mortgage over the property is often taken to help secure claims. Another common form of security 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 real estate loan in case of default. Loans may also be made against a pledge of eligible marketable securities or cash.

The tables below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. They provide a quantification of the value of fixed charges we hold over borrowers' specific assets in the event of the borrower failing to meet its contractual obligations.

The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date divided by the value of collateral.

The value of mortgage collateral is updated on a monthly basis using the notary price index ('INSEE'). In addition professional valuations are obtained for high value mortgage loans (>EUR 3m) annually. Valuations of financial collateral are updated on a daily basis for those portfolios held by HSBC Continental Europe and on annual basis for those held externally.

The collateral valuation excludes any cost adjustments linked to obtaining and selling the collateral and, in particular, loans shown as not collateralised or partly collateralised may also benefit from other forms of credit mitigants.

Personal lending: residential mortgage loans including loan commitments by level of collateral

	2023		2022	
	Gross carrying/nominal amount[1]	**ECL coverage**	Gross carrying/nominal amount[2]	ECL coverage
	€m	**%**	€m	%
Stage 1				
Fully collateralised	**2,989**	**(0.2)**	2,151	(0.3)
LTV ratio:				
– less than 50%	**1,455**	**(0.2)**	1,036	(0.2)
– 51% to 60%	**642**	**(0.3)**	348	(0.3)
– 61% to 70%	**473**	**(0.2)**	349	(0.3)
– 71% to 80%	**293**	**(0.3)**	267	(0.4)
– 81% to 90%	**123**	**—**	150	(0.7)
– 91% to 100%	**3**	**—**	1	—
Partially collateralised (A):	**7**	**—**	1	—
LTV ratio:				
– 101% to 110%	**2**	**—**	—	—
– 111% to 120%	**2**	**—**	1	—
– greater than 120%	**3**	**—**	—	—
– *collateral value on A*	***6***		*1*	
Total	**2,996**	**(0.2)**	2,152	(0.3)
Stage 2				
Fully collateralised	**140**	**(5.7)**	93	(7.5)
LTV ratio:				
– less than 50%	**89**	**(4.5)**	59	(5.1)
– 51% to 60%	**26**	**(7.7)**	16	(12.5)
– 61% to 70%	**15**	**(6.7)**	10	(10.0)
– 71% to 80%	**8**	**(12.5)**	7	(14.3)
– 81% to 90%	**2**	**—**	1	—
– 91% to 100%	**—**	**—**	—	—
Partially collateralised (B):	**—**	**—**	—	—
LTV ratio:				
– 101% to 110%	**—**	**—**	—	—
– 111% to 120%	**—**	**—**	—	—
– greater than 120%	**—**	**—**	—	—
– *collateral value on B*	**—**		—	
Total	**140**	**(5.7)**	93	(7.5)
Stage 3				
Fully collateralised	**61**	**(18.0)**	60	(18.3)
LTV ratio:				
– less than 50%	**46**	**(15.2)**	39	(15.4)
– 51% to 60%	**7**	**(14.3)**	5	(20.0)
– 61% to 70%	**3**	**(33.3)**	11	(18.2)
– 71% to 80%	**2**	**(50.0)**	3	(33.3)
– 81% to 90%	**1**	**—**	1	—
– 91% to 100%	**2**	**(50.0)**	1	(100.0)
Partially collateralised (C):	**16**	**(68.8)**	18	(66.7)
LTV ratio:				
– 101% to 110%	**—**	**—**	—	—
– 111% to 120%	**—**	**—**	—	—
– greater than 120%	**16**	**(68.8)**	18	(66.7)
– *collateral value on C*	***16***		—	
Total	**77**	**(28.6)**	78	(29.5)
At 31 Dec	**3,213**	**(1.2)**	2,323	(1.5)

1 *Includes contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*
2 *Includes contribution related to the acquisition of HSBC Bank Malta p.l.c. on 30 November 2022.*

Financial assets at amortised cost classified as "Assets held for sale"[1]

	Gross carrying amount	Provision for ECL	Net
	€m	€m	€m
Loans and advances to customers at amortised cost	**12,765**	**(74)**	**12,691**
– stage 1	**11,512**	**(3)**	**11,509**
– stage 2	**1,074**	**(8)**	**1,066**
– stage 3	**179**	**(63)**	**116**
– POCI	**—**	**—**	**—**
Loans and advances to banks at amortised cost	**11,900**	**—**	**11,900**
– stage 1	**11,900**	**—**	**11,900**
– stage 2	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**
– POCI	**—**	**—**	**—**
Other financial assets measured at amortised cost	**329**	**—**	**329**
– stage 1	**327**	**—**	**327**
– stage 2	**2**	**—**	**2**
– stage 3	**—**	**—**	**—**
– POCI	**—**	**—**	**—**
At 31 Dec 2023	**24,994**	**(74)**	**24,920**

1 *Includes re-classification to held for sale related to retail banking operations in France.*

Financial assets at amortised cost classified as "Assets held for sale"

	Gross carrying amount[1]	Provision for ECL	Net
	€m	€m	€m
Loans and advances to customers at amortised cost	21,872	(144)	21,728
– stage 1	19,758	(6)	19,752
– stage 2	1,786	(18)	1,768
– stage 3	328	(120)	208
– POCI	—	—	—
Loans and advances to banks at amortised cost	2,076	—	2,076
– stage 1	2,076	—	2,076
– stage 2	—	—	—
– stage 3	—	—	—
– POCI	—	—	—
Other financial assets measured at amortised cost	1,837	—	1,837
– stage 1	1,835	—	1,835
– stage 2	2	—	2
– stage 3	—	—	—
– POCI	—	—	—
At 31 Dec 2022	25,785	(144)	25,641

1 *Includes re-classification to held for sale related to retail banking operations in France and branch operations in Greece.*

Counterparty Credit Risk

Overview

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Whenever there is a chance that a counterparty will not pay 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 tackles the case of an indirect exposure via an Over-The-Counter or Secured Financing Transaction (OTC/SFT): 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 U.S. dollar and the Japanese yen).

Key developments in 2023

As of end of June 2023, the activities of HSBC Trinkaus & Burkhardt GmbH have been transferred into the Germany branch of HSBC Continental Europe, implying many changes for CCR across Continental Europe.

Governance and Structure

Traded Risk has a specific team responsible for the measurement, control and management of counterparty risk primarily as a second line of defence function. Traded Risk reports to the Chief Risk Officer of HSBC Continental Europe.

The risk appetite framework for counterparty credit risk relies on two types of limits:

- Counterparty-level limits which are approved by the Wholesale Credit Officers; and
- Portfolio level CCR limits which are established to monitor risk at an aggregate level. HSBC Continental Europe has portfolio limits on Wrong Way Risk, CVA, Financing and CCPs related metrics.

Key risk management processes

The Traded Credit Risk Management Meeting is the backbone of CCR's governance structure. During this monthly meeting, the different CCR events per client and portfolio are discussed and reviewed for further escalation to the HSBC Continental Europe RMM as necessary.

Outstanding issues are also reported to sales/relationship managers, credit officers and to the Traded Risk Europe/Group representatives.

Analysis of CCR exposure by approach ('CCR1') (non audited)

	Replace-ment cost ('RC')	Potential future exposure ('PFE')	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWAs
	€m	€m	€m		€m	€m	€m	€m
EU – Original Exposure Method (for derivatives)	—	—		0	—	—	—	—
EU – Simplified SA-CCR (for derivatives)	—	—		0	—	—	—	—
SA-CCR (for derivatives)	1,949	2,349		1.4	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*
from contractual cross-product netting sets					—	—	—	—
Financial collateral simple method (for SFTs)					—	—	—	—
Financial collateral comprehensive method (for SFTs)					7,184	7,191	7,191	508
VaR for SFTs					—	—	—	—
Total at 31 Dec 2023					**20,126**	**20,133**	**20,133**	**4,407**

Transactions subject to own funds requirements for CVA risk ('CCR2') (non audited)

		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
EU4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	—	—	—	—
5	**Total transactions subject to own funds requirements for CVA risk**	**5,685**	**748**	5,153	777

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to structural foreign exchange exposures and changes in market interest rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity and funding to support our business strategy, and meet our regulatory and stress testing-related requirements.This includes business as usual management as well as recovery and resolution planning.

Our approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business in accordance with our strategy, meeting regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our Internal Capital Adequacy Assessment Process and our Internal Liquidity Adequacy Assessment Process. The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

These risks include credit, market, operational, pensions, structural foreign exchange and interest rate risk in the banking book.

The ECB is the lead supervisor of the bank and sets the consolidated regulatory capital requirements and receives information on the capital and liquidity adequacy as well as on recovery planning. The Single Resolution Board ('SRB') and the ACPR set the resolvability requirements including the consolidated Minimum Required Eligible Liabilities ('MREL') / Total Loss Absorbing Capacity ('TLAC') targets.

Governance

Capital, liquidity, interest rate risk in the banking book and non-trading book foreign exchange risk are actively managed by the Treasury function as the First Line of Defence. The Chief Financial

Officer is the risk owner for Treasury Risks. In this role, the Chief Financial Officer is supported by the Asset and Liability Management Committee. The Head of Treasury Risk Management is the accountable Second Line of Defence risk steward for all Treasury Risks. Ultimately, Treasury Risks are within the responsibility of the Board and its Risk Committee.

Capital

Key metrics (KM1) (non audited)

		At	
		31 Dec 2023	31 Dec 2022[1]
		€m	€m
	Available own funds (amounts)		
1	Common Equity Tier 1 ('CET1') capital	**9,442**	8,970
2	Tier 1 capital	**10,887**	10,320
3	Total capital	**12,373**	11,806
	Risk-weighted exposure amounts		
4	Total risk-weighted exposure amount	**59,538**	58,561
	Capital ratios (as a percentage of risk-weighted exposure amount) (%)		
5	Common Equity Tier 1 ratio	**15.9**	15.3
6	Tier 1 ratio	**18.3**	17.6
7	Total capital ratio	**20.8**	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**	3.2
EU-7b	– *of which:* *to be made up of CET1 capital (percentage points)*	***1.9***	1.8
EU-7c	*to be made up of Tier 1 capital (percentage points)*	***2.6***	2.4
EU-7d	Supervisory review and evaluation process ('SREP') own funds requirements	**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
EU-8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State	**—**	—
9	Institution-specific countercyclical capital buffer	**0.62**	0.11
EU-9a	Systemic risk buffer	**—**	—
10	Global Systemically Important Institution buffer	**—**	—
EU-10a	Other Systemically Important Institution buffer	**0.25**	0.25
11	Combined buffer requirement	**3.4**	2.9
EU-11a	Overall capital requirements	**14.8**	14.1
12	CET1 available after meeting the total SREP own funds requirements	**4.5**	4.1
	Leverage ratio		
13	Total exposure measure	**257,470**	238,098
14	Leverage ratio (%)	**4.2**	4.3
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount) (%)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage	**—**	—
EU 14b	– *of which: to be made up of CET1 capital (percentage points)*	**—**	—
EU-14c	Total SREP leverage ratio requirements (%)	**3.0**	3.0
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure) (%)		
EU-14d	Leverage ratio buffer requirement	**—**	—
EU-14e	Overall leverage ratio requirements	**3.0**	3.0
	Liquidity Coverage Ratio ('LCR')[1,2]		
15	Total high-quality liquid assets ('HQLA') (Weighted value-average)	**76,282**	52,713
EU-16a	Cash outflows – Total weighted value	**78,490**	50,733
EU-16b	Cash inflows – Total weighted value	**30,152**	15,792
16	Total net cash outflows (adjusted value)	**48,339**	34,940
17	Liquidity coverage ratio (%)	**158**	151
	Net Stable Funding Ratio ('NSFR')[1,3]		
18	Total available stable funding	**81,311**	99,388
19	Total required stable funding	**57,468**	70,352
20	NSFR ratio (%)	**141**	141

* *The references identify the 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. The 2022 comparatives for NSFR has been restated accordingly.*
2 *The components of the LCR calculation have been represented to comply with EBA reporting requirements.*
3 *This includes the impact of the sale of our retail banking operations in France.*

Capital Management

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.

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2023, HSBC Continental Europe complied with the ECB regulatory capital adequacy requirements.

To achieve this, HSBC Continental Europe manages its capital within the context of an annual capital plan, which is approved by the Board and which determines the appropriate amount and mix of capital. Complementing this capital plan regular forecasts of capital, leverage, RWAs positions are produced throughout the year.

The policy on capital management is underpinned by the HSBC Group capital management framework, which enables a consistent management of the capital.

Each of HSBC Continental Europe's subsidiary subject to individual regulatory capital requirements manages its own capital to support its planned business growth and meet its local regulatory requirements.

Capital Measurement

HSBC Continental Europe is supervised by the Joint Supervisory Team of the ECB and the ACPR. The ECB sets HSBC Continental Europe's capital requirements, in line with the regulatory framework.

The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systematically Important Institutions ('G-SII'/'O-SII') buffer. CRR and CRD legislations implemented Basel III in the EU.

The capital management framework defines regulatory capital and economic capital as the two primary measures for the management and control of capital.

Capital measures:

- Regulatory capital is the capital which HSBC Continental Europe is required to hold in accordance with the rules established by regulators; and
- Economic capital is the internally calculated capital requirement to support risks to which HSBC Continental Europe is exposed and forms a core part of the internal capital adequacy assessment process.

Regulatory Capital

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 their characteristics.

CET1 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 against these items – these include deductions for goodwill and intangible assets, deferred tax assets that rely on future profitability as well as negative amounts resulting from the calculation of expected loss amounts under IRB.

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

Tier 2 capital comprises eligible subordinated debt and any related share premiums. Holdings of Tier 2 capital of financial sector entities are deducted.

Regulatory Requirements

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 Overall Capital Requirement ('OCR') is composed of the 8 per cent minimum capital in respect of article 92.1 of the 575/2013 Regulation, the 2.5 per cent for the Capital Conservation Buffer (CCB) in respect of article 129 of the 2013/36 Directive, the 0.62 per cent weighted Countercyclical Buffer (CCyB), the 0.25 per cent Other Systematically Important Institution buffer ('O-SII') in force since 1 January 2022 as per the decision from the ACPR and the 3.4 per cent Pillar 2 requirement ('P2R').

From 2024, this OCR would decrease due to the revised P2R while the weighted Countercyclical Buffer (CCyB) is expected to increase.

The minimum capital requirement under Pillar 2 ('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, the P2R should be held in the form of 56.25 per cent of CET1 and 75 per cent of Tier 1, as a minimum.

Several increases in CCyB are scheduled in 2024 impacting HSBC Continental Europe: the main ones being the French Countercyclical Buffer from 0.5 per cent to 1 per cent from January 2024 as announced by the French High Council for Financial Stability, the Dutch CCyB from 1 per cent to 2 per cent from 31 May 2024 and the Irish CCyB from 1 per cent to 1.5 per cent from 7 June 2024 as announced by their respective authorities.

As at 31 December 2023, the requirement in respect of Common equity tier 1 is 9.78 per cent, excluding Pillar 2 guidance ('P2G').

Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based metric, to supplement risk-based capital requirements. It aims to constrain the build-up of excessive leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, allowing the exclusions of certain exposures and the netting of exposures on certain market instruments.

This ratio has been implemented in the EU for reporting and disclosure purposes and has been set as a binding requirement since June 2021.

Pillar 3 market discipline

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make financial services firms more transparent by requiring publication of wide-ranging information on their risks, capital and management. HSBC Continental Europe's *Pillar 3 Disclosure at 31 December 2023* is published on HSBC's website, www.hsbc.com, under 'Investors' section.

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 reception of decision from the ACPR.

Following the end of the UK withdrawal from the European Union transition period, HSBC Continental Europe became from 1 January 2021 a material subsidiary (CRR article 4.1.135) of a third-country G-SII and therefore bound by internal TLAC requirements (CRR article 92b).

In order to meet both the internal TLAC and MREL requirements, HSBC Continental Europe issued internal Senior Non-Preferred bonds in January, June, September and December 2023.

Overview of changes of own funds ratios

Composition of regulatory own funds ('CC1')[1] (non audited)

		At	
		31 Dec 2023 €m	31 Dec 2022 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**6,327**	6,327
	– share premium account	**5,264**	5,264
2	Retained earnings	**2,211**	3,863
3	Accumulated other comprehensive income (and other reserves)	**1,566**	1,416
5	Transitional adjustments due to additional minority interests	**90**	89
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend[1]	**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)	**(188)**	(140)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**(586)**	(585)
11	Fair value reserves related to gains or losses on cash flow hedges	**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	**(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)
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	**13**	448
36	**Additional tier 1 capital before regulatory adjustments**	**1,445**	1,446
	Additional tier 1 capital: regulatory adjustments		
42a	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
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	**—**	447
50	**Credit risk adjustments**	**14**	
51	**Tier 2 capital before regulatory adjustments**	**1,906**	2,023
	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 (%)[2]	**9.8**	14.10
65	– capital conservation buffer requirement (%)	**2.5**	2.5
66	– countercyclical buffer requirement (%)	**0.6**	0.11
67	– systemic risk buffer requirement (%)	**—**	—
EU-67a	– Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement[3]	**0.25**	0.25
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**	146
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**	970
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability)	**308**	436

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

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

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

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

The main movements of the own funds are detailed on the Note 1.3 'Significant events during the year' of the HSBC Continental Europe's Universal Registration Document 2023.

RWAs by risks types (non audited)

	Risk Weighted Assets		Capital required[1]	
	2023	2022	**2023**	2022
	€m	€m	**€m**	€m
Credit risk[2]	**44,078**	43,354	**3,526**	3,468
Counterparty credit risk	**5,280**	6,048	**422**	484
Market risk	**3,992**	3,482	**320**	279
Operational risk	**6,188**	5,677	**495**	454
At 31 Dec	**59,538**	58,561	**4,763**	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.*

RWA movement by global business by key driver (non audited)

	Total RWA
	€m
RWAs at 1 January 2023	**58,561**
Asset size	**(741.00)**
Asset quality	**583**
Model updates	**0**
Methodology and policy	**1,139**
Foreign exchange movement	**(4.00)**
Total RWA movement	**977**
RWAs at 31 Dec 2023	**59,538**
RWAs by global business	
Markets and Securities Services	**12,033**
Global Banking	**10,587**
Global Banking and Markets Others	**691**
Commercial Banking	**23,952**
Wealth and Personal Banking	**9,870**
Corporate Centre	**2,405**

Leverage Ratio at 31 December (non audited)

	At	
	31 Dec 2023	31 Dec 2022
	€m	€m
Tier 1 Capital	**10,887**	10,320
Leverage Exposure	**257,470**	238,098
Leverage ratio %	**4.0**	4.3

Tier 1 capital increased from EUR 10,320 million to EUR 10,887 million during 2023. The Leverage exposure increased from EUR 238.1 billion to EUR 257.5 billion as a result of the acquisition of HSBC Private Bank (Luxembourg) S.A.

Liquidity and funding risk management

Liquidity and funding risk management framework

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 which aims to allow it to withstand liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken in compliance with the HSBC Group's framework and with practices and limits set through by the RMM and approved by the Board.

The elements of this framework are underpinned by a robust governance framework, the two major elements of which are ALCO and ILAAP used to validate risk tolerance and set risk appetite.

The HSBC Group's operating entities are predominantly defined on a country basis to reflect the local management of liquidity and funding. In this context, liquidity and funding risk is managed by HSBC

Continental Europe on a standalone basis with no implicit reliance assumed on any other Group entity unless pre-committed.

HSBC Continental Europe's policy is it should be self-sufficient in funding its own activities.

The Liquidity Coverage Ratio, the Internal Liquidity Metric and the Net Stable Funding Ratio are key components of the Liquidity and Funding Risk Framework.

Liquidity and funding risk profile

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered High Quality Liquid Assets (' HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

At 31 December 2023, HSBC Continental Europe remained within the LCR risk limits established by the Board and applicable under the HSBC Group’s liquidity and funding risk framework.

The following table displays the average 12 month LCR levels for HSBC Continental Europe consolidated on a European Commission LCR Delegated Regulation basis.

Liquidity coverage ratio (non audited)

	At	
	31 Dec 2023	31 Dec 2022
	%	%
HSBC Continental Europe	**158**	151

Net stable funding ratio

The Net Stable Funding Ratio (‘NSFR’) requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank’s long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR over the longer term.

The HSBC Continental Europe calibration of NSFR is based on the CRR II (Regulation EU 2019/876) since June 2021.

At 31 December 2023, HSBC Continental Europe was within the NSFR risk limits established by the Board and applicable under the liquidity and funding risk framework.

The table below displays the NSFR levels at reporting date for HSBC Continental Europe consolidated.

Net stable funding ratio (non audited)

	At	
	31 Dec 2023	31 Dec 2022
	%	%
HSBC Continental Europe[1,2]	**141**	141

1 *This includes the impact of the sale of our retail banking operations in France.*
2 *To align with CRR requirements December 2022 NSFR has been restated to show the value as at reporting date rather than average of preceding four quarters (135 per cent).*

Depositor concentration and term funding maturity concentration

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is undermined if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists.

In addition to this, HSBC Continental Europe is exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

These risks are managed by specific and dedicated ALCO limits.

Liquid assets

The table below shows the unweighted liquidity value of assets categorised as liquid, which is used for the purposes of calculating the LCR metric. This reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets.

Liquid assets (non audited)

	Estimated liquidity value at	
	31 Dec 2023	31 Dec 2022
	€m	€m
Level 1	**71,191**	74,944
Level 2a	**1,104**	743
Level 2b	**1,137**	119

Level 1 liquid assets include HSBC Continental Europe balances with its central bank (excluding non-withdrawable reserves) and notes and coins.

Liquidity stress testing and Internal Liquidity Metric

HSBC Continental Europe undertakes liquidity stress testing to assess its balance sheet under various stress scenarios and to confirm that the stress assumptions within the LCR scenario are appropriate and conservative enough for the HSBC group's business.

HSBC Continental Europe also conducts reverse stress testing with the aim of reviewing the remoteness of the scenarios that would lead the bank to exhaust its liquidity resources.

Stress testing scenarios are run to evaluate the quality of liquidity resources under stresses of varying durations and nature. The ALCO approves the underlying assumptions and reviews results. These results are also presented through the ILAAP to the Board.

In addition to these stress-testing exercises, HSBC Continental Europe produces an Internal Liquidity stress Metric ('ILM') that is central to bank's liquidity management and for which a risk appetite and a risk tolerance are applied.

Finally, HSBC Continental Europe performs Fire Drill exercises to test the knowledge and right application of its Recovery plan across the Bank.

Sources of funding

Our primary sources of funding are customer accounts, repo and wholesale issuances and capital instruments.

The following table analyses HSBC Continental Europe’s consolidated balance sheet according to the assets that primarily arise from operating activities and the sources of funding primarily supporting these activities. Assets and liabilities that do not arise from operating activities are presented as a net balancing source or deployment of funds.

Wholesale funding markets are accessed by issuing senior debt securities (publicly and privately) and borrowing from secured repo markets against high-quality collateral, to align asset and liability maturities, currency mismatches and to maintain a presence in local wholesale markets.

The main financing transactions in 2023 are presented in the Significant events during the year section on page 210.

Funding sources and uses

	2023 €m	2022 €m
Sources		
Customer accounts	**95,247**	83,692
Deposits by banks	**8,904**	11,182
Repurchase agreements – non-trading	**11,153**	6,655
Debt securities in issue	**12,909**	6,861
Cash collateral, margin and settlement accounts	**16,691**	21,710
Liabilities of disposal groups held for sale	**23,817**	27,855
Subordinated liabilities	**1,951**	2,023
Financial liabilities designated at fair value	**9,696**	9,049
Liabilities under insurance contracts	**21,035**	20,439
Trading liabilities	**19,877**	17,509
– repos	**2**	19
– stock lending	**5**	3
– other trading liabilities	**19,870**	17,487
Total equity	**12,508**	11,504
At 31 Dec	**233,788**	218,479

	2023 €m	2022 €m
Uses		
Loans and advances to customers	**50,127**	42,340
Loans and advances to banks	**5,816**	7,233
Reverse repurchase agreements – non-trading	**24,490**	15,374
Cash collateral, margin and settlement accounts	**17,712**	20,078
Assets held for sale	**23,211**	23,761
Trading assets	**17,249**	13,777
– reverse repos	**53**	246
– stock borrowing	**61**	39
– other trading assets	**17,135**	13,492
Financial investments	**22,608**	19,135
Cash and balances with central banks	**56,894**	59,734
Net deployment in other balance sheet assets and liabilities	**15,681**	17,047
At 31 Dec	**233,788**	218,479

Contingent liquidity risk arising from committed lending facilities

HSBC Continental Europe provides committed facilities such as standby facilities and committed backstop lines to its customers. All of the undrawn commitments provided to conduits or external customers are accounted for in the LCR and NSFR in line with the applicable regulations, and are taken into account in the internal stress testing of liquidity. This, along with the live monitoring of the volume and concentration over these instruments aim to ensure that under a stress scenario additional outflow generated by the increased utilisation of these committed facilities will not give rise to liquidity risk for HSBC Continental Europe.

HSBC Continental Europe's contractual exposures as at 31 Dec monitored under the contingent liquidity risk structure

	At	
	31 Dec 2023 €m	31 Dec 2022 €m
Commitments to customers		
– Corporates	**49,346**	48,788
– Retail and SME	**723**	956
– Financials	**12,795**	9,707
– Others	**1,234**	1,096
Commitments to customers		
– 5 largest[1]	**3,850**	3,706

1 *Sum of the undrawn balance of the five largest facilities excluding conduits.*

Asset encumbrance and collateral management

An asset is defined as encumbered if it has been pledged as collateral against an existing liability and, as a result, is no longer available to the bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. Collateral is managed on an HSBC Continental Europe basis consistent with the approach to managing liquidity and funding. Available collateral held in an operating entity is managed as a single consistent collateral pool from which operating entity will seek to optimise the use of the available collateral. The objective of this disclosure is to facilitate an understanding of instantly available and unrestricted assets that could be used to support potential future funding and collateral needs. The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Summary of assets available to support potential future funding and collateral needs (on- and off-balance sheet)

	2023 €m	2022[1] €m
Total on balance sheet assets as at 31 Dec	**282,977**	279,081
Less:		
– reverse repo/stock borrowing receivables and derivatives assets	**(70,126)**	(75,619)
– other assets that cannot be pledged as collateral	**(49,973)**	(37,997)
Total on-balance sheet assets that can support funding and collateral needs as at 31 Dec	**162,878**	165,465
Add: off-balance sheet assets		
– fair value of collateral received in relation to reverse repo/stock borrowing/derivatives that is available to sell or repledge	**48,999**	36,524
Total assets that can support funding and collateral needs as at 31 Dec	**211,877**	201,989
Less:		
– on-balance sheet assets pledged	**(31,327)**	(33,792)
– re-pledging of off-balance sheet collateral received in relation to reverse repo/stock borrowing/derivatives	**(39,400)**	(31,243)
Total assets available to support funding and collateral needs as at 31 Dec	**141,150**	136,954

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 .*

Interest-rate risk of the banking book

Overview

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 for 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. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Markets Treasury cannot economically hedge is not transferred and will remain within the global business where the risks originate. Key metrics to monitor and control IRRBB are projected Net Interest Income ('NII'), Banking Net Interest Income ('BNII') and Economic Value of Equity ('EVE') sensitivities under varying interest rate scenarios.

Governance

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. 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.

Key risk Drivers

The bank's interest rate risk in the banking book can be segregated into the following drivers:

- Gap risk – also known as Duration Risk or Repricing Risk – arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk);
- Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices; and
- Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows.

Net interest income and Banking Net Interest Income sensitivity

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected Net Interest Income ('NII') under varying interest rate scenarios (simulation modelling), where all other economic variables are held constant. HSBC Continental Europe calculates both one-year and five year NII sensitivities across a range of interest rate scenarios. NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive, for example, early prepayment of mortgages. These sensitivity calculations do not incorporate actions that would be taken by Markets Treasury or in the business that originates the risk to mitigate the effect of interest rate movements.

During 2023, we introduced an additional metric to measure and manage the sensitivity of our income to interest rate shocks. In addition to Net Interest Income Sensitivity, we now also monitor Banking Net Interest Income ('BNII') sensitivity, which includes the internal income/expense from the funding of the Trading Book provided by the Banking Book.

Banking net interest income sensitivity includes an adjustment on top of NII sensitivity to reflect this. Going forwards, this will be our primary metric for monitoring and management of net interest income.

Economic value of equity sensitivity

EVE represents the present value of the future banking book cash flows that could be distributed to equity holders 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 can be used to assess the economic capital required to support interest rate risk in the banking book. An EVE sensitivity represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. HSBC Continental Europe is required to monitor EVE sensitivities as a percentage of capital resources.

During the year 2023, in the context of the sharp increase in interest rates, HSBC Continental Europe has constantly monitored the interest rate risk associated with the customer deposits and enhanced the structural hedge positions.

Further information can be found in the HSBC Continental Europe 2023 Pillar 3 document.

Structural foreign exchange risk

Structural foreign exchange (SFX) risk arises from the capital invested or net assets in a foreign operation (SFX exposure) together with any associated hedging. A foreign operation is defined as a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are conducted in a currency other than that of the reporting entity.

Unrealised gains or losses due to revaluations of structural foreign exchange exposures are recognised in other comprehensive income, whereas other unrealised gains or losses arising from revaluations of foreign exchange positions are reflected in the income statement.

HSBC Continental Europe's structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that the HSBC group's consolidated capital ratios and the capital ratios of individual banking subsidiaries are largely protected from the effect of changes in exchange rates.

Pension risk

Overview

HSBC provides future pension benefits on both defined contribution basis and defined benefit basis in its European operations. Pension risk refers to the financial and non-financial risk from the pension plans offered to employees.

Most of the plans in HSBC Continental Europe are defined contribution pension plans. In these plans the contributions that HSBC is required to make are known, while the ultimate pension benefit will vary, typically with investment returns achieved by investment choices made by the employee. While the market risk to HSBC of defined contribution plans is low, it is still exposed to operational and reputational risk.

In defined benefit pension plans, the level of pension benefit is known. Therefore, the level of contributions required by HSBC will vary due to a number of parameters, including:

- Investments delivering a return below that required to provide the projected plan benefits;
- Prevailing economic environment leading to corporate failures, thus triggering write-downs in asset values (both equity and debt);
- Change in either interest rates or inflation, causing an increase in the value of the plan liabilities; and
- Plan members living longer than expected (known as longevity risk).

The most material pension plan in terms of risk exposure is the defined benefit pension scheme run for the operations in Germany which is governed by German Company Benefits Act (Gesetz zur Verbesserung der betrieblichen Altersversorgung – Betriebsrentengesetz – BetrAVG). There are assets held in a pension fund against the liabilities from the plan. The scheme is separated via a Contractual Trust Arrangement.

Key Developments in 2023

There were no major changes regarding the pension risk management processes in 2023.

Governance and Structure

Pension plans are run by local fiduciaries in line with local legislative requirements and HSBC policies. As this is the case for the other types of risk, pension risk follows the HSBC Risk Management Framework, based on a three lines of defence model.

Funded defined benefit plans invest contributions in a range of investments designed to limit the risk of assets failing to meet a plan's liabilities. Any changes in expected returns from the investments may also change future contribution requirements. In pursuit of these long-term objectives, an overall target allocation of the defined benefit plan assets between asset classes is established. In addition, each permitted asset class has its own benchmarks, such as stock market or property valuation indices or liability characteristics. The asset allocation and benchmarks are reviewed at least once every three to five years and more frequently if required by local legislation or circumstances. The process generally involves an extensive asset and liability review.

Key Risk management processes

The financial risk from material defined benefit plans is subject to risk indicators regarding the actual surplus or shortfall of assets versus liabilities and the potential shortfall from future market movements. The latter risk is assessed using an economic capital model that takes into account potential variations on both pension assets and pension liabilities in a one-in-200-year stress test. Scenario analysis and other stress tests are also used to support pension risk management.

Market risk

Overview

Market risk is the risk that movements in market factors, including foreign exchange rates, interest rates, credit spreads and equity prices will reduce HSBC Continental Europe's income or the value of its portfolios.

Exposure to market risk is separated into two portfolios.

Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.

Non-trading portfolios including Markets Treasury comprise positions that primarily arise from the interest rate management of retail and commercial banking assets and liabilities, and financial investments designated as Held-To-Collect-and-Sale ('HTCS').

Key developments in 2023

There were no material changes to current policies and practices for the management of market risk in 2023.

HSBC Private Bank (Luxembourg) S.A. became a subsidiary of HSBC Continental Europe in November 2023, and related market risks have been consolidated accordingly within HSBC Continental Europe.

Market Risk governance

The following diagram summarizes the main business areas where trading and non-trading market risks reside, and the market risk measures used to monitor and limit exposures.

	Trading Risk	Non-trading Risk
Risk types	– Foreign exchange – Interest rates – Credit spreads – Equities	– Interest rates – Credit spreads – Foreign exchange
Risk measure	Value at Risk | Sensitivity | Stress testing	Value at Risk | Sensitivity | Stress testing

Where appropriate, similar risk management policies and measurement techniques are applied to both trading and non-trading portfolios. The objective is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with the established risk appetite.

At the HSBC Group level, market risk is managed and controlled through limits approved by the Risk Management Meeting for HSBC Holdings plc. These limits are allocated across business lines and to the HSBC Group's legal entities. Each major operating entity, such as HSBC Continental Europe, has an independent market risk management and control sub-function which is responsible for measuring market risk exposures, monitoring and reporting these exposures against the prescribed limits on a daily basis.

For HSBC Continental Europe, the Chief Risk Officer is responsible for the management of the HSBC Continental Europe market risks limits, the business lines it operates as well as its subsidiaries. The risks mandates are also approved by the Chief Risk Officer within the risk appetite limits approved by the HSBC Continental Europe Board.

Each operating entity is required to assess the market risks arising in its business and to transfer them either to its local Markets and Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the Asset Liability Committees. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as following completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to offices with appropriate levels of product expertise and robust control systems.

Market risk in 2023

During 2023, global financial markets were mainly driven by the inflation outlook, interest rates expectations and recession risks, coupled with banking distress in March and rising geopolitical tensions in the Middle East from October. Major central banks maintained restrictive monetary policies and bond markets experienced a volatile year. After rising significantly in the second and third quarter, US and European treasury bond yields fell during 4Q23, as lower inflation pressures led markets to expect that key rates would be cut in 2024. The interest rates outlook was also a major driver of global equity markets performance, alongside resilient corporate earnings and sentiment in the technology sector. Developed markets' equities advanced significantly amid low volatility, while emerging markets performance was more subdued. In foreign exchange markets, the US dollar fluctuated against other major currencies, mostly in line with the Fed policy and bond yields expectations. Investor sentiment remained resilient in credit markets. High-yield and investment-grade credit spreads narrow in general, as fears of contagion in the banking sector in 1Q23 abated and economic growth remained resilient throughout 2023.

Market risk measures

Market Risk monitoring system

The objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. HSBC Continental Europe uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, Value at Risk and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of individual market factor movements on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices, such as the effect of a one basis point change in yield. HSBC uses sensitivity measures to monitor the market risk positions within each risk type. Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.

Value at risk

VaR is a technique that estimates the potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and is calculated for all trading positions regardless of how HSBC Continental Europe capitalises those exposures. Where there is not an approved internal model, HSBC Continental Europe uses the appropriate local rules to capitalize exposures.

In addition, HSBC Continental Europe calculates VaR for non-trading portfolios in order to have a complete picture of risk. VaR is calculated at a 99 per cent confidence level for a one-day holding period. Where VaR is not explicitly computed, alternative tools like Stress Testing are at use.

The VaR models are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of option features on the underlying exposures.

The historical simulation models used incorporate the following features:

- Historical market rates and prices are calculated with reference to foreign exchange rates, interest rates, equity prices and the associated volatilities;
- Potential market movements utilised for VaR are calculated with reference to data from the past two years; and
- VaR measures are calculated to a 99 per cent confidence level and use a one-day holding period.

The nature of the VaR models means that an increase in observed market volatility will most likely lead to an increase in VaR without any changes in the underlying positions.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- Use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- Use of a holding period assumes that all positions can be liquidated or the risks offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- Use of a 99 per cent confidence level by definition does not take into account losses that might occur beyond this level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Risk not in VaR framework

Other basis risks which are not completely covered in VaR are complemented by Risk Not In VaR ('RNIV') calculations, and are integrated into the capital framework.

Risk factors are reviewed on a regular basis and either incorporated directly in the VaR models, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. The outcome of the VaR-based RNIV is included in the VaR calculation; a stressed VaR RNIV is also computed for the risk factors considered in the VaR-based RNIV approach.

Stressed VaR

HSBC Continental Europe calculates a Stressed VaR. Like VaR, it is calculated using historical simulations and a 99 per cent confidence level. However, unlike VaR, Stressed VaR is based on a 10 day period and a stressed period historical dataset. Stressed VaR can be rescaled to a one-day equivalent holding period by dividing it by the square root of 10.

Stress Testing

Stress testing is an important procedure that is integrated into the market risk management toolkit to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling.

Market risk reverse stress tests are undertaken on the premise that there is a fixed loss. The stress testing process identifies which scenarios lead to this loss. The rationale behind the reverse stress test is to understand scenarios which are beyond normal business settings that could have contagion and systemic implications.

Stressed VaR and stress testing, together with reverse stress testing and the management of gap risk, provide management with insights regarding the 'tail risk' beyond VaR for which local appetite is limited.

Back-testing

The accuracy of VaR models is routinely validated by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next. This measure of profit and loss does not align with how risk is dynamically hedged, and is not therefore necessarily indicative of the actual performance of the business.

The number of back-testing exceptions is used to gauge how well the models are performing. It is considered as enhanced internal monitoring of a VaR model if more than five profit exceptions or more than five loss exceptions occur in a 250-day period.

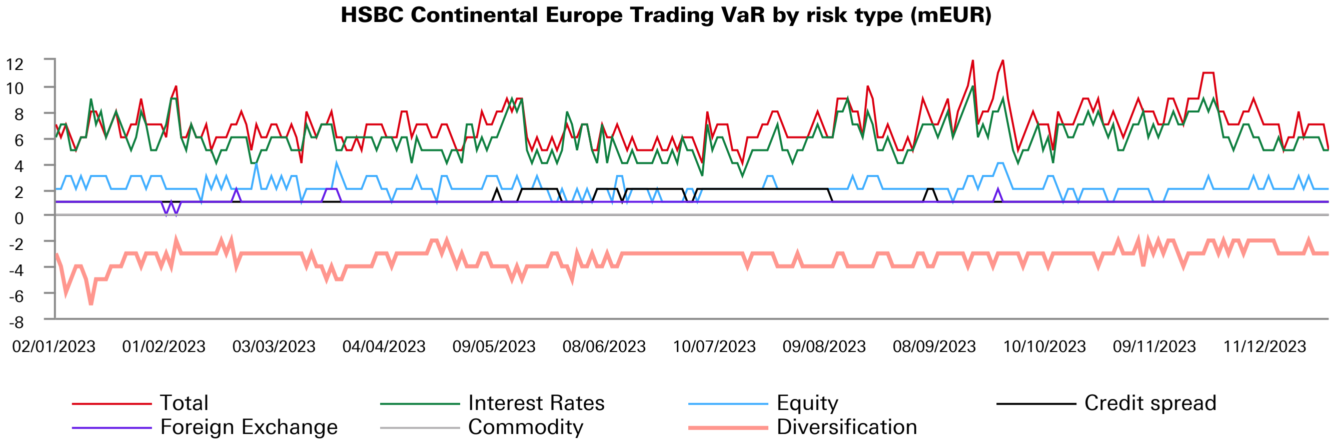
Back-testing the VaR is performed at set levels of local entity hierarchy.

Trading portfolios

Value at risk of the trading portfolios

The majority of HSBC Continental Europe total Value at Risk (VaR) and almost all trading VaR reside in Global Banking and Markets where it amounted to EUR 5.3 million as of 30 December 2023 compared with EUR 6 million as of 31 December 2022.

HSBC Continental Europe Trading VaR by risk type (€m)

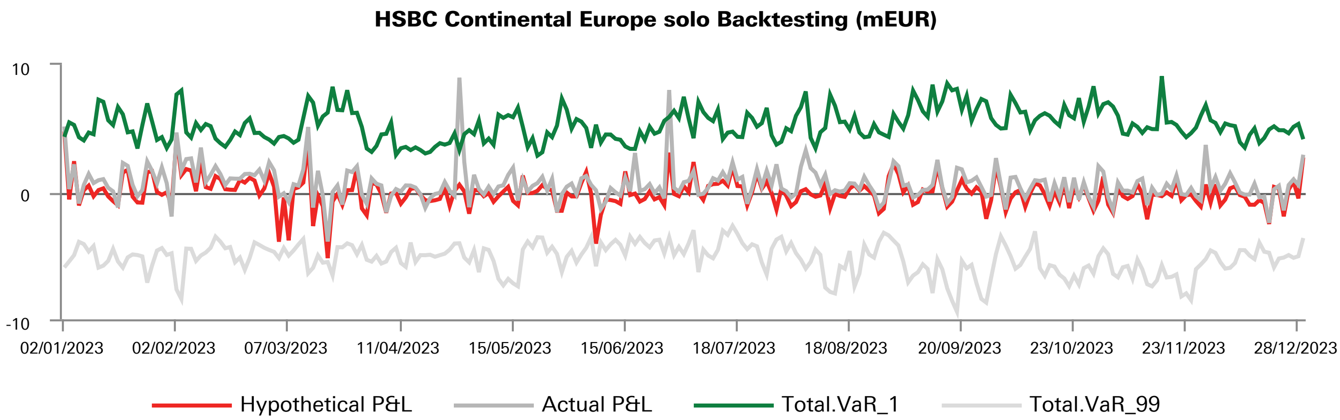


HSBC Continental Europe Trading VaR by risk type

	Foreign exchange ('FX') and commodity	Interest rate ('IR')	Equity ('EQ')	Credit Spread ('CS')	Commodity	Portfolio Diversification	Total
	€m	€m	€m	€m	€m	€m	€m
Balance at 30 Dec 2023	**0.84**	**4.61**	**1.88**	**0.60**	**0.04**	**(2.71)**	**5.26**
Average	**0.98**	**5.98**	**2.16**	**1.14**	**0.07**	**(3.34)**	**6.92**
Maximum	**1.92**	**9.56**	**3.87**	**2.07**	**0.25**	**(6.58)**	**11.79**
Balance at 30 Dec 2022	1.21	6.45	2.07	0.60	0.07	(4.37)	6.03
Average	1.35	5.27	2.27	0.73	0.08	(3.98)	5.64
Maximum	1.70	6.84	2.68	0.89	0.30	(4.71)	6.93

HSBC Continental Europe 1D SVaR of the Trading portfolio

	€m
Average	**12.08**
Maximum	**22.74**
Minimum	**6.11**
At 30 Dec 2023	**10.99**



Non-Trading portfolios

Non-trading VaR of HSBC Continental Europe includes the interest rate risk of non-trading financial instruments held by the global businesses and transferred into portfolios managed by Markets Treasury or Asset, Liability and Capital Management functions. In measuring, monitoring and managing risk in non-trading portfolios, VaR is just one of the tools used. The management of interest rate risk in the banking book is described further in 'Non-trading interest rate risk' below, including the role of Markets Treasury.

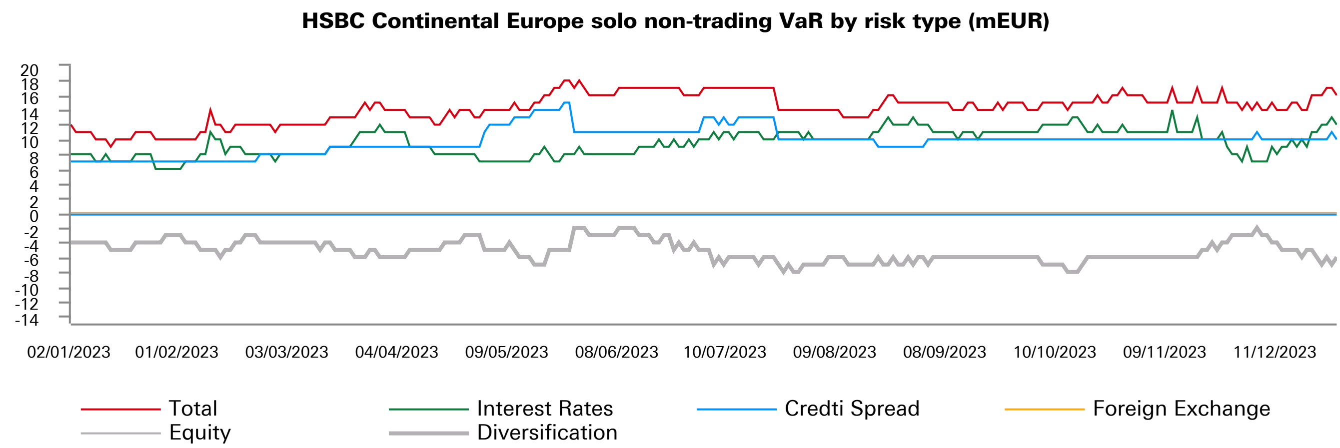
The local control of market risk in the non-trading portfolios is based on transferring the assessed market risk of non-trading assets and liabilities created outside Markets Treasury or Markets, to the books managed by Markets Treasury, provided the market risk can be neutralised. The net exposure is typically managed by Markets Treasury through the use interest rate swaps. Interest rate swaps used by Markets Treasury are typically classified as either a fair value hedge or a cash flow hedge and included within the local non-trading VaR. Any market risk that cannot be neutralised in the market is managed by HSBC Continental Europe ALCM in segregated ALCO books.

HSBC Continental Europe Value at Risk of the non-trading portfolio

HSBC Continental Europe Total accrual VaR by risk type

	Foreign Exchange	Interest Rate	Equity	Credit Spread	Portfolio diversification	Total
	€m	€m	€m	€m	€m	€m
Balance at 30 Dec 2023	**0.02**	**12.19**	**0.03**	**10.48**	**(6.46)**	**16.25**
Average	**0.01**	**9.50**	**0.03**	**9.83**	**(5.14)**	**14.22**
Maximum	**0.05**	**13.58**	**0.10**	**14.93**	**(8.07)**	**18.03**
Balance at 31 Dec 2022	—	8.51	0.03	7.23	(4.06)	11.71
Average	—	8.66	0.03	7.36	(4.39)	11.66
Maximum	0.04	9.34	0.04	7.77	(5.04)	13.03

HSBC Continental Europe Total non-trading VaR by risk type (€m)



Market risk under standardised approach (non audited)

		At 31 Dec 2023		At 31 Dec 2022	
		RWAs	Capital required	RWAs	Capital required
		€m	€m	€m	€m
	Outright products				
1	Interest rate risk (general and specific)[1]	—	—	5	—
2	Equity risk (general and specific)	—	—	—	—
3	Foreign exchange risk	**94**	**8**	117	9
4	Commodity risk	—	—	—	—
	Options	—	—	—	—
5	Simplified approach	—	—	—	—
6	Delta-plus method	—	—	—	—
7	Scenario approach	—	—	—	—
8	Securitisation (specific risk)	—	—	—	—
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.*

Market risk under IMA (non audited)

		At 31 Dec 2023		At 31 Dec 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 (or Operational) risks

Overview

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

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

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

The risk of loss could be materialise under the seven risks categories as defined in the HSBC Group taxonomy: Financial Reporting and Tax Risk, Financial Crime and Fraud Risk, Regulatory Compliance Risk, Legal Risk, Resilience Risk, Model Risk and People Risk

Regulatory framework

Basel II regulatory dispositions require that banking institutions take into account the operational risk management on three levels in terms of:

- Capital requirements to take into account all banking risks and their economic reality (Pillar I);
- Operational risk framework, meaning an implementation of an internal framework to manage risks which should enhance the prudential supervision by the national supervisors (Pillar II); and
- Information and financial communication on the matter, intended to administrators, supervisory authorities, shareholders, etc. (Pillar III).

Beyond regulatory requirements, managing operational risks and the permanent evolution of the control framework depending on changing activities and regulations to reduce losses is a priority for HSBC Continental Europe and also improves customer experiences in its daily activities.

Operational Risk Management – Methodology defined by the regulator

Regulators have defined three methods to calculate Operational Risk capital requirements which are the following:

- Basic approach;
- Standardised approach; and
- Advanced approach;

At which the Basic approach is the less sophisticated and the Advanced approach the most complex one, to determine the capital required to cover operational losses, leading to more complexity in terms of operational risk management.

Each method is linked to specific requirements in terms of risk management and external information on the framework of which implementation is a condition for the approach application.

Like HSBC Group, HSBC Continental Europe currently uses the standardised approach for the calculation of operational risks.

This approach is based on the application of different ratios (beta-factors which are 12 per cent, 15 per cent and 18 per cent) to the average gross income (over three years) of each one of the eight business lines defined by the CRR (Capital Requirement Regulation).

It implies that a method has to be determined to allocate the global gross income to Basel business lines defined by the regulator.

Among qualitative criteria used for this method, the implementation of an internal operational risk framework is required and needs to include the following aspects:

- Regular inventory of operational losses;
- Potential operational risks identification for all entities;
- Implementation of risk management processes, by defining and implementing action plans to mitigate the risks and by monitoring risk indicators;
- Implementation of an independent structure to manage those risks; and
- Regular communication of information about the evolution of these risks to the executive management.

Quantitative aspects (non audited)

The Finance department is in charge of calculating capital requirement related to operational risks and communicates it to the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank.

First, the Net Banking Income ('NBI') is allocated to the eight business lines defined by the CRR. Then, the capital requirement for each business line is calculate using the relevant beta-factor. This task involves splitting the NBI by entities.

	Regulatory Capital Charge %
Basel Lines of Business	
Corporate Finance	**18**
Trading and Sales	**18**
Retail Banking	**12**
Commercial Banking	**15**
Payments and Settlement	**18**
Agency Services	**15**
Asset Management	**12**
Retail Brokerage	**12**

Qualitative aspects

Operational and Resilience Risk tasks include the following activities:

- Definition and maintenance of risk appetite, policies and frameworks;
- Day-to-day advice, guidance and review and challenge;
- Ongoing assurance activities, analysis and aggregation;
- Periodic assurance activities – targeted and specific reviews, and deep-dives; and
- Operating Non-Financial Risk processes and controls

Key developments in 2023

In 2023, Operational and Resilience Risk management supported the safe transformation of HSBC Continental Europe, by monitoring closely strategic change execution, while supporting businesses and functions in managing the operational risk profile within appetite. Risk culture and awareness has continued to be strengthened by Non-Financial Risk training and regular forums.

Governance and structure

The Operational and Resilience Risk Function provides direction, insight and challenge on the management of non-financial risks, along with an overall assessment of the non-financial risk exposure versus Board appetite. The Operational and Resilience Risk function also monitors use and adoption of HSBC's non-financial risk approach. It is supervised directly by the Chief Risk Officer, brings a holistic vision of risks and it has a consolidation and harmonisation role and provides an overview of the main operational risks to the executive management, the Risk Committee and HSBC Group, collaborating with the other Risk Stewards in the second line of defence on critical subjects, such as risk maps reviews, the design and monitoring of action plans, incident reporting, risk indicators and control plans.

To ensure consistent monitoring of operational risks across the legal entity , the Operational and Resilience Risk Function hosts at least 3 times a year the HSBC Continental Europe Operational and Resilience Risk forum. The purpose of this forum is to provide guidance and supervision of non-financial risk management and permanent control. Within this framework, it is responsible to:

- Examine cross -cutting issues related to operational risk management or methodological issues (such as risk assessment, piloting tool);
- Promote the risk culture and knowledge of operational risks by facilitating exchanges between the stakeholders in the First, Second and Third Lines of Defence - review the results of the analytical work carried out by the Operational and Resilience Risk function, such as Review and Challenges, transversal risk tracking and reviews, or RCA and incidents analysis; and
- Challenge significant First Line of Defence Incidents and Issues; and

The HSBC Continental Europe Operational and Resilience Risk forum brings together representative of the three lines of Defence.

This framework is supported by forums and committees related to permanent control and operational risks in businesses and functions, that are appealed to ensure the oversight of operational risk management across all HSBC Continental Europe.

The main deficiencies identified in those fora are escalated to the HSBC Continental Europe Risk Management Meeting, which provides a transverse vision of risks, and if possible, prospective of the main operational risk issues of all HSBC Continental Europe entities, to the Chief Risk Officer (Chair of the RMM), and to the other members of the HSBC Continental Europe senior management.

Key risk management processes

Risk and Control Assessment

Compliant with the Operational Risk Functional Instruction Manual and Technical User Guides, the implementation of Risk and Control Assessment is under the responsibility of Risk owners and Control owners. The Chief Control Officer teams coordinate the implementation and regular update of Risk and Control Assessment

The Risk and Control Assessment is based on an inherent risk assessment, which corresponds to the most significant risk scenario that can occur in the next 12 months without considering the control in place, and the residual risk assessment, which corresponds to the level of risk remaining considering the control system in place.

The Risk Prioritisation Matrix (RPM) is used for the assessment of inherent and residual risks considering the likelihood and impacts (financial, reputational, financial and customer).

Mapped risks are assessed on a scale of four levels: Very High, High, Medium, and Low.

This hierarchy of risks is a steering and decision-making tool for Senior Management, it allows to define the priorities of plans for strengthening or modifying the framework. It is also used by Assurance teams to develop second-level permanent control plans as part of a risk-based approach.

Risk and Control Assessment cover non-financial risks to which entities are exposed and reflect key controls from the first level along with the second level control framework that enable to mitigate the most significant risks. Implementation and update are performed on a continuous basis with the support of control owners based on all triggers occurred as:

- Results of controls performed by operational teams;
- Results of independent controls done by Assurance teams from the second line of defence;
- Recommendations and Review and Challenges from Risk Stewards;
- Recommendations from periodic control reports, or third parties reports (including regulators); and
- Internal or external events.

Operational and Resilience Risk function conducts regularly quality reviews of material risks identified in RCAs. These reviews include notably challenge of risk and control assessment and related remediation actions.

Risk and Control Assessment for non-financial risks, for each Business and Function are formally presented to the HSBC Continental Europe Chief Risk Officer on an annual basis, during a meeting called RCA challenge session in presence of the Risk owners of Business or functions, Audit, main Risk stewards to present the significant risks of each Businesses and Functions.

Incidents management and escalation

Major operational incidents linked to HSBC activities are reported to the HSBC Continental Europe Risk Management Meeting on the basis of information stored in the operational risk management system, Helios. Helios manages in a centralised manner identification and updating processes, operational losses reports and the follow-up of action plans that aim to mitigate the main risks.

The Functional Instruction Manual allows to categorise operational incidents with respect to different natures and also to distinguish the various impact types associated with them. Following a significant incident, the root cause is investigated through detailed analysis. This is to establish if there are links between similar processes or controls and the cause, or causes, of the original incident.

Operational risk losses: quantitative data starting from 2014

Operational losses from 2014 to end of 2023 per risk category[*] (in EUR million) (non audited)

	Accounting risk	Facilities Availability, Safety and Security *****	People Risk	Fraud (External + Internal) ***	Failure in other principal risk processing	Information, technology, and cyber security risk	Legal risk	Transaction processing ****	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Breach of fiduciary obligations	Financial Crime event	Model risk	Resilience risk	Total
2014	—	0.1	1.3	6.5	0.6	—	0.3	5.3	(2.8)	—	(0.3)	(0.1)	—	—	—	—	10.900
2015	0.1	—	1.1	4.9	1.8	—	0.6	4.6	3.4	—	0.5	—	—	—	—	—	17.000
2016	—	—	0.6	11.1	(0.2)	—	0.1	(15.7)	36.2	—	0.3	—	—	—	—	—	32.400
2017	—	0.1	0.9	3.1	1.4	—	—	3.4	0.7	—	0.1	1	—	—	—	—	10.700
2018	7.83	—	(0.07)	2.4	0.68	—	0.7	3.36	2	—	0.1	0.4	—	—	—	—	17.400
2019	—	0.016	0.99	2.503	1.68	1.22	(0.04)	8.09	(1.19)	—	—	1.8	0.019	—	—	—	15.083
2020	—	0.035	0.27	2.316	1.35	0.22	—	54.32	2.7	—	—	0.09	0.008	—	17.11	3.28	81.699
2021	—	—	0;62	2.00	1.73	—	(0.02)	2.96	1.05	—	—	11.08	—	2.07	—	2.97	19.486
2022	—	—	(0.02)	0.51	5.85	0.07	—	4.09	4.04	—	—	(10.77)	—	0.60	0.05	3.95	3.70
2023		**0.16**	**0.50**	**31.15**	**1.24**	**0.14**	**(8.90)**	**3.96**	**(0.48)**			**2.70**		**31.15**		**4.18**	**30.40**

(*) Figures Source: Operational risk system Helios including the financial impacts recorded in the HSBC Private Bank (Luxembourg) S.A. from 2 November 2023.
(**)Excluding a one-off legacy internal event within Global Banking and Markets.
(***)Fraud (External and Internal) External and Internal Fraud included in financial crime for 2022 and 2023.
(****)Resilience risk include Building unavailability and work place safety, Safety and Security, Information, technology, and cyber security risk, Transaction processing for 2022 and 2023.

Number of events (financial impact) per risk category[*] (non audited)

	Accounting risk	Facilities Availability, Safety and Security *****	People Risk	Fraud (External + Internal) ***	Failure in other principal risk processing	Information, technology, and cyber security risk	Legal risk	Transaction processing ****	Regulatory compliance risk	Security of people and physical assets event	Systems and data integrity event	Financial reporting and tax risk	Breach of fiduciary obligations	Financial Crime event	Model risk	Resilience risk	Total
2014	—	2	34	228	33	1	21	146	53	1	19	6	—	—	—	—	544
2015	1	—	57	158	40	—	17	149	56	—	7	2	—	—	—	—	487
2016	—	—	26	136	41	—	19	140	51	—	10	—	—	—	—	—	423
2017	1	1	33	117	32	1	5	248	41	—	7	3	—	—	—	—	489
2018	4	—	34	112	35	—	8	276	26	—	17	6	—	—	—	—	518
2019	—	1	38	103	63	8	2	194	27	—	—	9	10	—	—	—	455
2020	—	1	35	73	42	8	—	183	38	—	—	2	6	—	2	27	417
2021	—	—	34	66	52	—	8	170	68	—	—	6	—	68	—	171	407
2022	—	—	29	103	57	3	0	241	56	—	—	17	—	104	7	251	521
2023		**5**	**33**	***240***	**37**	***10***	**9**	***352***	**70**			**13**		**240**		**380**	**782**

(*) Figures Source: Operational risk system (Helios) including HSBC Private Bank (Luxembourg) S.A. from 2 November 2023
(**) Excluding a one-off legacy internal event within GBM.
(***)Fraud (External and Internal) External and Internal Fraud included in Financial Crime for 2022 and 2023.
(****) Resilience risk include Building unavailability and work- place safety, Safety and Security, Information, technology, and cyber security risk, Transaction processing for 2022 and 2023.
(*****) Resilience risk include Building unavailability and work place safety, Safety and Security, Information, technology, and cyber security risk, Transaction processing.

RWA and capital requirements related to operational risk to the end of 2023 (non audited)

(in EUR million)	RWAs	Capital requirements
HSBC Continental Europe	6,188	495

Compliance

Regulatory Compliance

Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards. Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.

Key developments in 2023

During 2023, the Compliance Climate Playbook was updated on several occasions. The Playbook includes scenarios attached to various compliance risks, guidance for Risk and Control Assessment reviews, and provides details related to customer impact and greenwashing. Environmental, Social and Governance regulatory developments continue to evolve at an increasingly fast pace.

Governance and structure

The Chief Compliance Officer of HSBC Continental Europe reports directly to the HSBC Continental Europe Chief Executive Officer and Executive Committee as well as the supervisory body through the Risk Committee and the Board of Directors in accordance with Articles 30 and 31 of the French Order of 3 November 2014 modified on 25 February 2021.

The Chief Compliance Officer carries out the roles of Head of Compliance for Investment Services ('RCSI') for HSBC Continental Europe in respect of Articles 312-1 and 312-2 of the General Regulation of the AMF. The Heads of Compliance for Investment Services (RCSI) for HSBC Continental Europe's three Lines of Business (Global Banking and Markets, Commercial Banking and Wealth and Personal Banking) in respect of Articles 312-1 and 312-2 of the General Regulation of the AMF, as well as the different 'RCSI' or Heads of Compliance and Internal Control ('RCCI') for the legal entities of HSBC Continental Europe, fall under the HSBC Continental Europe Chief Compliance Officer's responsibility. For the EU/EEA branches of HSBC Continental Europe, the organisation principles described above apply in a similar way.

The main formal risk governance body is the HSBC Continental Europe Risk Management Meeting. The Continental Europe Chief Compliance Officer is a member, and provides updates for noting, discussion and approval. Conduct-related performance is covered by the quarterly Conduct and Values Committee chaired by the Chief Executive Officer and attended by Executive Committee members. Regarding the risks related to new products and services as well as material changes and withdrawal for existing products, the majority of the businesses have specific bodies for the examination of products and services. All new products and material changes for existing products are subject to the approval from the Product Approval Committee chaired by the Chief Executive Officer. Finally, on a quarterly basis the Compliance function organises an HSBC Continental Europe Whistleblowing Oversight Committee.

