HSBC Continental Europe

Pillar 3 Disclosures at 31 December 2020

HSBC

Contents

	Page
Introduction	**2**
Regulatory framework for disclosures	**3**
Pillar 3 disclosures	**3**
Regulatory developments	**3**
Significant events	**4**
Linkage to the Universal Registration Document 2020	**4**
Capital and Leverage	**6**
Capital management	**6**
Overview of regulatory capital framework	**7**
Leverage ratio	**9**
Capital buffers	**10**
Pillar 1	**12**
Pillar 2 and ICAAP	**13**
Minimum Requirement for own funds and Eligible Liabilities ('MREL') – Total Loss Absorbing Capacity ('TLAC')	**13**
Credit risk	**14**
Overview	**14**
Risk mitigation	**28**
Counterparty Credit Risk	**30**
Market risk	**31**
Operational risk	**31**
Other risks	**32**
Interest rate risk in the banking book	**32**
Risk management of insurance operations	**32**
Liquidity and funding	**32**
Reputational risk	**33**
Sustainability risk	**33**
Business risk	**33**
Remuneration	**34**

Appendices

		Page
I	Summary of disclosures withheld due to their immateriality, confidentiality or proprietary nature	**37**
II	Abbreviations	**38**
III	Cautionary statement regarding forward-looking statements	**39**

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

Tables

		Page
1	Pillar 1 Comparison of own funds, capital and leverage ratios	**2**
2	Overview of RWAs	**2**
3	Reconciliation of balance sheets – financial accounting to regulatory scope of reconciliation	**5**
4	Own funds disclosure	**8**
5	Summary reconciliation of accounting assets and leverage ratio exposures	**9**
6	Leverage ratio common disclosure	**9**
7	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer	**10**
8	Amount of Institution specific countercyclical buffer	**11**
9	Credit risk exposure – summary	**14**
10	Breakdown of equity exposure under the simple risk weight approach	**15**
11	Credit quality of forborne exposures	**16**
12	Credit quality of performing and non-performing exposures by past due days	**17**
13	Collateral obtained by taking possession and execution processes	**18**
14	Performing and non-performing exposures and related provisions	**18**
15	Geographical breakdown of exposures	**20**
16	Credit risk exposure – by industry sector	**21**
17	Credit risk exposure – by maturity	**25**
18	Wholesale IRB exposures under the slotting approach	**26**
19	Amount of impaired exposures and related allowances by industry sector and geographical region of booking	**26**
20	Movement in credit risk adjustments by industry sector and by geographical region of booking	**26**
21	IRB expected loss and CRA – by exposure class	**27**
22	IRB exposure – credit risk mitigation	**29**
23	Standardised exposure – credit risk mitigation	**30**
24	Counterparty credit risk – RWAs by exposure class and product	**30**
25	Market risk under standardised approach	**31**
26	Market risk under internal model approach	**31**
27	Operational risk RWAs and capital required	**31**
28	Remuneration – fixed and variable amounts	**34**
29	Guaranteed bonus, sign-on and severance payments	**34**
30	Deferred remuneration	**35**
31	Material risk-takers remuneration by band	**36**

Introduction

Table 1: Pillar 1 Comparison of own funds, capital and leverage ratios

	At		
	31 Dec 2020	30 Jun 2020	31 Dec 2019
	€m	€m	€m
Available capital			
Common equity tier 1 ('CET1') capital	**5,818**	6,217	6,464
Tier 1 capital	**6,568**	6,967	7,214
Total regulatory capital	**7,974**	8,373	8,120
Risk-weighted assets ('RWAs')			
Total RWAs	**46,113**	49,257	48,051
Capital ratios (%)			
CET1	**12.6%**	12.6%	13.5%
Total tier 1	**14.2%**	14.1%	15.0%
Total capital	**17.3%**	17.0%	16.9%
Leverage ratio			
Total leveratio exposure	**154,928**	203,464	192,380
Leverage ratio %	**4.2%**	3.4%	3.7%

Table 2: Overview of RWAs

		At 31 Dec 2020		At 31 Dec 2019	
		RWAs	**Capital requirement[1]**	RWAs	Capital requirement[1]
		€m	**€m**	€m	€m
1	**Credit risk[2]**	**35,857**	**2,868**	36,025	2,882
2	– standardised approach	**8,121**	**664**	10,771	862
3	– foundation IRB approach	**3,252**	**260**	2,579	206
4	– advanced IRB approach	**23,185**	**1,855**	20,798	1,664
5	– equity IRB	**1,299**	**104**	1,877	150
6	**Counterparty credit risk**	**3,736**	**298**	3,982	319
7	– mark-to-market method	**1,102**	**88**	996	80
8	– original exposure method	**—**	**—**	—	—
9	– standardised method	**—**	**—**	—	—
10	– internal model method	**2,176**	**174**	2,036	163
11	– risk exposure amount for contributions to the default fund of a central counterparty	**65**	**5**	65	5
12	– credit valuation adjustment	**393**	**31**	885	71
13	**Settlement risk**	**—**	**—**	1	—
14	**Securitisation exposures in the non-trading book**	**574**	**46**	400	32
14a	– internal ratings-based approach ('SEC-IRBA')	**—**	**—**	73	6
14b	– external ratings-based approach ('SEC-ERBA')	**214**	**17**	—	—
14c	– internal assessment approach ('IAA')	**294**	**24**	163	13
14d	– standardised approach ('SEC-SA')	**66**	**5**	—	—
14e	– exposure subject to the new securitisation framework	**—**	**—**	164	13
19	**Market risk**	**2,663**	**213**	4,494	359
20	– standardised approach	**339**	**27**	325	26
21	– internal model approach	**2,324**	**186**	4,169	333
22	– large exposures	**—**	**—**	—	—
23	**Operational risk**	**3,283**	**263**	3,149	252
24	– basic indicator approach	**—**	**—**	—	—
25	– standardised approach	**3,283**	**263**	3,149	252
26	– advanced measurement approach	**—**	**—**	—	—
29	**Total**	**46,113**	**3,688**	48,051	3,844

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.*

Regulatory framework for disclosures

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

At the consolidated HSBC Continental Europe level, we calculated capital for prudential regulatory reporting purposes throughout 2020 using the Basel III framework of the Basel Committee on Banking Supervision ('BCBS') as implemented by the EU in the amended Capital Requirements Regulation and Directive, collectively known as CRR/CRD.

The Basel Committee's framework is structured around three 'pillars': the Pillar 1 minimum capital requirements and Pillar 2 supervisory review process are complemented by Pillar 3 market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of application by banks of the Basel Committee's framework and the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy. Pillar 3 requires all material risks to be disclosed, enabling a comprehensive view of a bank's risk profile.

Pillar 3 disclosures

Purpose

The information contained in this document is for HSBC Continental Europe. It should be read in conjunction with HSBC Continental Europe's *Universal Registration Document 2020*. These disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. HSBC Continental Europe document has been subject to internal review process in accordance with its financial reporting and governance processes.

Basis of preparation

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

In our disclosures, we provide comparative figures for the previous year to facilitate the analysis. Key ratios and figures are reflected throughout the *Pillar 3 2020 Disclosures* and are also available on page 3 of the HSBC Continental Europe's *Universal Registration Document 2020*. Where disclosures have been enhanced or are new, we do not generally restate or provide prior year comparatives.

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

The Pillar 3 disclosure for HSBC Continental Europe is available on the HSBC websites, www.hsbc.com or www.hsbc.fr, simultaneously with the release of our HSBC Continental Europe's Universal Registration Document.

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

Pillar 3 requirements may be met by inclusion in other disclosure media. Where we adopt this approach, references are provided to the relevant pages of the *Universal Registration Document 2020* or other location.

Governance arrangements are detailed in the report on Corporate governance on pages 22 to 49 of the HSBC Continental Europe's *Universal Registration Document 2020.*

Regulatory developments

Covid-19

The Covid-19 outbreak has created an unprecedented challenge to the global economy. Governments, central banks and regulatory authorities have responded to this challenge with a number of regulatory measures related to customer support, operational capacity and amendments to the RWAs, capital and liquidity frameworks.

In the European Union ('EU'), measures included a package known as the 'Capital Requirements Regulation ('CRR') Quick Fixes' enacted in June 2020. This represents an acceleration of some of the beneficial elements of the amendments to the Capital Requirements Regulation ('CRR2'), which were originally scheduled for June 2021, together with other amendments to mitigate the potential volatility in capital ratios arising from the pandemic. The amendments came into effect in June 2020, with the exception of the changes to the rules on software assets which came into effect in December 2020 following adoption by the European Commission of the European Banking Authority's ('EBA') regulatory technical standards.

Under previous rules, software assets were deducted in full from common equity tier 1 ('CET1'). Under the new rules, a portion of the asset is risk-weighted at 100 per cent and the remainder is subject to a CET1 deduction.

The European Central Bank ('ECB') made use of the new provision introduced in the CRR Quick Fixes and declared on September 2020 that exceptional measures justify the temporary exclusion of certain central bank exposures from the leverage ratio exposure measure until 27 June 2021.

In December 2020, the ECB announced it had reassessed banks' capital positions in light of the economic uncertainty caused by Covid-19 and concluded that banks are now able to resume external distributions, subject to restrictions. The ECB intends to transition back to its standard approach to capital-setting and shareholder distributions after September 2021.

The Basel Committee

The Basel Committee ('Basel') completed the Basel III Reforms in July 2020 when it published the final revisions to credit valuation adjustment ('CVA') framework. The package is scheduled to be implemented on 1 January 2023, with a five-year transitional provision for the output floor. This floor ensures that, at the end of the transitional period, banks' total RWAs will be no lower than 72.5 per cent of those generated by the standardised approaches. The final standards will need to be transposed into the relevant local law before coming into effect.

There remains a significant degree of uncertainty about the impact of these changes due to the number of national discretions within Basel's reforms and the need for further supporting technical standards to be developed.

The Capital Requirements Regulation amendments

In June 2019, the EU enacted the CRR2. This included the EU's implementation of the Financial Stability Board's ('FSB') requirements for total loss-absorbing capacity ('TLAC'), known in the EU as the minimum requirements for own funds and eligible liabilities ('MREL'), introducing changes to the own funds regime as well. The CRR2 will also implement the first tranche of changes to the EU's legislation to reflect the Basel III Reforms, including the changes to market risk ('FRTB') rules, revisions to the standardised approach for measuring counterparty risk and the new leverage ratio rules. The CRR2 rules will follow a phased implementation with significant elements entering into force in 2021, in advance of Basel's timeline.

The implementation of the remaining Basel III Reforms

The remaining elements of the Basel III Reforms will be implemented in the EU by a further set of amendments to the Capital Requirements Regulation. The European Banking Authority ('EBA') responded to the European Commission's request to update its previous advice on the impact of the package, taking into account the effect of the Covid-19 outbreak. Two scenarios have been considered. One scenario entails implementing the reforms in EU legislation in full alignment with Basel's standards and timeline i.e. 1 January 2023. The second scenario entails the implementation of the reforms in line with Basel's timeline while retaining some EU specific features, i.e. the exemption of certain counterparties from the CVA risk capital charge and the application of supporting factor to the credit risk capital charge of certain SME and infrastructure exposures, as well as setting the historical loss multipliers to 1 for operational risk. The subsequent EU implementation will be subject to an extensive negotiation process with the EU Council and Parliament.

The UK's withdrawal from the European Union

As a result of the decision of the referendum on 23 June 2016, the UK left the EU on 31 January 2020. In order to smoothen the transition, the UK remained subject to EU law during a transition period, which ended on 31 December 2020.

The agreement reached between the UK and the EU on 24 December 2020 ('EU-UK Trade and Cooperation Agreement') sets out preferential arrangements in various areas excluding financial services and related equivalence. As a result, the UK will be treated from 1 January 2021 onwards as a third country, the treatment of which is subject to equivalence assessments. In September 2020, the EU declared the UK Central counterparties ('CCP') framework as temporarily equivalent (until 30 June 2022).

The end of the transition period also triggers an additional MREL requirement under CRR2 for HSBC Continental Europe as it becomes a subsidiary of a third-country parent entity.

Other developments

In January 2021, the High Council for Financial Stability ('HCSF') decided to maintain the Countercyclical Capital Buffer ('CCyB') applicable to French exposures at 0 per cent in light of the Covid-19 crisis.

Significant events

Change of name

On 1st December 2020, HSBC France has changed its name to become HSBC Continental Europe. The new name better reflects the purpose and nature of its activities, namely an integrated Continental European bank connecting our customers to HSBC's global network, and providing access to Continental Europe for HSBC's customers around the world.

Repayments and new issuances

In May 2020, HSBC Continental Europe increased its Tier 2 capital by EUR 500 million by issuing a subordinated instrument with a maturity of 10 years subscribed by HSBC Bank plc, recognised as subordinated liabilities.

In December 2020, HSBC Continental Europe repaid three unsecured loans granted by HSBC Bank plc for a total notional amount of EUR 2.3 billion, recognised as deposits by banks and, in order to meet TLAC requirements, issued five series of senior non preferred notes with maturities ranging from three to seven years for a total notional amount of EUR 2.3 billion subscribed by HSBC Bank plc, recognised as debt securities in issue.

The other significant events are detailed in the Note 1 'significant events during the year' of the consolidated Financial Statements section on page 182 of the HSBC Continental Europe's *Universal Registration Document 2020*.

Linkage to the Universal Registration Document 2020

Basis of consolidation

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

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

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

	Accounting balance sheet	De-consolidation of insurance/ other entities	Consolidation of banking associates	Regulatory balance sheet
	€m	€m	€m	€m
Assets				
Cash and balances at central banks	**29,508**	**–**	**–**	**29,508**
Items in the course of collection from other banks	**224**	**–**	**–**	**224**
Trading assets	**12,954**	**–**	**–**	**12,954**
Financial assets designated and otherwise mandatorily measured at fair value through profit and loss	**11,648**	**(11,181)**	**–**	**467**
Derivatives	**56,475**	**(53)**	**–**	**56,422**
Loans and advances to banks	**6,781**	**(430)**	**–**	**6,351**
Loans and advances to customers	**56,225**	**470**	**–**	**56,695**
– *of which:*				
impairment allowances on IRB portfolios	***(663)***	**–**	**–**	***(663)***
impairment allowances on standardised portfolios	***(147)***	**–**	**–**	***(147)***
Reverse repurchase agreements – non-trading	**21,522**	**–**	**–**	**21,522**
Financial investments	**19,167**	**(11,782)**	**–**	**7,385**
Assets held for sale	**3**	**–**	**–**	**3**
Prepayments, accrued income and other assets	**21,735**	**(356)**	**–**	**21,379**
– *of which: retirement benefit assets*	**–**	**–**	**–**	**–**
Current tax assets	**146**	**(29)**	**–**	**117**
Interests in associates and joint ventures	**1**	**–**	**–**	**1**
Goodwill and intangible assets	**579**	**(490)**	**–**	**89**
Deferred tax assets	**131**	**–**	**–**	**131**
Total assets at 31 December 2020	**237,099**	**(23,851)**	**–**	**213,248**
Liabilities and equity				
Deposits by banks	**17,204**	**(3)**	**–**	**17,201**
Customer accounts	**61,393**	**333**	**–**	**61,726**
Repurchase agreements – non-trading	**10,984**	**–**	**–**	**10,984**
Items in the course of transmission to other banks	**198**	**–**	**–**	**198**
Trading liabilities	**17,828**	**–**	**–**	**17,828**
Financial liabilities designated at fair value	**16,892**	**1,136**	**–**	**18,028**
Derivatives	**55,714**	**3**	**–**	**55,717**
Debt securities in issue	**3,605**	**–**	**–**	**3,605**
Accruals, deferred income and other liabilities	**20,117**	**(1,276)**	**–**	**18,841**
– *of which: retirement benefit liabilities*	***175***	***(3)***	**–**	***172***
Current tax liabilities	**73**	**(2)**	**–**	**71**
Liabilities under insurance contracts	**23,228**	**(23,228)**	**–**	**–**
Provisions	**397**	**(2)**	**–**	**395**
Deferred tax liabilities	**131**	**(124)**	**–**	**7**
Subordinated liabilities	**1,876**	**–**	**–**	**1,876**
– *of which:*				
perpetual subordinated debt included in tier 2 capital	***16***	**–**	**–**	***16***
term subordinated debt included in tier 2 capital	***1,860***	**–**	**–**	***1,860***
Total liabilities at 31 December 2020	**229,640**	**(23,163)**	**–**	**206,477**
Called up share capital	**491**	**–**	**–**	**491**
Share premium account	**2,137**	**–**	**–**	**2,137**
Other equity instruments	**750**	**–**	**–**	**750**
Other reserves	**1,688**	**(33)**	**–**	**1,655**
Retained earnings	**2,368**	**(655)**	**–**	**1,713**
Total shareholders' equity	**7,434**	**(688)**	**–**	**6,746**
Non-controlling interests	**25**	**–**	**–**	**25**
Total equity at 31 December 2020	**7,459**	**(688)**	**–**	**6,771**
Total liabilities and equity at 31 December 2020	**237,099**	**(23,851)**	**–**	**213,248**

Capital and Leverage

Capital management

Approach and policy

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

HSBC Continental Europe manages its capital to ensure that it exceeds current and expected future requirements. Throughout 2020, HSBC Continental Europe complied with the European Central Bank (‘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.

HSBC Continental Europe increased its Tier 2 capital in May 2020 through a transaction with HSBC Bank plc of EUR 500 million.

This capital injection aimed to compensate for the deterioration of capital ratios in the stressed environment linked to the Covid-19 outbreak.

In order to comply with CRR regarding internal TLAC requirements, HSBC Continental Europe repaid three unsecured loans and issued five series of senior non preferred bonds in December 2020.

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

The Internal Capital Adequacy Assessment Process (‘ICAAP’) which aims to assess the adequacy of the bank's capital resources with regard to its risks and requirements incorporates various methods of assessing capital needs within HSBC Continental Europe. These capital measures include economic capital and regulatory capital defined as follows:

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

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

Stress testing

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

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

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

Risks to capital

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

Further explanation on model risk can be found in Risk section on pages 80 and 163 of the HSBC Continental Europe's *Universal Registration Document 2020*.

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

Risk-weighted asset targets

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

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

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

Capital generation

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

Overview of regulatory capital framework

Main features of CET1, AT1 and T2 instruments issued by HSBC Continental Europe

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

Common Equity Tier 1 ('CET1')

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

Additional Tier 1 capital ('AT1')

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

Qualifying CRD Additional Tier 1 instruments are perpetual instruments on which there is no obligation to apply a coupon and, if not paid, the coupon is not cumulative. Such instruments do not carry voting rights but rank higher than ordinary shares for coupon payments and in the event of a winding up.

CRD compliant Additional Tier 1 instruments issued by the bank include a provision whereby the instrument will be written down in the event the bank's Common Equity Tier 1 ratio falls below 5.125 per cent.

Tier 2 capital ('T2')

Tier 2 capital comprises eligible capital instruments and any related share premium and other qualifying Tier 2 capital instruments. Holdings of Tier 2 instruments issued by financial sector entities are deducted from Tier 2 capital.

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

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

A list of the main features of HSBC Continental Europe's regulatory capital instruments prepared in accordance with the instructions provided in Annex III of the Regulation 1423/2013 is also being published on HSBC's website.

Table 4: Own funds disclosure

Ref*		At 31 Dec 2020 €m	31 Dec 2019 €m
	Common equity tier 1 ('CET1') capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**2,628**	2,628
	– ordinary shares	**2,137**	2,137
2	Retained earnings	**3,482**	3,546
3	Accumulated other comprehensive income (and other reserves)	**1,586**	1,545
5	Transitional adjustments due to additional minority interests	**—**	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	**(1,052)**	(63)
6	**Common equity tier 1 capital before regulatory adjustments**	**6,645**	7,656
	Common equity tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(174)**	(214)
8	Intangible assets (net of related deferred tax liability)	**(85)**	(376)
10	Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	**—**	—
11	Fair value reserves related to gains or losses on cash flow hedges	**(69)**	(34)
12	Negative amounts resulting from the calculation of expected loss amounts	**(39)**	(117)
14	Gains or losses on liabilities at fair value resulting from changes in own credit standing	**81**	84
19	CET1 instruments of financial sector entities where the institution has a significant investment	**(539)**	(508)
22	Amount exceeding the 15% threshold	**—**	—
28	**Total regulatory adjustments to common equity tier 1**	**(827)**	(1,193)
29	**Common equity tier 1 capital**	**5,818**	6,464
	Additional tier 1 ('AT1') capital: instruments		
30	Capital instruments and the related share premium accounts	**750**	750
36	**Additional tier 1 capital before regulatory adjustments**	**750**	750
	Additional tier 1 capital: regulatory adjustments		
41b	Residual amounts deducted from AT1 capital with regard to deduction from tier 2 ('T2') capital during the transitional period	**—**	—
43	**Total regulatory adjustments to additional tier 1 capital**	**—**	—
44	**Additional tier 1 capital**	**750**	750
45	**Tier 1 capital (T1 = CET1 + AT1)**	**6,568**	7,214
	Tier 2 capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	**1,876**	1,376
51	**Tier 2 capital before regulatory adjustments**	**1,876**	1,376
	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)	**(470)**	(470)
57	**Total regulatory adjustments to tier 2 capital**	**(470)**	(470)
58	Tier 2 capital	**1,406**	906
59	**Total capital (TC = T1 + T2)**	**7,974**	8,120
60	**Total risk-weighted assets**	**46,113**	48,051
	Capital ratios and buffers		
61	Common equity tier 1	**12.6%**	13.5%
62	Tier 1	**14.2%**	15.0%
63	Total capital	**17.3%**	16.9%
64	Institution specific buffer requirement	**2.5%**	2.8%
65	– capital conservation buffer requirement	**2.5%**	2.5%
66	– countercyclical buffer requirement	**0.02%**	0.3%
68	Common equity tier 1 available to meet buffers[1]	**8.1%**	9.0%
	Amounts below the threshold for deduction (before risk weighting)		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**124**	168
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**623**	680
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	**125**	201

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

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

The main movements of the own funds are detailed in Note 1 'Significant events during the year' of the HSBC Continental Europe's *Universal Registration Document 2020*.

A detailed breakdown of the HSBC Continental Europe's CET1 capital, AT1 capital, Tier 2 capital and regulatory deductions can be viewed in the Regulatory Capital Instruments 31 December 2020 which is available on HSBC website https://www.hsbc.com/investors/fixed-income-investors/regulatory-capital-securities.

Leverage ratio

The leverage ratio was introduced into the Basel III framework as a non-risk-based limit, to supplement risk-based capital requirements. It aims at constraining the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The Basel III leverage ratio is a volume-based measure calculated as Tier 1 capital divided by total on- and weighted off-balance sheet exposures, further netting possibilities on market instruments and certain exposures exclusions including a temporary exclusion until 27 June 2021 of central bank exposures as supervisory authorities publicly declared exceptional circumstances. This ratio has been implemented in the EU for reporting and disclosure purposes but, at this stage, has not been set as a binding requirement. Although there is currently no binding leverage ratio requirement on the bank, the risk of excess leverage is managed as part of HSBC Continental Europe's risk appetite framework and monitored using a leverage ratio metric within the Risk Appetite Statement ('RAS').

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

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

The description of the processes used to manage the risk of excessive leverage is detailed in section Risk Appetite in page 81 of the HSBC Continental Europe's *Universal Registration Document 2020*.

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

		At	
		31 Dec 2020	31 Dec 2019
Ref*		**€m**	€m
1	Total assets as per published financial statements	**237,099**	237,680
	Adjustments for:		
2	– entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(23,851)**	(23,918)
4	– derivative financial instruments	**(55,529)**	(40,344)
5	– securities financing transactions ('SFT')	**3,198**	(4,966)
6	– off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**26,337**	25,040
EU-6a	– intragroup exposures excluded from the leverage ratio exposure measure)	**—**	
7	– other adjustments[1]	**(32,326)**	(1,112)
8	**Total leverage ratio exposure**	**154,928**	192,380

Table 6: Leverage ratio common disclosure

		At	
		31 Dec 2020	31 Dec 2019
Ref*		**€m**	€m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**103,598**	122,089
2	(Asset amounts deducted in determining Tier 1 capital)	**(621)**	(1,100)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**102,978**	120,989
	Derivative exposures	**—**	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**3,959**	3,462
5	Add-on amounts for potential future exposure ('PFE') associated with all derivatives transactions (mark-to-market method)	**12,800**	12,904
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to IFRSs	**—**	—
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(14,578)**	(10,090)
8	(Exempted central counterparty ('CCP') leg of client-cleared trade exposures)	**(1,579)**	(1,110)
9	Adjusted effective notional amount of written credit derivatives	**2,563**	5,583
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	**(2,272)**	(5,405)
11	**Total derivative exposures**	**893**	5,343
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**21,522**	45,973
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(44,391)**	(50,109)
14	Counterparty credit risk exposure for SFT assets	**47,589**	45,143
16	**Total securities financing transaction exposures**	**24,721**	41,007
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**26,337**	25,040
18	(Adjustments for conversion to credit equivalent amounts)	**—**	—
19	**Total off-balance sheet exposures**	**26,337**	25,040
	Exempted exposures	**—**	—
	Capital and total exposures		
20	**Tier 1 capital**	**6,568**	7,214
21	**Total leverage ratio exposure**	**154,928**	192,380
22a	**Leverage ratio % – excluding the impact any applicable temporary exemption of central bank exposure**	**3.6%**	N/A
22b	**Leverage ratio %**	**4.2%**	3.7%

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

1 *"Other adjustments" include balance sheet exposures excluded from the leverage ratio exposure calculation including the central bank exposures temporarily excluded by 'CRR Quick fixes'*

The main drivers for annual movement in Securities Financing Transaction leverage ratio exposure are due to increase in netting capacity and also due to reduced client activity.

Capital buffers

The countercyclical capital buffer is an additional capital buffer introduced by Basel III to achieve the broader macroprudential goal of protecting the banking sector in periods of excess aggregate credit growth.

National macroprudential authorities set the countercyclical buffer rate usually within a 0-2.5 per cent with rate increases announced at least a year in advance under normal circumstances. All countercyclical buffer rates and in particular in France has been revised from 0.25 per cent to 0 per cent which led to a decrease of the institution countercyclical buffer.