Key risk management processes

HSBC Continental Europe has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the French Order of 3 November 2014 modified on 25 February 2021 relating to the internal control systems of banks, as well as tools for detecting and preventing non-compliance risks. These procedures and tools are the subject of regular updates and upgrades.

The Compliance function is engaged in setting policies, standards and risk appetite to guide the management of regulatory compliance risks. It also devises clear frameworks and support processes to mitigate regulatory compliance risks. The capability provides oversight, review and challenge to the Country Chief Compliance Officers and their teams to help them identify, assess and mitigate regulatory compliance risks, where required. The regulatory compliance risk policies are regularly reviewed. Policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach. Relevant reportable events are escalated to the HSBC Continental Europe RMM and Risk Committee, as appropriate.

Staff training and awareness

The Compliance function of HSBC, in conjunction with the training department, draws up an annual mandatory staff training programme covering compliance-related risks. Training sessions, classroom-based or in the form of e-learning, are organised in the different businesses and functions. These training activities include notably a focus on the requirements of regulators and supervision authorities and the importance of effective relationships with them. In 2023 three mandatory training courses for all employees have been delivered. Topics included are risk management, health and safety, cybersecurity, wellbeing, financial crime, data management, and destructive behaviours, such as bullying or retaliation. Mandatory training was rolled out to all HSBC staff and had to be carried out within a given time frame. They are part of the staff performance assessment.

Regulators and Governments

HSBC Continental Europe proactively engages with regulators and governments to facilitate strong relationships through virtual and in-person meetings and by responding to consultations individually and jointly via industry bodies. Under the consolidated approach to non-compliance risks, the Compliance function ensures centralised monitoring of regulatory engagements within entities of HSBC through the Regulatory Affairs team. HSBC Continental Europe records the material regulatory engagements between HSBC, its regulators and supervision authorities in a tool dedicated to the supervision.

Financial Crime

Overview

Financial crime risk is the risk of knowingly or unknowingly helping parties to commit or to further illegal activity through HSBC, notably Money Laundering, terrorist and proliferation of weapons of massive destruction financing, tax evasion, bribery and corruption, non-respect of international sanctions, fraud and market abuse. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Key developments in 2023

During the year 2023, HSBC Continental Europe has continued its efforts to combat financial crime and reduce the impact of such crimes on the organisation, customers and communities. The Bank has been committed to working in partnership with the wider industry and the public sector in managing financial crime risk, protecting the integrity of the financial system. HSBC has participated in numerous public-private partnerships and information-sharing initiatives around the Europe region.

Also, there has been a number of key regulatory developments. Progress has been made regarding the EU Anti-Money Laundering Package extending payment transparency requirements to crypto assets services providers. The latter will come into force by end of December 2024. The final versions of the EU AML regulations including AML Authority dispositions are expected for Q1 2024. In addition, Politically Exposed Person (PEP) decree was published in March 2023 proving the lists of public functions in France which need to be considered as PEP.

The developments related to sanctions against Russia continued to be a key area of attention during 2023. More than ten packages of sanctions (commercial and financial restrictions) have been implemented. Their number and complexity raised the need to set up continuous exchanges and discussion with the French Treasury and Banking Federation. HSBC has enhanced its screening and non-screening controls to aid the identification of potential sanctions risk related to Russia, as well as risk arising from export control restrictions. The Bank has also steadily reduced its exposure to Russia.

Governance and structure

The HSBC Continental Europe Head of Financial Crime and Money Laundering Reporting Officer (MLRO) reports directly to the Chief Compliance Officer who reports directly to the HSBC Continental Europe Chief Executive Officer and Executive Committee as well as the supervisory body through the Risk Committee and the Board of Directors. Both the Chief Compliance Officer and the MLRO/Head of Financial Crime are members of the HSBC Continental Europe Risk Management meeting (main formal risk governance body) and provide updates for noting, discussion and approval.

Key risk management processes

HSBC Continental Europe has specific compliance examination procedures, in accordance with the provisions of Articles 35 to 38 of the French Order of 3 November 2014 modified on 25 February 2021 relating to the internal control systems of banks, as well as tools for detecting and preventing non-compliance risks. These procedures and tools are the subject of regular updates and upgrades.

HSBC Continental Europe is committed to acting with integrity and have built a strong financial crime risk management framework across all its businesses and the EU/EEA countries in which it operates. The Bank complies with the law and regulation of all the markets in which it operates applying a consistently high financial crime prevention rules. In cases where material differences exist between the law and regulation, its policy adopts the highest standard while acknowledging the primacy of local law. The Bank continues to assess the effectiveness of its end-to-end financial crime risk management framework and invest in enhancing its operational control capabilities and technology solutions to deter and detect criminal activity. Finally, the Bank also strengthened its financial crime risk taxonomy, control libraries, investigative and monitoring capabilities through technology deployments.

The HSBC Continental Europe financial crime capability is engaged in setting up standards, policies, and risk appetite to guide the management of financial crime risks and support processes to mitigate them. The capability provides oversight, review and challenge to the Chief Compliance Officers and their teams in the EU/EEA locations to help them identify, assess and mitigate complex financial crime matters, where required. The financial crime risk policies are periodically reviewed and updated. They require a prompt identification and escalation of any actual or potential regulatory breach. Relevant reportable events are escalated to the HSBC Continental Europe RMM and Risk Committee, as appropriate.

Staff training and awareness.

In 2023, three mandatory training courses for all employees have been delivered and included (among others) topics related to money laundering, tax evasion, sanctions, fraud, bribery and corruption, terrorist financing and proliferation financing.

Legal risks and litigation management

Overview

The HSBC Continental Europe Legal Department is responsible for HSBC Continental Europe's legal risks oversight as a second Line of Defence in helping the various HSBC Continental Europe group businesses and functions to prevent and control legal risk. As a first line of defence, the Legal Department manages and controls its operational risks.

The Legal Department is in charge of litigation follow-up. The HSBC Continental Europe Legal Department also supervises the legal teams of HSBC Continental Europe's subsidiaries and branches abroad.

Key developments: Litigation monitoring with regard to HSBC Continental Europe entities

The status of the risks arising from significant litigation in progress against the HSBC Continental Europe is examined monthly by a committee run by the Financial Controller, chaired by the Chief Financial Officer and the Chief Risk Officer and is made up notably of representatives of the Finance Department, the Credit Department and the Legal Department. This committee decides the amount of any litigation risk provision to be charged or written back.

Cases in progress as at 31 December 2023 involving legal risks likely to have a significant effect on the financial situation of HSBC Continental Europe are set out below.

Interbank commissions relating to electronic cheque processing

In 2002, a number of banks with retail networks, including HSBC Continental Europe forming part of an inter-branch committee sponsored by the French Banking Federation, introduced a system of interbank fees applying to the new electronic cheque processing termed Echange d'Images Chèques ('EIC'), the cheque image exchange system.

In March 2008, the French Competition Authority sent notification of a complaint to the 12 members of the committee – including HSBC Continental Europe – for the introduction of interbank fees when the EIC was set up.

On 20 September 2010, the French Competition Authority issued an unfavourable decision. In substance, it found that the EIC constituted an illegal anti-competitive scheme. The banks involved in setting up this charging system were fined a total of EUR 384.9 million. HSBC Continental Europe was ordered to pay a fine of EUR 9.05 million. The banks that were fined, except the Banque de France, decided to appeal this unfavourable decision.

On 23 February 2012, the Paris Court of Appeal overturned the decision of the French Competition Authority, finding that the Authority had failed to demonstrate a restriction by object.

The French Competition Authority appealed to the Supreme Court against the decision.

On 14 April 2015, the French Supreme Court overturned the decision of the Paris Court of Appeal of 23 February 2012, and referred the case back to the Paris Court of Appeal.

On 21 December 2017, the Paris Court of Appeal decided that the banks did infringe competition law. The banks appealed the 21 December 2017 Paris Court of Appeal's decision before the French Supreme Court.

On 29 January 2020, the Supreme Court decided to quash the 2017 appeal decision and to refer the case back to the Paris Court of Appeals.

On 2 December 2021, the Paris Court of Appeal overturned the decision of the French Competition Authority, ruling that no prohibited restriction of competition had been established. The French

Competition Authority appealed the decision before the French Supreme Court.

On 28 June 2023, the French Supreme court rejected the final appeal of the French Competition Authority. The latest rejection by the Supreme Court brought the case to an end and established definitively that the inter-bank commission did not constitute a "by-object" competition law infringement.

The Apollonia case

As was the case for around 20 other banks, HSBC worked during a limited period of time (from early 2006 to April 2007), and mainly in one branch, with a financial adviser and estate agent, known as Apollonia. The latter offered its clients (mainly independent professionals) 'turnkey' tax efficient products of the Loueur Meublé Professionnel ('LMP') (professional lessor of furnished accommodations) type and for a small number of investors *'Loi Robien'* type tax efficient products.

Between April 2006 and April 2007, 184 property loan applications were approved, for a total of EUR 29 million, bearing in mind that different media have said the total amount of operations by Apollonia with all banks purportedly reached around EUR 2 billion.

At the end of September 2008, HSBC Continental Europe became aware of the use of inappropriate marketing methods by Apollonia. Moreover, it appeared that most of the borrowers took out several loans through Apollonia from various banks without notifying HSBC Continental Europe.

HSBC Continental Europe is involved in the litigation as a civil law party, giving it access to the criminal file. From this, it has become apparent that a very large proportion of the official agency authorisations, signed by the buyers giving authority to sign purchase and sales deeds, were not properly prepared.

HSBC Continental Europe systematically files proceedings against investors with loan repayments due but the hearings are often held in abeyance because of the criminal proceedings underway.

However, in order to settle the financial aspects of the matter, without waiting for the outcome of criminal proceedings, out-of-court settlements have already been reached with some borrowers and talks are continuing with other borrowers.

Proceedings have also been commenced against the notaries involved and their insurer MMA. These proceedings have also been adjourned for the time being.

HSBC Bank Polska S.A.: ACTION Case

On 29 June 2018, HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HSBC Bank Polska S.A. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities relating to the activities of HSBC Bank Polska S.A. prior to the acquisition of HSBC Bank Polska S.A. including the following legal proceeding. In April 2017, ACTION brought an action against HSBC Bank Polska S.A. alleging, among other things, breach of a facility agreement and claiming damages and indemnification for lost profits. The proceeding is ongoing.

European interbank offered rates investigations and litigation

See Note 34 of the consolidated financial statements with regard to other significant legal proceedings and regulatory matters relating to HSBC Group entities generally, including HSBC Continental Europe.

Tax-related investigations

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

Other regulatory, civil law or arbitration proceedings

To date, as far as HSBC Continental Europe is aware, it is not threatened by any other regulatory, civil law or arbitration proceedings that are in progress or in suspense against it that might have, or over the last 12 months have had, any significant effect on the financial situation or the profitability of the company and/or of the HSBC group.

Governance

The Legal Department is responsible for running the Legal Risks Forum which meets quarterly with representatives of all business lines and functions to examine situations likely to give rise to specific and significant legal risks. The Legal Department participates in the Product Approval Committee, in the Operational Risks Forum, and in the Risk Management Meeting of HSBC Continental Europe, and is involved in due diligence procedures for market operations, structured transactions and any new acquisition (or disposal) of an entity or business by HSBC Continental Europe.

The Legal Department is also responsible for managing risks, directly or indirectly, connected with defence litigation matters. It is involved in dealing with credit files requiring special management or in default. The Legal Department monitors other risks that might have a legal impact.

Key risk management processes

The Legal Risks Forum is chaired by the Chief Risk Officer and ensures that the risk framework for legal risks remains adequate in the face of changes in laws, regulations and group organisation.

The Forum also examines the monitoring of incidents raised previously, the results of implemented controls, along with any new incidents and measures and actions taken.

This framework is wholly effective and a detailed description of it is given in an internal procedure.

A legal risk taxonomy has been defined to harmonise the identification and control of legal risks within the HSBC Group. The Legal Department is deeply involved in the review and control of the legal risks and controls assessed by the businesses and functions in their Risk and Control Assessments.

Tax risk

Overview

The HSBC Group seeks to apply the spirit and the letter of the law in all territories where it operates. As a consequence, HSBC Continental Europe pays a fair share of tax in the countries where it operates.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

HSBC does not deal with customers who are not tax transparent or who may want to use his products to avoid taxation.

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- Are aligned with the intended policy objectives of the relevant government; and
- Are aligned with business or operational objectives.

Key developments in 2023

HSBC continues to apply global initiatives to improve tax transparency such as:

- The OECD Standard for Automatic Exchange of Financial Account Information (also known as the Common Reporting Standard);
- The Capital Requirements Directive IV ('CRD IV') Country by Country reporting;
- The OECD Base Erosion and Profit Shifting ('BEPS') initiative pillars 1 and 2;
- DAC6 disclosure of aggressive operations;

- The Global Electronic system of Payment information (CESOP) reporting; and
- The e-invoicing for VAT purposes.

Governance and structure

The Tax Department oversees tax risk as a Second Line of Defence.

The Tax Department attends the HSBC Continental Europe Product Approval Committee, the committees related to internal control and Operational Risk and Wealth Management Oversight Committee ('WMOC') and is part of the Markets and Securities Services due diligence process.

Key risk management process

Tax risk is managed in accordance with HSBC Continental Europe Risk Management Framework which defines minimum standards and processes, and the governance structure for the risk management across HSBC Continental Europe.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

The Tax Policy covers three key risks:

- Tax payments – risk of failure to withhold, charge or pay taxes;
- Tax compliance – risk of failure to report and file accurate tax returns including customer information; and
- Tax avoidance – risk that HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law (tax avoidance).

HSBC manages the three key tax risks by:

- Identifying the risks;
- Ensuring that the right controls are in place to prevent, manage and reduce risk;
- Setting policy and guidelines for managing tax risks;
- Providing support and guidance to support the above policies; and
- Employing an experienced, professionally qualified in-house tax team. The in-house team is supported by advice from external advisers whenever in-house expertise is not available.

Global Internal Audit is responsible for providing independent assurance that HSBC is managing tax risk effectively.

Financial Reporting risk

The accounting procedures

The Finance Department is responsible for the effective enforcement of accounting policies and accounting control processes in compliance with the framework of HSBC Continental Europe. It defines, for all the entities of HSBC Continental Europe, the procedures and controls to be applied. This particularly concerns procedures and accounting policies, and the reconciliation and substantiation of Balance Sheet and Off Balance Sheet and the Analytical Review of accounts that support the preparation of the financial statements.

The accounting and regulatory audit trail is documented in accordance with the procedures and documentation established under the responsibility of the departments of Financial Control.

The Finance Department updates and circulates the procedures and accounting guidance which complies with the French GAAP and International Financial Reporting Standards. These principles are compliant with the French Commercial Law, French accounting standards and IFRS Accounting Standards in addition to statutory accounts in countries where we operate.

The enforcement of IFRS by all the entities of HSBC Continental Europe is also in compliance with the accounting principles of the HSBC Group.

Organisation of accounting production and financial reporting

The vast majority of reporting is produced monthly and on both a non-consolidated and consolidated basis, and year-on-year analysis of significant variances supports substantiation. Two sets of accounts are prepared, one under French GAAP and one under IFRS.

The HSBC Group's integrated 'SARACEN' consolidation software produces IFRS-compliant consolidated financial reporting statements that also meet all the requirements of the local regulator and the parent company.

A financial and balance sheet data warehouse ensures that financial, regulatory and management reports are consistent with financial accounting. It contains various types of data required for internal and external disclosure. Consistency controls have been established within the data warehouse, which feeds the consolidation software and is used to produce the various regulatory reports.

Control of accounting production

The financial control of the Bank is organised around three main axes:

- The monthly account certification;
- The analytical review of the financial statements; and
- The Internal Sarbanes-Oxley Act control framework.

HSBC Continental Europe prepares, on a monthly basis, a certificate of accounting reconciliations which is addressed to the HSBC Group Europe Finance Department. This certificate, which is an attestation of the full reconciliation and substantiation of Balance Sheet and Off Balance Sheet, is signed off by the CFO, based on a consolidation of certificates of accounting reconciliations transmitted by the heads of accounting and financial reporting of HSBC Continental Europe and its entities. These certifications are formalised using the Group managed accounting certification tool AssureNET (Cadency).

The monthly accounting certification reporting is based on the principle according to which each account of a general balance is assigned to an owner, which is responsible for its reconciliation. The anomalies detected lead to the determination of corrective actions for the teams and business concerned.

The BRCM (Business Risk and Control Managers), and internal controllers (Assurance team) of the Second Line of Defence, provide assurance over these controls during their work programme on a risk based approach.

Balance sheet and profit and loss analytical reviews are performed by operational accounting and management reporting teams on a monthly basis. Analysis is performed to identify material variations against business plans and budgets and unexpected trends compared to prior periods. All major variations are investigated and explained. These reports are sent to the HSBC Continental Europe Executive Committee, including the CEO and the Heads of Businesses and functions, as well as to HSBC Group Finance. Financial reporting is presented quarterly to the Audit Committee and the Board of HSBC Continental Europe. The Audit Committee examines quarterly, half-yearly and annually the accounts submitted to the Board.

In order to comply with the requirements of the American Law of Sarbanes-Oxley, enforced by the HSBC Group, HSBC Continental Europe evaluates the controls in place while establishing the financial statements. End to end process controls are identified, documented and subject to regular assurance reviews.

Defects identified during this process must be corrected in the given period of time defined by the owners of remediation action plans and should be quarterly reviewed by the Finance Sarbanes-Oxley Act internal controller.

The Internal Audit team is actively involved in the supervision of the correct implementation of Sarbanes-Oxley Act process, while performing their periodic controls. The Finance Sarbanes-Oxley Act internal controller has access via the Audit databases of HSBC Group (Strategic Audit Management System (SAMS), to the audit points raised by the different teams of audit, which permits to follow-up Sarbanes-Oxley Act recommendations issued by the periodic control team. In addition, the external statutory auditors perform every year the review of the control organisation on the behalf of HSBC Group and give their opinion on the Sarbanes-Oxley Act 404 report prepared by the management of HSBC Holdings plc.
Every quarter, the Audit Committee of HSBC Continental Europe is informed of the results of these controls and the progress of main action plans in case of deficiencies. A certificate is half-yearly sent by HSBC Continental Europe to HSBC Holding plc, duly signed by the CEO, the CFO and the Head of Internal Audit, attesting the effectiveness of internal financial controls.

Resilience risk

Overview

Resilience risk is the risk that the bank is unable to provide critical services to its customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

The main resilience risks for HSBC Continental Europe in 2023 are Third party, Technology and cyber security, Data risk and Change execution risk.

Key Developments in 2023

During 2023, the Operational and Resilience Risk team, in the Second Line of Defense, provided enhanced non-financial risk steward oversight and independent challenges across the legal entity. HSBC Group and HSBC Continental Europe carried out initiatives to strengthen the management of resilience risks, notably:

- Updated material risk taxonomy and control libraries and assessments;
- Further embedded its governance and oversight of Third party, Technology and cyber security risk management, including remediation programs in these areas;
- Continued to enhance risk management oversight across material change initiatives, and supported strategic transformation, notably the sale of the retail business in France;
- Raised senior leadership focus on risks arising from complexity and multiplicity of change, to ensure minimal impact on customers and stakeholders;
- Enhanced focus on data risk to mature the control environment in managing personal data and business data, as part of a multi-year data strategy program; and
- Continued to mitigate the risk of manual errors during payment and transaction processing and read-across of issues and near misses.

HSBC Continental Europe prioritises its efforts on material risks, emerging risks, areas undergoing strategic growth or under significant transformation.

Governance and structure

The Operational and Resilience Risk function provides a second line of Defense view across resilience risks: data, change execution, third parties and supply chains; information, technology and cybersecurity; payments and manual processing; physical security; business interruption and incident response; building unavailability; and workplace safety.

All these risksare monitored through dedicated First Line Forawith escalation path to the HSBC Continental Europe RiskManagementMeeting (RMM)(eg : Third Party Oversight Committee, Cloud OversightCommittee, Data executive council, IT Risk and Control Management Meeting).

The RMM chaired by the HSBC Continental Europe Chief Risk Officer is the overarching committee to govern operational and resilience risks in HSBC Continental Europe with an escalation path to its counterpart at Regional level, and to the Executive Committee of HSBC Continental Europe.

Key risk management process

Operational resilience is an organisations' ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, continuing to provide important business services to customers and clients, and minimise any impact on the wider financial system when – not if – circumstances change.

This is achieved via day-to-day oversight, which may result in challenges being raised to the business by Risk Stewards. Risk Steward opinion papers are submitted to formal governance committees. The Bank accepts it will not be able to prevent all disruption, but it prioritises investment to continually improve the response and recovery strategies.

The Bank defines its risk appetite via risk indicators with appetite and tolerance thresholds.

Cybersecurity Risk

Overview

The threat of cyberattacks remains a concern for HSBC Continental Europe, as it does across the financial sector and other industries. As cyberattacks continue to evolve, failure to protect HSBC Continental Europe's operations may result in the loss of sensitive data, disruption for our customers and its business or financial loss. This could have also a negative impact on its customers and its reputation, among other risks. HSBC Continental Europe's continues to monitor ongoing geopolitical events and changes to the cyber threat landscape and take proactive measures with the aim to reduce any impact to its customers.

HSBC Group invests in business and technical controls to help prevent, detect, and mitigate cyber threats. The Bank's cybersecurity controls follow a 'defence in depth' approach, leveraging multiple security layers, recognising the complexity of its environment. HSBC Continental Europe's ability to detect and respond to attacks through round-the-clock security operations centre capabilities is intended to help reduce the impact of attacks. There is a Group cyber intelligence and threat analysis team, which proactively collects and analyses internal and external cyber information to continuously evaluate threat levels for the most prevalent attack types and their potential outcomes. HSBC Group actively participates in the broader cyber intelligence community, including by sharing technical expertise in investigations, alongside others in the financial services industry and government agencies around the world.

Key developments in 2023

HSBC Continental Europe has continued to work with its third parties, including suppliers, financial infrastructure bodies and other non-traditional third parties, in an effort to help reduce the threat of cyberattacks impacting its business services. Third parties of HSBC Continental Europe have been targeted by ransomware cyber attacks. To mitigate this risk, HSBC Continental Europe has a third-party security risk management process in place to assess, identify and manage the risks associated with cybersecurity threats with suppliers and other third-party relationships. The process includes risk-based cybersecurity due diligence reviews that assess third parties' cybersecurity programmes against our standards and requirements. In 2023, HSBC Continental Europe further strengthened its cyber defences and enhanced its cybersecurity capabilities with the objective to help reduce the likelihood and impact of unauthorised access, security vulnerabilities being exploited, data leakage, third-party security exposure, and advanced malware. These defences build upon a proactive data analytical approach to help identify advanced targeted threats and malicious behaviour.

Governance and structure

HSBC Continental Europe operates under the three Lines of Defence model, aligned to the enterprise risk management framework, to help ensure oversight and challenge of its cybersecurity capabilities and priorities. In the first Line of Defence, HSBC Continental Europe has risk owners within global businesses and functions who are accountable for identifying and managing cyber risk. They work with cybersecurity control owners to apply the appropriate risk treatment in line with the risk appetite. The Risk Stewards, (Second Line of Defence), define the cyber Risk and Control Library including minimum control standards, with input from Risk Owners and Control Owners, specifying key risks and key controls, and providing guidance on control monitoring expectations. The Global Internal Audit function provide a Third Line of Defence view, overseeing the cybersecurity risk management processes. The assessment and management of HSBC Group's cybersecurity controls is led and coordinated by a Global Chief Information Security Officer (CISO) in partnership with the Chief Information Officers (CIO). The Global CISO is supported by regional / country and business-level CISOs. In the event of incidents, the HSBC Continental Europe CISO and other CISOs within HSBC Continental Europe countries are informed by the security operations team and are engaged in alignment with the cybersecurity incident response protocols.

Key risk management processes

HSBC Continental Europe has a robust suite of cybersecurity policies, procedures, and key controls designed to help ensure that the organisation is well managed, with effective oversight and control. This includes but is not limited to defined information security responsibilities for employees, contractors, and third parties, as well as standard procedures for cyber incident identification, investigation, mitigation, and reporting. Key performance indicators, control effectiveness, and other matters related to cybersecurity, including significant cyber incidents, are presented on a regular basis to various HSBC Continental Europe governance committee across the legal entity, to facilitate ongoing awareness of the cybersecurity control framework to the management of HSBC Continental Europe. HSBC Continental Europe's cybersecurity capabilities are regularly assessed and the bank proactively collaborates with regulators to participate in regular testing activities. In addition, HSBC Group engages external independent third parties to support its Penetration and Threat-led Penetration testing on HSBC Continental Europe applications.

Cyber training and awareness

HSBC Continental Europe understands the important role its people play in protecting against cybersecurity threats. HSBC Continental Europe's mission is to equip every colleague with the appropriate tools and behaviours they need to keep the organisation and customers' data safe. HSBC Continental Group provides cybersecurity training and awareness to its people, ranging from its top executives to IT developers to front-line relationship managers.

Model risk

Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2023

In 2023, HSBC Continental Europe continued to make improvements in the model risk management processes, amid regulatory changes in model requirements. Key initiatives during the year included:

- The redevelopment, validation and submission of models for the internal ratings-based ('IRB') approach for credit risk to the ECB. These new models have been built to enhanced standards using improved data as a result of investment in processes and systems. Regulatory approval has been granted for key credit risk models with some limitations imposed by the ECB;
- HSBC Continental Europe successfully continued the remediation of regulatory measures, in particular for internal model approach ('IMA') and internal model method ('IMM') models;
- The consolidation of HSBC Malta p.l.c. and HSBC Trinkaus & Burkhardt GmbH into HSBC Continental Europe has increased the remit of oversight of the model owning areas, Model Risk Management and also Internal Audit. This expanded legal perimeter triggered the need for a rationalisation of the model landscape in line with business priorities and to ensure adherence to the regulatory requirements. To reach these goals, a multi-year plan of redevelopment of models used for own funds calculation has been established and initiated;
- A plan was established to ensure operational continuity and compliance with relevant model regulations to support the sale of the retail business in France.
- The models impacted by changes to alternative rate setting mechanisms due to the Ibor transition were redeveloped and validated;
- HSBC Continental Europe continued to embed, the governance and oversight around model adjustments and related processes for IFRS Accounting Standards models and Sarbanes-Oxley controls;
- The Insurance entities within HSBC Continental Europe implemented the new reporting standards on accounting for insurance contracts (IFRS Accounting Standards), which came into effect 1 January 2023; and
- HSBC Continental Europe continued to develop its model risk management framework, including by strengthening staffing in the areas of model development and model validation.

Governance and structure

At the level of HSBC Group, Model Risk Management is headed by the Chief Model Risk Officer, and is structured as a global sub function, with regional Model Risk Management teams which support and advise each global business and global function. At the level of HSBC Continental Europe, Model Risk Management is headed by its local head, reporting to the Chief Risk Officer. The HSBC Continental Europe head of Model Risk Management is supported by a local team performing independent model review and model risk governance and by teams in HSBC Centres of Excellence in Poland and India.

Key risk management processes

HSBC Continental Europe use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications. These activities include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Responsibility for managing model risk is delegated by the Risk Management Meeting to the global and local Model Oversight Forums. These committees require model owning areas to demonstrate comprehensive and effective controls based on a library of model risk controls provided by Model Risk Management.

Model Risk Management also reports on model risk to senior management on a regular basis through the use of the risk map and risk appetite metrics. Model Risk Management regularly reviews the effectiveness of these processes to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

People Risk

Overview

HSBC Continental Europe has undertaken a significant transformation over the past year, during which many structural changes were achieved:

- HSBC Germany, HSBC Malta and HSBC Private Bank (Luxembourg) S.A. integrations;
- Disposal of the branch operations in Greece; and
- Sale of retail banking activities in France (effective 1 January 2024).

Elevated workloads while transitioning into new operating models have led to capacity and, or capability challenges in some specific areas. Whilst a strong oversight and monitoring continues to be maintained over People risks, the Employment Practices and Relation risk environment has been heightened in several countries. This is being efficiently mitigated through continuous and transparent engagement with employees' representative bodies and regulators.

Key Developments in 2023

These challenges are elevating people risks. To mitigate these people risks, HSBC Continental Europe has put strong emphasis on enhancing employee engagement, conveying a common and positive culture and enabling growth. The practices related to these priorities have been recognised by a Top Employer certification delivered for 2024 by the Top Employers Institute.

Snapshot (internal engagement survey) results have also seen a positive trend in majority of countries and improvements were noted across the board.

Governance and Structure

Across HSBC, a robust internal HR Risk Governance was developed within the function, allowing local teams to raise concerns that cannot be resolved locally, and helping HSBC Group Risk Stewards to form a view on whether People Risks are being managed within appetite.

Primary Governance oversight - Risk and Control Management Meeting (HSBC Bank plc HR RCMMs):

- The Regional RCMMs provide oversight of the management of non-financial risks at a regional/key markets level. They are chaired by the Accountable HR Risk Steward and cover HR's responsibilities as Risk Owners, Control Owners and Risk Stewards; and
- Escalation from countries. Country teams should escalate any material Second Line of Defence concerns that cannot be resolved locally, or where there is heightened local people risk environment, to the Regional Accountable Risk Steward.

Escalation to HSBC Group RMM/GRC

- HR Executive Committee Risk Forum. The meeting is chaired by Group Head of HR and the members are the HR Executive Committee. It has overall responsibilities for overseeing and approving HR risk-related matters, covering both HR's First Line of Defence (effectiveness of the control environment) and Second Line of Defence (People Risk Steward related matters) line responsibilities.

At HSBC Continental Europe level, the People risk Risk Steward supported by designated People risk Risk Steward delegates oversee People risks across the HSBC Continental Europe perimeter, ensuring risks are proactively identified, regularly managed, and efficiently mitigated.

Risk stewards are independent of the commercial risk-taking activities of the First Line of Defence. They set policy and guidelines for managing risks and provide advice and guidance to support these policies. They work with Risk and Control Owners to support active risk management and challenge the First Line of Defence to ensure that its activities are working effectively.

People risk is being discussed and reviewed regularly and escalated to the HSBC Continental Europe Risk Management Meeting (RMM), the HSBC Continental Europe Risk Committee meeting, the HSBC Continental Europe Executive Committee meetings and to the HSBC Bank plc Risk and Control Management Meeting (RCMM). Matters for escalation are also covered at the Global and HSBC Bank plc committees as previously described. The People Risk Steward assesses the risks and shares a view of the risk map rating and the top and emerging risk. They also maintain a strong oversight over Risk, Control, Issues and Events profiles, and provide guidance to the First Line of Defence (Risk and Control owners) as well. This allows them to initiate relevant reviews and challenges.

Key risk management processes

The Human Resources (HR) Functional Instruction Manual (FIM) covers the key responsibilities and controls that management and teams should follow to deliver effective people management practices. HSBC Continental Europe has two people risk policies.

- People Management; and
- Employment Practices and Relations.

The policies outline minimum control requirements to manage People Risks. Compliance with these policies will ensure:

- Proactive people management practices by thinking strategically about our workforce needs;
- The right actions are taken to drive a healthy culture and a more inclusive and diverse workforce;
- Employee concerns and poor behaviours are addressed sensitively and appropriately; and
- Compliance with global and local employment laws, regulations, and expectations on HSBC as a responsible employer.

The People risk is assessed and managed through the supervision of the risk, control, issue, and event profiles in conjunction with the overall risk map rating assessed using insights from the qualitative risk appetite statement), alongside with a set of Key Management information (KMIs), the emerging risk reports, as well as the quarterly People risk 4 Cs (Capacity, Capability, Conduct and Culture) dashboard together with the employment practices and relation environment. The set of KMIs is shared monthly with the HSBC Continental Europe Risk Management Meeting. Regular People Risk Steward opinion papers are also tabled at the RMM, as well as shared with the board including the 4Cs People risk dashboard.

At the end of 2023, the most material people risks identified and managed were:

- Elevated workload in the context of business change combined with a need to adapt the workforce to the new skillset requirement;
- Data protection and security risks relating to the loss or unauthorised distribution of sensitive data relating to staff;
- Psycho-social risks generated by the various geopolitical conflicts in Europe and Middle East, leading to an unstable social climate and high inflationary pressures in specific countries; and
- Potential legal risks resulting from possible non-compliance with regulations, including but not limited to working time regulation, risks associated with employer contributions and taxes on remuneration payments.

Insurable Risk Coverage

Overview

In certain circumstances, insurance can be used to reduce the financial impact of residual risks belonging to an HSBC entity, or the HSBC Group as a whole, should the risk materialise.

Risks that are capable of being insured are called 'Insurable risks' and would typically include some of the Non-Financial Risks, mainly People and Operational risks.

HSBC Continental Europe is covered through HSBC Group global insurance programs placed by HSBC Holdings plc for major insurable risks, to protect people, infrastructures and assets.

Main programmes include Directors and Officers Liability insurance, Civil and Cyber liability, Crime (Theft or Fraud from an employee or a third-party and damages to values), Property damages and business interruption.

Regulatory required local insurance policies are in place in each country (such as, civil liability for licensed activities, employer's liability, construction works, or third-party liability motor insurance).

As a principle, levels of coverage and deductibles/retentions are in line with:

- insurance market conditions, business practices and regulations
- assets values and,
- potential impact on HSBC Continental Europe and HSBC Holdings plc balance sheets, and risk appetite.

The total amount of insurance premiums paid in 2023 for Non-Financial risks represents 0.25 per cent of HSBC Continental Europe net operating income.

Key developments in 2023

In 2023, insured cover limit amounts continue to be set on an 'extreme' loss assumption, aiming to mitigate major financial impacts on the Bank's activities.

Key initiatives during this year included,

- HSBC Continental Europe property damage and business interruption insurance, HSBC Continental Europe cover limits have been adjusted based on the reinstatement value of the portfolio exposure;
- Under Corporate Services function's coordination and with the support of the Group insurance broker, the HSBC Group continued to investigate and identify locations that may experience potential climate change impacts, using total sums insured, including HSBC Continental Europe sites; and
- Regarding crime, civil and cyber liability insurance, entities can adjust their own deductible levels per loss should the HSBC Group's deductible exceed the local entity's risk appetite. An annual review is taken, and in 2023, some HSBC Continental Europe entities have adjusted their deductibles.

Governance and structure

At the HSBC Group level, the Insurable Risk Team is a Risk sub-function who:

- Set the control framework for how insurance solutions are sourced including the use of insurance intermediaries, and determine where and how the HSBC Group's Reinsurance Captive should be involved; and
- Purchase global insurance policies on HSBC Group's and entities' behalf, with the approval from the HSBC Group Board of Directors and other relevant Governance committees.

The function includes Regional insurable Risk managers, responsible to cascade and embed the HSBC Group's strategy in their geographies.

The appropriate local RMM is updated on an annual basis, concerning all applicable insurance policies and associated costs for them to opine on the relevance of insurance covers in regard to their risks.

Key risk management processes

Third parties, such as brokers, insurers and partners are chosen in accordance with their expertise, financial strength and international network, according to the HSBC Group's procurement policies and principles, and managed through the HSBC Group's Third parties risk management framework.

The key risk management processes developed by Insurable Risk to minimise the risk of inappropriate global programme purchasing are:

- Engagement with key stakeholders on strategy and priorities and ultimately structure, placement and binding concurrence;

- Receipt of professional advice prior to binding and post-renewal reporting from the HSBC Group's brokers; and
- Placement options and renewal proposals are formally approved by two individuals of appropriate seniority in all cases before binding instructions are given to the broker.

Climate and Environmental risks management

Overview

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 risks either directly or indirectly through its relationships with its customers, which could result in both financial and non-financial impacts.

Climate risk approach is aligned to the framework outlined by the Taskforce for Climate-related Financial Disclosures, 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); and
- 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.

Climate risk capabilities are developed across HSBC Continental Europe's businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. HSBC and HSBC Continental Europe continue to make progress in enhancing their climate risk capabilities, and recognise it is a long-term iterative process.

Nature and climate go hand in hand. HSBC is at an early stage, but outline approach to incorporating nature considerations is defined. This includes considering how to: manage nature risks; embed nature into decision-making and corporate customer engagement; finance and invest in nature-related solutions; manage HSBC impacts on nature; and partner for systemic change.

HSBC Continental Europe 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 is defined as a potential threat posed to HSBC Continental Europe linked to its organisation´s dependencies on nature and nature impact. HSBC Continental Europe nature-related risk approach relies on the Taskforce on Nature-related risk Financial Disclosure 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; and
- 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 Bank's regulators.

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

<table>
<tr><th colspan="2">Climate risk – Risk drivers</th><th>Details</th><th>Potential Impacts</th><th>Time horizons</th></tr>
<tr><td rowspan="2">Physical</td><td>Acute</td><td>Increased frequency and severity of weather events causing disruption to business operations</td><td rowspan="6">– Decreased real estate values
– Decreased household income and wealth
– Increased costs of legal and compliance
– Increased public scrutiny
– Decreased profitability
– Lower asset performance</td><td rowspan="6">Short term
Medium term
Long term</td></tr>
<tr><td>Chronic</td><td>Longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea level rise or chronic heat waves</td></tr>
<tr><td rowspan="4">Transition</td><td>Policy and legal</td><td>Mandates on, and regulation of, existing products and services. Litigation from parties who have suffered from the effects of climate change</td></tr>
<tr><td>Technology</td><td>Replacement of existing products with lower emission options</td></tr>
<tr><td>End-demand (market)</td><td>Changing consumer behaviour</td></tr>
<tr><td>Reputational</td><td>Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction</td></tr>
</table>

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.

In 2023, the climate risk materiality assessment has been updated. It helps HSBC Continental Europe to understand how climate risk may impact HSBC's risk taxonomy. The assessment focused on a 12-month time horizon, as well as time horizons for the short-term period up to 2025, medium-term period up between 2026 to 2035, and long-term period between 2036 to 2050. These time horizons were chosen to align to the Climate Action 100+ framework V1.2. The table below provides a summary overview of how climate risk may impact a sample of HSBC's main risks.

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	●	●	●	●	●	●

● *Relevant risk driver*

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.*

The 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 evolves.

In addition to these assessments, climate risk is also considered in HSBC Continental Europe emerging risk reporting and scenario analysis, which look at potential impacts across longer time horizons (for further details, see 'Top risks' on page 128).

A first materiality assessment of nature impacts and dependencies has been 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.

Key developments in 2023

ESG risk management capabilities have been enhanced over the year and in particular for climate risk and during the last quarter, for nature-related risk management. The climate risk approach has been reviewed to increase coverage and incorporate maturing data, climate analytics capabilities, frameworks and tools, as well as respond to emerging industry best practice and climate risk regulations.

The following outlines key developments in 2023:

- Climate risk management approach has been updated to incorporate net zero alignment risk and information on how climate risk should be managed for non-financial risk types;
- Nature-related risk management approach has been defined;
- Climate risk materiality assessment has been enhanced to consider longer time horizons;
- All non-financial risks part of businesses and functions Risk and Control Assessments have been reviewed in 2023 in consideration of climate risk potential impacts (including thematic issues; risk of greenwashing and net zero alignment risk);
- Bank's approach to assess the impact of climate change on capital focussing on credit and market risks has been enhanced;
- ESG data collection process to identify and collect data for risk management has been developed;
- Internal climate scenario analysis has been enhanced, including through improvements to HSBC Continental Europe's use of customer transition plan data; and
- HSBC merger and acquisition process has been updated to consider potential climate and sustainability-related targets, net zero transition plans and climate strategy, and how this relates to HSBC.

While progress has been made in enhancing the climate risk framework and assessing the materiality of climate risk across HSBC Continental Europe activities and risks, further work remains to fully integrate climate risk and nature-related risk in HSBC Continental Europe risk management practices. This includes the need to develop additional metrics and tools to measure the Bank's exposure to environmental risk, and to incorporate these tools within decision making.

Governance and Structure

HSBC Continental Europe's climate and nature-related risk management approaches are aligned to HSBC Group-wide risk management framework and three lines of defence model, which set out how risks are identified, assessed, and managed (for further details on HSBC three lines of defence framework, see page 116.

These approaches aim to provide the Board and senior management with oversight of HSBC Continental Europe key climate risks and from 2024 on key nature-related risks as well.

The Board sets the strategic direction, including on ESG (including climate and nature), upon management's recommendation, and oversees its execution.

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 ESG. The CEO is supported by the Executive Committee.

The HSBC Continental Europe head of Sustainability defines the Bank' response to manage climate and nature-related risk drivers, identifies, assesses and deploys the bank' sustainability vision, strategy internal transition plan, priorities, internal targets and external commitments.

The HSBC Continental Europe Chief Risk Officer and the HSBC Continental Europe's Chief Compliance Officer are the Senior Managers responsible for the management of ESG-related risk under the European and Countries regulations.

The ESG risk governance has been enhanced with the setup of two specific committees in 2022: the Climate and ESG Risk Oversight Forum which oversees risk activities relating to climate and ESG risk management across HSBC Continental Europe including the transition and physical risks from climate change; and the ESG Steerco which oversees progresses realised in delivering ESG's regulatory obligations and supports all Executives in the development and delivery of HSBC Continental Europe ESG Strategy.

For further details on the HSBC Continental Europe's ESG governance structure, see page 55.

Reputational risk associated to climate and environmental related matters arising from customers, transactions and third parties, is considered in various HSBC Continental Europe's committees. In case of serious potential reputational risk to the HSBC Group or if a Group-led decision is merited, the case is analysed in the Group Reputational Risk Committee.

For further details on the HSBC Continental Europe's Reputational risk management, see page 185.

Key risk management processes

HSBC Continental Europe's climate risk appetite forms part of the entity's Risk Appetite Statement ('RAS') and supports the business in delivering its net zero ambition effectively and sustainably in consideration with the HSBC Group net zero ambition. HSBC Continental Europe's climate RAS is approved and overseen by the Board. It is supported by risk appetite metrics and 'tolerance' thresholds.

Additional climate Key Management Information metrics ('KMI') are defined and reported in the Climate and ESG Risk Oversight Forum on a quarterly basis. Both RAS and KMI metrics are reported on a bi-annual basis for oversight by HSBC Continental Europe Risk Management Meeting and Risk Committee.

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.

Embedding climate risk within existing risk taxonomy

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

The table below provides further details on how climate risk has been embedded across key risk types.

Risk type	Details
Wholesale Credit Risk	Physical and transition risks are considered to be the key climate risks impacting wholesale credit risk. For wholesale clients with the highest climate risk characteristics, HSBC Continental Europe relationship managers engage with clients through a Transition Engagement Questionnaire to gather and assess information about the alignment of HSBC Continental Europe clients' business models to net zero and their exposure to physical and transition risk. Their responses to the questionnaire are used to create a climate risk score. The credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. HSBC policies require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating. A Transition risk metric is in place to monitor the exposure of HSBC Continental Europe wholesale corporate lending portfolio to six high transition risk sectors. As of 31 December 2023, the overall exposure to the six high transition risk sectors was 36 per cent, well within the risk appetite defined. In 2023, to ensure a proper independent monitoring of climate risks: – a quality check process was put in place through a monthly selective sampling of credit applications to ensure that climate risk is well embedded in the entire credit decision chain from Relation Manager to Credit Approver. – a process was defined to monitor pockets of risks due to climate change. Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts to HSBC Continental Europe clients.

Risk type	Details
Retail Credit Risk	Policies and tools to manage climate risk across retail mortgage have been implemented in HSBC Continental Europe. Within HSBC Continental Europe France, retail mortgage portfolios, properties or areas with potentially heightened physical risk are identified and assessed locally, and potential exposure is monitored through quarterly metrics. Two risk appetite statements measure the percentage of retail home loans with a property located in a "High Flood Risk Rating" area (stock and the new production) and one risk appetite statement captures the percentage of new production with an Energy performance certificate ('EPC') rated "G". A climate risk assessment was performed on France retail portfolio in 2023 with less than 1 per cent of the portfolio (value) which could not be mapped with climate hazards due to missing data. Overall, 24 per cent of the portfolio has a high risk rating across the 6 hazards considered: subsidence contributes to 69% of the high, wildfire 46 per cent, wind 13 per cent, flood 2 per cent, sea level rise 2 per cent and temperature 0 per cent. Energy performance certificate ('EPC') ratings of individual properties in France retail mortgage portfolio are also monitored. The portfolio is secured at 5 per cent by mortgages and at 95 per cent by Crédit Logement. The ratings were obtained through a third-party vendor estimate at the end of 2021. From 2022, the EPCs were obtained from origination system. 18 per cent of the properties' rating remain unknown. 20 per cent of properties have a rating between A and C. The most common rating is D with a 35 per cent proportion of the portfolio. Circa 1 per cent of properties are rated "G". HSBC Continental Europe Retail credit risk management policy requires the realisation of an annual review of the climate risk framework including perils and data sources, to ensure it remains fit for purpose.
Treasury Risk	Treasury risk Both physical and transition risks are considered as relevant for Treasury Risk. As part of HSBC Continental Europe ICAAP in 2023, the approach for assessing the impact of climate change on capital, focusing on Credit and Market Risks was enhanced. As part of its ILAAP, HSBC Continental Europe conducted an initial analysis to identify the potential climate risk exposures across key liquidity risk drivers. HSBC treasury risk policies have been updated to ensure that the impact of climate risk is considered when assessing applicable treasury risks. The materiality assessment of climate-related impact from a liquidity perspective was reviewed in Q4 2023 and the scope was extended to nature-related risk. The analysis performed is a first step in the calibration of climate and nature risks and additional enhancement will be provided in the future. Insurance risk HSBC has an evolving programme to support the identification and management of climate risk. In 2023, HSBC sustainability procedures to align with the HSBC Group's updated energy and thermal coal-phase out policies have been updated.
Traded Risk	In 2023, HSBC Continental Europe implemented metrics and thresholds to monitor exposure to high physical and transition risk sectors for the different asset classes in the Markets and Securities Services business. The metrics use a risk taxonomy that categorises countries/territories and sectors into high, medium and low risk, for which corresponding thresholds have been set. In addition, reports were developed to monitor trends and pockets of risks for regions and business lines that contribute the most to the total MSS high-climate sensitive exposures. In 2023, HSBC Continental Europe participated in the internal climate scenario analysis and refined its internal scenarios to reflect sub-sector differences within high transition risk sectors. Two scenarios (e.g. delayed transition and downside physical) were expanded for the traded risk portfolio. During the expansion, all risk factors including interest rates, exchange rates, corporate bonds and corporate stocks, received shocks that reflected the impact of abrupt increases in carbon prices and the resulting structural economic impact on productivity for high-risk sectors. Tools have also been developed to provide a better understanding of key profit and loss drivers under different climate scenario along different dimensions (e.g. risk factor, business line etc.). These reports are available to traded risk managers to help monitor and understand how climate-sensitive exposures are impacted under different scenarios. Stress testing results have been presented to senior management for visibility during dedicated review and challenge sessions to provide awareness on the impact to the MSS portfolio and underlying business lines and are supported the quarterly ICAAP Economic Capital associated to Climate risk review.
Reputational Risk	HSBC Continental Europe manages the reputational impact of climate risk through HSBC broader reputational risk framework supported by sustainability risk policies and metrics. HSBC sustainability risk policies set out Group appetite for financing activities in certain sectors. HSBC thermal coal phase out policy and energy policy both aim to drive down greenhouse emissions while supporting a just transition. HSBC Continental Europe's sustainability risk managers provide local policy guidance to relationship managers for the oversight of policy compliance and implementation over wholesale banking activities. For further details on HSBC Continental Europe's sustainability risk policies, see Sustainability section on page 55. For further details on HSBC Continental Europe's Reputational Risk Management (section 2.3), see on page 185.

Risk type	Details
Regulatory Compliance Risk	Regulatory Compliance as a sub-function within HSBC Group Risk and Compliance, continues to prioritise the identification, assessment and management of compliance risks that may arise from climate risk. The primary focus of Regulatory Compliance is on mitigating product-based greenwashing, through the continuous review, monitoring and enhancement of product-related controls and policies, where relevant. Another key focus of Regulatory Compliance is the ongoing development and capability of people through training, communications and dedicated guidance, with a particular focus on keeping up to date with emerging risks as a result of changes in the evolving regulatory landscape. To support the ongoing management and mitigation of greenwashing risk, key developments to the framework in 2023 included the enhancement of HSBC Continental Europe product marketing framework and procedures. Regulatory Compliance worked with all business lines to enhance product-related marketing controls designed to ensure that marketing of climate and ESG-related products is clear, fair and not misleading and that the approval processes for such materials are reviewed and overseen by Regulatory Compliance Risk Stewards attached to the business. This has improved HSBC Continental Europe ability to identify, assess and manage product-related greenwashing risks throughout the product marketing approval process. Examples of ongoing enhancements include: – ensuring Regulatory Compliance provides risk oversight and review of new product marketing materials with any reference to sustainability and ESG; – developing Regulatory Compliance product marketing controls to ensure climate claims are robustly evidenced and substantiated within product marketing materials; and – clarifying and improving the product marketing framework, procedures and associated guidance, to ensure product-related marketing materials comply with both internal and external standards and are subject to robust governance. Policies set the group-wide standards that are required to manage the risk of breaches of HSBC Continental Europe regulatory duty to customers, including those related to climate risk, ensuring fair customer outcomes are achieved. To make sure HSBC Continental Europe responsibilities are met in this regard, Regulatory Compliance policies are subject to continuous review and enhancement. Regulatory Compliance continues to operate an ESG and Climate Risk Working Group to track and monitor the integration and embedding of climate risk within the management of regulatory compliance risks. Whilst monitoring regulatory and legislative changes across the ESG and climate risk agenda, the ongoing development and improvement of HSBC Continental Europe monitoring capabilities remains a priority, ensuring appropriate alignment to the broader focus on regulatory compliance risks.
Resilience Risk	Enterprise Risk Management is responsible for overseeing the identification and assessment of physical and transition climate risks that may impact the organisation's operational and resilience capabilities. Metrics to assess how physical risk may impact HSBC Continental Europe's critical properties were developed. Additionally, a risk appetite metric on Bank's own energy and travel operations is now established and monitors progress against HSBC Continental Europe net zero ambitions. Resilience risk policies, for example Information Technology and cyber security risk, are subject to continuous improvement to remain relevant to evolving climate risks. Ongoing new developments relevant to HSBC including HSBC Continental Europe own operations are reviewed to ensure climate risk considerations are effectively captured.
Model Risk	In 2023, Model Risk published a new climate risk and ESG model category standard, which sets out minimum control requirements to identify, measure, and manage model risk for climate-related models. Independent model validation has been completed for a number of models used for financed emissions calculations and climate scenario analysis using both qualitative and quantitative assessments of modelling decisions and outputs.
Financial Reporting Risk	The scope of financial reporting risk was expanded to explicitly include oversight over accuracy and completeness of ESG and climate reporting. The risk taxonomy and control library were also updated to incorporate requirements for addressing the risk of misstatement in ESG and climate reporting. To support this, Finance has developed a framework to guide control implementation over ESG and climate reporting disclosures, which includes areas such as process and data governance, and risk assessment. As the landscape for ESG and climate-related disclosures continues to develop, additional focus continues to be placed on horizon scanning and interpretation of relevant external reporting requirements, to ensure a timely response for producing the required disclosures. As the volume and nature of these requirements continues to evolve, the level of risk is heightened. Part of HSBC Continental Europe's response to this increasing risk includes undertaking a range of independent assurance procedures over these disclosures.

Challenges

Whilst HSBC Continental Europe has continued to developed the climate and nature risk approaches, the remaining challenges include:

- Diverse range of data sources and data structures needed for climate and environmental related reporting creates data accuracy and reliability risks;
- Data limitations on customer assets and supply chains, and methodology gaps, which hinder HSBC Continental Europe's ability to assess physical risks accurately;
- Data gaps on customer emissions and transition plan and methodology gaps, which limit HSBC Continental Europe's ability to assess transition risks accurately;
- Limitation of HSBC Continental Europe's management of net zero alignment risk due to known and unknown factors, including the limited accuracy and reliability of data, merging methodologies, and the need to develop new tools to better inform decision making.

Reputational risk management

Overview

HSBC defines reputational risk, including greenwashing risk, as the failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, its employees or those with whom it is associated, that might cause stakeholder to form a negative view of HSBC. Stakeholders' perceptions are key to reputational risk, which varies between geographical regions, groups of stakeholders.

For an organisation like HSBC, the multiple potential sources/drivers of reputational risk can be grouped into the following three categories:

- Enterprise-related reputational risks are those triggered by HSBC's own actions/ decisions – for example, via an external brand campaign, or the HSBC Group strategy on achieving its net zero climate ambitions;
- Customers, transactions and products – for example, a transaction with an energy company that is technically compliant with our sustainability policies, but which could attract allegations of greenwashing; and
- Third-parties and partnerships – for example, via HSBC Continental Europe's suppliers who may behave publicly contrary to its values, which could tarnish the banks reputation if associated with them.

Key developments in 2023

In October 2023, HSBC Continental Europe strengthened the reputational risk management with the nomination of a Reputation Risk Senior Manager. This role is responsible to review and challenge the first line activities and provide advice and guidance. The reputation risk senior manager is the subject matter expert who will ensure that the HSBC Group policies and control standards are well embedded in HSBC Continental Europe to manage reputational risks. With this new position HSBC continental Europe also strengthens its capacity to provide a second line of defence on Greenwashing risk.

Governance and structure

Reputational risk is managed within the Risk Management Framework and governed through the Executive Committee. Local Reputational Risk Client Selection Committee's (RRCSC) are implemented in the following Continental European countries – France, Malta, Germany and Luxembourg - to comply with local regulatory request or due to the size of the country. The reputational risk cases for other countries are escalated to the legal entity RRSC.

Businesses and Functions own and are responsible for managing and mitigating reputational risks associated with their businesses/ operations. This responsibility includes setting procedures in line with Group policy and escalation of matters to the relevant RRCSC in order that reputational risk and any mitigants can be evaluated.

The HSBC Continental Europe Reputational Risk and Customer Selection Committees, provide decision-making and guidance in respect of reputational risk and customer selection matters. They are responsible for facilitating decisions and ensuring that issues are appropriately tracked and solved.

RRCSCs have an escalation path to the HSBC Continental Europe Risk Management Meeting. The HSBC Continental Europe RRCSC has an escalation path to the HSBC Group Reputational Risk Committee (GRRC).

Reputational risk is classified as a level 2 financial risk in the HSBC risk taxonomy (under Strategic risk). Reputational risk can result from both financial and non-financial risk events and impacts across the entire HSBC Risk Taxonomy. Within HSBC Continental Europe perimeter, some operational procedures have been set up for all reputational risk lens, including (for example: financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

In the Second Line of Defence, given that reputational risks can arise from numerous risk types in HSBC's Risk Taxonomy, a Risk Steward is ultimately accountable for the oversight of any reputational risk for their respective risk type. The Risk Steward is responsible for defining and implementing, as necessary, the more detailed approach to the day-to-day management of reputational risk as relevant to their risk type with support from the reputational risk teams.

Internal Audit may provide independent assurance to management and to the non-executive Risk and Audit Committees that reputational risk management, governance and internal control processes are designed and operating effectively.

Whilst it is everyone's responsibility to identify the potential for reputational risk and escalate as appropriate, there are specific additional obligations on certain individuals. The Chief Risk Officer at HSBC Continental Europe is accountable for assessing and deciding reputational risk cases within HSBC Continental Europe legal perimeter, and the Chief Executive Officer owns and is accountable for the management and mitigation of any residual reputational risk, including escalation to the Region / HSBC Group Reputational Risk Committee (GRRC), as appropriate.

Periodic control

Overview

In accordance with French Order of 3 November 2014 modified on 25 February 2021, concerning internal control within financial institutions, and payment and investment service providers, the role of Internal Audit is to provide the Executive Management and HSBC Continental Europe Board of Directors objective assurance on risk management and the internal control system implemented by the bank. Periodic controls on HSBC Continental Europe aim to ascertain the compliance of operations, the levels of risk actually incurred by the institution, due observance of the procedures and the effectiveness and appropriateness of the control frameworks, by means of independent investigations conducted centrally by staff qualified for this purpose.

As part of HSBC Group's risk management framework, Global Internal Audit constitutes the Third Line of Defence, coming successively behind the businesses and functions' own First Line of Defence (Risk Owners, Control Owners and Chief Control Officers) and the Second Line of Defence teams (Operational and Resilience Risk, Assurance Teams and Risk Stewards). Whilst the First and Second Lines of Defence are taken into account, Global Internal Audit has unlimited scope to define its own programme of work. This freedom is based on the fact that Internal Audit is responsible for providing Executive Management and Board of Directors of the bank, independent assurance on the risk exposure and level of control by management.

As such, Internal Audit pays attention, in the first instance, to the evaluation of the compliance with the legislation applicable to the audited area, secondly, to the correct application of rules and procedures in force within HSBC Group and finally, that audited activities remain within the defined appetite for exposure to the associated risks.

In accordance with article 27 of the French Order of 3 November 2014 modified on 25 February 2021, the periodic control framework applies to the entire HSBC Continental Europe company, including its European branches and subsidiaries, as well as to companies under exclusive or joint control.

Key Developments in 2023

The purpose of Global Internal Audit is to find significant issues in the bank, escalate them quickly and be heard in its messaging to influence change.

All audit work is performed in accordance with HSBC Group's audit standards, as set out in the Audit Instruction Manual, which is updated on a regular basis.

Different methodological changes have been introduced:

- Regulatory obligations: The internal audit system, SAMS, now has the functionality to capture a library of Regulatory Obligations on Global Internal Audit, called Regulatory Information and Compliance Hub (RICH);
- Real Time Issues: If Global Internal Audit identifies a Very High or three High issues or more at any stage of an audit, they must be reported as Real-Time Issues (RTIs) as soon as practical. The final audit report will include all issues, including RTIs, reported during audits and ratings reflect all issues that are open and pending validation; and
- Risk Stewardship: If Global Internal Audit identifies one Very High or High Risk audit identified issue in a Risk and Controls or Real Time Audit, the final report should include: (i) a comment on the effectiveness of the Risk Steward in the Summary and Themes and (ii) an Audit Identified Issue highlighting gaps in Risk Stewardship activities.

Moreover, as requested by the European Central Bank, a multi-year audit plan has been prepared for the first time for HSBC Continental Europe.

Governance and Structure

Global Internal Audit is comprised of six global audit teams whose role is to provide expert coverage of HSBC Group's businesses and functions:

- Wealth and Personal Banking audit;
- Commercial Banking audit;
- Global Banking and Markets audit;
- Risk and Finance audit;
- Compliance audit; and
- Digital Business Services (DBS) audit.

Global Internal Audit is also comprised of five regional audit teams (United Kingdom, Asia Pacific, the Americas, Middle East North Africa and Turkey ('MENAT') and Europe) that include Country Audit Teams ('CATs'). Global Internal Audit Continental Europe is one of the CATs, whose responsibility is to cover the risks within HSBC Continental Europe legal perimeter (Belgium, Czech Republic, France, Germany, Ireland, Italy, Luxembourg, Malta, Netherlands, Poland, Spain and Sweden), supported by local teams in Germany, Luxembourg and Malta.

HSBC Continental Europe periodic control is therefore covered conjointly by different Global Internal Audit entities, functionally linked and coordinated:

- Global Internal Audit Continental Europe, a general audit team based in France, historically mainly auditing central functions, WPB, CMB, banking operations, IT and strategically important projects;
- Local audit teams in Germany, Luxembourg and Malta; and
- The global teams, specialised by business and/or function, based principally in London, in Hong Kong and complemented by some members in Paris.

CATs form one of the pillars of Global Internal Audit's strategy, particularly in Globally Significant Countries (GSIC) from Global Internal Audit perspective (France is considered as GSIC). Country teams have the detailed knowledge of local regulations and environment enabling coverage to be adapted as appropriate, and functionally reporting to the global audit function strengthens their independence and ensures consistency between teams, all of whom are held to the high standards defined and regularly updated in the Audit Instruction Manual. That all teams share a reporting line into a global function helps collaboration and the sharing of best practices.

Periodic controls on HSBC Continental Europe in 2023 have thus been assured jointly by Global Internal Audit directly, by Global Internal Audit Continental Europe or by both actors in concert in accordance with the agreement signed in March 2011 and updated in August 2019 which structures the roles, responsibilities and coverage model.

The scopes of local audit and global audit converge and are consolidated in the HSBC Continental Europe audit plan. In all cases, as defined in the aforementioned French Order of 3 November 2014 modified on 25 February 2021, all audits on HSBC Continental Europe are managed in coordination with the Head of Global Internal Audit Continental Europe (Inspector General), who oversees their consistency and efficiency.

The Head of Global Internal Audit Continental Europe reports to the Head of GBM and Europe Internal Audit and HSBC Continental Europe Audit Committee, and administratively to the HSBC Continental Europe Chief Executive Officer. Since 2017, in accordance with the Solvency II requirements, one independent Senior Audit Manager is in charge of periodic control for the insurance subsidiary of HSBC Continental Europe.