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securitisation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	€m	€m	€m	€m	€m	€m	€m	€m	€m	%	%
Algeria	0.1	2.0	—	—	—	0.1	—	—	0.1	—	—
Armenia	24.2	—	—	—	—	1.9	—	—	1.9	0.1	—
Australia	0.4	21.1	—	—	—	0.8	—	—	0.8	—	—
Austria	—	86.1	—	—	—	6.1	—	—	6.1	20.0	—
Azerbaijan	68.1	31.8	—	—	—	0.5	—	—	0.5	—	—
Bahrain	0.9	3.9	—	—	—	0.1	—	—	0.1	—	—
Bangladesh	0.1	28.6	—	—	—	0.2	—	—	0.2	—	—
Barbados	—	29.3	—	—	—	2.3	—	—	2.3	8.0	—
Belgium	28.7	972.6	—	—	—	33.5	—	—	33.5	112.0	—
Bermuda	175.8	179.4	—	—	—	5.5	—	—	5.5	18.0	—
Brazil	0.1	184.6	—	—	—	6.3	—	—	6.3	0.2	—
Bulgaria	0.1	7.8	—	—	—	0.1	—	—	0.1	—	0.5
Cambodia	—	0.9	—	—	—	0.1	—	—	0.1	—	—
Canada	—	10.3	—	—	—	0.8	—	—	0.8	3.0	—
Cayman Islands	—	340.5	—	—	—	3.9	—	—	3.9	0.1	—
Chile	—	22.6	—	—	—	0.7	—	—	0.7	2.0	—
China	36.1	36.6	—	—	—	2.3	—	—	2.3	0.1	—
Colombia	—	1.3	—	—	—	0.1	—	—	0.1	—	—
Croatia	—	5.0	—	—	—	0.4	—	—	0.4	1.0	—
Cyprus	9.6	30.3	—	—	—	2.5	—	—	2.5	8.0	—
Czech Republic	115.9	309.6	—	—	—	24.6	—	—	24.6	82.0	0.50
Denmark	0.5	476.6	—	—	—	21.0	—	—	21.0	0.7	—
Egypt	66.0	34.0	—	—	—	0.4	—	—	0.4	1.0	—
Finland	1.2	152.4	—	—	—	5.5	—	—	5.5	19.0	—
France	5,497.3	52,456.5	—	—	1,414.9	1,836.1	—	31.4	1,867.5	62.6	—
Germany	12.1	1,055.5	—	—	626.1	31.1	—	5.7	36.9	1.2	—
Ghana	—	80.4	—	—	—	1.3	—	—	1.3	5.0	—
Greece	416.7	337.5	—	—	—	48.4	—	—	48.4	1.6	—
Guernsey	—	144.0	—	—	—	4.0	—	—	4.0	13.0	—
Hong Kong	0.8	3.5	—	—	—	0.3	—	—	0.3	1.0	1.0
Hungary	3.2	10.5	—	—	—	0.6	—	—	0.6	—	—
Indonesia	11.6	64.7	—	—	—	2.0	—	—	2.0	0.1	—
Ireland	228.9	1,065.8	—	—	—	51.3	—	—	51.3	1.7	—
Isle Of Man	—	—	—	—	—	0.1	—	—	0.1	—	—
Israel	—	44.3	—	—	—	1.6	—	—	1.6	5.0	—
Italy	250.9	1,528.6	—	—	150.8	100.5	—	2.3	102.8	345.0	—
Jersey	38.7	17.7	—	—	—	4.4	—	—	4.4	0.2	—
Kazakhstan	—	61.7	—	—	—	0.7	—	—	0.7	2.0	—
Kuwait	4.3	0.1	—	—	—	0.2	—	—	0.2	1.0	—
Luxembourg	159.6	1,625.5	—	—	—	104.5	—	—	104.5	350.0	0.25
Malaysia	9.0	0.7	—	—	—	0.3	—	—	0.3	—	—
Mauritius	—	6.1	—	—	—	0.2	—	—	0.2	—	—
Mexico	12.1	93.0	—	—	—	5.8	—	—	5.8	0.2	—
Monaco	—	2.5	—	—	—	0.1	—	—	0.1	—	—
Montenegro	—	3.2	—	—	—	0.1	—	—	0.1	—	—
Morocco	—	0.7	—	—	—	0.1	—	—	0.1	—	—
Netherlands	779.3	5,001.3	—	—	453.3	211.3	—	3.8	215.2	721.0	—
Norway	0.4	79.5	—	—	—	3.7	—	—	3.7	0.1	1.0
Oman	0.4	1.0	—	—	—	0.1	—	—	0.1	—	—
Panama	—	130.7	—	—	—	2.4	—	—	2.4	0.1	—
Poland	611.9	69.6	—	—	—	44.0	—	—	44.0	147.0	—
Portugal	6.2	72.8	—	—	—	3.5	—	—	3.5	12.0	—
Qatar	11.9	28.2	—	—	—	0.4	—	—	0.4	—	—
Russian Federation	65.3	42.5	—	—	—	1.5	—	—	1.5	0.1	—
Saint Kitts And Nevis	—	18.2	—	—	—	2.5	—	—	2.5	8.0	—
Singapore	0.2	65.7	—	—	—	0.3	—	—	0.3	1.0	—

Table 7: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (continued)

	General credit exposures		Trading book exposures		Securitisation exposures	Own funds requirements					
	SA	IRB	Sum of long/ short positions for SA	Internal models	Total Exposure value of securitisation positions in the banking book	*Of which: General credit exposures*	*Of which: General trading book*	*Of which: Securitisation exposures*	Total	Own funds require-ments weights	CCyB rate
Country	€m	€m	€m	€m	€m	*€m*	*€m*	*€m*	€m	%	%
Slovakia	32.8	26.2	—	—	—	*3.2*	—	—	3.2	0.1	1.0
Slovenia	0.5	0.5	—	—	—	*0.1*	—	—	0.1	—	—
Spain	594.3	1,928.3	—	—	210.5	*159.4*	—	*2.7*	162.1	543.0	—
Sri Lanka	0.4	6.9	—	—	—	*0.4*	—	—	0.4	—	—
Sweden	0.7	490.5	—	—	—	*31.6*	—	—	31.6	106.0	—
Switzerland	8.3	717.3	—	—	—	*31.1*	—	—	31.1	1.0	—
Taiwan, Province Of China	—	3.2	—	—	—	*0.1*	—	—	0.1	—	—
Turkey	34.9	119.1	—	—	—	*5.8*	—	—	5.8	19.0	—
United Arab Emirates	48.3	554.4	—	—	—	*12.9*	—	—	12.9	0.4	—
United Kingdom	37.3	1,350.6	—	—	—	*45.0*	—	—	45,0	1.5	—
United States	238.9	1,227.6	—	—	—	*64.7*	—	—	64.7	2.2	—
Viet Nam	2.0	6.6	—	—	—	*0.1*	—	—	0.1	—	—
Total	9,728.0	73,623.5	—	—	2,855.6	*2,937.5*	—	*45.9*	2,983.6	100.0	

Table 8: Amount of Institution specific countercyclical buffer

	2020	2019
Total Risk Exposure Amount (€m)	46,113	48,051
Institution specific countercyclical capital buffer rate	0.02%	0.25%
Institution specific countercyclical capital buffer requirement (€m)	7	118

Pillar 1

Pillar 1 (minimum capital requirements) covers the capital requirements for credit risk, market risk and operational risk.

Credit risk includes counterparty and non-counterparty credit risk and securitisation requirements. These requirements are expressed in terms of RWAs.

Risk category	Scope of permissible approaches	Approach adopted by HSBC Continental Europe
Non-counterparty Credit risk	CRR allows three approaches for the calculation of Pillar 1 credit risk capital requirements. The standardised approach requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are classified into broad categories and standardised risk weightings are applied to these categories. The internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of a counterparty's probability of default ('PD'), while their estimates of exposure at default ('EAD') and loss given default ('LGD') are subject to standard supervisory parameters. Finally, the IRB Advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. Expected Losses are assessed by multiplying EAD by PD and LGD. The capital requirement is intended to cover unexpected losses. It is based on a formula foreseen by the regulatory framework which incorporates PD, LGD, EAD and other variables such as maturity and correlation.	HSBC Continental Europe has adopted the advanced IRB approach for the majority of its business. Some portfolios remain on the standardised or foundation IRB approaches pending model approval, following the supervisory prescription of a non-advanced approach or under exemptions from IRB treatment.
Counterparty credit risk	Three approaches to calculating CCR and determining exposures are defined by the CRR: mark-to-market, standardised and Internal Model Method ('IMM'). These exposures are used to determine capital requirements under one of credit risk approaches; standardised, IRB foundation and IRB advanced. Two approaches are set out by the Regulatory Authorities for calculating the Credit Valuation Adjustment ('CVA') risk capital charge: an advanced methodology that is only available to institutions that have approved internal models, and a standardised approach.	In order to determine exposures at default, HSBC Continental Europe uses the mark-to-market and IMM approaches for counterparty credit risk for derivatives and the financial security-based method for deferred payment transactions. Temporary permission on IMM and CVA model has been granted in 2019 under tolerance period framework. Formal assessment is ongoing.
Equity	For non-trading book, equity exposures can be assessed under standardised, simplified or IRB approaches.	For HSBC Continental Europe reporting purposes, all equity exposures are treated under the IRB simplified approach.
Securitisation	The securitisation framework under CRR prescribes the following approaches: • internal ratings-based approach ('SEC-IRBA'); • external ratings-based approach ('SEC-ERBA'); • internal assessment approach ('IAA'); and • standardised approach ('SEC-SA'). Securitisation positions in the trading book are treated within the market risk framework, under standard rules.	HSBC Continental Europe only holds securitisation positions in banking book. HSBC Continental Europe uses the RBM (Rating-Based Method) except for liquidity facilities and programme-wide enhancements for asset-backed securitisations, for which the IAA is applied.
Market risk	Market risk capital requirements can be determined under either the standard rules or the Internal Models Approach ('IMA'). The latter involves the use of internal Value at Risk ('VaR') models to measure market risks and determine the appropriate capital requirement. In addition to the VaR models, other internal models include Stressed VaR and Incremental Risk Charge ('IRC').	For HSBC Continental Europe, the risks presented are mainly measured via internal models when approved by the ECB and the PRA, and under the standardised approach for a small remaining portfolio. Internal Market Risk models are based on VaR, Stressed VaR and IRC. Temporary permission for internal models for specific risk has been granted in 2019 under tolerance period framework. Formal assessment is ongoing.
Operational risk	The CRR includes a capital requirement for operational risk, based on three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues. Under the standardised approach; banks apply different percentages to the total operating income to each of eight defined business lines. Thirdly, the advanced measurement approach uses banks' own statistical analysis and modelling of operational risk data to determine capital requirements.	HSBC Continental Europe has historically adopted and currently uses the standardised approach in determining its operational risk capital requirements.

Pillar 2 and ICAAP

Pillar 2

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

A major tool of the Pillar 2 is the Internal Capital Adequacy Assessment Process ('ICAAP'), conducted by HSBC Continental Europe, to determine a forward-looking assessment of its capital requirements given its business strategy, risk profile, risk appetite and capital plan. As part of this ICAAP, a range of stress tests are applied to the base capital plan. These tests, coupled with the economic capital framework, are used to assess the internal capital adequacy.

This assessment process is summarised in an annual ICAAP report which is approved by the Board of HSBC Continental Europe. The ultimate responsibility for the governance of the ICAAP of HSBC Continental Europe rests with the CEO of HSBC Continental Europe. The ICAAP report is then submitted to the supervisory authorities.

Pillar 2 is embedded in a broader Supervisory Review and Evaluation Process ('SREP'), which leads to an annual determination of individual capital requirement and guidance. This process can also include specific demands on all aspects of the bank's management. The SREP process results in a Pillar 2 requirement ('P2R') and a Pillar 2 guidance ('P2G'), which are added to the Pillar 1 requirements ('P1R').

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

The Total SREP capital requirement, which is composed only of the P1R and the P2R, applicable only to the total capital ratio, is the ratio that banks should respect under stressed scenarios.

The P2G applies on CET1 ratio, and represents the applicable regulatory minimum on CET1 along with the P1R, the P2R and the combined buffers.

As a result of the annual SREP, the ECB has maintained at 3.00 per cent the P2R for HSBC Continental Europe for the year 2021. Following the ECB decision on 8 April 2020 amending the composition of the Pillar 2 additional own funds requirement in the Covid-19 context, the P2R shall be held in the form of 56.25 per cent of CET1 and 75 per cent of Tier 1, as a minimum.

HSBC Continental Europe will be required to meet on a consolidated basis a minimum total capital ratio of at least 13.52 per cent, from 1 January 2021. The OCR is composed of the 8 per cent P1R, the 3.00 per cent P2R, the 2.50 per cent capital conservation buffer in respect of article 129 of the CRD IV and, as Q4 2020, a countercyclical capital buffer of 0.02 per cent.

The requirement in respect of Common Equity Tier 1 is 8.71 per cent, excluding P2G.

Internal capital adequacy assessment

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

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

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

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

Economic capital models are calibrated to quantify the level of capital that is sufficient to absorb potential losses over a one-year time horizon with a 99.95 per cent confidence level.

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

A strong level of integration between risk and capital management frameworks helps optimising the response to business demand for regulatory and economic capital. Risks that are explicitly assessed through economic capital are credit risk, including counterparty credit risk, market and operational risk, non-trading book interest rate risk, insurance risk, and pension risk.