Finally, the HSBC Continental Europe Internal Audit function is a member of the Inter-Audit Committee (Comité Inter-Inspections Générales), which assembles eight French banks together to undertake common audits of vendors providing services to at least four members, as required by title V, chapter II of the French Order of 3 November 2014 modified on 25 February 2021. This approach to jointly audit common service providers is also mentioned in the European Banking Authority) guidelines on outsourcing arrangements that were issued in February 2019.

Key risk management processes

In addition to regular discussions held with Global Internal Audit, other elements contribute to maintaining an independent and up to date view of key risks within HSBC Continental Europe, in particular:

- The Inspector General participates in the HSBC Continental Europe Executive Committee, the HSBC Continental Europe Risk Management Meeting and the HSBC Continental Europe Audit Committee and those of its subsidiaries in France;
- The Senior Audit Managers participate in the risk committees of the different businesses and functions;
- Regular bilateral meetings, usually quarterly, are held between the Inspector General, Global Internal Audit Continental Europe senior management and the different heads of businesses and functions; and
- Quarterly meetings are held between the Inspector General, Global Internal Audit Continental Europe senior management and the external auditors.

Audit reports are sent to the accountable executive, who is ultimately responsible for ensuring that all findings are timely and properly remediated. The HSBC Continental Europe Chief Executive Officer, the HSBC Continental Europe Chief Risk Officer, the HSBC Continental Europe Chief Operating Officer, the HSBC Continental Europe Chief Compliance Officer and the HSBC Continental Europe Head of Enterprise Risk Management receive a copy of all audit reports.

Audit reports relating to HSBC Continental Europe and subject to an adverse rating are always presented and commented by the Inspector General during the HSBC Continental Europe Audit Committee.

This Committee also monitors outstanding action plans resulting from very high, high risk and medium audit issues.

Global Internal Audit is validating the closure of the issues and the actions. The level of validation that is needed will vary based on the issue rating.

Consolidated financial statements

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Notes on the consolidated financial statements

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Consolidated income statement

for the year ended 31 December

	Notes	2023 €m	2022[1,2] €m
Continuing operations			
Net interest income		**2,442**	1,130
– interest income		**7,561**	2,206
– interest expense		**(5,119)**	(1,076)
Net fee income	4	**1,102**	759
– fee income	4	**1,672**	1,138
– fee expense	4	**(570)**	(379)
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	5	**156**	332
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	5	**1,144**	(1,448)
Changes in fair value of designated debt and related derivatives	5	**16**	(16)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	5	**16**	26
Gains less losses from financial investments		**(6)**	(11)
Insurance finance income/(expense)	6	**(1,188)**	1,124
Insurance service result		**126**	118
– insurance service revenue		**242**	239
– insurance service expense		**(116)**	(121)
Gains/(losses) recognised on assets held for sale		**—**	(103)
Other operating income/(expense)		**25**	91
Total operating income		**3,833**	2,002
Net operating income before change in expected credit losses and other credit impairment charges		**3,833**	2,002
Change in expected credit losses and other credit impairment charges		**(141)**	(124)
Net operating income		**3,692**	1,878
– employee compensation and benefits	7	**(951)**	(686)
– general and administrative expenses		**(1,229)**	(936)
– depreciation and impairment of property, plant and equipment and right of use assets		**(14)**	(36)
– amortisation and impairment of intangible assets and goodwill impairment	22	**(23)**	(2)
Total operating expenses		**(2,217)**	(1,660)
Operating profit/(loss)		**1,475**	218
Share of profit/(loss) in associates and joint ventures	19	**—**	—
Profit/(loss) before tax		**1,475**	218
Tax expense	9	**(387)**	(33)
Profit/(loss) after tax in respect of continuing operations		**1,088**	185
Profit/(loss) after tax in respect of discontinued operation	3	**(180)**	(1,275)
Profit/(loss) for the year		**908**	(1,090)
Attributable to:			
– shareholders of the parent company		**883**	(1,092)
– non-controlling interests in respect of continuing operations		**25**	2
– non-controlling interests in respect of discontinued operation	3	**—**	—
Basic earnings per ordinary share	11	**4.17**	(8.27)
Diluted earnings per ordinary share	11	**4.17**	(8.27)
Dividends per ordinary share	10	**—**	—

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

Consolidated statement of comprehensive income

for the year ended 31 December

	Notes	2023 €m	2022[1,2] €m
Profit/(loss) for the period from continuing operations		**1,088**	185
Other comprehensive income/(expense)			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Debt instruments at fair value though other comprehensive income:		**381**	(1,804)
– fair value gains/(losses)		**522**	(2,446)
– fair value gains/(losses) transferred to the income statement on disposal		**(1)**	9
– expected credit losses recognised in income statement		**(5)**	4
– income taxes		**(135)**	629
Cash flow hedges:		**168**	(268)
– fair value gains/(losses)	16	**225**	(365)
– fair value gains/(losses) reclassified to the income statement	16	**2**	2
– income taxes	16	**(59)**	95
Finance income/(expenses) from insurance contracts		**(340)**	1,661
– before income taxes		**(459)**	2,240
– income taxes		**119**	(579)
Exchange differences and other		**7**	8
Items that will not be reclassified subsequently to profit or loss:			—
Remeasurement of defined benefit asset/liability:		**(20)**	29
– before income taxes	7	**(30)**	41
– income taxes		**10**	(12)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		**(67)**	197
– before income taxes	25	**(84)**	271
– income taxes		**17**	(74)
Equity instruments designated at fair value through other comprehensive income:		**(2)**	(1)
– fair value gains/(losses)		**(2)**	(1)
– income taxes		**—**	—
Other comprehensive income/(expense) for the period, net of tax		**127**	(178)
Total comprehensive income/(expense) for the period from continuing operations		**1,215**	7
Total comprehensive income/(expense) for the period from discontinued operations	3	**(174)**	(1,257)
Attributable to:			—
– shareholders of the parent company		**1,013**	(1,252)
– non-controlling interests in respect of continuing operations		**28**	2
– non-controlling interests in respect of discontinued operation		**—**	—
Total comprehensive income/(expense) for the period		**1,041**	(1,250)

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.

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

Consolidated balance sheet

at 31 December

	Notes	2023 €m	2022[1] €m	1 Jan 2022[1] €m
Assets				
Cash and balances at central banks		**56,894**	59,734	38,063
Items in the course of collection from other banks		**273**	476	156
Trading assets	12	**17,249**	13,777	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	15	**13,590**	12,170	13,345
Derivatives	16	**45,522**	59,960	39,634
Loans and advances to banks[2]		**5,816**	7,233	6,832
Loans and advances to customers[2]		**50,127**	42,340	59,612
Reverse repurchase agreements – non-trading		**24,490**	15,374	20,487
Financial investments	17	**22,608**	19,135	16,110
Assets held for sale	3	**23,211**	23,761	2
Prepayments, accrued income and other assets	23	**21,453**	23,548	14,595
Current tax assets		**599**	330	162
Interests in associates and joint ventures	19	**—**	—	2
Goodwill and intangible assets	22	**188**	140	86
Deferred tax assets	9	**957**	1,103	219
Total assets		**282,977**	279,081	222,226
Liabilities				
Deposits by banks		**8,904**	11,182	18,548
Customer accounts		**95,247**	83,692	70,144
Repurchase agreements – non-trading		**11,153**	6,655	8,731
Items in the course of transmission to other banks		**320**	528	280
Trading liabilities	24	**19,877**	17,509	16,247
Financial liabilities designated at fair value	25	**9,696**	9,049	13,733
Derivatives	16	**43,630**	55,726	35,895
Debt securities in issue		**12,909**	6,861	7,414
Liabilities of disposal groups held for sale	3	**23,817**	27,855	—
Accruals, deferred income and other liabilities	26	**21,469**	25,656	18,128
Current tax liabilities		**211**	113	66
Insurance Contract Liabilities	6	**21,035**	20,439	23,750
Provisions	27	**245**	286	234
Deferred tax liabilities	9	**5**	3	—
Subordinated liabilities	28	**1,951**	2,023	1,876
Total liabilities		**270,469**	267,577	215,046
Equity				
Called up share capital	31	**1,062**	1,062	491
Share premium account	31	**5,264**	5,264	2,137
Other equity instruments	10	**1,433**	1,433	750
Other reserves		**1,480**	1,261	1,665
Retained earnings		**3,103**	2,338	2,128
Total shareholders' equity		**12,342**	11,358	7,171
Non-controlling interests		**166**	146	9
Total equity		**12,508**	11,504	7,180
Total liabilities and equity		**282,977**	279,081	222,226

1 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. We have restated 2022 comparative data and the IFRS 17 transition impact on the balance sheet at 1 January 2022.*

2 *The loans and advances to banks and customers for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table under section 'Credit Risk'.*

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves							
	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Financial assets at Fair Value through OCI reserve	Cash flow hedging reserve	Foreign exchange reserve	Merger reserve and other reserves	Insurance finance reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	6,326	1,433	2,338	(1,136)	(231)	(13)	1,592	1,049	11,358	146	11,504
Profit/(loss) for the period from continuing operations	—	—	1,063	—	—	—	—	—	1,063	25	1,088
Other comprehensive income/(expense) (net of tax)	—	—	(87)	376	168	7	—	(340)	124	3	127
– debt instruments at fair value through other comprehensive income	—	—	—	378	—	—	—	—	378	3	381
– equity instruments designated at fair value through other comprehensive income	—	—	—	(2)	—	—	—	—	(2)	—	(2)
– cash flow hedges	—	—	—	—	168	—	—	—	168	—	168
– re-measurement of defined benefit asset/ liability	—	—	(20)	—	—	—	—	—	(20)	—	(20)
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	(67)	—	—	—	—	—	(67)	—	(67)
– 'Insurance finance income/(expense) recognised in other comprehensive income								(340)	(340)	—	(340)
– exchange differences	—	—	—	—	—	7	—	—	7	—	7
Total comprehensive income/(expense) for the period from continuing operations	—	—	976	376	168	7	—	(340)	1,187	28	1,215
Total comprehensive income/(expense) for the period from discontinued operations	—	—	(174)	—	—	—	—	—	(174)	—	(174)
– capital securities issued during the period	—	—	—	—	—	—	—	—	—	—	—
– dividends to shareholders[1]	—	—	(78)	—	—	—	—	—	(78)	(8)	(86)
– net impact of equity-settled share-based payments	—	—	—	—	—	—	—	—	—	—	—
– change in business combination and other movements[2]	—	—	41	(3)	—	—	11	—	49	—	49
Total Other	—	—	(37)	(3)	—	—	11	—	(29)	(8)	(37)
At 31 Dec 2023	6,326	1,433	3,103	(763)	(63)	(6)	1,603	709	12,342	166	12,508

1 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 78 million.*
2 *Change in business combination and other movements include EUR 51 million capital contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023 and towards allocation of profit for mandatory legal reserve EUR 11 million.*

Consolidated statement of changes in equity (continued)

for the year ended 31 December[1,2]

	Called up share capital and share premium	Other equity instru-ments	Retained earnings	Other reserves: Financial assets at Fair Value through OCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Foreign exchange reserve	Other reserves: Merger reserve and other reserves	Other reserves: Insurance finance reserve	Total share-holders' equity	Non-controlling interests	Total equity
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2021	2,628	750	2,636	45	37	(21)	1,592	—	7,667	9	7,676
IFRS17 Transition	—	—	(508)	624	—	—	—	(612)	(496)	—	(496)
At 1 Jan 2022	2,628	750	2,128	669	37	(21)	1,592	(612)	7,171	9	7,180
Profit/(loss) for the period from continuing operations	—	—	183	—	—	—	—	—	183	2	185
Other comprehensive income/(expense) (net of tax)	—	—	226	(1,805)	(268)	8	—	1,661	(178)	—	(178)
– debt instruments at fair value through other comprehensive income	—	—	—	(1,804)	—	—	—	—	(1,804)	—	(1,804)
– equity instruments designated at fair value through other comprehensive income	—	—	—	(1)	—	—	—	—	(1)	—	(1)
– cash flow hedges	—	—	—	—	(268)	—	—	—	(268)	—	(268)
– re-measurement of defined benefit asset/ liability	—	—	29	—	—	—	—	—	29	—	29
– changes in fair value of financial liabilities designated at fair value due to movement in own credit risk	—	—	197	—	—	—	—	—	197	—	197
– 'Insurance finance income/(expense) recognised in other comprehensive income	—	—	—	—	—	—	—	1,661	1,661	—	1,661
– exchange differences and other	—	—	—	—	—	8	—	—	8	—	8
Total comprehensive income/(expenses) for the period from continuing operations	—	—	409	(1,805)	(268)	8	—	1,661	5	2	7
Total comprehensive income/(expense) for the period from discontinued operations	—	—	(1,257)	—	—	—	—	—	(1,257)	—	(1,257)
– capital securities issued	3,698	248	—	—	—	—	—	—	3,946	—	3,946
– dividends to shareholders[3]	—	—	(39)	—	—	—	—	—	(39)	—	(39)
– net impact of equity-settled share-based payments			1						1		1
– change in business combination and other movements[4]		435	1,096						1,531	135	1,666
Total Other	3,698	683	1,058	—	—	—	—	—	5,439	135	5,574
At 31 Dec 2022	6,326	1,433	2,338	(1,136)	(231)	(13)	1,592	1,049	11,358	146	11,504

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 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

3 *Dividends corresponds to coupon payment on other equity instrument (AT1 capital) amounting to EUR 39 million.*

4 *Change in business combination and other movements include EUR 1,123 million million capital contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022, EUR 435 million additional tier 1 capital instruments in HSBC Trinkaus & Burkhardt GmbH and EUR 145 million non-controlling interest in HSBC Bank Malta p.l.c.*

Consolidated statement of cash flows

for the year ended 31 December

	Notes	2023 €m	2022[1] €m
Continuing operations			
Profit/(loss) before tax[2]		**1,475**	218
Adjustments for non-cash items:[2]		**443**	(2)
– depreciation, amortisation and impairment of property plant and equipment, right of use and intangibles		**37**	38
– net gain from investing activities		**6**	7
– share of profits in associates and joint ventures		**—**	—
– change in expected credit losses gross of recoveries and other credit impairment charges		**141**	133
– provisions including pensions		**33**	105
– share-based payment expense	7	**15**	21
– other non-cash items included in profit before tax		**(31)**	13
– elimination of exchange differences		**242**	(319)
Changes in operating assets and liabilities		**(788)**	756
– change in net trading securities and derivatives		**1,484**	(652)
– change in loans and advances to banks and customers		**2,796**	3,859
– change in reverse repurchase agreements – non-trading		**(5,921)**	6,022
– change in financial assets designated at fair value and otherwise mandatorily measured at fair value		**(1,420)**	1,848
– change in other assets		**(7,920)**	3,385
– change in deposits by banks and customer accounts		**4,963**	(11,232)
– change in repurchase agreements – non-trading		**4,498**	(2,077)
– change in debt securities in issue		**6,048**	(584)
– change in financial liabilities designated at fair value		**571**	(1,498)
– change in other liabilities		**(5,458)**	1,750
– tax paid		**(429)**	(65)
Net cash from operating activities		**1,130**	972
Purchase of financial investments		**(6,990)**	(3,394)
Proceeds from the sale and maturity of financial investments		**3,828**	2,236
Net cash flows from the purchase and sale of property plant and equipment		**(21)**	(13)
Net investment in intangible assets		**(53)**	(6)
Net cash flow from business combination[3,4]		**611**	28,687
Net cash flow on disposal/acquisition of subsidiaries, business, associates and joint ventures		**(777)**	—
Net cash from investing activities		**(3,402)**	27,510
Issue of ordinary share capital and other equity instruments	31	**—**	3,946
Subordinated loan capital repaid	28	**(72)**	(300)
Dividends paid to shareholders of the parent company	10	**(78)**	(39)
Dividends paid to non-controlling interests		**(8)**	—
Net cash from financing activities		**(158)**	3,607
Net cash from discontinued operations	3	**9,467**	(503)
Net increase/(decrease) in cash and cash equivalents		**7,037**	31,586
Cash and cash equivalents at beginning of the period[5]		**88,749**	56,999
Exchange differences in respect of cash and cash equivalents		**(163)**	164
Cash and cash equivalents at 31 Dec		**95,623**	88,749

Consolidated statement of cash flows (continued)

for the year ended 31 December

	Notes	2023 €m	2022[2] €m
Cash and cash equivalents comprise of:[6]			
– cash and balances at central banks[7,8]		**56,894**	59,734
– items in the course of collection from other banks		**273**	476
– loans and advances to banks of one month or less		**5,001**	5,241
– reverse repurchase agreement with banks of one month or less		**16,155**	12,961
– treasury bills, other bills and certificates of deposit less than three months		**—**	—
– net settlement accounts and cash collateral		**8,089**	9,031
– cash and cash equivalents held for sale/discontinued operations[8,9]		**9,531**	1,834
– less: items in the course of transmission to other banks		**(320)**	(528)
Cash and cash equivalents at 31 Dec[5]		**95,623**	88,749

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 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraph 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly.*
3 *EUR 195 million was paid in consideration for the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023. The cash and cash equivalent in the subsidiary over which control was obtained, was EUR 0.8 billion.*
4 *EUR 1.4 billion was paid in consideration for the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022. The aggregate amount of cash and cash equivalent in these subsidiaries over which control was obtained, was EUR 28.6 billion. EUR 1.5 billion consideration was received related to transfer of Private Banking business in France to HSBC Private Bank (Luxembourg) S.A. on 1 October 2022.*
5 *Following a classification error in the consolidated statement of cash flow in December 2022, Cash and cash equivalents at the end of the period i.e., 31 December 2022, at the beginning of the period i.e., 1 January 2023 and Changes in operating activities for the period 31 December 2022 have been represented by EUR (3.3) billion. This representation does not impact the presentation of the balance sheet.*
6 *At 31 December 2023, EUR 6.0 billion (2022: EUR 12.1 billion) was not available for use by HSBC Continental Europe of which EUR 1.3 billion (2022: EUR 1.2 billion) related to mandatory deposits at central banks.*
7 *At 31 December 2022, Includes EUR 3.9 billion expected cash contribution as part of the planned sale of retail banking operations in France.*
8 *At 31 December 2023, HSBC Continental Europe would be expected to include a cash contribution of EUR 9.9 billion, of which EUR 9.5 billion was reclassified as held for sale at 31 December 2023 ('Loans and advances to banks' for EUR 9.3 billion, 'Cash and balances at central banks' for EUR 0.2 billion).*
9 *HSBC Continental Europe completed the sale of its branch operations in Greece to Pancreta Bank SA on 28 July 2023.*

Interest received was EUR 7,898 million of which discontinued operations was EUR 261 million (2022: EUR 2,639 million of which discontinued operations was EUR 307 million). Interest paid was EUR 5,658 million of which discontinued operations was EUR 287 million (2022: EUR 1,546 million of which discontinued operations was EUR 159 million). Dividends received EUR 30 million (2022: EUR 11 million).

1 Basis of preparation and significant accounting policies

The consolidated financial statements of HSBC Continental Europe are available upon request from the HSBC Continental Europe registered office at 38 Avenue Kléber – 75116 Paris or on the websites www.hsbc.com and www.hsbc.fr.

These consolidated financial statements were approved by the Board of Directors on 20 February 2024.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements of HSBC Continental Europe have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU'). There were no unendorsed standards effective for the year ended 31 December 2023 affecting these consolidated financial statements.

Standards adopted during the year ended 31 December 2023

IFRS 17 'Insurance Contracts'

On 1 January 2023, the group adopted the requirements of IFRS 17 'Insurance Contracts' retrospectively with comparatives restated from the transition date, 1 January 2022. At transition, the group's total equity reduced by EUR 496 million.

On adoption of IFRS 17, balances based on IFRS 4, including the present value of in-force business ('PVIF') asset in relation to the upfront recognition of future profits of in-force insurance contracts, were derecognised. Insurance contract liabilities have been remeasured under IFRS 17 based on groups of insurance contracts, which include the fulfilment cash flows comprising the best estimate of the present value of the future cash flows (for example premiums and payouts for claims, benefits, and expenses), together with a risk adjustment for non-financial risk, as well as the contractual service margin ('CSM'). The CSM represents the unearned profits that will be released and systematically recognised in insurance revenue as services are provided over the expected coverage period.

In addition, the group has made use of the option under the standard to re-designate certain eligible financial assets held to support insurance contract liabilities, which were predominantly measured at amortised cost, as financial assets measured at fair value through profit or loss, with comparatives restated from the transition date. The effects on adoption of IFRS 17 are set out in Note 36 with a description of the policy set out in Note 1.2(j).

The key differences between IFRS 4 and IFRS 17 are summarised in the following table:

	IFRS 4	IFRS 17
Balance sheet	– Insurance contract liabilities for non-linked life insurance contracts are calculated by local actuarial principles. Liabilities under unit-linked life insurance contracts are at least equivalent to the surrender or transfer value, by reference to the value of the relevant underlying funds or indices. Grouping requirements follow local regulations. – An intangible asset for the PVIF is recognised, representing the upfront recognition of future profits associated with in-force insurance contracts.	– Insurance contract liabilities are measured for groups of insurance contracts at current value, comprising the fulfilment cash flows and the CSM. – The fulfilment cash flows comprise the best estimate of the present value of the future cash flows, together with a risk adjustment for non-financial risk. – The CSM represents the unearned profit.
Profit emergence/ recognition	– The value of new business is reported as revenue on Day 1 as an increase in PVIF. – The impact of the majority of assumption changes is recognised immediately in the income statement. – Variances between actual and expected cash flows are recognised in the period they arise.	– The CSM is systematically recognised in revenue as services are provided over the expected coverage period of the group of contracts (i.e. no Day 1 profit). – Contracts are measured using the general measurement model ('GMM') or the variable fee approach ('VFA') model for insurance contracts with direct participation features upon meeting the eligibility criteria. Under the VFA model, the group's share of the investment experience and assumption changes are absorbed by the CSM and released over time to profit or loss. For contracts measured under GMM, the group's share of the investment volatility is recorded in profit or loss as it arises. – Losses from onerous contracts are recognised in the income statement immediately.
Investment return assumptions (discount rate)	– PVIF is calculated based on long-term investment return assumptions based on assets held. It therefore includes investment margins expected to be earned in future.	– Under the market consistent approach, expected future investment spreads are not included in the investment return assumption. Instead, the discount rate includes an illiquidity premium that reflects the nature of the associated insurance contract liabilities.

	IFRS 4	IFRS 17
Expenses	– Total expenses to acquire and maintain the contract over its lifetime are included in the PVIF calculation. – Expenses are recognised across operating expenses and fee expense as incurred and the allowances for those costs are released from the PVIF simultaneously.	– Projected lifetime expenses that are directly attributable costs are included in the insurance contract liabilities and recognised in the insurance service result. – Non-attributable costs are reported in operating expenses.

Transition

In applying IFRS 17 for insurance contracts retrospectively, the full retrospective approach ('FRA') has been used unless it was impracticable. When the FRA is impracticable such as when there is a lack of sufficient and reliable data, an entity has an accounting policy choice to use either the modified retrospective approach ('MRA') or the fair value approach ('FVA'). HSBC Continental Europe has applied the MRA in France prior to 2019. The FVA has been applied for all other businesses prior to 2020 when the FRA is impracticable to apply.

Under the FVA, the valuation of insurance liabilities on transition is based on the applicable requirements of IFRS 13 'Fair Value Measurement'. This requires consideration of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The CSM is calculated as the difference between what a market participant would demand for assuming the unexpired risk associated with insurance contracts, including required profit, and the fulfilment cash flows that are determined using IFRS 17 principles.

In determining the fair value, HSBC Continental Europe considered the estimated profit margin that a market participant would demand in return for assuming the insurance liabilities with the consideration of the level of capital that a market participant would be required to hold, and the discount rate with an allowance for an illiquidity premium that takes into account the level of 'matching' between the group's assets and related liabilities. These assumptions were set taking into account the assumptions that a hypothetical market participant operating in each local jurisdiction would consider.

Amendments to IAS 12 'International Tax Reform - Pillar Two Model Rules'

On 23 May 2023, the IASB issued amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules', which became effective immediately and were approved for adoption by all members of the UK Endorsement Board on 19 July 2023 and by the European Financial Reporting Advisory Group on 8 November 2023.

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of HSBC Continental Europe's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), with effect from 1 January 2024. On the end of year 2023, legislation was also enacted in France to implement the model rules, as well as a qualified domestic minimum top-up tax, with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in France, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15 per cent. Based on the forecasts, no top-up tax liabilities are expected to arise in France as a result of the French consolidated group's effective tax rate being above 15 per cent. The final French effective tax rate will be calculated based on fiscal year 2024 IFRS results and will depend on evolution of profits and costs of the French consolidated Group. Moreover, this new tax regulation will lead to a new tax filling requirement in 2026, for which HSBC Continental Europe is working closely with its ultimate parent company, HSBC Holdings plc, on the definition and analysis of the reporting scope, the definition of the options locally and the quality of the data, so as to ensure first filling will be successfully performed in accordance with OECD and national law requirements.

(b) Future accounting developments

Minor amendments to IFRS Accounting Standards

The IASB has published a number of minor amendments to IFRS Accounting Standards that are effective from 1 January 2024. HSBC Continental Europe expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

(c) Foreign currencies

The functional currency of HSBC Continental Europe is euros which is also the presentational currency of HSBC Continental Europe's consolidated financial statements.

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

In the consolidated financial statements, the assets and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not euros are translated into HSBC Continental Europe's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into euros at the average rates of exchange for the reporting period.

Exchange differences arising are recognised in other comprehensive income. On disposal of a foreign operation, exchange differences previously recognised in other comprehensive income are reclassified to the income statement.

(d) Presentation of information

Certain disclosures required by IFRS Accounting Standards have been included in the audited sections of this Universal Registration Document 2023 as follows:

- disclosures concerning the nature and extent of risks relating to financial instruments and insurance contracts are included in the 'Risk' section on pages 113 to 187; and
- the 'Own funds' disclosure is included in the 'Capital and leverage management' section on page 157.

(e) Critical estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted, as the 'critical estimates and judgements' in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements. Management's selection of the group's accounting policies that contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on HSBC's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2023 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular management has considered the known and observable potential impacts of climate-related risks of associated judgements and estimates in our value in use calculations.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that HSBC Continental Europe and parent company have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following, rising inflation and disrupted supply chains as a result of the ongoing Russia-Ukraine and Israel-Hamas wars. They also considered other top and emerging risks, including climate change, as well as the related impacts on profitability, capital and liquidity.

1.2 Summary of material accounting policies

(a) Consolidation and related policies

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The investments in subsidiaries are stated at cost less impairment losses.

Impairment testing is performed where there is an indication of impairment, by comparing the recoverable amount of a cash-generating unit with its carrying amount.

Critical estimates and judgements

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
– The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	– The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. – The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of equity assigned to the investment. The cost of equity percentage is generally derived from a capital asset pricing model and the market implied cost of equity, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control.

Goodwill

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. HSBC Continental Europe's CGUs are the global businesses within principal operating entities. Impairment testing is performed once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Goodwill is included in a disposal group if the disposal group is a CGU to which goodwill has been allocated or it is an operation within such a CGU.

Critical estimates and judgements

The review of goodwill and non-financial assets (see Note 1.2(n)) for impairment reflects management's best estimate of the future cash flows of the CGUs and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
– The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests goodwill for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects.	– The future cash flows of the CGUs are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment. – The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to individual CGUs. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control. – Key assumptions used in estimating goodwill impairment and non-financial assets are described in Note 22.

HSBC Continental Europe sponsored structured entities

HSBC Continental Europe is considered to sponsor another entity if, in addition to ongoing involvement with the entity, it had a key role in establishing that entity or in bringing together relevant counterparties so the transaction that is the purpose of the entity could occur. HSBC Continental Europe is generally not considered a sponsor if the only involvement with the entity is merely administrative.

Interests in associates and joint arrangements

Joint arrangements are investments in which HSBC Continental Europe, together with one or more parties, has joint control. Depending on HSBC Continental Europe's rights and obligations, the joint arrangement is classified as either a joint operation or a joint venture. HSBC Continental Europe classifies investments in entities over which it has significant influence, and those that are neither subsidiaries nor joint arrangements, as associates.

HSBC Continental Europe recognises its share of the assets, liabilities and results in a joint operation. Investments in associates and interests in joint ventures are recognised using the equity method. The attributable share of the results and reserves of joint ventures and associates are included in the consolidated financial statements of HSBC Continental Europe based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates and joint ventures are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired, by comparing the recoverable amount of the relevant investment to its carrying amount. Goodwill on acquisition of interests in joint ventures and associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment.

(b) Income and expense

Operating income

Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'interest income' and 'interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by HSBC Continental Europe for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

Interest on credit-impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for ECL).

Non-interest income and expense

HSBC Continental Europe generates fee income from services provided over time, such as account service and card fees, or when HSBC Continental Europe delivers a specific transaction at a point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC Continental Europe performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

HSBC Continental Europe acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades HSBC Continental Europe acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

HSBC Continental Europe recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where HSBC Continental Europe offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis'. This comprises net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'. This includes all gains and losses from changes in the fair value, together with related interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- 'Changes in fair value of designated debt instruments and related derivatives'. Interest paid on the debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'. This includes interest on instruments that fail the SPPI test. See (d) below.

The accounting policies for insurance service result and insurance finance income/(expense) are disclosed in Note 1.2(j).

(c) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC Continental Europe recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out or the valuation inputs become observable.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where HSBC Continental Europe manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 13, 'Fair values of financial instruments carried at fair value'.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

Judgements	Estimates
– An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5 per cent of the instrument's valuation is driven by unobservable inputs. – Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	– Details on HSBC Continental Europe's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 13.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. HSBC Continental Europe accounts for regular way amortised cost financial instruments using trade date accounting. The carrying amount of these financial assets at initial recognition includes any directly attributable transactions costs.

HSBC Continental Europe may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When HSBC Continental Europe intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

(e) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets managed within a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

(f) Equity securities measured at fair value with fair value movements presented in other comprehensive income ('OCI')

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where HSBC holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on the derecognition of these equity securities are not transferred to profit or loss. Otherwise, equity securities are measured at fair value through profit or loss.

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when HSBC Continental Europe enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished.

Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' or 'Changes in fair value of designated debt and related derivatives' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by HSBC Continental Europe are:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: The interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial assets and financial liabilities under unit-linked and non-linked investment contracts: A contract under which HSBC does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiaries are determined based on the fair value of the assets held in the linked funds or by a valuation model. The related financial assets and liabilities are managed and reported to management on a fair value basis.
- Designation at fair value of the financial assets and related liabilities allows changes in fair values to be recorded in the income statement and presented in the same line.
- Financial liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss, with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis. Where the derivatives are managed with debt securities issued by HSBC Continental Europe that are designated at fair value where doing so reduces an accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. HSBC Continental Europe uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued, and the cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the income statement.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is recognised for ECL resulting from possible default events within the next 12 months, or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is recognised for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment, and so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (Stage 3)

HSBC Continental Europe determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount less allowance for ECL).

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when the group modifies the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

HSBC Continental Europe applies the EBA Guidelines on the application of definition of default for our retail portfolios, which affects credit risk policies and our reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided under 'Forborne loans and advances' on pages 148 - 149.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructurings. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that HSBC’s rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructuring is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument.

Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (Stage 2)

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.

The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, 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. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD'), which encompasses a wide range of information including the obligor’s customer risk rating (‘CRR’), macro-economic condition forecasts and credit transition probabilities. For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1–1.2	15 bps
2.1–3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle PDs and through-the-cycle migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination.

For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1–4.2	4 notches
4.3–5.1	3 notches
5.2–7.1	2 notches
7.2–8.2	1 notch

Further information about the 23-grade scale used for CRR can be found on page 131.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internally developed statistical models, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forborne loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, HSBC Continental Europe calculates ECL using three main components, a probability of default ('PD'), a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

HSBC Continental Europe makes use of the IRB framework where possible, with recalibration to meet the differing IFRS 9 requirements as set out in the following table:

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

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by HSBC Group and judgement of in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the bank may use an LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which HSBC Continental Europe is exposed to credit risk. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit HSBC Continental Europe exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period HSBC Continental Europe remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component.

As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

HSBC Continental Europe applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 140.

Critical estimates and judgements

The calculation of ECL under IFRS 9 requires HSBC Continental Europe to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Defining what is considered to be a significant increase in credit risk.
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected credit loss.
- Making management judgemental adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.
- Selecting applicable recovery strategies for certain wholesale credit-impaired loans.

ESTIMATES

- The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' on page 140 sets out the assumptions used in determining ECL and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

(j) Insurance contracts

A contract is classified as an insurance contract where the entity accepts significant insurance risk from another party by agreeing to compensate that party on the occurrence of a specified uncertain future event. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, HSBC Continental Europe issues investment contracts with discretionary participation features ('DPF') which are also accounted for as insurance contracts as required by IFRS 17 'Insurance Contracts'.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. Each portfolio is further separated by the contract's expected profitability. The portfolios are split by their profitability into: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the group issues after the transition date being grouped into calendar quarter or annual cohorts. For multi-currency groups of contracts, the group considers its groups of contracts as being denominated in a single currency. HSBC Continental Europe did not elect to apply the annual cohorts exemption.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing the unearned profit. The group has elected to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the following:

(i) Best estimates of future cash flows

These cash flows within the contract boundary of each contract in the group include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using a range of scenarios and assumptions in an unbiased way based on the group's demographic and operating experience along with external mortality data where the group's own experience data is not sufficiently large in size to be credible.

(ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees. A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

(iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses. Furthermore, the risk adjustment calculated using a multi-year approach will be published.

For the main insurance manufacturing entity in the group, the one-year 75th percentile level of stress corresponds to the 60th percentile (2022: 60th percentile) based on an ultimate view of risk over all future years.

The group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for most of the contracts issued by the group, which is mandatory upon meeting the following eligibility criteria at inception:

i. the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

ii. the group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The group considers that a substantial share is a majority of returns; and

iii. the group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The group considers that a substantial proportion is a majority proportion of change on a present value probability weighted average of all scenarios.

For contracts measured under VFA, the other comprehensive income ('OCI') option is used. The OCI option is applied where the underlying items held by the group are not accounted for at fair value through profit or loss. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses for these insurance contracts, and hence results in the elimination of accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts issued for the period is recognised in OCI. In addition, the risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. The risk mitigating instruments are primarily reinsurance contracts held.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

The group identifies the quantity of the benefits provided as follows:

- Insurance coverage: this is based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund value or surrender value.
- Investment services (including both investment-return service and investment-related service): this is based on a constant measure basis which reflects the provision of access for the policyholder to the facility, the coverage unit being the number of insurance contracts.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Insurance service result

Insurance revenue reflects the consideration to which the group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses, except where the OCI option applies as described above.

(k) Employee compensation and benefits

Share-based payments

HSBC Continental Europe enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Post-employment benefit plans

HSBC Continental Europe operates a number of pension schemes including defined benefit, defined contribution and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

The costs of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

(l) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

In assessing the probability and sufficiency of future taxable profit, we consider the availability of evidence to support the recognition of deferred tax assets taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. We also consider the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Critical estimates and judgements

The recognition of deferred tax assets depends on judgements and estimates.

JUDGEMENTS

- Assessing the probability and sufficiency of future taxable profits, considering the availability of evidence to support the recognition of deferred tax assets taking into account the inherent risk in long term forecasting and drivers of recent history of tax losses where applicable taking into account the future reversal of existing taxable temporary differences and tax planning strategies including corporate reorganisations. Specific judgements supporting deferred tax assets are described in Note 9.

ESTIMATES

- The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of tax losses and tax credits.

(m) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Critical estimates and judgements

The recognition and measurement of provisions requires the Group to make a number of judgements, assumptions and estimates. The most significant are set out below:

JUDGEMENTS

- Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.
- Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.

ESTIMATES

- Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

The bank has issued financial guarantees and similar contracts to other HSBC Group entities. The group elects to account for certain guarantees as insurance contracts in the financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(n) Impairment of non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities divided by global business.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying amount of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs.

The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs (see Note 23). When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment losses recognised in prior periods for non-financial assets are reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(o) Government grants

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The benefit of a government loan at a below market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan recognised and the proceeds received. When identifying the costs for which the benefit of the loan is intended to compensate, the conditions and obligations that have been, or must be, met are considered. Government grants are recognised when there is reasonable assurance that the conditions attached with them will be complied with and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognise as expense the related costs for which the grants are intended to compensate.

Critical estimates and judgements

JUDGEMENTS

- Determining whether there is reasonable assurance that the conditions attached with government grants will be complied with and that the grants will be received.

(p) Non current assets and disposal groups held for sale and discontinued operations

HSBC Continental Europe classifies non-current assets or disposal groups (including assets and liabilities) as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups, and the sale must be highly probable.

For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held-for-sale assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset (or disposal group) is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write down of the asset or disposal group to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement. This first reduces the carrying amount of any goodwill allocated to the disposal group and then to the other assets of the disposal group pro rata on the basis of the carrying amount of each asset in the disposal group.

Thereafter, any impairment loss in excess of the carrying amount of the non-current assets in scope of IFRS 5 for measurement is recognised against the total assets of the disposal group.

HSBC Continental Europe classifies a component of an entity as discontinued operation when it either has been disposed of or is classified as held for sale and

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

After operations have been classified as discontinued, results will be reported as such in the income statement and cash flow statement. Discontinued operations held for sale are measured in the same way as other disposal groups, that is, at the lower of carrying amount and fair value less costs to sell.

Critical estimates and judgements

The classification as held for sale depends on certain judgements.

JUDGEMENTS

Management judgement is required in determining whether the IFRS 5 held for sale criteria including whether a sale is highly probable and expected to complete within one year of classification. The exercise of judgement will normally consider the likelihood of successfully securing any necessary regulatory or political approvals which are almost always required for sales of banking businesses. For large and complex plans judgment will also include an assessment of the enforceability of any binding sale agreement, the nature and magnitude of any disincentives for non-performance, and the ability of the counterparty to undertake necessary pre-completion preparatory work, comply with conditions precedent, and otherwise be able to comply with contractual undertakings to achieve completion within the expected timescale. Once classified as held for sale, judgement is required to be applied on a continuous basis to ensure that classification remains appropriate in future accounting periods.

1.3 Significant events during the year

Business disposals

For details on business disposals refer to Note 3 'Assets held for sale, liabilities of disposal group held for sale and discontinued operations'. For related accounting policies and judgements refer to Note 1.2 (p).

Sale of the retail banking operations in France

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations 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. HSBC Continental Europe also retained a portfolio of EUR 7.1 billion consisting of home and certain other loans, and the CCF brand, which it licensed to the buyer under a long-term licence agreement. Additionally, HSBC Continental Europe's subsidiaries, HSBC Assurances Vie (France) and HSBC Global Asset Management (France), have entered into distribution agreements with the buyer. Ongoing costs associated with the retention of the home and certain other loans, net of income on distribution agreements and the brand licence, are estimated to have an after-tax loss impact of EUR 0.1 billion in 2024 based on expected funding rates. As at 31 December 2023, the business was classified as held for sale in accordance with IFRS 5 giving rise to a net reversal of impairment recognised in other operating income in the year of EUR 143 million. This comprised a reversal of the loss on sale of EUR 2.0 billion in the first quarter of 2023 as the sale became less certain, and a subsequent recognition of the loss on sale of EUR 1.8 billion as we reclassified the retail banking operations as held for sale in the fourth quarter of 2023. See Note 3 on page 211 for details of the transaction and the accounting impacts.

Sale of the branch operations in Greece

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 HSBC Continental Europe

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.

Changes of control

Acquisition of HSBC Private Bank (Luxembourg) S.A.

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

Issuances and repayments

In January 2023, HSBC Continental Europe issued Senior Non Preferred Notes with maturity of six years for a notional amount of EUR 500 million at 3 months Euribor + 1.51 per cent.

In June 2023, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturity of six and twenty years for a total notional amount of EUR 500 million at 3 months Euribor + 1.52 per cent and EUR 85 million at 5.15 per cent respectively.

In September 2023, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturity of six years and twenty for a notional amount of EUR 800 million at 3 months Euribor + 1.55 per cent and EUR 65 million at 5.24 per cent respectively.

In December 2023, HSBC Continental Europe redeemed two series of Senior Non Preferred Notes one year before maturity for EUR 300 million at 3 months Euribor + 0.48 per cent equivalent and 500 million at 3 months Euribor + 0.63 per cent equivalent respectively and issued new Senior Non Preferred Notes with maturity of seven years for a notional amount of EUR 800 million (rollover) at 3 months Euribor + 1.56 per cent.

All was subscribed by HSBC Bank plc and recognised as debt securities in issue.

In December 2023, HSBC Continental Europe redeemed a Tier 2 Loan originally issued by HSBC Trinkaus & Burkhardt AG (German branch) five years before maturity for EUR 200 million at 3 months Euribor + 2.32 per cent and issued a new Tier 2 loan to HSBC Bank plc with maturity of eleven years for a notional amount of EUR 200 million (rollover) at 3 months Euribor + 2.56 per cent and an Effective Global Rate of 6.622 per cent per annum.

In March 2023, HSBC Continental Europe processed a redemption of EUR 1.25 billion of Senior Preferred Bonds accounted as financial liabilities designated at fair value.

On 28 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.

Recognition of restructuring costs

On 9 October 2023, HSBC Continental Europe announced a voluntary redundancy plan ('*Rupture Conventionelle Collective*') impacting the Private banking operations in the French branch of HSBC Private Bank (Luxembourg) S.A. A provision of EUR 11 million for restructuring costs was recorded as at 31 December 2023.

Irrevocable Payment Commitments of Single Resolution Fund

Consistent with its peers, the Group has reviewed its accounting treatment of certain cash deposits following a Court of Justice of the European Union ruling issued on 25 October 2023 concerning the status of those deposits in the event of license withdrawal. The Group concluded that it's accounting policy is not affected by the ruling. Specifically the cash deposit continues to be presented as an asset, and the associated 'Irrevocable Payment Commitment' continues to be accounted for as an unrecognised contingent liability until such future date that it becomes probable that an outflow will arise at which point a provision will be recognised. As at 31 December 2023, the cash asset amounted to EUR 150 million, including EUR 10 million related to HSBC Germany.

2 Business combinations

On 2 November 2023, HSBC Continental Europe acquired 100 per cent of the share capital of HSBC Private Bank (Luxembourg) S.A. from HSBC Private Bank (Suisse) S.A, for an acquisition price of EUR 195 million.

This transaction has been analysed as a Business Combinations under Common Control (and out of the scope of 'IFRS 3 business combination'). At HSBC Continental Europe level, the assets and liabilities transferred have been recognised at book value.

At the acquisition date, the assets and liabilities acquired were as follows:

	At 02 November 2023 HSBC Private Bank (Luxembourg) SA €m
Assets	
Cash and balances at central banks	**806**
Derivatives	**29**
Loans and advances to banks	**287**
Loans and advances to customers	**1,874**
Financial investments	**380**
Other Assets	**60**
Total assets	**3,435**
Liabilities	
Deposits by banks	**710**
Customer accounts	**2,299**
Derivatives	**10**
Other Liabilities	**169**
Total liabilities	**3,189**
Total equity	**247**
Total liabilities and equity	**3,435**

3 Assets held for sale, liabilities of disposal group held for sale and discontinued operations

Held for sale at 31 December

	2023 €m	2022 €m
Held for sale at 31 December		
Disposal groups	**24,989**	25,762
Unallocated impairment losses[1]	**(1,783)**	(2,015)
Non-current assets held for sale	**5**	14
Assets held for sale	**23,211**	23,761
Liabilities of disposal groups held for sale	**23,817**	27,855

1 *This represents impairment losses in excess of the carrying amount on the non-current assets, excluded from the measurement scope of IFRS 5, including profit participation interest.*

Disposal groups

Sale of the retail banking operations in France

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations in France to CCF, a subsidiary of Promontoria MMB SAS ('My Money Group'). The sale also included HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in Crédit Logement.

In the first quarter of 2023, the sale had become less certain, as a result of which a EUR 2.0 billion partial reversal of the impairment loss initially recognised in 2022, when the disposal group was classified as held for sale, was recorded. In the fourth quarter of 2023, following the receipt of regulatory approvals and the satisfaction of other relevant conditions, the disposal group had been reclassified as held for sale, and was subsequently remeasured at the lower of the carrying amount and fair value less costs to sell. This resulted in the reinstatement of a EUR 1.8 billion pre-tax impairment loss reflecting the final terms of the sale, giving rise to a net reversal of impairment recognised in other operating income in the year of EUR 143 million.

Upon completion and in accordance with the terms of the sale, HSBC Continental Europe received a EUR 0.1 billion profit participation interest in the ultimate holding company of My Money Group. The associated impacts on initial recognition of this stake at fair value were recognised as part of the pre-tax loss on disposal. In addition, the reversal of a EUR 0.4 billion deferred tax liability was recognised, which had arisen as a consequence of the temporary difference in tax and accounting treatment in respect of the provision for loss on disposal, which was deductible in the French tax return in 2021.

In accordance with the terms of the sale, HSBC Continental Europe retained a portfolio of EUR 7.1 billion consisting of home and certain other loans, and the CCF brand, which it licensed to the buyer under a long-term licence agreement. Additionally, HSBC Continental Europe's subsidiaries, HSBC Assurances Vie (France) and HSBC Global Asset Management (France), have entered into distribution agreements with the buyer. Ongoing costs associated with the retention of the home and certain other loans, net of income on distribution agreements and the brand licence, are estimated to have an after-tax loss impact of EUR 0.1 billion in 2024 based on expected funding rates.

At 31 December 2023, total assets of EUR 25.0 billion (including allocated loss of EUR 54 million), including EUR 12.7 billion of loans and advances to customers, and total liabilities of EUR 23.7 billion, including customer accounts of EUR 20.1 billion, were reclassified as held for sale.

Planned sale of the hedge fund administration business operations in HSBC Continental Europe

On 21 November 2023, HSBC entered into an exclusive agreement with BNP Paribas Securities Services to transfer all HSBC's hedge fund administration business to BNP Paribas entities in several markets, including Hong Kong, Singapore, Ireland, and Luxembourg. The transfer of services will be offered to 25 clients globally and will involve the integration of certain employees within BNP Paribas' expert teams. The deal is expected to be completed by the end of 2024, following the finalisation of client migrations.

At 31 December 2023, the disposal group included EUR 0.1 billion of customer accounts, which met the criteria to be classified as held for sale.

At 31 December 2023, the major classes of assets and associated liabilities of disposal groups held for sale, including allocated impairment losses, were as follows:

	Retail banking operations in France €m	Other €m	Total €m
Assets of disposal group held for sale			
Cash and balances at central banks[1]	204	—	204
Items in the course of collection from other banks	1	—	1
Trading assets	—	—	—
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	44	—	44
Loans and advances to banks[1]	11,901	—	11,901
Loans and advances to customers	12,691	—	12,691
Financial investments	30	—	30
Prepayments, accrued income and other assets	118	—	118
Total assets at 31 Dec 2023	24,989	—	24,989
Liabilities of disposal group held for sale			
Deposits by banks	84	—	84
Customer accounts	20,058	109	20,167
Items in the course of transmission to other banks	4	—	4
Financial liabilities designated at fair value	2,140	—	2,140
Derivatives	5	—	5
Debt securities in issue	1,243	—	1,243
Accruals, deferred income and other liabilities	168	—	168
Provisions	6	—	6
Total liabilities at 31 Dec 2023	23,708	109	23,817
Fair value of selected financial instruments which are not carried at fair value on balance sheet			
Loan and advances to customers	12,181	—	12,181
Customers accounts	20,052	109	20,161

Expected date of completion	**1 January 2024**	**Second half of 2024**	
Operating segment	**Wealth and Personal Banking**	**Markets and Securities Services**	

1 *Under the financial terms of the sale, HSBC Continental Europe will transfer the business with a net asset value of EUR 1.7 billion for a consideration of EUR 1. Any required increase to the net asset value of the business to achieve this will be satisfied by the inclusion of additional cash. Based upon the net liabilities of the disposal group at 31 December 2023, HSBC Continental Europe would be expected to include a cash contribution of EUR 9.9 billion, of which EUR 9.5 billion was reclassified as held for sale at 31 December 2023 ('Loans and advances to banks' for EUR 9.3 billion, 'Cash and balances at central banks' for EUR 0.2 billion).*

Along with the above classification to held for sale, at the HSBC Continental Europe level, the sale of retail operations in France also met the criteria of discontinued operations classification and presentation under IFRS 5 and accordingly the profit/(loss) of the discontinued operations amounting to EUR - 0.2 billion has been reported separately in the income statement, including the pre-tax IFRS 5 loss of EUR 1.8 billion.

Discontinued operations income statement

	2023 €m	2022[1] €m
Net operating income	198	(1,529)
Total operating expenses	(415)	(378)
Operating profit/(loss)	(217)	(1,907)
Profit/(loss) before tax	(217)	(1,907)
Tax expense	37	632
Profit/(loss) for the year	(180)	(1,275)
– non-controlling interests	—	—

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly.*

Other comprehensive income relating to discontinued operations is as follows:

	2023	2022[1]
	€m	€m
Profit/(loss) for the period in respect of discontinued operations	**(180)**	(1,275)
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit asset/liability	**(2)**	10
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**8**	8
Other comprehensive income/(expense) for the period, net of tax in respect of discontinued operations[2]	**6**	18
Total comprehensive income/(expense) for the period in respect of discontinued operations	**(174)**	(1,257)

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly.
2 The cumulative losses recognised in other comprehensive income in respect of discontinued operations as at 31 December 2023 amounted at EUR 21 million (2022: EUR 26 million).

The cash flows attributed to the discontinued operations are as follows:

	2023	2022
	€m	€m
Cash and cash equivalents at beginning of the period	**64**	567
Net cash from operating activities	**9,469**	(503)
Net cash from investing activities	**(2)**	—
Net cash from financing activities	**—**	—
Net cash from discontinued operations[1]	**9,467**	(503)
– cash and cash equivalents from discontinued operations	**9,531**	64

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the net cash from continuing and discontinued operations have been adjusted accordingly.

4 Net fee income

Net fee income by product type (continuing operations)

	At	
	31 Dec 2023	31 Dec 2022[1,2]
	Total	Total
	€m	€m
Account services	**156**	137
Funds under management	**376**	203
Cards	**15**	15
Credit facilities	**227**	146
Broking income	**219**	43
Unit trusts	**—**	2
Imports/exports	**16**	16
Remittances	**95**	76
Underwriting	**133**	104
Global custody	**100**	44
Insurance agency commission	**3**	9
Other[3]	**332**	343
Fee income	**1,672**	1,138
Less: fee expense	**(570)**	(379)
Net fee income	**1,102**	759

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraph 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly.
2 From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.
3 Other includes intercompany fees and third party fees not included in other categories.

Net fee income by global business (continuing operations)

	Wealth and Personal Banking	Commercial Banking	Markets and Securities Services	Global Banking	GBM Other	Corporate Centre	Total
	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2023							
Fee income	**407**	**366**	**729**	**402**	**54**	**(286)**	**1,672**
Less: fee expense	**(274)**	**(19)**	**(450)**	**(72)**	**(35)**	**280**	**(570)**
Net fee income	**133**	**347**	**279**	**330**	**19**	**(6)**	**1,102**
At 31 Dec 2022[1]							
Fee income	344	293	337	353	38	(227)	1,138
Less: fee expense	(266)	(20)	(232)	(72)	(17)	228	(379)
Net fee income	78	273	105	281	21	1	759

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

Net fee income includes EUR 513 million in fees earned on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate) (2022: EUR 455 million), EUR 158 million in fees payable on financial liabilities that are not at fair value through profit of loss (other than amounts included in determining the effective interest rate) (2022: EUR 142 million), EUR 476 million in fees earned on trust and other fiduciary activities (2022: EUR 247 million) and EUR 22 million in fees payable relating to unit trust and other fiduciary activities (2022: EUR 2 million).

5 Net income/(expense) from financial instruments measured at fair value through profit or loss (continuing operations)

	2023	2022[1]
	€m	€m
Net income/(expense) arising on:		
Net trading activities	**642**	(564)
Other instruments designated and mandatorily measured at fair value and related derivatives	**(486)**	896
Net income/(expense) from financial instruments held for trading or managed on a fair value basis	**156**	332
Financial assets held to meet liabilities under insurance and investment contracts	**1,145**	(1,450)
Liabilities to customers under investment contracts	**(1)**	2
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**1,144**	(1,448)
Derivatives managed in conjunction with HSBC Continental Europe's issued debt securities	**194**	(473)
Other changes in fair value	**(178)**	457
Changes in fair value of designated debt and related derivatives	**16**	(16)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**16**	26
Year ended 31 Dec	**1,332**	(1,106)

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraph 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly.*

6 Insurance business

The table below represents an analysis of the total insurance revenue and expenses recognised in the period:

Insurance Service result

	Year ended 31 Dec 2023			Year ended 31 Dec 2022[1]		
	Life direct participating and Investment DPF contracts	Life other contracts	Total	Life direct participating and Investment DPF contracts	Life other contracts	Total
	€m	€m	€m	€m	€m	€m
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	174	65	239	171	66	237
– Contractual service margin recognised for services provided	84	21	105	82	18	100
– Change in risk adjustment for non-financial risk for risk expired	6	2	8	5	2	7
– Expected incurred claims and other insurance service expenses	84	42	126	84	46	130
– Other	—	—	—	—	—	—
Recovery of insurance acquisition cash flows	2	1	3	1	1	2
Total insurance revenue	176	66	242	172	67	239
Insurance service expenses						
Incurred claims and other insurance service expenses	(85)	(27)	(112)	(83)	(27)	(110)
Losses and reversal of losses on onerous contracts	(2)	(2)	(4)	(1)	(1)	(2)
Amortisation of insurance acquisition cash flows	(2)	(1)	(3)	(1)	(1)	(2)
Adjustments to liabilities for incurred claims	—	3	3	1	(8)	(7)
Total insurance service expenses	(89)	(27)	(116)	(84)	(37)	(121)
Total insurance service results	87	39	126	88	30	118

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.*

Net investment return

	Year ended 31 Dec 2023			Year ended 31 Dec 2022[1]		
	Life direct participating and Investment DPF contracts	Life other contracts	Total	Life direct participating and Investment DPF contracts	Life other contracts	Total
	€m	€m	€m	€m	€m	€m
Investment return						
Amounts recognised in profit or loss[2]	1,197	3	1,200	(1,137)	—	(1,137)
Amounts recognised in OCI[3]	461	—	461	(2,241)	—	(2,241)
Total investment return (memorandum)	1,658	3	1,661	(3,378)	—	(3,378)
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	(1,646)	—	(1,646)	3,357	—	3,357
Effect of risk mitigation option	—	—	—	—	—	—
Interest accreted	—	1	1	—	—	—
Effect of changes in interest rates and other financial assumptions	—	—	—	—	7	7
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	—	(2)	(2)	—	(1)	(1)
Total net finance expenses from insurance contracts	(1,646)	(1)	(1,647)	3,357	6	3,363
Represented by:						
– amounts recognised in profit or loss	(1,187)	(1)	(1,188)	1,117	6	1,123
– amounts recognised in OCI	(459)	—	(459)	2,240	—	2,240
Total net investment results	12	2	14	(21)	6	(15)
Represented by:						
– amounts recognised in profit or loss	10	2	12	(20)	6	(14)
– amounts recognised in OCI	2	—	2	(1)	—	(1)

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 *The investment returns 'amounts recognised in profit and loss' from assets that are backing insurance contract liabilities for the year ended 31 December 2023 included EUR 989 million (2022: EUR (1,378) million) reported under 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' , EUR 215 million (2022: EUR 241 million) reported under 'Net interest income' and EUR (7) million (2022: EUR NILL million) reported under Gain less losses from financial investments.*
3 *The investment returns 'amounts recognised in OCI' from assets backing insurance contract liabilities for the year ended 31 December 2023 included fair value gains of EUR 465 million (2022: EUR (2,244) million losses) and EUR (4) million (2022: EUR 3 million) impairment on financial investments measured at FVOCI.*

Reconciliation of amounts included in OCI for financial assets at FVOCI - Contracts measured under the modified retrospective approach

	2023	2022
	€m	€m
Balance at 1 Jan	**(912)**	547
Net change in fair value	**419**	(1,965)
Net amount reclassified to profit or loss	**(6)**	(2)
Related income tax	**(107)**	508
Foreign exchange and other	**—**	—
Balance at 31 Dec	**(606)**	(912)

Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims

	Year ended 31 Dec 2023								
	Life direct participating and Investment DPF				**Other life contracts**				
	Liabilities for remaining coverage:				**Liabilities for remaining coverage:**				
	Excluding loss component	**Loss component**	**Incurred claims**	**Total**	**Excluding loss component**	**Loss component**	**Incurred claims**	**Total**	**Total**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Opening assets	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Opening liabilities	**20,331**	**1**	**1**	**20,333**	**58**	**1**	**41**	**100**	**20,433**
Net opening balance 01 Jan 2023	**20,331**	**1**	**1**	**20,333**	**58**	**1**	**41**	**100**	**20,433**
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	**(5)**	**—**		**(5)**	**(11)**	**—**		**(11)**	**(16)**
Contracts under the modified retrospective approach	**(138)**	**—**		**(138)**	**(19)**	**—**		**(19)**	**(157)**
Other contracts[1]	**(33)**	**—**		**(33)**	**(36)**	**—**		**(36)**	**(69)**
Total insurance revenue	**(176)**	**—**		**(176)**	**(66)**	**—**		**(66)**	**(242)**
Insurance service expenses									
Incurred claims and other insurance service expenses	**—**	**—**	**86**	**86**	**—**	**—**	**27**	**27**	**113**
Amortisation of insurance acquisition cash flows	**2**	**—**		**2**	**1**	**—**		**1**	**3**
Losses and reversal of losses on onerous contracts	**—**	**1**		**1**	**—**	**2**		**2**	**3**
Adjustments to liabilities for incurred claims			**—**	**—**			**(3)**	**(3)**	**(3)**
Total insurance service expenses	**2**	**1**	**86**	**89**	**1**	**2**	**24**	**27**	**116**
Investment components	**(2,010)**	**—**	**2,010**	**—**	**—**	**—**	**—**	**—**	**—**
Insurance service result	**(2,184)**	**1**	**2,096**	**(87)**	**(65)**	**2**	**24**	**(39)**	**(126)**
Net finance expenses from insurance contracts	**1,646**	**—**	**—**	**1,646**	**1**	**—**	**—**	**1**	**1,647**
Effect of movements in exchange rates	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total changes in the statement of profit or loss and OCI	**(538)**	**1**	**2,096**	**1,559**	**(64)**	**2**	**24**	**(38)**	**1,521**
Cash flows									
Premiums received	**1,218**	**—**		**1,218**	**65**	**1**		**66**	**1,284**
Claims and other insurance service expenses paid, including investment components	**(59)**	**—**	**(2,096)**	**(2,155)**	**—**	**—**	**(32)**	**(32)**	**(2,187)**
Insurance acquisition cash flows	**(13)**	**—**		**(13)**	**(3)**	**—**		**(3)**	**(16)**
Total cash flows	**1,146**	**—**	**(2,096)**	**(950)**	**62**	**1**	**(32)**	**31**	**(919)**
Acquisition of subsidiaries and other movements	**—**	**—**	**—**	**—**	**1**	**(1)**	**—**	**—**	**—**
Net closing balance 31 Dec 2023	**20,939**	**2**	**1**	**20,942**	**57**	**3**	**33**	**93**	**21,035**
Closing assets	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Closing liabilities	**20,939**	**2**	**1**	**20,942**	**57**	**3**	**33**	**93**	**21,035**
Net closing balance 31 Dec 2023	**20,939**	**2**	**1**	**20,942**	**57**	**3**	**33**	**93**	**21,035**

Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims (continued)

	Year ended 31 Dec 2022[2]								
	Life direct participating and Investment DPF				Other life contracts				
	Liabilities for remaining coverage:				Liabilities for remaining coverage:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Opening assets	—	—	—	—	—	—	—	—	—
Opening liabilities	24,219	—	2	24,221	69	—	40	109	24,330
Net opening balance 01 Jan 2022	24,219	—	2	24,221	69	—	40	109	24,330
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(4)	—	—	(4)	(10)	—	—	(10)	(14)
Contracts under the modified retrospective approach	(140)	—	—	(140)	(23)	—	—	(23)	(163)
Other contracts[1]	(28)	—	—	(28)	(34)	—	—	(34)	(62)
Total insurance revenue	(172)	—	—	(172)	(67)	—	—	(67)	(239)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	—	83	83	—	—	27	27	110
Amortisation of insurance acquisition cash flows	1	—	—	1	1	—	—	1	2
Losses and reversal of losses on onerous contracts	—	1	—	1	—	1	—	1	2
Adjustments to liabilities for incurred claims	—	—	(1)	(1)	—	—	8	8	7
Total insurance service expenses	1	1	82	84	1	1	35	37	121
Investment components	(1,857)	—	1,857	—	—	—	—	—	—
Insurance service result	(2,028)	1	1,939	(88)	(66)	1	35	(30)	(118)
Net finance expenses from insurance contracts	(3,357)	—	—	(3,357)	(7)	—	—	(7)	(3,364)
Effect of movements in exchange rates	—	—	—	—	—	—	—	—	—
Total changes in the statement of profit or loss and OCI	(5,385)	1	1,939	(3,445)	(73)	1	35	(37)	(3,482)
Cash flows									
Premiums received	1,555	—	—	1,555	71	—	—	71	1,626
Claims and other insurance service expenses paid, including investment components	(46)	—	(1,940)	(1,986)	—	—	(34)	(34)	(2,020)
Insurance acquisition cash flows	(12)	—	—	(12)	(4)	—	—	(4)	(16)
Total cash flows	1,497	—	(1,940)	(443)	67	—	(34)	33	(410)
Acquisition of subsidiaries and other movements	—	—	—	—	(5)	—	—	(5)	(5)
Net closing balance 31 Dec 2022	20,331	1	1	20,333	58	1	41	100	20,433
Closing assets	—	—	—	—	—	—	—	—	—
Closing liabilities	20,331	1	1	20,333	58	1	41	100	20,433
Net closing balance 31 Dec 2022	20,331	1	1	20,333	58	1	41	100	20,433

1 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts incepted after Transition.*

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

Movements in carrying amounts of insurance contracts - Analysis by measurement component

	Insurance contracts - Life direct participating and investment discretionary participating contracts					Insurance contracts - Life Other contracts				
	2023					2023				
		Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows and risk adjustment[1]	Contracts under fair value approach	Contracts under modified retros-pective approach	Other contracts[2]	Total	Estimates of present value of future cash flows and risk adjustment[1]	Contract under fair value approach	Contracts under modified retros-pective approach	Other contracts[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Opening assets	—	—	—	—	—	—	—	—	—	—
Opening liabilities	**19,361**	**8**	**741**	**223**	**20,333**	**13**	**45**	**17**	**25**	**100**
Net opening balance 01 Jan 2023	**19,361**	**8**	**741**	**223**	**20,333**	**13**	**45**	**17**	**25**	**100**
Changes in the statement of profit or loss and OCI										
Changes that relate to current services										
CSM recognised for services provided	—	**(2)**	**(65)**	**(18)**	**(85)**	—	**(6)**	**(6)**	**(9)**	**(21)**
Change in risk adjustment for non-financial risk for risk expired	**(6)**	—	—	—	**(6)**	**(2)**	—	—	—	**(2)**
Experience adjustments	**2**	—	—	—	**2**	**(14)**	—	—	—	**(14)**
Changes that relate to future services										
Contracts initially recognised in the year	**(32)**	—	—	**32**	—	**(4)**	—	—	**5**	**1**
Changes in estimates that adjust the CSM	**57**	**4**	**(31)**	**(30)**	—	**(24)**	**8**	**5**	**10**	**(1)**
Changes in estimates that result in losses and reversal of losses on onerous contracts	**2**	—	—	—	**2**	**1**	—	—	—	**1**
Changes that relate to past services										
Adjustments to liabilities for incurred claims	—	—	—	—	—	**(3)**	—	—	—	**(3)**
Insurance service result	**23**	**2**	**(96)**	**(16)**	**(87)**	**(46)**	**2**	**(1)**	**6**	**(39)**
Net finance expenses from insurance contracts	**1,646**	—	—	—	**1,646**	—	**1**	—	—	**1**
Effect of movements in exchange rates	—	—	—	—	—	—	—	—	—	—
Total changes in the statement of profit or loss and OCI	**1,669**	**2**	**(96)**	**(16)**	**1,559**	**(46)**	**3**	**(1)**	**6**	**(38)**
Cash flows										
Premiums received	**1,218**	—	—	—	**1,218**	**66**	—	—	—	**66**
Claims, other insurance service expenses paid (including investment components) and other cash flows	**(2,155)**	—	—	—	**(2,155)**	**(32)**	—	—	—	**(32)**
Insurance acquisition cash flows	**(13)**	—	—	—	**(13)**	**(3)**	—	—	—	**(3)**
Total cash flows	**(950)**	—	—	—	**(950)**	**31**	—	—	—	**31**
Acquisition of subsidiaries and other movements	—	—	—	—	—	—	—	—	—	—
Net closing balance 31 Dec 2023	**20,080**	**10**	**645**	**207**	**20,942**	**(2)**	**48**	**16**	**31**	**93**
Closing assets	—	—	—	—	—	**(1)**	—	—	**1**	—
Closing liabilities	**20,080**	**10**	**645**	**207**	**20,942**	**(1)**	**48**	**16**	**30**	**93**
Net closing balance 31 Dec 2023	**20,080**	**10**	**645**	**207**	**20,942**	**(2)**	**48**	**16**	**31**	**93**

Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

	Insurance contracts - Life direct participating and investment discretionary participating contracts					Insurance contracts - Life Other contracts				
	2022[3]					2022[3]				
		Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows and risk adjustment[1]	Contracts under fair value approach	Contracts under modified retros-pective approach	Other contracts[2]	Total	Estimates of present value of future cash flows and risk adjustment[1]	Contract under fair value approach	Contracts under modified retros-pective approach	Other contracts[2]	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Opening assets	—	—	—	—	—	—	—	—	—	—
Opening liabilities	23,400	11	619	191	24,221	10	48	23	28	109
Net opening balance 01 Jan 2022	23,400	11	619	191	24,221	10	48	23	28	109
Changes in the statement of profit or loss and OCI										
Changes that relate to current services										
CSM recognised for services provided	—	(1)	(66)	(15)	(82)	—	(5)	(6)	(7)	(18)
Change in risk adjustment for non-financial risk for risk expired	(5)	—	—	—	(5)	(2)	—	—	—	(2)
Experience adjustments	(1)	—	—	—	(1)	(19)	—	—	—	(19)
Changes that relate to future services										
Contracts initially recognised in the year	(43)	—	—	43	—	(6)	—	—	6	—
Changes in estimates that adjust the CSM	(190)	(2)	188	4	—	—	2	—	(2)	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	1	—	—	—	1	1	—	—	—	1
Changes that relate to past services										
Adjustments to liabilities for incurred claims	(1)	—	—	—	(1)	8	—	—	—	8
Insurance service result	(239)	(3)	122	32	(88)	(18)	(3)	(6)	(3)	(30)
Net finance expenses from insurance contracts	(3,357)	—	—	—	(3,357)	(7)	—	—	—	(7)
Effect of movements in exchange rates	—	—	—	—	—	—	—	—	—	—
Total changes in the statement of profit or loss and OCI	(3,596)	(3)	122	32	(3,445)	(25)	(3)	(6)	(3)	(37)
Cash flows										
Premiums received	1,555	—	—	—	1,555	71	—	—	—	71
Claims, other insurance service expenses paid (including investment components) and other cash flows	(1,986)	—	—	—	(1,986)	(34)	—	—	—	(34)
Insurance acquisition cash flows	(12)	—	—	—	(12)	(4)	—	—	—	(4)
Total cash flows	(443)	—	—	—	(443)	33	—	—	—	33
Acquisition of subsidiaries and other movements	—	—	—	—	—	(5)	—	—	—	(5)
Net closing balance 31 Dec 2022	19,361	8	741	223	20,333	13	45	17	25	100
Closing assets	—	—	—	—	—	—	—	—	—	—
Closing liabilities	19,361	8	741	223	20,333	13	45	17	25	100
Net closing balance 31 Dec 2022	19,361	8	741	223	20,333	13	45	17	25	100

1 *The estimates of present value of future cash flows for Insurance contracts with Life direct participating and investment discretionary participating contracts includes risk adjustment of EUR 108 million (2022 EUR 99 million). Similarly the estimates of present value of future cash flows for Other Life insurance contracts includes risk adjustment of EUR (2) million (2022 EUR (4) million).*

2 *Other contracts are those contracts measured by applying IFRS 17 from inception of the contracts. This includes contracts measured under the full retrospective approach at Transition and contracts incepted after Transition.*

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

Effect of contracts initially recognised in the year

	Year ended 31 Dec 2023			Year ended 31 Dec 2022[1]		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
	€m	€m	€m	€m	€m	€m
Life direct participating and investment DPF contracts						
Estimates of present value of cash outflows	**931**	**1**	**932**	1,138	—	1,138
– Insurance acquisition cash flows	**11**	**—**	**11**	12	—	12
– Claims and other insurance service expenses payable	**920**	**1**	**921**	1,126	—	1,126
Estimates of present value of cash inflows	**(967)**	**(1)**	**(968)**	(1,185)	—	(1,185)
Risk adjustment for non-financial risk	**4**	**—**	**4**	4	—	4
CSM	**32**		**32**	43	—	43
Losses recognised on initial recognition	**—**	**—**	**—**	—	—	—
Life other contracts						
Estimates of present value of cash outflows	**15**	**4**	**19**	23	2	25
– Insurance acquisition cash flows	**2**	**—**	**2**	2	—	2
– Claims and other insurance service expenses payable	**13**	**4**	**17**	21	2	23
Estimates of present value of cash inflows	**(21)**	**(3)**	**(24)**	(30)	(1)	(31)
Risk adjustment for non-financial risk	**1**	**—**	**1**	1	—	1
CSM	**5**		**5**	7	—	7
Losses recognised on initial recognition	**—**	**(1)**	**(1)**	—	—	—

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.*

Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	**632**	**736**	**709**	**655**	**580**	**1,762**	**(548)**	**15,447**	**19,973**
Life other contracts	**(2)**	**(8)**	**(9)**	**(8)**	**(7)**	**(17)**	**1**	**32**	**(18)**
Insurance liability future cash flows at 31 Dec 2023	**630**	**728**	**700**	**647**	**573**	**1,745**	**(547)**	**15,479**	**19,955**
Remaining contractual service margin									
Life direct participating and investment DPF contracts	**74**	**70**	**66**	**61**	**57**	**228**	**233**	**73**	**862**
Life other contracts	**14**	**13**	**9**	**8**	**7**	**23**	**16**	**4**	**94**
Remaining contractual service margin at 31 Dec 2023	**88**	**83**	**75**	**69**	**64**	**251**	**249**	**77**	**956**
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	332	368	378	356	314	833	(533)	17,214	19,262
Life other contracts	4	(6)	(6)	(7)	(6)	(17)	—	34	(4)
Insurance liability future cash flows at 31 Dec 2022[1]	336	362	372	349	308	816	(533)	17,248	19,258
Remaining contractual service margin									
Life direct participating and investment DPF contracts	80	76	72	68	63	256	270	88	972
Life other contracts	12	10	9	7	6	21	17	5	87
Remaining contractual service margin at 31 Dec 2022[1]	92	86	81	75	69	277	287	93	1,059

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.*

Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the Summary of material accounting policies (j) Insurance contracts on page 206. The blended average of discount rates used within our most material manufacturing entities are as follows:

	France	Malta
	EUR	EUR
At 31 December 2023		
rate 10Y (%)	**2.96**	**2.42**
rate 20Y (%)	**2.97**	**2.40**
At 31 December 2022		
rate 10Y (%)	3.66	3.10
rate 20Y (%)	3.33	2.73

Sensitivity of HSBC's insurance manufacturing subsidiaries to market risk factors

	At 31 Dec 2023			At 31 Dec 2022		
	Effect on profit after tax	Effect on CSM	Effect on total equity	Effect on profit after tax	Effect on CSM	Effect on total equity
	€m	€m	€m	€m	€m	€m
+100 basis point parallel shift in yield curves	(4)	5	(34)	1	30	(28)
– Insurance & Reinsurance Contracts	2	8	2	5	30	5
– Financial Instruments	(6)	(3)	(36)	(4)	—	(33)
–100 basis point parallel shift in yield curves	(1)	(67)	27	(8)	(121)	21
– Insurance & Reinsurance Contracts	(8)	(70)	(8)	(12)	(121)	(12)
– Financial Instruments	7	3	35	4	—	33
+100 basis point shift in credit spreads	(4)	(39)	(35)	(4)	(34)	(32)
– Insurance & Reinsurance Contracts	(3)	(39)	(3)	(2)	(34)	(2)
– Financial Instruments	(1)	—	(32)	(2)	—	(30)
–100 basis point shift in credit spreads	4	42	35	6	64	34
– Insurance & Reinsurance Contracts	3	42	3	4	64	4
– Financial Instruments	1	—	32	2	—	30
10% increase in growth assets	35	73	35	30	85	30
– Insurance & Reinsurance Contracts	5	73	5	5	85	5
– Financial Instruments	30	—	30	25	—	25
10% decrease in growth assets	(34)	(72)	(34)	(31)	(86)	(31)
– Insurance & Reinsurance Contracts	(5)	(72)	(5)	(5)	(86)	(5)
– Financial Instruments	(29)	—	(29)	(26)	—	(26)
10% appreciation in foreign currencies against local functional currency	—	—	—	—	—	—
– Insurance & Reinsurance Contracts	—	—	—	—	—	—
– Financial Instruments	—	—	—	—	—	—
10% depreciation in foreign currencies against local functional currency	—	—	—	—	—	—
– Insurance & Reinsurance Contracts	—	—	—	—	—	—
– Financial Instruments	—	—	—	—	—	—

Amounts Payable on Demand

	At 31 Dec'23		At 31 Dec'22	
	Amounts Payable on Demand	Carrying Amount for these Contracts	Amounts Payable on Demand	Carrying Amount for these Contracts
	€m	€m	€m	€m
Life direct participating and investment DPF contracts	20,588	20,942	20,807	20,332
Life other contracts	—	93	—	101
Total	20,588	21,035	20,807	20,433

Sensitivity of HSBC's insurance manufacturing subsidiaries to insurance risk factors

	Effect on CSM	Effect on profit after tax (Gross)	Effect on profit after tax (Net)	Effect on profit after tax (Net)	Effect on total equity (Net)
	€m	€m	€m	€m	€m
At 31 Dec'23					
10% increase in mortality and/or morbidity rates	(35)	(2)	(2)	(2)	(2)
10% decrease in mortality and/or morbidity rates	37	2	2	2	2
10% increase in lapse rates	(67)	(6)	(6)	(6)	(6)
10% decrease in lapse rates	73	6	6	6	6
10% increase in expense rates	(25)	(2)	(2)	(2)	(2)
10% decrease in expense rates	25	2	2	2	2
At 31 Dec'22					
10% increase in mortality and/or morbidity rates	(36)	(2)	(2)	(2)	(2)
10% decrease in mortality and/or morbidity rates	37	2	2	2	2
10% increase in lapse rates	(58)	(3)	(4)	(3)	(4)
10% decrease in lapse rates	61	4	4	4	4
10% increase in expense rates	(22)	(1)	(1)	(1)	(1)
10% decrease in expense rates	21	1	1	1	1

Risk management of Insurance operations

Key events during the year

There has been continued market volatility observed over 2023 across interest rates, equity markets and foreign exchange rates. This has been predominantly driven by geopolitical factors and wider inflationary concerns.

A key risk management focus over 2023 was the implementation of the new accounting standard, IFRS17 Insurance Contracts. Given the fundamental nature of the impact of the accounting standard on insurance accounting, this presented additional financial reporting and model risks for the Bank.
More specifically concerning HSBC Continental Europe, 2023 was marked by the project concerning the sale of the French retail banking network to My Money Group / CCF.

Governance

The risk governance framework of HSBC Assurances Vie (France) is organised through several committees, whose responsibility is to manage the exposure of the business to risks according to the limits defined in the risk appetite. The main committees of the risk governance organization are the following:

- the Financial Reporting Committee (previously known as the Actuarial Control Committee) validates the changes in assumptions, methodology and processes that result in a material impact on profit before tax or solvency position;
- the Model Management Meeting validates, controls and monitors the models used by the business;
- the Asset and Liabilities Committee manages asset-liability risk and monitors the economic and regulatory capital levels;
- the Investment Committee manages investment risks (market, credit and liquidity risks);
- the Insurance Risk Committee monitors insurance risks, including the lapse rate (redemption, mortality and morbidity), the reinsurance strategy and the non-economic assumptions used in the models; and
- the Risk Management Meeting (RMM).

The Risk Management Meeting's responsibilities extend to all risks to which the Insurance business is exposed. The RMM uses the reports from the other committees above. The RMM reports to the Audit and Risk Committee of HSBC Assurances Vie (France) with an escalation path for issues and actions.

HSBC Life Assurance (Malta) Ltd has set up a Risk Governance Framework similar to HSBC Assurances Vie (France), in accordance with HSBC Group Policies. The same committees as HSBC Assurances Vie (France) except for the Insurance Risk Committee, which is not mandatory according to HSBC's governance, are accountable for following the insurance and finance risks within HSBC Life Assurance (Malta) Ltd. The role of these committees is aligned with the HSBC Assurances Vie (France) framework.

This section provides disclosures on the risks arising from insurance manufacturing operations including financial risks such as market risk, credit risk and liquidity risk, and insurance risk.

Risks in the insurance manufacturing operations are managed within the insurance entities using methodologies and processes appropriate to the insurance activities and are subject to oversight at HSBC Group Insurance level.

In addition, local subsidiary's Asset and Liabilities Committee monitors and reviews the matching over time of the expected cash flows of insurance assets and liabilities.

All insurance products, whether manufactured internally or by a third party, are subjected to a product approval process prior to introduction.

HSBC Continental Europe's model

HSBC Continental Europe operated until 31 December 2023 within an integrated bancassurance model which provided wealth and protection insurance products principally for customers with whom the HSBC Group had a banking relationship.

This strategy has changed since the 1 January 2024 with the sale of French retail banking activity to CCF which is under the control of My Money Group. The retail banking network used to distribute a predominant part of HSBC Assurances Vie's (France) products. An exclusive distribution agreement was signed with CCF. Only Private Banking and Commercial Banking (CMB) will continue selling insurance products through HSBC's network in France.

HSBC Continental Europe's strategy concerning the insurance business is focused on life business and there is a diversification strategy consisting in the sale of savings and protection contracts in order to mitigate risk.

Key financial risks

HSBC Continental Europe insurance businesses are exposed to a range of risks which can be categorised into:

- Market risk: risks arising from changes in the fair values of financial assets or their future cash flows from fluctuations in variables such as interest rates, foreign exchange rates and equity prices;
- Credit risk: risk of financial loss following the failure of third parties to meet their obligations;
- Liquidity risk: risk of not being able to make payments to policyholders as they fall due as a result of insufficient assets that can be realised as cash; and
- Insurance underwriting risk: risk of affecting the company's profitability or capital due to changes relating to expenses, mortality, morbidity and lapses.

Regulatory requirements prescribe the type, quality and concentration of assets that HSBC Assurances Vie (France) and HSBC Life Assurance (Malta) Ltd must maintain to meet insurance liabilities. These requirements complement the HSBC Group-wide policies.

The following table shows the composition of assets and liabilities by contract type:

Balance sheet of insurance manufacturing subsidiaries by type of contract

(Audited)

	Life Direct Participating and investment DPF contracts[1]	Life other[2]	Other contracts[3]	Shareholder assets and liabilities	Total
	€m	€m	€m	€m	€m
Financial assets	**22,057**	**37**	**96**	**1,214**	**23,404**
– trading assets	**—**	**—**	**—**	**—**	**—**
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**12,634**	**36**	**96**	**579**	**13,345**
– derivatives	**106**	**—**	**—**	**5**	**111**
– financial investments – at amortised cost	**251**	**—**	**—**	**17**	**268**
– financial investments at fair value through other comprehensive income	**7,999**	**—**	**—**	**520**	**8,519**
– other financial assets[4]	**1,067**	**1**	**—**	**93**	**1,161**
Insurance contract assets	**—**	**—**	**—**	**—**	**—**
Reinsurance contract assets	**—**	**12**	**—**	**—**	**12**
Other assets and investment properties	**861**	**1**	**—**	**93**	**955**
Total assets at 31 Dec 2023	**22,918**	**50**	**96**	**1,307**	**24,371**
Liabilities under investment contracts designated at fair value	**—**	**—**	**167**	**—**	**167**
Insurance contract liabilities	**20,942**	**93**	**—**	**—**	**21,035**
Reinsurance contract liabilities	**—**	**4**	**—**	**—**	**4**
Deferred tax	**—**	**—**	**—**	**2**	**2**
Other liabilities	**2,113**	**—**	**—**	**68**	**2,181**
Total liabilities at 31 Dec 2023	**23,055**	**97**	**167**	**70**	**23,389**
Total equity at 31 Dec 2023	**—**	**—**	**—**	**982**	**982**
Total liabilities and equity at 31 Dec 2023	**23,055**	**97**	**167**	**1,052**	**24,371**
Financial assets	21,350	32	100	1,016	22,498
– trading assets	—	—	—	—	—
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	11,122	32	100	433	11,687
– derivatives	262	—	—	13	275
– financial investments – at amortised cost	337	—	—	22	359
– financial investments at fair value through other comprehensive income	8,461	—	—	445	8,906
– other financial assets[4]	1,168	—	—	103	1,271
Reinsurance contract assets	—	13	—	—	13
Other assets and investment properties	819	7	—	147	973
Total assets at 31 Dec 2022[5]	22,169	52	100	1,163	23,484
Liabilities under investment contracts designated at fair value	—	—	168	—	168
Insurance contract liabilities	20,332	101	—	—	20,433
Reinsurance contract liabilities	—	4	—	—	4
Deferred tax	—	—	—	—	—
Other liabilities	2,003	—	—	—	2,003
Total liabilities at 31 Dec 2022[5]	22,335	105	168	—	22,608
Total equity at 31 Dec 2022[5]	—	—	—	876	876
Total liabilities and equity at 31 Dec 2022[5]	22,335	105	168	876	23,484

1 'Life direct participating and investment DPF' contracts are substantially measured under the variable fee approach measurement model.
2 'Life other' contracts are measured under the general measurement model and mainly includes protection insurance contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating and investment discretionary participation feature ('DPF') contracts.
3 'Other contracts' includes investment contracts for which HSBC does not bear significant insurance risk.
4 'Other financial assets' comprise mainly loans and advances to banks, cash and intercompany balances with other non-insurance legal entities.
5 From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.

Figures from the balance sheet are predominantly explained (97 per cent) by HSBC Assurances Vie (France). The growth on the equity markets coupled with the decrease on interest rates explains the rise of assets and equity value, despite HSBC Assurance Vie's (France) portfolio experienced global net outflows over the year.

Market risk of insurance operations

Market risk is the risk of changes in market factors affecting the company's capital or profit. Market factors include interest rates, equity and growth assets and foreign exchange rates.

The main features of products manufactured by the HSBC Group insurance manufacturing companies which generate market risk, and the market risk to which these features expose the company, are discussed below.

Long-term insurance or investment products may incorporate benefits that are guaranteed. Interest rate risk arises to the extent that yields on the assets supporting guaranteed investment returns could be lower than the investment returns implied by the guarantees payable to policyholders.

The income from the insurance and investment contracts with Discretionary Participation Features ('DPF') is primarily invested in bonds; a fraction is allocated to other asset classes - namely equity and growth assets - in order to provide customers with an enhanced potential yield. Although, the risk of the latter is stronger than the one on debt securities. Therefore, insurance companies within HSBC Continental Europe set limits on the maximum amount to be held on equity and growth assets.

The subsidiaries holding such type of product portfolio are at risk of falling market prices when discretionary bonuses cannot fully take it into account. An increase in market volatility may also result in an increase in the value of the guarantee granted to the insured. HSBC Assurances Vie (France) and HSBC Life Assurance (Malta) Ltd bear the shortfall if the yields on investments held to support contracts with guaranteed benefits are less than the returns implied by the guaranteed benefits.

Market risk is also strongly correlated to underwriting risk and especially lapse risk. Long-term insurance and investment products typically permit the policyholder to surrender the policy at any time. When the surrender value is not linked to the value realised from the sale of the associated supporting assets, the subsidiary is exposed to market risk. Namely when customers seek to surrender their policies when asset values are falling, assets may have to be sold at a loss to fund redemptions.

Foreign exchange risk is limited for HSBC Assurances Vie (France) and HSBC Life Assurance (Malta) Ltd. Liabilities are issued in local currency. Therefore, both insurance companies limit their investments in assets presenting a currency risk in order to avoid mismatches between assets and liabilities. This risk is borne only within investment funds since all direct investments are realised in local currency.

For unit-linked contracts, market risk is substantially borne by the policyholder, but market risk exposure typically remains as earned fees are related to the market value of the linked assets.

Each insurance manufacturing subsidiary of the HSBC Group manages market risk by using some or all of the following techniques:

- For products with DPF, adjusting bonus rates to manage the liabilities to policyholders. The effect is that a significant portion of the market risk is borne by the policyholder;
- Structuring asset portfolios to support liability cash flows;
- Using derivatives, to a limited extent, to protect against adverse market movements or better match liability cash flows;
- Periodically reviewing products identified as higher risk, which contain investment guarantees and embedded optionality features linked to savings and investment products;
- Including features designed to mitigate market risk in new products; and
- Selling, to the extent possible, the investments whose risk is considered unacceptable.

In addition to these techniques, HSBC Assurances Vie (France) will set up a new reinsurance treaty on DPF contracts. The treaty is designed to reduce losses in French GAAP (Generally Accepted Accounting Principles) and will therefore reduce not only market risk but all the risks.

Credit risk of insurance operations

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturers:

- Risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- Risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

An assessment of creditworthiness of issuers and counterparties is performed basing itself primarily upon the opinion of HSBC Global Asset Management, internationally recognised rating agencies and other publicly available information.

A number of tools are used to manage and monitor credit risk. These include a Credit Watch Report which contains a watch list of investments with current credit concern, primarily investments that may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly, both individually and combined to lapse risk.

Liquidity risk of insurance operations

Liquidity risk is the risk that an insurance company, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due or can secure them only at excessive cost. Liquidity risk may be shared with policyholders for products with DPF. Liquidity risk in insurance business remains relatively minor when compared to the banking business. It is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

Insurance underwriting risk

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapse and expense rates.

A principal risk faced by HSBC Assurances Vie (France) is that, over time, the costs of acquiring and administering a contract, of claims and of benefits may exceed the aggregate amount of premiums received and investment income. The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, lapse and surrender rates.

In the current situation, the rise in interest rates may lead to an increase in lapses from HSBC Assurances Vie (France) clients, as the bonus rate provided by the euro fund may be below the rate of return of other savings products. Moreover, the sale of the network could also have a significant impact on the lapses and reduce the level of positive inflows (subscriptions and top up).

In the case of massive lapses with the current level of interest rates HSBC Assurances Vie (France) would have to sell a part of its bond portfolio and thus realise a part of its unrealised losses.

For contracts managed by HSBC Life Assurance (Malta) Ltd where death or morbidity is the insured risk, the most significant factor that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle resulting in earlier or more claims than expected.

HSBC Assurances Vie (France) mitigates insurance risk by using two main techniques which are diversification and reinsurance.

Diversification between savings and protection business allows to reduce mortality risk. Savings and pension business are mainly exposed to longevity risk, whilst protection business Is mainly exposed to mortality risk.

Concerning reinsurance, HSBC Assurances Vie (France) has put in place treaties on the protection business with a mix of proportional and non-proportional arrangements. This allows HSBC Assurances Vie (France) to mitigate both catastrophic events or circumstances and significant individual claims. The new reinsurance treaty on savings will reduce the risk of affecting the company’s profitability or capital.

HSBC Life Assurance (Malta) Ltd manages its insurance risk through strict underwriting limits and claims management; approval procedures for new products and pricing reviews; close monitoring of reinsurance arrangements and monitoring of emerging issues. The Company’s underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. For example, the Company balances death risk across its portfolio. Medical selection is also included in the Company’s underwriting procedures, with premium varied to reflect the health condition and family medical history of the applicants.

HSBC Life Assurance (Malta) is also exposed to lapse risk and more precisely to a different trend of lapse on the different types of products. A rise in lapses in profitable products would reduce the profits expected on the in-force book. There is however an exposure to lower lapses on level cover policies where the premium doesn’t cover the cost of the risk anymore in the latter duration of the policies.

7 Employee compensation and benefits

Employee compensation and average number of employees

Employee compensation (continuing operations)

	2023	2022[1]
	€m	€m
Wages and salaries[2]	731	526
Social security costs	192	154
Post-employment benefits	28	6
Year ended 31 Dec	**951**	686

1 In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.

2 Wages and salaries in respect of discontinued operations of EUR 188 million at 31 December 2023 (2022: EUR 172 million) are not included.

Average number of persons employed by HSBC Continental Europe during the year

	2023	2022
Wealth and Personal Banking	4,500	4,070
Commercial Banking	1,482	1,244
Market and Securities Services	1,548	671
Global Banking	413	304
Global Banking and Markets Other	6	1
Corporate Centre	18	13
Support functions and others[1]	3,353	2,576
Year ended 31 Dec[2,3,4]	**11,320**	8,879

1 Including pre-retirement ('CFCS') and expatriates.

2 Permanent contracts ('CDI') and fixed terms contracts ('CDD') within HSBC Continental Europe (including European branches) and its subsidiaries HSBC Global Asset Management (France) and HSBC Assurances Vie (France).

3 Including HSBC Malta and HSBC Germany employees from the transfer date at 30 November 2022 and HSBC Private Bank (Luxembourg) S.A. employees from the transfer date at 2 November 2023.

4 Including employees of retail banking operations in France which has been classified as discontinued operations.

Share-based payments

HSBC Group policy

Since 2006, the general policy of the HSBC Group is to award shares instead of share options (except in the case of a country specific legal and tax regulation).

The shares can be:

- 'Group Performance Shares' subject to performance conditions, granted only to Group Executives; and
- Restricted Shares' without performance conditions, awarded to other employees, part of whose variable compensation is paid in the form of HSBC shares.

Practice at HSBC Continental Europe

HSBC Continental Europe's employees are not granted Group Performance Shares which are reserved for Group Executives.

Employees for whom part of the variable compensation is deferred pursuant to Group rules are granted restricted shares. The same is true for employees identified as risk takers who are subject to special rules regarding variable compensation, 50 per cent of which must be paid in shares for both the immediate and deferred portions.

For employees under French contracts, these shares take the form of "French qualified shares", which benefit from a special social and tax regime.

Movement on 'Restricted Shares'

	Number (000s)
Outstanding at 1 Jan 2023	**6,905**
Granted during the year[1]	**3,940**
Exercised during the year[2]	**(3,626)**
Movements of staff during the year[3]	**(1,129)**
Outstanding at 31 Dec 2023	**6,091**
– of which: exercisable	**—**
Weighted average remaining contractual life (years)	**—**
Outstanding at 1 Jan 2022	3,560
Granted during the year[1]	5,183
Exercised during the year[2]	(4,219)
Movements of staff during the year[3]	2,380
Outstanding at 31 Dec 2022	6,905
– of which: exercisable	—
Weighted average remaining contractual life (years)	—

1 *The weighted average price at grant date in 2023 was EUR 7.20 (2022: EUR 6.41).*
2 *The weighted average price at vesting date in 2023 was EUR 6.69 (2022: EUR 5.85).*
3 *Corresponds to the shares granted to Group employees who joined HSBC Continental Europe during the year net of shares granted to HSBC Continental Europe employees who joined other Group entities and to the shares expired during the year.*

In 2023, EUR 8 million was charged to the income statement in respect of amortisation of the existing plans for HSBC in France (in 2022: EUR 5.5 million).

The vesting period for deferred share awards expected to be granted in 2024, in respect of the 2023 performance year, was determined to have started on 1 January 2023.

Employee share offering

In 2023, HSBC Continental Europe did not issue shares reserved for employees.

Income statement charge (continuing operations)

	2023 €m	2022 €m
Restricted share awards	**15**	20
Savings related and other share option plans	**—**	—
Year ended 31 Dec	**15**	20

Pension and other post-retirement benefits

HSBC Continental Europe operates a number of pension and other post-retirement benefit plans. These plans include both defined benefit and defined contribution plans of which HSBC Germany Pension Plan is the most prominent.

HSBC Continental Europe pension plan in Germany

HSBC Germany Pension Plan is a final salary scheme and is calculated based on the employee length of service multiplied by a predefined benefit accrual and earnings. The pension is paid when the benefit falls due and is a specified pension payment, lump-sum or combination thereof. The plan is overseen by an independent corporate trustee, who has a fiduciary responsibility for the operation of the plan. Its assets are held separately from the assets of the group.

The strategic aim of the investment is to achieve, as continuously as possible, an increase in value over time. For this purpose, the fund invests mainly in government bonds, corporate bonds, investment funds and equities. It invests predominantly in developed regions. Overall, emphasis is placed on having a high degree of diversification.

Plan assets were created to fund the pension obligations and separated through what is known as a contractual trust agreement (CTA). HSBC Trinkaus Vermögenstreuhänder e. V. and HSBC Trinkaus Mitarbeitertreuhänder e. V. assume the role of trustee. Active members of the trustee are Bank employees.

The Bank regularly aims to comprehensively finance the committed benefits externally. There is no obligation to allocate contributions to the CTA. The Bank is entitled to assets that are not needed to fund the committed benefits. No further additions to the plan assets are envisaged at the present time.

In accordance with the Memorandum and Articles of Association, the revenues may only be used, for example, for pension payments or for reinvestment. Similarly, withdrawals may only be made in accordance with the Memorandum and Articles of Association.

The latest measurement of the defined benefit obligation of the plan at 31 December 2023 was carried out by Hans-Peter Kieselmann (Fellow of the German Association of Actuaries ('DAV')) and Helga Bader, at Willis Towers Watson GmbH, using the projected unit credit method. The next measurement will have an effective date of 31 December 2024.

HSBC Continental Europe pension plan in France

HSBC Continental Europe pays each retiree in France a retiring indemnity. The amount is determined by the final earnings, the length of service in the company at this date and the guarantees under collective and internal agreements. Those plans represent 70 per cent of all commitments in France.

In addition, certain retired employees from the bank and HSBC Continental Europe Executive Directors are entitled to defined benefits pension plan. These plans provide the payment of benefits from the date of retirement and represent roughly 25 per cent of all commitments in France. The latest measurement of the defined benefit obligation of the plan at 31 December 2023 was carried out by SPAC Actuaries and the costs recognised for funding these post-employment plans are determined using the projected unit credit method, with annual actuarial valuations performed on each plan. The next measurement will have an effective date of 31 December 2024. Payments to defined contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

Recognition of defined benefit plans

Net (assets)/liabilities recognised on the balance sheet in respect of defined benefit plans

	Fair value of plan assets	Present value of defined benefit obligations	Effect of limit on plan surpluses	Total
	€m	€m	€m	€m
Defined benefit pension plans	**393**	**(421)**	**—**	**(28)**
Defined benefit healthcare plans	**—**	**—**	**—**	**—**
At 31 Dec 2023	**393**	**(421)**	**—**	**(28)**
Total employee benefit liabilities (within ‘Accruals, deferred income and other liabilities’)				**(74)**
Total employee benefit assets (within ‘Prepayments, accrued income and other assets’)				**46**
Defined benefit pension plans	462	(467)	—	(5)
Defined benefit healthcare plans	—	—	—	—
At 31 Dec 2022	462	(467)	—	(5)
Total employee benefit liabilities (within ‘Accruals, deferred income and other liabilities’)				(74)
Total employee benefit assets (within ‘Prepayments, accrued income and other assets’)				69

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets		Present value of defined benefit obligations		Net defined benefit asset/(liability)	
	France & Other plans	Germany	France & Other plans	Germany	France & Other Plans	Germany
	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	**5**	**458**	**(65)**	**(403)**	**(60)**	**55**
Service cost	**—**	**—**	**(1)**	**(8)**	**(1)**	**(8)**
– current service cost	**—**	**—**	**(3)**	**(9)**	**(3)**	**(9)**
– past service cost and gains/(losses) from settlements	**—**	**—**	**2**	**1**	**2**	**1**
Net interest income/(cost) on the net defined benefit asset/(liability)	**—**	**12**	**(3)**	**(11)**	**(3)**	**1**
Re-measurement effects recognised in other comprehensive income	**—**	**7**	**(5)**	**(34)**	**(5)**	**(27)**
– return on plan assets (excluding interest income)	**—**	**7**	**—**	**—**	**—**	**7**
– actuarial gains/(losses)	**—**	**—**	**(5)**	**(34)**	**(5)**	**(34)**
– other changes	**—**	**—**	**—**	**—**	**—**	**—**
Transfers[1]	**—**	**—**	**(3)**	**—**	**(3)**	**—**
Benefits paid	**—**	**—**	**8**	**14**	**8**	**14**
Other movements[2,3]	**—**	**(89)**	**(2)**	**92**	**(2)**	**3**
At 31 Dec 2023	**5**	**388**	**(71)**	**(350)**	**(66)**	**38**
At Jan 2022	5	—	(131)	—	(126)	—
Service cost	—	—	(4)	9	(4)	9
– current service cost	—	—	(7)	8	(7)	8
– past service cost and gains/(losses) from settlements	—		3	1	3	1
Net interest income/(cost) on the net defined benefit asset/(liability)	—	(1)	(1)	(1)	(1)	(2)
Re-measurement effects recognised in other comprehensive income	—	(13)	34	30	34	17
– return on plan assets (excluding interest income)	—	(13)	—	—	—	(13)
– actuarial gains/(losses)	—	—	34	30	34	30
– other changes	—	—	—	—	—	—
Transfers	—	471	—	(440)	—	31
Benefits paid	—	—	8	1	8	1
Other movements[2]	—	1	29	(2)	29	(1)
At 31 Dec 2022	5	458	(65)	(403)	(60)	55

1 *Transfers represents defined benefit obligations of HSBC Private Bank (Luxembourg) S.A.*
2 *Other movements include re-classification to held for sale in the defined benefit obligations of EUR million (2) in 2023 (2022: EUR 27 million) related to retail banking operations in France.*
3 *Other movements for HSBC Germany Pension Plan include reclassification of LAZK plan to long term employee benefits.*

HSBC Germany does not expect to make contributions to the HSBC Germany Pension Plan during 2024. Benefits expected to be paid from the plans to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from plans

	2024	2025	2026	2027	2028	2029–2033
	€m	€m	€m	€m	€m	€m
France[1]	**6**	5	6	5	5	23
Germany[2]	**14**	13	13	14	14	80

1 *The duration of the defined benefit obligation is 9 years for the principal plan under the disclosure assumptions adopted (2022: 9 years) and 9 years for all other plans combined (2022: 9 years). The maturity of commitments remains at 11 years in 2023, as was the case in 2022.*
2 *The duration of the defined benefit obligation is 14.2 years for the HSBC Germany Pension Plan under the disclosure assumptions adopted (2022: 13.7).*

Fair value of plan assets by asset classes

	At 31 Dec 2023				At 31 Dec 2022			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m	€m	€m	€m	€m
France and Other plans								
Fair value of plan assets	5	5	—	—	5	5	—	—
– equities	—	—	—	—	—	—	—	—
– bonds fixed income	4	4	—	—	4	4	—	—
– bonds indexed linked	—	—	—	—	—	—	—	—
– other	1	1	—	—	1	1	—	—
Germany								
Fair value of plan assets	388	358	30	—	457	398	59	—
– equities	3	3	—	—	9	9	—	—
– bonds fixed income	225	225	—	—	195	195	—	—
– bonds indexed linked	8	8	—	—	30	30	—	—
– other	152	123	30	—	223	164	59	—

Post-employment defined benefit plans' principal actuarial assumptions

HSBC Continental Europe determines discount rates to be applied to its obligations in consultation with the plans' local actuaries, based upon the current average yields of high quality (AA rated or equivalent) debt instruments, with maturities consistent with that of the defined benefit obligations.

Key actuarial assumptions

	France				Germany			
	Discount rate	Inflation rate	Rate of increase for pensions[1]	Rate of pay increase	Discount rate	Inflation rate	Rate of increase for pensions	Rate of pay increase
	%	%	%	%	%	%	%	%
At 31 Dec 2023	**3.10**	**2.00**	**2.00**	**2.95**	**3.17**	**2.25**	**2.25**	**2.25**
At 31 Dec 2022	3.70	2.00	0.80	2.96	3.71	2.25	2.25	2.25

1 *In accordance with the social security law, the legal pensions growth rate will be revised to 5.2% from January 2024.*

Mortality tables and average life expectancy at age 60

France	Mortality table	Life expectancy at age 60 for a male member currently: Aged 60	Life expectancy at age 60 for a female member currently: Aged 60
At 31 Dec 2023	**TV–TD 2017 2019**	**23.29**	**27.67**
At 31 Dec 2022	TV–TD 2016 2018	23.18	27.61

Mortality tables and average life expectancy at age 60

		Life expectancy at age 60 for a male member currently:		Life expectancy at age 60 for a female member currently:	
Germany	Mortality table	Aged 60	Aged 40	Aged 60	Aged 40
At 31 Dec 2023	**RT 2018 G[1]**	**25.4**	**28.3**	**29.1**	**31.3**
At 31 Dec 2022	RT 2018 G[1]	25.2	28.2	28.9	31.2

1 *Heubeck tables – RT 2018G – are generally accepted and used mortality tables for occupational pension plans in Germany taking into account future mortality improvements and lighter mortality for higher-paid pensioners.*

Actuarial assumption sensitivities

The following table shows the effect of changes in actuarial assumptions on the principal plans. The discount rate is sensitive to changes in market conditions arising during the reporting period. The mortality rates used are sensitive to experience from the plan member profile.

	France				Germany			
	Financial impact of increase		Financial impact of decrease		Financial impact of increase		Financial impact of decrease	
	2023	2022	**2023**	2022	**2023**	**2022**	**2023**	2022
	€m	€m	**€m**	€m	**€m**	€m	**€m**	€m
Discount rate – increase/decrease of 0.25%	**(2)**	(2)	**2**	2	**(10)**	**(8)**	**10**	**9**
Inflation rate – increase/decrease of 0.25%	**1**	1	**(1)**	(1)	**8**	**8**	**(7)**	**(6)**
Pension payments and deferred pensions – increase/decrease of 0.25%	**1**	1	**(1)**	(1)	**7**	**6**	**(7)**	**(6)**
Pay – increase/decrease of 0.25%	**1**	1	**(1)**	(1)	**2**	**1**	**(1)**	**(1)**
Change in mortality – increase of 1 year	**1**	1	**(1)**	(1)	**11**	**11**	**N/A**	**N/A**

8 Auditors' remuneration

	PricewaterhouseCoopers Audit France[1]		**BDO Paris[1]**	
	Amount (excluding VAT)		**Amount (excluding VAT)**	
	€k	**%**	**€k**	**%**
Fees for account certifications	**4,899**	**89**	**692**	**92**
Fees for other services provided to HSBC Continental Europe	**628**	**11**	**59**	**8**
Year ended 31 Dec 2023	**5,527**	**100**	**751**	**100**
Fees for account certifications	4,013	91	627	88
Fees for other services provided to HSBC Continental Europe	391	9	84	12
Year ended 31 Dec 2022	4,404	100	711	100

1 *This Note is prepared in compliance with ANC regulation 2016-08, 2016-09, 2016-10 and 2016-11 and includes only the fees paid to PricewaterhouseCoopers Audit France and BDO Paris.*

Services other than the account certification at 31 December 2023 for PricewaterhouseCoopers Audit France and BDO Paris mainly concern comfort letters related to the programmes of issuances and interim dividends, legal or regulatory services and also services related to internal control procedures (i.e. report ISAE 3402).

9 Tax

Tax expense (continuing operations)

	2023	2022[1,2]
	€m	€m
Current tax	**295**	72
Deferred tax	**92**	(39)
Current year deferred tax	**94**	(106)
Adjustment in respect of prior years deferred tax	**(2)**	67
Effect of change in tax rate on deferred tax	**—**	—
Year ended 31 Dec	**387**	33

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

HSBC Continental Europe's profits are taxed at different rates depending on the country in which the profits arise. The key applicable corporate income tax rate is France and for fiscal year 2023 the rate is 25 per cent. The social contribution on profit (CSB at 3.3 per cent of the corporate income tax) is maintained and is added to the corporate income tax. Consequently, the applicable tax rate for fiscal year 2023 for French entities is 25.83 per cent (2022: 25.83 per cent).

The final effective tax rate varies depending on the contribution from entities outside of France, notably Germany which has an income tax rate for fiscal year 2023 of 31.5 per cent and other European branches.

Tax risks

In 2018, the French tax authority opened an audit of the tax returns of HLF for the years 2015 and 2016 and this was subsequently extended to cover the years 2018 and 2019. The French tax authorities have reassessed the tax treatment of provisions related to aircraft leasing transactions. During 2023, HLF continued to dispute these reassessments. A provision corresponding to the best estimate of the risk is recorded the balance sheet date and is unchanged from the prior period.

Analysis of overall tax charge

Reconciliation of tax charge (credit) (continuing operations)

	2023		2022[1,2]	
	Continuing tax charges (credit)		Continuing tax charges (credit)	
	€m	**%**	€m	%
Profit/(loss) before tax	**1,475**		220	
Tax expense				
Taxation at French corporate tax rate	**381**	**25.8**	57	25.9
Impact of differently taxed overseas profits in overseas locations	**2**	**0.1**	(10)	(4.5)
Items impacting tax charge:				
– Permanent disallowables	**2**	**0.1**	57	25.9
– Local taxes and overseas withholding taxes	**22**	**1.5**	(6)	(2.7)
– Changes in tax rates	**—**	**—**	—	—
– Non-taxable income and gains subject to tax at a lower rate	**(1)**	**—**	(5)	(2.3)
– Adjustment in respect of prior years	**5**	**0.3**	67	30.5
– Movement in unrecognised deferred tax	**—**	**—**	(137)	(62.3)
– Other items[3]	**(24)**	**(1.6)**	10	4.5
Year ended 31 Dec	**387**	**26.2**	33	15.0

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

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

3 *Majorly driven by AT1 dividends which are deductible in the French Tax regime in 2023. The amount in 2022 is overset by the inclusion of the charge relating to IFRS 5 loss restatements.*

The closing effective tax rate for 2023 of 26.2 per cent (2022: (15.0) per cent) is higher than the French current tax rate of 25.8 per cent (2022: 25.8 per cent), reflecting the impact of the profits generated across jurisdictions including Germany and Malta whose statutory tax rates are 31.5% and 35% respectively. These tax charges for the group are partially offset by results in jurisdictions with tax rates below the French statutory tax rate.

Movement of deferred tax assets and liabilities

	Retirement benefits	Loans impairment allowances	Financial assets at FVOCI	Goodwill and intangibles	Tax losses	Expenses /loss provisions	Other[1]	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Assets	**37**	**58**	**451**	**12**	**677**	**115**	**—**	**1,350**
Liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**(250)**	**(250)**
At 1 Jan 2023	**37**	**58**	**451**	**12**	**677**	**115**	**(250)**	**1,100**
Income statement (continuing operations)		**2**	**(1)**	**(6)**	**(17)**	**1**	**(71)**	**(92)**
Income statement (discontinued operations)	**—**	**(2)**	**—**	**—**	**—**	**(27)**	**23**	**(6)**
Other comprehensive income (continuing operations)	**9**	**—**	**(135)**	**—**	**—**	**—**	**78**	**(48)**
Other comprehensive income (discontinued operations)	**1**	**—**	**—**	**—**	**—**	**—**	**(3)**	**(2)**
Equity	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange and other adjustments[2]	**(1)**	**4**	**10**	**(1)**	**—**	**2**	**(14)**	**—**
At 31 Dec 2023	**46**	**62**	**325**	**5**	**660**	**91**	**(237)**	**952**
Assets	**46**	**62**	**325**	**5**	**660**	**91**	**—**	**1,189**
Liabilities	**—**	**—**	**—**	**—**	**—**	**—**	**(237)**	**(237)**
Assets	33	45	—	24	368	—	303	773
Liabilities	—	—	(238)	—	—	(316)	—	(554)
At 1 Jan 2022[3]	33	45	(238)	24	368	(316)	303	219
Income statement (continuing operations)	(9)	(8)	582	(12)	114	(19)	(609)	39
Income statement (discontinued operations)	—	(1)	(3)	—	195	450	(23)	618
Other comprehensive income (continuing operations)	(9)	—	78	—	—	—	23	92
Other comprehensive income (discontinued operations)	(3)	—	—	—	—	—	(3)	(6)
Equity	—	—	—	—	—	—	—	—
Foreign exchange and other adjustments	25	22	32	—	—	—	59	138
At 31 Dec 2022[3]	37	58	451	12	677	115	(250)	1,100
Assets[3]	37	58	451	12	677	115	—	1,350
Liabilities[3]	—	—	—	—	—	—	(250)	(250)

1 *Deferred tax in 'Other' includes notably deferred tax assets from derivatives (EUR 32 million) and deferred tax liability from Insurance(EUR 227 million)*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. The 2022 figures have been presented to include the impact of IFRS17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'.*
3 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

French tax group

At 31 December 2023, the French tax group reports a net deferred tax asset of EUR 798 million (2022: EUR 679 million) including EUR 652 million (2022: EUR 664 million) in respect of tax losses carried forward, representing all the available tax losses of the French tax group.

During 2023, management reassessed the likely availability of future taxable profits against which to recover the deferred tax assets of the French tax group, taking into consideration the reversal of existing taxable temporary differences, the drivers of past business performance, and management's latest forecasts of future business performance, taking into account forecasting uncertainty. Following the sale of the retail banking operations on 1 January 2024, the impact of the retail banking operations in France has been excluded from future taxable profits on which our deferred tax recognition judgement has been based. These tax losses have no expiry date for recovery and are forecast to be recovered in 10-13 years.

Unrecognised deferred tax

The Group has no unrecognised deferred tax at 31 December 2023 (2022: nil).

CVAE

Since 2014, the CVAE contribution (cotisation sur la valeur ajoutée des entreprises) is included in 'Income Tax'. In 2023, the current tax charge is EUR 9 million (2022: EUR 11 million) and the deferred tax charge is EUR 1 million (2022: deferred tax credit of EUR 23 million).

Tax expense (discontinued operations)

	2023		2022[1,2]	
	Tax charge/(credit) on loss on discontinuance	**Tax charge/(credit) on ordinary activities**	Tax charge/(credit) on loss on discontinuance	Tax charge/(credit) on ordinary activities
	€m	**€m**	€m	€m
Profit/(loss) before tax	**143**	**(360)**	(1,998)	91
Current Tax	**12**	**(55)**	—	(14)
Deferred Tax	**25**	**(19)**	(656)	38
Total tax charge	**37**	**(74)**	(656)	24

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

HSBC Continental Europe French Retail operations is a separate major line of business and is treated as a CGU (cash generating unit) for reporting and management perspective. The sale of retail operations meets the criteria of discontinued operations under IFRS 5 and, accordingly, the tax expense associated with the loss on discontinuance and the ordinary activities of the discontinued operations are shown above.

In 2023, HSBC Continental Europe recognised a reduction in the Held for Sale loss on the sale of retail operations of EUR 143 million, generating a tax charge of EUR 37 million and a loss on discontinued ordinary activities of EUR 360 million on which EUR 74 million tax credit was recorded.

10 Dividends

Dividends to shareholders of the parent company

	2023		2022	
	Per share	**Total**	Per share	Total
	€	**€m**	€	€m
Dividends paid on ordinary shares				
In respect of previous year:				
– exceptional dividend	**—**	**—**	—	—
– dividend paid	**—**	**—**	—	—
In respect of current year:				
– first interim dividend	**—**	**—**	—	—
Total dividend paid to shareholders	**—**	**—**	—	—
Total coupons on capital instruments classified as equity		**78**		39

Dividends related to 2023

The Board of Directors meeting held on 20 February 2024 proposed to the Ordinary General Meeting called on 25 March 2024, not to distribute a dividend in respect of the year 2023.

Dividends related to 2022

On 23 March 2023, the Ordinary General Meeting approved the recommendation made by the Board of Directors, on 20 February 2023, not to distribute a dividend in respect of the year 2022.

Dividends per share

	2023	2022
	€	€
Dividends per share[1]	**—**	—

1 *Coupons paid on other equity instruments are not included in the calculation of the dividends per share.*

Other equity instruments

Total coupons on capital instruments classified as equity

	First call date	2023 €m	2022 €m
Perpetual subordinated capital instruments			
– EUR 200 million issued at 5.73%[1]	May 2022	**12**	10
– EUR 300 million issued at 6.45%[2]	March 2023	**16**	12
– EUR 250 million issued at 3.46%	December 2024	**9**	9
– EUR 250 million issued at 3M Euribor+ 4.06%	March 2027	**18**	8
– EUR 235 million issued at 5Y Euro Swap Rate + 5.55%[3]	January 2022	**13**	—
– EUR 200 million issued at 5.039%	January 2025	**10**	—
Total		**78**	39

1 *On 26 May 2022, the interest on the EUR 200 million perpetual subordinated security issued on 26 May 2017 at 4.56 per cent was revised to 5.73 per cent. The instrument is callable on any date after the first call date.*
2 *On 28 March 2023, the interest on the EUR 300 million perpetual subordinated security issued on 28 March 2018 at 4.00 per cent was revised to 6.45 per cent. The instrument is callable on any date after the first call date.*
3 *The interest on EUR 235 million perpetual subordinated security issued in 2016 at 5.65 per cent revised to 5Y Euro Swap Rate + 5.55 per cent in January 2022.*

11 Earnings per share

Basic earnings per ordinary share were calculated by dividing the basic earnings of EUR 883 million by the weighted average number of ordinary shares outstanding during the year, excluding own shares held, of 212,466,555 (full year 2022: earnings of EUR (1092) million and 132,279,780 weighted average number of shares).

Diluted earnings per share were calculated by dividing the basic earnings, which require no adjustment for the dilutive of potential ordinary shares (including share options outstanding not yet exercised), by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of all the potential dilutive ordinary shares of 212,466,555 (full year 2022: 132,279,780 shares). At 31 December 2023, no potentially dilutive ordinary share had been issued.

Basic and diluted earnings per share

	2023			2022[1,2]		
	Profit/ (loss) €m	**Number of shares (million)**	**Per share €**	Profit/ (loss) €m	Number of shares (million)	Per share €
Basic earnings per share	**883**	**212**	**4.17**	(1,092)	132	(8.27)
Diluted earnings per share	**883**	**212**	**4.17**	(1,092)	132	(8.27)
– Basic/Diluted earnings per ordinary share in respect of continuing operations	**1,063**	**212**	**5.01**	183	132	1.39
– Basic/Diluted earnings per ordinary share in respect of discontinued operations	**(180)**	**212**	**(0.84)**	(1,275)	132	(9.66)

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*
2 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*

12 Trading assets

	2023 €m	2022 €m
Treasury and other eligible bills	**524**	735
Debt securities	**13,419**	8,931
Equity securities	**2,809**	3,017
Trading securities	**16,752**	12,683
Loans and advances to banks	**99**	193
Loans and advances to customers	**398**	901
Year ended 31 Dec	**17,249**	13,777

13 Fair values of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, we source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, *inter alia:*

- the extent to which prices may be expected to represent genuine traded or tradeable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using valuation models, the control framework may include, as applicable, development or validation by independent support function of: (i) the logic within valuation models; (ii) the inputs to these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, model outputs.

Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Financial liabilities measured at fair value

In certain circumstances, HSBC Continental Europe records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are based either on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread that is appropriate to the HSBC Continental Europe's liabilities.

Structured notes issued and certain other hybrid instruments are included within trading liabilities and are measured at fair value.The spread applied to these instruments is derived from the spreads at which HSBC Continental Europe issues structured notes.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – Valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC Continental Europe can access at the measurement date.
- Level 2 – Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – Valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Breakdown of financial instruments recorded at fair value by level of fair value measurement

Financial instruments carried at fair value and bases of valuation

	2023				2022[1]			
	Level 1 – quoted market price	**Level 2 – using observ-able inputs**	**Level 3 – with significant non-observable inputs**	**Total**	Level 1 – quoted market price	Level 2 – using observ-able inputs	Level 3 – with significant non-observable inputs	Total
At 31 Dec 2023	**€m**	**€m**	**€m**	**€m**	€m	€m	€m	€m
Assets								
Trading assets	**16,040**	**969**	**240**	**17,249**	12,098	1,025	654	13,777
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**4,269**	**7,149**	**2,172**	**13,590**	3,753	6,175	2,242	12,170
Derivatives	**341**	**45,003**	**178**	**45,522**	322	59,444	194	59,960
Financial investments[2]	**10,733**	**9,331**	**797**	**20,861**	8,590	8,126	1,262	17,978
Assets held for sale	**—**	**—**	**69**	**69**	76	—	44	120
Liabilities								
Trading liabilities	**18,944**	**933**	**—**	**19,877**	16,310	1,185	14	17,509
Financial liabilities designated at fair value	**155**	**8,018**	**1,523**	**9,696**	157	7,408	1,484	9,049
Derivatives	**531**	**42,843**	**256**	**43,630**	92	55,257	377	55,726
Liabilities of disposal groups held for sale	**—**	**2,145**	**—**	**2,145**	—	3,307	—	3,307

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 *The review of levelling assessment on some Financial investments of Insurance business led to a reclassification from Level 3 to Level 2 for EUR 376 million in 2023.*

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial Investments	**Trading assets**	**Designated and otherwise mandatorily measured at fair value through profit or loss**	**Derivatives**	**Trading Liabilities**	**Designated at fair value**	**Derivatives**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
At 31 Dec 2023							
Transfers from Level 1 to Level 2	**29**	**2**	**—**	**—**	**—**	**—**	**—**
Transfers from Level 2 to Level 1	**140**	**98**	**—**	**—**	**40**	**—**	**—**
At 31 Dec 2022							
Transfers from Level 1 to Level 2	145	275	—	—	1	—	—
Transfers from Level 2 to Level 1	215	193	—	—	—	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarterly reporting period. Transfers into and out of levels of the fair value hierarchy are normally attributable to observability of valuation inputs and price transparency.

Fair value adjustments

Fair value adjustments are adopted when we determine there are additional factors considered by market participants that are not incorporated within the valuation model.

Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement, such as when models are enhanced and fair value adjustments may no longer be required.

Bid-offer

IFRS 13 'Fair value measurement' requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions than those used in the valuation model.

Credit Valuation adjustment ('CVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and that HSBC Continental Europe may not receive the full market value of the transactions.

Debit valuation adjustment ('DVA')

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that HSBC Continental Europe may default, and that it may not pay the full market value of the transactions.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available, and is adjusted for events that may terminate the exposure, such as the default of HSBC Continental Europe or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted by HSBC Continental Europe when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial Invest-ments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total Assets	Trading liabilities	Designated at fair value	Derivatives	Total liabilities
	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2023									
Private equity including strategic investments	**13**	**1**	**1,918**	**—**	**1,932**	**—**	**523**	**—**	**523**
Structured notes	**—**	**—**	**—**	**—**	**—**	**—**	**984**	**—**	**984**
Derivatives	**—**	**—**	**—**	**178**	**178**	**—**	**—**	**256**	**256**
Other portfolios	**784**	**239**	**254**	**—**	**1,277**	**—**	**16**	**—**	**16**
Total	**797**	**240**	**2,172**	**178**	**3,387**	**—**	**1,523**	**256**	**1,779**
At 31 Dec 2022									
Private equity including strategic investments	35	1	2,037	—	2,073	1	—	—	1
Structured notes	—	—	—	—	—	—	1,484	—	1,484
Derivatives	—	—	—	194	194	—	—	377	377
Other portfolios	1,227	653	205	—	2,085	13	—	—	13
Total	1,262	654	2,242	194	4,352	14	1,484	377	1,875

Private equity including strategic investments

HSBC Continental Europe's private equity positions are generally classified as financial investments and are not traded on an active market. In the absence of an active market for the investment, fair value is estimated based upon an analysis of the investee's financial position and results, risk profile, prospects and other factors as well as reference to market valuations for similar entities quoted on an active market, or the price at which similar companies have changed ownership. Fair value investment estimation being subjected to judgement and uncertainty subjective factors remain until the private equity investment is sold.