Financial Conglomerate

HSBC Continental Europe holds an insurance activity subsidiary and as such has been identified by the ECB as a financial conglomerate. Therefore, the bank is subject to a supplementary conglomerate supervision by the ECB.

In this context, the conglomerate ratio is defined as the ratio between the total capital within the financial conglomerate, and the capital requirement due to banking status cumulated with the capital requirement due to insurance status. The required minimum for this indicator is 100 per cent. At HSBC Continental Europe's level, the excess of capital towards this indicator is of EUR 2.8 billion for 2020.

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 *Autorité de Contrôle Prudentiel et de Résolution ('ACPR')*. This decision applies until a new decision is received and imposes an MREL requirement as a percentage of the Total Liabilities and Own Funds ('TLOF').

This MREL requirement can be met with own funds and eligible liabilities (as defined under the initial version of BRRD which was applicable at the time the decision was received).

Following the end of the UK withdrawal from the European Union transition period, HSBC Continental Europe becomes from 1 January 2021 a material subsidiary (CRR article 4.1.135) of a third-country G-SII and therefore bound by new internal TLAC requirements (CRR article 92b).

This internal TLAC requirements in 2021 is set at the maximum of 16.9 per cent of RWAs (90 per cent of 16 per cent in addition to a combined buffer requirement of circa 2.5 per cent) and 5.4 per cent of leverage exposures (90 per cent of 6 per cent), and can be met with own funds and other internal eligible liabilities such as senior non preferred notes.

Credit risk

Overview

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

The tables below set out details of the HSBC Continental Europe's credit risk exposures by exposure class and approach. Further explanation of the HSBC Continental Europe's approach to managing credit risk (including detail of the past due and impaired exposure, and its approach to credit risk impairment) can be found on pages 108 to 126 of the HSBC Continental Europe's *Universal Registration Document 2020.*

Table 9: Credit risk exposure – summary

	Footnotes	Exposure value	Average exposure value	RWAs	Capital required	RWA Density
		€m	€m	€m	€m	%
IRB advanced approach		**63,521**	**64,671**	**23,185**	**1,855**	**36**
– central governments and central banks		1,344	1,461	121	10	9
– institutions		1,036	1,328	294	24	28
– corporates	1	36,701	37,612	16,933	1,356	46
– *of which:*						
specialised lending		*900*	*930*	*579*	*46*	*65*
– total retail		24,440	24,270	5,837	467	24
– *of which:*						
secured by mortgages on immovable property – small- and medium -sized enterprises ('SME')		*468*	*479*	*300*	*24*	*64*
secured by mortgages on immovable property non-SME		*19,563*	*19,383*	*4,233*	*339*	*22*
qualifying revolving retail		*1*	*1*	*–*	*–*	*37*
other SME		*1,680*	*1,604*	*441*	*35*	*26*
other non-SME		*2,728*	*2,803*	*863*	*69*	*32*
IRB securitisation positions		**–**	**–**	**–**	**–**	**–**
IRB equity		**544**	**722**	**1,299**	**104**	**239**
IRB foundation approach		**3,978**	**4,355**	**3,252**	**260**	**82**
– central governments and central banks		4	3	4	–	86
– institutions		284	347	212	17	75
– corporates		3,690	4,005	3,036	243	82
Standardised approach		**54,853**	**58,805**	**8,695**	**695**	**16**
– central governments and central banks		35,441	38,591	–	–	–
– regional governments or local authorities		323	302	2	–	1
– public sector entities		4,261	3,718	10	1	–
– international organisations		927	945	–	–	–
– institutions		1,822	2,002	592	47	32
– corporates		5,102	5,925	3,589	287	70
– retail		168	187	103	8	62
– secured by mortgages on immovable property		1,365	1,349	559	45	41
– exposures in default		129	142	143	11	111
– items associated with particularly high risk		109	143	163	13	150
– securitisation positions	3	2,856	2,973	574	46	20
– claims in the form of collective investments undertakings		–	–	–	–	–
– equity		–	–	–	–	–
– other items	2	2,350	2,528	2,960	236	126
At 31 Dec 2020		**122,896**	**128,553**	**36,431**	**2,914**	**30**

Table 9: Credit risk exposure – summary (continued)

	Footnotes	Exposure value €m	Average exposure value[3] €m	RWAs €m	Capital required €m	RWA Density %
IRB advanced approach		59,739	59,695	20,799	1,664	35
– central governments and central banks		584	816	86	7	15
– institutions		1,532	1,360	367	29	24
– corporates	1	34,100	34,637	17,053	1,364	50
– *of which:*						
specialised lending		*1,117*	*1,168*	*795*	*64*	*71*
– total retail		23,523	22,882	3,293	263	14
– *of which:*						
secured by mortgages on immovable property SME		*510*	*522*	*328*	*26*	*1*
secured by mortgages on immovable property non-SME		*2,929*	*2,953*	*575*	*46*	*20*
qualifying revolving retail		*1*	*1*	*—*	*—*	*43*
other SME		*1,494*	*1,605*	*512*	*41*	*34*
other non-SME		*18,589*	*17,801*	*1,878*	*150*	*10*
IRB securitisation positions		3,365	3,376	400	32	12
IRB equity		801	740	1,877	150	234
IRB foundation approach		3,342	2,641	2,578	206	77
– central governments and central banks		3	9	2	—	82
– institutions		319	324	210	17	66
– corporates		3,020	2,308	2,366	189	78
Standardised approach		43,778	43,099	10,771	862	25
– central governments and central banks		24,890	24,800	—	—	0
– regional governments or local authorities		92	79	2	—	2
– public sector entities		3,461	2,362	10	1	0
– international organisations		1,144	975	—	—	0
– institutions		1,981	2,391	506	40	26
– corporates		7,533	8,015	5,917	473	79
– retail		204	204	126	10	62
– secured by mortgages on immovable property		1,183	1,017	489	39	41
– exposures in default		179	191	203	16	114
– items associated with particularly high risk		153	146	230	18	150
– claims in the form of collective investments undertakings		—	—	—	—	0
– equity		—	—	—	—	0
– other items	2	2,959	2,919	3,288	263	111
At 31 Dec 2019		111,025	109,551	36,425	2,914	33

1 *'Corporates' includes specialised lending exposures subject to supervisory slotting approach.*
2 *'Other items' includes investment in insurance companies that are risk weighted at 250 per cent.*
3 *On 2020, a new securitisation framework came into force in the EU. The new framework prescribes the four approaches : 'SEC-IRBA', 'SEC-ERBA', 'IAA' and 'SEC-SA' method . The line 'Securitisation position' in Standard approach includes 'SEC-ERBA', 'IAA' and 'SEC-SA' method.*

Table 10: Breakdown of equity exposures under the simple risk weight approach

	2020		2019	
	Exposure Value	**RWAs**	Exposure Value	RWAs
	€m	**€m**	€m	€m
Risk Weight				
190%	**397**	**755**	604	1,149
290%	**—**	**—**	—	—
370%	**147**	**544**	197	728
Total	**544**	**1,299**	801	1,877

Non-performing and forborne exposures

Tables 11 to 14 are presented in accordance with the EBA's 'Final guidelines on disclosure of non-performing and forborne exposures'.

The EBA defines non-performing exposures as exposures with material amounts that are more than 90 days past due or exposures where the debtor is assessed as unlikely to pay its credit obligations in full without the realization of collateral, regardless of the existence of any past due amounts or number days past due. Any debtors that are in default for regulatory purposes or impaired under the applicable accounting framework are always considered as non-performing exposures.

The *Universal Registration Document 2020* does not define non-performing exposures, however, the definition of credit impaired (stage 3) is aligned to the EBA's definition of non-performing exposures.

Forborne exposures are defined by the EBA as exposures where the bank has made concessions toward a debtor that is experiencing or about to experience financial difficulties in meeting its financial commitments.

In the *Universal Registration Document 2020*, forborne exposures are reported as 'renegotiated loans'. This term is aligned to the EBA definition of forborne exposure except in its treatment of 'cures'.

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

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

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

At 31 December 2020, the gross carrying amount for renegotiated loans comprised 83 per cent for wholesale lending and 17 per cent for personal lending of total loans and advances to customers.

Table 11: Credit quality of forborne exposures

	Gross carrying amount / nominal amount				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Non-performing forborne						
	Performing	Total	*Of which: defaulted*	*Of which: impaired*	On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: forborne non-performing exposure*
	€m	€m	*€m*	*€m*	€m	€m	€m	*€m*
At 31 Dec 2020								
Loans and advances	**155**	**246**	***246***	***246***	**(4)**	**(87)**	**36**	***35***
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial	–	–	–	–	–	–	–	–
Non-financial	**155**	**178**	***178***	***178***	**(4)**	**(74)**	**7**	***6***
Households	–	**68**	***68***	***68***	–	**(14)**	**29**	***29***
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	**155**	**246**	***246***	***246***	**(4)**	**(87)**	**36**	***35***
At 31 Dec 2019								
Loans and advances	182	197	*197*	*197*	–	(69)	22	*18*
Central banks	–	–	–	–	–	–	–	–
General governments	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial	–	–	–	–	–	–	–	–
Non-financial	182	146	*146*	*146*	–	(57)	9	*5*
Households	–	51	*51*	*51*	–	(13)	13	*13*
Debt securities	–	–	–	–	–	–	–	–
Loan commitments given	–	–	–	–	–	–	–	–
Total	182	197	*197*	*197*	–	(69)	22	*18*

Table 12: Credit quality of performing and non-performing exposures by past due days

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Total	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	*Of which: defaulted*
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	*€m*
At 31 Dec 2020												
Loans and advances	**116,146**	**116,119**	**27**	**1,393**	**582**	**350**	**21**	**4**	**436**	**—**	**—**	***1,532***
Central banks	**32,357**	**32,357**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
General governments	**957**	**957**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Credit institutions	**16,167**	**16,167**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Other financial corporations	**13,810**	**13,810**	**—**	**13**	**—**	**13**	**—**	**—**	**—**	**—**	**—**	***13***
Non-financial corporations	**30,417**	**30,415**	**2**	**965**	**450**	**239**	**1**	**—**	**275**	**—**	**—**	***1,104***
– *of which: SMEs*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Households	**22,438**	**22,413**	**25**	**415**	**131**	**98**	**20**	**4**	**161**	**—**	**—**	***415***
Debt securities	**7,365**	**7,365**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	***1***
Central banks	**6**	**6**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
General governments	**4,529**	**4,529**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Credit institutions	**2,666**	**2,666**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Other financial corporations	**164**	**164**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	***—***
Non-financial corporations	**—**	**—**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	***1***
Off-balance-sheet exposures	**107,116**			**228**								***228***
Central banks	**28**			**—**								***—***
General governments	**468**			**—**								***—***
Credit institutions	**48,902**			**1**								***1***
Other financial corporations	**5,463**			**—**								***—***
Non-financial corporations	**50,904**			**224**								***224***
Households	**1,351**			**3**								***3***
Total	**230,627**	**123,483**	**27**	**1,622**	**583**	**350**	**21**	**4**	**436**	**—**	**—**	***1,761***
At 31 Dec 2019												
Loans and advances	131,402	131,044	40	1,239	506	245	11	2	474	—	—	*1,239*
Central banks	26,969	26,969	—	—	—	—	—	—	—	—	—	*—*
General governments	776	776	—	—	—	—	—	—	—	—	—	*—*
Credit institutions	25,765	25,765	—	—	—	—	—	—	—	—	—	*—*
Other financial corporations	24,089	24,089	—	7	7		—	—	—	—	—	*7*
Non-financial corporations	31,851	31,528	4	808	318	192	1	—	297	—	—	*808*
– *of which: SMEs*	—	—	—	—	—	—	—	—	—	—	—	*—*
Households	21,952	21,917	36	424	181	53	10	2	177	—	—	*424*
Debt securities	4,880	4,880	—	—	—	—	—	—	—	—	—	*—*
Central banks	6	6	—	—	—	—	—	—	—	—	—	*—*
General governments	3,080	3,080	—	—	—	—	—	—	—	—	—	*—*
Credit institutions	1,641	1,641	—	—	—	—	—	—	—	—	—	*—*
Other financial corporations	153	153	—	—	—	—	—	—	—	—	—	*—*
Non-financial corporations	—	—	—	—	—	—	—	—	—	—	—	*—*
Off-balance-sheet exposures	98,885			97								*97*
Central banks	39			—								*—*
General governments	324			—								*—*
Credit institutions	45,601			—								*—*
Other financial corporations	4,452			—								*—*
Non-financial corporations	47,276			93								*93*
Households	1,193			4								*4*
Total	235,168	135,924	40	1,336	506	245	11	2	474	—	—	*1,336*

Table 13: Collateral obtained by taking possession and execution processes

	At 31 Dec 2020		At 31 Dec 2019	
	Collateral obtained by taking possession		Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
	€m	€m	€m	€m
Property, plant and equipment ('PP&E')	–	–	–	–
Other than PP&E	–	–	–	–
Residential immovable property	–	–	–	–
Commercial Immovable property	–	–	–	–
Movable property (auto, shipping, etc.)	–	–	–	–
Equity and debt instruments	–	–	–	–
Other	–	–	–	–
Total	–	–	–	–

Table 14: Performing and non-performing exposures and related provisions

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Total	*of which: stage 1*	*of which: stage 2*	Total	*of which: stage 2*	*of which: stage 3*	Accumulated partial write-off	On performing exposures	On non-performing exposures
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2020															
Loans and advances	116,146	*108,624*	*7,380*	1,393	–	*1,393*	(154)	*(45)*	*(109)*	(668)	–	*(668)*	–	58,759	310
Central banks	32,357	*32,357*	–	–	–	–	(1)	*(1)*	–	–	–	–	–	1,527	–
General governments	957	*956*	*1*	–	–	–	(1)	*(1)*	–	–	–	–	–	73	–
Credit institutions	16,167	*16,140*	*27*	–	–	–	(1)	*(1)*	–	–	–	–	–	8,841	–
Other financial corporations	13,810	*13,806*	*4*	13	–	*13*	(2)	*(2)*	–	(10)	–	*(10)*	–	10,862	–
Non-financial corporations	30,417	*23,733*	*6,542*	965	–	*965*	(113)	*(32)*	*(81)*	(513)	–	*(513)*	–	16,153	141
– *of which: SMEs*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Households	22,438	*21,632*	*806*	415	–	*415*	(36)	*(8)*	*(28)*	(145)	–	*(145)*	–	21,303	169
Debt securities	7,365	*7,287*	*78*	1	–	*1*	(1)	*(1)*	–	(1)	–	*(1)*	–	–	–
Central banks	6	*6*	–	–	–	–	–	–	–	–	–	–	–	–	–
General governments	4,529	*4,529*	–	–	–	–	(1)	*(1)*	–	–	–	–	–	–	–
Credit institutions	2,666	*2,588*	*78*	–	–	–	–	–	–	–	–	–	–	–	–
Other financial corporations	164	*164*	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	–	–	–	1	–	*1*	–	–	–	(1)	–	*(1)*	–	–	–
Off-balance-sheet exposures	107,116	*95,886*	*2,970*	228	–	*87*	(30)	*(6)*	*(18)*	(44)	–	*(6)*	0	2,598	2
Central banks	28	–	–	–	–	–	–	–	–	–	–	–	0	–	–
General governments	468	*468*	–	–	–	–	–	–	–	–	–	–	0	–	–
Credit institutions	48,902	*48,208*	*215*	1	–	–	(8)	*(1)*	*(7)*	–	–	–	0	–	–
Other financial corporations	5,463	*4,668*	*45*	–	–	–	(1)	–	–	–	–	–	0	190	–
Non-financial corporations	50,904	*41,240*	*2,678*	224	–	*84*	(20)	*(5)*	*(11)*	(44)	–	*(6)*	0	2,258	2
Households	1,351	*1,302*	*32*	3	–	*3*	(1)	–	–	–	–	–	0	150	–
Total	230,627	*211,797*	*10,428*	1,622	–	*1,481*	(185)	*(52)*	*(127)*	(713)	–	*(675)*	–	61,357	312

Table 14: Performing and non-performing exposures and related provisions (continued)

	Gross carrying amount/ nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Total	of which: stage 1	of which: stage 2	Total	of which: stage 2	of which: stage 3	Accumulated partial write-off	On performing exposures	On non-performing exposures
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
At 31 Dec 2019															
Loans and advances	131,402	127,605	3,479	1,239		1,239	(94)	(45)	(49)	(589)	—	(589)	—	78,931	281
Central banks	26,969	26,970	—	—		—	—	—	—	—	—	—	—	3,564	—
General governments	776	775	1	—		—	—	—	—	—	—	—	—	89	—
Credit institutions	25,765	25,754	11	—		—	—	—	—	—	—	—	—	19,444	—
Other financial corporations	24,089	24,072	17	7		7	(4)	(3)	(1)	—	—	—	—	22,088	—
Non-financial corporations	31,851	29,226	2,306	808		808	(55)	(31)	(24)	(442)	—	(442)	—	13,135	115
– *of which: SMEs*	—	—	—	—		—	—	—	—	—	—	—	—	—	—
Households	21,952	20,808	1,144	424		424	(35)	(11)	(24)	(147)	—	(147)	—	20,611	166
Debt securities	4,880	4,848	32	—		—	(1)	(1)	—	—	—	—	—	—	—
Central banks	6	6	—	—		—	—	—	—	—	—	—	—	—	—
General governments	3,080	3,080	1	—		—	—	—	—	—	—	—	—	—	—
Credit institutions	1,641	1,609	31	—		—	—	—	—	—	—	—	—	—	—
Other financial corporations	153	153	—	—		—	—	—	—	—	—	—	—	—	—
Non-financial corporations	—	—	—	—		—	(1)	(1)	—	—	—	—	—	—	—
Off-balance-sheet exposures	98,885	89,658	1,100	97		65	(43)	(8)	(7)	(17)	—	(14)		—	—
Central banks	39	39	—	—		—	—	—	—	—	—	—		—	—
General governments	324	324	—	—		—	—	—	—	—	—	—		—	—
Credit institutions	45,601	45,047	1	—		—	—	—	—	—	—	—		—	—
Other financial corporations	4,452	3,658	47	—		—	—	—	—	—	—	—		—	—
Non-financial corporations	47,276	39,442	1,011	93		61	(13)	(6)	(6)	(17)	—	(14)		—	—
Households	1,193	1,148	41	4		4	(1)	—	(1)	—	—	—		—	—
Total	235,168	222,111	4,611	1,336		1,304	(138)	(53)	(55)	(606)	—	(603)	—	78,931	281

Table 15: Geographical breakdown of exposures

	Footnotes	Of which[4]: France	Other Europe	Other geographical areas	Total
		€m	€m	€m	€m
IRB advanced approach		***48,902***	***9,249***	***5,370***	**63,521**
– central governments and central banks		***—***	***—***	***1,344***	**1,344**
– institutions		***438***	***462***	***136***	**1,036**
– corporates	1	***24,059***	***8,759***	***3,883***	**36,701**
– *of which:* *specialised lending*		***900***	***—***	***—***	***900***
– total retail		***24,405***	***28***	***7***	**24,440**
– *of which:* *secured by mortgages on immovable property SME*		***468***	***—***	***—***	***—*** ***468***
secured by mortgages on immovable property non-SME		***19,563***	***—***	***—***	***19,563***
qualifying revolving retail		***1***	***—***	***—***	***1***
other SME		***1,645***	***28***	***7***	***1,680***
other non-SME		***2,728***	***—***	***—***	***2,728***
IRB securitisation positions		***—***	***—***	***—***	**—**
IRB equity		***490***	***54***	***—***	**544**
IRB foundation approach		***447***	***3,050***	***481***	**3,978**
– central governments and central banks		***—***	***3***	***1***	**4**
– institutions		***—***	***243***	***41***	**284**
– corporates		***447***	***2,804***	***439***	**3,690**
Standardised approach		***41,312***	***11,855***	***1,686***	**54,853**
– central governments and central banks		***31,789***	***3,652***	***—***	**35,441**
– regional governments or local authorities		***9***	***315***	***—***	**324**
– public sector entities		***2,877***	***1,384***	***—***	**4,261**
– international organisations		***—***	***—***	***927***	**927**
– institutions		***40***	***1,307***	***475***	**1,822**
– corporates		***2,076***	***2,747***	***279***	**5,102**
– retail		***142***	***25***	***—***	**167**
– secured by mortgages on immovable property		***664***	***696***	***5***	**1,365**
– exposures in default		***45***	***83***	***—***	**128**
– items associated with particularly high risk		***109***	***—***	***—***	**109**
– securitisation positions	3	***1,415***	***1,441***	***—***	**2,856**
– claims in the form of CIU		***—***	***—***	***—***	**—**
– equity		***—***	***—***	***—***	**—**
– other items	2	***2,146***	***205***	***—***	**2,351**
At 31 Dec 2020		***91,151***	***24,208***	***7,537***	**122,896**
IRB advanced approach		*46,238*	*5,541*	*7,960*	59,739
– central governments and central banks		*—*	*584*	*—*	584
– institutions		*582*	*238*	*712*	1,532
– corporates	1	*22,154*	*4,718*	*7,228*	34,100
– total retail		*23,502*	*1*	*20*	23,523
– *of which:* *secured by mortgages on immovable property SME*		*510*	*—*	*—*	*510*
secured by mortgages on immovable property non-SME		*2,929*	*—*	*—*	*2,929*
qualifying revolving retail		*1*	*—*	*—*	*1*
other SME		*1,473*	*1*	*20*	*1,494*
other non-SME		*18,589*	*—*	*—*	*18,589*
IRB securitisation positions		*1,392*	*1,973*	*—*	3,365
IRB equity		*801*	*—*	*—*	801
IRB foundation approach		*409*	*2,678*	*255*	3,342
– central governments and central banks		*—*	*2*	*1*	3
– institutions		*2*	*255*	*62*	319
– corporates		*407*	*2,421*	*192*	3,020
Standardised approach		*30,053*	*11,102*	*2,623*	43,778
– central governments and central banks		*22,244*	*2,646*	*—*	24,890
– regional governments or local authorities		*9*	*83*	*—*	92
– public sector entities		*2,226*	*1,235*	*—*	3,461
– international organisations		*—*	*—*	*1,144*	1,144
– institutions		*60*	*1,436*	*485*	1,981
– corporates		*1,646*	*4,903*	*485*	7,034
– retail		*174*	*26*	*4*	204
– secured by mortgages on immovable property		*589*	*589*	*504*	1,682
– exposures in default		*53*	*126*	*—*	179
– items associated with particularly high risk		*153*	*—*	*—*	153
– claims in the form of CIU		*—*	*—*	*—*	—
– equity		*—*	*—*	*—*	—
– other items	2	*2,899*	*58*	*1*	2,959
At 31 Dec 2019		*78,893*	*21,294*	*10,838*	111,025

For footnotes, see page 15.

4 Amounts shown by geographical region in this table is based on the country of residence of the counterparty.

Table 16: Credit risk exposure – by industry sector

	Agricul-ture	Mining	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accom-modation & food services	Information & communi-cation	Financial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	115	289	5,383	2,045	10	562	4,172	2,468	419	908	4,632
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	239
– institutions	–	–	–	–	–	–	–	–	–	–	1,036
– corporates	96	287	5,174	2,040	9	463	3,676	2,397	344	908	3,327
– total retail	19	2	209	5	1	99	496	71	75	–	30
– *of which:*											
secured by mortgages on immovable property SME	*2*	–	*8*	*2*	–	*2*	*13*	*1*	*8*	–	*6*
secured by mortgages on immovable property non-SME	–	–	–	–	–	–	–	–	–	–	–
qualifying revolving retail	–	–	–	–	–	–	–	–	–	–	–
other SME	*17*	*2*	*201*	*3*	*1*	*97*	*479*	*70*	*67*	–	*24*
other non-SME	–	–	–	–	–	–	–	–	–	–	–
IRB securitisation positions	–	–	–	–	–	–	–	–	–	–	–
IRB equity	–	–	–	–	–	–	–	–	–	–	395
IRB foundation	64	204	1,205	224	1	324	512	139	44	127	368
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	284
– corporates	64	204	1,205	224	1	324	512	139	44	127	84
Standardised approach	23	2	702	81	11	89	199	189	276	8	41,974
– central governments and central banks	–	–	–	–	–	–	–	–	–	–	31,343
– regional governments or local authorities	–	–	–	–	–	–	–	–	–	–	–
– public sector entities	–	–	18	–	–	–	–	2	–	–	3,148
– international	–	–	–	–	–	–	–	–	–	–	–
– institutions	–	–	–	–	–	–	–	–	–	–	1,767
– corporates	18	2	672	79	11	39	187	161	89	8	1,992
– retail	5	–	12	1	–	8	8	24	–	–	4
– secured by mortgages on immovable property	–	–	–	–	–	–	–	–	187	–	–
– exposures in default	–	–	–	1	–	42	4	2	–	–	–
– items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
– securitisation positions											2,856
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–	–	–	–
– other items	–	–	–	–	–	–	–	–	–	–	864
At 31 Dec 2020	202	495	7,290	2,350	22	975	4,883	2,796	739	1,043	47,369

Table 16: Credit risk exposure – by industry sector (continued)