Structured notes

For structured notes whose fair value is derived from a valuation technique, the fair value will be derived from the fair value of the underlying debt security and the fair value of the embedded derivative will be determined as described in the section below on derivatives. These structured notes comprise principally equity-linked notes and rate-linked notes, issued by HSBC Continental Europe, which provide the counterparty with a return linked to the performance of equity securities and other portfolios. Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

Derivatives

Over-the-counter (i.e. non-exchange traded) derivatives valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivative products, such as interest rate swaps and European options, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some divergence in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Finally, some inputs are not observable, but can generally be estimated from historic data or other sources.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designaed at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2023	**1,262**	**654**	**2,242**	**194**	**14**	**1,484**	**377**
Total gains/(losses) recognised in profit or loss	(3)	(3)	(84)	275	4	54	166
– net income/(expense) from financial instruments held for trading or managed on a fair value basis[1]	—	(3)	—	275	4	—	166
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	(84)	—	—	54	—
– gains less losses from financial investments at fair value through other comprehensive income	(3)	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	32	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	32	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	59	87	78	—	—	—	—
New issuances	—	2	—	—	2	528	—
Sales	(183)	(456)	(25)	—	—	(2)	—
Settlements[1]	(25)	(8)	—	(316)	(20)	(319)	(264)
Transfer out[2]	(473)	(82)	(39)	(30)	—	(243)	(55)
Transfer in	128	46	—	55	—	21	32
At 31 Dec 2023	**797**	**240**	**2,172**	**178**	**—**	**1,523**	**256**
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2023	—	(1)	(85)	54	—	(43)	(15)
– trading income/(expense) excluding net interest income	—	(1)	—	54	—	—	(15)
– net income/(expense) from other financial instruments designated at fair value	—	—	(85)	—	—	(43)	—

Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial Investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designa-ted at fair value	Derivatives
	€m	€m	€m	€m	€m	€m	€m
At 1 Jan 2022	999	10	2,284	118	—	665	160
Total gains/(losses) recognised in profit or loss	—	4	79	10	(1)	(82)	133
– net income/(expense) from financial instruments held for trading or managed on a fair value basis	—	4	—	10	(1)	—	133
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	79	—	—	(82)	—
– gains less losses from financial investments at fair value through other comprehensive income	—	—	—	—	—	—	—
Total gains/(losses) recognised in other comprehensive income	(276)	—	—	—	—	—	—
– financial investments: fair value gains/(losses)	(276)	—	—	—	—	—	—
– exchange differences	—	—	—	—	—	—	—
Purchases	703	660	208	—	—	—	—
New issuances	—	—	—	—	—	822	—
Sales	(167)	(65)	(289)	—	—	(91)	—
Settlements[3]	—	1	(40)	(16)	15	(22)	11
Transfer out	—	—	—	(18)	—	(108)	(80)
Transfer in	3	44	—	100	—	300	153
At 31 Dec 2022	1,262	654	2,242	194	14	1,484	377
Unrealised gains/(losses) recognised in profit or loss relating to assets and liabilities held at 31 Dec 2022	—	(5)	55	7	1	13	(115)
– trading income/(expense) excluding net interest income	—	(5)	—	7	1	—	(115)
– net income/(expense) from other financial instruments designated at fair value	—	—	55	—	—	13	—

1 *"Settlements" in 2023 includes re-classification to held for sale of financial investments of EUR 25 million related to retail banking operations in France.*
2 *'Transfer out' in 2023 includes re-classification from Level 3 to Level 2 of Financial Investments of EUR 376 million related to the review of levelling assessment on some of Insurance business.*
3 *"Settlements" in 2022 includes re-classification to held for sale of instruments designated at fair value of EUR 44 million related to retail banking operations in France, EUR 10 million of instruments designated at fair value and EUR 15 million of trading liabilities related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c.*

Effects of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions

	At 31 Dec 2023				At 31 Dec 2022			
	Reflected in profit or loss		Reflected in other comprehensive Income		Reflected in profit or loss		Reflected in other comprehensive Income	
	Favourable changes	Unfavour-able changes	Favourable changes	Unfavour-able changes	Favourable changes	Unfavour-able changes	Favourable changes	Unfavour-able changes
	€m	€m	€m	€m	€m	€m	€m	€m
Derivatives/trading assets/trading liabilities[1]	**6**	**(6)**	**—**	**—**	7	(7)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value	**110**	**(110)**	**—**	**—**	113	(113)	—	—
Financial investments	**—**	**—**	**17**	**(20)**	—	—	10	(10)
Total	**116**	**(116)**	**17**	**(20)**	120	(120)	10	(10)

1 *Derivatives, trading assets and trading liabilities are presented as one category to reflect the manner in which these financial instruments are risk-managed.*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	€m	€m	€m	€m
At 31 Dec 2023				
Private equity including strategic investments	**103**	**(103)**	**1**	**(1)**
Structured notes	**1**	**(1)**	**—**	**—**
Derivatives	**4**	**(4)**	**—**	**—**
Other portfolios	**8**	**(8)**	**16**	**(19)**
Total	**116**	**(116)**	**17**	**(20)**
At 31 Dec 2022				
Private equity including strategic investments	110	(110)	3	(3)
Structured notes	1	(1)	—	—
Derivatives	2	(2)	—	—
Other portfolios	7	(7)	7	(7)
Total	120	(120)	10	(10)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95 per cent confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or most unfavourable change from varying the assumptions individually.

Key unobservable inputs to Level 3 financial instruments

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value[1]				Full range of inputs	
	Assets €m	Liabilities €m	Valuation technique	Key unobservable inputs	Lower %	Higher %
At 31 Dec 2023						
Private equity including strategic investments	**1,932**	**523**	**See notes below**	**See notes below**	**N/A**	**N/A**
Asset-backed securities						
– CLO/CDO[2]	**—**	**—**	**Market proxy**	**Bid quotes**	**—**	**—**
– other ABSs	**—**	**—**				
Structured notes	**—**	**984**				
– equity-linked notes	**—**	**641**	**Model – Option model**	**Equity volatility**	**8**	**35**
			Model – Option model	**Equity Correlation**	**46**	**97**
– FX-linked notes	**—**	**—**	**Model – Option model**	**FX volatility**	**—**	**—**
– other	**—**	**343**				
Derivatives	**178**	**256**				
Interest rate derivatives	**134**	**166**				
– securitisation swaps	**3**	**3**	**Model – DCF[3]**	**Prepayment rate**	**5**	**10**
– long-dated swaptions	**—**	**—**	**Model – Option model**	**IR volatility**	**—**	**—**
– other	**131**	**163**				
Foreign exchange derivatives	**16**	**16**				
– foreign exchange options	**16**	**16**	**Model – Option model**	**FX volatility**	**4**	**17**
Equity derivatives	**26**	**62**				
– long-dated single stock options	**—**	**—**	**Model – Option model**	**Equity volatility**	**—**	**—**
– other	**26**	**62**				
Credit derivatives	**2**	**12**				
– other	**2**	**12**				
Other portfolios	**1,277**	**16**				
Total Level 3	**3,387**	**1,779**				
At 31 Dec 2022						
Private equity including strategic investments	2,073	1	See notes below	See notes below	N/A	N/A
Asset-backed securities						
– CLO/CDO[2]	—	—	Market proxy	Bid quotes	—	—
– other ABSs	—	—				
Structured notes	—	1,484				
– equity-linked notes	—	1,171	Model – Option model	Equity volatility	—	—
			Model – Option model	Equity Correlation	56	91
– FX-linked notes	—	—	Model – Option model	FX volatility	—	—
– other	—	313				
Derivatives	194	377				
Interest rate derivatives	149	257				
– securitisation swaps	—	4	Model – DCF3	Prepayment rate	5	10
– long-dated swaptions	—	—	Model – Option model	IR volatility	—	—
– other	149	253				
Foreign exchange derivatives	11	10				
– foreign exchange options	11	10	Model – Option model	FX volatility		
Equity derivatives	34	107				
– long-dated single stock options	—	—	Model – Option model	Equity volatility	—	—
– other	34	107				
Credit derivatives	—	3				
– other	—	3				
Other portfolios	2,085	13				
Total Level 3	4,352	1,875				

1 *Including Level 3 balances with HSBC entities.*
2 *Collateralised Loan Obligation/Collateralised Debt Obligation.*
3 *Discounted cash flow.*

Private equity including strategic investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs.

Prepayment rates

Prepayment rates are a measure of the anticipated future speed at which a loan portfolio will be repaid in advance of the due date. They vary according to the nature of the loan portfolio and expectations of future market conditions, and may be estimated using a variety of evidence, such as prepayment rates implied from proxy observable security prices, current or historical prepayment rates and macroeconomic modelling.

Market proxy

Market proxy pricing may be used for an instrument for which specific market pricing is not available, but evidence is available in respect of instruments that have some characteristics in common. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option.

Certain volatilities, typically those of a longer-dated nature, are unobservable and estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price. The core range is significantly narrower than the full range because these examples with extreme volatilities occur relatively rarely within the HSBC Continental Europe portfolio.

Correlation

Correlation is a measure of the inter-relationship between two market prices, and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, HSBC Continental Europe trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Credit spread

Credit spread is the premium over a benchmark interest rate required by the market to accept lower credit quality. In a discounted cash flow model, the credit spread increases the discount factors applied to future cash flows, thereby reducing the value of an asset. Credit spreads may be implied from market prices and may not be observable in more illiquid markets.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events. Furthermore, the effect of changing market variables on the HSBC Continental Europe portfolio will depend on its net risk position in respect of each variable.

14 Fair values of financial instruments not carried at fair value

Fair value of financial instruments not carried at fair value and basis of valuation

		Fair value			
	Carrying amount	Level 1 – Quoted market price	Level 2 – Using observable inputs	Level 3 – Significant unobservable inputs	Total
	€m	€m	€m	€m	€m
At 31 Dec 2023					
Assets					
Loans and advances to banks	**5,816**	**—**	**5,816**	**—**	**5,816**
Loans and advances to customers	**50,127[1]**	**—**	**—**	**49,547**	**49,547**
Reverse repurchase agreements – non-trading	**24,490**	**—**	**24,490**	**—**	**24,490**
Financial investments: debt securities at amortised cost	**1,747**	**884**	**860**	**3**	**1,747**
Liabilities					
Deposits by banks	**8,904**	**—**	**8,913**	**—**	**8,913**
Customer accounts	**95,247**	**—**	**95,393**	**—**	**95,393**
Repurchase agreements – non-trading	**11,153**	**—**	**11,153**	**—**	**11,153**
Debt securities in issue	**12,909**	**—**	**12,949**	**—**	**12,949**
Subordinated liabilities	**1,951**	**—**	**1,986**	**—**	**1,986**
At 31 Dec 2022					
Assets					
Loans and advances to banks	7,233	—	7,235	—	7,235
Loans and advances to customers	42,340	—	—	42,337	42,337
Reverse repurchase agreements – non-trading	15,374	—	15,374	—	15,374
Financial investments: debt securities at amortised cost	1,157	367	745	7	1,119
Liabilities					
Deposits by banks	11,182	—	11,252	—	11,252
Customer accounts	83,692	—	83,701	—	83,701
Repurchase agreements – non-trading	6,655	—	6,654	—	6,654
Debt securities in issue	6,861	—	6,861	—	6,861
Subordinated liabilities	2,023	—	2,064	—	2,064

1 *Includes EUR 7.1 billion of home and other loans following the sale of retail banking operations in France. The valuation of this portfolio of loans may be substantially different in the event of a sale due to deal-specific factors, including funding costs, and interest rates.*

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks and items in the course of collection from and transmission to other banks, all of which are measured at amortised cost.

Valuation

The fair value measurement is HSBC Continental Europe's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs expected to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third-party brokers which reflect over-the-counter trading activity; forward-looking discounted cash flow models using assumptions which HSBC Continental Europe believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

15 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2023	2022
	Designated at fair value and otherwise mandatorily measured at fair value	Designated at fair value and otherwise mandatorily measured at fair value
	€m	€m
Securities	13,590	12,170
– debt securities	2,267	2,301
– equity securities	11,323	9,869
Loans and advances to banks and customers	—	—
Year ended 31 Dec	**13,590**	12,170

16 Derivatives

Notional contract amounts and fair values of derivatives by product contract type held by HSBC Continental Europe

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading	Hedging	Trading	Hedging	Total	Trading	Hedging	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Foreign exchange	1,053,255	9	11,683	—	11,683	12,015	—	12,015
Interest rate	3,763,564	30,214	52,358	169	52,527	49,950	75	50,025
Equities	84,491	—	620	—	620	874	—	874
Credit	8,945	—	99	—	99	122	—	122
Commodity and other	1,427	—	72	—	72	73	—	73
Gross total fair values	4,911,682	30,223	64,832	169	65,001	63,034	75	63,109
Offset (Note 28)			(19,479)		(19,479)	(19,479)		(19,479)
At 31 Dec 2023	4,911,682	30,223	45,353	169	45,522	43,555	75	43,630
Foreign exchange	997,180	—	15,593	—	15,593	16,113	—	16,113
Interest rate	3,963,684	25,695	66,995	225	67,220	62,386	43	62,429
Equities	48,198	—	487	—	487	509	—	509
Credit	8,748	—	57	—	57	70	—	70
Commodity and other	5,583	—	68	—	68	70	—	70
Gross total fair values	5,023,393	25,695	83,200	225	83,425	79,148	43	79,191
Offset (Note 28)	—	—	(23,465)	—	(23,465)	(23,465)	—	(23,465)
At 31 Dec 2022	5,023,393	25,695	59,735	225	59,960	55,683	43	55,726

The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Derivative asset and liability fair values decreased during 2023, driven mainly by yield curve movements and changes in foreign exchange rates.

Use of derivatives

HSBC Continental Europe undertakes derivatives activity for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge our own risks.

Trading derivatives

Most of HSBC Continental Europe's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Derivatives valued using models with unobservable inputs

The difference between the fair value at initial recognition (the transaction price) and the value that would have been derived had the valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is in the following table:

Unamortised balance of derivatives valued using models with significant unobservable inputs

	2023	2022
	€m	€m
Unamortised balance at 1 Jan	**8**	—
Deferral on new transactions	**9**	12
Recognised in the income statement during the year:	**(13)**	(5)
– amortisation	**(10)**	(4)
– subsequent to unobservable inputs becoming observable	**—**	—
– maturity, termination or offsetting derivative	**(3)**	(1)
– risk hedged	**—**	—
Exchange differences and other	**—**	1
At 31 Dec	**4**	8

Hedge Accounting derivatives

HSBC Continental Europe uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables us to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, or cash flow hedges, or hedges in net investment of foreign operations. These are described under the relevant headings below.

Fair value hedges

HSBC Continental Europe's fair value hedges principally consist of interest rate swaps that are used to protect against changes due to movements in market interest rates in the fair value of fixed-rate long-term financial instruments of portfolio and fixed rates loans. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the hedging period.

Hedging instrument by hedged risk

	Hedging Instrument				
		Carrying amount			
	Notional amount[1]	Assets	Liabilities	Balance sheet presentation	Change in fair value
Hedged Risk	**€m**	**€m**	**€m**		**€m**
Interest rate[2]	**10,819**	**165**	**52**	**Derivatives**	**(374)**
At 31 Dec 2023	**10,819**	**165**	**52**		**(374)**
Interest rate[2]	9,355	221	28	Derivatives	422
At 31 Dec 2022	9,355	221	28		422

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *The hedged risk 'interest rate' includes inflation risk.*

Hedged item by hedged risk

	Hedged Item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation	Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
Hedged Risk	€m	€m	€m	€m		€m	€m	
	10,047	**—**	**(147)**	**—**	**Financial assets at fair value through other comprehensive income**	**332**		
	—	**—**	**—**	**—**	**L&A to Banks**	**—**		
	668	**—**	**(17)**	**—**	**L&A to Customers**	**20**		
Interest rate[2]	**—**	**—**	**—**	**—**	**Reverse repurchase agreements non-trading**	**14**	**(8)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	—	**—**	**—**	**—**	**HTC (Amortised Cost)**	**—**		
	—	**32**	**—**	**(5)**	**Debt securities in issue**	**—**		
	—	**—**	**—**	**—**	**Subordinated liabilities and deposits by Banks**	**—**		
At 31 Dec 2023	**10,715**	**32**	**(164)**	**(5)**		**366**	**(8)**	
	7,194		(511)		Financial assets at fair value through other comprehensive income	(358)		
	—		—		L&A to Banks	—		
	797		(38)		L&A to Customers	(47)		
Interest rate[2]	486		(17)		Reverse repurchase agreements non-trading	(17)	—	Net income from financial instruments held for trading or managed on a fair value basis
	—	—	—	—	HTC (Amortised Cost)	—		
		—		—	Debt securities in issue	—		
		37		—	Subordinated liabilities and deposits by Banks	—		
At 31 Dec 2022	8,477	37	(566)	—		(422)		

1 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*
2 *The hedged risk 'interest rate' includes inflation risk.*

Cash flow hedges

HSBC Continental Europe's cash flow hedging instruments consist principally of interest rate swaps and cross-currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign-currency basis.

HSBC Continental Europe applies macro cash flow hedging for interest-rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

Hedging instrument by hedged risk

	Hedging Instrument				Hedged Item	Ineffectiveness	
	Notional amount[1]	Carrying amount		Balance sheet presentation	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
		Assets	Liabilities					
Hedged Risk	**€m**	**€m**	**€m**		**€m**	**€m**	**€m**	
Foreign currency	**9**	**—**	**—**	**Derivatives**	**—**	**—**	**—**	**Net income from financial instruments held for trading or managed on a fair value basis**
Interest rate	**19,395**	**4**	**23**		**244**	**225**	**19**	
At 31 Dec 2023	**19,404**	**4**	**23**		**244**	**225**	**19**	
Foreign currency	—	—	—	Derivatives	—	—	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	16,340	4	15		(379)	(365)	(13)	
At 31 Dec 2022	16,340	4	15		(379)	(365)	(13)	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*
2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*
3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

Sources of hedge ineffectiveness may arise from basis risk including, but not limited to timing differences between the hedged items and hedging instruments, and hedges using instruments with a non-zero fair value.

Analysis of other comprehensive income by risk type

	Interest rate	Foreign Currency
	€m	€m
Cash flow hedging reserve at 1 Jan 2023	**(232)**	**—**
Fair value gains/(losses)	**225**	**—**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	**2**	**—**
Income taxes	**(59)**	**—**
Others	**—**	**—**
Cash flow hedging reserve at 31 Dec 2023	**(64)**	**—**
Cash flow hedging reserve at 1 Jan 2022	37	—
Fair value gains/(losses)	(365)	—
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of hedged items that has affected profit or loss	2	—
Income taxes	95	—
Others	—	—
Cash flow hedging reserve at 31 Dec 2022	(231)	—

Embedded derivatives: home purchase savings

Home purchase savings accounts (‘CEL’) and plans (‘PEL’) are specific financial instruments established by law 65-554 of 10 July 1965. Within these products, customers build up savings during a certain period and use them to obtain loans during a subsequent period. The latter phase depends on, and cannot be separated from, the build-up phase.

To recognise derivatives embedded in PEL/CEL home purchase savings products at fair value, HSBC Continental Europe has developed a model with the following main characteristics:

- the main accounting reference is IFRS 9, concerning the measurement of fair value with respect to derivative instruments;
- the derivatives under consideration are borrowing and savings options embedded in contracts in force at the accounts-closing date:
- the model calculates the fair value of exceptional payment and deferred payment options granted to customers (for home purchase savings plans only);
- the model calculates the fair value of options to use acquired borrowing rights; and
- the calculation is dependent on customer behaviour, and is carried out separately for each issue of PELs and on a combined basis for CELs.

At 31 December 2023, derivatives embedded in home purchase savings products represented a liability of EUR 5.5 million (at 31 December 2022: a liability of EUR 6.3 million).

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial instruments'

HSBC Continental Europe has applied both the first set of amendments ('Phase 1') and the second set of amendments ('Phase 2') to IFRS 9 and IAS 39 applicable to hedge accounting. The hedge accounting relationships that are affected by Phase 1 and Phase 2 amendments are presented in the balance sheet as 'Financial assets designated and otherwise mandatorily measured at fair value through other comprehensive income', 'Loans and advances to customers', 'Debt securities in issue' and 'Deposits by banks'.

For some of the Ibors included in the table below, judgment has been needed to establish whether a transition is required, since there are Ibor benchmarks which are subject to computation methodology improvements and insertion of fallback provisions without full clarity being provided by their administrators on whether these Ibor benchmarks will be demised.

The notional amounts of Interest Rate derivatives designated in hedge accounting relationships do not represent the extent of the risk exposure managed by the group but they are expected to be directly affected by market-wide Ibor reform and in scope of Phase 1 amendments and are shown in the table below. The cross-currency swaps designated in hedge accounting relationships and affected by Ibor reform are not significant and have not been presented below.

Hedging instrument impacted by IBOR reform

	Hedging instruments				
	Impacted by IBOR reform			Not impacted by IBOR reform	Notional Amount[1]
	EUR	USD	Total		
	€m	€m	€m	€m	€m
Fair Value Hedges	**2,979**	**—**	**2,979**	**7,840**	**10,819**
Cash Flow Hedges	**9,797**	**—**	**9,797**	**9,598**	**19,395**
At 31 Dec 2023	**12,776**	**—**	**12,776**	**17,438**	**30,214**
Fair Value Hedges	2,950	249	3,199	6,164	9,363
Cash Flow Hedges	8,305	—	8,305	8,035	16,340
At 31 Dec 2022	11,255	249	11,504	14,199	25,703

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at balance sheet date; they do not represent amounts at risk.*

17 Financial investments

Carrying amount of financial investments

	2023	2022
	€m	€m
Financial investments measured at fair value through other comprehensive income	**20,861**	17,978
– treasury and other eligible bills	**776**	652
– debt securities	**19,664**	17,163
– equity securities	**29**	61
– other instruments	**392**	102
Debt instruments measured at amortised cost	**1,747**	1,157
– treasury and other eligible bills	**—**	43
– debt securities	**1,747**	1,114
At 31 Dec	**22,608**	19,135

Equity instruments measured at fair value through other comprehensive income

	2023		2022	
	Fair value	Dividends recognised	Fair value	Dividends recognised
Type of equity instruments	€m	€m	€m	€m
Business facilitation	**16**	**—**	26	—
Investments required by central institutions	**13**	**—**	35	—
Others	**—**	**—**	—	—
At 31 Dec	**29**	**—**	61	—

18 Assets pledged, collateral received and assets transferred

Assets pledged[1]

Financial assets pledged as collateral

	2023	2022
	€m	€m
Treasury bills and other eligible securities	446	708
Loans and advances to customers	2,290	3,217
Debt securities	14,673	10,021
Equity securities	671	2,134
Other	13,247	17,712
Assets pledged at 31 Dec	**31,327**	33,792

Assets pledged as collateral include all assets categorised as encumbered in the disclosure on page 163 except for assets held for sale.

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations and covered bonds, the amount of liabilities issued, plus mandatory over-collateralisation, is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent that has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining.

HSBC Continental Europe places both cash and non-cash collateral in relation to derivative transactions.

Financial assets pledged as collateral that the counterparty has the right to sell or repledge

	2023	2022
	€m	€m
Trading assets	12,587	10,116
Financial investments	2,183	1,828
At 31 Dec	**14,770**	11,944

Collateral received[1]

The fair value of financial assets accepted as collateral, relating primarily to standard securities lending, reverse repurchase agreements and derivative margining, that HSBC Continental Europe is permitted to sell or repledge in the absence of default was EUR 48,999 million at 31 December 2023 (EUR 36,524 million at 31 December 2022).

The fair value of any such collateral sold or repledged was EUR 39,400 million at 31 December 2023 (EUR 31,243 million at 31 December 2022). HSBC Continental Europe is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Assets transferred[1]

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full and a related liability, reflecting HSBC Continental Europe's obligation to repurchase the assets for a fixed price at a future date is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. HSBC Continental Europe is unable to use, sell or pledge the transferred assets for the duration of these transactions, and remains exposed to interest rate risk and credit risk on these pledged assets. The counterparty's recourse is not limited to the transferred assets.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Carrying amount of:	
	Transferred assets	Associated liabilities
	€m	€m
Repurchase agreements	12,885	12,734
Securities lending agreements	1,885	5
At 31 Dec 2023	**14,770**	**12,739**
Repurchase agreements	9,085	9,146
Securities lending agreements	2,899	3
At 31 Dec 2022	11,984	9,149

1 *Excludes assets classified as held for sale.*

19 Interests in associates and partnerships

Associate

At 31 December 2023, HSBC Continental Europe consolidated under equity method three entities on which it exercises a joint control or a significant influence. The impact on consolidated financial statements is not significant.

	At 31 Dec 2023		
	Country of incorporation and principal place of business	**Principal activity**	**HSBC Continental Europe's interest %**
Service Epargne Entreprise	**France**	**Service company**	**14.2**
HCM Holdings Ltd[1]	**United Kingdom**	**Financial company**	**51.0**
Trinkaus Europa Immobilien-Fonds Nr. 7 Frankfurt Mertonviertel KG[1]	**Germany**	**Real estate fund**	**41.0**

1 *The above entities are either into liquidation process or their stake has been impaired to zero.*

Regarding the entity Service Epargne Entreprise developed in partnership with other groups, HSBC Continental Europe participates in strategic decisions of the associate through its representation in the executive bodies, influences operational management by providing management systems or management staff or brings its technical cooperation to the company's growth.

The share in the results of companies under equity method is not significant.

Partnerships

As of 31 December 2023, the contribution of HSBC Middle East Leasing Partnership ('MELP') to the consolidated total assets of HSBC Continental Europe was EUR 234 million (2022: EUR 321 million) and EUR 17 million (2022: EUR 10 million) to the consolidated income statement.

20 Related information on foreign subsidiaries and branches country by country

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

	At 31 Dec 2023					
	Revenue (continuing operations)[1]	**Profit/(loss) Before Tax (continuing operations)**	**Current Tax (continuing operations)**	**Deferred Tax (continuing operations)**	**Public subsidies received**	**Number of employees (Full Time Equivalent)[4]**
	€m	**€m**	**€m**	**€m**	**€m**	
HSBC Continental Europe	**3,833**	**1,475**	**(295)**	**(92)**	**—**	**9,969**
– France	**1,773**	**531**	**(63)**	**(48)**	**—**	**5,996**
– Belgium	**26**	**14**	**(4)**	**—**	**—**	**20**
– Czech Republic	**35**	**20**	**(4)**	**—**	**—**	**51**
– Greece	**33**	**5**	**—**	**—**	**—**	**—**
– Ireland	**195**	**147**	**(15)**	**—**	**—**	**108**
– Italy	**40**	**11**	**(3)**	**—**	**—**	**59**
– Luxembourg	**181**	**88**	**(20)**	**(2)**	**—**	**224**
– Netherlands	**162**	**131**	**(35)**	**—**	**—**	**73**
– Spain	**81**	**51**	**(11)**	**(3)**	**—**	**99**
– Sweden	**5**	**(1)**	**—**	**—**	**—**	**16**
– United Kingdom	**—**	**—**	**—**	**—**	**—**	**—**
– Poland	**93**	**63**	**(11)**	**(1)**	**—**	**96**
– Germany	**962**	**295**	**(84)**	**(37)**	**—**	**2,195**
– Malta	**234**	**135**	**(45)**	**(3)**	**—**	**853**
– Others[5]	**13**	**(15)**	**—**	**2**	**—**	**179**

	At 31 Dec 2022[2,3]					
	Revenue (continuing operations)[1]	Profit/(loss) Before Tax (continuing operations)	Current Tax (continuing operations)	Deferred Tax (continuing operations)	Public subsidies received	Number of employees (Full Time Equivalent)[4]
	€m	€m	€m	€m	€m	
HSBC Continental Europe	2,002	218	(72)	39	—	10,408
– France	1,419	152	(27)	21	—	6,160
– Belgium	18	7	(1)	—	—	22
– Czech Republic	39	25	(5)	—	—	54
– Greece	(60)	(118)	1	—	—	306
– Ireland	103	62	(6)	—	—	113
– Italy	36	2	—	—	—	58
– Luxembourg	116	21	—	(4)	—	231
– Netherlands	96	78	(20)	—	—	66
– Spain	59	7	(1)	—	—	94
– Sweden	7	—	—	—	—	16
– United Kingdom	—	—	—	—	—	—
– Poland	73	46	(8)	—	—	97
– Germany	76	(69)	(5)	25	—	2,311
– Malta	15	5	—	(3)	—	867
– Others	5	—	—	—	—	13

1 *Net operating income before change in expected credit losses and other credit impairment charges, also referred to as revenue.*
2 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*
3 *From 1 January 2023, HSBC Continental Europe adopted IFRS 17 'Insurance Contracts', which replaced IFRS 4 'Insurance Contracts'. Comparative data have been represented accordingly.*
4 *Includes employees of retail banking operations in France which has been classified as discontinued operations.*
5 *Others include HSBC Private Bank (Luxembourg) S.A. post its acquisition on 2 November 2023.*

The list of subsidiaries by country detailing the names of entities, nature of activity and geographical location, is presented in the Note 38 on pages 273 to 274. The addresses of main locations abroad are presented on page 334.

21 Structured entities

Consolidated structured entities by HSBC Continental Europe

Total assets of HSBC Continental Europe's consolidated structured entities, split by entity type

	Conduits	Securitisations	HSBC managed funds	Other	Total
	€m	€m	€m	€m	€m
At 31 Dec 2023	**—**	**—**	**4,918**	**440**	**5,358**
At 31 Dec 2022	—	—	4,493	459	4,952

General policy

A structured entity is an entity designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual arrangements. Thus, these entities have a limited scope of activities and a well-defined purpose.

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 1.

HSBC Continental Europe is involved directly or indirectly with structured entities mainly through securitisation of financial assets, conduits and investment funds.

Group arrangements that involve structured entities are authorised centrally when they are established to ensure appropriate purpose and governance. The activities of structured entities administered by HSBC Continental Europe are closely monitored by senior management. HSBC Continental Europe has involvement with both consolidated and unconsolidated structured entities, which may be established by the group or by a third party, detailed below.

Securitisations

HSBC Continental Europe has interests in consolidated securitisation vehicles through holding notes issued by these entities.

HSBC managed funds

HSBC Continental Europe together with other HSBC entities has established and managed a number of money market and non-money market investment funds in order to offer its customer investment opportunities. Where it is deemed to be acting as principal rather than agent in its role as investment manager, HSBC Continental Europe will control and hence consolidate these funds.

HSBC Continental Europe, as fund manager, may be entitled to receive management and performance fees based on the assets under management. HSBC Continental Europe may also retain units in these funds.

Non-HSBC managed funds

HSBC Continental Europe purchases and holds units of third party managed funds in order to facilitate business and meet customer needs.

HSBC Continental Europe sponsored structured entities

The amount of assets transferred to and income received from such sponsored entities during 2023 and 2022 was not significant.

Others

HSBC Continental Europe also enters into a number of transactions in the normal course of business, including asset and structured finance transactions where it has control of the structured entity.

Unconsolidated structured entities by HSBC Continental Europe

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the group. It includes interests in structured entities that are not consolidated. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

The table below shows the total assets of unconsolidated structured entities in which the group has an interest at the reporting date, as well as the group's maximum exposure to loss in relation to those interests.

Nature and risks associated with HSBC Continental Europe interests in unconsolidated structured entities

	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
Total asset values of the entities (€m)					
0 – 500	**—**	**119**	**114**	**3**	**236**
500 – 2,000	**—**	**28**	**64**	**—**	**92**
2,000 – 5,000	**—**	**10**	**28**	**—**	**38**
5,000 – 25,000	**—**	**6**	**15**	**—**	**21**
25,000+	**—**	**1**	**—**	**—**	**1**
Number of entities at 31 Dec 2023	**—**	**164**	**221**	**3**	**388**
Total asset values of the entities (€m)					
0 – 500	—	127	129	3	259
500 – 2,000	—	32	65	—	97
2,000 – 5,000	—	6	29	—	35
5,000 – 25,000	—	6	14	—	20
25,000+	—	1	—	—	1
Number of entities at 31 Dec 2022	—	172	237	3	412
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**4,089**	**2,061**	**—**	**6,150**
– trading assets	**—**	**1**	**—**	**—**	**1**
– financial assets designated and otherwise mandatorily measured at fair value	**—**	**4,082**	**2,061**	**—**	**6,143**
– financial investments	**—**	**6**	**—**	**—**	**6**
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	**—**	**7**	**—**	**—**	**7**
– Customer accounts		**3**	**—**	**—**	**3**
– other liabilities	**—**	**4**	**—**	**—**	**4**
HSBC Continental Europe's maximum exposure at 31 Dec 2023	**—**	**4,082**	**2,061**	**—**	**6,143**
Total assets in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	3,074	2,775	—	5,849
– trading assets	—	1	—	—	1
– financial assets designated and otherwise mandatorily measured at fair value	—	3,067	2,775	—	5,842
– financial investments	—	6	—	—	6
Total liabilities in relation to HSBC Continental Europe's interests in the unconsolidated structured entities	—	16	—	—	16
– Customer accounts	—	11	—	—	11
– other liabilities	—	5	—	—	5
HSBC Continental Europe's maximum exposure at 31 Dec 2022	—	3,058	2,775	—	5,833

The maximum exposure to loss from HSBC Continental Europe's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

- For commitments and guarantees, and written credit default swaps, the maximum exposure of HSBC Continental Europe to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure of HSBC Continental Europe loss is the carrying value of these interests at the balance sheet reporting date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate HSBC Continental Europe's exposure to loss.

22 Goodwill and intangible assets

	2023	2022[1]
	€m	€m
Goodwill	**66**	66
Other intangible assets	**122**	74
At 31 Dec	**188**	140

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.*

Goodwill

Movement analysis of goodwill

	2023	2022
	€m	€m
Gross amount		
At 1 Jan	**441**	386
Other[1]	**—**	55
At 31 Dec	**441**	441
Accumulated impairment losses		
At 1 Jan	**(375)**	(320)
Other[1]	**—**	(55)
At 31 Dec	**(375)**	(375)
Net carrying amount at 31 Dec	**66**	66

1 *Includes inward transfer of EUR 118 million of gross goodwill and equivalent impairment from HSBC Bank plc on the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. offset by outward transfer of EUR (63) million of gross goodwill and equivalent impairment on sale of HSBC Continental Europe private banking business to Group entity HSBC Private Banking (Luxembourg) S.A. in 2022.*

Impairment testing

During 2023, impairment testing was performed and no impairment was recognised to the Asset Management goodwill.

Impairment results and key assumptions in VIU calculation

	Goodwill at 31 Dec 2023	**Discount rate**	**Growth rate beyond initial cash flow projections**	Goodwill at 31 Dec 2022	Discount rate	Growth rate beyond initial cash flow projections
	€m	**%**	**%**	€m	%	%
Asset Management	**66**	**10.4**	**1.9**	66	10.7	1.5
Total goodwill in the CGUs[1] listed above	**66**			66		

1 *Cash-Generating Units.*

Other intangible assets

Other intangible assets include mortgage servicing rights, computer software, trade names, customer lists, core deposit relationships, credit card customer relationships or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable. Where:

- intangible assets have an indefinite useful life, or are not yet ready for use, they are tested for impairment annually. An intangible asset recognised during the current period is tested before the end of the current year; and
- intangible assets have a finite useful life, they are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected useful life. The amortisation of mortgage servicing rights is included within 'Net fee income'.

Intangible assets with finite useful lives are amortised, generally on a straight-line basis, over their useful lives as follows:

– Trade names	10 years
– Internally generated software	between 3 and 10 years
– Purchased software	between 3 and 10 years
– Other	generally 10 years.

The analysis of intangible assets movements at 31 December is as follows:

	Internally generated software	Purchased software	Other	Total
	€m	€m	€m	€m
Cost				
At 1 Jan 2023	**393**	**111**	**12**	**516**
Additions	**50**	**2**	**1**	**53**
Disposals[1]	**(25)**	**—**	**—**	**(25)**
Amount written off	**—**	**(1)**	**—**	**(1)**
Business combination and other changes[2]	**28**	**3**	**—**	**31**
At 31 Dec 2023	**446**	**115**	**13**	**574**
Accumulated amortisation and impairment				
At 1 Jan 2023	**(323)**	**(107)**	**(12)**	**(442)**
Amortisation charge for the year	**(27)**	**(3)**	**—**	**(30)**
Impairment charge for the year	**(4)**	**—**	**—**	**(4)**
Reversal of Impairment	**11**	**—**	**—**	**11**
Amount written off	**—**	**—**	**—**	**—**
Disposals[1]	**22**	**1**	**—**	**23**
Business combination and other changes[2]	**(7)**	**(3)**	**—**	**(10)**
At 31 Dec 2023	**(328)**	**(112)**	**(12)**	**(452)**
Net carrying amount at 31 December 2023	**118**	**3**	**1**	**122**
Cost				
At 1 Jan 2022	214	67	13	294
Additions	13	1	—	14
Disposals	—	(7)	—	(7)
Amount written off	—	—	—	—
Business combination and other changes[3]	166	50	(1)	215
At 31 Dec 2022	393	111	12	516
Accumulated amortisation and impairment				
At 1 Jan 2022	(194)	(67)	(13)	(274)
Amortisation charge for the year	(22)	(1)	—	(23)
Impairment charge for the year	(9)	(1)	—	(10)
Reversal of Impairment[4]	30	—	—	30
Amount written off	—	—	—	—
Disposals	—	1	—	1
Business combination and other changes[3]	(128)	(39)	1	(166)
At 31 Dec 2022	(323)	(107)	(12)	(442)
Net carrying amount at 31 December 2022	70	4	—	74

1 *Disposals represents the sale of HSBC Continental Europe branch operations in Greece to Pancreta Bank SA on 28 July 2023.*
2 *Business combination represent contribution related to the acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023.*
3 *Business combination represent contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Malta plc on 30 November 2022.*
4 *In 2023, the reversal of impairment on the intangibles are driven by EUR 1 million in Commercial banking (CMB) business and EUR 9 million in Global banking (GB) business in France. Whereas in 2022, the reversal of impairment on the intangibles are related to CMB business in France.*

23 Prepayments, accrued income and other assets

	2023	2022[1]
	€m	€m
Cash collateral and margin receivables	**13,109**	17,597
Settlement accounts	**4,603**	2,481
Prepayments and accrued income	**1,129**	918
Bullion	**3**	—
Property plant and equipment	**862**	847
Right of use assets[2]	**156**	148
Reinsurance contract assets (Note 6)	**12**	13
Employee benefit assets (Note 7)	**46**	69
Endorsements and acceptances	**8**	6
Other accounts	**1,525**	1,469
At 31 Dec	**21,453**	23,548

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 *The net value of the right of use breaks down into EUR 372 million as gross value (2022: EUR 362 million) and EUR (216) million as depreciation and provisions (2022: EUR (214) million).*

Prepayments, accrued income and other assets include EUR 20,043 million (2022: EUR 22,263 million) of financial assets, the majority of which are measured at amortised cost.

Property, plant and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRS, less any impairment losses and depreciation calculated as per below:

- freehold land is not depreciated;
- acquisition-related expenses on buildings are expensed in the year in which they occur, same as preliminary costs; and
- depreciation of buildings is calculated over their estimated useful lives, which are generally between 25 to 75 years.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC Continental Europe is the lessor) are stated at cost less impairment losses and depreciation is calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 to 25 years. HSBC Continental Europe holds certain properties as investments to earn rentals or for capital appreciation, or both. Investment properties are included in the balance sheet at fair value with changes in fair value recognised in the income statement in the period of change. Fair values are determined by independent professional valuers who apply recognised valuation techniques. Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

	Freehold land andbuildings[1]	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 Jan 2023	**785**	**456**	**1,241**
Additions at cost	**8**	**16**	**24**
Fair value adjustments	**—**	**—**	**—**
Disposals	**(1)**	**(26)**	**(27)**
Transfers	**—**	**—**	**—**
Business combination and other changes[2]	**2**	**9**	**11**
Reclassified as held for sale[3]	**(2)**	**(7)**	**(9)**
At 31 Dec 2023	**792**	**448**	**1,240**
Accumulated depreciation			
At 1 Jan 2023	**(19)**	**(375)**	**(394)**
Depreciation charge for the year	**(1)**	**(35)**	**(36)**
Disposals	**1**	**23**	**24**
Transfers	**—**	**—**	**—**
Impairment loss recognised	**(3)**	**(7)**	**(10)**
Reversal on impairment	**—**	**41**	**41**
Business combination and other changes[2]	**(6)**	**(5)**	**(11)**
Reclassified as held for sale[3]	**1**	**7**	**8**
At 31 Dec 2023	**(27)**	**(351)**	**(378)**
Net book value at 31 Dec 2023	**765**	**97**	**862**

	Freehold land and buildings[1]	Equipment, fixtures and fittings	Total
	€m	€m	€m
Cost or fair value			
At 1 Jan 2022	916	609	1,525
Additions at cost	3	15	18
Fair value adjustments	(71)	—	(71)
Disposals	(11)	(100)	(111)
Transfers	36	56	92
Business combination and other changes[2]	(5)	109	104
Reclassified as held for sale	(83)	(233)	(316)
At 31 Dec 2022	785	456	1,241
Accumulated depreciation			
At 1 Jan 2022	(57)	(557)	(614)
Depreciation charge for the year	(2)	(11)	(13)
Disposals	10	100	110
Transfers	(2)	(48)	(50)
Impairment loss recognised	(46)	(18)	(64)
Business combination and other changes[2]	(3)	(73)	(76)
Reclassified as held for sale	81	232	313
At 31 Dec 2022	(19)	(375)	(394)
Net book value at 31 Dec 2022	766	81	847

1 *Includes EUR 13 million of leasehold land and building for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities (2022: EUR 6 million). They are therefore presented as owned assets.*
2 *The year 2023 includes acquisition of HSBC Private Bank (Luxembourg) S.A. on 2 November 2023. The year 2022 includes the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Malta plc on 30 November 2022.*
3 *Represents reclassification to held for sale related to retail banking operations in France in the fourth quarter of 2023.*

Impairment Testing

Impairment of non-financial assets (including Tangible and Right of Use Assets) is assessed in accordance with our policy explained in Note 1.2(n) by comparing the net carrying amount of Cash Generate Units (CGUs) with their recoverable amounts. No significant impairment was recognised during the year. However, reversal of impairment net of depreciation catch-up of EUR 23 million on Tangible assets (Gross EUR 41 million, Depreciation catch-up EUR (18) million) and EUR 27 million on Right of Use Assets (Gross EUR 42 million, Depreciation catch-up EUR (15) million) was recognised during the year. The CGUs are considered to be the global business within the principal operating entities, therefore the reversal of impairment net of depreciation catch-up are allocated by EUR 32 million in Commercial Banking (CMB) business and EUR 18 million Global Banking (GB) business in France.

24 Trading liabilities

	2023	2022
	€m	€m
Deposits by banks[1]	**8**	41
Customer accounts[1]	**—**	135
Other debt securities in issue	**—**	848
Other liabilities – net short positions in securities	**19,869**	16,485
At 31 Dec	**19,877**	17,509

1 *'Deposits by banks' and 'Customer accounts' include repos, settlement accounts, stock lending and other amounts.*

25 Financial liabilities designated at fair value

	2023	2022[1]
	€m	€m
Deposits by banks and customer accounts	**15**	—
Liabilities to customers under investment contracts	**167**	168
Debt securities in issue	**9,514**	8,881
At 31 Dec	**9,696**	9,049

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.*

At 31 December 2023 the carrying amount of financial liabilities designated at fair value was EUR (497) million lower than the contractual amount at maturity (at 31 December 2022: EUR (1,359) million lower). At 31 December 2023, the cumulative amount of change in fair value attributable to changes in credit risk was EUR (125) million (at 31 December 2022: EUR (172) million). In 2023, HSBC Continental Europe recognised a variation of EUR (84) million in other comprehensive income in respect of HSBC Continental Europe's own credit risk (at 31 December 2022: EUR 271 million).

26 Accruals, deferred income and other liabilities

	2023	2022[1]
	€m	€m
Cash collateral and margin payables	**15,446**	20,325
Settlement accounts	**1,245**	1,385
Accruals and deferred income	**1,176**	780
Lease liabilities	**216**	250
Employee benefit liabilities (Note 7)	**74**	74
Endorsements and acceptances	**4**	6
Reinsurance contract liabilities	**4**	4
Other liabilities	**3,304**	2,832
At 31 Dec	**21,469**	25,656

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.

At 31 December 2023 Accruals, deferred income and other liabilities include EUR 20,982 million (at 31 December 2022: EUR 25,239 million), of financial liabilities, the majority of which are measured at amortised cost.

27 Provisions

HSBC Continental Europe recognises a provision when the following three criteria are met:

- existence of a present obligation occurring from a past event;
- it is probable that an outflow of resources will be required to settle the obligation;
- a reliable estimate of the amount can be made.

	Restructuring costs[1]	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	€m	€m	€m	€m	€m
Provisions (excluding contractual commitments)					
At 31 Dec 2022	121	19	4	79	223
Additions	**19**	**5**	**1**	**52**	**77**
Amounts utilised	**(35)**	**(4)**	**—**	**(23)**	**(62)**
Unused amounts reversed	**(24)**	**(10)**	**(1)**	**(20)**	**(55)**
Other movements	**(3)**	**—**	**—**	**7**	**4**
At 31 Dec 2023	**78**	**10**	**4**	**95**	**187**
Contractual commitments[2]					
At 31 Dec 2022					63
Net change in expected credit loss provisions and other movements					**(5)**
At 31 Dec 2023					**58**
Total provisions					
At 31 Dec 2022					286
At 31 Dec 2023					**245**

1 On 9th October 2023, HSBC Continental Europe announced a voluntary redundancy plan ('Rupture Conventionelle Collective') impacting the Private banking operations in the French branch of HSBC Private Bank (Luxembourg) S.A. A provision of EUR 11 million for restructuring costs was recorded as at 31st December 2023.

2 The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table under section 'Credit Risk'.

	Restructuring costs	Legal proceedings and regulatory matters	Customer remediation	Other provisions	Total
	€m	€m	€m	€m	€m
Provisions (excluding contractual commitments)					
At 31 Dec 2021	136	20	—	23	179
Additions[1]	79	10	1	33	123
Amounts utilised	(113)	(8)	(2)	(19)	(142)
Unused amounts reversed	(6)	(1)	(3)	(5)	(15)
Other movements[2]	25	(2)	8	47	78
At 31 Dec 2022	121	19	4	79	223
Contractual commitments[3]					
At 31 Dec 2021					55
Net change in expected credit loss provisions and other movements					8
At 31 Dec 2022					63
Total provisions					
At 31 Dec 2021					234
At 31 Dec 2022					286

1 *Includes restructuring provision of EUR 49 million related to voluntary redundancy plan in CMB France and EUR 25 million related to the planned transfer of business from HSBC Germany to HSBC Continental Europe accounted in 2022.*
2 *Other movements include EUR 82 million contribution related to the acquisition of HSBC Trinkaus & Burkhardt GmbH and HSBC Bank Malta p.l.c. on 30 November 2022.*
3 *The contractual commitments provision includes off-balance sheet loan commitments and guarantees, for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees' table under section 'Credit Risk'. This includes re-classification to held for sale of EUR 10 million in Greece.*

Further details of 'Legal proceedings and regulatory matters' regarding the HSBC Group entities are set out in Note 34.

28 Subordinated liabilities

Subordinated liabilities are initially measured at fair value, which is the consideration received net of directly attributable transaction costs incurred. Subsequent measurement is at amortised cost, using the effective interest rate method to amortise the difference between proceeds net of directly attributable transaction costs and the redemption amount over the expected life of the debt, unless the instruments are designated at fair value.

	2023	2022
	€m	€m
At amortised cost	**1,951**	2,023
Total at 31 Dec	**1,951**	2,023

		Book value	
		2023	2022
		€m	€m
Tier 2 instruments issued by HSBC Continental Europe and its subsidiaries			
EUR 16 million	Undated subordinated variable rate notes	**16**	16
EUR 300 million	Floating rate Subordinated Loan maturing 2028	**300**	300
EUR 400 million	Floating rate Subordinated Loan maturing 2029	**400**	400
EUR 100 million	Floating rate Subordinated Loan maturing 2029	**100**	100
EUR 260 million	Floating rate Subordinated Loan maturing 2029	**260**	260
EUR 500 million	Floating rate Subordinated Loan maturing 2030	**500**	500
EUR 150 million	Floating Rate Subordinated Loan maturing 2029	**150**	150
EUR 200 million	Floating Rate Subordinated Loan maturing 2034[1]	**200**	200
EUR 62 million	Floating Rate Subordinated Loan maturing 2028[2]	**—**	62
EUR 10 million	5.50% Subordinated Loan maturing 2023	**—**	10
EUR 10 million	4.21% Subordinated Loan maturing 2025	**10**	10
EUR 5 million	4.21% Subordinated Loan maturing 2025	**5**	5
EUR 10 million	5.50% Subordinated Loan maturing 2028	**10**	10
At 31 Dec		**1,951**	2,023

1 *Tier 2 instrument originally issued by Germany has been replaced by a new Tier 2 instrument maturing in 2034 issued by HSBC Continental Europe in December 2023.*
2 *Redemption of EUR 62m Tier 2 from HSBC Bank Malta p.l.c. to HSBC Bank plc in December 2023.*

29 Maturity analysis of financial assets, liabilities and off-balance sheet commitments

Contractual maturity of financial liabilities

The balances in the table below do not agree directly with those in the consolidated balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives).

Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'On demand' time bucket and not by contractual maturity.

In addition, loans and other credit-related commitments, financial guarantees and similar contracts are generally not recognised on the balance sheet. The undiscounted cash flows potentially payable under financial guarantees and similar contracts are classified on the basis of the earliest date they can be called.

Distribution of cash flows payable by maturity

	2023					
	Due not more than 1 month	Due over 1 month but not over 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	€m	€m	€m	€m	€m	€m
Deposits by banks	**6,292**	**1,080**	**303**	**1,046**	**310**	**9,031**
Customer accounts	**83,502**	**7,193**	**4,284**	**381**	**91**	**95,451**
Repurchase Agreements – non–trading	**10,423**	**556**	**199**	**—**	**—**	**11,178**
Trading liabilities	**19,877**	**—**	**—**	**—**	**—**	**19,877**
Financial liabilities designated at fair value	**477**	**507**	**2,680**	**4,266**	**2,440**	**10,370**
Derivatives	**43,555**	**—**	**—**	**51**	**24**	**43,630**
Debt securities in issue	**738**	**2,102**	**3,774**	**4,701**	**2,945**	**14,260**
Subordinated liabilities	**401**	**2**	**109**	**929**	**740**	**2,181**
Other financial liabilities	**18,651**	**84**	**429**	**157**	**1,379**	**20,700**
Liabilities of disposal groups held for sale	**17,887**	**693**	**1,647**	**2,467**	**1,288**	**23,982**
Sub Total	**201,803**	**12,217**	**13,425**	**13,998**	**9,217**	**250,660**
Loan and other credit-related commitments	**112,147**	**—**	**—**	**—**	**—**	**112,147**
Financial guarantees[1]	**1,552**	**—**	**—**	**—**	**—**	**1,552**
Total at 31 Dec 2023	**315,502**	**12,217**	**13,425**	**13,998**	**9,217**	**364,359**
Proportion of cash flows payable in period (%)	**87**	**3**	**4**	**4**	**3**	

	2022					
Deposits by banks	6,013	34	2,572	2,209	502	11,330
Customer accounts	77,183	3,633	2,784	100	319	84,019
Repurchase Agreements – non–trading	6,066	147	445	—	—	6,658
Trading liabilities	17,509	—	—	—	—	17,509
Financial liabilities designated at fair value	128	1,473	1,582	4,251	3,003	10,437
Derivatives	55,683	—	29	11	3	55,726
Debt securities in issue	290	187	1,722	3,401	1,528	7,128
Subordinated liabilities	—	3	325	1,168	692	2,188
Other financial liabilities	23,346	61	673	172	1,196	25,448
Liabilities of disposal groups held for sale	22,674	113	1,571	2,452	1,260	28,070
Sub Total	208,892	5,651	11,703	13,764	8,503	248,513
Loan and other credit-related commitments[2]	106,307	—	—	—	—	106,307
Financial guarantees[1,2]	2,995	—	—	—	—	2,995
Total at 31 Dec 2022	318,194	5,651	11,703	13,764	8,503	357,815
Proportion of cash flows payable in period (%)	89	2	3	4	2	

1 *Financial guarantees includes EUR 1.5 billion (2022: EUR 3.0 billion), for which expected credit losses are provided under IFRS 9. Further analysis of the movement in the expected credit loss is disclosed within the 'Distribution of financial instruments by credit quality' table under section 'Credit Risk'.*

2 *The year-end 2022 comparatives have been represented to correctly reflect the classification of EUR 2.1 billion from "financial guarantees" to "performance guarantees" offset by EUR 0.4 billion classification from "commitments" to "financial guarantees". The "commitments" have been restatement further by EUR 2 billion on the account of the understatement of undrawn facilities such as Overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and unconditionally cancellable in nature.*

Maturity analysis of financial assets and liabilities

The following tables provides an analysis of financial assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

- trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are included in the 'Due within 1 year' time bucket, because trading balances are typically held for short periods of time.
- financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Due after more than 1 year' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Due after more than 1 year' time bucket;
- financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction; and
- liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Due after more than 1 year' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

Maturity analysis of financial assets and financial liabilities

	2023			2022[1]		
	Due within 1 year	**Due after more than 1 year**	**Total**	Due within 1 year	Due after more than 1 year	Total
	€m	**€m**	**€m**	€m	€m	€m
Financial assets						
Cash and balances at central banks	**56,894**	**—**	**56,894**	59,734	—	59,734
Items in the course of collection from other banks	**273**	**—**	**273**	476	—	476
Trading assets	**17,233**	**16**	**17,249**	13,777	—	13,777
Financial assets designated or otherwise mandatorily measured at fair value	**85**	**13,505**	**13,590**	104	12,066	12,170
Derivatives	**45,357**	**165**	**45,522**	59,753	207	59,960
Loans and advances to banks	**5,663**	**153**	**5,816**	5,972	1,261	7,233
Loans and advances to customers	**17,045**	**33,082**	**50,127**	15,907	26,433	42,340
Reverse repurchase agreements – non-trading	**24,334**	**156**	**24,490**	15,374	—	15,374
Financial investments	**2,685**	**19,923**	**22,608**	4,055	15,080	19,135
Assets held for sale	**11,487**	**13,500**	**24,987**	4,337	21,425	25,762
Other financial assets	**19,711**	**332**	**20,043**	22,088	175	22,263
Total at 31 Dec	**200,767**	**80,832**	**281,599**	201,577	76,647	278,224
Financial liabilities						
Deposits by banks	**7,657**	**1,247**	**8,904**	8,587	2,595	11,182
Customer accounts	**94,804**	**443**	**95,247**	83,454	238	83,692
Repurchase agreements – non-trading	**11,153**	**—**	**11,153**	6,655	—	6,655
Items in the course of transmission to other banks	**320**	**—**	**320**	528	—	528
Trading liabilities	**19,877**	**—**	**19,877**	17,366	143	17,509
Financial liabilities designated at fair value	**3,637**	**6,059**	**9,696**	3,043	6,006	9,049
Derivatives	**43,555**	**75**	**43,630**	55,712	14	55,726
Debt securities in issue	**6,601**	**6,308**	**12,909**	2,205	4,656	6,861
Liabilities of disposal groups held for sale	**20,253**	**3,496**	**23,749**	24,369	3,436	27,805
Other financial liabilities	**19,448**	**1,534**	**20,982**	23,882	1,358	25,240
Subordinated liabilities	**500**	**1,451**	**1,951**	310	1,713	2,023
Total at 31 Dec	**227,805**	**20,613**	**248,418**	226,111	20,159	246,270

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.*

Further information regarding HSBC Continental Europe's liquidity and funding management is available in the Risk Management section page 114 and following.

30 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

In the following table, the 'Amounts not set off in the balance sheet' include transactions where:

- the counterparty has an offsetting exposure with HSBC Continental Europe and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are not otherwise satisfied; and
- in the case of derivatives, reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral (debt securities and equities) has been received/pledged to cover net exposure in the event of a default or other predetermined events.

The effect of over-collateralisation is excluded.

'Amounts not subject to enforceable master netting agreements' include contracts executed in jurisdictions where the rights of set off may not be upheld under the local bankruptcy laws, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements							
				Amounts not offset in the balance sheet				
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Financial Instruments including non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[3]	Total
	€m	€m	€m	€m	€m	€m	€m	€m
Financial assets								
Derivatives (Note 14)[1]	**64,558**	**(19,479)**	**45,079**	**(34,097)**	**(10,170)**	**812**	**443**	**45,522**
Reverse repos, stock borrowing and similar agreements classified as:[2]	**50,300**	**(25,757)**	**24,543**	**(24,471)**	**(72)**	**—**	**61**	**24,604**
– trading assets	**53**	**—**	**53**	**(53)**	**—**	**—**	**61**	**114**
– non-trading assets	**50,247**	**(25,757)**	**24,490**	**(24,418)**	**(72)**	**—**	**—**	**24,490**
At 31 Dec 2023	**114,858**	**(45,236)**	**69,622**	**(58,568)**	**(10,242)**	**812**	**504**	**70,126**
Derivatives (Note 14)[1]	82,958	(23,465)	59,493	(42,727)	(16,424)	342	467	59,960
Reverse repos, stock borrowing and similar agreements classified as[2]	38,056	(22,436)	15,620	(15,327)	(293)	—	39	15,659
– trading assets	246	—	246	(246)	—	—	39	285
– non-trading assets	37,810	(22,436)	15,374	(15,081)	(293)	—	—	15,374
At 31 Dec 2022	121,014	(45,901)	75,113	(58,054)	(16,717)	342	506	75,619
Financial Liabilities								
Derivatives (Note 14)[1]	**62,324**	**(19,479)**	**42,845**	**(35,011)**	**(6,994)**	**840**	**785**	**43,630**
Repos, stock borrowing and similar agreements classified as[2]	**36,912**	**(25,757)**	**11,155**	**(10,534)**	**(621)**	**—**	**5**	**11,160**
– trading liabilities	**2**	**—**	**2**	**(2)**	**—**	**—**	**5**	**7**
– non-trading liabilities	**36,910**	**(25,757)**	**11,153**	**(10,532)**	**(621)**	**—**	**—**	**11,153**
At 31 Dec 2023	**99,236**	**(45,236)**	**54,000**	**(45,545)**	**(7,615)**	**840**	**790**	**54,790**
Derivatives (Note 14)[1]	78,502	(23,465)	55,037	(42,803)	(11,240)	994	689	55,726
Repos, stock borrowing and similar agreements classified as:[2]	29,109	(22,435)	6,674	(6,376)	(298)	—	3	6,677
– trading liabilities	19	—	19	(19)	—	—	3	22
– non-trading liabilities	29,090	(22,435)	6,655	(6,357)	(298)	—	—	6,655
At 31 Dec 2022	107,611	(45,900)	61,711	(49,179)	(11,538)	994	692	62,403

1 *At 31 December 2023, the amount of cash margin received that had been offset against the gross derivatives assets was EUR 852 million (2022: EUR 1,234 million). The amount of cash margin paid that had been offset against the gross derivatives liabilities was EUR 3,300 million (2022: EUR 6,327 million).*

2 *For the amount of repos, reverse repos, stock borrowing and similar agreements recognised on the balance sheet within 'Trading Assets' and 'Trading Liabilities', see the 'Funding sources and uses' table on page 162.*

3 *These exposures continue to be secured by financial collateral, but HSBC Continental Europe may not have sought or been able to obtain a legal opinion evidencing enforceability of the right of offset.*

31 Called up share capital and other equity instruments

Called up share capital and share premium

At 31 December 2023, HSBC Continental Europe's capital amounted to EUR 1,062 million divided into 212,466,555 ordinary shares with a nominal value of EUR 5, fully paid up.

HSBC Continental Europe ordinary shares of EUR 5 each, issued and fully paid

	2023		2022	
	Number	€m	Number	€m
At 1 Jan	212,466,555	1,062	98,231,196	491
Shares issued	—	—	114,235,359	571
At 31 Dec	**212,466,555**	**1,062**	212,466,555	1,062

HSBC Continental Europe share premium

	2023	2022
	€m	€m
At 31 Dec	5,264	5,264

Total called up share capital and share premium

	2023	2022
	€m	€m
At 31 Dec	6,326	6,326

Other equity instruments

Additional tier 1 capital instruments

HSBC Continental Europe's additional tier 1 capital instruments in issue which are accounted for as equity

		First call date	2023 €m	2022 €m
EUR 200 million	Perpetual Subordinated additional Tier 1 instruments issued in 2017	26/05/2022	200	200
EUR 300 million	Perpetual Subordinated additional Tier 1 instruments issued in 2018	28/03/2023	300	300
EUR 250 million	Perpetual Subordinated additional Tier 1 instruments issued in 2019	18/12/2024	250	250
EUR 250 million	Perpetual Subordinated additional Tier 1 instruments issued in 2022	24/03/2027	248	248
EUR 235 million	Perpetual Subordinated Resettable Additional Tier 1 instrument issued in 2016	01/01/2022	235	235
EUR 200 million	Perpetual Subordinated Resettable Additional Tier 1 instrument issued in 2019	01/01/2025	200	200
At 31 Dec			**1,433**	1,433

32 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

(a) Contingent liabilities and commitments

	2023	2022[1]
	€m	€m
Guarantees and other contingent liabilities:[2]		
– financial guarantees	1,552	2,995
– performance and other guarantees	15,261	14,503
– other contingent liabilities	2	12
At 31 Dec	**16,815**	17,510
Commitments:[2,3]		
– documentary credits and short-term trade-related transactions	1,192	1,349
– forward asset purchases and forward deposits placed	40,573	34,942
– standby facilities, credit lines and other commitments to lend	70,382	70,016
At 31 Dec	**112,147**	106,307

1 *The year-end 2022 comparatives have been represented to correctly reflect the classification of EUR 0.4 billion from "commitments" to "guarantees". The "commitments" have been restatement further by EUR 2 billion on the account of the understatement of undrawn facilities such as Overdraft and unutilised Global Trade and Receivable Finance ('GTRF') limits, advised to the clients and unconditionally cancellable in nature.*
2 *Includes guarantees & other contingent liabilities of EUR 80 million and commitments of EUR 514 million at 31 December 2023 related to retail banking operations in France and hedge fund administration business operations in France (2022: EUR 510 million guarantees & other contingent liabilities and EUR 688 million commitments related to retail banking operations in France and branch operations in Greece).*
3 *Includes EUR 106,159 million of commitments at 31 December 2023 (2022: EUR 99,211 million), to which the impairment requirements in IFRS 9 are applied where HSBC Continental Europe has become party to an irrevocable commitment.*

The amounts disclosed in the above table reflect HSBC Continental Europe's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with HSBC Continental Europe's overall credit risk management policies and procedures. Guarantees with terms of more than one year are subject to HSBC Continental Europe's annual credit review process. The total of the nominal principal amounts is not representative of future liquidity needs.