	Real estate	Professional activities	Adminis-trative service	Public admin & defence	Education	Human health & social work	Arts & entertain -ment	Other services	Personal	Extra-territorial bodies	Non-Customer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	5,167	627	12,505	109	36	306	214	247	22,283	1,017	7	63,521
– central governments and central banks	–	–	–	88	–	–	–	–	–	1,017	–	1,344
– institutions	–	–	–	–	–	–	–	–	–	–	–	1,036
– corporates	4,697	604	12,002	21	25	252	167	205	–	–	7	36,701
– total retail	470	23	503	–	11	54	47	42	22,283	–	–	24,440
– *of which:*												
secured by mortgages on immovable property SME	*396*	*1*	*24*	*–*	*–*	*2*	*2*	*1*	*–*	*–*	*–*	*468*
secured by mortgages on immovable property non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*19,563*	*–*	*–*	*19,563*
qualifying revolving retail	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*1*	*–*	*–*	*1*
other SME	*72*	*22*	*476*	*–*	*11*	*52*	*45*	*41*	*–*	*–*	*–*	*1,680*
other non-SME	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*–*	*2,728*	*–*	*–*	*2,728*
IRB securitisation positions	–	–	–	–	–	–	–	–	–	–	–	
IRB equity	88	17	44	–	–	–	–	–	–	–	–	544
IRB foundation	29	78	409	2	–	6	81	111	–	–	50	3,978
– central governments and central banks	–	–	–	2	–	–	–	2	–	–	–	4
– institutions	–	–	–	–	–	–	–	–	–	–	–	284
– corporates	29	78	409	–	–	6	81	109	–	–	50	3,690
Standardised approach	1,448	61	772	4,853	4	82	336	51	867	1,207	1,618	54,853
– central governments and central banks	–	–	25	3,716	–	39	–	–	–	318	–	35,441
– regional governments or local authorities	–	–	–	323	–	–	–	–	–	–	–	323
– public sector entities	–	–	–	764	–	26	301	–	–	–	2	4,261
– international	–	–	–	38	–	–	–	–	–	889	–	927
– institutions	–	–	54	–	–	–	–	1	–	–	–	1,822
– corporates	846	57	660	12	1	13	30	45	102	–	78	5,102
– retail	17	4	27	–	3	4	5	3	43	–	–	168
– secured by mortgages on immovable property	469	–	5	–	–	–	–	2	650	–	52	1,365
– exposures in default	7	–	1	–	–	–	–	–	72	–	–	129
– items associated with particularly high risk	109	–	–	–	–	–	–	–	–	–	–	109
– securitisation positions												2,856
– claims in the form of CIU	–	–	–	–	–	–	–	–	–	–	–	–
– equity	–	–	–	–	–	–	–	–	–	–	–	–
– other items	–	–	–	–	–	–	–	–	–	–	1,486	2,350
At 31 Dec 2020	6,732	783	13,730	4,964	40	394	631	409	23,150	2,224	1,675	122,896

Table 16: Credit risk exposure – by industry sector (continued)

	Agri-culture	Mining	Manufacturing	Utilities	Water supply	Construction	Wholesale & retail trade	Transpor-tation & storage	Accommo-ation & food services	Information & communi-cation	Financial & insurance
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	76	218	4,607	2,026	8	499	4,190	2,039	303	—	5,719
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	1,532
– corporates	57	216	4,437	2,021	7	419	3,711	1,978	243	—	4,159
– total retail	19	2	170	5	1	80	479	61	60	—	28
– *of which:*											
secured by mortgages on immovable property SME	*2*	*—*	*11*	*2*	*—*	*3*	*13*	*2*	*20*	*—*	*5*
secured by mortgages on immovable property non-SME	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*
qualifying revolving retail	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*
other SME	*17*	*2*	*160*	*4*	*1*	*77*	*466*	*58*	*40*	*—*	*23*
other non-SME	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*	*—*
IRB securitisation positions	—	—	—	—	—	—	—	—	—	—	3,365
IRB equity	—	—	—	—	—	—	—	—	—	—	599
IRB foundation approach	71	441	743	140	107	131	471	154	24	9	495
– central governments and central banks	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	319
– corporates	71	441	743	140	107	131	471	154	24	9	177
Standardised approach	26	59	1,680	239	1	352	422	366	203	32	31,858
– central governments and central banks	—	—	25	—	—	—	—	—	—	—	21,702
– regional governments or local authorities	—	—	—	—	—	—	—	—	—	—	—
– public sector entities	—	—	16	—	—	—	—	5	—	—	3,413
– international	—	—	—	—	—	—	—	—	—	—	—
– institutions	—	—	—	—	—	—	—	—	—	—	1,914
– corporates	21	59	1,586	235	1	247	408	331	127	32	2,486
– retail	5	—	17	1	—	11	11	28	—	—	2
– secured by mortgages on immovable property	—	—	—	—	—	50	—	—	76	—	53
– exposures in default	—	—	36	3	—	44	3	2	—	—	—
– items associated with particularly high risk	—	—	—	—	—	—	—	—	—	—	—
– claims in the form of CIU	—	—	—	—	—	—	—	—	—	—	—
– equity	—	—	—	—	—	—	—	—	—	—	—
– other items	—	—	—	—	—	—	—	—	—	—	2,288
At 31 Dec 2019	173	718	7,030	2,405	116	982	5,083	2,559	530	41	42,036

Table 16: Credit risk exposure – by industry sector (continued)

	Real estate	Professional activities	Adminis-trative service	Public admin & defence	Education	Human health & social work	Arts & entertain-ment	Other services	Personal	Extra-territorial bodies	Non-Customer assets	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
IRB advanced approach	5,113	999	10,599	125	26	177	152	855	21,520	488	—	59,739
– central governments and central banks	—	—	—	96	—	—	—	—	—	488	—	584
– institutions	—	—	—	—	—	—	—	—	—	—	—	1,532
– corporates	4,624	985	10,107	29	18	133	125	831	—	—	—	34,100
– total retail	489	14	492	—	8	44	27	24	21,520	—	—	23,523
– *of which:*												
secured by mortgages on immovable property SME	*415*	*1*	*29*	—	—	*3*	*3*	*1*	—	—	—	*510*
secured by mortgages on immovable property non-SME	—	—	—	—	—	—	—	—	*2,929*	—	—	*2,929*
qualifying revolving retail	—	—	—	—	—	—	—	—	*1*	—	—	*1*
other SME	*74*	*13*	*463*	—	*8*	*41*	*24*	*23*	—	—	—	*1,494*
other non-SME	—	—	—	—	—	—	—	—	*18,589*	—	—	*18,589*
IRB securitisation positions	—	—	—	—	—	—	—	—	—	—	—	3,365
IRB equity	—	21	181	—	—	—	—	—	—	—	—	801
IRB foundation approach	109	103	335	1	—	3	2	3	—	—	—	3,342
– central governments and central banks	—	—	—	1	—	—	—	2	—	—	—	3
– institutions	—	—	—	—	—	—	—	—	—	—	—	319
– corporates	109	103	334	—	—	3	2	1	—	—	—	3,020
Standardised approach	1,195	92	985	2,957	3	42	52	162	916	1,384	752	43,778
– central governments and central banks	—	—	34	2,855	—	—	—	—	—	240	34	24,890
– regional governments or local authorities	—	—	—	92	—	—	—	—	—	—	—	92
– public sector entities	—	—	—	—	—	27	—	—	—	—	—	3,461
– international	—	—	—	—	—	—	—	—	—	1,144	—	1,144
– institutions	—	—	67	—	—	—	—	—	—	—	—	1,981
– corporates	782	88	763	10	1	12	46	156	94	—	48	7,533
– retail	25	4	30	—	2	3	6	3	56	—	—	204
– secured by mortgages on immovable property	231	—	89	—	—	—	—	3	681	—	—	1,183
– exposures in default	4	—	2	—	—	—	—	—	85	—	—	179
– items associated with particularly high risk	153	—	—	—	—	—	—	—	—	—	—	153
– claims in the form of CIU	—	—	—	—	—	—	—	—	—	—	—	—
– equity	—	—	—	—	—	—	—	—	—	—	—	—
– other items	—	—	—	—	—	—	—	—	—	—	670	2,958
At 31 Dec 2019	6,417	1,215	12,100	3,083	29	222	206	1,020	22,436	1,872	752	111,025

Table 17: Credit risk exposure – by maturity

	Footnotes	Less than 1 year €m	Between 1 and 5 years €m	More than 5 years €m	Undated €m	Total €m
IRB advanced approach		**13,089**	**26,612**	**23,821**	**—**	**63,522**
– central governments and central banks		**135**	**1,209**	**—**	**—**	**1,344**
– institutions		**574**	**326**	**136**	**—**	**1,036**
– corporates	1	**10,288**	**22,716**	**3,697**	**—**	**36,701**
– *of which:* *specialised lending*		***115***	***782***	***3***	**—**	***900***
– total retail		**2,092**	**2,361**	**19,988**	**—**	**24,441**
– *of which:* *secured by mortgages on immovable property SME*		***15***	***85***	***368***	**—**	***468***
secured by mortgages on immovable property non-SME		***91***	***910***	***18,562***	**—**	***19,563***
qualifying revolving retail		**—**	**—**	**—**	**—**	**—**
other SME		***619***	***804***	***257***	**—**	***1,680***
other non-SME		***1,367***	***561***	***800***	**—**	***2,728***
IRB securitisation positions		**—**	**—**	**—**	**—**	**—**
IRB equity		**—**	**—**	**—**	**544**	**544**
IRB foundation approach		**1,521**	**2,283**	**199**	**(25)**	**3,978**
– central governments and central banks		**—**	**4**	**—**	**—**	**4**
– institutions		**132**	**130**	**22**	**—**	**284**
– corporates		**1,389**	**2,149**	**177**	**(25)**	**3,690**
Standardised approach		**34,821**	**8,717**	**9,517**	**1,797**	**54,852**
– central governments and central banks		**28,153**	**2,091**	**5,197**	**—**	**35,441**
– regional governments or local authorities		**—**	**181**	**142**	**—**	**323**
– public sector entities		**404**	**1,509**	**2,348**	**—**	**4,261**
– international organisations		**251**	**493**	**183**	**—**	**927**
– institutions		**1,462**	**162**	**198**	**—**	**1,822**
– corporates		**2,648**	**1,738**	**716**	**—**	**5,102**
– retail		**44**	**82**	**42**	**—**	**168**
– secured by mortgages on immovable property		**45**	**729**	**591**	**—**	**1,365**
– exposures in default		**36**	**10**	**83**	**—**	**129**
– items associated with particularly high risk		**92**	**—**	**17**	**—**	**109**
– securitisation positions	3	**1,462**	**1,393**	**—**	**—**	**2,855**
– claims in the form of CIU		**—**	**—**	**—**	**—**	**—**
– equity		**—**	**—**	**—**	**—**	**—**
– other items	2	**224**	**329**	**—**	**1,797**	**2,350**
At 31 Dec 2020		**49,431**	**37,612**	**33,537**	**2,316**	**122,896**
IRB advanced approach		12,457	22,708	24,575	—	59,739
– central governments and central banks		51	348	185	—	584
– institutions		974	409	149	—	1,532
– corporates	1	10,509	18,667	4,924	—	34,100
– total retail		923	3,284	19,317	—	23,523
– *of which:* *secured by mortgages on immovable property SME*		*18*	*101*	*391*	—	*510*
secured by mortgages on immovable property non-SME		*22*	*296*	*2,611*	—	*2,929*
qualifying revolving retail		—	*1*	—	—	*1*
other SME		*734*	*446*	*314*	—	*1,494*
other non-SME		*149*	*2,440*	*16,000*	—	*18,589*
IRB securitisation positions		—	1,391	1,974	—	3,365
IRB equity		—	—	—	801	801
IRB foundation approach		1,400	1,787	154	—	3,342
– central governments and central banks		—	3	—	—	3
– institutions		163	115	41	—	319
– corporates		1,237	1,669	113	—	3,020
Standardised approach		23,727	7,667	10,603	1,780	43,778
– central governments and central banks		18,258	1,548	5,084	—	24,890
– regional governments or local authorities		—	—	92	—	92
– public sector entities		108	594	2,759	—	3,461
– international organisations		—	538	606	—	1,144
– institutions		1,436	190	355	—	1,981
– corporates		2,838	3,667	1,028	—	7,533
– retail		43	104	56	—	204
– secured by mortgages on immovable property		73	570	540	—	1,183
– exposures in default		65	31	83	—	179
– items associated with particularly high risk		131	22	—	—	153
– claims in the form of CIU		—	—	—	—	—
– equity		—	—	—	—	—
– other items	2	775	403	—	1,780	2,958
At 31 Dec 2019		37,584	33,553	37,306	2,581	111,025

For footnotes, see page 15.

Table 18: Wholesale IRB exposures under the slotting approach

	Exposure	
	2020	2019
	€m	€m
Supervisory Category		
Category 1 – Strong	**700**	902
Category 2 – Good	**200**	314
Category 3 – Satisfactory		—
Category 4 – Weak	**—**	—
Category 5 – Default	**—**	—
At 31 Dec	**900**	1,216

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

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

Our approach for determining impairment allowances is explained in the HSBC Continental Europe's *Universal Registration Document 2020,* and HSBC Continental Europe's definitions for accounting purposes of 'past due' and 'impaired' are set out on page 112.