(b) Guarantees

HSBC Continental Europe provides guarantees and similar undertakings on behalf of both third-party customers and other entities within the Group. These guarantees are generally provided in the normal course of HSBC Continental Europe's banking business. The principal types of guarantees provided, and the maximum potential amount of future payments which HSBC Continental Europe could be required to make at 31 December were as follows:

	2023		2022	
	In favour of third parties	**In favour of other HSBC Group entities**	In favour of third parties[1]	In favour of other HSBC Group entities
	€m	**€m**	€m	€m
Guarantee type				
Financial guarantees contracts	**1,084**	**468**	1,719	1,276
Performance and other guarantees	**14,006**	**1,255**	13,353	1,150
At 31 Dec	**15,090**	**1,723**	15,072	2,426

1 The year-end 2022 comparatives have been represented to correctly reflect the classification of EUR 2.1 billion from "financial guarantees" to "performance guarantees" offset by EUR 0.4 billion classification from "commitments" to "financial guarantees".

Financial guarantees include undertakings to fulfil the obligations of customers or group entities, should the obligated party fail to do so. Financial guarantees also include stand-by letters of credit, which are financial guarantees given irrevocable obligations on the part of HSBC Continental Europe to pay a third party when a customer fails to meet a commitment.
Performance guarantees include performance bonds, direct credit substitutes, stand-by letters of credit related to particular transactions which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer. Other guarantees includes bid bonds and another transaction-related guarantees which are undertakings by which the requirement to make payment under the guarantee depends on the outcome of a future event which is unconnected to the creditworthiness of the customer.

The amounts disclosed in the above table reflect HSBC Continental Europe's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures arising from guarantees are captured and managed in accordance with our overall credit risk management policies and procedures.

Guarantees with terms of more than one year are subject to the annual credit review process.

HSBC Continental Europe has no contingent liabilities or commitments in relation to joint ventures or associates, incurred jointly or otherwise.

The majority of the above guarantees have a term of more than one year. Those guarantees are subject to HSBC Continental Europe's annual credit review process.

When HSBC Continental Europe gives a guarantee on behalf of a customer, it retains the right to recover from that customer amounts paid under the guarantee.

33 Finance lease receivables

HSBC Continental Europe leases a variety of assets to third parties under finance leases, including transport assets (such as aircraft), property and general plant and machinery. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income.

	2023			2022		
	Total future minimum payments	**Unearned finance income**	**Present Value**	Total future minimum payments	Unearned finance income	Present Value
	€m	**€m**	**€m**	€m	€m	€m
Lease receivables						
– No later than one year	**179**	**(22)**	**157**	219	(24)	195
– Later than one year and no later than five years	**538**	**(72)**	**466**	627	(73)	554
– One to two years	***247***	***(26)***	***221***	*219*	*(26)*	*193*
– Two to three years	***108***	***(17)***	***91***	*211*	*(20)*	*191*
– Three to four years	***115***	***(15)***	***100***	*107*	*(15)*	*92*
– Four to five years	***68***	***(14)***	***54***	*90*	*(12)*	*78*
– Later than five years	**359**	**(33)**	**326**	431	(41)	390
Total at 31 Dec	**1,076**	**(127)**	**949**	1,277	(138)	1,139

34 Legal proceedings and regulatory matters relating to HSBC group entities generally

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 173 to 174 of the *Universal Registration Document 2023*, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2023.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 in the United States and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities.

Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud, amongst which are HSBC Institutional Trust Services (Ireland) DAC ('HTIE') and/or its subsidiary Somers Dublin DAC.

On 1 August 2018 HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HTIE. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities including any loss arising from Madoff-related proceedings relating to the activities of HTIE and/or Somers. (HTIE subsequently merged into HSBC Continental Europe Dublin Branch.)

The Madoff-related proceedings in which HTIE and/or its subsidiary Somers Dublin DAC are currently involved are described below:

US litigation:

The Madoff Securities Trustee has brought lawsuits against various HSBC companies and others, seeking recovery of transfers from Madoff Securities to HSBC in the amount of approximately USD 543m (plus interest), and these lawsuits remain pending in the US Bankruptcy Court for the Southern District of New York (the 'US Bankruptcy Court').

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America ('US'), the EU, Italy, Switzerland, and elsewhere conducted investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (Euribor). HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and have cooperated with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the EU (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the 'Court of Justice'). In June 2021, the Commission adopted a new fining decision for an amount which was 5 per cent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. In January 2023, the Court of Justice dismissed the appeal by HSBC against the September 2019 General Court's decision and upheld the EC's findings on HSBC's liability. HSBC's separate appeal against the new fining decision remains pending before the General Court.

Other regulatory investigations, reviews and litigation

Tax-related investigations:

In March 2023, the French National Prosecutor announced an investigation into a number of banks, including HSBC Continental Europe and HSBC Bank plc, Paris Branch, in connection with alleged tax fraud related to the dividend withholding tax treatment of certain trading activities. HSBC Bank plc and HSBC Germany also continue to cooperate with investigations by the German public prosecutor into numerous financial institutions and their employees, in connection with the dividend withholding tax treatment of certain trading activities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

35 Related party transactions

The ultimate parent company of the Group is HSBC Holdings plc, which is incorporated in the United Kingdom.

Copies of the Group financial statements may be obtained from the following address:

HSBC Holdings plc

8 Canada Square

London

E14 5HQ

All transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

Key Management Personnel

The table below sets out transactions which fall under IAS 24 'Related Party Disclosures' between HSBC Continental Europe and the Key Management Personnel of HSBC Continental Europe and on one hand, their respective spouses and children living in the family home, and on the other hand, controlled companies.

Transactions and balances during the year with Key Management Personnel

	2023			2022		
	Number of persons	**Balance at 31 Dec[2]**	**Highest amounts outstanding during year[2]**	Number of persons	Balance at 31 Dec[2]	Highest amounts outstanding during year[2]
		€k	**€k**		€k	€k
Key Management Personnel[1]						
Advances and credits	**17**	**146**	**535**	21	165	15,623
Guarantees	**17**	**—**	**—**	21	—	2,275
Deposits	**17**	**6,632**	**13,178**	21	7,202	63,470

1 *Includes Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.*
2 *The highest balance during the year and the balance at 31 December are considered to be the most significant information to show the transactions during the year.*

Compensation to the Key Management Personnel of HSBC Continental Europe under IAS 24 is disclosed as follows:

Compensation of Key Management Personnel

	2023	2022
	€k	€k
Short-term employee benefits	**175**	176
Post-employment benefits	**104**	102
Other long-term employee benefits	**—**	—
Termination benefits	**60**	76
Share-based payments	**755**	618
At 31 Dec	**1,094**	972

Shareholdings, options and other securities of Key Management Personnel

	2023	2022
Number of options held over HSBC Holdings ordinary shares under employee share plans	**—**	—
Number of HSBC Holdings ordinary shares held beneficially and non-beneficially	**46,927**	32,344
At 31 Dec	**46,927**	32,344

The Corporate governance report also includes a detailed description of Directors' remuneration (see page 42 and following).

Transactions with other related parties

There is no significant amount due to joint ventures and associates.

Transactions detailed below include amounts due to/from HSBC Continental Europe and fellow subsidiaries of the HSBC Group.

Transactions and balances during the year with HSBC Bank plc, subsidiaries of HSBC Bank plc, HSBC Holdings plc and its subsidiaries[1]

	2023					
	Due to/from HSBC Bank plc (Parent)		Due to/from subsidiaries of HSBC Bank plc		Due to/from HSBC Holding plc and its subsidiaries	
	Highest balance during the year until 31 December	Balance at 31 December	Highest balance during the year until 31 December	Balance at 31 December	Highest balance during the year until 31 December	Balance at 31 December
	€m	€m	€m	€m	€m	€m
Assets						
Trading assets	59	57	—	—	16	16
Derivatives	15,014	11,584	—	—	1,571	1,571
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	287	50	—	—	30	30
Loans and advances to banks	1,177	1,055	36	33	3,330	981
Loans and advances to customers	—	—	4	2	477	292
Financial investments	—	—	—	—	223	223
Reverse repurchase agreements – non-trading	2,781	1,338	—	—	887	887
Prepayments, accrued income and Other assets	7,661	1,403	115	94	2,397	833
Total related party assets at 31 Dec	26,980	15,487	155	129	8,932	4,833
Liabilities						
Trading liabilities	19	2	—	—	1	1
Deposits by banks	2,262	1,358	364	364	3,324	766
Customer accounts	—	—	49	43	202	141
Derivatives	12,772	10,328	—	—	2,511	1,726
Subordinated amount due	1,712	1,650	—	—	260	260
Repurchase agreements – non-trading	4,578	4,578	—	—	1,121	51
Provisions, accruals, deferred income and other liabilities	7,856	2,591	58	50	1,457	743
Total related party liabilities at 31 Dec	29,199	20,508	471	457	8,876	3,688
Guarantees and commitments	2,775	560	96	96	2,364	1,557

	2022					
Assets						
Trading assets	35	33	—	—	4	4
Derivatives	15,093	15,014	128	—	2,478	1,470
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	324	272	—	—	30	29
Loans and advances to banks	3,351	1,054	107	5	1,864	1,864
Loans and advances to customers	—	—	37	2	239	200
Financial investments	—	—	—	—	183	153
Reverse repurchase agreements – non-trading	1,297	469	44	—	712	445
Prepayments,accrued income and Other assets	7,229	1,149	546	101	2,120	1,767
Total related party assets at 31 Dec	27,329	17,991	862	108	7,630	5,932
Liabilities						
Trading liabilities	36	19	—	—	4	—
Financial liabilities designated at fair value	—	—	—	—	—	—
Deposits by banks	1,660	1,660	1,031	35	3,724	1,501
Customer accounts	—	—	54	43	223	141
Derivatives	18,549	12,772	266	—	3,265	2,252
Subordinated amount due	1,712	1,712	—	—	260	260
Repurchase agreements – non-trading	5,074	2,488	28	—	1,221	798
Provisions, accruals, deferred income and other liabilities	6,141	3,238	249	54	1,560	430
Total related party liabilities at 31 Dec	33,172	21,889	1,628	132	10,257	5,382
Guarantees and commitments	1,895	470	235	31	2,462	2,242

Transactions and balances during the year with HSBC Bank plc, subsidiaries of HSBC Bank plc, HSBC Holdings plc and its subsidiaries

	2023			2022[1]		
	Due to/from HSBC Bank plc (Parent)	**Due to/from subsidiaries of HSBC Bank plc**	**Due to/from HSBC Holding plc and its subsidiaries**	Due to/from HSBC Bank plc (Parent)	Due to/from subsidiaries of HSBC Bank plc	Due to/from HSBC Holding plc and its subsidiaries
	€m	**€m**	**€m**	€m	€m	€m
Income Statement (continuing operations)						
Interest income	**188**	**1**	**96**	48	2	32
Interest expense	**335**	**5**	**119**	74	6	39
Fee income	**97**	**1**	**45**	84	2	45
Fee expense	**71**	**1**	**25**	65	44	20
Gains less losses from financial investments	**—**	**—**	**—**	—	—	—
Other operating income	**12**	**2**	**37**	30	3	39
Dividend income	**—**	**—**	**—**	—	—	—
General and administrative expenses	**21**	**—**	**623**	28	2	469

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

36 Effects of adoption of IFRS 17

On 1 January 2023 HSBC Continental Europe adopted IFRS 17 'Insurance Contracts' and as required by the standard applied the requirements retrospectively with comparatives restated from the transition date, 1 January 2022. The tables below provide the transition restatement impact on the group's consolidated balance sheet as at 1 January 2022, as well as the group consolidated income statement and the group consolidated statement of comprehensive income for the period ended 31 December 2022. Further information about the effect of adoption of IFRS 17 is provided in Note 1 Basis of preparation and significant accounting policies on page 196.

IFRS 17 transition impact on the consolidated balance sheet at 1 January 2022

	Under IFRS 4	**Removal of PVIF and IFRS 4 balances**	**Recognition of IFRS 17 fulfilment cash flows**	**Recognition of IFRS 17 contractual service margin**	**Tax effect**	**Under IFRS 17**	**Total movements**
	€m	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Assets							
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**13,345**					**13,345**	**—**
Loans and advances to banks	**6,832**					**6,832**	**—**
Loans and advances to customers	**59,612**					**59,612**	**—**
Financial investments	**16,110**					**16,110**	**—**
Goodwill and intangible assets	**763**	**(677)**				**86**	**(677)**
Deferred tax assets	**37**				**182**	**219**	**182**
All other assets	**125,965**	**55**	**(1)**	**3**		**126,022**	**57**
Total assets	**222,664**	**(622)**	**(1)**	**3**	**182**	**222,226**	**(438)**
Liabilities and equity							
Liabilities							
Insurance contract liabilities	**23,698**	**(23,698)**	**22,897**	**853**		**23,750**	**52**
Deferred tax liabilities	**—**				**—**	**—**	**—**
All other liabilities	**191,290**	**6**	**—**	**—**		**191,296**	**6**
Total liabilities	**214,988**	**(23,692)**	**22,897**	**853**	**—**	**215,046**	**58**
Total shareholders' equity	**7,667**	**23,070**	**(22,898)**	**(850)**	**182**	**7,171**	**(496)**
Non-controlling interests	**9**					**9**	**—**
Total equity	**7,676**	**23,070**	**(22,898)**	**(850)**	**182**	**7,180**	**(496)**
Total liabilities and equity	**222,664**	**(622)**	**(1)**	**3**	**182**	**222,226**	**(438)**

Transition drivers

Removal of PVIF and IFRS 4 balances

The PVIF intangible asset of EUR 677 million previously reported under IFRS 4 within 'Goodwill and intangible assets' arose from the upfront recognition of future profits associated with in-force insurance contracts. PVIF is no longer reported following the transition to IFRS 17, as future profits are deferred as unearned revenue within the CSM. Other IFRS 4 insurance contract assets (shown above within 'all other assets') and insurance contract liabilities are removed on transition, to be replaced with IFRS 17 balances.

Recognition of the IFRS 17 fulfilment cash flows

The measurement of the insurance contracts liabilities under IFRS 17 is based on groups of insurance contracts and includes a liability for fulfilling the insurance contract, such as premiums, expenses, insurance benefits and claims including policy holder returns and the cost of guarantees. These are recorded within the fulfilment cash flow component of the insurance contract liability, together with the risk adjustment for non financial risk.

Recognition of the IFRS 17 contractual service margin

The CSM is a component of the insurance contract liability and represents the future unearned profit associated with insurance contracts which will be released to the profit and loss over the expected coverage period.

Tax effect

The removal of deferred tax liabilities primarily results from the removal of the associated PVIF assets, and new deferred tax assets are reported, where appropriate, on temporary differences between the new IFRS 17 accounting balances and their associated tax bases.

Intragroup Cash Flows

The group's accounting for insurance contracts considers a broader set of cash flows than those arising within the insurance manufacturing entities. This includes the effect of eliminating intragroup fees and directly attributable costs incurred by other group entities.

For HSBC Life Insurance (Malta), these cash flows have not been considered as material and are not eliminated.

For HSBC Assurance Vie (France), in the context of the disposal of the France Retail network of HSBC Continental Europe, and considering the required costs and efforts in regards to the expected non material impact, the intragroup distribution cash flows between HSBC Assurance Vie (France) and HSBC Continental Europe have not been considered for Fullfilment Cash Flows and CSM calculation.

Nevertheless, in order to avoid overstatement of the consolidated operating income and operating expenses of HSBC Continental Europe, the intragroup insurance distribution fees received by group are eliminated through a reduction of the Operating Expenses of the same amount for the periods where these were not reported as held for sale. As at 31 December 2022, this elimination amounted to EUR 76 million.

IFRS 17 transition impact on the reported group consolidated income statement for the 12 months ended 31 December 2022[1]

	IFRS 4	Removal of PVIF and IFRS 4	Remeasure-ment effect of IFRS 9 re-designations	Insurance finance income/ expense	IFRS 17 CSM	Onerous contracts	Experience variance and other	Attribut-able expenses	Tax effect	IFRS 17
Continuing operations	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**	**€m**
Net interest income	**1,128**	**—**	**2**	**—**	**—**	**—**	**—**	**—**	**—**	**1,130**
Net fee income	**752**	**—**	**—**	**—**	**—**	**—**	**—**	**7**	**—**	**759**
Net income from financial instruments held for trading or managed on a fair value basis	**332**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**332**
Net expense from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**(1,385)**	**—**	**(63)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,448)**
Changes in fair value of designated debt and related derivatives	**(16)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(16)**
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**26**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**26**
Gains less losses from financial investments instruments	**(11)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(11)**
Net insurance premium income	**1,512**	**(1,512)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Insurance finance income/(expense)	**—**	**—**	**—**	**1,124**	**—**	**—**	**—**	**—**	**—**	**1,124**
Insurance service result	**—**	**—**	**—**	**—**	**108**	**(2)**	**12**	**—**	**—**	**118**
– insurance revenue	**—**	**—**	**—**	**—**	**108**	**—**	**131**	**—**	**—**	**239**
– insurance service expense	**—**	**—**	**—**	**—**	**—**	**(2)**	**(119)**	**—**	**—**	**(121)**
Gains/(losses) recognised on assets held for sale	**(103)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(103)**
Other operating income/(loss)	**218**	**(123)**	**—**	**4**	**—**	**—**	**(8)**	**—**	**—**	**91**
Total operating income	**2,453**	**(1,635)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**7**	**—**	**2,002**
Net insurance claims and benefits paid and movement in liabilities to policyholders	**(198)**	**198**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net operating income before change in expected credit losses and other credit impairment charges	**2,255**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**7**	**—**	**2,002**
Change in expected credit losses and other credit impairment charges	**(124)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(124)**
Net operating income	**2,131**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**7**	**—**	**1,878**
Total operating expenses	**(1,760)**	**—**	**—**	**—**	**—**	**—**	**—**	**100**	**—**	**(1,660)**
Operating profit	**371**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**107**	**—**	**218**
Share of profit in associates and joint ventures	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Profit before tax	**371**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**107**	**—**	**218**
Tax expense	**(58)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**25**	**(33)**
Profit/(loss) after tax in respect of continuing operations	**313**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**107**	**25**	**185**
Profit/(loss) after tax in respect of discontinued operation	**(1,275)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,275)**
Profit for the period	**(962)**	**(1,437)**	**(61)**	**1,128**	**108**	**(2)**	**4**	**107**	**25**	**(1,090)**

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS 5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to of the consolidated financial statements.*

Transition drivers

Removal of IFRS 4 based revenue items

As a result of the removal of the PVIF intangible asset and IFRS 4 results , the associated revenue of EUR (123) million for the twelve-months to December 2022 that was previously reported within Other operating income is no longer reported under IFRS 17. This includes the derecognition of the value of new business and changes to in-force book PVIF from valuation adjustments and experience variances. On the implementation of IFRS 17 new income statement line items associated with insurance contract accounting were introduced. Consequently, the previously reported IFRS 4 line items 'Net insurance premium income', and 'Net insurance claims and benefits paid and movement in liabilities to policyholders' were also removed.

Introduction of IFRS 17 income statement

Insurance finance income/(expense)

Insurance finance income/(expense) of EUR 1,124 million for the twelve-months to December 2022 represents the change in the carrying amount of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk. For VFA contracts, which represent more than 99 per cent of HSBC Continental Europe's insurance contracts, the insurance finance income/(expense) includes the changes in the fair value of underlying items (excluding additions and withdrawals). It therefore has an offsetting impact to investment income earned on underlying assets supporting insurance contracts.

This includes an offsetting impact to the gains and losses on assets held at fair value through profit or loss, and which is now included in 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

CSM

Revenue is recognised for the release of the CSM associated with the in-force business, which was allocated at a rate of approximately 7.8 per cent during the twelve-months to December 2022. The CSM release is largely impacted by the constant measure allocation approach for investment services, but may vary over time primarily due to changes in the total amount of CSM reported on the balance sheet from factors such as new business written, changes to levels of actual returns earned on underlying assets, or changes to assumptions.

Onerous contracts

Losses on onerous contracts are taken to the income statement as incurred.

Experience variance and other

Experience variance and other revenue represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Attributable expenses

Directly attributable expenses are the costs associated with originating and fulfilling an identified portfolio of insurance contracts. These costs include distribution fees paid to third parties as part of originating insurance contracts together with appropriate allocations of fixed and variable overheads which are included within the fulfilment cash flows and are no longer shown on the operating expenses line.

IFRS 17 transition impact on the consolidated statement of comprehensive income

	Year ended 31 Dec 2022[1]	
	IFRS 17	IFRS 4
	€m	€m
Opening equity for the period	**7,180**	7,676
– *of which:*		
– *Retained earnings*	***2,128***	*2,636*
– *Financial assets at FVOCI reserve*	***669***	*45*
– *Insurance finance reserve*	***(612)***	—
Profit for the period	**185**	313
Debt instruments at fair value through other comprehensive income	**(1,804)**	(114)
Equity instruments designated at fair value through other comprehensive income	**(1)**	(1)
Insurance finance income/(expense) recognised in other comprehensive income	**1,661**	—
Other comprehensive expense for the period, net of tax	**(34)**	(34)
Total comprehensive (expense)/income for the period from continuing operations	**7**	164
Total comprehensive (expense)/income for the period from discontinued operations	**(1,257)**	(1,257)
Other Movements	**5,574**	5,608
Closing equity for the period	**11,504**	12,191

1 *In accordance with the revised Framework Agreement related to the planned sale of the retail banking operations in France, HSBC Continental Europe will retain a portfolio of EUR 7.1 billion of home loans which was originally part of the sale. As a result and in compliance with IFRS5 standards requirements as per paragraphs 34 to 36, the 2022 comparative data of continuing and discontinued operations have been represented accordingly. Refer to Note 3 of the consolidated financial statements.*

Transition drivers

Insurance finance reserve

The insurance finance reserve reflects the impact of the adoption of the other comprehensive income option in HSBC Assurance Vie (France). Underlying assets supporting these contracts are measured at fair value through other comprehensive income. Under this option, only the amount that matches income or expenses recognised in profit or loss on underlying items is included in finance income or expenses, resulting in the elimination of income statement accounting mismatches. The remaining amount of finance income or expenses for these insurance contracts is recognised in other comprehensive income. At the transition date an insurance finance reserve of EUR (612) million was recognised and following transition, gains net of tax of EUR 1,661 million were recorded in full year 2022. An offsetting fair value through OCI reserve of EUR 624 million recorded on transition represents the accumulated fair value movements on assets supporting these insurance liabilities, with associated losses net of taxes of (1,778) million recorded within the fair value through other comprehensive income reserve during 2022.

Consolidated balance sheet as at transition date and at 31 December 2022

	IFRS 17		IFRS 4	
	31 Dec 2022 €m	**1 Jan 2022 €m**	31 Dec 2022 €m	1 Jan 2022 €m
Assets				
Cash and balances at central banks	**59,734**	**38,063**	59,734	38,063
Items in the course of collection from other banks	**476**	**156**	476	156
Trading assets	**13,777**	**12,921**	13,777	12,921
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**12,170**	**13,345**	12,170	13,345
Derivatives	**59,960**	**39,634**	59,960	39,634
Loans and advances to banks	**7,233**	**6,832**	7,233	6,832
Loans and advances to customers	**42,340**	**59,612**	42,340	59,612
Reverse repurchase agreements – non-trading	**15,374**	**20,487**	15,374	20,487
Financial investments	**19,135**	**16,110**	19,135	16,110
Assets held for sale	**23,761**	**2**	23,761	2
Prepayments, accrued income and other assets	**23,548**	**14,595**	23,532	14,538
Current tax assets	**330**	**162**	330	162
Interests in associates and joint ventures	**—**	**2**	—	2
Goodwill and intangible assets	**140**	**86**	983	763
Deferred tax assets	**1,103**	**219**	879	37
Total assets	**279,081**	**222,226**	279,684	222,664
Liabilities and equity				
Liabilities				
Deposits by banks	**11,182**	**18,548**	11,182	18,548
Customer accounts	**83,692**	**70,144**	83,692	70,144
Repurchase agreements – non-trading	**6,655**	**8,731**	6,655	8,731
Items in the course of transmission to other banks	**528**	**280**	528	280
Trading liabilities	**17,509**	**16,247**	17,509	16,247
Financial liabilities designated at fair value	**9,049**	**13,733**	9,055	13,733
Derivatives	**55,726**	**35,895**	55,726	35,895
Debt securities in issue	**6,861**	**7,414**	6,861	7,414
Liabilities of disposal groups held for sale	**27,855**	**—**	27,855	—
Accruals, deferred income and other liabilities	**25,656**	**18,128**	25,629	18,122
Current tax liabilities	**113**	**66**	112	66
Insurance contract liabilities	**20,439**	**23,750**	20,364	23,698
Provisions	**286**	**234**	286	234
Deferred tax liabilities	**3**	**—**	16	—
Subordinated liabilities	**2,023**	**1,876**	2,023	1,876
Total liabilities	**267,577**	**215,046**	267,493	214,988
Equity				
Called up share capital	**1,062**	**491**	1,062	491
Share premium account	**5,264**	**2,137**	5,264	2,137
Other equity instruments	**1,433**	**750**	1,433	750
Other reserves	**1,261**	**1,665**	1,278	1,653
Retained earnings	**2,338**	**2,128**	2,998	2,636
Total shareholders' equity	**11,358**	**7,171**	12,035	7,667
Non-controlling interests	**146**	**9**	156	9
Total equity	**11,504**	**7,180**	12,191	7,676
Total liabilities and equity	**279,081**	**222,226**	279,684	222,664

37 Events after the balance sheet date

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations 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.

There has been no other significant event between 31 December 2023 and the date of approval of these financial statements by the Board of Directors which would require an adjustment or additional disclosure in the financial statements.

38 HSBC Continental Europe subsidiaries, joint ventures and associates

HSBC Continental Europe classifies investments in entities which it controls as subsidiaries. HSBC Continental Europe consolidation policy is described in Note 1.

Consolidated Subsidiaries	Country of incorporation or registration	Main line of business	HSBC Continental Europe interest (%)	
			2023	2022
Beau Soleil Limited Partnership	Hong Kong	Financial company	**85.0**	85.0
CCF & Partners Asset Management Ltd	United Kingdom	Financial company	**100.0**	100.0
Charterhouse Administrators Ltd	United Kingdom	Investment company	**100.0**	100.0
Charterhouse Management Services Limited	United Kingdom	Investment company	**100.0**	100.0
DEM 9[6]	France	Financial company	**—**	100.0
DEMPAR 1	France	Financial company	**100.0**	100.0
ERISA Actions Grandes Valeurs	France	Financial company	**100.0**	100.0
Euro Secured Notes Issuer (ESNI)[2]	France	Financial company	**—**	16.7
Flandres Contentieux	France	Service company	**100.0**	100.0
Foncière Elysées	France	Real estate company	**100.0**	100.0
HLF	France	Commercial company	**100.0**	100.0
HSBC Assurances Vie (France)	France	Insurance company	**100.0**	100.0
HSBC Bank Malta p.l.c.	Malta	Financial company	**70.0**	70.0
HSBC Epargne Entreprise (France)	France	Financial company	**100.0**	100.0
HSBC Euro Protect 80 Plus Part C	France	Financial company	**76.3**	76.3
HSBC Europe Small Mid Cap	France	Financial company	**55.9**	63.3
HSBC Factoring (France)	France	Financial company	**100.0**	100.0
HSBC GB Japan Eq Ind	France	Financial company	**100.0**	99.4
HSBC GIF-Eurolnd Gr-A	France	Financial company	**55.2**	58.8
HSBC GLB-US Equity Ind-Aceur	France	Financial company	**87.0**	88.3
HSBC Global Asset Management (Deutschland) GmbH	Germany	Asset Management	**100.0**	100.0
HSBC Global Asset Management (France)	France	Asset management	**100.0**	100.0
HSBC Global Asset Management (Malta) Limited	Malta	Asset management	**70.0**	70.0
HSBC Global Asset Management (Switzerland) AG[3]	Switzerland	Asset management	**—**	100.0
HSBC Global Infrastructur Debt FD Feeder[4]	France	Financial company	**56.8**	—
HSBC Global Investment Funds Gem Equity	France	Financial company	**59.6**	58.0
HSBC Life Assurance (Malta) Limited	Malta	Insurance company	**70.0**	70.0
HSBC Mix Dynamique FCP3DEC	France	Financial company	**56.7**	59.7
HSBC Mul.Ass.St.Fact.S FCP3DEC	France	Financial company	**100.0**	100.0
HSBC Oblig Inflation Euro Ac	France	Financial company	**58.5**	66.9
HSBC Operational Services GmbH	Germany	Service Company	**100.0**	100.0
HSBC Port-World Sel 5-Aheur	France	Financial company	**50.4**	53.1
HSBC Private Bank (Luxembourg) S.A[4]	Luxembourg	Financial company	**100.0**	—
HSBC Private Markets Management SARL	Luxembourg	Asset Management	**100.0**	100.0
HSBC Real Estate Leasing (France)	France	Financial company	**100.0**	100.0
HSBC REIM (France)	France	Asset management	**100.0**	100.0
HSBC Resp Inve Fd-Sri Dynamic Part Ac	France	Financial company	**72.7**	72.1
HSBC Resp Inves Funds-Sri Balanced Ac	France	Financial company	**66.3**	67.6
HSBC Resp Investment Funds Sri Global Equity	France	Financial company	**70.0**	71.1
HSBC Select Balanced Part A	France	Financial company	**50.4**	51.3
HSBC Select Dynamic A FCP 2DEC	France	Financial company	**80.7**	80.2
HSBC Select Equity A Fcp 4Dec	France	Financial company	**85.5**	82.9
HSBC Select Flexible Part A	France	Financial company	**61.6**	57.6
HSBC Service Company Germany GmbH	Germany	Service Company	**100.0**	100.0
HSBC Services (France)	France	Financial company	**100.0**	100.0
HSBC SFH (France)[5]	France	Financial company	**100.0**	100.0
HSBC Small Cap France[4]	France	Financial company	**50.9**	—
HSBC Titan GmbH & Co. KG[6]	Germany	Financial company	**—**	100.0
HSBC Transaction Services GmbH	Germany	Service Company	**100.0**	100.0
HSBC Trinkaus & Burkhardt (International) S.A.	Luxembourg	No active business	**100.0**	100.0
HSBC Trinkaus & Burkhardt Gesellschaft fur Bankbeteiligungen mbH	Germany	Investment Company	**100.0**	100.0
HSBC Trinkaus & Burkhardt GmbH	Germany	Financial Company	**100.0**	100.0
HSBC Trinkaus Europa Immobilien-Fonds Nr. 5 GmbH[1]	Germany	Financial Company	**—**	100.0
HSBC Trinkaus Family Office GmbH	Germany	Service Company	**100.0**	100.0
HSBC Trinkaus Real Estate GmbH	Germany	Real Estate Company	**100.0**	100.0

Consolidated Subsidiaries	Country of incorporation or registration	Main line of business	HSBC Continental Europe interest (%)	
			2023	2022
HSBC World Equity Protect 80	France	Financial company	**97.8**	97.5
INKA Internationale Kapitalanlagegesellschaft mbH	Germany	Service Company	**100.0**	100.0
Keyser Ullmann Ltd	United Kingdom	Investment company	**100.0**	100.0
OPCVM8 – Erisa Diversifié N2 FCP	France	Financial company	**100.0**	100.0
OPCVM9 – Erisa Opportunités FCP	France	Financial company	**100.0**	100.0
SAF Baiyun	France	Financial company	**100.0**	100.0
SAF Guangzhou	France	Financial company	**100.0**	100.0
SAPC Ufipro Recouvrement	France	Service company	**99.9**	99.9
SCI HSBC Assurances Immo	France	Real estate company	**100.0**	100.0
SFM	France	Commercial company	**100.0**	100.0
SNC les Oliviers d'Antibes	France	Financial company	**60.0**	60.0
Société Française et Suisse	France	Investment company	**100.0**	100.0
Somers Dublin – DAC	Ireland	Service company	**100.0**	100.0
Sopingest	France	Financial company	**100.0**	100.0
Trinkaus Europa Immobilien-Fonds Nr.3 Objekt Utrecht Verwaltungs-GmbH	Germany	Real Estate Company	**100.0**	100.0
Trinkaus Immobilien-Fonds Geschaeftsfuehrungs-GmbH	Germany	Real Estate Company	**100.0**	100.0
Trinkaus Immobilien-Fonds Verwaltungs-GmbH	Germany	Real Estate Company	**100.0**	100.0
Trinkaus Private Equity Management GmbH	Germany	Asset Management	**100.0**	100.0
Trinkaus Private Equity Verwaltungs GmbH	Germany	Asset Management	**100.0**	100.0
Valeurs Mobilières Elysées	France	Investment company	**100.0**	100.0

Associates	Country of incorporation or registration	Main line of business	HSBC Continental Europe interest (%)	
			2023	2022
HCM Holdings Ltd[7]	United Kingdom	Financial company	**51.0**	51.0
Services Epargne Entreprise	France	Service company	**14.2**	14.2
Trinkaus Europa Immobilien-Fonds Nr. 7 Frankfurt Mertonviertel KG[8]	Germany	Real Estate Company	**41.0**	41.0

1 *Merger.*
2 *Liquidation.*
3 *Exit from the perimeter.*
4 *Entrance in the perimeter.*
5 *SFH was sold on 1 January 2024.*
6 *Dissolution.*
7 *In the process of liquidation.*
8 *The stake in the entity is impaired to zero for years.*

Non Consolidated Companies	Country of incorporation or registration	Reason of non-consolidation	Reason of non-consolidation	
			2023	2022
CCF Finance Moyen Orient SAL	Lebanon	In the course of liquidation since 2002	**99.9**	99.9
CCF Holding Liban SAL	Lebanon	In the course of liquidation since 2002	**75.0**	75.0
FL FINANZ LEASING Gmbh	Germany	In the course of liquidation	**25.0**	25.0
SNCB/M6 2007 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2007 B	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0
SNCB/M6 2008 A	France	Not consolidated in accordance with IFRS 10	**100.0**	100.0

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75116 Paris

Statutory Auditors' report on the consolidated financial statements

(For the year ended 31 December 2023)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe

38, avenue Kléber

75116 Paris

To the shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of HSBC Continental Europe for the year ended 31 December 2023.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 31 December 2023 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors for the period from 1 January 2023 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No. 537/2014.

Emphasis of matter

Without qualifying our opinion, we draw your attention to the change in accounting policy resulting from the application as from 1 January 2023 of IFRS 17 "Insurance Contracts", as presented in Note 1.2.j, as well as in the other notes to the consolidated financial statements presenting quantified data related to the impact of these changes.

Justification of assessments – Key audit matters

In accordance with the requirements of articles L.821-53 and R.821-180 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the consolidated financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the consolidated financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the consolidated financial statements.

Presentation of the retail banking business held for sale

Description of risk	How our audit addressed this risk
In 2021, HSBC Continental Europe signed a framework agreement with Promontoria MMB and its subsidiary Banque des Caraïbes SA regarding the planned sale of HSBC Continental Europe's retail banking business in France. The final agreements were signed on 20 September 2023 and the sale was completed on 1 January 2024. At 31 December 2023, EUR 24.989 billion in assets and EUR 23.708 billion in liabilities were classified as held for sale with respect to the French retail banking business in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". A loss of EUR 2 billion was initially recorded in 2022, followed by a partial reversal in the first quarter of 2023, due to uncertainty regarding the sale. Following regulatory approvals and the fulfilment of other relevant conditions, the disposal group was reclassified as held for sale in the fourth quarter of 2023, with the recognition of a pre-tax impairment loss of EUR 1.8 billion, reflecting the final terms of the sale. Overall, these transactions led to net impairment reversal of EUR 143 million in 2023, recorded in "Other operating income". Given the significance of this transaction for HSBC Continental Europe, its accounting complexity and the sensitivity of the judgements made by management, we deemed the assessment of the new transaction terms and the disclosures in the notes to the consolidated financial statements to be a key audit matter at 31 December 2023.	We reviewed the documentation relating to this transaction and assessed its accounting treatment at 31 December 2023. Our work consisted primarily in: – reviewing the documentation available to us to assess whether the proposed disposal transaction met the "highly probable" criterion of IFRS 5; – assessing the appropriateness of the key judgements made by management regarding the accounting treatment of the various components of the transaction; – testing the exhaustiveness and accuracy of the assets and liabilities classified as held for sale and the loss recognised; – assessing the appropriateness of the disclosures about this transaction in the notes the consolidated financial statements.

For more details, see Notes 1.3 and 3 to the consolidated financial statements.

Impairment of loans and advances to commercial customers

Description of risk	How our audit addressed this risk
Determining expected credit losses (ECLs) calls on the judgement of management. The corresponding estimates are subject to a high degree of uncertainty, which has increased in the current economic environment with rising inflation, energy prices and interest rates. Management uses complex customised models to calculate ECLs. The type and scope of these adjustments vary depending on the company's portfolio. They may or may not be based on models and the judgements of management. Assumptions are used to determine the risk inputs underlying the ECL estimates, including in particular forward-looking economic scenarios and their probability, business customer risk ratings (CRR) and the recoverability of the loans. We deemed this impairment to be a key audit matter as it requires significant judgement on the part of management when preparing the consolidated financial statements, particularly given the current economic climate.	Management has put in place controls designed to ensure the reliability of the calculation of ECLs. In this context, we tested the controls we deemed to be key to the audit in order to assess the relevance of the impairment losses recorded, in particular: – the examination and comparative review of several economic scenarios and their probability by a group of experts and an internal governance committee; – the effectiveness of the credit committees set up to assess and approve the estimated impairment, particularly the judgement exercised by management to determine the adjustments to be applied; – the validation and monitoring of models; – the effectiveness of the credit committees set up to assess and approve the estimated impairment, particularly the judgement exercised by management to determine the adjustments to be applied; – credit reviews to determine customer risk ratings of company portfolios; – the entry of critical data in the source systems, as well as the flow and transformation of the data between the source systems and the engine for calculating impairment losses. We called upon our experts to assess the reasonableness of the macro-economic variables forecasts, particularly regarding the estimated probability of various scenarios. They examined the sensitivity of expected credit losses to these assumptions. We also assessed the relevance of the model methodologies. Where expected credit losses were adjusted, we assessed the impairment losses determined by management and the supporting analysis. In addition, we assessed the level of ECLs using a sample of business customer loans, and the relevance of management's judgement, particularly the level of customer risk ratings and expert valuations. We also assessed the disclosures on credit risk provided in the consolidated financial statements for the year ended 31 December 2023.

Impairment of loans and advances to commercial customers stood at EUR 693 million at 31 December 2023.
See Note 1.2 to the consolidated financial statements and section "Distribution of financial instruments by credit quality" of the management report.

Recognition of deferred tax assets with respect to tax loss carryforwards

Description of risk	How our audit addressed this risk
Deferred tax assets amount to EUR 798 million in HSBC Continental Europe's consolidated financial statements, of which EUR 652 million in deferred tax assets on tax loss carryforwards. The valuation and recoverability of the deferred tax assets resulting from these tax loss carryforwards depend mainly on: – the taxable profit that HBCE expects to generate in the future; – French tax legislation applicable to the recognition and use of deferred tax assets arising from HBCE's tax loss carryforwards in France. The valuation and future use of deferred tax assets on tax loss carryforwards is based on significant judgements from management. These judgements relate primarily to forecasts of tax profit or loss, the duration of tax losses, and the feasible tax planning strategies available. Accordingly, given the significance of the amount of deferred tax assets at 31 December 2023 and the estimates and judgements made by management in recognising these deferred tax losses, we deemed them to be a key audit matter for HSBC Continental Europe's financial statements.	We performed the following procedures to validate the recoverability of deferred tax assets with respect to tax loss carryforwards: – we tested the controls in place around the calculation and recognition of deferred tax assets on tax loss carryforwards; – we have performed a critical review, with the help of our tax experts, of the assumptions used by management to estimate the recoverable amount of the estimated deferred tax assets on tax loss carryforwards at the year end. Our work consisted primarily in: – testing the key inputs used in the model for the recognition of deferred taxes, including cash flow forecasts for plans approved by the Board of Directors; – assessing management's estimates of forecasts of tax profit or loss by examinating the temporary and permanent differences from prior years that are reflected in future forecasts; – comparing the assumptions used by management to estimate future tax profit or loss to determine the amount of deferred tax assets to be recognised with the assumptions used to determine future cash flows used in the various asset impairment tests, assessing the compliance of management's assumptions with existing and future tax laws and rules; – we tested the classification of deferred tax assets taking into account the existence of deferred tax liabilities; – lastly, we assessed the appropriateness of the disclosures in the notes to the consolidated financial statements.

For more information, please refer to Note 1.2.l and Note 9 to the consolidated financial statements.

Assessing the impact of the first-time application of the IFRS 17 “Insurance Contracts” on opening balances and comparatives

Description of risk	How our audit addressed this risk
The implementation of IFRS 17 “Insurance Contracts” with effect from 1 January 2023 results in significant changes to the accounting polices and assessment rules for insurance contracts, as well as amendments to the presentation of the financial statements. It has been applied retrospectively to insurance contracts in force on the transition date of 1 January 2022. The Group has presented the impact of this new standard in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", including comparative information at 1 January 2022, as well as the impact of the choices of accounting policy on the opening balance of shareholders' equity and on the contractual service margin in the opening balance sheet. Note 1 "Basis of preparation and significant accounting policies" to the Group's consolidated financial statements presents, notably, the qualitative and quantitative disclosures required by IFRS 17, along with the main accounting policies applied during transition. According to this note, the adoption of this new accounting standard led to a total negative impact of EUR 496 million on shareholders' equity at 1 January 2022 and a gross pre-tax opening contractual service margin of EUR 920 million. The application of IFRS 17 involves new accounting and actuarial estimates necessitating greater judgement on the part of management in selecting the appropriate accounting policies under the transitional provisions and in identifying key assumptions and inputs to reflect the most probable future scenario. At the transition date, this notably includes: – identifying the appropriate transition approach for each group of insurance contract, specifically assessing when the full retrospective approach (FRA) is possible for each group of contracts and, if not, evaluating transition methods for groups of contracts where a modified retrospective approach (MRA) has been applied; – the methods and assumptions used to calculate the initial contractual service margin, based on the chosen transition approach for groups of insurance contracts; – specifically, its amount was estimated mainly using the modified retrospective approach due to the lack of sufficiently detailed information required for the application of the full retrospective approach, leading management to make certain simplifications, particularly concerning the grouping of contracts, discount rates and recovery of past margins; – the methods used to present the impact of these choices on Group shareholders' equity, including the impact on "other comprehensive income" (OCI) at the transition date. Given the number of changes in the measurement and recognition of insurance liabilities resulting from this new accounting standard, coupled with management’s choice of accounting policies and significant judgement in determining certain key measurement assumptions, we considered the valuation of the impact of the first-time application of IFRS 17 "Insurance Contracts" on the opening balances and comparatives of the Group's consolidated financial statements to be a key audit matter.	With the assistance of our specialists in actuarial modelling and accounting for financial instruments, we performed the following audit procedures: – understanding and assessing the processes and controls defined by management to determine the impact of adopting IFRS 17 on the consolidated financial statements at 1 January 2022 and on the comparative financial statements at 31 December 2022; – assessing the appropriateness of the accounting policies and judgements made by management in respect of the provisions of IFRS 17; – assessing the inputs and assumptions used in the transition methods applied to the calculation of the contractual service margin (based on the modified retrospective approach as applied within the Group). In this context, we assessed the methods used to measure and recognise the contractual service margin at 1 January 2022; – assessing, with the help of our actuarial modelling specialists, the methods and key judgements used to determine the actuarial valuation models (including the determination of the contractual service margin and the key inputs of the discount rates used by management) in accordance with IFRS 17. We checked the application of these methods and assumptions as part of our audit procedures for the comparative information for 2022; – testing, on a sample basis and taking into account our assessment of the risks, the data, assumptions and key modelling inputs, as well as the adjustments made and used in calculating the opening balances and comparative statements; – assessing the appropriateness of the disclosures on the transition to the new standard IFRS 17 in accordance with the requirements of IAS 8 in the notes to the consolidated financial statements.

Valuation of liabilities under directly participating life insurance contracts and investment contracts with discretionary participation features

Description of risk	How our audit addressed this risk
At 31 December 2023, the Group recognised insurance contract liabilities totalling EUR 21,035 million, as stated in Note 6 "Insurance business" to the consolidated financial statements. The valuation model based on the variable fee approach ("VFA") is used for directly participating life insurance contracts and investment contracts with discretionary participation features, which represent the vast majority of contracts issued by the Group, totalling EUR 20,942 million. The estimate of these liabilities under IFRS 17 is based on: – the determination of the best estimate of the present value of future cash flows required to meet contractual obligations towards policyholders: The forecasting of these future cash flows involves assumptions about policyholder behaviour and management decisions. These estimated cash flows are discounted to reflect the time value of money based on a risk-free rate curve adjusted for an illiquidity risk premium; – the definition of the adjustment for non-financial risk, aimed at addressing the uncertainty about the amount and timing of future cash flows as insurance contracts are carried out. To assess this risk adjustment, the Group has chosen to use the Value at Risk (VAR) method. In particular, the Group used its judgement in choosing the corresponding confidence level and diversification level; – the contractual service margin represents the present value of future deferred profits attributable to the Group over the coverage period of profitable insurance contracts and is recorded in the income statement based on coverage units defined by the Group and appropriate for the groups of insurance contracts in question. Considering the long-term nature of insurance contract liabilities, their high sensitivity to economic and financial conditions, which may have an impact on policyholder behaviour, the significant management judgement involved in selecting data and assumptions, as well as the use of complex modelling techniques, we considered the valuation of technical provisions for insurance contracts valued using the VFA model to be a key audit matter.	With the assistance of our actuarial modelling specialists, we performed the following audit procedures: – reviewing the processes and methods defined by the Group's management to determine, in accordance with the principles of IFRS 17, the best estimate of the present value of future cash flows required to settle contractual obligations towards policyholders under insurance contracts measured using the VFA model; – assessing the compliance of the accounting policies used by the Group with the provisions of IFRS 17; – assessing and testing the key controls put in place by management, including the information systems' control environment used in data processing. In particular, we assessed the control procedures concerning the methods, judgements and key assumptions made by management. We also assessed the appropriateness of any changes in assumptions, inputs or actuarial modelling processes used in evaluating future cash flows; – testing, on a sample basis, the main methods, assumptions and inputs used for calculating estimates of the present value of future cash flows, the adjustment for non-financial risk and the contractual service margin. We assessed, on a sample basis, the reasonableness of these estimates; – testing, on a sample basis, the reliability of the underlying data used in forecast models and the calculation of the best estimate of the present value of future cash flows; – carrying out analytical procedures on the changes to identify, where appropriate, any significant inconsistent or unexpected variations; – assessing the appropriateness of the disclosures presented in the notes to the consolidated financial statements.

Specific verifications

As required by legal and regulatory provisions and in accordance with professional standards applicable in France, we have also performed the specific verifications on the information pertaining to the Group presented in the Board of Directors' management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the Group management report includes the consolidated non-financial information statement required under article L.225-102-1 of the French Commercial Code. However, in accordance with article L.823-10 of the French Commercial Code, we have not verified the fair presentation and consistency with the consolidated financial statements of the information given in that statement, which will be the subject of a report by an independent third party.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the consolidated financial statements to be included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the consolidated financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and prepared under the Chief Executive Officer's responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018. As it relates to the consolidated financial statements, our work included verifying that the markups in the financial statements comply with the format defined by the aforementioned Regulation.

On the basis of our work, we conclude that the presentation of the consolidated financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

Due to the technical limitations inherent to block tagging the consolidated financial statements in the European single electronic reporting format, the content of some of the tags in the notes may not be rendered identically to the accompanying consolidated financial statements.

In addition, it is not our responsibility to ensure that the consolidated financial statements to be included by the Company in the annual financial report filed with the AMF correspond to those on which we carried out our work.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris.

At 31 December 2023, PricewaterhouseCoopers Audit and BDO Paris were in the ninth and the seventeenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for preparing consolidated financial statements giving a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for implementing the internal control procedures it deems necessary for the preparation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements.

As specified in article L.821-55 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit

They also:

- identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the consolidated financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the consolidated financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditors are responsible for the management, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed thereon.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant in the audit of the consolidated financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.821-27 to L.821-34 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 1 March 2024

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Vincent Génibrel

Parent company financial statements

Notes on the parent company financial statements

Income statement

(in million of euros)	Notes	31 Dec 2023	31 Dec 2022
Income/(Expenses)			
Interest and similar income	23	**7,340**	2,403
Interest and similar expenses	23	**(5,675)**	(1,642)
Finance leases income		**100**	148
Finance leases expenses		**(84)**	(134)
Income from equities and other variable income securities	24	**740**	44
Commissions received	25	**1,355**	1,196
Commissions paid	25	**(457)**	(345)
Gains and losses on trading securities	26	**104**	331
Gains or losses on available-for-sale securities	27	**17**	(70)
Other banking operating income		**94**	156
Other banking operating expenses		**(32)**	(38)
Net banking operating income		**3,503**	2,050
General operating expenses	28	**(2,013)**	(1,894)
Depreciation, amortisation and impairment of tangible and intangible assets		**(13)**	65
Gross operating income		**1,476**	221
Loan impairment charges	8	**(186)**	(67)
Net operating income		**1,290**	154
Gains or losses on disposals of fixed assets and long term investments	29	**15**	(48)
Profit/(loss) before tax		**1,305**	106
Exceptional items	30	**(405)**	(118)
Income tax and deferred tax	31	**(229)**	288
Gains and losses from regulated provisions		**—**	—
Net profit/(loss) for the period		**671**	275

Balance sheet

Assets

(in million of euros)	Notes	31 Dec 2023	31 Dec 2022
Cash and amounts due from central banks and post office banks		**66,640**	42,159
Treasury bills and money-market instruments[1]	4	**21,823**	13,186
Loans and advances to banks[2]	2	**25,311**	21,727
Loans and advances to customers[3]	3	**60,521**	54,192
Bonds and other fixed income securities[1]	4	**8,946**	3,787
Equities and other variable income securities	4	**2,843**	1,737
Investments in subsidiaries and equity securities held for long term	5	**88**	76
Interests in affiliated parties	5	**2,112**	2,567
Finance leases	7	**81**	173
Intangible fixed assets	6	**82**	51
Tangible fixed assets	7	**97**	60
Other assets	9	**21,598**	24,477
Prepayments and accrued income	10	**42,633**	54,834
Total assets		**252,775**	219,026
Off-balance sheet items			
Financial commitments given	21	**58,737**	51,368
Guarantees and endorsements given	21	**17,485**	14,300
Securities commitments (other commitments given)		**35,836**	23,683

Liabilities

(in million of euros)	Notes	31 Dec 2023	31 Dec 2022
Central bank and post office banks		**275**	13
Deposits due to credit institutions[2]	11	**23,263**	21,007
Customer accounts[3]	12	**108,308**	74,678
Debt securities in issue	13	**23,417**	16,415
Other liabilities[1]	15	**43,742**	44,652
Accruals and deferred income	16	**38,690**	49,260
Provisions for liabilities and charges	14	**1,896**	2,027
Subordinated liabilities	17	**3,397**	2,582
Share capital	18 &19	**1,062**	1,062
Additional paid-in capital	19	**5,808**	5,281
Reserves	19	**1,055**	1,041
Special tax-allowable reserves		**—**	—
Retained earnings[4]	19	**1,191**	733
Net profit/(loss) for the period	19	**671**	275
Interim dividend		**—**	—
Total liabilities		**252,775**	219,026
Off-balance sheet items			
Financial commitments received	21	**909**	6,159
Guarantees and endorsements received	21	**19,044**	18,644
Securities commitments (other commitments received)		**42,001**	35,778

1 *After the application of offsetting for assets and liabilities arising from securities borrowing transactions. Refer to Note 1, Note 4 and Note 15.*
2 *After the application of offsetting of repurchase and reverse repurchase agreements. Refer to Note 1, Note 2 and Note 11.*
3 *After the application of offsetting of repurchase and reverse repurchase agreements and regulated savings accounts against balances centralised at the Caisse des Dépôts et Consignations. Refer to Note 1, Note 3 and Note 12.*
4 *Before proposed allocation submitted to Annual General Meeting for approval.*

Statement of reported net profit and movements in shareholders' funds

(in million of euros)	31 Dec 2023	31 Dec 2022
Net profit/(loss) for the period		
Total	**671**	275
– per share (in euros)[1]	**3**	1
Movements in shareholders' funds (excluding the net profit of 2023) (after allocation of 2022 net profit)		
– change in revaluation reserve	**—**	39
– transfer to reserves and change in retained earnings	**275**	(1,589)
– allocation of net profit for the previous year	**275**	(1,589)
– appropriation of net profit	**—**	—
– restatement of opening retained earnings	**—**	—
– change in special tax-allowable reserves	**—**	—
– acquisition / disposals[2]	**182**	
Change in shareholders' funds	**457**	(1,550)
– per share (in euros)[1]	**2**	(7)
Proposed dividend	**—**	—
– total	**—**	—
– per share (in euros)[1]	**—**	—

1 Number of shares outstanding at year end: 212,466,555 in 2023 and 212,466,555 in 2022.
2 Includes the impact of integration of the German branch acquisition of HSBC Trinkaus & Burkhardt GmbH in June 2023.

2023 Highlights

Business review

Net banking operating income was EUR 3,503 million, up EUR 1,453 million from last year due to rising interest rates, the integration of the German branch following the acquisition of assets and liabilities of HSBC Trinkaus & Burkhardt GmbH, and the dividends received from the German subsidiary.

General operating expenses were EUR 2,013 million, up EUR 119 million compared to the previous year mainly driven by the integration of the German branch's acquisition of assets and liabilities of HSBC Trinkaus & Burkhardt GmbH.

Depreciation, amortisation and impairment of tangible and intangible assets was EUR 13 million, up EUR 78 million compared to 2022, primarily driven by the reversal of goodwill impairment in 2022 related to Private Bank for EUR 72 million.

Loan impairment charges were EUR 186 million compared to EUR 67 million in 2022. The increase is driven by additional provisions on specific Global Banking clients and he integration of HSBC Trinkaus & Burkhardt GmbH's assets and liabilities in HBCE German branch contributed EUR 14 million of loan impairment charges.

Gains or losses on disposals of fixed assets and long term investments were EUR 15 million gain compared to a loss of EUR 48 million in 2022, primarily driven by the goodwill disposal in 2022 related to Private Bank for EUR 72 million.

Exceptional losses comprise of EUR 405 million compared to a loss of EUR 118 million in 2022. This increase includes EUR 434 million payment, reflecting HBCE German branch's commitment under Domination and Profit and Loss Transfer Agreement (DPLTA), as part of the acquisition to cover the losses generated by its German subsidiary HSBC Trinkaus & Burkhardt GmbH in 2023.

Income and deferred taxes in 2023 represented a charge of EUR 229 million, an increase of EUR 517 million compared to 2022 (EUR 288 million credit). This is primarily due to EUR 326 million tax credit on the recognition of deferred tax assets (DTA) on losses during 2022, and current tax charge in 2023 of EUR 156 million contributed by HSBC Continental Europe and its branches.

Net profit for the period was EUR 671 million compared to a net profit of EUR 275 million in 2022.

At 31 December 2023, the **total balance sheet** of HSBC Continental Europe amounted to EUR 253 billion compared to EUR 219 billion on 31 December 2022.

Business disposals

Sale of the retail banking operations in France

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations in France to CCF, a subsidiary of Promontoria MMB SAS ('My Money Group'). The sale also included HSBC Continental Europe's 100 per cent ownership interest in HSBC SFH (France) and its 3 per cent ownership interest in Crédit Logement.

In the first quarter of 2023, the sale had become less probable, as a result of which a EUR 1.8 billion reversal of the loss on sale initially recognised in 2021 was recorded under French GAAP. In the second quarter of 2023, following the signing of a revised Memorandum of Understanding ('MoU'), the completion of the sale had become probable and as a result a provision for loss on sale was reinstated for EUR 1.9 billion. As at 31 December 2023, the provision for loss on sale stood at EUR 1.7 billion.

Upon completion and in accordance with the terms of the sale, HSBC Continental Europe received a EUR 0.1 billion profit participation interest in the ultimate holding company of My Money Group. The associated impacts on initial recognition of this stake at fair value were recognised as part of the pre-tax loss on disposal.

In accordance with the terms of the sale, HSBC Continental Europe retained a portfolio of EUR 7.1 billion consisting of home and certain other loans, and the CCF brand, which it licensed to the buyer under a long-term licence agreement.

Changes of control

Acquisition of HSBC Private Bank (Luxembourg) S.A.

On 2 November 2023, HSBC Continental Europe acquired 100 per cent of the share capital of HSBC Private Bank (Luxembourg) S.A, the Group's Continental European private banking hub. The acquisition completed its IPU requirements in line with the CRD V regulation.

Issuances and repayments

A series of issuances and repayments took place in 2023

In January 2023, HSBC Continental Europe issued Senior Non Preferred Notes with maturity of six years for a notional amount of EUR 500 million.

In June 2023, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturity of six and twenty years for a total notional amount of EUR 585 million.

In September 2023, HSBC Continental Europe issued two series of Senior Non Preferred Notes with maturity of six years and twenty for a 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 (rollover).

All was subscribed by HSBC Bank plc and recognised as debt securities in issue.

In December 2023, HSBC Continental Europe redeemed a Tier 2 Loan originally issued by HSBC Trinkaus & Burkhardt AG (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 (rollover).

In March 2023, HSBC Continental Europe processed a redemption of EUR 1.25 billion of Senior Preferred Notes. On 28 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 of 31 December 2023.

Irrevocable Payment Commitments of Single Resolution Fund

Consistent with its peers, the HSBC Group has reviewed its accounting treatment of certain cash deposits following a Court of Justice of the European Union ruling issued on 25 Oct 2023 concerning the status of those deposits in the event of license withdrawal. The Group concluded that it's accounting policy is not affected by the ruling. Specifically the cash deposit continues to be presented as an asset, and the associated 'Irrevocable Payment Commitment' continues to be accounted for as an unrecognised contingent liability until such future date that it becomes probable that an outflow will arise at which point a provision will be recognised. As at 31 December 2023, the cash asset amounted to EUR 147 million, including EUR 10 million related to HSBC Continental Europe Germany branch.

1 Principal accounting policies

The financial statements of HSBC Continental Europe are prepared in accordance with Regulations 2014-03 and 2014-07.

(a) Initial recognition and subsequent measurement of tangible and intangible assets

HSBC Continental Europe applies the component approach in the recording and amortising of fixed assets.

HSBC Continental Europe complies with ANC Regulation 2014-03 for initial recognition, amortisation and impairment of tangible assets.

Investment property and operational building

For operating and investment fixed assets, HSBC Continental Europe adopted the components approach with the following minimum cap on the useful lives and methods of the corresponding components:

Components	Periods and depreciation and amortisation methods
Infrastructure	
Building	25 and 50 years on a straight-line basis
Civil engineering works	25 years on a straight-line basis
Technical installations	
Air conditioning Ventilation Heating	10 years on a straight-line basis
Electrical installations	10 years on a straight-line basis
Telephone and electrical fittings	10 years on a straight-line basis
Security fittings	10 years on a straight-line basis
Fittings	
Improvements and internal fittings	10 years on a straight-line basis

Goodwill

Acquired goodwill is subject to impairment on the basis of objective indicators.

Goodwill on merger

The goodwill is affected under the terms provided in accordance with the article 745-5 of regulation 2014-03 to the different concerned assets, and recorded in the accounts under the rules set down in the article 745-7.

The goodwill is amortised or reported in the income statement, under the same rules and conditions as underlying assets to which it is assigned. See Note 6.

Other fixed assets

For other fixed assets, depreciation periods are determined according to the remaining useful lives of the assets concerned:

Components	Periods and depreciation and amortisation methods
Office equipment	5 years, reducing or straight-line basis
Furniture	5 to 10 years, reducing or straight-line basis
IT hardware	3 to 7 years, reducing or straight-line basis
Software	3, 5 or 10 years, straight-line basis

Assets held under finance lease

The assets held under the leasing activity are recognised in accordance with the accounting rules defined by the notice n° 2006-C of 4 October 2016 issued by the Emergencies Committee, linked to the interpretation of the advisory opinion n° 2004-15 du 23 June 2004 of CNC, relating to the definition, recognition and valuation of assets excluding from individual company accounts lease contracts according to IFRS16 within the scope of articles 211-1 to 224-4 from the regulation n° 2014-03 of ANC.