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

Table 19: Amount of impaired exposures and related allowances by industry sector and geographical region of booking

	At							
	31 Dec 2020				31 Dec 2019			
	France	**European branches**	**Other**	**Total**	France	European Union	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Past due but not impaired exposures	**60**	**19**	**—**	**79**	91	13	—	104
– personal	**53**	**14**	**—**	**67**	74	8	—	82
– corporate and commercial	**6**	**5**	**—**	**11**	17	5	—	22
– financial	**1**	**—**	**—**	**1**	—	—	—	—
Impaired exposures	**1,245**	**420**	**—**	**1,665**	1104	299	—	1,403
– personal	**334**	**99**	**—**	**433**	384	93	—	477
– corporate and commercial	**881**	**283**	**—**	**1,164**	664	195	—	859
– financial	**30**	**38**	**—**	**68**	56	11	—	67
Impairment allowances and other credit risk provisions	**(706)**	**(190)**	**—**	**(896)**	(566)	(178)	—	(744)
– personal	**(133)**	**(60)**	**—**	**(194)**	(125)	(59)	—	(184)
– corporate and commercial	**(551)**	**(129)**	**—**	**(679)**	(395)	(118)	—	(513)
– financial	**(22)**	**(1)**	**—**	**(23)**	(46)	(1)	—	(47)

Table 20: Movement in credit risk adjustments by industry sector and by geographical region of booking

	At							
	2020				2019			
	France	**European branches**	**Other**	**Total**	France	European Union	Other	Total
	€m	**€m**	**€m**	**€m**	€m	€m	€m	€m
Credit risk adjustment at 1 Jan	**566**	**178**	**—**	**744**	507	110	—	617
Amounts written off	**(115)**	**(14)**	**—**	**(129)**	(61)	(125)	—	(186)
– personal	**(8)**	**(2)**	**—**	**(10)**	(11)	(11)	—	(22)
– corporate and commercial	**(107)**	**(12)**	**—**	**(119)**	(49)	(114)	—	(163)
– financial	**—**	**—**	**—**	**—**	(1)	—	—	(1)
Recoveries of amounts written off in previous years	**2**	**—**	**—**	**2**	3	1	—	4
– personal	**1**	**—**	**—**	**1**	1	—	—	1
– corporate and commercial	**1**	**—**	**—**	**1**	1	1	—	2
– financial	**—**	**—**	**—**	**—**	1	—	—	1
Charge to income statement	**256**	**27**	**—**	**283**	121	11	—	132
– personal	**17**	**3**	**—**	**20**	—	1	—	1
– corporate and commercial	**263**	**24**	**—**	**287**	75	11	—	86
– financial	**(24)**	**—**	**—**	**(24)**	46	(1)	—	45
Exchange and other movements	**(1)**	**(3)**	**—**	**(4)**	(4)	181	—	177
Credit risk adjustment at 31 Dec	**708**	**188**	**—**	**896**	566	178	—	744

Expected Loss ('EL') and credit risk adjustments

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

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

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

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

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

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

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

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

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

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

The description of the approach and method adopted for determining credit risk adjustments is explained in page 116 of the HSBC Continental Europe's *Universal Registration Document 2020*.

In addition, the reconciliation of changes in credit risk adjustments for impaired exposures are disclosed in page 119 of the HSBC Continental Europe's *Universal Registration Document 2020*.

Table 21 sets out, for IRB credit exposures, the EL, CRA balances and the actual loss experience reflected in the charges for CRAs.

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

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

Table 21: IRB expected loss and CRA – by exposure class

		CRA[1]	
	Expected loss[1]	Balances	Charge for the year
	€m	€m	€m
IRB exposure classes			
Central governments and central banks	–	–	1
Institutions	1	(9)	6
Corporates	524	(499)	(372)
Retail	268	(264)	(328)
– secured by mortgages on immovable property SME	25	(23)	(21)
– secured by mortgages on immovable property non-SME	61	(52)	(130)
– qualifying revolving retail	–	(3)	(8)
– other SME	123	(110)	(116)
– other non-SME	59	(76)	(53)
Equity and Private Equity	7	–	–
At 31 Dec 2020	800	(772)	(693)

Table 21: IRB expected loss and CRA – by exposure class (continued)

	Expected loss[1]	CRA[1]	
		Balances	Charge for the year
	€m	€m	€m
IRB exposure classes			
Central governments and central banks	—	(1)	6
Institutions	2	(2)	—
Corporates	380	(299)	(151)
Retail	289	(266)	(6)
– secured by mortgages on immovable property SME	30	(27)	1
– secured by mortgages on immovable property non-SME	47	(42)	(4)
– qualifying revolving retail	—	(2)	(1)
– other SME	133	(117)	(1)
– other non-SME	80	(79)	(1)
Equity and Private Equity	10	—	—
At 31 Dec 2019	681	(568)	(151)

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

Risk mitigation

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

Collateral

The most common method of mitigating credit risk is to take collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is often taken to help secure claims. Another common form of security for the Retail business in France are guarantees provided by a third party company: *Crédit Logement* (a *Société de Financement* regulated by the French Regulator ACPR). *Crédit Logement* guarantees 100 per cent of the amount of the residential home loan in case of default. Loans to private banking and higher wealth clients may be made against a pledge of eligible marketable securities, cash or real estate. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

Further information regarding charges held over residential and commercial property is provided on page 125 and about credit risk concentrations within the credit mitigation taken on page 107 of the HSBC Continental Europe's Universal Registration Document 2020*.*

Financial collateral

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

Other forms of Credit Risk Mitigation

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

Credit derivatives are also used as credit mitigant and are only executed against counterparties listed in portfolio management desk masterlist.

Policy and procedures

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

Valuing collateral

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

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

Recognition of risk mitigation under the IRB approach

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

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

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

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

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

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

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

The table below sets out, for IRB exposures, the exposure value and the effective value of credit risk mitigation expressed as the exposure value covered by the credit risk mitigant.

Recognition of risk mitigation under the standardised approach

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

Table 22 sets out the credit risk mitigation for exposures under the standardised approach, expressed as the exposure value covered by the credit risk mitigant.

Table 22: IRB exposure – credit risk mitigation

	2020			2019		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value[1]**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value
	€m	**€m**	**€m**	€m	€m	€m
Exposures under the IRB advanced approach	**9,667**	**27,853**	**37,520**	10,191	16,725	26,916
– central governments and central banks	**—**	**1**	**1**	—	—	—
– institutions	**12**	**278**	**290**	2	—	2
– corporates	**5,571**	**10,516**	**16,087**	5,846	1,225	7,071
– retail	**4,083**	**17,058**	**21,142**	4,343	15,500	19,843
Exposures under the IRB foundation	**6**	**—**	**6**	402	625	1,027
– institutions	**—**	**—**	**—**	—	—	—
– corporates	**6**	**—**	**7**	402	625	1,027
Equity and private Equity under IRB simple approach	—	—	—	—	—	—
At 31 Dec	**9,673**	**27,853**	**37,526**	10,593	17,350	27,943

1 *The exposures reported are after on balance sheet netting and after the application of volatility adjustments.*

Table 23: Standardised exposure – credit risk mitigation

	2020			2019		
	Exposure value covered by eligible financial and other collateral	**Exposure value covered by credit derivatives or guarantees**	**Total exposure value[1]**	Exposure value covered by eligible financial and other collateral	Exposure value covered by credit derivatives or guarantees	Total exposure value
	€m	**€m**	**€m**	€m	€m	€m
Exposures under the standardised approach						
– central governments and central banks	**—**	**—**	**—**	—	—	—
– International organisations	**—**	**—**	**—**	—	—	—
– Public sector entities	**—**	**—**	**—**	27	—	27
– Regional government and local authorities	**—**	**—**	**—**	—	—	—
– institutions	**—**	**—**	**—**	43	—	43
– corporates	**380**	**436**	**817**	1,569	1,909	3 478
– retail	**48**	**1**	**49**	42	1	44
Secured by mortgages on immovable property	**62**	**—**	**62**	58	—	58
Exposures in default	**—**	**6**	**6**	6	82	88
Items associated with particularly high risk	**—**	**—**	**—**	—	—	—
Equity and Private Equity	**—**	**—**	**—**			
At 31 Dec	**490**	**443**	**934**	1,746	1,992	3,738

1 *The exposures reported are after on balance sheet netting and after the application of volatility adjustments.*

Counterparty credit risk

Overview

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

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

Further explanation of the HSBC Continental Europe's approach to managing counterparty credit risk can be found on page 126 of the HSBC Continental Europe's Universal Registration Document 2020.

Table 24: Counterparty credit risk – RWAs by exposure class and product

	2020		2019	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
By exposure class				
IRB advanced approach	**769**	**62**	955	76
– central governments and central banks	**—**	**—**	75	6
– institutions	**769**	**62**	880	70
– corporates	**—**	**—**	—	—
IRB foundation approach	**1,730**	**138**	1,478	118
– corporates	**1,730**	**138**	1,478	118
Standardised approach	**712**	**57**	506	40
– central governments and central banks	**7**	**1**	6	—
– regional government or local authorities	**—**	**—**	—	—
– institutions	**641**	**51**	411	33
– corporates	**64**	**5**	89	7
CVA advanced	**307**	**25**	571	46
CVA standardised	**86**	**7**	314	25
CCP standardised	**132**	**11**	159	13
By product				
– derivatives (OTC and exchange-traded derivatives)	**3,012**	**241**	2,710	217
– SFTs	**265**	**21**	322	26
– Others	**—**	**—**	1	—
– CVA advanced	**307**	**25**	571	46
– CVA standardised	**86**	**7**	314	25
– CCP default funds	**65**	**5**	65	5
At 31 Dec	**3,736**	**299**	3,983	319

Collateral arrangements

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

Eligible collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes.

A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement.

Further information on gross fair value exposure and the offset due to legally enforceable netting and collateral is set out on page 257 of the HSBC Continental Europe's Universal Registration Document 2020.

Credit Valuation Adjustment ('CVA') hedges

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

Credit derivatives allows to hedge this credit exposure. The responsibility for hedging and/or mitigating credit exposure lies within the remit of the Counterparty Exposure Management Desk.

Credit rating downgrade

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

Table 26: Market risk under internal model approach

		2020		2019	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
1	**VaR (higher of values a and b)**	**444**	**35**	704	56
(a)	Previous day's VaR	**97**	**8**	214	17
(b)	Average daily VaR	**444**	**35**	704	56
2	**Stressed VaR (higher of values a and b)**	**964**	**77**	1,667	133
(a)	Latest SVaR	**329**	**26**	666	53
(b)	Average SVaR	**964**	**77**	1,667	133
3	**Incremental risk charge (higher of values a and b)**	**350**	**28**	891	71
(a)	Most recent IRC value	**278**	**22**	610	49
(b)	Average IRC value	**350**	**28**	891	71
5	**Other**	**566**	**45**	907	73
6	**Total**	**2,324**	**186**	4,169	333

Market risk

Overview

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce HSBC Continental Europe's income or the value of its portfolios. Market risk is measured using internal market risk models approved by the ECB, approved local VaR models.

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

Further explanation of the HSBC Continental Europe's approach to managing market risk can be found on page 135 of the HSBC Continental Europe's Universal Registration Document 2020.

Table 25: Market risk under standardised approach

		2020		2019	
		RWAs	**Capital required**	RWAs	Capital required
		€m	**€m**	€m	€m
	Risk type				
1	Interest rate risk (general and specific)	**146**	**12**	128	10
2	Equity risk (general and specific)	**—**	**—**	—	—
3	Foreign exchange risk	**100**	**8**	127	10
4	Commodity risk	**—**	**—**	—	—
	Options				
5	Simplified approach	**—**	**—**	—	—
6	Delta-plus method	**93**	**7**	70	6
7	Scenario approach	**—**	**—**	—	—
8	Securitisation	**—**	**—**	—	—
9	**Total**	**339**	**27**	325	26

Operational risk

Overview

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

- Inadequacy, ineffectiveness or failure of internal processes, performed manually or automatically through information system;
- External events

This risk includes notably external or internal fraud risk (article 324 of CRR), non-authorised activities, errors and omissions including events characterised by a low probability but with a high operational loss in case of occurrence, and risks related to models.

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

- External Fraud event
- Transaction processing

Further explanation of HSBC Continental Europe's approach to managing operational risk can be found on page 141 of the HSBC Continental Europe's Universal Registration Document 2020.

Table 27: Operational risk RWAs and capital required

	2020		2019	
	RWAs	**Capital required**	RWAs	Capital required
	€m	**€m**	€m	€m
Own funds requirement for operational risk	**3,283**	**263**	3,149	252

Other risks

Further details of the other risks identified by HSBC Continental Europe are described in the Top and Emerging Risks section which can be found on pages 80 to 163 in the HSBC Continental Europe's *Universal Registration Document 2020.*

Interest rate risk in the banking book

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

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

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

Further details on our IRRBB may be found on page 140 of HSBC Continental Europe's Universal Registration Document 2020.

Risk management of insurance operations

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

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

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

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

We measure the risk profile of our insurance manufacturing businesses using an economic capital approach, where assets and liabilities are measured on a market value basis and a capital requirement is held to ensure that there is less than a 1 in 200 chance of insolvency over the next year, given the risks that the business is exposed to. The methodology for the economic capital calculation is largely aligned to the pan-European Solvency II insurance capital regulations, which are applicable from 2016.

Further details of the management of financial risks and insurance risk arising from the insurance operations are provided from page 159 of the HSBC *Continental Europe's* Universal Registration Document 2020.

Liquidity and funding

Liquidity management across the group

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

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

Strategies and processes in the management of liquidity risk

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

HSBC Group has an internal liquidity and funding risk management framework ('LFRF') which aims to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. The management of liquidity and funding is undertaken in France in compliance with the Group's LFRF, and with practices and limits set through by the RMM and approved by the Board. HSBC Continental Europe's policy is that it should be self-sufficient in funding its own activities.

Structure and organisation of the liquidity risk management function

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

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

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

Management of liquidity and funding risk

Liquidity coverage ratio

The Liquidity Coverage Ratio ('LCR') aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30 calendar day liquidity stress scenario. HQLA consists of cash or assets that can be converted into cash very quickly with little or no loss of value in markets.

The LCR is calculated as per Commission Delegated Regulation 2015/61 ('LCR Delegated Act') supplementing the CRR.

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.

The NSFR is calculated on the BCBS 295 basis. Nevertheless, HSBC Continental Europe now also considers the evolution on the NSFR as required by the CRR2, which will enter into force in June 2021.

Liquid assets

Liquid assets consist in any unencumbered liquid securities and available cash held by Markets Treasury and Global Markets. They are managed at HSBC Continental Europe's level. The LFRF gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

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

Overall adequacy of liquidity risk management

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

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

The two key objectives of the ILAAP process are to:

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

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

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

Liquidity stress testing

HSBC Continental Europe undertakes liquidity stress testing to test that its risk appetite is appropriate, to validate that it can continue to operate under various stress scenarios and to test whether the stress assumptions within the LCR scenario are appropriate and conservative enough for the business.