Assets held under leasing activity are amortised by using the straight-line method, over the actual duration of use but not exceeding the duration of the rental contract.

The amortisation periods are as follows:

- furniture and office equipment: five years;
- computer equipment: three years;
- tools and equipment: five to seven years.

Depreciation and amortisation of fixed assets leased under finance leases are recognised as an expense on finance lease.

In the financial accounting, the outstanding financial contracts is substituted to the net leased fixed-assets. The difference between the outstanding amounts of financial assets and the net book value of fixed assets is represented by the gross unearned finance income.

(b) Securities portfolio

Securities transactions are recognised in accordance with the principles set out in articles 2311-1 to 2391-1 of 2014-07 ANC regulation.

Securities are categorised as follows:

- trading account securities;
- available-for-sale securities;
- held-to-maturity securities;
- portfolio activity securities;
- other long-term securities;
- interests in subsidiaries and associates.

Securities are recognised on the balance sheet at the date of settlement.

Trading securities

Trading securities are negotiable securities traded on an active market, originally acquired or sold with the intention of reselling or buying back within short timescale and are held for market activities or form part of a global portfolio trading management.

On the date of acquisition, Trading securities are stated at acquisition price. At the balance sheet date, the securities are valued at the market price, and changes in value are recognised through profit or loss.

Available for sale securities

Other investment securities are those securities not treated as trading account securities, neither portfolio activity securities nor as securities covered by articles 2351-1, 2351-2 and 2351-3 of 2014-07 ANC regulation. These are acquired for the purposes of income and liable to be resold within a relatively short timescale.

On the date of acquisition, they are recorded at acquisition price.

According to article 2332-3 of 2014-07 ANC regulation, when the acquisition price is fixed-income securities is higher than their redemption price, the difference is amortised over the lifespan of the securities. When the acquisition price of fixed-income securities is lower than their redemption price, the difference is recognised over the residual life of the securities. The spreading of these differences is carried out using the actuarial method.

At the closing of the period, available-for-sale securities are valued individually at the lowest of their acquisition price or market value.

Unrealised losses give rise to the recognition of an impairment.

Investment securities

Fixed-income securities that were acquired for holding long term, and in principle till maturity, are categorised as held-to-maturity securities. Portfolio activity securities are recognised on the date of acquisition at their purchase price.

Held-to-maturity securities are valued at historical cost.

According to article 2342-2 of 2014-07 ANC regulation, where the acquisition price of fixed income securities is greater than their redemption value, the difference is amortised over the residual life of the securities. When the acquisition price of fixed-income securities is lower than their redemption price, the difference is recognised over the residual life of the securities. The spreading of these differences is carried out using the actuarial method.

At the closing date, unrealised losses arising from the difference between the book value, adjusted for amortisation and reversal of differences described above, and the price of fixed income securities are not subject to the impairment, except if there is a strong probability that the institution will not keep the securities until the maturity because a number of new circumstances and without depreciation prejudice to establish in application of the Title 2 terms from the book II of current regulation, dealing with credit risk on securities, if there is any existence of the issuer's defaulted risk.

Unrealised gains are not recognised.

Portfolio activity securities

This category covers investments made under normal arrangements with the sole objective of making medium-term capital gains without intention of investing in the long-term in the business of the issuing entity, nor of taking an active part in the management of its operations. This is particularly the case for securities held in venture capital businesses.

Portfolio activity securities are initially recognised at at their acquisition price and subsequently measured at the lower of their historical cost or value-in-use. According to article 2352-4 of 2014-07 ANC regulation, each accounting period, the latent losses resulting from the difference between the book value and the value in use, calculated line by line of securities, are subject to an impairment test without compensation with the largest gains identified. The latent gains are not accounted for.

Other long-term securities

'Other long-term securities' are equity shares and similar securities that HSBC Continental Europe intends to hold long term to derive a satisfactory return within an undefined period of time, without however taking any part in managing the businesses in which the shares are held, but with the intention of fostering long-term business relationships by creating a special link with the issuing companies. These securities are accounted at their acquisition price with subsequent measurement at the lowest of their acquisition value or their value-in-use.

The methods for assessing value-in-use are explained in next section.

Interests in subsidiaries and associates

The heading 'Interests in subsidiaries and associates' regroups securities held long-term (equity interests) and holdings in subsidiaries (shares in group companies).

According to article 2352-6 of 2014-07 ANC regulation, for other long term held securities, whether listed or not, the utility value takes into account the intention of the entity to hold these securities until it has the capacity to fund part of its assets. Provided that their evolution does not result from accidental circumstances; the elements that must be taken into account for this estimate include: profitability and perspective of profitability, own capital, perspective of realization, economic situation, and the average course of the stock market in recent months.

Art in French for reference

Selon l'article 2352-6 du règlement n° 2014-07 de l'ANC, pour les autres titres détenus à long terme, les titres de participation et parts dans les entreprises liées, cotées ou non, la valeur d'utilité représente ce que l'entreprise accepterait de décaisser pour obtenir ces titres si elle avait à les acquérir compte tenu de son objectif de détention. À condition que leur évolution ne résulte pas de circonstances accidentelles, les éléments suivants peuvent être pris en compte pour cette estimation: rentabilité et perspective de rentabilité, capitaux propres, perspective de réalisation, conjoncture économique, cours moyens de bourse des derniers mois.

Recognition of gains and losses

Gains or losses on trading securities are recorded under the heading 'Dealing profits'.

Gains or losses on sale and changes in impairment of available-for-sale securities are recorded under the heading 'Gains or losses on available-for-sale securities'.

Concerning the other securities, gains or losses on sale and impairment charges are recognised under the heading 'Gains or losses on disposals of long-term investments' in the income statement.

Sale and repurchase agreements

Stock lending or temporary acquisition, governed for legal purposes by law no. 93-1444 of 31 December 1993, amended by law no. 2003-1311 of 30 December 2003, referred to as stock repurchase agreements, have no impact on the composition and valuation of the securities portfolio. For accounting purposes, in accordance with article 2413-1 to 2413-4 of 2014-07 ANC regulation, they are considered as financing transactions, cash movement balanced entries are recognised either as a loan or a deposit. Related income and expenses are recognised as interest.

Repurchase and reverse repurchase agreements

Repurchase transactions that do not fall within the scope of law no. 93-1444 are categorised under this heading in the balance sheet. Their treatment for accounting purposes is similar to that described above for securities under sale and repurchase agreements.

A similar treatment is applied to:

– 'Buy and sell back' and 'Sell and buy back' transactions.
– Loans/borrowing of securities guaranteed by cash deposits.

Since 2020, repurchase and reserve repurchase transactions are presented on a net basis.

Securities lending and borrowing

Securities lending and borrowing transactions are recognised in accordance with the principles set out in the article 2361-2 of 2014-07 ANC regulation.

In accordance with the provisions of Regulation 2020-10, securities borrowed are presented net of the corresponding liabilities.

(c) Loans and advances

Loans assessed individually

Non-performing and impaired loans

Non-performing loans and impaired loans are recorded in accordance with the article 2222-1 to 2222-2 of 2014-07 ANC regulation.

Non-performing loans include all types of receivables, including secured receivables (for which the bank held a collateral), for which there is a risk that the bank will not recover in full or in part the contractual cash flows.

Loans and receivables are classified according to HSBC Continental Europe's internal loan rating system. Performing loans have a rating of between 1 and 8, non-performing loans have a rating of 9 and impaired loans, including doubtful loans not yet written off, have a rating of 10.

The following are therefore classified as non-performing loans:

- receivables overdue for more than three months for all types of loans and equipment leases, more than six months for property loans or leases and more than nine months for loans to local government bodies;
- receivables having risk criteria;
- receivables deriving from debt restructuring for which the debtor is again in default.

HSBC Continental Europe applies the provisions of articles 2221-2 of 2014-07 ANC regulation on identifying overdrafts at risk of default. For overdrafts, the overdue period starts when:

- the debtor exceeds an authorised limit that has been notified to him by HSBC Continental Europe; or
- the debtor is notified that the amount outstanding exceeds a limit set up by HSBC Continental Europe under its internal control system; or
- the debtor withdraws amounts without overdraft authorisation.

The downgrade to non-performing loans immediately leads to all amounts outstanding and commitments for that debtor that are in the same category, according to contagion principle and, if applicable, the downgrade of counterparties belonging to the same group to non-performing debtors, on a case-by-case assessment.

In application of the article 2221-8, 2231-3 of 2014-07 ANC regulation on accounting treatment of credit risk, HSBC Continental Europe has introduced a specific system for dealing with restructured debt and impaired loan.

In application of the articles 2221-8 of 2014-07 ANC regulation, impaired loans are those for which the prospect of recovery is very remote and for which a write-off is being considered. These include receivables which are long overdue or for which the contract has been terminated in case of leasing, and also receivables that have been categorised as non-performing for more than one year, unless final write-off is not being considered because of information on the prospects for recovery available at that stage. Interests on impaired loans are not recognised through profit or loss until the date of actual payment.

Reclassification into performing loans

In application of the article 2221-5 of the 2014-07 ANC regulation, a loan that has been classified as non-performing may be reclassified as performing when the original scheduled payments have been resumed without further incident.

In the case of restructured loans, the classification of doubtful exposure can be omitted, if the exposure complies firstly with the previous condition, and, on the other hand, the counterparty risk is lifted.

Recognition of gains and losses

Charges for impairment against non-performing and impaired loans, included in the calculation of the banking result, are determined annually on the basis of the non recovery risk assessment by analysing each loan individually. In application of the article 2231-2 of the 2014-07 ANC regulation, impairment of non-performing and impaired loans has been calculated on the basis of the difference between the net present value of expected future recoveries and the carrying amount of the loan. Impairment may not be less than the amount of unpaid, recognised interest on the loan.

In the income statement, charges and releases of provisions, losses on irrecoverable receivables and recoveries on amortised receivables are recognised in the 'Loan impairment charges' line.

Discount on restructured debt

In application of articles 2221-5 and 2231-3 of the 2014-07 ANC regulation, HSBC Continental Europe applies a specific system for dealing with restructured debt.

On restructuring, any waived principal and interest, accrued or due, is written off.

Moreover, at the time of restructuring, a discount is provided for on the restructured debt for the difference between the present value of initially anticipated contractual cash flows and the present value of future cash flows of principal and interest arising from the restructuring plan. The discount rate used is the original effective interest rate for fixed interest loans, or the most recent effective rate before the restructuring calculated in accordance with contractual terms for floating-rate loans.

This discount is recognised in the net cost of risk on restructuring and is then written back through net interest income over the remaining period.

(d) Due to credit institutions and customer accounts

All liabilities towards banks and customers are recognised at amortised cost. These headings include repurchase transactions.

(e) Debt securities in issue

Debt securities are classified according to their nature: except subordinated securities, which are recorded under subordinated debt.

Accrued unpaid interest on these securities is recorded in the balance sheet in an accrued interest account with a corresponding amount recognised in profit or loss.

Premiums or discounts related to bonds in issue are amortised on an actuarial basis over the life of the bond. Related fees are recognised over the life of the bond on a straight-line basis.

(f) Provisions

In accordance with 2014-03 ANC regulation, provisions are registered where it is probable that an outflow of resources, without an at least equivalent inflow being expected from the beneficiary (whether known or not), will be required to extinguish a legal or implicit obligation arising from past events and where the amount of the obligation can be reliably estimated.

Retirement and other benefit liabilities

HSBC Continental Europe has opted to adopt ANC recommendation 2013-02 on the rules for recognising and measuring obligations for retirement and similar benefits.

HSBC Continental Europe provides some of its employees post-employment benefits such as pension plans and end of service benefits.

The costs recognised for funding these defined-benefit plans are determined using the projected unit credit method, with annual actuarial valuations being performed on each plan.

Actuarial gains or losses are recognised immediately through profit or loss.

The current service costs and any past service costs, together with the expected return on scheme assets less the unwinding of the discount on the scheme liabilities, are recognised as operating expenses.

The net defined-benefit liability recognised in the balance sheet represents the present value of the defined-benefit obligations adjusted for unrecognised past service costs and reduced by the fair value of the scheme's assets. Any resulting asset from this is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

Payments to defined-contribution plans and state-managed retirement benefit plans, where HSBC Continental Europe's obligations under the plans are equivalent to a defined-contribution plan, are charged as an expense as they fall due.

Provisions for French PEL and CEL home ownership plans and accounts

Home ownership accounts ('CEL') and home ownership plans ('PEL') are special financial instruments introduced by law no. 65-554 of 10 July 1965. They combine a savings phase and a lending phase which are inextricably linked, the lending phase being contingent to the savings phase.

In accordance with articles 2621-1 to 2624-2 of 2014-07 ANC regulation on the accounting treatment of CEL and PEL home ownership plans and accounts with banks and institutions authorised to receive home ownership funds and to grant home ownership loans, HSBC Continental Europe has provisioned against the adverse consequences of PEL/CEL commitments in its individual company accounts.

PEL commitments are measured by series, without any offset between series. CEL commitments are considered as one single series, distinct from the PEL series.

Provisions for the adverse consequences of these commitments are calculated using a model which takes into account:

- an estimate of future customer savings and credit behaviour, based on historical data;
- the value of various market parameters, particularly interest rates and volatility, determined from data available at the date of assessment.

Provision for share-based payments

HSBC Group share plan

Share-based payments are payments based on shares issued by HSBC Holdings plc.

HSBC Continental Europe employees have the following advantages:

- From 2006, HSBC Holding plc implemented share plans on HSBC Holding plc shares.
- Employees can subscribe to HSBC Holdings plc shares within the employee share ownership plan.

Shares plan

HSBC Continental Europe grants bonus share plans to these employees for services rendered.

The expense is recognised in the income statement on the period between the granted date and the acquisition date.

The cancellation of expense may result due to the inability to meet acquisition conditions during the period of acquisition.

The amount recorded in the income statement corresponds to the shares finally acquired by the employees.

(g) Foreign exchange position

In accordance with the article 2711-1 to 2731-1 of 2014-07 ANC regulation, foreign currency exchange positions (asset and/or liabilities) are remeasured at the end of period prevailing rate, with the corresponding gains or losses recognised in the bank operating income or expense.

Operational active and passive currency positions are revalued at the exchange rate in effect at the close of the period, and the gains or losses thus recognised are included in the banking operating income. It should be noted that the institutions subject to this standard recognize currency exchange transactions at spot rates, as well as other foreign currency operations in the accounts opened and labelled in each of the currencies used.

Are considered as spot foreign exchange transactions, purchases or sales of currencies for which parties do not defer the outcome or only defer it because of the period of use.

At each accounting closure, the balance sheet's active, passive, and off-balance sheet items are evaluated at the exchange rate prevailing at the closure date or the closest market rate prior to this date if more relevant.

(h) Forward foreign exchange contracts

Unsettled Forward exchange contracts at the closing of the period hedged by a corresponding spot transactions are valued at the period end spot rate. Differences between spot and forward rates are recorded on a time-apportioned basis in the income statement. Outright forward exchange contracts and those hedged by forward instruments are restated at the rate for the remaining period.

(i) Financial derivatives

The HSBC Continental Europe group operates on all financial instruments markets, whether on behalf of its customers or for the purposes of hedging balance sheet items or for arbitration purposes.

Interest rate and currency options

Options are contracts reached between two parties by which one, the buyer, is granted the right to buy or to sell an actual asset or another financial instrument called an 'underlying asset' at the expiry of a certain time period, at a price agreed at the time the contract was concluded.

Option contracts result in a premium being paid by the buyer to the seller. HSBC Continental Europe has interest rate and currency options.

The basic accounting treatment principles for these various products are identical.

On closing out the contract, the notional amount of the 'underlying asset', which is the subject of the option, is recorded as an off-balance sheet item.

For income and expenses, a distinction is made between contracts for hedging, contracts entered into for market operations or for arbitration purposes:

- the income and expenditure on hedging operations is reported symmetrically to the income and expenditure of the item being hedged;
- the consideration received or paid on termination/assignment of an interest rate/foreign exchange risk derivative is accounted immediately in profit or loss. However, when a derivative originally met the defined conditions mentioned in points b) and c) of the article 2522-1 and that derivative is terminated or assigned and potentially replaced by another contract or an equivalent instrument, the consideration received or paid can be spread out in profit and loss pro rata temporise;
- for market transactions, the positions are revalued at each period end. For transactions quoted on an organised or similar market within the meaning of Articles 2511-1 to 2516-1 of Book II – Title 5 – Section 1 relating to the recognition of interest rate futures, Regulation No. 2014-07 of the ANC, changes in the value of positions are recognised through profit or loss, either by means of margin calls, or directly by means of a mathematical calculation where the options are not quoted.

Interest-rate futures (tradable futures)

The accounting treatment is identical to that set out above for options.

Currency swaps and/or interest rates (swaps, FRAs)

Currency and/or interest rate swaps are recognised in accordance with the articles 2521-1 and 2529-1 of the 2014-07 ANC regulation.

The contracts are recorded separately depending whether their purpose is to:

- To hold a stand-alone open positions to take advantage of any beneficial changes in interest rates;
- To hedge, demonstrably from the outset, in accordance with the above-mentioned article 4 of CRBF regulation 88-02 as amended, interest-rate risk affecting an item or a group of similar items or credit risk in the case of Credit Default Swaps ('CDS');
- To hedge and manage the entity's overall interest rate risk on assets, liabilities and off-balance sheet items;
- For trading inten.

On the accounting side, methodology varies depending on whether the transactions are for hedging or trading business purposes.

The results of the hedging of assets or liabilities are recorded *pro rata temporise*. This is particularly the case for swaps traded as part of the asset/liability management of overall interest rate risk.

Income on positions managed as part of a trading portfolio of swaps is recognised at market value after a reduction to reflect counterparty risk and future management expense.

The notional are recorded as off-balance-sheet items.

Offsetting rules

Offsetting rules are applied where it is established that reciprocal obligations are settled on a net basis with the same counterparty, currency and maturity date, and where agreements are in place for which the right of offset can be exercised. When the conditions for offsetting are met, the offsetting rules are applied to both derivatives exposures and related cash collateral.

Counterparty risk on derivatives

The fair value of contracts has to take into account counterparty risk linked to contracts.

The adjustment to value for counterparty risk is at least equal to the cost in equity determined under the terms of articles 2525-3 of 2014-07 ANC regulation.

(j) Exceptional items

This line only includes profit and losses before tax which are generated or occur exceptionally and do not relate to the banking current activity and where relevant, the correction of material errors identified.

(k) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

(l) Segment reporting

This information is not available on the parent company accounts but details are provided on a consolidated basis on page 14 onward of the management report.

2 Loans and advances to banks

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2023	31 Dec 2022
	€m	€m
Total after netting	**25,311**	21,727
Loan and advance centralised at the '*Caisse des Dépôts et Consignations*' presented net against regulated savings accounts	**2,543**	2,019
Netting on reverse repurchase agreements	**24,813**	19,413
Total before netting - Gross	**52,667**	43,160
On demand deposits	**2,749**	2,608
Term deposits	**49,742**	40,457
≤ 3 months	**45,750**	36,053
> 3 months and ≤ 1 year	**528**	942
> 1 year and ≤ 5 years	**3,222**	3,461
> 5 years	**242**	1
Accrued interests	**176**	95
Total	**52,667**	43,160
– *of which:*		
securities received under reverse repurchase agreements	***42,386***	*34,584*
subordinated loans	***40***	*40*

3 Loans and advances to customers

Breakdown of outstanding loans by type

	31 Dec 2023	31 Dec 2022
	€m	€m
Total after netting	**60,521**	54,192
Netting on reverse repurchase agreements	**944**	1,077
Total before netting - Gross	**61,465**	55,269
Commercial loans	**2,434**	2,347
Overdraft	**3,520**	2,170
Other customer facilities	**55,511**	50,752
Total	**61,465**	55,269
– *of which:*		
eligible loans for European Central Bank or Banque de France refinancing	***5,201***	*20,460*
reverse repurchase agreements	***8,023***	*3,490*

Breakdown of outstanding loans by quality

	31 Dec 2023				31 Dec 2022
	Performing loans	**Non-performing loans**	**Impairment on non-performing loans**	**Total**	Total
	€m	**€m**	**€m**	**€m**	€m
Retail loans	**16,250**	**139**	**(45)**	**16,344**	17,623
Loans to financial customers	**4,572**	**33**	**(17)**	**4,588**	4,185
Loans to non-financial customers	**31,174**	**1,581**	**(570)**	**32,180**	29,842
Reverse repurchase agreements	**8,023**	**—**	**—**	**8,023**	3,490
Accrued interests	**317**	**8**	**—**	**325**	129
Total	**60,336**	**1,761**	**(632)**	**61,465**	55,269
– *of which:*					
subordinated loans				**—**	—
gross non-performing loans				***1,387***	*1,276*
gross impaired loans				***374***	*352*
impairment on gross non-performing loans				***(380)***	*(370)*
impairment on gross impaired loans				***(252)***	*(247)*

Breakdown of outstanding loans by remaining contractual maturity

	31 Dec 2023	31 Dec 2022
	€m	€m
Repayable on demand	**3,836**	2,646
Term deposits	**57,304**	52,495
≤ 3 months	**9,128**	6,552
> 3 months and ≤ 1 year	**8,365**	7,280
> 1 year and ≤ 5 years	**25,207**	23,549
> 5 years	**14,604**	15,114
Accrued interest	**325**	128
Total	**61,465**	55,269

4 Portfolios of trading, available-for-sale and held-to-maturity securities

	31 Dec 2023 Carrying amount €m	31 Dec 2022 Carrying amount €m
Treasury bills and other eligible bills	**24,211**	15,300
– Trading securities	**18,005**	12,438
– Available-for-sale securities	**6,160**	2,853
– Held-to-maturity securities	**—**	—
– Accrued interest	**46**	9
– *of which: securities borrowed presented net against corresponding liabilities*	***2,388***	*2,114*
Treasury bills and other eligible bills after netting	**21,823**	13,186
Debt securities	**8,946**	3,787
Trading account securities	**1,473**	513
– quoted securities	**1,473**	513
– unquoted bonds, interbank market securities and tradable debt securities	**—**	—
Available-for-sale securities	**7,013**	2,793
– quoted bonds	**5,154**	2,722
– unquoted bonds, interbank market securities and tradable debt securities	**1,859**	71
Held-to-maturity securities	**425**	470
– quoted bonds	**420**	470
– unquoted bonds, interbank market securities and tradable debt securities	**5**	—
Accrued interest	**35**	11
– *of which:*		
subordinated debt	***100***	*470*
securities borrowed presented net against corresponding liabilities	***170***	*6*
Equity shares and similar & portfolio equities	**2,843**	1,737
Trading account securities	**2,825**	1,718
– quoted shares	**2,789**	1,718
– unquoted shares and similar	**36**	—
Available-for-sale securities	**—**	—
– quoted shares	**—**	—
– unquoted shares and similar	**—**	—
Portfolio activity securities	**18**	19
– quoted portfolio activity shares	**—**	—
– unquoted portfolio activity shares	**18**	19
Total	**36,000**	20,824

Breakdown by remaining contractual maturity of treasury bills and government bonds

	31 Dec 2023 €m	31 Dec 2022 €m
Treasury bills and other eligible bills		
≤ 3 months	**461**	1,118
> 3 months and ≤ 1 year	**1,456**	298
> 1 year and ≤ 5 years	**9,911**	5,735
> 5 years	**12,337**	8,140
Accrued interest	**46**	9
Total	**24,211**	15,300
Debt securities		
≤ 3 months	**2,394**	446
> 3 months and ≤ 1 year	**200**	683
> 1 year and ≤ 5 years	**4,700**	1,843
> 5 years	**1,617**	804
Accrued interest	**35**	11
Total	**8,946**	3,787

Estimated value of the portfolio of financial investments and portfolio equities

	31 Dec 2023		31 Dec 2022	
	Net carrying	**Estimated**	Net carrying	Estimated
	€m	**€m**	€m	€m
Treasury bills and other eligible bills	**6,160**	**6,347**	2,853	2,730
Debt securities	**7,013**	**6,685**	2,793	2,618
Equity shares and similar and other portfolio equities	**18**	**29**	19	27
Total available-for-sale and portfolio activity securities (excluding related receivables)	**13,191**	**13,061**	5,665	5,375

The financial investments portfolio is made up mainly of fixed income securities for which the interest-rate risk is usually hedged. The portfolio valuation rules are given in Note 1b.

Unrealised gains and losses in financial investments and portfolio equities

	31 Dec 2023		
	Before provisions	**Provisions**	**Net amount**
	€m	**€m**	**€m**
Unrealised gains in available-for-sale and portfolio equities	**1,220**	**15**	**1,205**
– treasury bills and other eligible bills	**1,132**	**11**	**1,121**
– bonds and other fixed-income securities	**77**	**4**	**73**
– equity shares and similar & portfolio equities	**11**	**—**	**11**
Unrealised losses in available-for-sale and portfolio equities	**273**	**32**	**241**
– treasury bills and other eligible bills	**117**	**7**	**110**
– bonds and other fixed-income securities	**146**	**15**	**131**
– equity shares and similar & portfolio equities	**10**	**10**	**—**

Additional information on the securities in compliance with ANC 2014-07 regulation dated 26 November 2014

The premium (unamortised difference between the acquisition price and the redemption price of securities) of available-for-sale and held-to-maturity securities amounted to EUR 47.8 million in 2023 and EUR 5 million in 2022.

No security was transferred from one portfolio to another portfolio in 2023 or in 2022. Also no held-to-maturity securities have been sold during the period.

5 Investments in subsidiaries, affiliates and equity securities held for long term

	31 Dec 2023 Net carrying amount €m	31 Dec 2022 Net carrying amount €m
Interests in subsidiaries and associates	**37**	40
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**37**	40
– banks [1]	**6**	9
– others	**31**	30
Other long-term securities	**51**	36
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**51**	36
– banks	**—**	—
– others	**51**	36
Interests in group companies	**2,112**	2,567
Listed securities	**—**	—
– banks	**—**	—
– others	**—**	—
Non-listed securities	**2,112**	2,567
– banks	**1,221**	1,473
– others	**891**	1,094
Accrued income		—
Total (including the 1976 statutory revaluation)	**2,200**	2,643

	31 Dec 2023 €m	31 Dec 2022 €m
Gross amounts at 1 January (excluding advances and accrued income)	**2,930**	1,521
Changes in the year:		—
– acquisitions of securities/share issues	**449**	1,408
– disposals/capital reductions[2]	**(886)**	—
– effect of foreign exchange differences	**—**	—
– other movements/merger	**—**	—
Gross amounts at 31 December (excluding advances and accrued interests)	**2,493**	2,930
Impairments at 1 January[3]	**(286)**	(270)
Changes in the year:		—
– new allowances	**(8)**	(18)
– release of allowances no longer required	**1**	1
– other movements	**—**	—
– effect of foreign exchange differences	**—**	—
Impairment at 31 December	**(293)**	(287)
Accrued income	**—**	—
Net book value including accrued interests	**2,200**	2,643

1 *The reduction of EUR 3 million is contributed by impairment of Credit Logement investment (part of sale of Retail operations).*
2 *Of which EUR 866 million dividends distribution generated by capital repatriation from HSBC Trinkaus & Burkhardt GmbH to HSBC Germany.*
3 *This includes impairment provision of Investment in SFH entity for EUR 113 million due to its sale along with the sale of France retail business operations of HSBC Continental Europe at a price of EUR 1.*

6 Intangible assets

	31 Dec 2023	31 Dec 2022
	€m	€m
Gross amounts at 1 Jan	**469**	531
Changes in the year:	—	—
– transfers and other movements	—	12
– fixed asset acquisitions[1]	**95**	5
– fixed asset disposals and other changes	**(30)**	(79)
Gross amounts value at 31 Dec	**534**	469
Amortisation at 1 January	**418**	491
Changes in the year:	—	—
– charges for the period for amortisation and impairment[2]	**60**	45
– transfers and other movements	—	—
– fixed asset disposals and other changes[3]	**(26)**	(118)
Amortisation at 31 Dec	**452**	418
Net book value of fixed assets at 31 Dec	**82**	51

1 *Mainly driven by capitalisation of assets relating to Commercial Banking (CMB) and Global Banking (GB).*
2 *Includes depreciation of EUR 15 million booked on reversal of impairment on Commercial Banking ("CMB") and Global Banking (GB).*
3 *Includes impairment reversal of EUR 25 million related to Commercial Banking ("CMB") and Global Banking (GB).*

Since 1 January 2016 and according to 2015-06 ANC new regulation of 23 November 2015 which modifies 2014-03 ANC regulation, the goodwill is recognised in a specific account in the relevant asset category after its affectation (art 745-6). The amortisation method and period are the same as those applied to amortised assets it is linked to (art 745-7).

Goodwill is impaired when the current value of one or more underlying assets, to which a portion of it was affected, is lower than the carrying amount of the asset(s) plus the attributed goodwill. The current value is the higher of the market value and the value-in-use (see articles 214-1 to 214-27 of 2015-06 ANC regulation).

Goodwill allocation of assets

	Gross amounts at 1 Jan 2023	Increases	Decreases	Carrying amounts at 31 Dec 2023
	€m	€m	€m	€m
Intangible assets	—	—	—	—
Tangible assets	**4.1**	—	**0.1**	**4.0**
Financial assets[1]	**0.2**	—	—	**0.2**
Total	**4.3**	—	**0.1**	**4.2**

1 *Included in Assets reported under Note 4 and Note 5.*

7 Tangible assets

	31 Dec 2023	31 Dec 2022
	€m	€m
Gross amounts at 1 Jan	**618**	799
Changes in the year:	—	—
– transfers and other movements	—	1
– fixed asset acquisitions	**112**	14
– fixed asset disposals and other changes	**(20)**	(196)
Carrying amount at 31 Dec	**710**	618

	31 Dec 2023	31 Dec 2022
	€m	€m
Depreciation at 1 January	**558**	736
Changes in the year:	—	—
– charges for the period for depreciation and impairment[1]	**98**	39
– transfers and other movements	**11**	(18)
– fixed asset disposals and other changes	**(54)**	(199)
Depreciation at 31 December	**613**	558
Carrying amount at 31 Dec	**97**	60

1 *Of which impairment reversal of EUR 35 million related to Commercial Banking (CMB) and Global Banking (GB).*

Breakdown of tangible fixed assets by type

	31 Dec 2023	31 Dec 2022
	€m	€m
Operating land and buildings	**9**	12
Non-operating land and buildings	**—**	—
Other tangible assets	**88**	48
Carrying amount at 31 Dec	**97**	60

Finance lease

	31 Dec 2023	31 Dec 2022
	€m	€m
Assets under construction	**3**	3
Gross amount[1]	**379**	586
Amortisation	**(300)**	(414)
Accrued interests	**(1)**	(2)
Total	**81**	173

1 *Main assets in 2023: road assets for EUR 139 million, public building and construction for EUR 55 million, IT Office for EUR 37 million.*

At 31 December 2023, the financial outstanding amounts to EUR 97 million (EUR 195 million in 2022) and the provision for negative unearned finance income before deferred tax to EUR 19 million (EUR 24 million in 2022). Assets under construction remains stable.

8 Loan impairment

	Balance at 1 Jan 2023	Additions	Amounts utilised	Unused amounts reversed	Other movements	**Balance at 31 Dec 2023**
	€m	€m	€m	€m	€m	**€m**
Impairment on interbank and customer non-performing loans (excluding doubtful interest)	612	266	(37)	(191)	(18)	**632**
Impairment on securities	—	—	—	—	—	**—**
Provisions for loans commitments	37	14	(1)	(25)	(2)	**24**
Total of impairment and provisions recognised in cost of risk[1]	649	280	(38)	(216)	(20)	**656**

1 *The opening figures of 2023 are adjusted by EUR 45 million to correct the error identified during the year. There is no impact on the impairment charges reported on the balance sheet and income statement in 2022.*

Loan impairment charges

	31 Dec 2023	31 Dec 2022
	€m	€m
Net impairment charge for the period:		
– interbank and customer non-performing and impaired receivables (excluding doubtful interest)	**(195)**	(55)
– counterparty risk on securities	**—**	—
– loan commitments	**6**	(15)
– recoveries of amounts previously written off	**3**	2
Total loan impairment charges	**(186)**	(67)
– *of which:*		
unprovided losses on non-performing and impaired receivables	***(121)***	*(6)*
unprovided losses on loan commitments	***—***	*—*
losses hedged by provisions	***(38)***	*(51)*

9 Other assets

	31 Dec 2023	31 Dec 2022
	€m	€m
Total after netting	**21,598**	24,477
Netting on cash collateral associated with derivatives	**4,152**	6,327
Total before netting	**25,750**	30,804
– *of which:*		
securities transactions settlement accounts	***3,238***	*604*
sundry debtors and other receivables	***22,512***	*30,200*

10 Prepayments and accrued income

	31 Dec 2023 €m	31 Dec 2022 €m
Total	**42,633**	54,834
Netting on derivatives	**19,479**	24,699
Total before netting	**62,112**	79,533
– *of which:*		
items in course of collection from other banks	***172***	*196*
other assets[1]	***61,940***	*79,337*

1 *Including mark-to-market on derivatives instruments (before netting) for EUR 59,806 million in 2023 and EUR 77,669 million in 2022.*

11 Deposits due to credit institutions

Breakdown of deposits by remaining contractual maturity

	31 Dec 2023 €m	31 Dec 2022 €m
Total	**23,263**	21,007
Netting on repurchase agreements	**24,813**	19,412
Total before netting	**48,076**	40,419
On demand deposits	**6,727**	5,785
Term deposits	**41,161**	34,578
≤3 months	**11,191**	9,436
>3 months and ≤ 1 year	**341**	4,142
>1 year and ≤5 years	**28,481**	19,750
>5 years	**1,148**	1,250
Accrued interest	**188**	56
Total	**48,076**	40,419
– *of which: repurchase agreements*	***33,707***	*25,077*

12 Customer accounts

Breakdown of customer credit balances by type of deposit

	31 Dec 2023 €m	31 Dec 2022 €m
Total after netting	**108,308**	74,678
Loan and advance centralised at the *'Caisse des Dépôts et Consignations'* presented net against regulated savings accounts	**2,543**	2,019
Netting on repurchase agreements	**944**	1,078
Total before netting	**111,795**	77,776
On demand deposits	**61,509**	43,758
Special demand accounts	**8,598**	9,157
Special term accounts	**640**	691
Term accounts	**37,572**	20,064
Total customer deposits (excluding repurchase agreements)	**108,319**	73,670
Repurchase agreements	**3,211**	4,034
Accrued interest	**265**	72
Total customer credit balance accounts	**111,795**	77,776

Breakdown of customer credit balances by remaining contractual maturities

	31 Dec 2023 €m	31 Dec 2022 €m
On demand deposits	**70,107**	52,914
Term deposits	**41,423**	24,790
≤3 months	**35,504**	22,129
>3 months and ≤1 year	**5,238**	2,387
>1 year and ≤5 years	**511**	150
>5 years	**170**	124
Accrued interest	**265**	72
Total	**111,795**	77,776

13 Debt securities in issue

Breakdown of debt securities by type

	31 Dec 2023	31 Dec 2022
	€m	€m
Certificates of deposit	—	—
Interbank market securities and tradable debt securities	8,849	3,240
Bonds	14,290	12,948
Accrued interest	278	227
Total	**23,417**	16,415

Breakdown of debt securities by maturity

	31 Dec 2023	31 Dec 2022
	€m	€m
Debt securities	**23,139**	16,188
≤3 months	2,956	1,812
>3 months and ≤1 year	4,818	1,293
>1 year and ≤5 years	7,385	6,405
>5 years	7,980	6,678
Accrued interest	278	227
Total	**23,417**	16,415

14 Provisions

	Balance at 1 Jan 2023	Additions	Amounts utilised	Unused amounts reversed	Other movements	Balance at 31 Dec 2023
	€m	€m	€m	€m	€m	€m
Provisions for commitments and disputes	53	15	(2)	(34)	5	37
Other provisions	1,974	1,999	(81)	(1,932)	(102)	1,859[1]
Total	**2,027**	**2,014**	**(83)**	**(1,966)**	**(97)**	**1,896**

1 *Includes unallocated provision for loss on sale relating to retail banking operations in France for EUR 1.6 billion. The allocated provision for loss as at 31 December 2023 stood at EUR 173 million.*

Provision on PEL/CEL

	31 Dec 2023				
	PEL				
	≤ 4 years	> 4 years and ≤ 10 years	> 10 years	Total	CEL
	€m	€m	€m	€m	€m
Amounts collected	26	182	410	618	87
Dues collected	—	—	—	—	—
Provisions	—	—	(5)	(5)	—
Allocation to provisions/reversal	—	—	—	—	—

15 Other liabilities

	31 Dec 2023	31 Dec 2022
	€m	€m
Total after netting	**43,742**	44,652
Netting on cash collateral associated with derivatives	4,152	1,234
Assets arising from securities borrowing transactions deducted from corresponding liabilities	2,388	2,114
Total before netting	**50,282**	48,000
of which:		
– Securities transactions settlement accounts	362	413
– Sundry creditors[1]	20,394	21,640
– Short position and securities received under repurchase agreements confirmed resold	29,526	25,947

1 *Including guarantee deposits on financial instruments received in 2023 for EUR 15,669 million compared to EUR 20,372 million in 2022.*

16 Accruals and deferred income

	31 Dec 2023	31 Dec 2022
	€m	€m
Total	**38,690**	49,260
Netting on derivatives	**19,479**	29,793
Total before netting	**58,169**	79,053
– *of which:*		
Items in course of transmission to other banks	***174***	*186*
Other liabilities[1]	***57,995***	78,867

1 *Including mark-to-market on derivative instruments (before netting) for EUR 56,840 million in 2023, and EUR 77,818 million in 2022.*

17 Subordinated debt

Subordinated debts are dated or undated loans or securities, for which repayment is subordinated to other creditors in case of liquidation.

Accrued interest, if any, on these subordinated securities is recognised in the balance sheet in an accrued interest account with a corresponding amount recognised in profit and loss.

	31 Dec 2023	31 Dec 2022
	€m	€m
Dated subordinated securities	**—**	—
Undated subordinated securities	**16**	16
Subordinated debts (dated and undated)	**3,345**	2,560
Accrued interest	**36**	5
Total	**3,397**	2,582

Securities issued by HSBC Continental Europe

Subordinated securities issued by HSBC Continental Europe, in euros and other currencies, are liabilities which will only be repaid in the event of liquidation after the interests of other creditors have been extinguished but before repayment of the holders of participating securities or equity.

Participating securities: undated subordinated securities

	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2023 €m	31 Dec 2022 €m
Undated subordinated securities	22.07.1985	N/A	TMO - 0,25	FRF	**16**	16
Accrued interest					**—**	—
Total (including accrued interest)					**16**	16

Participating securities are refunded at a price equal to the par only in the case of the liquidation of the company.

Subordinated debts

Subordinated debts	Date of issue	Date of maturity	Interest type	Currency of issue	31 Dec 2023 €m	31 Dec 2022 €m
Undated debts[1]	26.05.2017	perpetual	Fixed rate	EUR	**200**	200
	28.03.2018	perpetual	Fixed rate	EUR	**300**	300
	16.12.2019	perpetual	Floating rate	EUR	**250**	250
	18.03.2022	perpetual	Floating rate	EUR	**250**	250
	06.12.2016	perpetual	Floating rate	EUR	**235**	—
	23.01.2019	perpetual	Fixed rate	EUR	**200**	—
Dated debts[2]	21.06.2018	21.06.2028	Floating rate	EUR	**300**	300
	29.01.2019	29.01.2029	Floating rate	EUR	**400**	400
	22.12.2014	22.12.2029	Floating rate	EUR	**260**	260
	27.07.2019	27.06.2029	Floating rate	EUR	**100**	100
	22.05.2020	22.05.2030	Floating rate	EUR	**500**	500
	30.06.2014	28.08.2029	Floating rate	EUR	**150**	—
	08.12.2023	08.12.2034	Floating rate	EUR	**200**	—
Accrued interest					**36**	5
Total for securities issued by HSBC Continental Europe (including accrued interest)					**3,381**	2,565

1 *Additional Tier 1: A total or a partial repayment is allowable on or after call date under certain conditions except two debts issued in 2016 and 2019 by Germany amounting to EUR 435 million where only total repayment is possible.*
2 *Tier 2: A total or a partial repayment is allowable on or after the call date under certain conditions except for one debt issued in 2014 by Germany amounting to EUR 150 million where only total repayment is possible.*

More details are available in HSBC Continental Europe Pillar 3 Disclosures.

18 Share capital

	31 Dec 2023		31 Dec 2022	
Shares with a nominal value of 5 euros	**Number of shares**	**Total (in thousands of euros)**	Number of shares	Total (in thousands of euros)
At 1 Jan	**212,466,555**	**1,062,333**	98,231,196	491,156
– subscription options exercised	**—**	**—**	—	—
– new capital issued – merger	**—**	**—**	114,235,359	571,177
– reduction of capital	**—**	**—**	—	—
At 31 Dec	**212,466,555**	**1,062,333**	212,466,555	1,062,333

Voting rights

On 31 December 2023, the total of voting rights stood at 212,466,555.

19 Equity

	31 Dec 2023 €m	31 Dec 2022 €m
Called-up share capital	**1,062**	1,062
Share premium account (Additional paid-in capital)[1]	**5,808**	5,281
Reserves	**1,055**	1,041
– legal reserve	**52**	38
– long-term gains reserve	**405**	407
– revaluation reserve	**3**	3
– extraordinary and other reserve	**305**	305
– free reserve	**290**	290
– revaluation reserve on past service costs	**—**	—
Retained earnings[2]	**1,191**	733
Interim dividend	**—**	—
Special tax-allowable reserves	**—**	—
Net profit for the year	**671**	275
Equity	**9,787**	8,392

1 *Includes EUR 524 million as a "boni de fusion" mainly reflecting the gap between the price paid by HSBC Continental Europe and the net asset value for the German business.*
2 *Before proposed allocation of any dividend and/or legal reserves for current year.*

Changes in equity

	2023
	€m
Balance at 1 Jan	**8,392**
Net profit for the year	**671**
Stock Options new shares issuing	**—**
Capital increase	**—**
Interim dividend	**—**
Others[1]	**724**
Balance at 31 Dec	**9,787**

1 *Includes EUR 524 million as a "boni de fusion" mainly reflecting the gap between the price paid by HSBC Continental Europe and the net asset value for the German business, and EUR 197 million of retained earnings generated from conversion of German assets and liabilities to French GAAP.*

Legal reserve

This reserve is built up by appropriating at least one-twentieth of the year's profit. This appropriation ceases to be mandatory once this reserve reaches one-tenth of share capital. It is not distributable.

Net long-term gains reserve

Distributing this reserve would lead to an additional tax charge equal to the difference between standard tax rate and reduced tax rate.

Revaluation reserve (1976 revaluation)

This reserve could be incorporated into capital, but it cannot be distributed or used to offset losses.

Other reserves

Amounts put into reserves over five years ago would be subject to a levy if they were to be distributed.

For distributions paid on or after 1 January 2000, HSBC Continental Europe can charge the dividends against profits liable to corporate income tax for accounting periods ended at most five years ago, starting with the oldest, in application of the decree of 21 December 1999.

20 Pensions, post-employment benefits

	31 Dec 2023	31 Dec 2022
	€m	€m
Provision for employee-related commitments	**43**	84

Principal actuarial assumptions of the post-employment defined benefit plans

The principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2023 were:

(in "per cent") - France	Discount rate	Inflation rate	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase
At 31 Dec 2023	**3.1**	**2.00**	**2.00**	**2.95**
At 31 Dec 2022	3.7	2.00	0.80	2.96

(in "per cent") - Germany	Discount rate	Inflation rate	Rate of increase for pensions in payment and deferred pensions	Rate of pay increase
At 31 Dec 2023	**3.17**	**2.25**	**2.25**	**2.25**
At 31 Dec 2022	3.71	2.25	2.25	2.25

HSBC Continental Europe determines discount rates in consultation with its actuaries based on the current average yield of high quality (AA-rated) debt instruments, with maturities consistent with that of the defined benefit obligation.

Provision recognised

	31 Dec 2023	31 Dec 2022
	€m	€m
Present value of benefit obligations[1]	**401**	89
Fair value of plan assets[1]	**(358)**	(5)
Net liability recognised	**43**	84

1 *Includes EUR 312 million of present value of benefit obligations and EUR (353) million of fair value of planned assets driven by the integration of the German assets and liabilities in 2023.*

The components of the table below have been recognised in on profit & loss.

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets	Present value of defined benefit obligations	Net benefit asset/ liability
	€m	€m	€m
Net defined benefit liability at 1 January 2023	**(5)**	**89**	**84**
Current service cost	**—**	**3**	**3**
Net interest (income)/cost on the net defined benefit liability	**—**	**3**	**3**
Remeasurement effects recognised in other comprehensive income	**—**	**3**	**3**
Benefits paid	**—**	**(9)**	**(9)**
Other	**(353)**	**312**	**(41)**
At 31 Dec 2023	**(358)**	**401**	**43**

Fair value of plan assets by asset classes

	31 Dec 2023			
	Fair value	Quoted market price in active market	No quoted market price in active market	Thereof HSBC
	€m	€m	€m	€m
Fair value of plan assets[1]	**(358)**	**354**	**4**	**—**
– equities	**(3)**	**3**	**—**	**—**
– bonds	**(215)**	**215**	**—**	**—**
– property	**—**	**—**	**—**	**—**
– derivatives	**—**	**—**	**—**	**—**
– other	**(140)**	**136**	**4**	**—**

1 Driven by the integration of the German assets and liabilities in 2023.

21 Off-balance sheet items

	31 Dec 2023	31 Dec 2022
	€m	€m
A – Loan commitments		
Commitments given	**58,737**	51,368
Refinancing agreements and other financing commitments in favour of banks	**8,064**	2,182
Refinancing agreements and other financing commitments in favour of customers	**50,673**	49,186
– confirmed credit facilities	**50,621**	49,145
– acceptances payable and similar instruments	**52**	41
Commitments received	**909**	6,159
Refinancing agreements and other financing commitments in favour of banks	**909**	6,159
B – Guarantee commitments		
Commitments given	**17,485**	14,300
– guarantees, acceptances and other securities to banks	**3,255**	3,798
– guarantees, acceptances and other securities to customers	**14,230**	10,501
Commitments received	**19,044**	18,644
– guarantees, acceptances and other securities	**19,044**	18,644

Other pledged assets

	31 Dec 2023
	€m
Covered bonds	**5,914**
Loans pledged on guarantee 3G and TRICP	**3,244**
Loans pledged on guarantee CCBM	**1,957**
Securities pledged on guarantee	**4,420**
Total	**15,535**

22 Derivatives

	31 Dec 2023				31 Dec 2022			
	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]	Fair value	Hedging contracts[1]	Trading contracts[1]	Total[1]
	€bn	€bn	€bn	€bn	€bn	€bn	€bn	€bn
Fixed terms contracts	**3.0**	**25**	**4,323**	**4,348**	(14.6)	30	4,410	4,440
Exchange traded	**—**	**—**	**70**	**70**	—	—	65	65
– interest rate	**—**	**—**	**48**	**48**	—	—	50	50
– exchange rate	**—**	**—**	**11**	**11**	—	—	—	—
– equity	**—**	**—**	**11**	**11**	—	—	15	15
Non-exchange traded	**3.0**	**25**	**4,253**	**4,278**	(14.6)	30	4,345	4,375
– forwards contracts	**—**	**—**	**508**	**508**	—	—	542	542
– other interest rate	**3.4**	**25**	**2,878**	**2,903**	(5.0)	30	2,999	3,029
– other exchange rate	**(0.1)**	**—**	**68**	**68**	(0.2)	—	71	71
– other contracts	**(0.3)**	**—**	**799**	**799**	(9.4)	—	733	733
Flexible Terms (with Options) contracts	**(1.1)**	**—**	**487**	**487**	(0.2)	—	480	480
Exchange traded	**(0.5)**	**—**	**139**	**139**	—	—	88	88
– interest rate	**—**	**—**	**—**	**—**	—	—	—	—
– exchange rate	**—**	**—**	**81**	**81**	—	—	85	85
– other contracts	**(0.5)**	**—**	**58**	**58**	—	—	3	3
Non-exchange traded	**(0.6)**	**—**	**348**	**348**	(0.2)	—	392	392
– Caps and floors	**—**	**—**	**116.0**	**116.0**	(0.4)	—	133	133
Swaptions and options	**(0.6)**	**—**	**232.0**	**232.0**	0.2	—	259	259
– bought	**(0.6)**	**—**	**120.0**	**120.0**	0.2	—	19	19
– sold	**—**	**—**	**112.0**	**112.0**	—	—	239	239
Total derivatives	**1.9**	**25**	**4,810**	**4,835**	(14.8)	30	4,890	4,920

1 *Notional contract amounts.*

Other information on derivatives

	31 Dec 2023	31 Dec 2022
Notional contract amounts	**€bn**	€bn
Micro hedge contract[1]	**6**	14
Macro hedge contract[2]	**19**	16
Trading	**2,878**	2,999
Other	**—**	—

1 *Interest rate swaps accounted as micro-hedging are used to hedge interest and currency rate risk of an asset or a liability.*
2 *Interest rate swaps accounted as macro-hedging are used to hedge and to manage the global interest rate risk of portfolio of assets and liabilities of the bank.*

Derivatives: maturity analysis

	31 Dec 2023			
	≤ 1 year	>1 year and ≤ 5 years	> 5 years	Total
(in billion euro)	**€bn**	**€bn**	**€bn**	**€bn**
Derivatives:				
– Exchange contracts	**45**	**65**	**25**	**135**
– Interest rate contracts	**1,337**	**1,373**	**1,044**	**3,754**
– Others	**845**	**95**	**6**	**946**
Total	**2,227**	**1,533**	**1,075**	**4,835**

Risk-weighted assets – Amount of Exposure At Default ('EAD') for derivatives contracts

	31 Dec 2023	31 Dec 2022
	€m	€m
A – Contracts concluded under Master agreement with close-out netting[1]	**12,502**	12,714
1. Transactions with banks from OECD countries	**12,014**	11,861
2. Transactions with customers and banks localised outside OECD countries	**488**	852
B – Other contracts[1]	**2,272**	1,685
1. Transactions with banks from OECD countries	**2,245**	1,618
– interest rate contracts	**369**	122
– exchange contracts	**894**	859
– equity derivatives contracts	**794**	543
– credit derivatives contracts	**40**	2
– commodities contracts	**148**	93
2. Transactions with customers and banks localised outside OECD countries	**27**	67
– interest rate contracts	**—**	—
– exchange contracts	**27**	67
– equity derivatives contracts	**—**	—
Total Exposure at Defaut[2]	**14,774**	14,399
Corresponding risk-weighted assets ('RWA')	**4,282**	4,621

1 *The comparative figures of 2022 are adjusted to correct the error in the allocation in contract type 'A': EUR 12 714 million (before change: EUR 12 382 million) and type 'B': EUR 1 685 million (before change: EUR 2 017 million). There is no change in total exposure at default and corresponding RWAs.*
2 *The increase in exposure at default includes the impact of the consolidation of HSBC Luxembourg.*

Clearing effect on Exposure at Default

	31 Dec 2023	31 Dec 2022
	€m	€m
Original exposure before credit risk mitigation (including close-out netting)	**125,978**	147,087
Exposure mitigation due to close-out netting	**(96,917)**	(131,943)
Exposure mitigation due to credit mitigation	**(14,287)**	(744)
Exposure value after credit risk mitigation	**14,774**	14,399

23 Net interest income

	31 Dec 2023	31 Dec 2022
	€m	€m
Interest and similar income		
Banks and financial institutions	**4,166**	698
Customers	**2,599**	1,515
Bonds and other fixed-income securities	**575**	189
Total	**7,340**	2,403
Interest and similar expenses		
Banks and financial institutions	**(1,726)**	(693)
Customers	**(2,838)**	(647)
Subordinated liabilities	**(148)**	(74)
Other bonds and fixed-income securities	**(963)**	(228)
Total	**(5,675)**	(1,642)

24 Income from equities and other variable income securities

	31 Dec 2023	31 Dec 2022
	€m	€m
Income		
Available-for-sale and similar & portfolio activity securities	**7**	1
Interests in subsidiaries and associates and other long-term securities	**—**	—
Interests in group companies[1]	**733**	43
Total	**740**	44

1 *Includes EUR 584 million of dividends from the German subsidiary HSBC Trinkaus & Burkhardt GmbH.*

25 Commissions received and commissions paid

	31 Dec 2023 €m	31 Dec 2022 €m
Fees		
Income	**1,355**	1,196
On transactions with banks	**71**	57
On transactions with customers	**124**	116
On foreign exchange transactions	**13**	2
On primary securities market activities	**218**	180
On provision of services for third parties	**667**	644
On commitments	**216**	160
Other commission	**46**	37
Expenses	**(457)**	(345)
On transactions with banks	**(50)**	(41)
On corporate actions	**(204)**	(91)
On forward financial instrument activities	**—**	(1)
On provision of services for third parties	**(160)**	(163)
On commitments	**(8)**	(1)
Other commission	**(35)**	(48)
Total fees	**898**	851

26 Gains or losses on trading securities

	31 Dec 2023 €m	31 Dec 2022 €m
Gains or losses		
Trading securities	**409**	402
Foreign exchange transactions	**295**	252
Others Derivatives	**(600)**	(323)
Total	**104**	331

27 Gains or losses on available-for-sale securities

	31 Dec 2023 €m	31 Dec 2022 €m
Results for available-for-sale securities		
Gains or losses	**25**	(21)
Impairment	**(4)**	(53)
– charges	**(54)**	(63)
– releases	**50**	10
Results for portfolio activity securities		
Gains or losses	**(4)**	4
Impairment	**—**	—
– charges	**—**	—
– releases	**—**	—
Total	**17**	(70)

28 General operating expenses

	31 Dec 2023 €m	31 Dec 2022 €m
Employee compensation and benefits		
Salaries and wages, social security, taxes and levies on compensation	**(854)**	(833)
Pension expense	**(94)**	(87)
Profit sharing and incentive plan	**(13)**	(7)
Employee compensation and benefits total	**(961)**	(927)
Other administrative expenses	**(1,052)**	(967)
Total operating expenses	**(2,013)**	(1,894)

Share award plans

At 31 December 2023, allowance stood at EUR 8.4 million.

29 Gains or losses on disposals of fixed assets and long term investments

	31 Dec 2023	31 Dec 2022
	€m	€m
Gains or losses on held-to-maturity securities	—	—
Gains or losses on tangible and intangible fixed assets	—	(66)
Gains or losses on investments in subsidiaries and associates, long-term securities and other group companies	15	18
Total	**15**	(48)

30 Exceptional items

	31 Dec 2023	31 Dec 2022
	€m	€m
Extraordinary loss		
Loss-making contract provision [1]	8	(8)
Impairment on tangible assets and costs of investment [2]	—	(103)
Disposal costs [3]	21	(35)
Correction of error	—	—
Others[4]	(434)	28
Total	**(405)**	(118)

1 *Reflects movement in 2023 due to increase in contractual loss by EUR 8 million and impairment of EUR 13 million on subscription of PPI based on revised framework agreement for the sale of retail banking operations in France offset by decrease of non-cash items (transfer of assets ascribed at zero value as part of the retail business sale) by EUR 29 million.*

2 *Includes reduction of EUR 3 million on impairment of tangible assets, offset by an increase in the impairment of Credit Logement investment.*

3 *Includes cost incurred on disposal for EUR 39 million offset by release of provision for cost to sell by EUR 60 million.*

4 *Comprise of EUR 434 million payment, reflecting HBCE Germany Branch commitment under DPLTA (Domination and Profit and Loss Transfer Agreement) as part of the acquisition of assets and liabilities to cover the losses generated by its German subsidiary HSBC Trinkaus & Burkhardt GmbH in 2023.*

31 Tax expense and deferred tax

	31 Dec 2023	31 Dec 2022
	€m	€m
Current tax		
At standard rate	(156)	5
At reduced rate	—	—
Deferred tax	(74)	282
Total	**(229)**	288

Deferred taxes are calculated according to the principles defined in Note 1.

The rates used for the calculation of taxes are as follows and is based on tax rates applicable to the corresponding fiscal year.

	2024	2023	2022
	%	%	%
Standard rate[1]	25.00	25.00	25.00
Reduced rate (long term capital gains)[2]	3.1	3.1	3.1
Reduced rate (gains on disposal of shares in listed real estate companies)[3]	19.0	19.0	19.0
Reduced rate (venture capital vehicle)[3]	15.0	15.0	15.0
Tax contribution			
CSB	3.3	3.3	3.3
Exceptional contribution	—	—	—
Deferred tax			
Standard rate on DT if assumption of recovery on 2023	25.00	25.00	25.00
Standard rate on DT if assumption of recovery on 2024	25.00	25.00	25.00
Standard rate on DT if assumption of recovery on 2025	25.00	25.00	25.00
Standard rate on DT if assumption of recovery on 2026	25.00	25.00	25.00
Reduced rate on DT if assumption of recovery on 2023	3.1	3.1	3.1
Reduced rate on DT if assumption of recovery on 2024	3.1	3.1	3.1
Reduced rate on DT if assumption of recovery on 2025	3.1	3.1	3.1
Reduced rate on DT if assumption of recovery on 2026	3.1	3.1	3.1

1 *Standard CIT rate of 25 per cent excluding CSB of 3.3 per cent.*

2 *According to the French tax regulations, the capital gains resulting from the disposal of shares recorded as participations shares under French GAAP and held for at least two years, are taxable in France at an effective tax rate of 3.1 per cent (i.e., 12 per cent of the capital gain at a standard rate of 25.83 per cent).*

3 *The regime applies subject to specific conditions.*

HSBC Continental Europe's profits are taxed at different rates depending on the country in which the profits arise. The largest tax balances relate to France where the applicable corporate income tax for 2022 and 2023 was 25 per cent and the social contribution tax (CSB) remain at 3.3 per cent based on the Corporate Income Tax, leading to an effective tax rate of 25.83 per cent (2022 25.83 per cent).

The final effective tax rate varies depending on the contribution from entities outside of France, notably Germany which has an income tax rate for fiscal year 2023 of 31.5 per cent and other European branches.

Current tax

The 2023 current tax expense reflected a tax charge of EUR 156 million (2022: EUR 5 million credit), mainly explained by the tax expense reported by HSBC Continental Europe branches of EUR 188 million (2022: EUR 40 million), of which EUR 83m was reported by HSBC Germany, offset by a tax credit in HSBC Continental Europe entity of EUR 32 million.

Deferred tax

The 2023 deferred tax charge was EUR 74 million (2022: EUR 282 million tax credit), driven mainly by the deferred tax charge in HSBC Continental Europe of EUR 30 million, in HSBC Germany of EUR 38 million and EUR 6 million charge in other HSBC Continental Europe branches.

The net deferred tax asset accounted for in the balance sheet as at December 31, 2023 amounts to EUR 832 million against EUR 762 million as at December 31, 2022. This net deferred tax asset is composed of EUR 713 million in HSBC Continental Europe, EUR 105 million DTA in HSBC Germany and EUR 14 million in the rest of HSBC Continental Europe European branches.

The HSBC Continental Europe net DTA balance of EUR 713 million is majorly driven by brought forward tax losses from previous years of EUR 652 million (2022: EUR 664 million). The available tax losses of the French tax group were mainly generated by the French retail banking operations. During 2023, management reassessed the likely availability of future taxable profits against which to recover the deferred tax assets of the French tax group, taking into consideration the reversal of existing taxable temporary differences, the drivers of past business performance, and management's latest forecasts of future business performance, taking into account forecasting uncertainty. Following the sale of the retail banking operation on 1 January 2024, the impact of the retail banking operations in France has been excluded from future taxable profits on which our deferred tax asset recognition judgement has been based. These tax losses have no expiry date and are forecast to be recovered in 10-13 years.

In June 2023, with the integration of assets and liabilities acquired by HBCE Germany branch from HSBC Trinkaus & Burkhardt GmbH, EUR 143 million of deferred tax assets were included in the parent company financials, which has been reduced by a deferred tax charge of EUR 38 million during the year.

Unrecognised deferred tax

The French tax group has no unrecognised deferred tax at 31 December 2023 (2022: nil).

32 Legal proceedings and regulatory matters relating to HSBC Group entities

HSBC Group entities, including HSBC Continental Europe, are party to various significant legal proceedings and regulatory matters arising out of their normal business operations. Apart from the matters described below and in the section 'Legal risks and litigation management' on pages 173 to 174 of the Universal Registration Document 2023, HSBC Continental Europe considers that none of these matters is significant. HSBC Continental Europe recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions, as necessary, have been made in respect of such legal proceedings as at 31 December 2023.

Anti-money laundering and sanctions-related matters

In December 2012, among other agreements, HSBC Holdings agreed to an undertaking with the UK Financial Services Authority which was replaced by a Direction issued by the UK Financial Conduct Authority ('FCA') in 2013, and again in July 2020, and consented to a cease-and-desist order with the Federal Reserve Board ('FRB'), both of which contained certain forward-looking anti-money laundering ('AML') and sanctions-related obligations. HSBC also agreed to retain an independent compliance monitor (who was, for FCA purposes, a 'Skilled Person' under section 166 of the Financial Services and Markets Act, and for FRB purposes, an 'Independent Consultant') to produce periodic assessments of the HSBC Group's AML and sanctions compliance programme.

The Skilled Person completed its engagement in the second quarter of 2021, and the FCA determined that no further Skilled Person work is required. Separately, the Independent Consultant's engagement is now complete and, in August 2022, the FRB terminated its cease-and-desist order.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 in the United States and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US by a trustee (the 'Trustee'). Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities.

Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud, amongst which are HSBC Institutional Trust Services (Ireland) DAC ('HTIE') and/or its subsidiary Somers Dublin DAC.

On 1 August 2018, HSBC Continental Europe acquired from HSBC Bank plc 100 per cent of the shares of HTIE. Pursuant to the terms of the Sale and Purchase Agreement, HSBC Continental Europe and/or its subsidiaries will be indemnified by HSBC Bank plc in respect of certain liabilities including any loss arising from Madoff-related proceedings relating to the activities of HTIE and/or Somers. (HTIE subsequently merged into HSBC Continental Europe Dublin Branch.)

The Madoff-related proceedings in which HTIE and/or its subsidiary Somers Dublin DAC are currently involved are described below:

US litigation:

The Trustee has brought lawsuits against various HSBC companies and others, seeking recovery of transfers from Madoff Securities to HSBC in an amount not specified, and these lawsuits remain pending in the US Bankruptcy Court of the Southern District of New York (the "US Bankruptcy Court").

European interbank offered rates investigations

Various regulators and competition and law enforcement authorities around the world including in the United Kingdom (UK), the United States of America ('US'), the EU, Italy, Switzerland, and elsewhere conducted investigations and reviews related to certain past submissions made by panel banks and the processes for making submissions in connection with the setting of European interbank offered rates (Euribor). HSBC and/or its subsidiaries (including HSBC Continental Europe as a member of the Euribor panel) have been the subject of regulatory demands for information and have cooperated with those investigations and reviews.

In December 2016, the European Commission (the 'Commission') issued a decision finding that HSBC, among other banks, engaged in anticompetitive practices in connection with the pricing of euro interest rate derivatives in early 2007. The Commission imposed a fine against HSBC based on a one-month infringement, which has been paid by HSBC Continental Europe. HSBC appealed the decision and, in September 2019, the General Court of the EU (the 'General Court') issued a decision largely upholding the EC's findings on liability, but annulling the fine. HSBC and the EC both appealed the General Court's decision to the European Court of Justice (the 'Court of Justice').

In June 2021, the Commission adopted a new fining decision for an amount which was 5 per cent less than the previously annulled fine, and subsequently withdrew its appeal to the Court of Justice. In January 2023, the Court of Justice dismissed the appeal by HSBC against the September 2019 General Court's decision and upheld the EC's findings on HSBC's liability. HSBC's separate appeal against the new fining decision remains pending before the General Court.

Other regulatory investigations, reviews and litigation

Tax-related investigations:

In March 2023, the French National Prosecutor announced an investigation into a number of banks, including HSBC Continental Europe and HSBC Bank plc, Paris Branch, in connection with alleged tax fraud related to the dividend withholding tax treatment of certain trading activities. HSBC Bank plc and HSBC Germany also continue to cooperate with investigations by the German public prosecutor into numerous financial institutions and their employees, in connection with the dividend withholding tax treatment of certain trading activities.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these matters, including the timing or any possible impact on HSBC, which could be significant.

33 Presence in non-cooperative states or territories

HSBC Continental Europe does not hold any direct or indirect presence in any non-cooperative States or territories in accordance with the article 238-0 A of the General Tax Code.

34 Events after the balance sheet date

On 1 January 2024, HSBC Continental Europe completed the sale of its retail banking operations 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.

There has been no other significant event between 31 December 2023 and the date of approval of these financial statements by the Board of Directors which would require an adjustment or additional disclosure in the financial statements.

35 Other information

35.1 Interests in subsidiaries and related parties at 31 December 2023

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropria - tion of net profit	Owner-ship interest per cent	Book value of securities held		Loans and advances granted by HSBC Conti-nental Europe	Guaran -tees given by HSBC Conti-nental Europe	Cur-rent year sales	Cur-rent year net profit or loss	Dividends received by HSBC Conti-nental Europe in the last financial year
						Cost	Net					
A – Information on companies whose book value at cost exceeds 1 per cent of HSBC Continental Europe's share capital												
1 – Subsidiaries (over 50 per cent)												
HSBC SFH (France) Immeuble Coeur Défense – 110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Financial company	**113,250**	**(76)**	**100.00**	**113,239**	**—**	**—**	**—**	**106,248**	**2,165**	**—**
HSBC Factoring (France) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Factoring	**9,240**	**125,761**	**100.00**	**39,236**	**163,683**	**2,711,670**	**—**	**97,853**	**15,658**	**—**
Société Française et Suisse, 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Invest-ment company	**599**	**8,880**	**100.00**	**60,384**	**9,784**	**—**	**—**	**—**	**(5)**	**—**
SAPC UFIPRO Recouvrement 38, avenue Kléber – 75116 Paris (France)	Limited liability company (SARL)	Dept collecting company	**7,619**	**1,566**	**99.98**	**16,262**	**9,180**	**—**	**—**	**—**	**(6)**	**—**
HSBC Epargne Entreprise (France), Immeuble Coeur Défense–110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Limited company (SA)	**31,000**	**(17,673)**	**100.00**	**30,148**	**13,885**	**3,000**	**—**	**5,479**	**(5,005)**	**—**
HSBC Global Asset Management (France) Immeuble Coeur Défense– 110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Asset manage-ment	**8,050**	**51,976**	**93.67**	**134,546**	**283,832**	**—**	**—**	**190,963**	**21,152**	**7,547**
HSBC Services (France) 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Commer-cial company	**2,242**	**479**	**100.00**	**36,877**	**2,914**	**—**	**—**	**—**	**(26)**	**—**
Valeurs Mobilières Elysées , 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Limited company (SA)	**41,920**	**8,210**	**100.00**	**67,757**	**52,136**	**—**	**—**	**—**	**493**	**—**
HLF 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SA)	Leasing	**168,528**	**108,615**	**100.00**	**281,756**	**333,466**	**16,528**	**—**	**9**	**17,289**	**100,025**
SFM 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Holding company	**11,987**	**14,041**	**100.00**	**25,201**	**36,795**	**—**	**—**	**—**	**(239)**	**—**
Foncière Elysées S.A. 38, avenue Kléber – 75116 Paris (France)	Simplified joint-stock company (SAS)	Real estate	**14,043**	**3,518**	**100.00**	**44,478**	**26,214**	**—**	**—**	**1,897**	**1,621**	**1,368**
Charterhouse Management Services Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under English law	Invest-ment company	**11,315**	**—**	**100.00**	**11,507**	**14,678**	**—**	**—**	**581**	**450**	**—**

(in thousands of euros unless otherwise stated)	Legal status	Business	Share capital	Reserves + retained earnings before appropria - tion of net profit	Owner-ship interest per cent	Book value of securities held		Loans and advances granted by HSBC Conti-nental Europe	Guaran -tees given by HSBC Conti-nental Europe	Cur-rent year sales	Cur-rent year net profit or loss	Dividends received by HSBC Conti-nental Europe in the last financial year
						Cost	Net					
HSBC Real Estate Leasing (France), 38, avenue Kléber – 75116 Paris (France)	Limited company (SA)	Crédit-bail immobilier	38,255	60,667	80.98	37,190	80,111	—	—	96,135	203	5,102
CCF & Partners Asset Management Ltd 8 Canada Square – London E14 5HQ (Royaume-Uni)	Limited company under English law	Invest-ment holding	5,629	-	100.00	4,873	6,333	—	—	—	3	—
HSBC Assurances Vie (France), Immeuble Coeur Défense-110 esplanade du Général de Gaulle – 92400 Courbevoie (France)	Limited company (SA)	Insurance company	115,000	791,018	100.00	513,999	1,103,938	—	—	1,170,612	81,439	—
HSBC Bank Malta p.l.c. 116 Archbishop Street, Valletta, Malta	Public Limited Company		108,092	417,368	70.03	203,875	203,875	155,000	6,479	234,447	56,044	19,041
HSBC Private Bank (Luxembourg) S.A. 18 Bd de Kockelscheuer, 1821 Gasperich Luxembourg	Limited Company (SA)	Private banking	160,000	87,128	100.00	195,000	195,000	500,000	346,000	6,770	(12,719	
B – Aggregate data concerning companies whose book value at cost does not exceed 1 per cent of HSBC Continental Europe's share capital												
1 – Subsidiaries												
a) French subsidiaries (aggregated)	—		—	—	—	—	—	—	—	—	—	—
b) Foreign subsidiaries (aggregated)	—		—	—	—	—	—	—	—	—	—	—
2 – Related party companies												
a) French companies (aggregated)	—		—	—	—	4	—	—	—	—	—	—
b) Foreign companies (aggregated)	—		—	—	—	—	—	—	—	—	—	—

35.2 Transactions with subsidiaries and other related parties

	31 Dec 2023	
	Subsidiaries	Other related parties
	€m	€m
Assets		
Treasury bills and money-market instruments	—	4,879
Loans and advances to banks	3,124	3,026
Loans and advances to customers	111	1,179
Bonds and other fixed income securities	—	—
Liabilities		
Due to credit institutions	3,927	12,249
Customer accounts	331	31
Debt securities	—	—
Other liabilities	—	4,532
Subordinated liabilities	—	2,760
Off-balance sheet items		
Financing commitments given	1,620	—
Guarantees and endorsements given	—	1,663
Securities commitments (other commitments given)	—	—

PricewaterhouseCoopers Audit
63, rue de Villiers
92208 Neuilly-sur-Seine Cedex

BDO Paris
43-47, avenue de la Grande-Armée
75116 Paris

Statutory Auditors' report on the financial statements

(For the year ended 31 December 2023)

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

HSBC Continental Europe

38, avenue Kléber

75116 Paris

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of HSBC Continental Europe ("HBCE") for the year ended 31 December 2023.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2023 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors for the period from 1 January 2023 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No. 537/2014.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L.821-53 and R.821-180 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Accounting for the proposed disposal of the retail banking business

Description of risk	How our audit addressed this risk
In 2021, HSBC Continental Europe signed a framework agreement with Promontoria MMB and its subsidiary Banque des Caraïbes SA regarding the planned sale of HSBC Continental Europe's retail banking business in France. The final agreements were signed on 20 September 2023 and the sale was completed on 1 January 2024. In 2021, an initial loss provision of EUR 1.8 billion was recognised in the statutory accounts. This provision was reversed in the first quarter of 2023 as the transaction has become less certain. Following the signature of the new agreement on the second quarter of 2023, HSBC Continental Europe's management considered that the conditions leading a high probability assessment were again met, resulting in the recognition of a loss of EUR 1.7 billion as at 31 December 2023. Given the significance of this transaction for HSBC Continental Europe, its complexity and the judgements made by management, we deemed the assessment of the new terms of the transaction and the disclosures in the notes to the annual financial statements to be a key audit matter for the audit at 31 December 2023.	We reviewed the documentation relating to this transaction and assessed its accounting treatment at 31 December 2023.Our work consisted primarily in: – assessing the appropriateness of the key judgements made by management on the accounting treatment of the various components of the transaction; – testing the exhaustiveness and accuracy of the loss recognised; – assessing the appropriateness of the disclosures about this transaction in the notes to the annual financial statements.

For more details, see part "2023 Highlights" in the annual financial statements.

Impairment of loans and advances to commercial customers

Description of risk	How our audit addressed this risk
As part of its wholesale lending businesses, at year end HSBC Continental Europe estimates the risk of impairment of its portfolio and recognises any appropriate allowances. The current economic context of rising inflation, energy prices and interest rates increases the degree of uncertainty of these estimates. The assessment of the existence of a risk of non-recovery and the amount of the allowance set aside requires the Bank's management to exercise judgement. They have a high degree of uncertainty, which grew during the current economic context. This assessment primarily takes into account potential risk indicators such as payments that are contractually past-due or other factors such as indications of a deterioration in the financial condition and outlook of borrowers affecting their ability to pay, business sectors experiencing economic stress, the recoverable amount of guarantees, likely available dividends in the event of liquidation or bankruptcy, and the viability of the customer's business model. Given the material nature of the outstanding customer loans and the significance of management's judgement in estimating the related allowances, we deemed this issue to be a key audit matter.	Management has put in place controls designed to ensure the reliability of estimations of individual impairment. In this context, we tested the controls we deemed key to the audit, in order to assess the relevance of the impairment losses recorded. Our tests concerned the controls in place for monitoring loans, including the process for rating counterparties, classifying loans as doubtful, and approving individual impairment. We performed a critical assessment of the controls used by management to verify that the estimated allowances determined using models were proportionate to the actual losses observed in prior periods. We also tested the appropriateness of the methods and policies used to determine allowances, using a sample of loans selected based on the level of risk. Based on this sample, we independently assessed the level of allowances recognised.

Impairment of doubtful receivables on non-financial customer loans stood at EUR 570 million at 31 December 2023.

See Notes 3 and 8 to the financial statements.

Recognition of deferred tax assets with respect to tax loss carryforwards

Description of risk	How our audit addressed this risk
At 31 December 2023, net deferred tax assets amounted to EUR 832 million in HSBC Continental Europe's financial statements, of which EUR 652 million were deferred tax assets with respect to tax loss carryforwards. The valuation and recoverability of the deferred tax assets resulting from these tax loss carryforwards depend mainly on: – the taxable profit that HBCE expects to generate in the future; – the French tax legislation applicable to the recognition and use of deferred tax assets arising from HBCE's tax loss carryforwards in France. The valuation and future use of deferred tax assets on tax loss carryforwards is based on significant judgements from management. These judgements relate primarily to forecasts of tax profit or loss, the duration of tax losses, and the feasible tax planning strategies available. Accordingly, given the significance of the amount of deferred tax assets at 31 December 2023 and the estimates and judgements made by management in recognising these deferred tax losses, we deemed them to be a key audit matter for HSBC Continental Europe financial statements.	We performed the following procedures to validate the recoverability of deferred tax assets with respect to tax loss carryforwards: – we tested the controls in place around the calculation and recognition of deferred tax assets on tax loss carryforwards; – we have performed a critical review, with the help of our tax experts, of the assumptions used by management to estimate the recoverable amount of the estimated deferred tax assets on tax loss carryforwards at the year end. Our work consisted primarily in: – testing the key inputs used in the model for recognition of deferred taxes, including cash flow forecasts for plans approved by the Board of Directors, – assessing management's estimates of forecasts of tax profit or loss by examinating the temporary and permanent differences from prior years that are reflected in future forecasts, – comparing the assumptions used by management to estimate future tax profit or loss to determine the amount of deferred tax assets to be recognised with the assumptions used to determine future cash flows used in the various asset impairment tests, – assessing the compliance of management's assumptions with existing and future tax laws and rules; – we tested the classification of deferred tax assets taking into account the existence of deferred tax liabilities; – lastly, we assessed the appropriateness of the disclosures in the notes to the financial statements.

See Note 31 to the financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Board of Directors' management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements, with the exception of the following matter.

Concerning the fair presentation and the consistency with the financial statements of the information about payment terms referred to in article D.441-6 of the French Commercial Code, we have the following matter to report:

As indicated in the management report, this information does not include banking transactions and related transactions, as the Company has decided that such transactions do not fall within the scope of the required information.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by articles L.225-37-4 and L.22-10-10 of the French Commercial Code.

Other information

In accordance with French law, we have verified that the required information concerning the purchase of investments and controlling interests has been properly disclosed in the management report.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements to be included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the annual financial statements to be included in the annual financial report referred to in paragraph I of article L.451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and prepared under the Chief Executive Officer's responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of 17 December 2018.

On the basis of our work, we conclude that the presentation of the financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

It is not our responsibility to ensure that the financial statements to be included by the Company in the annual financial report filed with the AMF correspond to those on which we carried out our work.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of HSBC Continental Europe by the Annual General Meetings held on 23 April 2015 for PricewaterhouseCoopers Audit and on 10 May 2007 for BDO Paris.

At 31 December 2023, PricewaterhouseCoopers Audit and BDO Paris were in the ninth and the seventeenth consecutive year of their engagement, respectively.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.821-55 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes, in particular, a description of the scope of the audit and the audit programme implemented, as well as the results of our audit. We also report any significant deficiencies in internal control that we have identified regarding the accounting and financial reporting procedures.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgement, were the most significant for the audit of the financial statements and which constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France, as defined in particular in articles L.821-27 to L.821-34 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss any risks to our independence and the related safeguard measures with the Audit Committee.

Neuilly-sur-Seine and Paris, 1 March 2024

The Statutory Auditors

PricewaterhouseCoopers Audit	**BDO Paris**
Agnès Hussherr	Vincent Génibrel

Allocation of net profit

	At	
	31 Dec 2023	31 Dec 2022
	€m	€m
Results available for distribution		
– retained earnings [1]	**1,191**	733
– net profit for the year	**671**	275
Total (A)	**1,862**	1,008
Allocation of income		
– dividends	**—**	—
– free reserve	**—**	—
Total (B)	**—**	—
Retained earnings (A-B)	**1,862**	1,008

1 *Includes EUR 196 million related to German branch offset by an allocation for legal reserve of EUR 14 million out of 2022 profits.*

Five-year highlights

(Articles R. 225-81 and R. 225-102 of the French Commercial Code)

	2023	2022	2021	2020	2019
	€m	€m	€m	€m	€m
Share capital at year end					
Called up share capital	**1,062**	1,062	491	491	491
Number of issued shares	**212,466,555**	212,466,555	98,231,196	98,231,196	98,231,196
Nominal value of shares in euros	**5**	5	5	5	5
Results of operations for the year					
Sales	**9,751**	4,242	3,228	3,285	3,560
Profit before tax, depreciation and provisions	**703**	(352)	(2,042)	(455)	(120)
Profit after tax, depreciation and provisions	**671**	275	(1,589)	(906)	(147)
Per share data (in euros)					
Profit after tax, but before depreciation and provisions	**2.2**	(0.3)	(15.8)	(5.8)	(0.6)
Profit after tax, depreciation and provisions	**3.2**	1.3	(16.2)	(9.2)	(1.5)
Dividend paid per ordinary share, eligible as of 1 January	**—**	—	—	—	—
Employees (France)					
Number of employees[1]	**10,511**	11,122	7,993	8,835	9,314
Average number of employees (excluding employees available)	**10,770**	8,342	8,338	9,058	9,281
Salaries and wages	**662**	641	629	640	639
Employee benefits	**246**	230	245	248	247
Payroll and other taxes	**31**	36	63	58	53
Incentive schemes and/or employee profit-sharing scheme[2]	**6**	—	—	—	6

1 *Employees registered as at 31 December of each year.*
2 *Based on previous year's profits.*

List of equity shares and debt securities held at 31 December 2023 (excluding trading securities)

Held-on maturity, available-for-sale and portfolio activity securities

	31 Dec 2023
	€m
A – Held-to-maturity securities	**428**
Debt securities	**428**
Treasury bills and other eligible bills	—
Other public sector securities	—
Money market instruments	—
Negotiable certificates of deposit	—
Negotiable medium-term notes	—
Bonds and similar assets	425
Accrued interest	3
B – Available-for-sale and portfolio activity securities	**13,269**
Debt securities	**13,251**
Treasury bills and other eligible bills	—
Other public sector securities	6,160
Money market instruments	—
Commercial paper	—
Negotiable certificates of deposit	—
Negotiable medium-term notes	—
Asset-backed securities	—
Bonds and similar	7,013
Negotiable medium-term notes issued by banks	—
Accrued interest	78
Equity shares	**18**
Equity shares and similar	18
Mutual fund units	—
Total held-to-maturity, available-for-sale and portfolio activity securities	**13,697**

Interests in related parties, other participating interests and long-term securities

	31 Dec 2023
	€m
A – Other participating interest and long-term securities	**88**
Securities listed on a recognised French exchange	—
Unlisted French securities	88
Foreign securities listed on a recognised French exchange	—
Foreign securities listed elsewhere	—
Unlisted foreign securities	—
Accrued income	—
B – Interests in related parties	**2,112**
Listed French securities	—
Unlisted French securities	2,096
Listed foreign securities	—
Unlisted foreign securities	16
Accrued income	—
Total interests in related parties, other participating interests and long-term securities	**2,200**

HSBC Continental Europe's principal subsidiaries and investment policy

HSBC Continental Europe's principal subsidiaries at 31 December 2023

Commercial Banking

Distribution	HSBC Factoring (France) (100 per cent)

Global Banking and Markets

Real estate	Foncière Elysées (100 per cent)
	HSBC Real Estate Leasing (France) (100 per cent)
Structured financing and Global Banking	HSBC SFH (France) (100 per cent)[1]
	SFM (100 per cent)
	HLF (100 per cent)

1 SFH was sold on 1 January 2024.

Asset Management

HSBC Global Asset Management (France) (100 per cent)
HSBC Epargne Entreprise (France) (100 per cent)
HSBC REIM (France) (100 per cent)
HSBC Global Asset Management (Deutschland) GmbH (100 per cent)
HSBC Global Asset Management (Malta) Limited (70.03 per cent)

Insurance

HSBC Assurances Vie (France) (100 per cent)
HSBC Life Assurance (Malta) Limited (70.03 per cent)

Private Banking

HSBC Private Bank (Luxembourg) S.A. (100 per cent)

Other subsidiaries and equity investments

Valeurs Mobilières Elysées (100 per cent)
Société Française et Suisse (100 per cent)
Charterhouse Management Services Ltd (100 per cent)
HSBC Bank Malta p.l.c. (70.03 per cent)

Stated percentages indicate the group's percentage of control.
The subsidiaries are classified in the area where they principally operate.

Summary business activities of HSBC Continental Europe's principal subsidiaries at 31 December 2023

Commercial Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC Factoring (France)	**4,029,539**	2,568,992	**179,341**	163,683	**15,658**	15,599	**100**	100
	HSBC Factoring France (HFF) is a company dedicated to Receivable Finance. HSBC Factoring (France)'s activity is positively progressing comparing to 2022, with a gross turnover of EUR 21.8 billion at the end of December 2023, which is an increase of 17.4 per cent since last year. Net profit increased by 0.4 per cent, driven by 19.6 per cent mainly explained by an increase of financing fees.							

Global Banking and Markets

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC SFH (France)	**3,641,952**	4,894,653	**115,339**	113,174	**2,165**	(580)	**100**	100
	HSBC SFH (France) is a company dedicated to refinancing HSBC Continental Europe by issuing covered bonds secured by home loans (cover pool). HSBC SFH (France) launched its first issue on 20 January 2010. In 2023, no new covered bond was issued and one covered bond has matured on October 16th for EUR 1.25 billion. At 31 December 2023, issues totaled EUR 3.5 billion secured by a cover pool of EUR 5.8 billion.							
HLF	**390,524**	471,683	**294,432**	377,168	**17,289**	2,570	**100**	100
	HLF is a company specialised in lease finance for major corporates. The company holds subsidiaries intended for leasing activities with a call option. It operates more particularly in the aeronautics sector by financing assets on behalf of airlines. The equity interests in 2023 is totaling EUR 0.3 billion, with a decrease of 19 per cent compared to 2022.							
HSBC Real Estate Leasing (France)	**604,220**	719,439	**99,126**	105,224	**203**	6,309	**100**	100
	HSBC Real Estate Leasing France provides real estate services. The company offers professional, industrial, and commercial premises rent basis, as well as acquisition, financing, and borrowing services.The net income for this subsidiary sharply decreased compared to 2022. Portfolio contains 159 buildings.							

Asset Management

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC Global Asset Management (France)	**178,550**	161,639	**81,178**	67,573	**21,152**	20,890	**100**	100
	HSBC Global Asset Management (France) (HGAM) is the asset management division of the HSBC Group, it develops and manages investment management products. HGAM's profit after tax increased by 1.3 per cent and stands at EUR 21.2 million vs EUR 20.9 million in 2022, driven by higher operating income (+2.7 per cent) in a risk adverse macro economic context impacting negatively long term asset and asset mix margin. In this context HSBC Global Asset Management (France) results remains resilient and strong with high inflows on liquidity fund combined with a favorable market effect. Assets managed and distributed by HSBC Global Asset Management (France) increased by 16.1 per cent and stood at EUR 97.3 billion compared with EUR 83.8 billion at end 2022 due to a strong commercial growth with EUR 9 billion of Net New Money and a positive market effect of EUR 4.3 billion.							
HSBC Epargne Entreprise (France)	**52,132**	75,870	**12,286**	17,291	**(5,005)**	(5,168)	**100**	100
	HSBC Epargne Entreprise (France) is an investment company, wholly-owned by HSBC Continental Europe, specialising in employee savings & pensions accounts administration for the HSBC Group in France. It has a clientele of 1,800 companies and manages 208,000 personal accounts. The employee savings funds it offers are managed by HSBC Global Asset Management (France), with assets under management totaling EUR 4.4 billion as of 31 December 2023. Its products are distributed via the HSBC Group distribution network in France.							
HSBC REIM (France)	**16,794**	20,135	**10,450**	12,045	**4,905**	7,494	**100**	100
	HSBC REIM (France) is the subsidiary of the Asset Management business specialising in real estate management on behalf of third parties. As of 31 December 2023, the market value of assets under management was EUR 3.2 billion. The main fund managed, Elysées Pierre is a Classic Real Estate Investment Placement Company. This fund has a return and valuation strategy that results in an internal rate of return ('IRR') over 10 years as at 31 December 2023 at 5.8 per cent.							
HSBC Global Asset Management (Malta) Limited	**3,233**	3,138	**2,439**	2,314	**125**	51	**70.03**	70.03
	HSBC Global Asset Management (Malta) Limited is the investment solutions provider of the HSBC Group in Malta. It is a wholly owned subsidiary of HSBC Bank Malta p.l.c. ('HBMT' or 'the Bank') and is regulated by the Malta Financial Services Authority. It manages an array of funds which have exposure to both Maltese and international financial markets. HSBC Global Asset Management (Malta) Limited specialises in the provision of tailor-made discretionary portfolio management services for institutions and individuals.							
HSBC Global Asset Management (Deutschland) GmbH	**57,758**	50,469	**13,651**	12,401	**64**	1,553	**100**	100
	HSBC Global Asset Management (Deutschland) GmbH (AMDE) is active in financial portfolio management, investment advice and the distribution of national and international HSBC funds. It specializes in the development and distribution of fund and advisory concepts for institutional clients, corporate clients and financial intermediaries in Germany and Austria. In 2023 commission revenue decreased by EUR 1.1 million (-2.8 per cent) and commission expenses increased by EUR 1.4 million (50.5 per cent). The total surplus on the commission was thus reduced by 6.8 per cent.							

Insurance

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC Assurances Vie (France)	**23,242,981**	23,370,032	**1,120,919**	1,044,311	**81,439**	73,267	**100**	100
	HSBC Assurances Vie (France) manufactures a wide range of products and services to meet HSBC Group customer's needs (individuals, professionals and companies) in terms of life insurance, pension and protection. In 2023, insurance manufacturing gross written premium on saving stands at EUR 1.1 billion (23 per cent down compared to 2022), including EUR 0.4 billion on unit-linked contracts, which account for 36 per cent of new money compared to 43 per cent last year. The life insurance liabilities managed by the insurance company and valuated with French Gaap standards now stand at EUR 20.3 billion compared to EUR 20.3 billion last year. Within these, unit-linked contracts represent EUR 6.1 billion, increased by EUR 0.4 billion compared to 2022.							
HSBC Life Assurance (Malta) Limited[1]	**738,100**	804,083	**37,429**	66,590	**4,386**	412	**70.03**	70.03
	HSBC Life Assurance (Malta) Ltd is authorised by the Malta Financial Services Authority to carry on the business of insurance in Malta under the Insurance Business Act (chapter 403, Laws of Malta). It offers a range of protection and investment life assurance products distributed mainly through HSBC Bank Malta p.l.c. which is enrolled as a tied insurance intermediary for HSBC Life Assurance (Malta) Ltd under the Insurance Intermediaries Act, 2006.							

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.*

Own investments

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Société Française et Suisse ('SFS')	**9,476**	9,483	**9,474**	9,479	**(5)**	14	**100**	100
	Société Française et Suisse is a subsidiary that holds investments from former closed HSBC Continental Europe subsidiaries. Société Française et Suisse realized a negative result compared to 2022.							
Valeurs Mobilières Elysées	**52,237**	50,887	**51,795**	50,130	**1,665**	493	**100**	100
	Valeurs Mobilières Elysées is a subsidiary in which investments in shares were made for its own account. These investments concerned mid-sized listed stocks and Private Equity funds. The HSBC Group having decided, in 2009, to no longer take on new operations on medium-sized listed securities, Valeurs Mobilières Elysées manages a portfolio in extinction. There are no more new investments in Private Equity on the balance sheet of Valeurs Mobilières Elysées.							

Private Banking

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit[1]		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC Private Bank (Luxembourg) S.A.	**3,113,857**	NA	**234,609**	NA	**(12,520)**	NA	**100**	NA
	HSBC Private Bank (Luxembourg) S.A provides an enhanced range of private banking solutions for entrepreneurs by utilising an extensive network of experts to provide tailored and personalised solutions backed by strong local expertise. The bank is authorised under Luxembourg law to conduct all banking operations and insurance brokerage activity. The bank has one branch located in Paris, France.							

1 *On 2 November 2023, HSBC Continental Europe completed the acquisition of HSBC Private Bank (Luxembourg) S.A. from HSBC Private Bank (Suisse) SA.*

Entities domiciled outside France

(in thousands of euros)

	Total assets		Shareholders' funds		Net profit[1]		HSBC Continental Europe group's percentage	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
HSBC Bank Malta p.l.c.	**6,986,350**	6,689,880	**525,460**	459,129	**56,044**	6,733	**70.03**	70.03
	The bank provides a comprehensive range of banking and financial related services. The bank is authorised to carry on the business of banking, under the Banking Act, 1994 as a credit institution. It is also a licensed financial intermediary in terms of the Financial Markets Act, 1990. The bank also holds Category 3 and Category 4a Investment Services licences issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. These licences authorise the bank to provide investment services to third parties and custodian services for collective investment schemes respectively. As at 31 December 2023 the bank had 12 branches in Malta, one of which is located in Gozo.							

1 *Net profit for the year 2022 represents the profit post acquisition by HSBC Continental Europe on 30th November 2022.*

Investment policy

2018

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc Athens Branch.
- Amount of the investment: EUR 1.
- HSBC Continental Europe acquires 100 per cent of the capital of HSBC Institutional Trust Services (Ireland) DAC from HSBC Securities Services Holdings (Ireland) DAC, itself a subsidiary of HSBC Bank plc.
- Amount of investment: USD 21.5 million.
- HSBC Continental Europe acquires 100 per cent of the share capital of HSBC Bank Polska S.A. from HSBC Bank plc Paris Branch.
- Amount of the investment: EUR 88.4 million.

2019

- Acquisition by HSBC Continental Europe of certain assets and liabilities held by HSBC Bank plc in the Netherlands, Spain, Ireland, Czech Republic, Italy, Belgium and in Luxembourg.
- Amount of the investment: EUR 370.3 million.

2020

- No material transactions to report.

2021

- No material transactions to report.

2022

- Acquisition by HSBC Continental Europe on 30 November 2022:
  - 100 per cent of HSBC Trinkaus & Burkhardt GmbH from HSBC Bank plc for an acquisition price of EUR 1,191 million; and
  - 70.03 per cent of HSBC Bank Malta p.l.c. from HSBC Europe BV for an acquisition price of EUR 204 million.
- Sale of the Private Banking: on 1 October 2022, HSBC Continental Europe transferred its Private Banking business in France to HSBC Private Bank (Luxembourg) SA. The sale was executed with a Net Asset Value transferred of EUR 1, 525 million.

2023

- On 30 June 2023, HSBC Continental Europe completed the transfer of activities and staff from HSBC Trinkaus & Burkhardt GmbH to HSBC Germany.
- HSBC Continental Europe acquired 100 per cent of the share capital of HSBC Private Bank (Luxembourg) S.A. from HSBC Private Bank (Suisse) SA, for an acquisition price of EUR 195 million.

Proposed resolutions to the Combined General Meeting to be held on 25 March 2024

First resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the Statutory Auditors' report on the financial statements for the year ended 31 December 2023, and the report on corporate governance and the Statutory Auditors' report relating thereto, the shareholders hereby approve the company's financial statements for that year as presented, together with the business operations reflected therein and summarised in the reports.

Second resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders, having noted that the year ended 31 December 2023 shows a net result of EUR 671,196,345.11, hereby approve the proposed distribution of this net result made by the Board of Directors and resolve to appropriate it as follows:

Net result for the year	EUR 671,196,345.11
Plus retained profits	EUR 1,190,640,727.05
Total sum available for distribution	EUR 1,861,837,072.16

To be distributed as follows:

Legal reserve	EUR 33,559,817.26
Retained earnings	EUR 1,828,277,254.90

In accordance with legal requirements, it is recalled that no dividend has been paid in respect of the three previous financial years.

Third resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors and the report of the Statutory Auditors regarding the consolidated statements for the year ended 31 December 2023, the shareholders hereby approve the consolidated financial statements for that year as presented.

Fourth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the Statutory Auditors' report on regulated agreements governed by article L. 225-38 of the French Commercial Code, the shareholders hereby approve successively the agreements described therein under the conditions referred to in article L. 225-40 of said Code.

Fifth resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby note that the term of office of Mrs Carola Gräfin von Schmettow expires at the end of this meeting.

Sixth resolution

Voting under the quorum and majority conditions to transact ordinary business, in accordance with article L. 511-73 of the French Monetary and Financial Code, the shareholders hereby issue a favourable opinion on the aggregate amount of compensation of all kinds paid in 2023 to categories of personnel as referred to in Article L. 511-71 of the French Monetary and Financial Code having a significant impact on risks, which amounts to EUR 137,029,480.

Seventh resolution

Voting under the quorum and majority conditions to transact ordinary business, the shareholders hereby resolve to allocate the sum of 1,700,000 euros to the Board of Directors as remuneration for its activity, for the current financial year and for all subsequent financial years until otherwise decided.

Eighth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby re-elect PricewaterhouseCoopers Audit, who is retiring by rotation, as Statutory Auditor for the financial statements certification assignments, for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2029.

Ninth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby re-elect BDO Paris, who is retiring by rotation, as Statutory Auditor for the financial statements certification assignments, for a further term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2029.

Tenth resolution

Voting under the quorum and majority conditions to transact ordinary business, and having heard and considered the report of the Directors, the shareholders hereby appoint PricewaterhouseCoopers Audit, as Statutory Auditor for the sustainability information certification assignments, for a term of six years ending at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2029.

Eleventh resolution

Voting under the quorum and majority conditions to transact special business, having heard and considered the report of the Directors and the special report of the Statutory Auditors, the shareholders hereby authorise the Board of Directors to increase the share capital on one or more occasions at the time or times it deems appropriate up to a maximum amount of EUR 500 million (issue premium included), it being stipulated that are not included in the limit of EUR 500 million above, the capital increases which could be decided in respect of the dividend payments in shares or which would result from the exercise of stock options by employees.

Should the Board of Directors decide to use this authority, it may implement the capital increase at its discretion either by capitalising earnings, reserves or share premiums by means of an increase in the nominal value of existing shares or by means of a bonus issue of new shares identical in all respects to the existing shares, or by issuing new shares for cash or by way of a set-off, with preferential rights in favour of existing shareholders, or by a combination of both procedures either successively or simultaneously.

In the event of a capital increase by issuing new shares for cash, the Board of Directors is specifically authorised to:

- give those shareholders who applied for a greater number of shares than their entitlement as of right preference over any securities not taken up under the shareholders' preferential rights, scaled back in the event that applications exceed the number of shares available; and
- limit the capital increase to the amount of applications received, provided that such amount represents at least three quarters of the initial proposed capital increase.

The shareholders hereby empower the Board of Directors to complete the capital increase or increases, if it deems appropriate, to fix the terms and conditions thereof and notably the issue price of the shares, the dividend entitlement date, which may be retrospective, and the opening and closing dates for applications, to officially record the capital increase and alter the Articles of Association accordingly, and, more generally, to take all measures and fulfil all formalities required to complete the operation.

This authority is valid for a period of 26 months with effect from the date of this meeting. It cancels and supersedes the authority granted at the Extraordinary General Meeting held on 11 March 2022.

Twelfth resolution

Voting under the quorum and majority conditions to transact special business, and having heard and considered the report of the Directors and the special report of the Statutory Auditors, and in accordance with the provisions of Article L. 225-129-6, indent 1 of the French Commercial Code, the shareholders hereby delegate their authority to the Board of Directors in order to increase the share capital, in one or several steps at its sole discretion, by issuing shares to be subscribed in cash, reserved for employees participating in a company's employee share ownership plan in accordance with the provisions of Articles L. 3332-18 et seq. of the French Labour Code.

The shareholders set the maximum increase in the share capital at €10 million.

The shareholders decide that this delegation entails express waiver by the shareholders of their pre-emptive subscription right in favour of the Company's employees mentioned above as part of the delegation.

The shareholders decide that the issue price of the new shares will be determined by the Board of Directors in accordance with the provisions of Article L. 3332-20 of the Labor Code.

This delegation of authority shall extend for two years from the date of this General Meeting.

The shareholders grant full powers to the Board of Directors to implement this delegation of authority and, in particular, to fix the terms and conditions of the transactions, to set the date and terms of the issues to be made, to set the number of new shares to be issued and their vesting date, set the opening and closing dates of the subscriptions, the procedures for the release of the shares, in accordance with the legal and regulatory provisions.

The Board of Directors will also have full powers to carry out and record the completion of capital increases, carry out directly or by proxy, all subsequent formalities and amend the Articles of Association accordingly and, in general, take all necessary measures and enter into any agreements that are useful for the realisation of the capital increases, under the conditions provided for by the legal and regulatory provisions.

Thirteenth resolution

Voting under the quorum and majority conditions to transact ordinary and special business, the shareholders hereby confer full powers on the bearer of an original, copy or abstract of the minutes of this meeting for the purpose of completing any formalities required by law.

Information on HSBC Continental Europe and its share capital

Information on the company

Name

HSBC Continental Europe. New name of HSBC France since 1 December 2020.

Commercial name

HSBC.

Date of incorporation

1894.

Registered office

38 avenue Kléber – 75116 Paris – France.

Legal Form

*Soc*iété Anonyme incorporated under the laws of France, governed notably by the French Commercial Code. The Company is a credit institution and authorised bank, and as such is also governed by the French Monetary and Financial Code.

Term

The Company's term ends on 30 June 2043, unless previously wound up or extended.

Corporate purpose (article 3 of the Articles of Association of HSBC Continental Europe)

The Company's corporate purpose is the transaction in all countries of any and all banking, finance, lending, guarantee, trading, brokerage or fee-earning business together with the provision of any and all investment services and related services within the meaning of articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, and more generally, conducting within the limits permitted by law any and all commercial, industrial or agricultural, securities or real estate, financial or other operations as well as to provide any and all services directly or indirectly connected with or which may facilitate the achievement of the foregoing object.

Trade and companies Register, APE code and LEI

775 670 284 RCS Paris – APE 6419Z.

LEI: F0HUI1NY1AZMJMD8LP67.

Legal and regulatory framework

Subject to the laws and regulations relating to credit institutions, including articles in the French Monetary and Financial Code applicable to them, the Company is governed by commercial law, including articles L. 210-1 and following of the French Commercial Code and its Articles of Association.

HSBC Continental Europe is a credit institution licensed as a bank. As such, the Company may conduct all banking operations. It is, moreover, authorised to perform any services or related investment mentioned in articles L. 321-1 and L. 321-2 of the French Monetary and Financial Code, with the exception of operating a multilateral trading facility. In its capacity as provider of investment services, it is subject to the regulations applicable to them under the supervision of the *Autorité des marchés financiers*.

It is particularly subject to compliance with a number of prudential rules and controls by the *Autorité de contrôle prudentiel et de résolution* and the European Central Bank. Its Senior Management and all the people it employs are bound by professional secrecy, violation of which is punishable by law. It is also an insurance broker.

Documents and information on display

Any person requiring additional information on the HSBC Continental Europe group may, without commitment from the Company, request documents by mail from:

HSBC Continental Europe – 38 avenue Kléber, 75116 Paris, France.

The Articles of Association of the Company can be found in the 'About HSBC' section of the HSBC Continental Europe website www.hsbc.fr.

The information made available on hsbc.fr website are not part of the Universal Registration Document, unless the information is included by reference in the current Registration Document.

Financial year

From 1 January to 31 December.

Distribution of profits according to the Articles of Association

Of the net profit for the year, less any prior year losses (if any), a minimum of 5 per cent is transferred to feed the legal reserve. This transfer ceases to be mandatory when the legal reserve has reached an amount equal to one tenth of the Company's share capital. The mandatory transfer recommences at any time should the amount of the legal reserve fall below that tenth.

The balance, plus any retained earnings, less any sums which the shareholders deem expedient to transfer to new or existing reserves or to retained earnings, comprises the profit available for distribution among the shareholders.

However, except in the event of a reduction of the Company's share capital, no distribution may be made if total shareholders' funds are, or would as a result, become lower than the amount of the Company's share capital, plus any reserves, that the law or Articles of Association do not allow to distribute.

By way of derogation to the provisions of this rule, sums may be transferred to a special employee profit-sharing reserve, as provided for by law.

Form of shares

The fully paid up shares have to be registered. They result in registration on an individual account pursuant to the conditions and according to the methods stipulated by the legal and regulatory provisions in force.

Voting rights

Each fully paid up share entitles the holder to one vote.

Transfer of shares

The transfer of shares takes place by way of a transfer from one account to another.

There are no restrictions on disposals of shares or negotiable securities giving access to the share capital in cases of inheritance or liquidation of matrimonial property, or on disposals to a spouse, descendant or ascendant.

Any other disposals or transfers of shares or negotiable securities giving access to the capital, including between shareholders, whether free of charge or for valuable consideration, whether the said disposals or transfers take place by way of donation, exchange, disposal, capital contribution, merger, demerger, partial asset transfer, distribution following the liquidation of a shareholding company, universal asset transfer from a company, realisation of a security, or by way of compulsory or voluntary public tender, and whether they relate only to legal or beneficial ownership, shall be subject to the approval of the Board of Directors according to the conditions described below.

The transferor's request for approval, which must be served on the company, shall state the name, forenames, profession and address of the transferee, or the company name and registered office in the case of a company, the number of shares or negotiable securities giving access to the capital of which the disposal or transfer is envisaged, the price offered or an estimate of the value of the shares or negotiable securities giving access to the capital. This request for approval must be countersigned by the transferee.

Approval will be given in the form of a notice, or will be deemed to have been given, in the absence of a reply within three months of the date of the request for approval.

The approval decision will be made by the Board of Directors, by a majority of the Directors present or represented. The transferor shall be entitled to vote, if he is a Director. The decision will not be justified, and in the event of a refusal, shall never give rise to any claim.

If the proposed transferee is approved, the transfer will be completed in favour of the transferee upon presentation of the supporting documents, which must be supplied within one month of service of the decision of the Board of Directors, failing which a fresh approval will be required.

If the company does not approve the proposed transferee, the transferor will have a period of eight days from the date of service of the refusal to notify the Board whether or not he abandons his proposal.

If the transferor does not expressly abandon his proposal under the conditions set out above, the Board of Directors shall be obliged within a period of three months from the date of service of the refusal, to arrange for the purchase of the shares or negotiable securities giving access to the capital, by a shareholder, a third party, or, with the transferor's consent, by the company, with a view to a reduction of the capital.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by shareholders or third parties, the Board of Directors shall inform the transferor of the names, forenames, profession and address of the purchasers, or of the company name and registered office in the case of a company. The sale price shall be fixed by agreement between the purchasers and the transferor.

In the event that the offered shares or negotiable securities giving access to the capital are purchased by the company, the Board of Directors must first ask for the transferor's consent. The transferor must give his answer within eight days of receiving this request.

In the absence of agreement between the parties, the price of the shares and negotiable securities giving access to the capital shall be determined by an expert valuation, under the conditions provided by article 1843-4 of the French Civil Code.

If, upon the expiry of a period of three months, the purchase has not been completed, approval shall be deemed to have been given. However, this period may be extended by the courts on an application by the company.

The transferor may, at any time, and at the latest within a period of eight days of determination of the price by the expert, abandon the disposal of his shares or negotiable securities giving access to the capital.

Disposals to the purchaser or purchasers nominated by the Board of Directors shall be completed by means of a transfer order signed by the Chairman of the Board of Directors, who shall serve it to the transferor within eight days of its date, with an invitation to attend the registered office to receive the sale price, which shall not bear interest.

All notices, requests, answers, opinions, waivers, information and consents provided for by this article shall be validly given if sent by extrajudicial instrument or by registered letter with proof of receipt requested.

When an expert is used to determine the price of the shares or negotiable securities giving access to the share capital under the conditions provided by article 1843-4 of the French Civil Code, the expert's fees shall be paid in equal shares by the assignor and assignee.

This approval clause, which is the purpose of this article, also applies to disposals of allocation rights in the event of capital increases by way of incorporation of reserves, profits or issue premiums, and disposals of subscription rights in respect of capital increases in cash or individual waivers of subscription rights in favour of named individuals.

In these cases, the rules governing approval and the buyback conditions shall apply to the securities subscribed, and the time given to the Board of Directors to notify the third party subscriber whether it accepts him as a shareholder shall be three months from the date of final completion of the capital increase.

In the event of a buyback, the price shall be equal to the value of the new shares or negotiable securities giving access to the capital determined under the conditions provided by article 1843-4 of the French Civil Code.

Custodian and financial service

Uptevia.

History of the company

1894: The Banque Suisse et Française ('BSF') is founded. It will become the Crédit Commercial de France ('CCF').

1987: CCF privatisation. Apart from its national network, CCF has progressively created a group of regional banks operating under their own brand.

1994: Centenary of CCF.

2000: CCF joins the HSBC Group and becomes the European platform of the HSBC Group.

2002: Crédit Commercial de France changes its legal name to CCF.

2005: CCF becomes HSBC France and certain of its subsidiaries change their legal name and adopt the HSBC brand. HSBC France, HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie constitute the new HSBC network.

2008: Disposal by HSBC France of its regional banking subsidiaries (Société Marseillaise de Crédit, Banque de Savoie, Banque Chaix, Banque Marze, Banque Dupuy, de Parseval, Banque Pelletier and Crédit Commercial du Sud-Ouest).

2008: Merger of HSBC Hervet, HSBC de Baecque Beau, HSBC UBP and HSBC Picardie with HSBC France.

2011: Merger of HSBC Private Bank France with HSBC France.

2013: HSBC France acquires HSBC Assurances Vie (France).

2017-2018: Creation of branches in Greece, the United Kingdom, Belgium, Luxembourg, Ireland, Italy, Poland, the Czech Republic, the Netherlands and Spain.

January 2018: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Greece and launch of the activities of the HSBC France branch in Greece.

August 2018: Acquisition of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC.

February 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branches in Belgium, Ireland, Italy, the Czech Republic, the Netherlands and Spain and launch of the activities of the HSBC France branches in those countries.

March 2019: Acquisition of certain assets and liabilities from the HSBC Bank plc branch in Luxembourg and launch of the activities of the HSBC France branch in this country.

April 2019: Merger of HSBC Bank Polska S.A. and HSBC Institutional Trust Services (Ireland) DAC with HSBC France.

May 2019: Creation of a branch in Sweden and launch of the activities in this branch in October 2019.

December 2020: HSBC France becomes HSBC Continental Europe and transfers its registered office 38 avenue Kléber 75116 Paris.

November 2022: Acquisition of 70.03% of the share capital of HSBC Bank Malta p.l.c. and, by the HSBC Continental Europe branch in Germany, of 100 per cent of HSBC Trinkaus & Burkhardt GmbH.

July 2023: Sale of the activities of the HSBC Continental Europe branch in Greece.

November 2023: Acquisition of 100% of the share capital of HSBC Private Bank (Luxembourg) S.A., the HSBC Group's Continental European private banking hub.

Material contracts

HSBC Continental Europe currently has no material contracts, other than those concluded as part of the normal course of its business, that gives any member of the Group a right or obligation having a material impact on the issuer's ability to fulfil its obligations to holders of issued securities.

Information on the share capital

At 31 December 2023, the share capital amounted to EUR 1,062,332,775 divided into 212,466,555 fully paid up shares, each with a nominal value of EUR 5.

Movements in share capital

	Number of shares	Share capital in euros	Share premium in euros
At 1 Jan 2023	**212,466,555**	**1,062,332,775**	**5,264,446,676.79**
Increase (Reduction) during the year	—	—	—
At 31 Dec 2023	**212,466,555**	**1,062,332,775**	**5,264,446,676.79**
At 1 Jan 2022	98,231,196	491,155,980	2,137,326,990.33
Increase (Reduction) during the year	114,235,359	571,176,795	3,127,119,686.46
At 31 Dec 2022	212,466,555	1,062,332,775	5,264,446,676.79
At 1 Jan 2021	98,231,196	491,155,980	2,137,326,990.33
Increase (Reduction) during the year	—	—	—
At 31 Dec 2021	98,231,196	491,155,980	2,137,326,990.33
At 1 Jan 2020	98,231,196	491,155,980	2,137,326,990.33
Increase (Reduction) during the year	—	—	—
At 31 Dec 2020	98,231,196	491,155,980	2,137,326,990.33
At 1 Jan 2019	73,316,988	366,584,940	475,040,848.70
Increase (Reduction) during the year	24,914,208	124,571,040	1,662,286,141.63
At 31 Dec 2019	98,231,196	491,155,980	2,137,326,990.33

Ownership of share capital and voting rights at 31 December 2023

HSBC Bank plc has owned more than 99.99 per cent of the share capital and voting rights since 31 October 2000. This percentage has not varied since then. HSBC Bank plc is a wholly-owned subsidiary of HSBC Holdings plc, a company quoted in London, Hong Kong, New York and Bermuda. The rest of the share capital and voting rights is owned by Canada Square Nominees (UK) Limited, an indirect wholly-owned subsidiary of HSBC Holdings plc, and external shareholders.

Dividend and payout policy

	2023	2022	2021	2020	2019
Number of shares at 31 December	**212,466,555**	212,466,555	98,231,196	98,231,196	98,231,196
Average number of shares outstanding during the year	**212,466,555**	132,279,780	98,231,196	98,231,196	92,571,906
EPS[1]	**EUR 2.2**	EUR (7.30)	EUR 2.74	EUR (10.43)	EUR (0.41)
Net dividend	—	—	—	—	—
Exceptional dividend	—	—	—	—	—
Dividend + tax credit	—	—	—	—	—
Payout[2]	—	—	—	—	—

1 *Calculated on the weighted average number of shares outstanding after deducting own shares held.*
2 *Dividend paid as a percentage of reported earnings.*

At the Annual General Meeting to be held on 25 March 2024, the Board will propose not to distribute a dividend in respect of year 2023.

Dividends which are not claimed within five years of the payment date lapse and become the property of the French Treasury.

Persons responsible for the Universal Registration Document and for auditing the financial statements

Person responsible for the Universal Registration Document

Mr Andrew Wild, Chief Executive Officer

Statement by the person responsible for the Universal Registration Document

I certify, that the information contained in this Universal Registration Document is, to the best of my knowledge, true and accurate and contains no omission likely to affect its meaning.

I certify, to the best of my knowledge, that the accounts have been prepared in accordance with the relevant accounting standards and give a fair view of assets and liabilities, financial position and result of the company and all the entities included in the consolidation, and that the Management Report on pages 14 to 24 presents a fair view of the business performance, results and financial position of the company and of all the undertakings included in the consolidation scope, and describes the principal risks and uncertainties to which they are exposed.

Paris, 1 March 2024

Andrew Wild, CEO

Persons responsible for auditing the financial statements

Incumbents	Date first appointed	Date re-appointed	Date term ends
PricewaterhouseCoopers Audit[1]	2015	2018	2024[5]
Represented by Agnès Hussherr[2] 63, rue de Villiers 92200 Neuilly-sur-Seine			
BDO Paris[3]	2007	2018	2024[5]
Represented by Vincent Génibrel[4] 43-47, avenue de la Grande Armée 75116 Paris			

1 *Member of the Compagnie Régionale des Commissaires aux comptes of Versailles.*
2 *PricewaterhouseCoopers Audit represented by Agnès Hussherr from 2020.*
3 *Member of the Compagnie Régionale des Commissaires aux comptes of Paris.*
4 *BDO Paris represented by Vincent Génibrel starting from 2023.*
5 *The renewal of the Statutory Auditors for a further term of six years will be proposed to the Shareholders' General Meeting to be held on 25 March 2024.*

Statutory Auditors' fees paid in 2023 within the HSBC Continental Europe group are available in Note 8 to the consolidated financial statements on page 231.

Cross-reference table

The following cross-reference table refers to the main headings required by the European regulation 2017/1129 (Annex I and Annex II) implementing the directive known as 'Prospectus' and to the pages of the Universal Registration Document 2022 D.23-0634.

Sections of Annex I of the EU Regulation 2017/1129		Pages in 2022 Universal Registration Document submitted to AMF on 1 August 2023 under reference D.23-0634	Pages in this 2023 Universal Registration Document
1	**Persons responsible, third party information, experts' reports and competent authority approval**		
1.1 & 1.2	Persons responsible	page 293	page 329
1.3	Experts' reports	N/A	N/A
1.4	Third party information	N/A	N/A
1.5	Competent authority approval	N/A	N/A
2	**Statutory auditors**	page 294	page 330
3	**Risk factors**	pages 88 to 176	pages 118 to 128
4	**Information about the issuer**	page 290	page 326
5	**Business overview**		
5.1	Principal activities	pages 5 to 22 and 253	pages 5 to 23 and 284
5.2	Principal markets	pages 5 to 22 and 253	pages 5 to 23 and 284
5.3	Important events	pages 197 to 198, 253	pages 210, 284
5.4	Strategy and objectives	pages 5 to 14	pages 5 to 13
5.5	Potential dependence	N/A	N/A
5.6	Founding elements of any statement by the issuer concerning its position	pages 5 and 22	pages 5 and 23
5.7	Investments	pages 242 to 244, 285 to 288, 297 to 298	pages 273 to 274, 319 to 323, 334 to 335
6	**Organisational structure**		
6.1	Brief description of the group	pages 3 to 23, 276 to 277 and 285 to 288	pages 3 to 24, 310 to 311 and 319 to 323
6.2	Issuer's relationship with other group entities	pages 285 to 287	pages 319 to 322
7	**Operating and financial review**		
7.1	Financial condition	pages 178, 180, 251 to 252	pages 189, 191, 282 to 283
7.2	Operating results	pages 14 to 22, 178 and 251	pages 15 to 23, 189 and 282
8	**Capital resources**		
8.1	Issuer's capital resources	pages 182 and 268	pages 192 and 301
8.2	Sources and amounts of the issuer's cash flows	page 181	page 194
8.3	Borrowing requirements and funding structure	pages 88, 142 to 145, 147 to 149	pages 113, 156 to 158, 161 to 163
8.4	Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect the issuer's operations	N/A	N/A
8.5	Sources of funds needed	N/A	N/A
9	**Regulatory environment**	pages 13 to 14 and 155 to 156	pages 13, 169
10	**Trend information**	pages 5 to 9	pages 5 to 9
11	**Profit forecasts or estimates**	N/A	N/A
12	**Administrative, management and supervisory bodies and senior management**		
12.1	Administrative and management bodies	pages 25 to 31	pages 26 to 32
12.2	Administrative and management bodies conflicts of interests	page 40	page 41
13	**Remuneration and benefits**		
13.1	Amount of remuneration paid and benefits in kind granted	pages 41 to 49, 203 to 207	pages 42 to 50, 226 to 231
13.2	Total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	pages 41 to 49, 203 to 207, 268 to 269	pages 42 to 50, 226 to 231, 302 to 303
14	**Board practices**		
14.1	Date of expiration of the current term of office	pages 25 to 31	pages 26 to 32
14.2	Information about members of the administrative, management or supervisory bodies' service contracts	N/A	N/A
14.3	Information about the issuer's audit committee and remuneration committee	pages 34 to 35, 37 to 38	pages 35 to 36, 38 to 39
14.4	Corporate governance regime	page 24	page 25
14.5	Potential material impacts on the corporate governance	N/A	N/A
15	**Employees**		
15.1	Number of employees	page 203	page 226
15.2	Shareholdings and stock options	pages 43 to 44	pages 44 to 45
15.3	Arrangements involving the employees in the capital of the issuer	N/A	N/A
16	**Major shareholders**		
16.1	Shareholders holding more than 5 per cent of the share capital or voting rights	pages 290 to 292	pages 326 to 328
16.2	Different voting rights	page 290	page 326

Sections of Annex I of the EU Regulation 2017/1129		Pages in 2022 Universal Registration Document submitted to AMF on 1 August 2023 under reference D.23-0634	Pages in this 2023 Universal Registration Document
16.3	Control of the issuer	pages 25 to 26, 294	pages 26 to 27, 330
16.4	Arrangements, known to the issuer, which may at a subsequent date result in a change in control of the issuer	N/A	N/A
17	**Related party transactions**	pages 50 to 53, 239 to 241, 242 to 244, 276 to 277	pages 52 to 54, 266 to 268, 273 to 274, 310 to 311
18	**Financial information concerning the issuer's assets and liabilities, financial position and profits and losses**		
18.1	Historical financial information	pages 22, 177 to 244, 250 to 277, 296	pages 22, 188 to 274, 281 to 311, 332
18.2	Interim and other financial information	N/A	N/A
18.3	Auditing of historical annual financial information	pages 245 to 249, 278 to 282	pages 275 to 280, 312 to 316
18.4	Pro forma financial information	N/A	N/A
18.5	Dividend policy	pages 211 and 292	pages 234 and 328
18.6	Legal and arbitration proceedings	pages 161 to 163, 238 to 239, 274 to 275	pages 173 to 174, 265, 308 to 309
18.7	Significant change in the issuer's financial position	pages 22, 242 and 275	pages 22, 272 and 309
19	**Additional information**		
19.1	Share capital	pages 237, 267 and 292	pages 263, 301 and 328
19.2	Memorandum and Articles of Association	pages 290 and 292	pages 326 and 328
20	**Material contracts**	page 292	page 328
21	**Documents available**	page 290	page 326

Sections of Annex II of the EU Regulation 2017/1129		Pages in 2022 Universal Registration Document submitted to AMF on 1 August 2023 under reference D.23-0634	Pages in this 2023 Universal Registration Document
1	**Information to be disclosed about the issuer**	page 2	page 2

According to article 28 of the European Regulation 809/2004, are included by reference in this Registration Document:

- the consolidated financial statements for the year ended 31 December 2021 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 175 to 237 and 238 to 243 of reference document D.22-0053 filed with the AMF on 23 February 2022; the information can be found here: www.hsbc.com/-/files/hsbc/investors/hsbc-results/2021/annual/pdfs/hsbc-continental-europe/220223-registration-document-and-annual-financial-report-2021-french-zip.zip.
- the consolidated financial statements for the year ended 31 December 2022 and the Statutory Auditors' report on those consolidated financial statements, presented on pages 177 to 244 and 245 to 249 of reference document D.23-0634 filed with the AMF on 1 August 2023; the information can be found here: www.hsbc.com/-/files/hsbc/investors/hsbc-results/2022/annual/pdfs/hsbc-continental-europe/230223-registration-document-and-annual-financial-report-2022-french-zip.zip.

These documents are available on the website www.hsbc.fr and on that of the *Autorité des marchés financiers* www.amf-france.org.

Anyone wishing to obtain additional information on the HSBC Continental Europe group can, without obligation, request the documents by mail:

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This Registration Document includes the annual financial report:	**2023**
Parent company financial statements	pages 281 to 311
Consolidated financial statements	pages 188 to 274
Management report Refer to the Management report cross ref table Statement by person responsible	pages 330 and 333
Statutory Auditors' report	pages 275 to 280 and 312 to 316
Cross table on Management report:	
Analyses of the activity, results and financial situation	pages 5 to 24 and 283
Risk factors	pages 113 to 157 and 160 to 187
Capital and Leverage Management	pages 158 to 159
Authorities to increase the share capital	page 328
Corporate, social and environmental responsibility	pages 55 to 112
Corporate governance report	pages 25 to 51
Remuneration policy compensation and other advantages to the executive Director	pages 42 to 51
Mandates and functions of the Executive Directors	pages 26 to 32
Activities of the subsidiaries and Investment policy	pages 273 to 274 and 319 to 323
Five year highlights	pages 22 and 317
Information on supplier payable amounts schedule	page 24
Other legal documents relating to the Annual General Meeting to be held on 25 March 2024	page 324
Information on HSBC Continental Europe and its share capital	pages 326 to 328

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Published by Finance Department, HSBC Continental Europe, Paris

Printing and made in France

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