HSBC Continental Europe also conducts reverse stress testing with the specific aim of reviewing the remoteness of the scenarios that would lead HSBC Continental Europe to exhaust its liquidity resources. If the scenarios are not deemed remote enough, then corrective action is taken.

Several different stress testing scenarios are run that test the quality of liquidity resources under stresses of varying durations and nature. As part of this exercise, various assumptions are used which are approved by the relevant ALCO and Board and the results of the stress testing are presented through the ILAAP to the Board and on a quarterly basis to the relevant ALCO.

HSBC Group's business strategy and overall liquidity risk profile

The key aspects of the LFRF are:

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

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

Further details on our Liquidity and funding risk may be found on page 132 of HSBC Continental Europe's Universal Registration Document 2020.

Reputational risk

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

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

For further details, please refer to the Reputational Risk section on page 163 of the HSBC Continental Europe's Universal Registration Document 2020.

Sustainability risk

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

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

Climate-related risks are divided into two major categories:

(1) risks related to the transition to a lower-carbon economy and

(2) risks related to the physical impacts of climate change.

Transition risk, in the context of climate change, is the risk that the ability of a customer/counterparty to meet its financial obligations deteriorates as a consequence of the transition from a high-carbon to a low-carbon economy. More information on how HSBC Continental Europe is taking transition risk into account can be found in the *Universal Registration Document* 2020.

Business risk

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

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

Remuneration

As a subsidiary of HSBC Group, the general remuneration principles implemented within HSBC Continental Europe are part of the broader framework of the HSBC Group's remuneration policy which is subject to the rules laid down by the UK regulators (mainly the Prudential Regulatory Authority). In addition, these remuneration principles are applied taking into account the local regulatory framework and any European specific regulations. Details of HSBC Continental Europe remuneration policy may be found in the report on corporate governance on pages 40 to 49 of the HSBC Continental Europe *Universal Registration Document 2020.*

The following tables show the remuneration awards made to Material Risk Takers ('MRTs') in HSBC Continental Europe and its subsidiaries and branches for 2020.

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

Table 28: Remuneration – fixed and variable amounts

	2020											
	MRTs											
	Fixed EURm				Variable[2] EURm							
	Number of MRTs	Cash based[1]	Share Based	Total	Cash Based	*of which: deferred*	Share Based[3]	*of which: deferred*	Other forms[4]	*of which: deferred*	Total	Total EURm
Executive Directors	**3**	**2.3**		**2.3**	**0.9**	***0.4***	**0.9**	***0.4***	—	—	**1.7**	**4.0**
Non executive Directors	—	—	—	—	—	—	—	—	—	—	—	—
Senior Management	—	—	—	—	—	—	—	—	—	—	—	—
Investment Banking	**38**	**16.6**	—	**16.6**	**4.8**	***2.2***	**4.7**	***2.2***	—	—	**9.6**	**26.2**
Retail Banking	**14**	**4.1**	—	**4.1**	**1.6**	***0.3***	**0.6**	***0.2***	**0.9**	***0.8***	**3.0**	**7.2**
Private Banking	**5**	**1.1**	—	**1.1**	**0.5**	***0.2***	**0.4**	***0.2***	—	—	**0.9**	**2.0**
Commercial Banking	**10**	**2.1**	—	**2.1**	**0.5**	***0.2***	**0.5**	***0.2***	—	—	**1.0**	**3.1**
Control Functions	**28**	**3.9**	—	**3.9**	**1.0**	***0.1***	**0.3**	***0.1***	—	—	**1.2**	**5.2**
Corporate Functions	**11**	**3.0**	—	**3.0**	**0.7**	***0.2***	**0.5**	***0.2***	—	—	**1.1**	**4.1**
Total France	**109**	**33.2**	—	**33.2**	**9.9**	***3.6***	**7.9**	***3.6***	**0.9**	***0.8***	**18.6**	**51.8**
Total International perimeter	**23**	**6.6**	—	**6.6**	**2.2**	***0.8***	**2.0**	***0.8***	—	—	**4.3**	**10.8**
Total France and International	**132**	**39.8**	—	**39.8**	**12.1**	***4.4***	**9.9**	***4.4***	**0.9**	***0.8***	**22.9**	**62.6**

1 *Cash based fixed remuneration is paid immediately.*
2 *Variable pay awarded in respect of 2020. In accordance with shareholders' approval received on 23 May 2014 for each MRT the component of remuneration for any one year is limited to 200 per cent of fixed component of the total remuneration of the MRT.*
3 *Share based awards are made in HSBC shares. Vested shares are subject to a retention period up to one year.*
4 *Deferred indexed cash awarded to AIFM UCITS Risk taker.*

Table 29: Guaranteed bonus, sign-on and severance payments

	2020						
	MRTs						
	Guaranteed Bonus and sign on payments[1]		Severance Payments[2]				
	Made during year (EURm)	Number of beneficiaries	Awarded during year (EURm)	Number of beneficiaries	Highest such award to a single person (EURm)	Paid during year (EURm)	Number of beneficiaries
Executive Directors	—	—	—	—	—	—	—
Non executive Directors	—	—	—	—	—	—	—
Senior Management	—	—	—	—	—	—	—
Investment Banking	—	—	—	—	**1.9**	**3.1**	**2**
Retail Banking	—	—	—	—	**0.7**	**0.7**	**1**
Private Banking	—	—	—	—	—	—	—
Commercial Banking	—	—	—	—	**0.5**	**0.5**	**1**
Control Functions	—	—	—	—	**1.1**	**1.1**	**1**
Corporate Functions	—	—	—	—	**1.8**	**1.8**	**1**
Total France Perimeter	—	—	—	—	**1.9**	**7.2**	**6**
Total International perimeter	—	—	—	—	**0.1**	**0.1**	**1**
Total France and International	—	—	—	—	**1.9**	**7.3**	**7**

1 *No sign-on payment were made in 2020. A guaranteed bonus is awarded in exceptional circumstances for new hires and in the first year only. The circumstances where HSBC would offer a guaranteed bonus would typically involve a critical new hire and would also depend on factors such as the seniority of the individual, whether the new hire candidate has any competing offers and the timing of the hire during the performance year.*
2 *Includes payments such as payment in lieu and notice statutory severance. outplacement services and legal fees if any ex-gratia payments and settlement (exclude pre-existing benefits triggered on termination).*

Table 30: Deferred remuneration

	2020					
	MRTs					
	Total outstanding[1]	*Of which unvested*	*Of which: total outstanding deferred and retained exposed to ex post explicit and/ or implicit adjustment*	Total amount of amendment during the year due to ex post implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustment[2]	Total amount of deferred paid out in the financial year[3]
	€m	*€m*	*€m*	€m	€m	€m
Cash						
Executive Directors	1.6	*1.6*	—	—	—	0.4
Non executive Directors	—	—	—	—	—	—
Senior Management	—	—	—	—	—	—
Investment Banking	8.7	*8.7*	—	—	—	3.1
Retail Banking	0.7	*0.7*	—	—	—	0.3
Private Banking	0.4	*0.4*	—	—	—	0.1
Commercial Banking	0.4	*0.4*	—	—	—	0.1
Control Functions	0.3	*0.3*	—	—	—	0.1
Corporate Functions	0.9	*0.9*	—	—	—	0.4
Total (France Perimeter)	13	*13*	—	—	—	4.5
Total (International Perimeter)	1.9	*1.9*	—	—	—	0.7
Total (France + International Perimeter)	14.9	*14.9*	—	—	—	5.1
Shares						
Executive Directors	1.5	*1.2*	—	—	—	0.6
Non executive Directors	—	—	—	—	—	—
Senior Management	—	—	—	—	—	—
Investment Banking	6.1	*6.1*	—	—	—	4.5
Retail Banking	0.7	*0.7*	—	—	—	0.4
Private Banking	0.3	*0.3*	—	—	—	0.3
Commercial Banking	0.4	*0.4*	—	—	—	0.3
Control Functions	0.3	*0.3*	—	—	—	0.2
Corporate Functions	1.1	*0.8*	—	—	—	0.6
Total (France Perimeter)	10.4	*9.8*	—	—	—	7.0
Total (International Perimeter)	2.4	*1.5*	—	—	—	1.6
Total (France + International Perimeter)	12.8	*11.3*	—	—	—	8.6
Other Forms						
Executive Directors	—	—	—	—	—	—
Non executive Directors	—	—	—	—	—	—
Senior Management	—	—	—	—	—	—
Investment Banking	—	—	—	—	—	—
Retail Banking	2.2	*2.2*	—	—	—	0.5
Private Banking	—	—	—	—	—	—
Wholesale Banking	—	—	—	—	—	—
Control Functions	—	—	—	—	—	—
Corporate Functions	—	—	—	—	—	—
Total (France Perimeter)	2.2	*2.2*	—	—	—	0.5
Total (International Perimeter)	—	—	—	—	—	—
Total (France + International Perimeter)	2.2	*2.2*	—	—	—	0.5

1 Includes unvested deferred awards and vested awards subject to retention period as at 31 December 2020.
2 Includes any adjustments due to malus or clawback.
3 Share are considered as paid when they vest. Vested shares are valued using the opening price on the business vesting day.

Table 31: Material risk-takers remuneration by band

	Management body	Others	Total
€0 – €1.000.000	**1**	**124**	**125**
€1.000.001 – €1.500.000	**1**	**3**	**4**
€1.500.001 – €2.000.000	**—**	**1**	**1**
€2.000.001 – €2.500.000	**1**	**1**	**2**

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

Appendix I

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

CRR reference	Description	Rationale
442(c)	Credit Risk Adjustments – In relation to exposure to credit risk and dilution risk, the total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation.	**Materiality** The disclosure has been made after taking into account the effects of credit risk mitigation; there are no significant differences between exposures pre- and post- credit risk mitigation at exposure class level.

Appendix II

Abbreviations

The following abbreviated terms are used throughout this document.

A	
AFS[1]	Available-for-sale
ALCM	Asset, Liability and Capital Management
ALCO	Asset and Liability Management Committee
AT1 capital	Additional tier 1 capital
B	
BCBS	Basel Committee on Banking Supervision
BSM	Balance Sheet Management
C	
CCP	Central counterparty
CCR[1]	Counterparty credit risk
CDS[1]	Credit default swap
CET1[1]	Common Equity Tier 1
CIU	Collective investment undertakings
CRA[1]	Credit risk adjustment
CRD IV[1]	Capital Requirements Directive
CRE[1]	Commercial real estate
CRM	Credit risk mitigation/mitigant
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
CVA	Credit valuation adjustment
E	
EAD[1]	Exposure at default
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EEA	European Economic Area
EL[1]	Expected loss
EU	European Union
EVE[1]	Economic value of equity
F	
FPC[1]	Financial Policy Committee (UK)
FSB	Financial Stability Board
G	
GB&M	Global Banking and Markets, a global business
GPB	Global Private Banking, a global business
Group	HSBC Holdings together with its subsidiary undertakings
H	
HSBC	HSBC Holdings together with its subsidiary undertakings
I	
IAA[1]	Internal Assessment Approach
ICAAP[1]	Internal Capital Adequacy Assessment Process
ICG	Individual capital guidance
IFRSs	International Financial Reporting Standards
ILAA	Individual Liquidity Adequacy Assessment
ILR	Inherent Liquidity Risk
IMA	Internal Models Approach
IMM[1]	Internal Model Method
IRB[1]	Internal ratings based approach
IRC[1]	Incremental risk charge
L	
LCR	Liquidity Coverage Ratio
LFRF	Liquidity and Funding Risk Management Framework
LGD[1]	Loss given default
M	
MREL	Minimum requirements for own funds and eligible liabilities
N	
NQH	Non Qualifying Hedge
NSFR	Net Stable Funding Ratio
O	
OTC[1]	Over-the-counter
P	
PD1	Probability of default
PFE1	Potential future exposure
PRA[1]	Prudential Regulation Authority (UK)
R	
RAS	Risk appetite statement
RBM[1]	Ratings Based Method
RBWM	Retail Bank and Wealth Management, a global business
RMM	Risk Management Meeting of the Group Management
RNIV	Risks not in VaR
RWA[1]	Risk-weighted asset
S	
S&P	Standard and Poor's rating agency
STD[1]	Standardised approach
SA-CCR	Standardised approach for counterparty credit risk
SFM[1]	Supervisory Formula Method
SFT[1]	Securities Financing Transactions
SME	Small and medium-sized enterprise
T	
TLAC[1]	Total Loss Absorbing Capacity
TTC[1]	Through-the-cycle
T1 capital	Tier 1 capital
T2 capital	Tier 2 capital
U	
UK	United Kingdom
V	
VaR[1]	Value at risk

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

Appendix III

Cautionary statement regarding forward-looking statements

The Capital and Risk Management *Pillar 3 Disclosures 2020* contains certain forward-looking statements with respect to HSBC Continental Europe's financial condition, results of operations, capital position and business.

Statements that are not historical facts, including statements about HSBC Continental Europe's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC 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 statements.

Written and/or oral forward-looking statements may also be made in the proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC Continental Europe's Directors, officers or employees to third parties, including financial analysts.

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

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

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